SQUIRE SANDERS | LEGAL COUNSEL WORLDWIDE

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

Dated: January 25, 2007

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

Closing: January 25, 2007

CLOSING DOCUMENT LIST

TERMS USED HEREIN

County	-	Pima County, Arizona
Bond Counsel	-	Squire, Sanders & Dempsey L.L.P.
Underwriter	-	Merrill Lynch & Co.
Bond Registrar and Paying Agent	-	The Bank of New York Trust Company, N.A.
Financial Consultant	-	RBC Capital Markets
Bond Insurer	-	Financial Security Assurance Inc.

		Item No.
I.	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 (the "Board") 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	1
2.	Certified copy of Resolution No. 2006-278, passed, adopted and approved by the Board of the County on October 17, 2006, ordering the sale of the Sewer Revenue Bonds	2
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DISTRIBUTION OF TRANSCRIPTS

Transcripts containing executed counterparts or photocopies of the closing documents will be distributed by Bond Counsel to the following parties:

Pima County, Arizona	2
RBC Capital Markets	1
Squire, Sanders & Dempsey L.L.P.	1
Merrill Lynch & Co.	1
Financial Security Assurance Inc.	3
The Bank of New York Trust Company, N.A.	1

Certificate of Clerk

Board of Supervisors of Pima County, Arizona

State of Arizona
County of Pima ss

I, Lori Godoshian, do hereby certify that I am the duly appointed, and qualified, Clerk of the Board of Supervisors of Pima County, Arizona.

I further certify that the attached resolution entitled

Resolution No. 1991-138

(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, 1991, *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* 17th *day of* January, 2007.

Lori Godoshian
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:

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, Lori Godoshian, do hereby certify that I am the duly appointed, and qualified, Clerk of the Board of Supervisors of Pima County, Arizona.

I further certify that the attached resolution entitled

Resolution No. 1991-182

(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, 1991, *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* 17th *day of* January, 2007.

Lori Godoshian
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:

Paul Cowley for: Fred H. Rosenfeld
Bond Counsel

CERTIFICATE

I hereby certify that the foregoing Resolution No. 1991-191 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, Lori Godoshian, do hereby certify that I am the duly appointed, and qualified, Clerk of the Board of Supervisors of Pima County, Arizona.

I further certify that the attached resolution entitled

RESOLUTION NO. 2006 - 278

(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 17th *day of* October, 2006, *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* 26th *day of* January, 2007.

Lori Godoshian
Clerk

RESOLUTION NO. 2006-278

A RESOLUTION OF THE BOARD OF SUPERVISORS OF PIMA COUNTY, ARIZONA ORDERING THE SALE OF NOT TO EXCEED $50,000,000 PRINCIPAL AMOUNT OF PIMA COUNTY, ARIZONA, SEWER REVENUE BONDS.

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

Section 1. Pima County, Arizona, Sewer Revenue Bonds, in the principal amount of not to exceed $50,000,000 (the "Bonds") are hereby ordered to be sold in accordance with the Notice Inviting Bids for the Purchase of Sewer Revenue Bonds (the "Notice Inviting Bids") in substantially the form attached hereto as Exhibit A. The Bonds are authorized pursuant to special bond elections held in and for Pima County, Arizona (the "County") on November 4, 1997 and May 18, 2004.

Section 2. The Bonds shall be sold only through an on-line bidding process. Unconditional bids must be submitted electronically as described in the Notice Inviting Bids. Electronic bids for the purchase of the Bonds will be received through the facilities of PARITY® at the office of the Finance Director of the County, as described in Exhibit A, until the sale date and time specified therein, provided that the sale date and time for the Bonds will be postponed to a later date and time if, on the business day before the sale date, the County Administrator or his designee shall cause to be filed in the office of the Finance Director his written statement that, in his opinion, the County would obtain a more favorable net interest cost for the Bonds by delaying the receipt of bids for the Bonds until a later date and time. The opinion of the County Administrator or his designee expressed in any such statement shall be conclusive for all purposes with respect to the receipt and opening of bids. If the receipt of electronic bids is postponed, notice of such postponement and of the rescheduled date for the receipt of bids shall be given in the manner determined by the County Administrator or his designee.

Electronic bids will be announced immediately after the deadline for submission of bids in the office of the Finance Director. The Board of Supervisors will award the Bonds to the bidder whose bid results in the lowest net interest cost to the County, taking into account any premium offered to be paid for the Bonds, or will reject all bids.

Section 3. The Clerk of the Board of Supervisors is authorized and directed to cause the Notice Inviting Bids to be completed, executed and transmitted to RBC Capital Markets, financial advisor to the County, and circulated so as to be made known to potential bidders for the Bonds.

PASSED, ADOPTED AND APPROVED, by the Board of Supervisors of Pima County, Arizona, on October 17, 2006.

PIMA COUNTY, ARIZONA

By:_____
Chair, Board of Supervisors

ATTEST:

By:_____
Clerk, Board of Supervisors

APPROVED AS TO FORM:

SQUIRE, SANDERS & DEMPSEY L.L.P., Bond Counsel

By:_____
Timothy E. Pickrell

374063
SEWER REVENUE 2006

EXHIBIT A

NOTICE INVITING BIDS FOR THE PURCHASE OF SEWER REVENUE BONDS

$_____
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 200___

NOTICE IS HEREBY GIVEN that unconditional bids will be received to and including the hour of 10:30 A.M., Mountain Standard Time (M.S.T.), on _____, 200_, only through the facilities of PARITY® ("PARITY") by Pima County, Arizona (the "County"), for the purchase of all, but not less than all, of $_____ aggregate principal amount of its Sewer Revenue Bonds, Series 200___ (the "Sewer Revenue Bonds"), unless the County acting through the County Administrator or his designee postpones receipt of bids to a later date. A determination to postpone the sale date will be made and announced by 10:30 A.M., M.S.T. on the business day preceding the scheduled sale date. Submission of bids is further discussed below. The Board of Supervisors of the County will meet on that date to consider the bids received and award the Sewer Revenue Bonds to the bidder offering the best bid or reject all bids.

TIME FOR RECEIPT OF BIDS: Bids will be received to and including the hour of 10:30 A.M., M.S.T. The time maintained by PARITY shall constitute the official time.

ELECTRONIC BIDDING PROCEDURES: Bids may be submitted only through the facilities of PARITY. Bids must be submitted on the Official Bid Form that resides on the PARITY system, without alteration or interlineations. Subscription to the Thomson Financial Municipal Group's BIDCOMP Competitive Bidding System is required in order to submit a bid. The County will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe. The County is using PARITY as a communications media, and not as the County's agent, to conduct electronic bidding for the Sewer Revenue Bonds.

All bids made through the facilities of PARITY shall be deemed irrevocable offers to purchase the Sewer Revenue Bonds on the terms provided in this Notice Inviting Bids for the Purchase of Sewer Revenue Bonds and shall be binding upon the bidder. Neither the County nor RBC Capital Markets, the County's Financial Advisor, shall be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of PARITY, the use of such facilities being the sole risk of the prospective buyer.

If any provision of this Notice Inviting Bids for the Purchase of Sewer Revenue Bonds conflicts with information provided by PARITY as the approved provider of electronic bidding services, this Notice Inviting Bids for the Purchase of Sewer Revenue Bonds shall control. Further information about PARITY, including any fee charged, may be obtained from BIDCOMP/PARITY, 1395 Broadway, 2nd Floor, New York, New York, 10018, Attention: Customer Support (212) 849-5021.

For information purposes only, bidders are requested to state in their electronic bids the net interest cost to the Board, as described under "AWARD AND DELIVERY" herein. All electronic bids shall be deemed to incorporate the provisions of this Notice Inviting Bids for the Purchase of Sewer Revenue Bonds and the Official Bid Form.

THE SEWER REVENUE BONDS: The Sewer Revenue Bonds will be dated [_____1, 200_] [the date of initial delivery thereof], and will bear interest from such date to the maturity or earlier redemption of each of the Sewer Revenue Bonds at a rate or rates none of which may exceed twelve percent (12%) per annum, payable on _____1, 20___, and semiannually thereafter on January 1 and July 1 of each year during the term of each of the Sewer Revenue Bonds. The Sewer Revenue Bonds are to mature on July 1 in the years and in the amounts as follows:

Due July 1	Principal Amount	Due July 1	Principal Amount

PURPOSE: The Sewer Revenue Bonds are being issued pursuant to the Constitution and laws of the State of Arizona, including Chapter 2, Article 4 of Title 11 of the Arizona Revised Statutes, and all amendments thereto, and under the provisions of a resolution adopted by the Board of Supervisors of Pima County on _____, 200___ and a resolution to be adopted by the Board of Supervisors of Pima County on the sale date (collectively, the "Resolution"), and are being issued for the purpose of (1) providing funds for the construction, acquisition and improvement of the sewer system of the County and (2) paying costs relating to the issuance of the Sewer Revenue Bonds.

OPTIONAL REDEMPTION: The Sewer Revenue Bonds maturing on or before July 1, 20_____ are not subject to call for redemption prior to their respective maturity dates. The Sewer Revenue Bonds maturing on or after July 1, 20_____ are subject to call for redemption on any date on or after July 1, 20_____ at the election of the County, in whole or in part from maturities selected by the County and within any maturity by lot, by the payment of a redemption price equal to the principal amount of each Sewer Revenue Bond called for redemption, plus accrued interest to the date fixed for redemption, without premium.

NOTICE OF REDEMPTION: Notice of redemption will be given by mail to the registered owners of the Sewer Revenue Bonds at the address shown on the bond register maintained by the bond registrar not less than thirty (30) days nor more than sixty (60) days prior to the specified redemption date.

BOOK ENTRY ONLY SYSTEM: The Sewer Revenue 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 Sewer Revenue Bonds. One fully registered Sewer Revenue 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 Sewer Revenue 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 Sewer Revenue Bonds will not receive certificates representing their interests in the Sewer Revenue Bonds and will not be deemed to be registered owners under the Resolution.

So long as the book entry only system is in operation, principal of and interest on the Sewer Revenue Bonds will be payable by _____, as bond registrar and paying agent, to Cede & Co., as nominee of DTC which organization consequently bears sole responsibility for remitting such principal and interest to the DTC participants for subsequent credit or disbursement to the beneficial owners of the Sewer Revenue 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 Sewer Revenue Bonds and the County does not select another qualified securities depository, the County is required to deliver to DTC for redistribution to beneficial owners of the Sewer Revenue Bonds one or more bond certificates 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.

CUSIP NUMBERS: It is anticipated that CUSIP numbers will be assigned to the Sewer Revenue Bonds, but no failure to assign such numbers to any Sewer Revenue Bonds, nor any error with respect thereto, shall constitute cause for failure or refusal by the purchaser thereof to accept and pay for the Sewer Revenue Bonds in accordance with the terms of the sale. No CUSIP number shall be deemed to be a part of any Sewer Revenue Bond or of the contract evidenced thereby. The CUSIP Service Bureau charge for the assignment of CUSIP numbers shall be paid by the purchaser of the Sewer Revenue Bonds.

INTEREST RATES AND OFFERING PRICES: Bids for the purchase of the Sewer Revenue Bonds must state the rate or rates of interest to be paid and not bid at a price less than the par value of the Sewer Bonds, together with all accrued interest thereon at the date of delivery of the Bonds, will be considered. All Sewer Revenue Bonds of the same maturity must bear the same rate of interest. The difference between the highest interest rate bid for any maturity and the lowest interest rate bid for any other maturity shall not exceed one and one-half percent (1-1/2%) per annum. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. Interest rates must be expressed in multiples of one-eighth (1/8th) or one-twentieth (1/20th) of one percent (1%).

Any interest rate bid which would result in an interest payment amount having fractional cents will be deemed a waiver of the right to payment of such fractional cents. No fractional cents will be paid or accumulated for payment on any Sewer Revenue Bond.

SECURITY: Principal of and interest on the Sewer Revenue Bonds are payable solely from the net revenues derived from the operation of the sewer system of the County. The Sewer Revenue Bonds shall not constitute a debt or obligation of the County within the meaning of any constitutional or statutory debt limitation, nor shall payment of the Sewer Revenue Bonds or interest or redemption premiums thereon be enforceable out of any funds other than the 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.

BOND INSURANCE: Each bidder may, in making its bid, assume, as a premise, either that the payment of principal of and interest on the Sewer Revenue Bonds will be insured at the bidder's expense, or that the Sewer Revenue Bonds will not be insured, and shall indicate on the bid form the premise on which its bid is based. If the accepted bid is based on an assumption that such a policy will be issued, the successful bidder shall cause the policy to be issued at the bidder's expense.

FORM OF BID; SURETY BOND: The prescribed form of bid for the Sewer Revenue Bonds will be available on the PARITY system and all bids must be submitted on that form. All bids must be covered by a financial surety bond from an insurance company licensed to do business in the State of Arizona and submitted to the County or the Financial Advisor prior to the opening of the bids in an amount of $_____, which is equal to two percent (2%) of the par value of the Sewer Revenue Bonds (the "Deposit"). The financial surety bond must identify each bidder whose bid is guaranteed by such financial surety bond. The bidder to whom the Sewer Revenue Bonds are awarded must submit its Deposit to the County, in the form of a certified check or wire transfer as instructed by the Financial Advisor, not later than 10:30 A.M., M.S.T. on the next business day following the award. If the Deposit is not received by that time, the financial surety bond may be drawn on by the County to satisfy the Deposit requirement. The Deposit of the successful bidder will be applied to the purchase price of the Sewer Revenue Bonds or retained and forfeited as liquidated damages in the event such bidder does not take up and pay for the Sewer Revenue Bonds immediately upon the County's satisfaction of all conditions necessary to their issuance and delivery. No interest will be paid on the Deposit of any bidder.

The Financial Advisor to the County has reserved the right to bid on the Sewer Revenue Bonds.

RIGHT OF REJECTION: The County reserves the right, in its discretion, to reject any and all bids received and to waive any irregularity or informality in the bids, except that the time for receiving bids shall be of the essence.

AWARD AND DELIVERY: Unless all bids are rejected, the Sewer Revenue Bonds will be awarded to the bidder whose bid results in the lowest net interest cost to the County. The net interest cost will be determined by computing the aggregate amount of interest payable on the Sewer Revenue Bonds based upon the total principal amount of Sewer Revenue Bonds offered as scheduled to mature in this Notice from their date to their respective maturities and by deducting therefrom any premium. Delivery of the Sewer Revenue Bonds will be made to the purchaser upon payment in immediately available funds in Tucson, Arizona, or, at the

purchaser's request and expense, at any other place mutually agreeable to both the County and the purchaser.

NOTICE REGARDING STATE CONTRACTS: Arizona law requires that every contract to which the State, its political subdivisions or any of the departments or agencies of the State or its political subdivisions, including the County, is a party include notice that such contract is subject to cancellation, within three (3) years after its execution, by the State, or the political subdivision, including the County, 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, or the political subdivision, including the County, 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.

LEGAL OPINION: The Sewer Revenue Bonds are sold with the understanding that the County will furnish the purchaser with the approving opinion of Squire, Sanders & Dempsey L.L.P. Said attorneys have been retained by the County as Bond Counsel and in such capacity are to render their opinion only upon the legality of the Sewer Revenue Bonds under Arizona law and on the exclusion of the interest on the Sewer Revenue Bonds from the gross income of the owners of the Sewer Revenue Bonds for federal and state of Arizona income tax purposes. Fees of Bond Counsel will be paid from the Sewer Revenue Bond proceeds.

TAX EXEMPT STATUS: The Internal Revenue Code of 1986, as amended (the "Code") prescribes a number of qualifications and conditions which apply to the Sewer Revenue Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of Sewer Revenue 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 Sewer Revenue Bonds to be excludable from gross income. Failure to comply with certain of such covenants could cause interest on the Sewer Revenue Bonds to become includable in gross income retroactive to the date of issuance of the Sewer Revenue Bonds.

Subject to the condition that the County comply with the above-referenced covenants, under present law, in the opinion of Bond Counsel, the Sewer Revenue Bonds are not "private activity bonds" under the Code, and interest on the Sewer Revenue Bonds will not be includable in gross income of the owners thereof for federal or Arizona income tax purposes, and will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations. Interest on the Sewer Revenue Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest.

Ownership of the Sewer Revenue Bonds may result in collateral federal income tax consequences to certain taxpayers. Prospective purchasers of the Sewer Revenue Bonds should consult their tax advisors as to applicability of any such collateral consequences. Bond counsel will express no opinion regarding these consequences.

CERTIFICATE TO BE DELIVERED BY SUCCESSFUL BIDDER: Simultaneously with or before delivery of the Sewer Revenue Bonds, the successful bidder shall furnish to the County a certificate acceptable to Bond Counsel to the effect that (i) all of the Sewer Revenue Bonds have been the subject of an initial bona fide offering to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at the prices shown on such certificate plus accrued interest, if any, (ii) at the time they agreed to purchase the Sewer Revenue Bonds, based upon their assessment of the then prevailing market conditions, they reasonably expected that all Sewer Revenue Bonds would be initially sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of the underwriters or wholesalers) at the prices shown on such certificate, plus accrued interest, if any, and (iii) the prices shown on such certificate for each of the Sewer Revenue Bonds were the fair market value of such Sewer Revenue Bonds as of the sale date.

CERTIFICATES TO BE DELIVERED BY COUNTY: Representatives of the County will deliver certificates to the effect that (i) no litigation is pending affecting the issuance and sale of the Sewer Revenue Bonds and (ii) to their best knowledge, information and belief, the information contained in the Official Statement relating to the Sewer Revenue Bonds is true and correct in all material respects. The County will also deliver a tax compliance certificate covering its reasonable expectations concerning use of the proceeds of the Sewer Revenue Bonds and related matters.

PRELIMINARY OFFICIAL STATEMENT DEEMED FINAL; FINAL OFFICIAL STATEMENT: The County deems the Preliminary Official Statement provided in connection with the sale of the Sewer Revenue Bonds to be final as of its date except for the omission of offering prices, selling compensation, delivery dates, terms to be specified in the winning bidder's bid, ratings, other terms depending on such matters and the identity of the winning bidder.

The winning bidder must provide the County, within twenty-four (24) hours after the award of the Sewer Revenue Bonds, with all necessary offering price information, selling compensation information, all other terms of the sale which are depending on such matters and any underwriter information, all as may be necessary to complete the final Official Statement.

Within seven (7) business days after the award of the Sewer Revenue Bonds, the County will provide the winning bidder with up to three hundred (300) copies of the final Official Statement at no cost. Additional copies of the final Official Statement may be obtained from the County at the winning bidder's expense. The final Official Statement will be in substantially the same form as the Preliminary Official Statement with such additions, deletions or revisions as the County deems necessary.

CONTINUING DISCLOSURE: The County will enter into a continuing disclosure undertaking with respect to the Sewer Revenue Bonds, which undertaking will be described in the Official Statement.

ADDITIONAL INFORMATION: Copies of the prescribed bid form and the Official Statement relating to the Sewer Revenue Bonds will be furnished to any bidder upon request made to RBC Capital Markets, 2398 East Camelback Road, Phoenix, Arizona 85016, Financial Advisor to the County, telephone number (602) 381-5368.

PIMA COUNTY, ARIZONA

/s/ Lori Godoshian
Clerk, Board of Supervisors

MATURITY DATES, PRINCIPAL AMOUNTS AND BOND YEAR LIFE

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 200___

Maturity Dates (July 1)	Principal Amounts	Bond Years	Cumulative Bond Years

Average Bond Life: _____ Years

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 8, 2007

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

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (ii) interest on the Bonds is exempt from Arizona state income tax. Interest on the Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of tax aspects, see "TAX EXEMPTION" herein.

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

Dated: January 1, 2007 **Due: July 1, as shown on next page**

The Sewer Revenue Bonds, Series 2007 (the "Bonds") are being issued by Pima County, Arizona (the "County") in accordance with applicable State of Arizona law. The Bonds are issued in the form of fully registered bonds in denominations of $5,000 and integral multiples thereof and will bear interest from the date of the Bonds to the date of maturity or prior redemption of each of the Bonds. Interest on the Bonds is payable semiannually on each January 1 and July 1 (each an "Interest Payment Date"), commencing July 1, 2007. Interest 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 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 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 owning an aggregate principal amount of at least $1,000,000. Principal of the Bonds will be payable at the designated corporate trust office of The Bank of New York Trust Company, N.A., or any successor thereto, as registrar and paying agent.

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

The Bonds are being issued for the purpose of providing funds to (i) make various improvements in the County's sewer system (the "System") and to (ii) pay costs relating to the issuance of the Bonds.

Principal of and interest on the Bonds is payable solely from and secured by a pledge of the Net Revenues of the System on a parity of lien with certain outstanding sewer revenue debt and additional parity debt that may be issued or incurred in the future under the herein-described Sewer Bond Resolution. The 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 Bonds from any sources of funds except from the sources and funds described herein. See "THE BONDS - Security and Source of Payment" herein.

The County initially intends to utilize the book-entry-only system of The Depository Trust Company ("DTC"), although the County and DTC each reserve the right to discontinue that system at any time. Utilization of the book-entry-only system will affect the method and timing of payment and the method of transfer of beneficial interests in the Bonds. So long as the book-entry-only system is in effect, the County will issue a single fully-registered bond for each maturity registered in the name of Cede & Co., as nominee of DTC, and will make all payments of principal and interest to Cede & Co. DTC will be responsible for distributing the principal and interest payments to its direct and indirect participants which will, in turn, be responsible for distribution to the purchasers of beneficial interests in the Bonds pursuant to this offering (the "Beneficial Owners"). So long as the book-entry-only system is in effect and Cede & Co., as nominee of DTC, is the registered owner of the Bonds, all references herein to owners of the Bonds and provisions for consents by owners of the Bonds will refer to and be solicited from Cede & Co. and not the Beneficial Owners.

MATURITY SCHEDULE

Due July 1	Principal Amount	Interest Rate	Yield	Due July 1	Principal Amount	Interest Rate	Yield
2007	$2,665,000			2017	$2,405,000		
2008	1,550,000			2018	2,525,000		
2009	1,625,000			2019	2,650,000		
2010	1,710,000			2020	2,785,000		
2011	1,795,000			2021	2,925,000		
2012	1,885,000			2022	3,070,000		
2013	1,980,000			2023	3,220,000		
2014	2,075,000			2024	3,385,000		
2015	2,180,000			2025	3,550,000		
2016	2,290,000			2026	3,730,000		

(Accrued Interest to be Added)

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

*The Bonds are offered when, as and if issued by the County subject to the approving opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, as to validity and tax exemption. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about January 25, 2007.**

January___, 2007

SALE DATE AND TIME: JANUARY 16, 2007, 10:30 A.M., M.S.T.

*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.

PIMA COUNTY, ARIZONA
BOARD OF SUPERVISORS

Richard Elías, *Chairman*

Sharon Bronson

Ray Carroll

Ann Day

Ramón Valadez

COUNTY ADMINISTRATIVE OFFICIALS

ELECTED OFFICIALS

Bill Staples
County Assessor

Beth Ford
County Treasurer

Barbara La Wall
County Attorney

APPOINTED OFFICIALS

C. H. Huckelberry
County Administrator

Thomas Burke
Finance and Risk Management Director

FINANCIAL CONSULTANT

RBC Capital Markets
Phoenix, Arizona

BOND COUNSEL

Squire, Sanders & Dempsey L.L.P.
Phoenix, Arizona

BOND REGISTRAR AND PAYING AGENT

The Bank of New York Trust Company, N.A.
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 Bonds identified on the cover hereof. No person has been authorized by Pima County, Arizona (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.

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 the past experience, as shown by such financial and other information, will necessarily continue or be repeated in the future. This Official Statement contains, in part, estimates and matters of opinion, whether or not expressly stated to be such, which are not intended as statements or representations of fact or certainty, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. All forecasts, projections, assumptions, opinions or estimates are "forward looking statements," which must be read with an abundance of caution and which may not be realized or may not occur in the future. 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, create any implication that there has been no change in the affairs of the County since the date hereof.

The issuance and sale of the 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 Sections 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities; nor have the issuance and sale of the Bonds been qualified under the Securities Act of Arizona, in reliance upon various exemptions thereunder. 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.

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$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

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 Bonds, Series 2007 (the "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 BONDS

Authorization and Use of Funds

The 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 Bonds, to be adopted by the Board on January 16, 2007* (collectively, the "Sewer Bond Resolution"). Excerpts of the Sewer Bond Resolution are presented in Appendix G.

The Bonds offered herein represent a portion of the remaining authorization approved at special bond elections held on May 20, 1997 and May 18, 2004. After the sale and delivery of the Bonds, the County will have $153,942,383 principal amount of authorized but unissued sewer revenue bonds remaining for issuance.

Proceeds of the sale of the Bonds will be used to provide funds to (i) make various improvements in the County's sewer system (the "System") and (ii) pay costs relating to the issuance of the Bonds.

General Description

The Bonds will be dated January 1, 2007 and will be issued in the form of fully registered bonds in denominations of $5,000 or any integral multiple thereof. The Bonds will bear interest from January 1, 2007, payable semiannually on January 1 and July 1 (each an "Interest Payment Date"), commencing July 1, 2007.

Interest will be paid on each Interest Payment Date by check mailed to each registered owner of the Bonds at the address shown on the registration books (the "Bond Register") maintained by the 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

*Preliminary, subject to change.

or holiday on the next preceding business day (the "Record Date"), or by wire transfer 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 owning an aggregate principal amount of Bonds of at least $1,000,000 and the principal of the Bonds will be payable at maturity upon surrender of the Bonds to The Bank of New York Trust Company, N.A., as the bond registrar and paying agent (the "Bond Registrar" and "Paying Agent" as applicable).

Security and Source of Payment

Principal and interest on the 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 Bonds will be on a parity of lien on such Net Revenues with the County's outstanding Sewer Improvement and Refunding Revenue Bonds, Series 1998, Sewer Revenue Refunding Bonds, Series 2001, and Sewer Revenue Refunding Bonds, Series 2004, and certain loan agreements between the Water Infrastructure Finance Authority of Arizona ("WIFA") and the County, as borrower, dated February 1, 1996, June 1, 1997, October 27, 2000 as amended, and May 11, 2004, as amended (collectively, the "Outstanding Parity Bonds") and additional parity bonds that may be issued in the future as provided in the Sewer Bond Resolution (collectively with the Bonds and the Outstanding Parity Bonds, the "Parity Bonds"). The aggregate principal amount of Parity Bonds that will be outstanding after the issuance of the Bonds will be $185,892,237. See "Parity Bonds" below and "SEWER REVENUE BONDS TO BE OUTSTANDING" herein.

Redemption

The Bonds maturing on or before July 1, 2017 are not subject to call for redemption prior to their respective maturity dates. The Bonds maturing on or after July 1, 2018 are subject to call for redemption on any date on or after July 1, 2017 at the election of the County, in whole or in part from maturities selected by the County and within any maturity by lot, 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, without premium.

Notice of Redemption

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 not more than sixty (60) nor less than thirty (30) days prior to the date set for redemption. Failure to give proper notice of redemption shall not affect the redemption of any Bond for which proper notice was given.

Book-Entry-Only System

THE INFORMATION PROVIDED UNDER THIS SUBCAPTION "BOOK-ENTRY-ONLY SYSTEM" HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE COUNTY, BOND COUNSEL OR THE FINANCIAL CONSULTANT AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of the Bonds, 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" and, together with the Direct Participants, the "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 beneficial interests in the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of a beneficial interest in a Bond ("Beneficial Owner") is in turn to be recorded on the Direct Participants' 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 Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of beneficial ownership interests in the Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants 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 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds such as redemptions, defaults, and proposed amendments to the Sewer Bond Resolution. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 Bond Registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Registrar and Paying Agent 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments represented by the Bonds will be made by the Paying Agent 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 or the Paying Agent 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, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, 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, 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 Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Paying Agent or the County. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds 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, Bonds will be printed and delivered to DTC.

NEITHER THE COUNTY NOR THE BOND REGISTRAR WILL HAVE RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS OR TO INDIRECT PARTICIPANTS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE SEWER BOND RESOLUTION; (3) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE BONDS; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF BONDS; OR (6) ANY OTHER MATTERS.

So long as Cede & Co. is the registered Owner of the Bonds, as nominee for DTC, references herein to "Owner" or registered owners of the Bonds (other than under the caption "TAX EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such 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.

Registration and Transfer

The Bonds will be transferable only upon the Bond Register maintained by the Bond Registrar and only upon surrender of the Bond or Bonds to be transferred to the registrar with an appropriate instrument of transfer executed by the transferor.

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 bonds 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 bonds' 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 Bonds and adjusted upon the issuance of 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 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 investment and any amount thereof is subsequently withdrawn and transferred to the Bond Fund to pay debt service on the 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 ("Financial Guaranty"), AMBAC Indemnity Corporation ("AMBAC Indemnity") and MBIA Insurance Company ("MBIA") satisfying the requirements of a Reserve Fund Guaranty under the Sewer Bond Resolution, in an amount equal to the Reserve Requirement for all outstanding sewer revenue bonds. If any additional amounts are required as a result of an increase in the Reserve Requirement resulting from the issuance of the Bonds, the County intends to meet the additional requirement with a Reserve Fund Guaranty.

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 Parity 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 Guaranty) 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 and Risk Management) 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 Bonds."

SEWER REVENUE DEBT TO BE OUTSTANDING

The following chart lists the sewer revenue debt of the County that is currently outstanding and that will be outstanding after the issuance of the Bonds.

Date of Issue	Original Amount	Purpose	Original Maturity Dates	Balance Outstanding
03-01-96	$11,313,350	Refunding (a)(b)	7-1-04/12	$ 9,069,388.26
08-06-97	7,500,000	Sewer Improvements (b)	7-1-01/11	3,670,007.52
05-01-98	29,185,000	Sewer Improvements	7-1-01-15	17,655,000.00
10-27-00	61,180,286	Sewer Improvements (b)(c)	7-1-02-16	49,089,531.99
04-01-01	19,440,000	Refunding	7-1-04/15	14,980,000.00
05-01-04	25,770,000	Refunding	7-1-05/15	22,890,000.00
05-11-04	19,967,331	Sewer Improvements (b)(d)	7-1-07/24	18,538,309.17
Total Direct Sewer Revenue Bonded Debt Outstanding				$135,892,236.94
Plus: The Series 2007 Bonds offered herein				50,000,000.00
Net Direct Sewer Revenue Bonds Outstanding				$185,892,236.94

(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) May 11, 2004, the County entered into certain Loan Agreements with WIFA totaling $18,015,219. In September 2005, the County amended those Loan Agreements and added an additional $1,952,112. Amount outstanding as of November 21, 2006.

PIMA COUNTY, ARIZONA
STATEMENT OF NET REVENUES,
DEBT SERVICE REQUIREMENTS
AND PROJECTED COVERAGE

Fiscal Year	Net Revenues Available for Debt Service(a)	Outstanding Debt Service Requirements	Plus: The Bonds Dated: January 1, 2007 Principal	Interest (b)	Total Debt Service Requirements	Debt Service Coverage (c)
2006	$48,452,577					
2007		$16,422,395	$2,665,000	$1,250,000	$20,337,395	2.38
2008		16,447,430	1,550,000	2,366,750	20,364,180	2.38
2009		16,453,327	1,625,000	2,289,250	20,367,577	2.38
2010		15,565,883	1,710,000	2,208,000	19,483,883	2.49
2011		16,608,054	1,795,000	2,122,500	20,525,554	2.36
2012		17,349,316	1,885,000	2,032,750	21,267,066	2.28
2013		15,213,349	1,980,000	1,938,500	19,131,849	
2014		14,714,627	2,075,000	1,839,500	18,629,127	
2015		15,615,800	2,180,000	1,735,750	19,531,550	
2016		7,148,337	2,290,000	1,626,750	11,065,087	
2017		7,164,978	2,405,000	1,512,250	11,082,228	
2018		1,423,808	2,525,000	1,392,000	5,340,808	
2019		1,423,179	2,650,000	1,265,750	5,338,929	
2020		1,422,529	2,785,000	1,133,250	5,340,779	
2021		1,421,858	2,925,000	994,000	5,340,858	
2022		1,421,164	3,070,000	847,750	5,338,914	
2023		1,420,448	3,220,000	694,250	5,334,698	
2024		1,419,708	3,385,000	533,250	5,337,958	
2025		13,571	3,550,000	364,000	3,927,571	
2026			3,730,000	186,500	3,916,500	

(a) Net Revenues of the System reported by the County for fiscal year 2005-06.

(b) The first Interest Payment Date is July 1, 2007. Interest is Estimated at an average interest rate of 5.00%.

(c) Under the provisions of the Sewer Bond Resolution, the County may issue 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 BONDS - Parity Bonds" herein.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds by the County are subject to the approving opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel to the County. Copies of such opinion will be available at the time of delivery of the Bonds. The form of opinion is included as Appendix D to this Official Statement. Fees of Bond Counsel will be paid from Bond proceeds.

*Preliminary, subject to change.

TAX EXEMPTION

General

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) interest on the Bonds is exempt from Arizona state income tax. Bond Counsel will express no opinion as to any other tax consequences regarding the Bonds.

The opinion on federal tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the County to be contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the interest on the Bonds is and will remain excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of those certifications and representations or compliance.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations in order for the interest to be and to remain so excluded from the date of issuance. Noncompliance with these requirements by the County may cause the interest on the Bonds to be included in gross income for federal income tax purposes and thus to be subject to federal income tax retroactively to the date of their issuance. The County has covenanted to take the actions required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

A portion of the interest on the Bonds earned by corporations may be subject to the federal corporate alternative minimum tax. In addition, interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

Pursuant to the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these or other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding such consequences.

Purchasers of the Bonds at other than their original issuance at the respective prices indicated on the inside front cover of this Official Statement should consult their own tax advisers regarding other tax considerations such as the consequences of any market discount.

Original Issue Discount/Original Issue Premium

Certain of the Bonds ("Discount Bonds") as indicated on the front cover of this Official Statement may be offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above as to other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond.

A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the front cover of this Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

Certain of the Bonds (for purposes of this subheading, "Premium Bonds") as indicated on the front cover of this Official Statement may be offered and sold to the public at a price in excess of their stated principal amounts payable at the scheduled principal payment dates. That excess constitutes premium. For federal income tax purposes, premium is amortized over the period to scheduled principal payment date of a Premium Bond, based on the yield to scheduled principal payment date of that Premium Bond (or, in the case of a Premium Bond callable prior to its scheduled principal payment date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, payment (including payment at the scheduled principal payment date) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the inside front cover of this Official Statement who holds that Premium Bond to its scheduled principal payment date (or, in the case of a callable Premium Bond, to its earlier prepayment date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Premium Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the amount of premium properly accruable in any period with respect to the Premium Bonds and as to other federal tax consequences and the treatment of bond premium for purposes of state and local taxes on, or based on, income.

LITIGATION

To the knowledge 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 Bonds; the collection or receipt of revenues to pay the principal of, and interest on, the Bonds; contesting or questioning the proceedings and authority under which the Bonds have been authorized and are to be issued, sold, executed or delivered; or the validity of the Bonds. The County will deliver a certificate to that effect at the time of the original delivery of the Bonds.

The County has been named as a defendant in several lawsuits for which the County believes either that it has adequate self-insurance or insurance coverage in the event of liability or that such liability would not otherwise materially and adversely affect the financial condition of the County.

RATINGS

The Bonds have been rated "A1" by Moody's Investors Service and "A+" by Standard & Poor's Ratings Group. 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 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 Bonds.

CONTINUING SECONDARY MARKET DISCLOSURE

The County has covenanted for the benefit of holders of the 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, 2008 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material (the "Notice of Material Events"). The Annual Report 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 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 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

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 filed, however, 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

The financial statements of the Pima County Department of Wastewater Management and excerpts of the County's Comprehensive Annual Financial Report as of June 30, 2006 and for the fiscal year then ended, which are included as Appendices E and F of this Official Statement, respectively, have been audited by Heinfeld & Meech and the Office of the Auditor General, State of Arizona, respectively, as stated in their respective opinions which appear in Appendices E and F. The County neither requested nor obtained the consent of Heinfeld & Meech or the Office of the Auditor General to include their reports and Heinfeld & Meech and the Office of the Auditor General have performed no procedures subsequent to rendering their opinions on the financial statements.

ADDITIONAL INFORMATION

Additional information and copies of the Official Statement and the Sewer Bond Resolution may be obtained from RBC Dain Rauscher Inc., doing business under the name RBC Capital Markets, 2398 East Camelback Road, Suite 700, Phoenix, Arizona 85016 (telephone 602-381-5368), Financial Consultant to the County.

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 Bonds.

By: _____
Chairman, Board of Supervisors

By: _____
County Administrator

PIMA COUNTY, ARIZONA
WASTEWATER MANAGEMENT DEPARTMENT

Organization and Administration

The Pima County, Arizona Wastewater Management Department (the "Department") operates as a separate enterprise of Pima County. The County is authorized to operate and maintain the sewer system (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 December 2002. 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 Roger Road Wastewater Treatment Plant, the Ina Road Water Pollution Control Facility, and the Randolph Park Water Reclamation Facility serve Metropolitan Pima County. Together, the three metropolitan facilities have a combined, current treatment capacity of approximately 69 million gallons per day (mgd). In 2007, of the new Biological Nutrient Removal (BNR) process at Ina Road will increase total metropolitan system capacity to 81.5 mgd. The non-metropolitan Pima County areas are served by eight wastewater treatment facilities: Green Valley, Avra Valley, Corona de Tucson, Arivaca Junction, Marana, Rillito Vista, Mt. Lemmon, and the Pima County Fairgrounds.

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. In addition, the Board has established a thirteen member advisory committee to review, evaluate and make recommendations on short and long-range capital improvement needs and revenue requirements of the Department.

The Department has been under the direction of Michael Gritzuk P.E., since he was appointed as Director in July 2005. During the past 25 years, Mr. Gritzuk has held director positions involving the development and management of major water and wastewater systems in Arizona, Florida, Massachusetts, and New Jersey. In addition, he was an engineering manager with the U.S. Environmental Protection Agency for six years. He served as the Director in the City of Phoenix's Water Services Department for seventeen years. Mr. Gritzuk holds a Bachelor of Engineering degree in Civil Engineering and Master Degrees in Engineering and Environmental Sciences from New York University. He is a professional engineer in the State of Arizona. He is a member of the Board of Directors of the Arizona Water and Pollution Control Association and American Water Works Association, as well as being the President of the National Water Reuse Association.

Litigation or Administrative Actions

The metropolitan wastewater treatment facilities operate under discharge permits issued by the U.S. Environmental Protection Agency and Arizona Department of Environmental Quality (ADEQ). In September 2002, a portion of a main sewer trunk line, which is part of the System, collapsed. The County repaired the line and entered into a Consent Decree with ADEQ in June 2005. The Superior Court of the State of Arizona dismissed the Consent Decree on August 30, 2006.

Wastewater Fees and Revenues

The Department's structure of rates, fees and other charges for the System is 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 a one-time connection fee 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 certain other fixed costs of the Department and was set at $5.72. 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. As of January 1, 2007, the user fee rate, charged for what is considered to be normal, domestic strength sewage for a residential user, was set at $1.33 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 user fee rates for the last ten fiscal years.

PIMA COUNTY, ARIZONA
SUMMARY OF WASTEWATER USER FEES

Fiscal Year	Date User Fee Charges Adopted (a)	Monthly Service Charge	User Fee Rates ($ per Ccf) Residential	Commercial/Industrial (b)
1996-97	February 20, 1996	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
2005-06	June 21, 2005	5.72	1.18	1.18 – 4.27
2006-07	July 11, 2006 (c)	5.72	1.25	1.25 – 4.54
2006-07	July 11, 2006 (c)	5.72	1.33	1.33 – 4.81

(a) 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 increases.
(b) 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.
(c) During Fiscal Year 2006-07, two rate increases were approved. The first 6% rate increase was effective on August 11, 2006 and the second 6% rate increase was effective on January 1, 2007.

Source: Pima County User Fee Ordinance for the applicable year

Based on the residential user fee rate changes adopted by the Board, the following table summarizes the fiscal year percentage changes in user fee rates.

PIMA COUNTY, ARIZONA
SUMMARY OF PERCENTAGE INCREASES IN
RESIDENTIAL USER FEE RATES

Fiscal Year	User Fee Percentage Rate Increases
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
2005-06	8.0
2006-07 (a)	12.0

(a) The 12% rate increase represents two 6% rate increases that occurred during the fiscal year.

Source: Pima County User Fee Ordinance for the applicable year

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	Billed User Fee Revenue			Percent of User Fee Revenue		Percent User Fee Revenue
Year	Residential	Comm./Ind.	Total	Res.(a)	Comm./Ind.(a)	Increase(b)
1996-97	$21,062,013	$11,950,541	$33,012,554	63.8%	36.2%	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	30,280,270	17,405,195	47,685,465	63.5	36.5	5.2
2004-05	32,402,896	17,990,410	50,393,306	64.3	35.7	5.7
2005-06	37,781,910	23,953,237	61,735,147	61.2	38.8	22.5

(a) Beginning in fiscal year 1996-97, amounts reflect Tucson Water's reclassification of multifamily from residential to commercial/industrial.

(b) Changes in Total Billed User Fee Revenue.

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 user classes are delineated for connection fee purposes: single family residential, multifamily residential and commercial/industrial. The construction of a qualifying public sewer improvement shall qualify a developer for a discount against the connection fee otherwise due per dwelling unit or per ten commercial fixture units. The amount of discount from each eligible connection fee shall be $1,100 for the construction of a qualifying public sewer collection improvement and $250 for the construction of a qualifying public sewer treatment improvement. The aggregate discounts received shall not exceed the net construction cost of the qualifying public sewer improvements.

The connection fee charged to a user is based on the number of fixture units in the building or structure connecting to the System. Effective January 1, 2007, the residential connection fee will be $189.62 per fixture unit equivalent, and the fee will increase 6% every six months until it reaches $213.06 on January 1, 2008. Effective January 1, 2007, the commercial and industrial connection fee will be $379.33 per fixture unit equivalent, and the fee will increase 6% every six months until it reaches $426.22 on January 1, 2008.

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
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	17,479,914
2002-03	20,279,607
2003-04	29,404,130
2004-05	36,906,421
2005-06	42,219,962

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
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	104,062	213,288	1,199,727	1,517,077
2004-05	70,754	498,130	1,397,749	1,966,633
2005-06	29,005	1,783,873	456,248	2,269,126

(a) Under the terms of the Sewer Resolution (Pima County Resolution 1991-138), 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.

Source: Pima County Wastewater Management Department

Accounting and Billing

For the Fiscal Year Ended June 30, 2006, the Department's financial statements were audited by Heinfeld, Meech & Co., P.C. The Department performs accounting for System revenues and expenses.

Billing and collection services for user fees and turn-on fees are primarily provided by the City of Tucson, through its agency Tucson Water, the Metropolitan Domestic Water Improvement District (MDWID), Oro Valley Water Utility, and the Town of Marana. As of June 30, 2006 billing through Tucson Water comprises most of the Department's accounts, approximately 212,977 customers. MDWID bills approximately 15,808 customers, Oro Valley bills approximately 15,569 customers, and Marana bills approximately 2,467 customers. The County directly bills those sewer customers served by the numerous smaller water companies and private wells in the other parts of the County.

Delinquent user accounts are managed by Tucson Water, MDWID, Oro Valley, Marana or the County, depending on the source of water for the user. An account becomes delinquent when payment has not been received within 30 days of the "service to" date on the bill. For the water companies listed above, a notice is mailed advising that water service will be terminated, 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.

For users receiving water utility service from either a private water company or a private well, the Department handles the delinquencies. Delinquency billing notices are sent at 30, 60 and 90 days. If the user fails to respond, a certified letter is mailed advising that the account is being referred to the County Collection Division 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.

Wastewater records show that the number of customers to the sanitary sewer system has been increasing every year. Since fiscal year 1996-97, the average number of customers being served by the System has been:

Fiscal Year	Customers	% Increase
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	218,995	5.4
2002-03	226,772	3.6
2003-04	228,459	0.7
2004-05	240,306	5.2
2005-06	246,821	2.7

Source: Pima County Wastewater Management Department

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 has been revised and it was approved by the Board of Supervisors on March 21, 2006. The Facility Plan forecasts when capital expenditures would be required for treatment plant expansions and interceptor construction. The Department's 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.

The Department has budgeted approximately $42 million for the CIP for fiscal year 2006-07 and has a 5-year plan totaling $330 million. Highlights of the CIP projects under construction and planning efforts underway in fiscal year 2006-07 include:

- Corona Wastewater Treatment Facility – Lakeside expansion project will increase treatment capacity to 1 million gallons per day (MGD).

- Marana Waste Water Treatment Facility – Biological Nutrient Removal Oxidation Ditch (BNROD) expansion will increase treatment capacity to 2 million gallons per day (MGD).

- Santa Cruz Interceptor – 66 to 72 inch gravity interceptor sewer north from downtown near Franklin Street to Prince Road where it will connect to the 78 inch diameter interceptor tributary to the Roger Road WWTP.

- Regional Optimization Master Plan (ROMP) – Master planning effort to determine the optimum configuration of some of the department's metropolitan facilities (Roger Road Wastewater Treatment Plant, Plant interconnect and Ina Road Water Pollution Control Facility).

Financial Data

The following table depicts audited financial information for the past five years.

Pima County Wastewater Management Department

Comparative Statements of System Gross Revenues, Operation and Maintenance Expenditures and Net Revenues Available for Debt Service

	2001-2002	2002-2003	2003-2004 (b)	2004-2005	2005-2006
REVENUES:					
Sewer Utility Service	$ 40,935,336	$ 45,318,741	$47,685,465	$50,393,306	$61,735,147
Sewer Connection Revenue	17,479,915	20,279,607	29,404,130	36,906,421	42,219,962
Engineering Review and Inspection Fees	61,564	245,820	104,062	70,754	29,005
Other Income (a)	2,367,825	2,530,600	2,334,645	2,154,886	1,839,703
Gross Revenues	60,844,640	68,374,768	79,528,302	89,525,367	105,823,817
MAINTENANCE AND OPERATIONS COSTS:					
Employee Compensation	20,350,669	23,290,692	25,367,949	24,639,951	27,541,776
Consultants and Outside Services	2,918,701	2,523,079	2,510,706	2,652,106	5,113,446
Treatment Supplies and Chemicals	6,069,710	7,276,779	6,375,637	6,230,226	7,616,054
Repair & Maintenance	3,204,525	4,699,452	1,430,383	2,747,503	4,291,962
General and Administrative	6,102,213	8,320,189	8,749,542	10,202,490	11,735,333
Capital Expenses	3,925,136	827,240	132,247 (b)	322,314	1,072,669
Maintenance and Operation Cost	42,570,954	46,937,431	44,566,464	46,794,590	57,371,240
Net Revenues	18,273,686	21,437,337	34,961,838	42,730,777	48,452,577
REVENUE BONDED DEBT SERVICE:					
Principal	7,661,855	8,886,774	7,979,721	4,705,000	9,500,734
Interest	5,782,368	5,912,681	5,377,763	4,471,844	5,706,288
Total Debt Service Payments	13,444,223	14,799,455	13,357,484	9,176,844	15,207,022
Debt Service Coverage	1.36X	1.45X	2.62X	4.66X	3.19X
Net Revenues Remaining After Debt Service	$4,829,463	$6,637,882	$21,604,354	$33,553,933	$33,245,555

(a) Other income includes revenues generated from licenses, permits and fines, sanitation fees, net interest income, and other miscellaneous income.

(b) See Note 2 to the Financial Statements for the Fiscal Year Ending June 30, 2005 regarding a restatement of the prior year's net assets.

Source: Annual audited financial statement for the Pima County Wastewater Management Department, excluding all grant activity.

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PIMA COUNTY, ARIZONA
General Economic And Demographic Information

General Information

Pima County, Arizona (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 2005 population of 957,635 Approximately 55% of the County's population resides in the City of Tucson, Arizona ("Tucson"), the County seat of government and southern Arizona's largest city.

TABLE 1
Population Statistics For Pima County, the City of Tucson and the State of Arizona

	Pima County	City of Tucson	State of Arizona
2005 Estimate (a)	957,635	529,770	6,044,985
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

(a) Population estimate as of July 1, 2005.

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 the Flood Control District (the "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. 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.

Mr. Thomas Burke was appointed Finance and Risk Management Director in January 2005 and had served as Deputy Director of Finance from May 2004. Prior to his move to Finance, Mr. Burke served as Deputy Director of Pima County's Department of Natural Resources, Parks and Recreation from 2003 to 2004. From 2000 to 2003, he was a Deputy County Attorney representing various Pima County departments primarily including the County Assessor, the County Treasurer and Public Works departments. From 1989 to 1998 Mr. Burke served as the Manager of Pima County's Real Property Services and from 1994 to 1998 also served as the County's Superintendent of Streets overseeing special taxing districts. During 1998 to 2000, he was a partner in an Arizona law firm representing local governments. Prior to his work

with Pima County, Mr. Burke was an attorney with a Tucson law firm from 1983 to 1989 and was a Certified Public Accountant with Ernst & Whinney from 1976 to 1980. Mr. Burke holds a Bachelor of Science in Business Administration with a major in Accounting and a Juris Doctor, both from the University of Arizona, and is licensed as an attorney in the State of Arizona.

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 State Highways 77, 83, 85 and 86. 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 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. 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 nearly 84.9% of total employment in 2005. Figures from the Arizona Department of Economic Security indicate that 365,800 persons were employed, on average (not including the agricultural industry), in the County in 2005. The following table presents the County's average annual total employment by industry for the years indicated:

TABLE 2
Pima County
Average Annual Employment
Number of Persons Employed 2001-2006

Industry	2001	2002	2003	2004	2005	2006*
Goods Producing						
Natural Resources and Mining	1,800	1,500	1,200	1,200	1,400	1,700
Construction	22,700	22,500	22,900	23,700	25,700	27,900
Manufacturing	33,000	30,500	28,700	28,300	28,200	29,000
Service Producing						
Trade, Transportation and Utilities	55,300	54,400	54,400	54,600	58,500	60,200
Information	7,700	7,900	7,600	7,700	7,200	7,100
Financial Activities	14,400	14,400	15,100	15,900	16,400	17,500
Professional and Business Services	41,300	41,500	41,300	41,800	45,800	48,200
Education and Health Services	41,800	43,600	45,600	47,700	50,300	52,200
Leisure and Hospitality	38,200	37,300	36,500	37,700	40,200	42,900
Other Services	14,300	14,500	14,500	14,800	14,700	14,800
Government	76,800	77,900	78,200	78,100	77,400	76,200
Total Wage & Salary Employment	347,300	346,000	346,000	351,500	365,800	377,700

*Data collected through August 31, 2006.

Source: Arizona Department of Economic Security.

The average unemployment rate for the County in 2005 was 4.6%. The average annual unemployment rate for 2004 and 2003 was 4.6% and 5.3%, respectively. The table below shows comparative unemployment rates for the County, the State and the United States.

TABLE 3
Pima County
Comparative Employment Statistics

	Pima County		Unemployment Rate		
Calendar Year	Average Employment	Average Unemployment	Pima County	Arizona	U.S.
2006*	426,700	19,100	4.3%	4.4%	4.7%
2005	415,500	20,000	4.6%	4.7%	5.1%
2004	416,800	20,200	4.6%	5.0%	5.5%
2003	403,200	22,500	5.3%	5.7%	6.0%
2002	397,600	23,700	5.6%	6.1%	5.8%
2001	395,500	17,900	4.3%	4.7%	4.7%

*Data collected through August 31, 2006.

Source: Arizona Department of Economic Security

TABLE 4
Pima County
Major Employers

Company	Type of Business	Approximate Number of Full-Time Equivalents
Raytheon Missile Systems	Missile Manufacturing	10,756
University of Arizona	Education	10,282
State of Arizona	Government	9,742
Davis-Monthan Airforce Base	Military	8,233
Tucson Unified School District	Education	7,623
Pima County	Government	6,765
City of Tucson	Government	5,306
Wal-Mart Stores Inc.	Retail	4,980
Phelps Dodge Mining Company	Mining	4,123
Carondelet Health Network	Health Care	3,751
Tohono O'Odham Nation	Tribal Government	3,665
TMC Health Care	Health Care	3,276
University Medical Center Corp.	Health Care	2,969
U.S. Border Patrol	Government	2,500
Pima Community College	Education	2,248
Pascua Yaqui Tribe	Tribal Government	2,184
Amphitheater Public Schools	Education	2,174
Sunnyside Unified School District	Education	2,126
Fry's Food and Drug Stores	Retail	2,063
CheckMate Professional Employer	Service	2,036

Source: *The Star 200 Directory*, published by *The Arizona Daily Star* (March 2006).

Services

From 2001 to 2005, the service-providing industry in the County (excluding Government employees) expanded by 20,100 jobs or 9.4%. The average annual employment in the service-providing industry in 2005 was 233,100. It is anticipated that as the County continues to grow in population and economic activity, the service-providing industry will continue to be a significant contributor. As detailed above, Health Care and Education were a dominating force in the service-providing industry.

Government

Government employment plays an important role in the County with Federal, State and local government employees numbering approximately 77,400 in 2005. This sector expanded by 600 jobs from 2001 to 2005. 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 and electronics. Raytheon Missile Systems, the largest manufacturing company in the County, is a major supplier of advanced munitions. Civilian aviation products and services are provided by Bombardier, which has an aircraft maintenance facility in Tucson, and Universal Avionics Systems Corp., which builds and installs advanced instrumentation, communication and navigation systems for civil aircraft. Texas Instruments and International Business Machines manufacture electronic circuitry and data storage devices. Ventana Medical Systems provides computerized medical laboratory equipment.

Average annual employment in the manufacturing sector within the County in 2005 was 28,200, representing 7.7% of the County's total wage and salary employment base. Manufacturing employment during 2004 and 2003 averaged 28,300 and 28,700, respectively.

The following table presents the major manufacturers in the County and Tucson metropolitan area:

TABLE 5
Metropolitan Pima County
Major Manufacturers

Company	Type of Business	Approximate 2006 Employment
Raytheon Missile Systems	Missile Manufacturing	10,756
International Business Machines Corp.	Computer Systems	1,800
Honeywell Aerospace	Aircraft Electronic Systems	740
Texas Instruments	Semiconductor Products	650
Bombardier Aerospace	Aircraft Maintenance	600
Ventana Medical Systems Inc.	Computer Systems	498
Northrop Grumman Corp.	Missile Manufacturing	450
Hart & Cooley	Air Registers	375
Beacon Group SW Inc.	Contract Labor Work	347
Kalil Bottling Co.	Soft Drinks	322

Source: *The Star 200 Directory*, published by *The Arizona Daily Star* (March 2006).

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 Tucson, the Tucson Regional Economic Opportunities Inc., a private, non-profit corporation.

Tourism

Tourism is an important economic mainstay in the County and the Tucson area. The County's climate, historical and cultural sites, location and proximity to vacation areas in California, Mexico, and other Southwest destinations attract vacationers, conventioneers and other visitors. The Metropolitan Tucson Convention and Visitors Bureau estimates that over 700 convention bookings with 199,738 convention delegates visited the Tucson area in fiscal year 2005-06. In the Tucson area, there are 232 hotels and resorts with over 15,165 rooms. Points of interest, recreational sites and sight-seeing attractions include the Arizona-Sonora Desert Museum, Kitt Peak National Observatory, Pima Air and Space Museum, Titan Missile 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.

According to the Arizona Hospitality Research & Resource Center, nearly $1.4 billion was spent in the County in 2005. These figures include the estimated tourist portion of amusement, bar and restaurant, hotel and motel, and retail gross sales. Shown below are tourist dollars expended in the County and State economies between 2001 and 2005.

Total Tourist Expenditures
($ in millions)

Year	Pima County	State of Arizona
2005	$1,435	$9,680
2004	1,283	8,515
2003	1,190	7,808
2002	1,163	7,441
2001	1,161	7,413

Source: Arizona Hospitality Research & Resources Center.

Education

The University of Arizona (the "University") provides approximately 14,363 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 2005 were estimated at 34,237 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.

Pima County Community College offers two-year programs in vocational and technical education. Total student enrollment for Pima County Community College for 2004-05 was estimated at 75,408 students.

Source: University of Arizona and Pima County Community College.

Wholesale and Retail Trade

Wholesale and retail trade includes restaurants, hotels, taverns, service stations, automobile repair shops, shopping malls and wholesale dealers. 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., Home Depot, Albertsons-Osco and Crosstown Traders.

The retail sales figures set forth below 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.

TABLE 6
Pima County Retail Sales (a)

Year	Amount	% Change
2006 (b)	$5,254,658,935	N/A
2005	7,201,701,654	9.21%
2004	6,594,312,765	6.08%
2003	6,216,097,166	3.39%
2002	6,012,022,946	1.13%
2001	5,944,792,196	2.20%

(a) Excludes Food Sales and Gas Tax.
(b) Through August 2006

Source: Arizona Department of Revenue.

Financial Institutions

The following table illustrates the total dollars on deposit with participating banks in the County on December 31 of each year.

TABLE 7
Pima County
Bank Deposits (a)

Year	Amount
2005	$8,402,642,000
2004	7,552,788,000
2003	6,954,508,000
2002	6,062,996,000
2001	6,157,765,000

(a) As of December 31, for commercial banks, savings institutions and U.S. branches of foreign banks.

Source: Arizona Bankers Association.

Mining

According to the Arizona Mining Association, Arizona leads the nation in copper production, accounting for 65% of the total U.S. mine production. However, the cyclical nature of this industry has caused some consolidation of its resources to improve production. In the early 1980's, the Arizona copper industry's direct economic impact on the Arizona economy regularly exceeded $1.0 billion, peaking in 1981 at approximately $1.612 billion when the industry employed roughly 25,000 persons. This level of impact dropped to $0.875 billion in 1986, but increased to $1.49 billion in 1999. The direct economic impact of the industry statewide was approximately $1.605 billion, $1.296 billion, and $1.087 billion in 2005, 2004, and 2003, respectively. The direct impact of the copper industry within the County was nearly $580 million in 2005, $421million in 2004 and $370 million in 2003. Employment in the mining industry within the County was approximately 1,400 in 2005, 1,200 in 2004 and 1,200 in 2003.

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.

TABLE 8
Cash Receipts From Agricultural Marketing
(Total Crops and Livestock)
Pima County

Year	Receipts
2005	$84,452,000
2004	80,103,000
2003	68,694,000
2002	51,983,000
2001	48,013,000

Source: *Arizona Agricultural Statistics Bulletin,* September 2005.

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.

TABLE 9
Pima County
Value of Building Permits

Year	Residential	Commercial	Industrial	Other	Total
2006(a)	$ 973,877,000	$128,490,000	$ 5,555,000	$ 51,173,000	$1,159,095,000
2005	2,180,381,000	315,946,000	8,546,000	150,686,000	2,655,559,000
2004	1,680,800,000	284,275,000	16,206,000	117,220,000	2,098,501,000
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

(a) Data for 2006 is through June 30, 2006.

Source: Arizona Real Estate Center, ASU Polytechnic Campus, Arizona State University.

TABLE 10
Pima County
New Housing Starts

Year	Total Housing Units Permitted
2006 (a)	5,817
2005	12,272
2004	11,452
2003	9,635
2002	8,915
2001	8,735

(a) Data for 2006 is through June 30, 2006.

Source: Arizona Real Estate Center, ASU Polytechnic Campus, Arizona State University.

Counties are required to adopt a Comprehensive Plan and cities and towns a General Plan under Arizona laws adopted in 1998 and 2000. All subsequent rezoning activity must conform to the plan. Most cities and towns and each of the larger counties, including Pima, are 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. Pima County's Comprehensive Plan was updated and adopted in 2001. State law requires that every 10 years the plan be redone or updated and approved by the voters. Also, as a result of these laws, counties have broader authority to adopt development impact fees and review lot splitting. Pima County has been implementing the policies of the Comprehensive Plan since its adoption.

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 December of guidelines to all departments within which budgets must be developed. Department budget requests are submitted in February. 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 1979-80, 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.

The County's expenditure limitation for the 2005-06 fiscal year was $411,190,872. The County's expenditures for the 2005-06 fiscal year were under the limit. The County's 2006-07 fiscal year expenditure limitation is $438,128,547.

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. Under a proposition approved by the voters in November 2006, the tax levy limit was readjusted to actual levy amounts for 2005 as the new base year.

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 2002-03 through 2006-07 for each class of property are set forth below.

Property Tax Assessment Ratios
2002-03 through 2006-07

Classification (a)	2002-03	2003-04	2004-05	2005-06	2006-07
Mining , Utility, Commercial and Industrial (b)(c)	25%	25%	25%	25%	24.5%
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%	20%	21%	21%	22%

(a) Additional classes of property exist, but seldom amount to a significant portion of a municipal body's total valuation.

(b) The assessment ratio for Mining, Utility, Commercial and Industrial property will decrease ½% per year, starting from 25% in 2005-06 to 20% in and after 2015-16.

(c) The first $59,099 of full cash value of commercial, industrial and agricultural personal property is exempt from taxation for fiscal year 2006-07. This exemption is indexed annually for inflation. Any portion of the full cash value in excess of those amounts will be assessed at 24.5% 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.

From time to time, bills have been introduced in the Arizona Legislature to reduce the property tax assessment ratios on utility, commercial and/or industrial property and such bills may be introduced in the current or future legislative sessions. The County cannot determine whether any such measures will become law or how they might affect property tax collections for the County.

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 2006-07

Estimated Actual Valuation*	$59,890,228,997
Net Secondary Assessed Valuation	$ 6,869,955,457
Net Primary Assessed Valuation	$ 6,467,201,516

* Actual full cash value net of estimated value of property exempt from taxation.

Source: Pima County Assessor's *Abstract of the 2006 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
2006-07	$6,869,955,457	$59,890,228,997	11.47%
2005-06	6,050,950,040	47,971,147,096	12.61%
2004-05	5,620,156,274	43,778,402,824	12.84%
2003-04	5,221,270,997	43,733,555,507	11.94%
2002-03	4,835,561,219	36,999,609,652	13.07%

Source: Arizona Tax Research Foundation, *Property Tax Rates and Assessed Value*, Pima County Finance and Risk Management Department and Pima County Assessor's *Abstract of the 2006 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
2006-07	$3,016,230,759	10.77%	$6,869,955,457	13.54%	$54,436,547,031	11.25%
2005-06	2,722,915,853	6.44%	6,050,950,040	7.67%	48,931,946,145	10.05%
2004-05	2,558,231,181	5.40%	5,620,156,274	7.64%	44,461,738,026	8.87%
2003-04	2,427,120,926	6.98%	5,221,270,997	7.98%	40,839,898,348	10.96%
2002-03	2,268,733,334	6.09%	4,835,561,219	7.66%	36,805,206,912	6.76%

Source: Arizona Tax Research Foundation, *Property Tax Rates and Assessed Value*, Pima County Finance and Risk Management Department and Pima County Assessor's *Abstract of the 2006 Tax Roll for Pima County.*

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 2006-07 Net Secondary Assessed Valuation	As Percent of County's 2006-07 Net Secondary Assessed Valuation
Tucson Electric Power Co.	$143,361,816	2.09%
Qwest Corporation	87,092,898	1.27%
Southwest Gas Corporation	62,846,160	0.91%
Phelps Dodge	55,176,116	0.80%
Arizona Portland Cement	22,857,520	0.33%
Raytheon Company	21,665,114	0.32%
Dnd Neffson Co.	19,087,235	0.28%
Starr Pass Resort Developments LLC	17,068,423	0.25%
Scg Tucson Property LLC (Westin Hotel)	15,504,143	0.23%
Trico Electric Co-Op Inc	14,806,148	0.22%
	$459,465,573	6.69%

(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, its Financial Advisor 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
2006-07	$330,240,186	(c)	(c)	$154,361,275	46.74%
2005-06	302,126,724	$292,019,235	96.65%	298,404,156	98.77%
2004-05	281,171,502	271,480,760	96.55%	280,611,871	99.80%
2003-04	260,569,500	250,928,829	96.30%	260,429,742	99.95%
2002-03	241,415,870	231,618,482	95.94%	241,373,567	99.98%
2001-02	228,476,979	218,191,563	95.50%	228,400,369	99.97%

(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 November 30, 2006 against the current and 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
2006-07	$3.8420	$1.4986	$5.3406
2005-06	4.0720	1.3891	5.4611
2004-05	4.0720	1.4247	5.4967
2003-04	4.0720	1.4261	5.4981
2002-03	4.0720	1.4278	5.4998

Source: *Property Tax Rates and Assessed Values,* The Arizona Tax Research Foundation and Pima County Finance and Risk Management 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 after the issuance of the Bonds.

Net Secondary Assessed Valuation (FY 2006-07)	**$6,869,955,457**
15% Constitutional Limitation	1,030,493,318
Net Direct General Obligation Bonds Outstanding	326,310,000
Unused 15% Limitation	$704,183,318

General Obligation Bonded Debt to be Outstanding

The following chart lists the outstanding general obligation bonded debt of the County that will be outstanding after the issuance of the General Obligation Bonds, Series 1997, which are being issued concurrently with the sale of the Bonds.

Date of Issue	Original Amount	Original Purpose	Maturity Dates	Average Int. Rates	Remaining Balance Outstanding
05-01-98	42,420,000	Various Improvements	7-1-99/13	4.620%	$18,795,000
10-01-99	50,000,000	Various Improvements	7-1-00/10	5.040%	16,115,000
08-01-00	50,000,000	Various Improvements	7-1-01/14	4.760%	26,000,000
07-01-01	17,835,000	Refunding	7-1-03/09	4.410%	7,610,000
01-01-02	20,000,000	Various Improvements	7-1-02/16	4.000%	10,000,000
01-15-03	50,000,000	Various Improvements	7-1-03/17	3.900%	40,350,000
06-01-04	65,000,000	Various Improvements	7-1-05/19	4.207%	53,615,000
05-01-05	65,000,000	Various Improvements	7-1-06/20	3.937%	58,825,000
Total General Obligation Bonded Debt Outstanding					$231,310,000
Plus: The General Obligation Bonds, Series 1997 (a)					95,000,000
Total General Obligation Bonded Debt to be Outstanding					$326,310,000

(a) The General Obligation Bonds, Series 2007 are being issued concurrently with the sale of the Bonds under a separate Official Statement.

Estimated Annual Debt Service Requirements of General Obligation Bonded Debt to be Outstanding

The following chart indicates the general obligation debt service requirements of the County that will be outstanding after the issuance of the County's General Obligation Bonds, Series 2007, which are being issued concurrently with the sale of the Bonds.

Fiscal Year June 30	Existing General Obligation Bonded Debt Outstanding		Series 2007 Bonds Dated: January 1, 2007		Total Debt Service Requirement*
	Principal	Interest	Principal	Interest (a)	
2007	$32,335,000	$10,027,760	$4,385,000	$2,375,000	$49,122,760
2008	25,005,000	8,538,905	6,250,000	4,530,750	44,324,655
2009	20,260,000	7,416,755	5,400,000	4,218,250	37,295,005
2010	19,790,000	6,502,705	5,290,000	3,948,250	35,530,955
2011	17,190,000	5,615,725	5,550,000	3,683,750	32,039,475
2012	17,525,000	4,846,125	5,830,000	3,406,250	31,607,375
2013	17,885,000	4,064,425	6,120,000	3,114,750	31,184,175
2014	15,935,000	3,273,225	6,425,000	2,808,750	28,441,975
2015	13,265,000	2,568,825	6,750,000	2,487,500	25,071,325
2016	13,270,000	1,987,706	7,085,000	2,150,000	24,492,706
2017	13,500,000	1,433,025	7,440,000	1,795,750	24,168,775
2018	9,850,000	858,425	7,810,000	1,423,750	19,942,175
2019	10,330,000	515,575	8,205,000	1,033,250	20,083,825
2020	5,170,000	180,950	8,615,000	623,000	14,588,950
2021			3,845,000	192,250	4,037,250

(a) The first interest payment date on the General Obligation Bonds, Series 2007 is July 1, 2007. Interest on the General Obligation Bonds, Series 2007 is estimated at an average rate of 5.00%,

*Preliminary, subject to change.

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	2006-07 Net Secondary Assessed Valuation	General Obligation Bonded Debt Outstanding (a)(f)	Portion Applicable to the County		Combined Tax Rate Per $100 Assessed Valuation (e)
			Percent	Net Debt Amount	
State of Arizona	$54,436,547,031	None	100%	None	$0.0000
Pima County	**6,869,955,457**	**$326,310,000**	**100%**	**$ 326,310,000**	**4.9660 (b)**
Pima County Flood Control District (c)	6,113,952,541	2,230,000	100%	2,230,000	0.3746
Elementary School Districts	284,785,948	2,755,000	100%	2,755,000	2.5751 (d)
Unified School Districts	6,573,518,237	586,595,000	100%	586,595,000	6.9627 (d)
Cities and Towns	3,935,967,898	281,134,070	100%	281,134,070	0.9405 (d)
Pima County Community College District	6,869,955,457	61,730,000	100%	61,730,000	1.2515
Total				$1,260,754,070	

Jurisdiction	2006-07 Net Secondary Assessed Valuation	General Obligation Bonded Debt Outstanding (a)(f)	Combined Tax Rate Per $100 Assessed Valuation (e)
State of Arizona	$54,436,547,031	None	None
Pima County	6,869,955,457	$326,310,000	$4.9660
Pima County Flood Control District (c)	6,113,952,541	2,230,000	0.3746
Pima County Community College District	6,869,955,457	61,730,000	1.2515
Elementary School Districts:			
San Fernando ESD #35	831,896	None	3.7481
Empire ESD #37	5,489,030	None	8.4864
Continental ESD #39	249,037,971	2,755,000	2.0682
Redington ESD #44	1,339,389	None	4.8853
Altar Valley ESD #51	28,087,662	None	5.7696
Unified School Districts:			
Tucson USD #1	2,951,009,121	309,160,000	7.3857
Marana USD #6	593,166,842	67,125,000	5.9117
Flowing Wells USD #8	184,631,194	10,730,000	6.8677
Amphitheater USD #10	1,253,084,786	62,380,000	6.1193
Sunnyside USD #12	368,702,550	41,770,000	9.1529
Tanque Verde USD #13	169,903,216	4,335,000	5.4806
Ajo USD #15	15,767,445	None	4.4929
Catalina Foothills USD #16	528,078,948	38,485,000	6.7428
Vail USD #20	324,977,649	27,635,000	6.7032
Sahuarita USD #30	183,013,895	24,975,000	7.7345
Indian Oasis USD #40	1,182,591	None	0.0000
Cities and Towns:			
City of Tucson	3,016,230,759	281,134,070	1.2257
City of South Tucson	20,643,396	None	0.2383
Town of Marana	310,319,014	None	0.0000
Town of Oro Valley	468,769,764	None	0.0000
Town of Sahuarita	120,004,965	None	0.0000

(a) Includes general obligation bonds outstanding, including the County's General Obligation Bonds, Series 2007 which are being issued concurrently with the Bonds under a separate Official Statement. Does not include outstanding principal amount of various cities and towns improvement districts' bonded debt 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 legislation. Federal authorizing legislation was enacted in 2004. 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 $0.3675 tax rate of the Free Library District, and the $0.0415 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 after the issuance of the County's Bonds.

Jurisdiction (g)	Authorized But Unissued General Obligation Bonds
Pima County	$478,681,000
Tucson Unified School District No. 1	178,000,000
City of Tucson	39,140,000
Catalina Foothills Unified School District No. 16	7,730,000
Indian Oasis Unified School District No. 40	500,000

(g) 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.

		As Percent of County's 2006-07	
	Per Capita Net Debt (Pop. @ 957,635) (a)	Secondary Assessed Valuation ($6,869,955,457)	Est. Actual Valuation ($59,890,228,997)
Net Direct General Obligation Bonded Debt ($326,310,000) (b)	$ 340.75	4.75%	0.54%
Net Direct and Overlapping General Obligation Bonded Debt ($1,260,754,070)	$1,316.53	18.35%	2.11%

(a) Source: U.S. Department of Commerce, Bureau of the Census; Arizona Department of Economic Security, Population Statistics, July, 2005.

(b) Reflects the Net General Obligation Bonds Outstanding after the issuance of the General Obligation Bonds, Series 2007, which are being issued concurrently with the Bonds under a separate Official Statement.

Street and Highway Revenue Bonded Debt Outstanding (a)

The following chart indicates the outstanding street and highway bonds of the County that will be outstanding after the issuance of the Street and Highway User Revenue Bonds, Series 2007 being issued concurrently with the Bonds under a separate Official Statement.

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	$ 8,000,000
1-01-02	55,000,000	Street & Highway Improvements	7-1-03/12	35,735,000
1-15-03	35,000,000	Street & Highway Improvements	7-1-04/18	31,900,000
5-01-05	51,200,000	Street & Highway Improvements	7-1-09/20	51,200,000
Total Street and Highway Revenue Bonds Outstanding				$ 126,835,000
Plus: The Street and Highway Revenue Bonds (b)				21,000,000
Total Street and Highway Revenue Bonds to be Outstanding				$ 147,835,000

(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 allowed the County to accelerate by several years the completion of two projects that were scheduled to be funded from Federal aid highway revenues in future years. Final payments on each loan which are currently outstanding in the aggregate principal amount of $903,000 are due in January 2007. HELP loans are payable solely from revenues received by the County from the Arizona Highway User Revenue Fund on a basis junior and subordinate to amounts due on the bonds shown above and all parity bonds. In 2006, the County received another HELP loan totaling $4.8 million. Final payment on this loan which is currently outstanding in the aggregate principal amount of $4.8 million is due in June 2009. These loans are in addition to the debt listed in this table.

(b) The Street and Highway Revenue Bonds, Series 2007 are being issued concurrently with the sale of the Bonds under a separate Official Statement.

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	**2003-04**	**2004-05**	**2005-06**
Clerk of Superior Court	$ 195,417	$146,562	$31,361
Juvenile Court	73,986		
Public Works Building	1,642,680		
Sheriff	42,274	42,274	42,273
Fiscal Year Total	$1,954,357	$188,836	$73,634

Source: Pima County Finance Department.

Certificates of Participation (a)

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
09-01-99	$4,875,000	Refunding	1-1-13/14	$ 4,000,000
10-01-03	27,525,000	Refunding	1-1-05/18	24,335,000
Total Certificates of Participation Obligations Outstanding				$28,335,000

(a) The County currently anticipates issuing approximately $30,000,000 in additional certificates of participation in fiscal year 2007.

Retirement Plans

A brief description of the various retirement programs in which County employees participate is located in Footnote 10 in the excerpts from the County's Comprehensive Annual Financial Report in Appendix F.

Other Post Employment Benefits

The County does not offer Other Post Employment Benefits.

PIMA COUNTY, ARIZONA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF ALL GOVERNMENTAL FUND TYPES
(In $000)

	Actual					Budget
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (a)
Revenues by Source:						
Taxes	$244,807	$258,375	$279,527	$300,972	$321,474	$350,440
Special Assessments	598	1,023	505	244	215	291
Licenses and Permits	6,077	6,087	6,566	7,265	7,452	7,739
Intergovernmental	260,218	245,378	273,225	278,414	291,059	295,121
Charges for Services	31,112	35,721	43,505	53,568	63,582	63,526
Fines and Forfeits	4,882	5,047	5,010	5,967	6,014	6,846
Interest Income	6,952	4,152	2,656	5,181	11,379	7,651
Miscellaneous	8,143	10,356	11,918	14,806	13,165	16,124
Total Revenues	$562,789	$566,139	$622,912	$666,417	$714,340	$747,738
Expenditures by Fund:						
General	285,486	308,917	323,591	372,899	402,811	439,535
Special Revenues	153,888	149,633	161,716	160,614	170,696	223,126
Debt Service	48,102	57,563	60,828	56,067	66,829	73,419
Capital Projects	109,670	97,147	103,167	127,632	121,007	155,902
Total Expenditures	$597,146	$613,260	$649,302	$717,212	761,343	$891,982
Excess of Revenues Over (Under) Expenditures	(34,357)	(47,121)	(26,390)	($50,795)	(47,003)	(144,244)
Proceeds of Long-Term Debt	82,717	85,247	65,148	116,450	4,836	120,000
Proceeds of Refunding Bonds	22,420	0	6,880	0	0	0
Payment to Refunded Bond Escrow Agent	(22,551)	0	(6,846)	0	0	0
Gain on Investment	0	0	0	0	3	0
Operating Transfers In (Out)	(12,905)	(15,140)	(21,333)	3,046	3,685	613
Capital Leases	0	177	0	0	231	0
Sale of General Fixed Assets	590	37	406	27	416	0
Beginning Fund Balance, as restated	110,664	147,803	165,395	182,894	252,007	213,998
Restatement Adjustment/LGIP Loss	1,175	(6,237)	0	0	0	0
Changes in Reserve for Inventory	64	629	(379)	398	(188)	0
Charges in Reserve for Prepaid	(14)	0	13	(13)	11	0
Ending Fund Balance	$147,803	$165,395	$182,894	$252,007	$213,998	$190,367

(a) Obtained from the FY 2006-07 Adopted Budget, except for the beginning fund balance which was based on the actual June 30, 2006 fund balance rather than the estimated fund balance contained in the budget adopted before that date. These amounts are estimated data and are subject to change based on final audited results.

Source: Pima County Finance and Risk Management 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
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (a)
General						
Reserved	$ 2,486	$ 2,549	$7,068	$4,056	$5,152	
Unreserved	28,656	30,999	25,628	33,171	46,423	
	31,142	**33,548**	**32,696**	**37,227**	**51,575**	**28,736**
Special Revenue						
Reserved	2,570	3,623	3,399	2,742	5,111	
Unreserved	61,134	42,312	45,325	54,232	64,961	
Designated					1,044	
	63,704	**45,935**	**48,724**	**56,974**	**71,116**	**43,024**
Debt Service						
Reserved	5,964	3,078	4,202	10,004	6,673	
Unreserved				152	162	
	5,964	**3,078**	**4,202**	**10,156**	**6,835**	**5,883**
Capital Projects						
Reserved	8	41	2	0	0	
Unreserved	46,985	82,793	97,270	147,650	84,472	
	46,993	**82,834**	**97,272**	**147,650**	**84,472**	**112,724**
Total Fund Balance	$147,803	$165,395	$182,894	$252,007	$213,998	$190,367

(a) Amount calculated utilizing the revenues and expenditures presented in the FY 2006-07 Adopted Budget plus the actual June 30, 2006 ending fund balance for each fund. Pima County does not budget the ending fund balance at a detailed level; therefore, only the calculated ending fund balance totals are presented. These amounts are estimated data and are subject to change based on final audited results.

Source: Pima County Finance and Risk Management 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
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07(a)
Revenues by Source:						
Taxes	$181,840	$194,552	$209,672	$225,959	$242,948	$253,565
Licenses and Permits	2,071	2,010	2,166	2,350	2,536	2,473
Intergovernmental	111,922	112,530	120,058	125,203	143,982	145,517
Charges for Services	19,974	23,750	24,133	24,905	27,102	30,648
Fines and Forfeits	3,898	4,111	4,023	5,035	5,786	5,495
Interest	2,086	1,015	530	1357	2,491	1,623
Miscellaneous	1,995	2,884	2,132	4,435	4,935	3,732
Total Revenues	323,786	340,852	362,174	389,244	429,780	443,053
Expenditures:						
Current						
General Government	101,397	110,813	120,755	160,378	168,394	200,813
Public Safety	86,039	90,375	100,650	84,694	96,687	103,697
Sanitation	0	0	0	0	0	0
Health	2,567	2,762	2,898	2,189	2,401	2,579
Welfare	73,060	84,130	76,619	96,996	102,496	98,146
Culture & Recreation	13,453	12,858	14,448	11,236	13,104	14,338
Education & Econ. Opport.	5,299	4,812	5,578	14,637	16,682	16,942
Debt Service:						
Principal	1,913	1,550	1,610	1,440	1,750	1,785
Interest	1,754	1,613	1,030	1,324	1,292	1,230
Miscellaneous	4	4	3	5	5	5
Total Expenditures	285,486	308,917	323,591	372,899	402,811	439,535
Excess of Revenues Over (Under) Expenditures	38,300	31,935	39,123	16,345	26,969	3,518
Other Financing Sources (uses):						
Proceeds of Long-Term Debt	0	0	0	0	0	0
Sale of General Fixed Assets	0	0	2	8	22	0
Operating Transfers In (Out)	(29,624)	(27,799)	(39,977)	(11,822)	(12,643)	(26,357)
Total Other Financing Sources (Uses):	(29,624)	(27,799)	(39,975)	(11,814)	(12,621)	(26,357)
Excess of Revenues and Other Sources						
Extraordinary item:						
Loss from State Treasurer's Local Government Investment Pool	0	(1,730)	0	0		0
Over (Under) Expenditure and Other Uses	8,676	2,406	(852)	4,531	14,348	(22,839)
Beginning Fund Balance, as restated	22,466	31,142	33,548	32,696	37,227	51,575
In (Out)	0	0	0	0	0	0
Ending Fund Balance	$ 31,142	$ 33,548	$ 32,696	$ 37,227	$ 51,575	$28,736

(a) Obtained from the FY 2006-07 Adopted Budget, except for the beginning fund balance which was based on the actual June 30, 2006 fund balance rather than the estimated fund balance contained in the budget adopted before that date. These amounts are estimated data and are subject to change based on final audited results.

Source: Pima County Finance and Risk Management 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

[Date of Closing]

Pima County, Arizona
Tucson, Arizona

Ladies and Gentlemen:

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by Pima County, Arizona (the "County") of its $50,000,000 aggregate principal amount of bonds designated the Pima County, Arizona, Sewer Revenue Bonds, Series 2007 (the "Bonds"). The Bonds are issued pursuant to Title 11, Chapter 2, Article 4 of the Arizona Revised Statutes, as amended (the "Act"), and under the provisions of an authorizing resolution adopted by the Board of Supervisors of the County on June 18, 1991, as supplemented and amended, including a supplemental resolution adopted by the Board of Supervisors of the County on January __, 2007 (the "Bond Resolution"). The documents in the Transcript include a certified copy of the Bond Resolution. All capitalized terms not defined herein shall have the meanings set forth in the Bond Resolution. We have also examined a conformed copy of a Bond.

Based on this examination, we are of the opinion that, under existing law:

1. The Bonds are valid, legal and binding special obligations of the County which, together with other bonds and obligations issued on a parity therewith and subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion, are to be paid solely from, and secured by a pledge of 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 (the "Net Revenues"), subject to no other liens granted under the Act. The Bonds are issued on a parity with the County's outstanding Sewer Improvement and Refunding Revenue Bonds, Series 1998, Sewer Revenue Refunding Bonds, Series 2001, and Sewer Revenue Refunding Bonds, Series 2004, 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, as amended, and May 11, 2004, as amended. The Bonds and the payment of principal thereof and interest thereon are not secured by an obligation or pledge of any moneys or property of the County other than the Net Revenues, and the Bonds do not represent or constitute a general obligation or a pledge of the full faith and credit of the County or the State of Arizona.

2. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 as amended (the "Code"), and is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. The interest on the Bonds is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Bonds.

In giving the foregoing opinion with respect to the treatment of the interest on the Bonds under the tax laws, we have assumed and relied upon compliance with the covenants of the County and the accuracy, which we have not independently verified, of the representations and certifications of the County, contained in the Transcript. The accuracy of those representations and certifications, and the County's compliance with those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes and for certain of the other tax effects stated above. Failure to comply with certain of those covenants subsequent to issuance of the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Under the Code, a portion of the interest on the Bonds earned by corporations may be subject to the federal corporate alternative minimum tax, and the interest on the Bonds may be subject to a federal branch profits tax imposed on certain

foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

Respectfully submitted,

SQUIRE, SANDERS & DEMPSEY

APPENDIX E

AUDITED FINANCIAL STATEMENTS OF THE PIMA COUNTY DEPARTMENT OF WASTEWATER MANAGEMENT FOR FISCAL YEAR ENDED JUNE 30, 2006

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

Gary Heinfeld, CPA, CGFM
Nancy A. Meech, CPA, CGFM
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INDEPENDENT AUDITORS' REPORT

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, 2006, as listed in the table of contents. These financial statements are the responsibility of the management of Pima County Department of Wastewater Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Pima County Department of Wastewater Management 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, Arizona that is attributable to the Pima County Department of Wastewater Management. They do not purport to, and do not, present fairly the financial position of Pima County, Arizona, as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pima County Department of Wastewater Management, as of June 30, 2006, and the respective changes in its financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2006 on our consideration of the Pima County Department of Wastewater Management's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 are 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.

Heinfeld, Meech + Co., P.C.

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

September 21, 2006

Pima County
Department of Wastewater Management
Statement of Net Assets - Enterprise Fund
June 30, 2006

Assets

Current assets:	
Cash and cash equivalents	$ 42,260,533
Restricted cash and cash equivalents	14,672,299
Accounts receivable, net	8,317,829
Due from other Pima County funds	1,502
Due from other governments	293,053
Inventory of materials and supplies	3,031,674
Prepaid expenses	92,889
Total current assets	68,669,779
Noncurrent assets:	
Restricted cash and cash equivalents	492,372
Capital assets, net of accumulated depreciation where applicable:	
Land and other improvements	6,844,999
Conveyance systems, net	327,334,713
Treatment facilities, net	233,899,359
Equipment, net	5,032,936
Construction in progress	14,841,706
Total capital assets, net	587,953,713
Deferred financing costs	750,701
Total noncurrent assets	589,196,786
Total assets	$ 657,866,565

(Continued)

See accompanying notes to financial statements

Pima County
Department of Wastewater Management
Statement of Net Assets - Enterprise Fund
June 30, 2006
(Continued)

Liabilities

Current liabilities:		
Accounts payable	$	8,330,318
Accrued payroll and employee benefits		2,990,674
Due to other Pima County funds		177,284
Due to other governments		24,297
Interest payable		1,431,501
Current portion of sewer revenue bonds payable		5,570,000
Current portion of wastewater loans payable		5,502,956
Deferred revenue		2,828,758
Total current liabilities		26,855,788
Noncurrent liabilities:		
Construction contract retentions payable		4,562,235
Sewer revenue bonds payable, less current portion		49,955,000
Wastewater loans payable, less current portion		74,864,281
Deferred interest expense and bond discount		(4,034,071)
Total noncurrent liabilities		125,347,445
Total liabilities		152,203,233

Net Assets

Invested in capital assets, net of related debt		456,846,248
Restricted for:		
Debt service		438,569
Operation and maintenance		4,355,797
Unrestricted		44,022,718
Total net assets	$	505,663,332

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, 2006

Operating revenues:	
Sewer utility service	$ 61,735,147
Engineering review and inspection fees	29,005
Permits and fines	58,906
Other income	451,046
Total operating revenues	62,274,104
Operating expenses:	
Employee compensation	27,625,536
Operating supplies	6,321,867
Utilities	5,314,030
Sludge and refuse disposal	1,297,758
Repairs and maintenance	4,296,842
General and administrative	6,435,640
Consultants and professional services	5,610,305
Depreciation	20,416,294
Total operating expenses	77,318,272
Operating loss	(15,044,168)
Nonoperating revenues (expenses):	
Intergovernmental revenue	1,435,703
Interest income	1,783,906
Sewer connection revenue	42,219,962
Loss on disposal of equipment	(20,354)
Interest expense	(4,623,759)
Amortization of deferred charges	(97,087)
Total nonoperating revenues (expenses)	40,698,371
Income before capital contributions and transfers	25,654,203
Capital contributions	14,607,737
Transfers in	156,156
Transfers out	(21,710)
Increase in net assets	40,396,386
Net assets—July 1, 2005	465,266,946
Net assets—June 30, 2006	$ 505,663,332

See accompanying notes to financial statements

Pima County
Department of Wastewater Management
Statement of Cash Flows - Enterprise Fund
Year Ended June 30, 2006

Cash flows from operating activities:	
Receipts from customers	$ 61,819,344
Miscellaneous receipts	451,046
Payments to suppliers for goods and services	(21,805,603)
Payments to other Pima County funds for goods and services	(7,477,555)
Payments to employees	(28,215,923)
Net cash provided by operating activities	4,771,309
Cash flows from noncapital financing activities:	
Intergovernmental receipts	528,751
Repayment of interfund borrowings	126,968
Cash transfers to other Pima County funds	(4,311,153)
Net cash used for noncapital financing activities	(3,655,434)
Cash flows from capital and related financing activities:	
Sewer connection receipts from customers	42,141,638
Proceeds from the sale of capital assets	2,000
Intergovernmental contract receipts	191,418
Purchase and construction of capital assets	(14,339,450)
Proceeds from issuance of sewer loans	1,085,658
Principal payments on revenue bonds and loans	(9,500,734)
Interest payments on revenue bonds and loans	(4,224,328)
Net cash provided by capital and related financing activities	15,356,202
Cash flows from investing activities:	
Interest received on investments	1,870,914
Net cash provided by investing activities	1,870,914
Net increase in cash and cash equivalents	18,342,991
Cash and cash equivalents, July 1, 2005	39,082,213
Cash and cash equivalents, June 30, 2006	$ 57,425,204

(Continued)

See accompanying notes to financial statements

Pima County
Department of Wastewater Management
Statement of Cash Flows - Enterprise Fund
Year Ended June 30, 2006
(Continued)

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	$ (15,044,168)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	20,416,294
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Accounts receivable	(240,818)
Due from other governments	237,104
Inventory of materials and supplies	(216,781)
Prepaid expenses	(66,646)
Increase (decrease) in liabilities:	
Accounts payable	265,062
Due to other governments	11,649
Accrued payroll and employee benefits	(590,387)
Net cash provided by operating activities	$ 4,771,309

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2006, developers conveyed capital assets with an estimated fair value of $14,407,846 and the County's Internal Service Fund conveyed capital assets with a net book value of $26,050 to the Department. These transactions were recorded as capital contributions.

During the year ended June 30, 2006, the Pima County Board of Supervisors approved Connection Fee Flow-Through Sewer Credit Agreements totaling $16,697. This transaction was recorded as an increase to deferred revenue and a decrease in capital contributions.

During the year ended June 30, 2006, the Department retired expired Sewer Credit Agreements totaling $190,538. This transaction was recorded as a decrease to deferred revenue and an increase in capital contributions.

During the year ended June 30, 2006, the Department retired assets with a net book value of $22,354.

During the year ended June 30, 2006, the Department transferred to the County's general government the assets of the Solid Waste Management division with a net book value of $11,334,107.

During the year ended June 30, 2006, the Department conveyed the long-term liabilities of the Solid Waste Management division in the amount of $15,779,706 to the County's general government.

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 wastewater treatment and water pollution control programs throughout Pima County. The Department segregated the operation of the Solid Waste from the Liquid Waste division effective July 2005, and Solid Waste activities are now reported in a special revenue fund.

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 presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when 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. The Department has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

Note 1 - Summary of Significant Accounting Policies (continued)

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 transfers. Operating revenues and expenses generally result from providing waste services. Accordingly, operating revenues, such as sewer utility service fee result from transactions associated with the Department's principal activities. Other revenues, such as sewer connection revenues and interest income, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the costs of providing sewer services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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 developer contributions regardless of cost. Sewage conveyance system, buildings and improvements, and infrastructure are capitalized at $100,000 or more, as is equipment costing $5,000 or more. 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. All assets other than land are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Treatment facilities and equipment	4 to 30 years
Conveyance systems	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.

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, except for the actual amount used during the thirty day period subsequent to fiscal year end. 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 service charge.

Land developers contribute capital and aid in the construction of certain portions of the conveyance systems. Contributions are recorded as contributed capital at their estimated fair value. In those instances when a developer makes enhancements that exceed the requirements for the conveyance systems, the Department establishes reduced

Note 1 - Summary of Significant Accounting Policies (continued)

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	
Cash on hand	$ 2,700
Cash and cash equivalents	42,257,833
Restricted cash and cash equivalents:	
Construction	2,002,510
Debt service	8,313,992
Operation and maintenance	4,355,797
Total restricted cash	14,672,299
Total current cash and cash equivalents	56,932,832
Noncurrent	
Restricted cash and cash equivalents:	
Deposits held in escrow accounts	492,372
Total cash and cash equivalents	$ 57,425,204

Current restricted cash and cash equivalents represents cash received for capital projects, anticipated debt service payments, and an estimated one-twelfth of annual operating expenses. In prior years, only one-twelfth of the annual debt principal and interest was restricted. However, because the Water Infrastructure Finance Authority debt payment is paid July 1, the entire amount of the payment is now included as restricted cash for debt service. Noncurrent restricted cash and cash equivalents are deposits held in escrow pending completion of capital projects.

The Department's cash and investments in the Pima County Treasurer's investment pool represent a portion of the County Treasurer's investment pool portfolio. There is no oversight provided for the County Treasurer's investment pool, and the pool's structure does not provide for shares. The Department's portion in the pool is not identified with specific investments and is not subject to custodial credit risk.

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Department does not have a formal investment policy with respect to credit risk. The Pima County Treasurer's investment pool is unrated.

Note 2 - Cash and Cash Equivalents (continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The Department does not have a formal investment policy with respect to interest rate risk. The Pima County Treasurer's investment pool had a weighted average maturity of 22 days at June 30, 2006.

Legal Provisions – Arizona Revised Statutes authorize counties to invest public monies in the State Treasurer's investment pool: obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk - Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's Investors Service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors' service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors' service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk - Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk - Statutes do not include any requirements for concentration of credit risk.

Interest rate risk - Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk - Statutes do not allow foreign investments.

Note 3 - Capital Asset Activity

Capital asset activity for the year ended June 30, 2006, is presented in the following schedule:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets not being depreciated:				
Land and other improvements	$ 12,397,849	$ 2,287,789	$ 7,840,639	$ 6,844,999
Construction in progress	63,324,807	11,017,366	59,500,467	14,841,706
Total capital assets not being depreciated	75,722,656	13,305,155	67,341,106	21,686,705
Capital assets being depreciated:				
Transfer stations	2,168,380		2,168,380	
Conveyance systems	475,148,141	15,451,683		490,599,824
Treatment facilities	278,054,466	62,297,745	92,226	340,259,985
Equipment	18,409,923	929,643	6,365,155	12,974,411
Total capital assets being depreciated	773,780,910	78,679,071	8,625,761	843,834,220
Less accumulated depreciation for:				
Transfer stations	672,829		672,829	
Conveyance systems	153,003,285	10,261,826		163,265,111
Treatment facilities	96,947,504	9,413,122		106,360,626
Equipment	11,545,014	741,345	4,344,884	7,941,475
Total accumulated depreciation	262,168,632	20,416,293	5,017,713	277,567,212
Total capital assets being depreciated, net	511,612,278	58,262,778	3,608,048	566,267,008
Capital assets, net	$ 587,334,934	$71,567,933	$70,949,154	$ 587,953,713

Decreases in capital assets include transfers to Pima County as a result of the transfer of the Solid Waste division to a special revenue fund.

Note 4 - Long-Term Liabilities

The following schedule details the Department's long-term liability and obligation activity for the year ended June 30, 2006. The decrease in the landfill closure and postclosure care costs represents the transfer of the Solid Waste division to a special revenue fund.

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Due Within 1 year
Sewer revenue bonds	$ 60,075,000		$4,550,000	$ 55,525,000	$5,570,000
Less unamortized deferred amounts	4,265,696		450,219	3,815,477	
Total sewer revenue bonds payable	55,809,304			51,709,523	5,570,000
Wastewater loans payable	84,232,313	1,085,658	4,950,734	80,367,237	5,502,956
Less unamortized deferred amounts	255,027		36,433	218,594	
Total wastewater loans payable	83,977,286			80,148,643	5,502,956
Landfill closure and postclosure care costs	15,635,842		15,635,842		
Construction contract retentions payable	4,851,976	163,086	452,827	4,562,235	
Total long-term liabilities	$160,274,408	$ 1,248,744	$ 25,102,751	$136,420,401	$11,072,956

Sewer Revenue Bonds Payable—The Department has issued several series of sewer revenue bonds (Series 1998, Refunding 2001, and Refunding 2004) to provide funds for the defeasance of prior sewer revenue bonds, the construction of a utility plant, and the construction of 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, $3,943,000 from the May 20, 1997, bond election, and $150,000,000 from the May 18, 2004, bond election remain unissued.

Wastewater Loans Payable—The Department has entered into four loan agreements with the Water Infrastructure Financing Authority of Arizona (1996, 1997, 2000, and 2004 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.

At June 30, 2006, the Department has drawn down only $18,538,309 of the $19,967,331 authorized loan amount for the 2004 Water Infrastructure Financing Authority of Arizona (WIFA) loan. Payments of principal, which are subject to change, are based on 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, 2006, the Department had a surety bond 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.

Note 4 - Long-Term Liabilities (continued)

Bonds and loans outstanding at June 30, 2006, were as follows:

Description	Interest Rates	Maturity Dates	Outstanding Principal
Series 1998	4.0-5.5%	2007 – 15	17,655,000
Refunding 2001	4.0-5.4%	2007 – 15	14,980,000
Refunding 2004	2.63-5.5%	2007 – 15	22,890,000
Total sewer revenue bonds payable			$55,525,000
1996 loan payable	3.19%	2006 – 12	9,069,388
1997 loan payable	2.95%	2006 – 11	3,670,008
2000 loan payable	2.20%	2006 – 16	49,089,532
2004 loan payable	1.81%	2007 – 24	18,538,309
Total wastewater loans payable			$80,367,237

Revenue bond debt service and loan payment requirements to maturity, are as follows:

	Revenue Bond Debt Service		Loan Payment Requirements	
	Principal	Interest	Principal	Interest
Year ending June 30,				
2007	$ 5,570,000	$ 2,573,045	$ 5,502,956	$ 2,776,392
2008	5,800,000	2,339,501	5,721,589	2,586,339
2009	6,025,000	2,098,076	5,955,046	2,375,205
2010	5,280,000	1,816,076	6,316,650	2,153,157
2011	5,515,000	1,587,777	7,604,514	1,900,764
2012-2016	27,335,000	3,452,414	33,623,000	5,631,015
2017-2021			11,574,417	1,281,937
2022-2025			4,069,065	205,827
Total	$55,525,000	$13,866,889	$ 80,367,237	$18,910,636

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

Due to other Pima County funds represents payables for goods or services. At June 30, 2006, the payables included $28,820 due to the General Fund, $1,331 due to the Automotive Services Fund, $23,053 due to the Environmental Quality Fund, and $124,080 due to the Capital Projects 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 $1,967,662 for the allocation of overhead; $1,329,338 for self-insurance premiums; $1,363,679 for interdepartmental supplies and services charges; $1,169,633 for motor pool charges; $321,889 for professional charges; $811,284 for repair and maintenance charges; $79,083 for printing charges; and $213,740 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 totaled $221,247 for the year ended June 30, 2006.

Note 7 - Significant Commitments

Commitments under construction contracts at June 30, 2006 totaled $8,306,221.

Note 8 – Claims, Judgments and 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 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 reported in the financial statements. At June 30, 2006, there were no material lawsuits related to contractual breaches.

Note 9 - Intergovernmental Agreements

The City of Tucson, Metropolitan Domestic Water Improvement District (MDWID), Town of Marana Water, 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, 2006, the Department paid fees totaling $2,125,336, $93,134, $17,465, and $110,226, 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, Town of Marana Water and Oro Valley Water submit cash receipts to the Department regularly. However, cash collections are not invested, and therefore, MDWID, Town of Marana Water, and Oro Valley Water do not remit interest to the Department.

Note 10 - Segment Information

Liquid Waste operates the sewer system that 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.

Condensed Statement of Net Assets

Assets:	
Current assets and restricted assets	$ 68,668,277
Due from other Pima County funds	1,502
Noncurrent restricted assets	492,372
Capital assets, net of accumulated depreciation	587,953,713
Other noncurrent assets	750,701
Total assets	657,866,565
Liabilities:	
Current liabilities	26,678,504
Due to other Pima County funds	177,284
Noncurrent liabilities	125,347,445
Total liabilities	152,203,233
Net Assets:	
Invested in capital assets, net of related debt	456,846,248
Restricted	4,794,366
Unrestricted	44,022,718
Total net assets	$505,663,332

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

Operating revenues (expenses):	
Sewer utility service	$ 61,735,147
Other operating revenues	538,957
Depreciation expense	(20,416,294)
Other operating expenses	(56,901,978)
Operating loss	(15,044,168)
Nonoperating revenues (expenses):	
Sewer connection revenue	42,219,962
Other nonoperating revenues	3,219,609
Interest expense	(4,623,759)
Other nonoperating expenses	(117,441)
Capital contributions	14,607,737
Transfers out to other county funds	(21,710)
Increase in net assets	40,240,230
Net assets, July 1, 2005	465,423,102
Net assets, June 30, 2006	$505,663,332

Note 10 - Segment Information (continued)

Condensed Statement of Cash Flows

Net cash provided by:	
Operating activities	$ 4,582,047
Noncapital financing activities	624,664
Capital and related financing activities	15,356,202
Investing activities	1,861,957
Increase in cash and cash equivalents	22,424,870
Cash and cash equivalents, July 1, 2005	35,000,334
Cash and cash equivalents, June 30, 2006	$ 57,425,204

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 (ASRS) 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 ASRS is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes Title 38, Chapter 5, Article 2.

The ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910, by calling (602) 240-2000 or on-line at http://www.ASRS.state.az.us/web/Aboutus.do.

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, 2006, active plan members and the Department were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Department's contributions to the ASRS for the years ended June 30, 2006, 2005, and 2004, were $1,528,578, $1,172,625, and $1,219,545, respectively, which were equal to the required contributions for the year.

Supplementary Schedules

Pima County
Department of Wastewater Management
Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Year Ended June 30, 2006

	Liquid Waste	Solid Waste	Total
Operating revenues:			
Sewer utility service	$ 61,735,147		$ 61,735,147
Engineering review and inspection fees	29,005		29,005
Permits and fines	58,906		58,906
Other income	451,046		451,046
Total operating revenues	62,274,104		62,274,104
Operating expenses:			
Employee compensation	27,625,536		27,625,536
Operating supplies	6,321,867		6,321,867
Utilities	5,314,030		5,314,030
Sludge and refuse disposal	1,297,758		1,297,758
Repairs and maintenance	4,296,842		4,296,842
General and administrative	6,435,640		6,435,640
Consultants and professional services	5,610,305		5,610,305
Depreciation	20,416,294		20,416,294
Total operating expenses	77,318,272		77,318,272
Operating loss	(15,044,168)		(15,044,168)
Nonoperating revenues (expenses):			
Intergovernmental revenue	1,435,703		1,435,703
Interest income	1,783,906		1,783,906
Sewer connection revenue	42,219,962		42,219,962
Loss on disposal of equipment	(20,354)		(20,354)
Interest expense	(4,623,759)		(4,623,759)
Amortization of deferred charges	(97,087)		(97,087)
Total nonoperating revenues (expenses)	40,698,371		40,698,371
Income before capital contributions and transfers	25,654,203		25,654,203
Capital contributions	14,607,737		14,607,737
Transfers in		$ 156,156	156,156
Transfers out	(21,710)		(21,710)
Increase in net assets	40,240,230	156,156	40,396,386
Net assets—July 1, 2005	465,423,102	(156,156)	465,266,946
Net assets—June 30, 2006	$ 505,663,332		$ 505,663,332

Pima County
Department of Wastewater Management
Combining Statement of Cash Flows
Year Ended June 30, 2006

	Liquid Waste	Solid Waste	Total
Cash flows from operating activities:			
Receipts from customers	$ 61,216,418	$ 602,926	$ 61,819,344
Miscellaneous receipts	451,046		451,046
Payments to suppliers for goods and services	(21,504,915)	(300,688)	(21,805,603)
Payments to other Pima County funds for goods and services	(7,477,555)		(7,477,555)
Payments to employees	(28,102,947)	(112,976)	(28,215,923)
Net cash provided by operating activities	4,582,047	189,262	4,771,309
Cash flows from noncapital financing activities:			
Intergovernmental receipts	528,751		528,751
Repayment of interfund borrowings	117,623	9,345	126,968
Cash transfers to other Pima County funds	(21,710)	(4,289,443)	(4,311,153)
Net cash provided by (used for) noncapital financing activities	624,664	(4,280,098)	(3,655,434)
Cash flows from capital and related financing activities:			
Sewer connection receipts from customers	42,141,638		42,141,638
Proceeds from the sale of capital assets	2,000		2,000
Intergovernmental contract receipts	191,418		191,418
Purchase and construction of capital assets	(14,339,450)		(14,339,450)
Proceeds from issuance of sewer loans	1,085,658		1,085,658
Principal payments on revenue bonds and loans	(9,500,734)		(9,500,734)
Interest payments on revenue bonds and loans	(4,224,328)		(4,224,328)
Net cash provided by capital and related financing financing activities	15,356,202		15,356,202
Cash flows from investing activities:			
Interest received on investments	1,861,957	8,957	1,870,914
Net cash provided by investing activities	1,861,957	8,957	1,870,914
Net increase (decrease) in cash and cash equivalents	22,424,870	(4,081,879)	18,342,991
Cash and cash equivalents, July 1, 2005	35,000,334	4,081,879	39,082,213
Cash and cash equivalents, June 30, 2006	$ 57,425,204		$ 57,425,204

(Continued)

Pima County
Department of Wastewater Management
Combining Statement of Cash Flows
Year Ended June 30, 2006
(Continued)

	Liquid Waste	Solid Waste	Total
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$ (15,044,168)		$ (15,044,168)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	20,416,294		20,416,294
Changes in assets and liabilities:			
Decrease (increase) in assets:			
Accounts receivable	(570,637)	329,819	(240,818)
Due from other governments	(36,003)	273,107	237,104
Inventory of materials and supplies	(216,781)		(216,781)
Prepaid expenses	(68,405)	1,759	(66,646)
Increase (decrease) in liabilities:			
Accounts payable	556,293	(291,231)	265,062
Due to other governments	22,865	(11,216)	11,649
Accrued payroll and employee benefits	(477,411)	(112,976)	(590,387)
Net cash provided by operating activities	$ 4,582,047	$ 189,262	$ 4,771,309

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2006, developers conveyed capital assets with an estimated fair value of $14,407,846 and the County's Internal Service Fund conveyed capital assets with a net book value of $26,050 to the Department. These transactions were recorded as capital contributions.

During the year ended June 30, 2006, the Pima County Board of Supervisors approved Connection Fee Flow-Through Sewer Credit Agreements totaling $16,697. This transaction was recorded as an increase to deferred revenue and a decrease in capital contributions.

During the year ended June 30, 2006, the Department retired expired Sewer Credit Agreements totaling $190,538. This transaction was recorded as a decrease to deferred revenue and an increase in capital contributions.

During the year ended June 30, 2006, the Department retired assets with a net book value of $22,354.

During the year ended June 30, 2006, the Department transferred to the County's general government the assets of the Solid Waste Management division with a net book value of $11,334,107.

During the year ended June 30, 2006, the Department conveyed the long-term liabilities of the Solid Waste Management division in the amount of $15,779,706 to the County's general government.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Supervisors
of Pima County, Arizona

Members of the Board:

We have audited the financial statements of Pima County Department of Wastewater Management as of and for the year ended June 30, 2006, and have issued our report thereon dated September 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pima County Department of Wastewater Management's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pima County Department of Wastewater Management's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Supervisors, management and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, Meech & Co, P.C.

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

September 21, 2006

EXCERPTS FROM
PIMA COUNTY, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006

The following are excerpts from the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006 The County has not requested the State of Arizona Auditor General to perform any review of the County's Comprehensive Annual Financial Report subsequent to June 30, 2006. These are the most recent audited financial statements available to the County. These financial statements are not current and may not represent the current financial position of the County.

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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 governmental activities, business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of Pima County as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. 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 certain departments, two major funds, and a component unit, which account for the following percentages of the assets, liabilities, revenues, and expenses or expenditures of the opinion units affected:

Opinion Unit/Department	Assets	Liabilities	Revenues	Expenses/ Expenditures
Government-wide Statements				
Governmental Activities:				
Stadium District	0.09%	0.08%	0.42%	0.29%
Self-Insurance Trust	2.75%	6.77%	0.29%	0.70%
Business-type Activities:				
Wastewater Management	91.89%	86.15%	30.42%	23.10%
Pima Health System & Services	4.36%	12.47%	64.74%	72.18%
Development Services	2.50%	1.23%	4.46%	4.04%
Self-Insurance Trust	0.00%	0.00%	0.00%	0.29%
Component Unit—Southwestern Fair Commission	100.00%	100.00%	100.00%	100.00%
Fund Statements				
Major Funds:				
Wastewater Management	100.00%	100.00%	100.00%	100.00%
Pima Health System & Services	100.00%	100.00%	100.00%	100.00%
Aggregate Remaining Fund Information:				
Stadium District	0.28%	0.35%	1.23%	0.74%
Development Services	3.85%	1.86%	7.39%	5.68%
Self-Insurance Trust	8.83%	30.60%	6.84%	7.95%

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Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based 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, the discretely presented component unit, each major fund, and aggregate remaining fund information of Pima County as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the County retroactively reported infrastructure assets not previously capitalized as part of the phased implementation requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

The Management's Discussion and Analysis on pages 13 through 27, the Budgetary Comparison Schedules on pages 71 through 73, and the Schedule of Agent Retirement Plans' Funding Progress on page 74 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining statements and other schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining statements and other schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In connection with our audit, except for the instances of noncompliance that will be reported in the County's Single Audit Reporting Package that will be issued at a future date, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the County solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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 grant agreements and other matters at a future date. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

December 1, 2006

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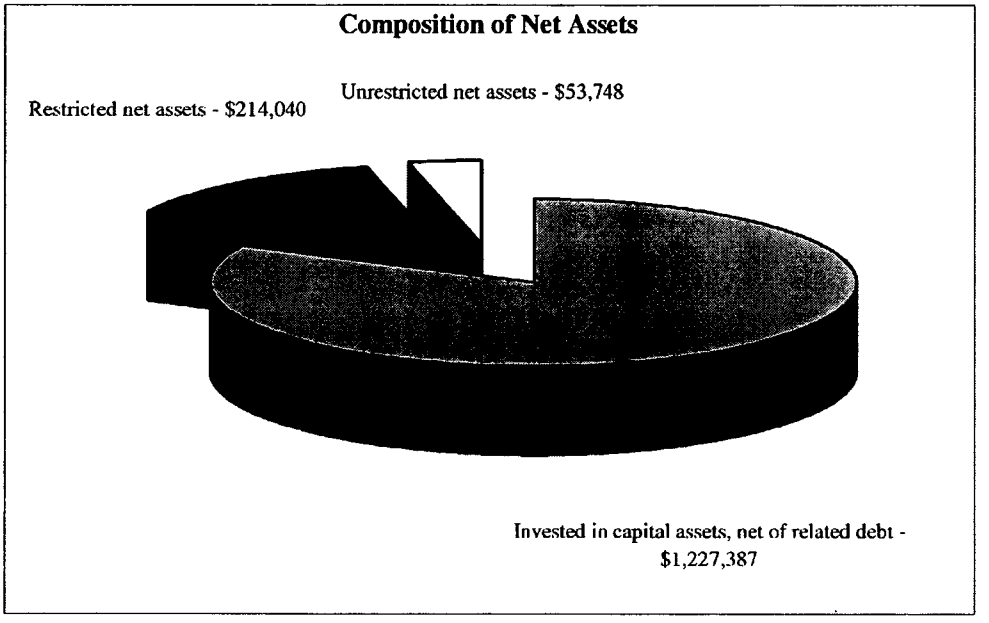
Management's Discussion and Analysis

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, 2006, 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, 2006, the County's combined assets exceeded combined liabilities (*net* assets) by $1,495,175, an increase of 9.1% from the prior year. Of this amount, $53,748 is available for general government expenditures (*unrestricted net assets)*, $214,040 is restricted for specific purposes (*restricted net assets)*, and $1,227,387 is invested in capital assets, net of related debt and accumulated depreciation.



- Of the total fund balances of the County's governmental funds, total fund balance decreased $38,009 to $213,998, with $196,018 of this amount available for expenditure. The amount available for expenditure is comprised of $46,423 for the General fund, $15,685 for the Transportation fund, $84,472 for the Capital Projects fund and $49,438 for the County's other governmental funds.

- The General fund unreserved fund balance increased $13,252 from the previous year to $46,423. This balance represents approximately 11.5% of the County's General fund expenditures and 6.1% of total governmental funds expenditures.

- The Solid Waste fund, formally a division of Wastewater Management Enterprise Fund, has been reclassified as a special revenue fund.

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, and (3) Notes to the basic financial statements. Required supplementary information (4) 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, sanitation, health, welfare, culture and recreation, and education and economic opportunity. The business-type activities of the County include Pima Health System & Services, Wastewater Management, Development Services and the County's downtown parking garages.

A discretely presented component unit is included in the basic financial statements and consists of a legally separate entity for which the County is financially accountable. The County reports the Southwestern Fair Commission, which operates the County Fairgrounds and the annual Pima County Fair, as a discretely presented component unit.

The government-wide financial statements can be found on pages 29-31 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 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 fifteen 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, Transportation and Capital Projects funds. 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 32-35 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 graphic services and telecommunications. 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 System & Services 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 36-39 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 40-41 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 42-69 of this report.

Required Supplementary Information (RSI) is presented concerning the County's General and Transportation Special Revenue funds' budgetary schedules and the schedule of retirement plans' funding progress. Required supplementary information can be found on pages 71-74 of this report.

Combining Statements and Other 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 76-106 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. County assets exceeded liabilities by $1,495,175 at June 30, 2006. The following table shows condensed information for the Statement of Net Assets:

Table 1
Statement of Net Assets
At June 30, 2006

	Governmental Activities Fiscal Year		Business-type Activities Fiscal Year		Total Fiscal Year	
	2005-2006	2004-2005*	2005-2006	2004-2005	2005-2006	2004-2005*
Current and other assets	$ 342,194	$ 372,920	$ 114,925	$ 96,000	$ 457,119	$ 468,920
Capital assets:						
Land, buildings, equipment, infrastructure & other	1,146,334	1,072,091	597,365	596,538	1,743,699	1,668,629
Total assets	1,488,528	1,445,011	712,290	692,538	2,200,818	2,137,549
Current and other liabilities	83,175	79,660	40,048	43,514	123,223	123,174
Long-term liabilities	446,000	469,861	136,420	160,275	582,420	630,136
Total liabilities	529,175	549,521	176,468	203,789	705,643	753,310
Net assets :						
Invested in capital assets, net of related debt	761,130	754,742	466,257	457,600	1,227,387	1,212,342
Restricted	159,759	107,297	54,281	10,298	214,040	117,595
Unrestricted (deficit)	38,464	33,451	15,284	20,851	53,748	54,302
Total net assets	$ 959,353	$ 895,490	$ 535,822	$ 488,749	$ 1,495,175	$ 1,384,239

*As restated - See Note 2 & Note 5 of the financial statements

The largest portion of the County's net assets reflects its investment in capital assets (i.e. land, buildings, infrastructure and equipment), less any related outstanding debt used to acquire those assets. As of June 30, 2006, investment in capital assets totaled $1,227,387, comprising approximately 82.1% 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 $15,045 increase in capital assets, net of related debt, is primarily due to the significant 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, 2006, restricted net assets totaled $214,040 and comprised approximately 14.3% of total net assets. This represents a $96,445 increase in restricted net assets from the $117,595 balance of fiscal year 2004-05.

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, 2006, unrestricted net assets totaled $53,748 and comprised approximately 3.6% of total net assets.

Governmental activities

Governmental activities contributed $63,863, or 57.6% of the County's $110,936 increase, in total net assets during fiscal year 2005-06. 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, 2006 and 2005

	Fiscal Year		Variance	
	2005-2006	2004-2005	Amount	Percent
Program revenues:				
Charges for services	$ 72,121	$ 61,882	$ 10,239	16.5%
Operating grants and contributions	133,113	125,121	7,992	6.4%
Capital grants and contributions	12,188	23,663	(11,475)	-48.5%
Total program revenues	217,422	210,666	6,756	3.2%
General revenues:				
Property taxes	316,170	294,643	21,527	7.3%
State-shared taxes	129,052	115,140	13,912	12.1%
Investment earnings	12,942	6,140	6,802	110.8%
Other general revenues	35,720	35,422	298	0.8%
Total general revenues	493,884	451,345	42,539	9.4%
Total revenues	711,306	662,011	49,295	7.4%
Expenses:				
General government	208,293	194,873	13,420	6.9%
Public safety	132,583	118,412	14,171	12.0%
Highways and streets	70,392	65,414	4,978	7.6%
Sanitation	7,258		7,258	100.0%
Health	32,043	31,798	245	0.8%
Welfare	103,085	96,199	6,886	7.2%
Culture and recreation	34,510	29,663	4,847	16.3%
Education and economic opportunity	39,517	39,714	(197)	-0.5%
Unallocated depreciation and amortization	165	1,010	(845)	-83.7%
Interest on long-term debt	19,463	16,152	3,311	20.5%
Total expenses	647,309	593,235	54,074	9.1%
Excess before transfers	63,997	68,776	(4,779)	-6.9%
Transfers in (out)	(134)	1,935	(2,069)	-106.9%
Change in net assets	$ 63,863	$ 70,711	$ (6,848)	-9.7%

Key elements of the change in net assets from governmental activities include:

- Program revenues increased $6,756, reflecting increases by Charges for services and Operating grants & contributions of $18,231 and a decrease of $11,475 in Capital grants & contributions.

    - Revenue from Charges for services increased by $10,239 primarily due to the reclassification of Solid Waste from a business-type activity under Wastewater Management to a governmental fund. This accounted for 44.3% of the increase, or $4,531. There was also a 13.8% increase, or $3,152, within the functional class general government that was primarily due to a reclassification of Internal Service fund revenues of $2,709 from general miscellaneous revenues to charges for services.

    - Revenue from Operating grants and contributions increased by $7,992 due primarily to an increase of $5,666 in the function class general government. The County received $2,100 in federal revenue from the Help America Vote Act (HAVA) grant to purchase touch screen voting equipment, and a $1,575 increase in federal revenue for the County Law Enforcement Antiracketeering grant. In addition, there was a $3,058 increase for HURF revenue in the functional class highways and streets.

    - Revenue from Capital grants & contributions decreased by $11,475 due primarily to a $14,089 decline in governmental funding for County capital projects. There was a $9,016 and $484 decrease in federal and state funding, respectively, for the Veterans Memorial Overpass project and a $2,685 decline in state funding for the La Cholla Boulevard project. There was also a $2,110 decline in federal funding for the Wetmore/Ruthrauff intersection project. These projects were completed during the fiscal year.

- General revenues increased by $42,539, primarily due to increases in property tax revenues and state-shared tax revenues. Increases in real property assessed valuations and residential construction activity were the primary factors generating increases in property tax revenues of $21,527. Sales tax revenue increased $11,648, or 12.7%, due to growth in retail sales.

- Investment earnings continue to improve as interest rates rose for a second consecutive fiscal year. During the majority of the fiscal year, the County invested a majority of its funds in the State Treasurer's Local Government Investment Pool. The average interest rate for the pool was 2.34% for fiscal year 2004-05 and 3.94% for fiscal year 2005-06.

- Total expenses for governmental activities increased by $54,074 due to the following:

    - An increase of $22,201 in personnel costs, primarily attributable to salary adjustments of 4.2% for County employees and a one step increase for Sheriff's deputies and sergeants. Additionally, increases in the County's required contribution to the Public Safety Retirement system for Sheriff's deputies generated increases in personnel costs. This increase is predominately reflected in the public safety category.

    - The Solid Waste fund was reclassified into the Governmental activities resulting in an increase of $7,258 in expenses for the sanitation function.

    - The increase in expenditures for welfare was due to a state-mandated increase of $360 in the monthly contribution to the Arizona Long-Term Care system (ALTCS), an increase of $3,925 for health care services to both the adult and juvenile detention centers and an increase of $1,128 for psychiatric services.

- The addition of bridge structures to infrastructure resulted in $1,244 for depreciation expense. This addition is reflected in the highway and streets functional expense.

Business-type activities

Business-type activities contributed $47,073, or 42.4%, of the County's increase of $110,936 in total net assets during the year ended June 30, 2006. The following table shows changes in net assets for business-type activities:

Table 3
Business-type Activities
Comparative Statements of Activities
For the Years Ended June 30, 2006 and 2005

	Fiscal Year		Variance	
	2005-2006	2004-2005	Amount	Percent
Program revenues:				
Charges for services	$ 376,874	$ 353,548	$ 23,326	6.6%
Operating grants and contributions	4,997	4,238	759	17.9%
Capital grants and contributions	449		449	100.0%
Total program revenues	382,320	357,786	24,534	6.9%
General revenues:				
Capital contributions	14,607	20,722	(6,115)	-29.5%
Investment earnings	3,849	1,609	2,240	139.2%
Other general revenues	1,348	4,028	(2,680)	-66.5%
Total general revenues	19,804	26,359	(6,555)	-24.9%
Total revenues	402,124	384,145	17,979	4.7%
Expenses:				
Wastewater Management	82,701	76,079	6,622	8.7%
Pima Health System & Services	256,583	249,809	6,774	2.7%
Development Services	14,422	10,857	3,565	32.8%
Parking Garages	1,479	1,494	(15)	-1.0%
Total expenses	355,185	338,239	16,946	5.0%
Excess before transfers	46,939	45,906	1,033	2.3%
Transfers in (out)	134	(1,935)	2,069	-106.9%
Change in net assets	$ 47,073	$ 43,971	$ 3,102	7.1%

Key elements of the change in net assets from business-type activities include:

- Charges for services increased by $23,326, primarily as a result of:
  - Wastewater Management increased sewer utility service and connection fees, resulting in an increase of $12,122 in charges for services.
  - An increase of $8,816 within Pima Health System & Services primarily due to an increase of $8,117 in the Arizona Long Term Care System (ALTCS) and an increase of

$5,752 in the Arizona Health Care Cost Containment System (AHCCCS) programs, a result of rate increases. This was offset by a loss in revenue from reinsurance claims.

- An increase of $2,410 in license and permit revenue for Development Services due to an increase in construction activity in FY 2005-06.

- Operating grants and contributions increased by $759 due primarily to Pima Health System & Services. During FY 2005-06, there was an increase in carry-over dollars from Pima Council on Aging that drove this increase. "Carry-over dollars" are Title III funds. When these funds are not fully expended in the prior fiscal year, then the State reallocates and distributes the money across various regions in the state in the following fiscal year.

- Expenses increased by $16,946, due to the following changes:

  - An increase of $6,774 in Pima Health System & Services due primarily to increases of $2,351 for employee compensation the result of salary adjustments of 4.2% for County employees and $3,408 for medical claims due to a rate increase.

  - An increase of $6,622 in Wastewater Management due primarily to increases of $2,071 in consultants and professional services and $2,308 in depreciation expenses.

  - An increase of $3,565 in Development Services due primarily to an increase of $2,079 in employee compensation the result of salary adjustments of 4.2% for County employees.

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, 2006, the County's governmental funds reported combined fund balances of $213,998, a decrease of $38,009 from the prior year. Approximately 91.6% of the combined fund balances, or $196,018, constitutes unreserved and undesignated fund balance, which is available to meet the County's current and future needs. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has been committed to the following:

- $6,784 to pay debt service

- $5,769 to reflect inventories and prepaid amounts

- $2,648 for specified programs

- $1,660 to reflect a loan receivable

- $1,044 designated for Mt. Lemmon flood mitigation

- $75 for capital repairs and refurbishments

The General Fund is the chief operating fund of the County. At June 30, 2006, unreserved fund balance of the general fund was $46,423 while total fund balance reached $51,575. As a measure of the General fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 11.5% of total General fund expenditures, while total fund balance represents 12.8% of that same amount.

Revenues for governmental functions totaled approximately $714,340 in fiscal year 2005-06, which represents an increase of $47,923 (7.2%) 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 Governmental Funds

	Fiscal Year					
	2005-2006		2004-2005		Variance	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenues by source:						
Taxes	$ 321,474	45.0%	$ 300,972	45.2%	$ 20,502	6.8%
Special assessments	215	0.0%	244	0.0%	(29)	-11.9%
Licenses and permits	7,452	1.0%	7,265	1.1%	187	2.6%
Intergovernmental	291,059	40.8%	278,414	41.8%	12,645	4.5%
Charges for services	63,582	8.9%	53,568	8.0%	10,014	18.7%
Fines and forfeits	6,014	0.8%	5,967	0.9%	47	0.8%
Interest	11,382	1.6%	5,181	0.8%	6,201	119.7%
Miscellaneous	13,165	1.9%	14,806	2.2%	(1,641)	-11.1%
Total revenues	$ 714,343	100.0%	$ 666,417	100.0%	$ 47,926	7.2%

The following provides an explanation of revenues by source that changed significantly over the prior year:

- Taxes Revenues from property taxes increased $20,502. 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 The $12,645 increase in intergovernmental revenue was due primarily to a $12,335 increase in state shared sales tax revenue, the result of increased construction and retail sales and population growth.

- Charges for services The $10,014 increase in charges for services revenues is due primarily to the reclassification of Solid Waste to a governmental fund and an increase in overhead allocation.

- Interest As previously mentioned, during the majority of the fiscal year the County invested a majority of its funds in the State Treasurer's Local Government Investment Pool. Interest rates

increased in fiscal year 2005-06 to 3.94% from 2.34% in the prior year, and resulted in increased 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 2005-2006 Amount	Percent	2004-2005 Amount	Percent	Variance Amount	Percent
General government	$ 203,881	26.8%	$ 193,308	27.0%	$ 10,573	5.5%
Public safety	121,229	15.9%	109,798	15.3%	11,431	10.4%
Highways and streets	39,394	5.2%	38,363	5.4%	1,031	2.7%
Sanitation	6,271	0.8%			6,271	100.0%
Health	30,038	3.9%	30,802	4.3%	(764)	-2.5%
Welfare	103,034	13.5%	96,996	13.5%	6,038	6.2%
Culture and recreation	28,561	3.8%	23,172	3.2%	5,389	23.3%
Education and economic opportunity	37,918	5.0%	38,098	5.3%	(180)	-0.5%
Capital outlay	121,007	15.9%	127,632	17.8%	(6,625)	-5.2%
Debt service:						
- Principal	50,547	6.6%	42,891	6.0%	7,656	17.9%
- Interest	19,448	2.6%	16,127	2.2%	3,321	20.6%
- Miscellaneous	15	0.0%	25	0.0%	(10)	-40.0%
Total expenditures	$ 761,343	100.0%	$ 717,212	100.0%	$ 44,131	6.2%

Total expenditures in governmental funds increased during fiscal year 2005-06 by $44,131.

- The $11,431 increase in public safety expenditures was due primarily to an increase in personnel costs. The County Sheriff's deputies and sergeants received a one step salary adjustment. In addition, corrections officer staffing numbers were increased.

- The $7,656 increase in debt service principal payments was the result of the addition of the 2005 general obligation and street and highways bonds to the payment schedule.

- The $10,573 increase in general government expenditures was due primarily to the increase in the County's administration overhead. In addition, personnel costs increased due to salary adjustments of 4.2% for County employees.

- The $6,271 in sanitation expenditures resulted from the transfer of the Solid Waste fund into a governmental fund from the Wastewater Management Enterprise Fund.

Budget to Actual Comparison for the General Fund

Overall, budgeted revenues and expenditures for the General Fund were generally consistent with actual fund activity. Actual revenues exceeded budgeted revenues by $17,481 and actual expenditures were less than budgeted expenditures by $1,236. 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 System and Services, 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, 2006 and 2005

	Fiscal Year		Variance	
	2005-2006	2004-2005	Amount	Percent
Operating revenues:				
Net patient services	$ 252,034	$ 243,032	$ 9,002	3.7%
Charges for services	82,162	73,372	8,790	12.0%
Other	1,348	2,943	(1,595)	-54.2%
Total net operating revenues	335,544	319,347	16,197	5.1%
Operating expenses:				
Employee compensation	73,452	68,266	5,186	7.6%
Medical claims	205,951	202,543	3,408	1.7%
Operating supplies & services	9,105	7,146	1,959	27.4%
Utilities	6,007	4,470	1,537	34.4%
Sludge and refuse disposal	1,298	2,456	(1,158)	-47.2%
Repair and maintenance	5,184	4,463	721	16.2%
General and administrative	14,328	13,602	726	5.3%
Consultants and professional services	8,018	5,679	2,339	41.2%
Depreciation and amortization	21,092	18,783	2,309	12.3%
Total operating expenses	344,435	327,408	17,027	5.2%
Operating loss	(8,891)	(8,061)	(830)	10.3%
Nonoperating revenues (expenses):				
Intergovernmental revenue	5,904	4,397	1,507	34.3%
Shared state tax revenue		1,163	(1,163)	-100.0%
Interest income	3,849	1,609	2,240	139.2%
Sewer connection fees	42,220	36,907	5,313	14.4%
Interest expense	(4,720)	(4,294)	(426)	9.9%
Loss on disposal of capital assets	(22)	(577)	555	-96.2%
Amortization of deferred charges	(97)	(97)		0.0%
Premium tax	(4,949)	(4,792)	(157)	3.3%
Total nonoperating revenues	42,185	34,316	7,869	22.9%
Income (loss) before contributions and transfers	33,294	26,255	7,039	26.8%
Capital contributions	14,607	21,926	(7,319)	-33.4%
Transfers in	156		156	100.0%
Transfers (out)	(22)	(3,139)	3,117	-99.3%
Change in net assets	$ 48,035	$ 45,042	$ 2,993	6.6%

Key activity within the enterprise funds for fiscal year 2005-06 include the following:

- While net operating revenues for the County's Enterprise Funds increased $16,197, operating expenses increased $17,027, resulting in an operating loss of $8,891, or a decline of $830 from the prior year. The operating loss was due to Wastewater Management, which reported a loss of $15,044, as compared to the operating income reported by Pima Health System and Services of $3,076, Development Services of $3,050 and Parking Garages of $27.

- Net patient services revenues increased by $9,002 from fiscal year 2004-05. This is attributable to increased membership enrollment for Pima Health System and Services, which generated increases in capitation revenues.

- Charges for services revenues increased by $8,790 as compared to the prior year. Wastewater Management reported an increase of $6,587 due to an increase in sewer utility service fee revenue. Development Services reported an increase of $2,410 due to an increase in permit revenue, as a result of an increase in construction activity.

- Employee compensation expenses increased by $5,186 from fiscal year 2004-05, due to an increase of $2,351 for Pima Health System and Services and an increase of $2,079 for Development Services. Both increases were primarily due to the Board of Supervisor's approved salary rate increases and position reclassifications.

- Medical claims expense continued to increase this year as a result of higher enrollment for Pima Health System and Services during the fiscal year. An increase in doctor fees is also responsible for a portion of the rise in medical claims expenditures.

- Sewer connection fees charged by Wastewater Management increased by $5,313 due to increased connection fee rates.

Capital Assets and Debt Administration

Capital Assets

The County's capital assets increased as a result of retroactively reporting the County's general governmental infrastructure bridge assets. GASB Statement No.34 allowed for a phase-in period for retroactively reporting infrastructure. GASB 34 required this to be completed in Fiscal Year 2006. The implementation of this accounting pronouncement has resulted in a restatement of beginning net assets of $13,289. Additional information regarding the County's restatement of beginning net assets can be found in Note 2 of the financial statements on page 47 of this report.

The County's investment in capital for its governmental and business-type activities as of June 30, 2006 amounted to $1,743,699 (net of accumulated depreciation), an increase of 4.5%. Of the $75,070 increase in net capital assets, $74,243 (98.9%) came from governmental activities and $827 (1.1%) came from business-type activities. 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 $14,993 due primarily to the following acquisitions for governmental activities: $2,017 for the Justice Court complex property, $1,806 for the Canoa Ranch property, $1,084 for the Tortolita Mountain Park property, $1,795 for the Tucson Mountain Park property, $1,073 for the Rillito Race Track property, $3,001 for land acquisition related to flood control projects and $3,698 that represented Solid Waste assets transferred from Wastewater Management.

- Buildings and improvements increased by $53,655 due primarily to the expansion and upgrade of the Ina Road Treatment Facility for $62,010.

- Infrastructure increased by $49,726 due primarily to the capitalization of $23,610 for the Veteran's Memorial Overpass project, $18,727 for the Wetmore/Ruthrauff Intersection project, $12,681 for the La Cholla Boulevard: River Road to Omar Road project and $7,809 for the Catalina Highway: Tanque Verde to Houghton Road project.

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	
	2005-2006	2004-2005*	2005-2006	2004-2005	2005-2006	2004-2005*
Land	$ 222,954	$ 202,408	$ 8,706	$ 14,259	$ 231,660	$ 216,667
Construction in progress	115,305	117,118	14,842	63,325	130,147	180,443
Buildings and improvements	271,771	268,996	239,799	188,919	511,570	457,915
Sewage conveyance system			327,335	322,145	327,335	322,145
Equipment	38,634	35,625	6,683	7,890	45,317	43,515
Infrastructure	497,670	447,944			497,670	447,944
Total	$ 1,146,334	$ 1,072,091	$ 597,365	$ 596,538	$ 1,743,699	$ 1,668,629

*As restated - See Note 2 and Note 5 of the financial statements

The County's infrastructure assets are recorded at historical cost and estimated 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 51-53 of this report.

Long-term Debt

Significant, comparative long-term debt entered into during the last two fiscal years is presented below:

Table 8
Long-Term Debt
Governmental Funds

	Fiscal Year	
	2005-2006	2004-2005
Bonds issued (at face value):		
General obligation		$ 65,000
Street and highway revenue		51,200
Loans	$ 4,836	
Capital leases	231	
Total	$ 5,067	$ 116,200

During the fiscal year, the Transportation Department received $4,836 in loan proceeds for the Alvernon Way road project from the state's Highway Expansion and Extension Loan Program (HELP). As of June 30, 2006, $1,511 of this amount remained unspent. On May 16, 2006, Pima County voters approved $54,000 in general obligation bonds for psychiatric facilities.

In the prior year, the county received $65,000 in proceeds from the sale of general obligation bonds and $51,200 from the sale of transportation revenue bonds. As of June 30, 2006, $4,186 of proceeds from general obligation bonds and $9,168 from transportation revenue bonds were unspent. The majority of the general obligation bonds were spent on public health and community facilities, parks and recreational facilities and the Sonoran Desert open space and habitat protection plan, while proceeds from transportation revenue bonds were allocated to various roadway projects.

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, except for the General Obligation Bonds, Series 2004 which Standard & Poor's upgraded to AA-.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its net assessed valuation. The current debt limitation for Pima County is $907,643, 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 54-62 of this report.

Economic Factors and Next Year's Budget

Pima County continues to record steady increases in various aspects of its economy. Increases in residential construction continue to contribute to increases in the real property taxes, along with increases in valuation. Increases in per-capita wage income and sales taxes have also provided indications of economic growth.

The budget for fiscal year 2006-07 has expenditures for the General Fund increasing by approximately $35.5 million primarily due to the following:

- $8.2 million of expenditure authority in the Budget Stabilization Fund in anticipation of various legislative relief actions partially offset by like reductions in individual affected department budgets
- $8.0 million for an employee compensation package consisting of one step for commissioned and corrections staff, 2.8 percent for most other employees to address inflation, 1.7 percent for employees who are members of the Arizona State Retirement System whose required contribution will increase by that percentage, and an increase in the shift differential hourly rate
- $5.4 million in supplemental funding for individual departments
- $5.0 million for possible unallowable fiscal year 2004-05 Transportation expenditures
- $4.8 million of various increase identified for General Fund departments that underwent the zero base budget process
- $4.6 million increase in payments to the Metropolitan Tucson Convention & Visitors Bureau
- $2.1 million net increase in state mandated employer contributions to the various state retirement systems; $1.8 million increase in the County's contribution toward the cost of other non-retirement benefits
- $1.7 million representing the annual cost of salary adjustments for correction officers and specialists approved during fiscal year 2005-06

- $1.1 million in supplemental funding in the Budget Stabilization Fund to fund possible loss of grant funding by the County Attorney and Sheriff
- $3.1 million increase for the primary and general elections held in the fall of 2006 partially offset by a $1.6 million reduction for the regional transportation plan election held in the spring of 2006
- $1.9 million increase in the adult detention health care contract cost partially offset by a $551 decrease in juvenile detention health care contract costs
- $900 reduction for Vocation Rehabilitation costs moved to the Employment & Training Fund
- $1.8 million net reduction due to the transfer of Economic Development & Tourism funding to a new special revenue fund
- $5.0 million scheduled decrease in the County's obligations under the agreement with University Physicians Healthcare to operate the former Kino Community Hospital

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 and Risk Management Department, 130 W. Congress, 6th Floor, Tucson, AZ, 85701.

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Basic Financial Statements

Exhibit A -1

PIMA COUNTY
STATEMENT OF NET ASSETS
June 30, 2006
(in thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Southwestern Fair Commission
ASSETS				
Cash and cash equivalents	$ 260,630	$ 73,347	$ 333,977	$ 1,294
Property taxes receivable (net)	8,824		8,824	
Interest receivable	463		463	
Internal balances	3,659	(3,659)		
Due from other governments	53,046	3,136	56,182	
Accounts receivable (net)	2,960	22,944	25,904	16
Inventories	2,645	3,147	5,792	30
Prepaids	4,397	95	4,492	17
Investments	911		911	
Other assets	696	751	1,447	4
Restricted assets:				
Cash and cash equivalents	2,303	15,164	17,467	
Loans receivable	1,660		1,660	
Capital assets not being depreciated:				
Land	222,954	8,706	231,660	
Construction in progress	115,305	14,842	130,147	
Capital assets being depreciated (net):				
Buildings and improvements	271,771	239,799	511,570	1,507
Sewage conveyance system		327,335	327,335	
Equipment	38,634	6,683	45,317	402
Infrastructure	497,670		497,670	
Total assets	1,488,528	712,290	2,200,818	3,270
LIABILITIES				
Accounts payable	34,685	10,566	45,251	215
Accrued medical and healthcare claims		18,736	18,736	
Interest payable		1,432	1,432	
Contract retentions	634		634	
Employee compensation	30,670	6,369	37,039	
Due to other governments	7,790	114	7,904	
Deposits and rebates	2,303		2,303	22
Deferred revenues	7,093	2,831	9,924	
Noncurrent liabilities:				
Due within one year	56,055	11,073	67,128	104
Due in more than one year	389,945	125,347	515,292	140
Total liabilities	529,175	176,468	705,643	481
NET ASSETS				
Invested in capital assets, net of related debt	761,130	466,257	1,227,387	1,665
Restricted for:				
Special revenue	53,384		53,384	
Highways and streets	21,353		21,353	
Debt service	7,934	438	8,372	
Capital projects	77,088		77,088	75
Wastewater management		48,379	48,379	
Healthcare		5,464	5,464	
Unrestricted	38,464	15,284	53,748	1,049
Total net assets	$ 959,353	$ 535,822	$ 1,495,175	$ 2,789

See Notes to the Financial Statements

PIMA COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006
(in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	$ 208,293	$ 26,033	$ 30,532	$ 692
Public safety	132,583	8,136	12,193	1,300
Highways and streets	70,392	21,617	57,057	8,068
Sanitation	7,258	4,531	1,136	
Health	32,043	9,693	11,664	
Welfare	103,085		839	
Culture and recreation	34,510	1,797	8	2,090
Education and economic opportunity	39,517	314	19,684	38
Amortization - unallocated	165			
Interest on long-term debt	19,463			
Total governmental activities	647,309	72,121	133,113	12,188
Business-type activities:				
Wastewater Management	82,701	104,501	529	449
Pima Health System & Services	256,583	253,748	4,468	
Development Services	14,422	17,140		
Parking Garages	1,479	1,485		
Total business-type activities	355,185	376,874	4,997	449
Total primary government	$ 1,002,494	$ 448,995	$ 138,110	$ 12,637
Component unit:				
Southwestern Fair Commission	$ 5,411	$ 5,563	$ 88	
Total component units	$ 5,411	$ 5,563	$ 88	

General revenues:
Property taxes, levied for general purposes
Property taxes, levied for regional flood control district
Property taxes, levied for library district
Property taxes, levied for debt service
Hotel/motel taxes, levied for sports facility and tourism
Other taxes, levied for stadium district
Unrestricted share of state sales tax
Unrestricted share of state vehicle license tax
Grants and contributions not restricted to specific programs
Interest and penalties on delinquent taxes
Investment earnings
Miscellaneous
Gain on sale of capital assets
Capital and other contributions
Transfers
Total general revenues and transfers
Change in net assets
Net assets at beginning of year, as restated
Net assets at end of year

See Notes to the Financial Statements

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business-type Activities	Total	Southwestern Fair Commission	Functions/Programs
				Primary government:
				Governmental activities:
$ (151,036)		$ (151,036)		General government
(110,954)		(110,954)		Public safety
16,350		16,350		Highways and streets
(1,591)		(1,591)		Sanitation
(10,686)		(10,686)		Health
(102,246)		(102,246)		Welfare
(30,615)		(30,615)		Culture and recreation
(19,481)		(19,481)		Education and economic opportunity
(165)		(165)		Amortization - unallocated
(19,463)		(19,463)		Interest on long-term debt
(429,887)		(429,887)		**Total governmental activities**
				Business-type activities:
	$ 22,778	22,778		Wastewater Management
	1,633	1,633		Pima Health System & Services
	2,718	2,718		Development Services
	6	6		Parking Garages
	27,135	27,135		**Total business-type activities**
(429,887)	27,135	(402,752)		**Total primary government**
				Component unit:
			$ 240	Southwestern Fair Commission
			$ 240	**Total component units**
				General revenues:
237,510		237,510		Property taxes, levied for general purposes
19,929		19,929		Property taxes, levied for regional flood control district
15,539		15,539		Property taxes, levied for library district
43,192		43,192		Property taxes, levied for debt service
6,856		6,856		Hotel/motel taxes, levied for sports facility and tourism
1,808		1,808		Other taxes, levied for stadium district
103,158		103,158		Unrestricted share of state sales tax
25,894		25,894		Unrestricted share of state vehicle license tax
7,975		7,975		Grants and contributions not restricted to specific programs
5,683		5,683		Interest and penalties on delinquent taxes
12,942	3,849	16,791		Investment earnings
12,828	1,348	14,176	86	Miscellaneous
323		323		Gain on sale of capital assets
247	14,607	14,854	15	Capital and other contributions
(134)	134			Transfers
493,750	19,938	513,688	101	Total general revenues and transfers
63,863	47,073	110,936	341	Change in net assets
895,490	488,749	1,384,239	2,448	Net assets at beginning of year, as restated
$ 959,353	$ 535,822	$ 1,495,175	$ 2,789	Net assets at end of year

See Notes to the Financial Statements

Exhibit A - 3

PIMA COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006
(in thousands)

	General	Transportation	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 45,695	$ 19,605	$ 93,966	$ 58,999	$ 218,265
Property taxes receivable (net)	6,562			2,262	8,824
Interest receivable	1	54	256	20	331
Due from other funds	4,669	48	146	1,081	5,944
Due from other governments	24,869	9,441	2,647	15,995	52,952
Accounts receivable	1,334	3	28	1,338	2,703
Inventory		2,027		136	2,163
Prepaid expenditures	3,492	43		71	3,606
Loan receivable	1,660				1,660
Other assets	160				160
Restricted cash equivalents			2,303		2,303
Total assets	$ 88,442	$ 31,221	$ 99,346	$ 79,902	$ 298,911
Liabilities and fund balances					
Liabilities:					
Accounts payable	$ 11,868	$ 1,825	$ 10,846	$ 8,665	$ 33,204
Contract retentions			601	33	634
Employee compensation	6,090	568	25	1,604	8,287
Due to other funds	1,252	81	111	2,940	4,384
Due to other governments	56	7,389	309	36	7,790
Deposits and rebates			2,303		2,303
Deferred revenues	17,601	3,603	679	6,428	28,311
Total liabilities	36,867	13,466	14,874	19,706	84,913
Fund balances:					
Reserved for:					
Inventory		2,027		136	2,163
Prepaid expenditures	3,492	43		71	3,606
Debt service				6,784	6,784
Capital repairs and refurbishments				75	75
Specified programs				2,648	2,648
Loan receivable	1,660				1,660
Unreserved, designated for:					
Special revenue, flood mitigation				1,044	1,044
Unreserved, undesignated:					
General fund	46,423				46,423
Capital projects			84,472		84,472
Special Revenue		15,685		49,276	64,961
Debt service				162	162
Total fund balances	51,575	17,755	84,472	60,196	213,998
Total liabilities and fund balances	$ 88,442	$ 31,221	$ 99,346	$ 79,902	$ 298,911

See Notes to the Financial Statements

PIMA COUNTY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2006
(in thousands)

Fund balances - total governmental funds		$ 213,998
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	$ 1,674,587	
Less accumulated depreciation	(546,029)	1,128,558
Some liabilities and their associated issuance costs are not due and payable in the current period and therefore are not reported in the governmental funds		
Bonds payable	(362,059)	
Loans and leases payable	(32,165)	
Unamortized deferred issuance costs reported as other assets	536	(393,688)
Some compensated absences are not due and payable shortly after June 30, 2006, and therefore are not reported in the governmental funds		
Employee compensation		(21,731)
Some liabilities are not due and payable shortly after June 30, 2006, and are therefore not reported in the governmental funds		
Landfill liability		(16,268)
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements		21,218
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		27,266
Net assets of governmental activities		$ 959,353

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, 2006
(in thousands)

	General	Transportation	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 242,948			$ 78,526	$ 321,474
Special assessments				215	215
Licenses and permits	2,536	$ 368		4,548	7,452
Intergovernmental	143,982	58,368	$ 11,157	77,552	291,059
Charges for services	27,102	1,603	19,101	15,776	63,582
Fines and forfeits	5,786			228	6,014
Interest	2,491	840	4,639	3,412	11,382
Miscellaneous	4,935	765	567	6,898	13,165
Total revenues	429,780	61,944	35,464	187,155	714,343
Expenditures:					
Current:					
General government	168,394			35,487	203,881
Public safety	96,687			24,542	121,229
Highways and streets		39,337		57	39,394
Sanitation				6,271	6,271
Health	2,401			27,637	30,038
Welfare	102,496			538	103,034
Culture and recreation	13,104			15,457	28,561
Education and economic opportunity	16,682			21,236	37,918
Capital outlay			121,007		121,007
Debt service - principal	1,750			48,797	50,547
- interest	1,292			18,156	19,448
- miscellaneous	5			10	15
Total expenditures	402,811	39,337	121,007	198,188	761,343
Excess (deficiency) of revenues over (under) expenditures	26,969	22,607	(85,543)	(11,033)	(47,000)
Other financing sources (uses):					
Capital leases				231	231
Proceeds from sale of capital assets	22	376		18	416
Face amount of long-term debt			4,836		4,836
Transfers in	3,563	22	17,529	38,834	59,948
Transfers (out)	(16,206)	(24,917)		(15,140)	(56,263)
Total other financing sources (uses)	(12,621)	(24,519)	22,365	23,943	9,168
Net change in fund balances	14,348	(1,912)	(63,178)	12,910	(37,832)
Fund balance at beginning of year	37,227	19,793	147,650	47,337	252,007
Change in reserve for inventory		(126)		(62)	(188)
Change in reserve for prepaids				11	11
Fund balance at end of year	$ 51,575	$ 17,755	$ 84,472	$ 60,196	$ 213,998

See Notes to the Financial Statements

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, 2006
(in thousands)

Net change in fund balances - total governmental funds		$ (37,832)
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	$ 105,537	
Less current year depreciation	(42,629)	62,908
Transfers of capital assets between governmental activities and proprietary funds are not reported in the governmental funds but are recognized in the statement of activities		11,335
Transfers of long term liabilities between governmental activities and proprietary funds are not reported in the governmental funds but are recognized in the statement of activities		(15,780)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds but increases long-term liabilities in the statement of net assets. Repayment of the principal of debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of 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	(4,836)	
Face amount of capital lease	(231)	
Debt service - principal payments	50,547	
Amortization expense	(165)	45,315
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.		
Property tax revenues	378	
Other	1,464	1,842
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	(1,920)	
Change in landfill liability	(632)	
Net book value of capital asset disposals	(127)	
Change in reservation of fund balances	(177)	(2,856)
Internal service funds are used by management to charge the costs of certain activities to individual funds. A portion of the net expense of the internal service funds is reported with governmental activities		(1,069)
Change in net assets of governmental activities		$ 63,863

See Notes to the Financial Statements

PIMA COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006
(in thousands)

	Business-type Activities Enterprise Funds				Governmental Activities- Internal Service Funds
	Pima Health System & Services	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	
Assets					
Current assets:					
Cash and cash equivalents	$ 12,739	$ 42,261	$ 18,347	$ 73,347	$ 42,365
Restricted cash and cash equivalents		14,672		14,672	
Interest receivable					132
Due from other funds	1	1		2	381
Due from other governments	2,843	293		3,136	94
Accounts receivable (net)	14,624	8,318	2	22,944	257
Inventory	116	3,031		3,147	482
Prepaid expense		93	2	95	791
Total current assets	30,323	68,669	18,351	117,343	44,502
Noncurrent assets:					
Restricted cash and cash equivalents		492		492	
Investments					911
Capital assets:					
Land and other improvements		6,845	1,861	8,706	592
Buildings and improvements	1,116	340,260	12,927	354,303	614
Sewage conveyance system		490,600		490,600	
Equipment	1,302	12,974	1,989	16,265	29,361
Less accumulated depreciation	(1,528)	(277,567)	(8,256)	(287,351)	(12,791)
Construction in progress		14,842		14,842	
Total capital assets (net of accumulated depreciation)	890	587,954	8,521	597,365	17,776
Deferred financing costs		751		751	
Total noncurrent assets	890	589,197	8,521	598,608	18,687
Total assets	31,213	657,866	26,872	715,951	63,189
Liabilities					
Current liabilities:					
Accounts payable	911	8,330	1,325	10,566	1,481
Accrued medical and health care claims	18,736			18,736	
Employee compensation	2,348	2,991	1,030	6,369	652
Interest payable		1,432		1,432	
Due to other funds	1,657	177	7	1,841	102
Due to other governments		24	90	114	
Deferred revenues	2	2,829		2,831	
Current portion of sewer revenue bonds		5,570		5,570	
Current portion of wastewater loans payable		5,503		5,503	
Current portion reported but unpaid losses					5,507
Current portion incurred but not reported losses					2,046
Total current liabilities	23,654	26,856	2,452	52,962	9,788
Noncurrent liabilities:					
Contracts and notes		4,562		4,562	
Sewer revenue bonds		46,140		46,140	
Wastewater loans payable		74,645		74,645	
Reported but unpaid losses					20,257
Incurred but not reported losses					7,698
Total noncurrent liabilities		125,347		125,347	27,955
Total liabilities	23,654	152,203	2,452	178,309	37,743
Net assets					
Invested in capital assets, net of related debt	890	456,846	8,521	466,257	17,776
Restricted for:					
Debt service		438		438	
Wastewater management		4,356		4,356	
Healthcare	5,464			5,464	
Unrestricted	1,205	44,023	15,899	61,127	7,670
Total net assets	$ 7,559	$ 505,663	$ 24,420	537,642	$ 25,446

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.	(1,820)
Net assets of business-type activities	$ 535,822

See Notes to the Financial Statements

PIMA COUNTY

Exhibit A - 8

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006
(in thousands)

	Business-type Activities Enterprise Funds				Governmental Activities-
	Pima Health System & Services	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating revenues:					
Net patient services	$ 252,034			$ 252,034	
Charges for services	1,714	$ 61,823	$ 18,625	82,162	$ 32,177
Other	649	451	248	1,348	2,128
Total net operating revenues	254,397	62,274	18,873	335,544	34,305
Operating expenses:					
Employee compensation	35,801	27,625	10,026	73,452	6,772
Medical claims	205,951			205,951	
Operating supplies and services	1,602	6,322	1,181	9,105	5,404
Utilities	372	5,314	321	6,007	808
Sludge and refuse disposal		1,298		1,298	
Repair and maintenance	397	4,297	490	5,184	3,133
Incurred losses					12,185
Insurance premiums					5,163
General and administrative	5,493	6,436	2,399	14,328	2,243
Consultants and professional services	1,487	5,610	921	8,018	503
Depreciation	218	20,416	458	21,092	2,316
Total operating expenses	251,321	77,318	15,796	344,435	38,527
Operating income (loss)	3,076	(15,044)	3,077	(8,891)	(4,222)
Nonoperating revenues (expenses):					
Intergovernmental revenue	4,468	1,436		5,904	
Interest income	1,464	1,784	601	3,849	1,531
Sewer connection fees		42,220		42,220	
Interest expense	(96)	(4,624)		(4,720)	
Gain (loss) on disposal of capital assets		(20)	(2)	(22)	34
Amortization of deferred charges		(97)		(97)	
Premium tax	(4,949)			(4,949)	
Total nonoperating revenues (expenses)	887	40,699	599	42,185	1,565
Income (loss) before contributions and transfers	3,963	25,655	3,676	33,294	(2,657)
Capital contributions		14,607		14,607	
Transfers in		156		156	626
Transfers (out)		(22)		(22)	
Change in net assets	3,963	40,396	3,676	48,035	(2,031)
Net assets at beginning of year	3,596	465,267	20,744	489,607	27,477
Net assets at end of year	$ 7,559	$ 505,663	$ 24,420	537,642	$ 25,446

Some amounts reported for business-type activities in the Statement of Activities are different because a portion of the net expense of certain internal service funds is reported with business-type activities.	(962)
Change in net assets of business-type activities	$ 47,073

See Notes to the Financial Statements

PIMA COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006
(in thousands)

	Pima Health System & Services	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	$ 1,670		$ 78	$ 1,748	$ 32,177
Cash received from customers for goods and services provided	247,244	$ 61,819	18,659	327,722	
Cash received from miscellaneous operations	662	451	248	1,361	2,387
Cash payments to suppliers for goods and services	(218,327)	(21,805)	(2,531)	(242,663)	(14,430)
Cash payments to other funds for goods and services	(3,363)	(7,478)	(2,932)	(13,773)	(2,956)
Cash payments for incurred losses					(6,950)
Cash payments to employees for services	(36,039)	(28,215)	(9,296)	(73,550)	(7,004)
Net cash provided by (used for) operating activities	(8,153)	4,772	4,226	845	3,224
Cash flows from noncapital financing activities:					
Interest paid on short-term credit	(103)			(103)	
Cash transfers in from other funds					322
Cash transfers out to other funds		(4,312)		(4,312)	
Loans with other funds	(1,797)	128		(1,669)	(15)
Premium Tax	(4,949)			(4,949)	
Intergovernmental revenues	4,661	529		5,190	
Net cash provided by (used for) noncapital financing activities	(2,188)	(3,655)		(5,843)	307
Cash flows from capital and related financing activities:					
Proceeds from issuance of bonds and loans		1,086		1,086	
Principal paid on bonds and loans		(9,501)		(9,501)	
Interest paid on bonds and loans		(4,225)		(4,225)	
Sewer connection fees		42,142		42,142	
Proceeds from sale of capital assets		2		2	275
Proceeds from intergovernmental contract		191		191	
Purchase of capital assets	(47)	(14,340)	(843)	(15,230)	(2,686)
Net cash provided by (used for) capital and related financing activities	(47)	15,355	(843)	14,465	(2,411)
Cash flows from investing activities:					
Interest received on cash and investments	1,538	1,871	630	4,039	1,547
Net cash provided by investing activities	1,538	1,871	630	4,039	1,547
Net increase (decrease) in cash and cash equivalents	(8,850)	18,343	4,013	13,506	2,667
Cash and cash equivalents at beginning of year	21,589	39,082	14,334	75,005	39,698
Cash and cash equivalents at end of year	$ 12,739	$ 57,425	$ 18,347	$ 88,511	$ 42,365

(Continued)

PIMA COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006
(in thousands)

(Continued)

Reconciliation of operating income (loss) to net cash provided (used) by operating activities	Pima Health System & Services	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities-Internal Service Funds
Operating income (loss)	$ 3,076	$ (15,044)	$ 3,077	$ (8,891)	$ (4,222)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	218	20,416	458	21,092	2,316
Decrease (increase) in assets:					
Accounts Receivable	(5,773)	(241)	16	(5,998)	273
Due from other governments	834	237	18	1,089	(13)
Inventory and other assets	(3)	(216)		(219)	42
Prepaid expenses		(67)	(1)	(68)	
Increase (decrease) in liabilities:					
Accounts payable	(5,471)	265	719	(4,487)	(175)
Interfund payables	(3)			(3)	
Due to other funds			7	7	
Due to other governments		12	34	46	
Reported but unpaid losses					4,921
Incurred but not reported losses					314
Other current liabilities	(1,031)	(590)	(102)	(1,723)	(232)
Net cash provided by (used for) operating activities	$ (8,153)	$ 4,772	$ 4,226	$ 845	$ 3,224

Noncash investing, capital, and noncapital financing activities during the year ended June 30, 2006:

Wastewater Management Enterprise Fund retired capital assets with a net book value of $22

Wastewater Management Enterprise Fund received contributed developer-built conveyance systems with estimated fair values totaling $14,408, and other capital assets with a net book value of $26. These contributions were recorded as an increase in capital assets and capital contributions.

Wastewater Management Enterprise Fund recorded a Board of Supervisor approved connection fee credit agreement of $17. This credit was recorded as an increase to deferred revenue and a decrease to capital contributions.

Wastewater Management Enterprise Fund retired expired sewer credit agreements totaling $190. This transaction was recorded as a decrease to deferred revenue and an increase in capital contributions.

Wastewater Management Enterprise Fund transferred the capital assets of the Solid Waste Management division with a net book value of $11,335 to the County's general government.

Wastewater Management Enterprise Fund conveyed the long-term liabilities of the Solid Waste Management division in the amount of $15,780 to the County's general government.

Other Enterprise Funds disposed of capital assets with a net book value of $2.

Internal Service Funds sold assets with a net book value of $241, resulting in a gain on disposal of $34.

Internal Service Funds had unpaid transfers of $304 at year-end.

Internal Service Funds transferred $5 of completely depreciated capital assets to, and received $11 of completely depreciated capital assets from, the County's general capital assets.

PIMA COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006
(in thousands)

	Investment Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ 236,494	$ 53,521
Interest receivable	727	
Due from other governments		3,715
Total assets	237,221	57,236
LIABILITIES		
Employee compensation		7,558
Due to other governments		26,594
Deposits and rebates		23,084
Total liabilities		$ 57,236
NET ASSETS		
Held in trust for pool participants	$ 237,221	

See Notes to the Financial Statements

PIMA COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2006
(in thousands)

	Investment Trust Funds
ADDITIONS	
Contributions from participants	$ 2,263,471
Total contributions	2,263,471
Investment earnings	9,002
Total investment earnings	9,002
Total additions	2,272,473
DEDUCTIONS	
Distributions to participants	2,237,409
Total deductions	2,237,409
Change in net assets	35,064
Net assets held in trust July 1, 2005	202,157
Net assets held in trust June 30, 2006	$ 237,221

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 government-wide 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 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 Department of Finance and Risk Management 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 Library District and the City of Tucson had intergovernmental agreements to provide library services since 1986 through June 30, 2006. On July 1, 2006, the District assumed control of the operations of the libraries. The transition of operations from the City of Tucson to the District is governed by an intergovernmental agreement that is described in Note 16. The Library District is reported as a special revenue fund (blended component unit) in these financial statements. Separate financial statements for the District are not available.

The Pima County Regional Flood Control District was established in 1978. The District is responsible for floodplain management activities for the unincorporated areas of Pima County (except national forests, parks, monuments and Native American Nations), 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 Regional Flood Control District is reported as a special revenue fund (blended component unit) in these financial statements. Separate financial statements for the District are not available.

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, and because SFC does not provide services entirely, or almost entirely to the County, but rather to the general citizenry, 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 Department of Finance and Risk Management located at 130 West Congress Street, Tucson, Arizona 85701.

Note 1 - Summary Of Significant Accounting Policies (continued)

Related Organization

The Industrial Authority of Pima County (Authority) is a legally separate entity that was created to promote economic development and the development of affordable housing. The Authority fulfills its function through the issuance of tax-exempt bonds. The County Board of Supervisors appoints the Authority's Board of Directors. The Authority's operations are completely separate from the County and the County is not financially accountable for the Authority. Therefore, the financial activities of the Authority have not been included in the accompanying financial statements.

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 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 unit. Governmental activities are financed primarily 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 funds are financed mainly by fees and charges to users of the services provided by the funds' operations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 1 - Summary Of Significant Accounting Policies (continued)

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 **Transportation Fund** accounts for administrative and operating costs, as well as resources transferred to the Capital Projects Fund for construction of highways and streets, and resources transferred to the Debt Service Fund for payment of Transportation Revenue bonds. Financing is provided primarily from the County share of gasoline and vehicle license tax collected by the State.

The County reports the following major enterprise funds:

Pima Health System and Services provides payment for health care services 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 and water pollution control programs.

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 fleet maintenance and operation, insurance, printing and graphic services, 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.

C. Basis of Accounting

Primary government:

The government-wide, proprietary funds and fiduciary 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

Note 1 - Summary Of Significant Accounting Policies (continued)

available if the revenues are collected within 30 days after year-end. Revenues that are collected after 30 days are reported as deferred revenues. The County's major revenue sources that are susceptible to accrual are property taxes, intergovernmental and charges for services.

Expenditures are recorded when the related fund liability is incurred except for principal and interest on general long-term debt, claims and judgments, and compensated absences, 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. The County has chosen the option not to follow FASB statements and interpretations issued after November 30, 1989.

Discretely presented component unit:

SFC's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Commission's policy is to apply all FASB pronouncements issued after November 30, 1989.

D. Cash and Investments

Primary government:

For purposes of its statement of cash flows, the County considers only those highly liquid investments with a maturity period of 3 months or less when purchased to be cash equivalents. All 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.

Discretely presented component unit:

SFC's cash and cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less.

E. Inventories and Prepaids

The County accounts for its inventories in the governmental funds using the purchases method.

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.

Note 1 - Summary Of Significant Accounting Policies (continued)

Inventories of Pima Health System and Services, an enterprise fund, are valued at the lower of cost or market, cost being determined on the first-in, first-out method.

Inventories of Wastewater Management, an enterprise fund, are valued at lower of cost or market, cost being determined using the moving average method.

Inventories of Fleet Services, an internal service fund, are valued at the lower of cost or market, cost being determined using the moving average method.

Prepaid expenses/expenditures are accounted for using the consumption method, except for the School Reserve Fund reported as an Other Governmental Fund, which uses the purchases method.

F. Property Tax Calendar

The County levies real and personal 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. 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.

Capitalization thresholds, depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows (excluding component units):

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	N/A	N/A
Land improvements	All	Straight Line	20 to 30 Years
Buildings and building improvements	$100	Straight Line	10 to 50 Years
Equipment	$ 5	Straight Line	4 to 25 Years
Fleet service vehicles	$ 5	Units of Production based on number of hours or miles	5 to 15 Years
Infrastructure	$100	Straight Line	10 to 50 Years

Discretely presented component unit:

SFC capital assets are reported at actual cost. Depreciation is provided by the straight-line method over the assets' estimated useful life, which range from 3 to 40 years.

Note 1 - Summary Of Significant Accounting Policies (continued)

H. Investment Earnings

Investment earnings 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 a limited 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 employees who are eligible to retire from County service into the Arizona State Retirement System, Public Safety Personnel Retirement System, or Corrections Officer Retirement Plan may request sick leave be converted to annual leave, on a predetermined conversion basis. An estimate of those retirement payouts is accrued as a liability in the government-wide financial statements.

Note 2: Net Asset Beginning Balances Restated

In compliance with GASB Statement No. 34, Pima County retroactively reported its Transportation bridges infrastructure network that was acquired or received substantial improvement subsequent to December 31, 1975. The retroactive capitalization amount at July 1, 2005, was based on historical cost, where applicable, and on estimated historical cost, where determining historical cost was not practical due to inadequate records. The depreciation amount was calculated using the straight-line method and a useful life of 30 years.

The following summarizes the restatement for infrastructure:

	Governmental Activities
Net assets – June 30, 2005, as previously reported	$ 882,201
Transportation bridges	13,289
Net assets – July 1, 2005, as restated	$ 895,490

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 or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporation, or instrumentalities; specified state and local government bonds; specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States; and bonds of the State of Arizona or any of its counties, cities, towns,

Note 3: Cash And Investments (continued)

or school districts as specified by statute. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk—The State statutes have the following requirements for credit risk;

1. Commercial paper must be rated P1 by Moody's Investors Service or A1 or better by Standard and Poor's rating service.

2. Corporate bonds, debentures, and notes must be rated A or better by Moody's Investors Service or Standard and Poor's rating service.

3. Fixed income securities must carry one of the two highest ratings by Moody's Investors Service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk—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.

Concentration of credit risk—Statutes do not include any requirements for concentration of credit risk.

Interest rate risk—Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk—Statutes do not allow foreign investments.

Deposits—At June 30, 2006, the carrying amount of the County's deposits was $27,113 and the bank balance was $37,291.

Custodial credit risk—Custodial credit risk is the risk that the County will not be able to recover its deposits if a financial institution fails. The County does not have a formal policy with respect to custodial credit risk. As of June 30, 2006, $783 of the County's bank balance was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 700
Uninsured with collateral held by the bank's safekeeping department	83
Total	$ 783

Investments—At June 30, 2006, the County's investments consisted of $420,115 invested in marketable securities, $194,151 invested in the State Treasurer's Investment Pool, and $911 invested in a local government bond. Cash from the County and from external legally separate governments are pooled to purchase the investments in marketable securities and the State Treasurer's Pool. The State Board of Investment provides oversight for the State Treasurer's pools. The fair value of a participant's position in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

Note 3: Cash And Investments (continued)

Credit risk—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal investment policy with respect to credit risk. At June 30, 2006, credit risk for the County's investments was as follows;

Investment Type	Rating	Rating Agency	Amount
Commercial paper	A1 - P1	S & P - Moody's	$ 22,894
Fannie Mae (Federal National Mortgage Association)	AAA - Aaa	S & P - Moody's	178,797
Freddie Mac (Federal Home Loan Mortgage Corporation)	AAA - Aaa	S & P - Moody's	59,436
Tri-party repurchase agreement	Unrated		158,988
State Treasurer's Investment Pool	Unrated		194,151
Local governments bonds	Unrated		911
Total			$ 615,177

Custodial credit risk—For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County has no formal policy with respect to custodial credit risk. Of the County's $615,177 of investments, 100% of the commercial paper, Freddie Mac and Fannie Mae discount notes, and tri-party repurchase agreement totaling $420,115 are uninsured and held by the counterparty in the County's name.

Concentration of credit risk—The County has no formal policy with respect to limiting the amount the Treasurer may invest in any one issuer. More than 5% of the County's investments were with the Bank of America (including the tri-party repurchase agreement and 87% of the commercial paper), Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association. These investments were 29%, 10% and 29% respectively, of total investments.

Interest rate risk—Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The County does not have a formal investment policy with respect to interest rate risk.

As of June 30, 2006, the County had the following investments:

Investment Type	Amount	Weighted Average Maturity (Years)
State Treasurer's Investment Pool 5	$103,729	0.14
State Treasurer's Investment Pool 7	90,422	0.10
Commercial paper	22,894	0.09
Fannie Mae (Federal National Mortgage Association)	178,797	0.08
Freddie Mac (Federal Home Loan Mortgage Corporation)	59,436	0.09
Tri-party repurchase agreement	158,988	0.01
Local governments bonds	911	2.50
	$615,177	

Note 3: Cash And Investments (continued)

A reconciliation of cash, deposits, and investments to amounts shown on the Statements of Net Assets follows;

	Cash on hand	Amount of deposits	Amount of investments	Totals
Cash deposits and investments:	$ 80	$ 27,113	$ 615,177	$ 642,370

	Governmental Activities	Business-Type Activities	Investment Trust Funds	Agency Funds	Totals
Statement of Net Assets:					
Cash and cash equivalents	$ 262,933	$ 88,511	$ 236,494	$ 53,521	$ 641,459
Investments	911				911
Total	$ 263,844	$ 88,511	$ 236,494	$ 53,521	$ 642,370

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. The County Treasurer allocates interest earnings to each of the Pool's participants.

The Pool's net assets consist of $178,797 of Fannie Mae, $158,988 of tri-party repurchase agreement, $59,436 of Freddie Mac, $35,306 of State Treasurer's Investment Pool, $22,894 of commercial paper, and $3,062 of cash and are subject to applicable risks as disclosed above.

A condensed statement of the Pool's net assets and changes in net assets follows:

Statement of Net Assets	
Net assets held in trust for:	
Internal participants	$ 312,411
External participants	146,072
Total Liabilities	0
Total net assets held in trust	$ 458,483
Statement of Changes in Net Assets	
Total additions	$ 4,974,430
Total deductions	(4,895,603)
Net increase	78,827
Net assets held in trust:	
July 1, 2005	379,656
June 30, 2006	$ 458,483

Discretely Presented Component Units

Southwestern Fair Commission—At June 30, 2006, the commission's cash and cash equivalents of $1,294 consisted of deposits with financial institutions. Of the total balance, $994 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4: Due from Other Governments

Governmental Activities

	General	Transportation Fund	Capital Projects Fund	Other Governmental Funds	Internal Service Funds	Total Governmental Activities
Federal government:						
Grants and contributions	$ 357	$ 395	$ 535	$ 11,368	$ 1	$ 12,656
State of Arizona						
Taxes and shared revenues	23,125	8,875		717		32,717
Grants and contributions		100	257	1,969	5	2,331
City of Tucson						
Reimbursement for services	1,090		1,855	1,783		4,728
Due from other governments						
Reimbursement for services	297	71		158	88	614
Total due from other governments	$ 24,869	$ 9,441	$ 2,647	$ 15,995	$ 94	$ 53,046

Business-type Activities

	Pima Health System and Services	Wastewater Management	Total Business-type Activities
Federal government:			
Grants and contributions		$ 293	$ 293
State of Arizona			
Grants and contributions	$ 2,843		2,843
Total due from other governments	$ 2,843	$ 293	$ 3,136

Note 5: Capital Assets

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

	Balance July 1, 2005 (as restated)	Increases	Decreases	Balance June 30, 2006
Governmental activities				
Capital assets not being depreciated:				
Land	$ 202,408	$ 20,546		$ 222,954
Construction in progress	117,118	80,508	$ (82,321)	115,305
Total capital assets not being depreciated	319,526	101,054	(82,321)	338,259
Capital assets being depreciated:				
Buildings and improvements	371,874	12,146		384,020
Infrastructure	812,700	76,951		889,651
Equipment	79,452	16,593	(2,821)	93,224
Total capital assets being depreciated	1,264,026	105,690	(2,821)	1,366,895
Less accumulated depreciation for:				
Buildings and improvements	(102,878)	(9,371)		(112,249)
Infrastructure	(364,756)	(27,225)		(391,981)
Equipment	(43,827)	(13,216)	2,453	(54,590)
Total accumulated depreciation	(511,461)	(49,812)	2,453	(558,820)
Total capital assets being depreciated, net	752,565	55,878	(368)	808,075
Governmental activities capital assets, net	$ 1,072,091	$ 156,932	$ (82,689)	$ 1,146,334

Note 5: Capital Assets (continued)

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Business-type activities				
Capital assets not being depreciated:				
Land	$ 14,259	$ 2,288	$ (7,841)	$ 8,706
Construction in progress	63,325	11,017	(59,500)	14,842
Total capital assets not being depreciated	77,584	13,305	(67,341)	23,548
Capital assets being depreciated:				
Buildings and improvements	294,265	62,298	(2,260)	354,303
Infrastructure	475,148	15,452		490,600
Equipment	20,932	1,819	(6,486)	16,265
Total capital assets being depreciated	790,345	79,569	(8,746)	861,168
Less accumulated depreciation for:				
Buildings and improvements	(105,346)	(9,831)	673	(114,504)
Infrastructure	(153,003)	(10,262)		(163,265)
Equipment	(13,042)	(999)	4,459	(9,582)
Total accumulated depreciation	(271,391)	(21,092)	5,132	(287,351)
Total capital assets being depreciated, net	518,954	58,477	(3,614)	573,817
Business-type activities capital assets, net	$ 596,538	$ 71,782	$ (70,955)	$ 597,365

The July 1, 2005, governmental activities capital asset balance was restated to include recognition of the bridges network general infrastructure assets, as explained in Note 2 to the financial statements. The increase to governmental activities capital assets include capital assets transferred from the Wastewater Management Enterprise Fund – Solid Waste division with acquisition costs of $16,185 and accumulated depreciation of $4,867.

Depreciation expense was charged to functions as follows:

Governmental activities	
General government	$ 5,144
Public safety	8,974
Highway and streets	22,972
Sanitation	446
Health	1,444
Welfare	8
Culture and recreation	3,381
Education and economic opportunity	260
Internal service funds	2,316
Total governmental activities depreciation	$ 44,945
Business-type activities	
Pima Health System & Services	$ 218
Parking Garages	337
Wastewater Management	20,416
Development Services	121
Total business-type activities depreciation	$ 21,092

Note 5: Capital Assets (continued)

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Discretely presented component unit				
Southwestern Fair Commission (SFC):				
Capital assets being depreciated:				
Buildings and improvements	$ 3,654	$ 56	$ (3)	$ 3,707
Equipment	1,492	122	(2)	1,612
Total capital assets being depreciated	5,146	178	(5)	5,319
Less accumulated depreciation for:				
Buildings and improvements	(2,092)	(111)	3	(2,200)
Equipment	(1,140)	(72)	2	(1,210)
Total accumulated depreciation	(3,232)	(183)	$ 5	(3,410)
Total capital assets being depreciated, net	1,914	(5)		1,909
SFC capital assets, net	$ 1,914	$ (5)		$ 1,909

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.

Solid Waste

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 expenditures 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 litigation is uncertain and the amount of the loss cannot be reasonably estimated.

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, unemployment and dental losses. Environmental losses are based on reported claims and the County risk manager's knowledge and experience. Unemployment and dental losses are based on claims that have been submitted but not yet paid by the Fund. Losses accounted for include reported and paid, reported but unpaid, and incurred but not reported. All liabilities of the Fund except for environmental, unemployment and dental 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, unemployment and dental losses, payments to the Fund are based on actuarial estimates of the amounts needed to pay prior and

Note 6: Claims, Judgments And Risk Management (continued)

current-year claims. Payments to the Fund for environmental losses are based on historical experience, since an actuarial basis is not available. Payments for unemployment and dental losses are based on actual claims made. The claims liability of $35,508 reported in the Fund at June 30, 2006, 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.

	2006	2005
Claims liability balance—beginning	$30,273	$ 25,696
Current year claims and changes in estimates	12,185	12,925
Claims payments	(6,950)	(8,348)
Claims liability balance—ending	$35,508	$ 30,273

Note 7: Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within 1 year
Governmental activities:					
General obligation bonds	$ 267,270		$ 35,960	$ 231,310	$ 32,335
Plus unamortized deferred amount	657		49	608	49
Total general obligation bonds	267,927		36,009	231,918	32,384
Flood control bonds	3,010		780	2,230	760
Transportation revenue bonds	137,545		10,710	126,835	11,435
Plus unamortized deferred amount	191		26	165	26
Total transportation revenue bonds	137,736		10,736	127,000	11,461
Special assessment bonds with governmental commitment	1,093		182	911	182
Loans and Leases:					
Transportation loans payable	1,943	$ 4,836	1,040	5,739	2,025
Capital leases payable:					
Jail capital lease	30,085		1,750	28,335	1,785
Less unamortized deferred amount	(2,297)		(191)	(2,106)	(192)
Other capital leases	91	231	125	197	97
Total capital leases	27,879	231	1,684	26,426	1,690
Total loans and leases	29,822	5,067	2,724	32,165	3,715
Reported but unpaid losses (Note 6)	20,842	11,872	6,950	25,764	5,507
Incurred but not reported losses (Note 6)	9,431	313		9,744	2,046
Landfill closure and post-closure care costs (Note 9)		16,268		16,268	
Total governmental activities long -term liabilities	$ 469,861	$ 33,520	$ 57,381	$ 446,000	$ 56,055

Note 7: Long-Term Liabilities (continued)

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within 1 year
Business-type activities:					
Sewer revenue bonds	$ 60,075		$ 4,550	$ 55,525	$ 5,570
Less unamortized deferred amount	(4,266)		(451)	(3,815)	
Total revenue bonds payable	55,809		4,099	51,710	5,570
Wastewater loans payable	84,232	$1,086	4,951	80,367	5,503
Less unamortized deferred amount	(254)		(35)	(219)	
Total loans payable	83,978	1,086	4,916	80,148	5,503
Landfill closure & post-closure care cost	15,636		15,636		
Contracts and notes	4,852	163	453	4,562	
Total business-type activities long-term liabilities	$ 160,275	$1,249	$ 25,104	$ 136,420	$11,073
Discretely presented component unit:					
Southwestern Fair Commission notes payable	$ 392		$ 148	$ 244	$ 104

GENERAL OBLIGATION BONDS OUTSTANDING
Governmental Activities
(Payments made from property tax revenues of the Debt Service Fund)

General obligation bonds payable at June 30, 2006, consisted of the outstanding general obligation bonds presented below. Of the total amounts originally authorized, $3,069 from the November 2, 1982 bond election, $40,180 from the May 20, 1997, and $476,432 from the May 18, 2004 bond election remain unissued. On May 16, 2006 voters authorized $54,000 for building of psychiatric facilities, all of which remain unissued.

The following table presents amounts outstanding by issue.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
Series of 1998	$ 42,420	4.40 – 4.60%	2007-13	$ 18,795
Series of 1999	50,000	5.00 – 5.08%	2007-10	16,115
Series of 2000	50,000	4.00 – 5.00%	2007-14	26,000
Series of 2001 Refunding	17,835	4.50 – 5.00%	2007-09	7,610
Series of 2002	20,000	4.00 – 4.50%	2007-16	10,000
Series of 2003	50,000	3.25 – 4.25%	2007-17	40,350
Series of 2004	65,000	3.00 – 5.00%	2007-19	53,615
Series of 2005	65,000	3.50 – 5.00%	2007-20	58,825
G.O. bonds outstanding				231,310
Plus unamortized deferred amount:				608
Total G.O. bonds outstanding				$ 231,918

Note 7: Long-Term Liabilities (continued)

The following schedule details general obligation bond debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 32,335	$ 10,028
2008	25,005	8,539
2009	20,260	7,417
2010	19,790	6,503
2011	17,190	5,616
2012-2016	77,880	16,740
2017-2020	38,850	2,988
Total	$ 231,310	$ 57,831

ADVANCED REFUNDINGS OF GENERAL OBLIGATION BONDS

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 liability for these defeased bonds are not included in the County's financial statements. At June 30, 2006, the following outstanding bonds were considered defeased:

	Outstanding June 30, 2006
1979 General Obligation Refunding Bonds	$ 1,930
Series of 1999	$ 5,785

FLOOD CONTROL REFUNDING BONDS OUTSTANDING
Governmental Activities
(Payments made from property tax revenues of the Debt Service Fund of the District)

The Pima County Regional Flood Control District outstanding bonds payable at June 30th is presented below.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
Series 2001 Refunding	$ 4,585	4.00 - 4.20%	2007-09	$ 2,230

The following schedule details flood control bond debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 760	91
2008	745	61
2009	725	30
Total	$2,230	$ 182

Note 7: Long-Term Liabilities (continued)

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, $168,800 from the November 4, 1997 bond election remains unissued.

	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
Series of 1998	$ 40,000	4.50%	2007-08	$ 8,000
Series of 2002	55,000	4.00 - 4.50%	2007-12	35,735
Series of 2003	35,000	3.38 - 4.38%	2007-18	31,900
Series of 2005	51,200	3.50 – 5.00%	2007-20	51,200
Transportation bonds outstanding				126,835
Plus unamortized deferred amount:				165
Total transportation bonds outstanding				$ 127,000

The following schedule details transportation bond debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 11,435	$ 5,257
2008	11,745	4,752
2009	11,465	4,276
2010	11,935	3,821
2011	12,450	3,302
2012-2016	41,225	9,975
2017-2020	26,580	2,294
Total	$ 126,835	$ 33,677

TRANSPORTATION LOANS PAYABLE
Governmental Activities

During the fiscal year ended June 30, 2002, and fiscal year ended June 30, 2006, Pima County Transportation Department entered into loan agreements to provide funds for the construction and improvement of certain highways and streets. Interest is payable semiannually and is calculated based on the principal amount of the loan outstanding during such period. Interest on the Alvernon HELP loan is calculated and paid on an annual basis.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
2002 HELP Loan – Ajo	$ 3,700	3.23%	2007	$ 703
2002 HELP Loan – Shannon	1,400	3.23%	2007	200
2006 HELP Loan – Alvernon	4,836	3.59%	2007-09	4,836
Total transportation loans payable				$ 5,739

Note 7: Long-Term Liabilities (continued)

The following schedule details transportation loans debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 2,025	$ 169
2008	2,714	114
2009	1,000	61
Total	$ 5,739	$ 344

SPECIAL ASSESSMENT BONDS OUTSTANDING
Governmental Activities
(Payments made from assessments received in the Debt Service Fund and the Transportation Fund)

At June 30, 2006, there was only one special assessment district with outstanding bonds. 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 the Improvement District.

Improvement District	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
La Cholla Boulevard	$ 1,821	6.50%	2007-11	$ 911
Total special assessment bonds outstanding				$ 911

The following schedule details special assessment bond debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 182	$ 53
2008	182	41
2009	182	30
2010	182	18
2011	183	6
Total	$ 911	$ 148

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 and October 1, 2003, 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 and 2018 respectively, increased the range of interest rates and increased the County's obligation under the lease agreement.

The County has also entered into capital leases for telephone and computer equipment. The outstanding balance as of June 30, 2006, for these leases totaled $197.

The net book value of assets acquired through capital leases consists of $20,091 of buildings and $260 of equipment.

Note 7: Long-Term Liabilities (continued)

The following schedule details capital lease debt service requirements to maturity at June 30, 2006.

Governmental Activities:

	Buildings		Equipment	
Year Ending June 30,	Principal	Interest	Principal	Interest
2007	$ 1,785	$ 1,230	$ 97	$ 6
2008	1,870	1,139	80	2
2009	1,965	1,062	20	
2010	2,025	982		
2011	2,125	879		
2012-2016	12,810	2,624		
2017-2018	5,755	243		
Total	$ 28,335	$ 8,159	$ 197	$ 8

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, $3,943 from the May 20, 1997, and $150,000 from the May 18, 2004 bond election remain unissued.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
Series of 1998	$ 29,185	4.00 - 5.50%	2007-15	$ 17,655
Series 2001 Refunding	19,440	4.00 - 5.40%	2007-15	14,980
Series 2004 Refunding	25,770	2.63 - 5.50%	2007-15	22,890
Sewer revenue bonds outstanding				55,525
Less unamortized deferred amount:				(3,815)
Total sewer revenue bonds outstanding				$ 51,710

The following schedule details sewer revenue bond debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 5,570	$ 2,573
2008	5,800	2,340
2009	6,025	2,098
2010	5,280	1,816
2011	5,515	1,588
2012-2015	27,335	3,452
Total	$55,525	$13,867

Note 7: Long-Term Liabilities (continued)

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, 2000 and 2004 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 2004 loan payable, principal payments to maturity are subject to change based upon the total amounts drawn down.
During fiscal year 05/06 the 2004 WIFA loan was amended to a total of $19,967. Of that amount, as of June 30, 2006, WWM has drawn down $18,538.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
1996 Loan Payable	$11,313	3.19%	2006-12	$9,069
1997 Loan Payable	7,500	2.95%	2006-11	3,670
2000 Loan Payable	61,180	2.20%	2006-16	49,090
2004 Loan Payable	18,538	1.81%	2006-24	18,538
Loans payable				80,367
Less unamortized deferred amount				(219)
Total loans payable				$80,148

The following schedule details loans payable debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 5,503	$ 2,777
2008	5,722	2,586
2009	5,955	2,375
2010	6,317	2,153
2011	7,604	1,901
2012-2016	33,623	5,631
2017-2021	11,574	1,282
2022-2025	4,069	206
Total	$80,367	$18,911

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.

Note 7: Long-Term Liabilities (continued)

NOTES PAYABLE
Component Unit - Southwestern Fair Commission (SFC)
(Payments made from user charges)

Southwestern Fair Commission has a note payable to Pima County, due in annual installments of $50, unsecured and non-interest bearing.

Description	Interest Rates	Maturities	Outstanding June 30, 2006
Pima County	None	Annual installments until June 2007	$50

Southwestern Fair Commission's other notes payable are due in monthly installments and are secured by equipment, inventory, and accounts receivable.

Description	Interest Rates	Maturities	Outstanding June 30, 2006
Bank	Prime with 4% floor	Monthly installments until July 2008	$149
Bank	Wall Street Journal interest rate	Monthly installments until July 2008	45
Total			$194

The following schedule details Southwestern Fair Commission's notes payable debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$104	$13
2008	53	9
2009	87	1
Total	$244	$23

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, 2006, is as follows:

Net assessed valuation:		$6,050,950
Debt Limit (15% of net assessed valuation):		907,643
Amount of debt applicable to debt limit:		
General obligation bonds outstanding	$231,310	
Less net assets in debt service fund available for payment of general obligation bond principal	(5,571)	(225,739)
Legal debt margin available		$ 681,904

Note 7: Long-Term Liabilities (continued)

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, 2006, is as follows:

Net assessed valuation:		$5,323,433
Debt Limit (5% of net assessed valuation):		266,171
Amount of debt applicable to debt limit:		
Flood Control general obligation bonds outstanding	$2,230	
Less net assets in debt service fund available for payment of flood control bond principal	(24)	(2,206)
Legal debt margin available		$ 263,965

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 to meet its short-term cash needs. At June 30, 2006, 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.

	July 1, 2005 Balance	Draws	Repayments	June 30, 2006 Balance
Line of credit	$0	$36,000	$36,000	$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 $16,268 reported as landfill closure and postclosure care liability in the governmental activities 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 $6,675 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, 2006; actual costs may change due to inflation, changes in technology, or changes in regulations.

Note 9: Landfill Liabilities (continued)

Landfill Site	Capacity Used June 30, 2006	Estimated Remaining Service Life
Ajo *	100%	
Sahuarita **	43%	17 Years
Tangerine **	82%	3 Years

* Life extending facility development options are presently being considered for the Ajo Landfill, including vertical and/or horizontal expansion.

** The Sahuarita and Tangerine Landfill capacities were adjusted from 5,233,952 cu. yd. and 5,737,761 cu. yd. at June 30, 2005 to 4,932,103 cu. yd. and 6,484,362 cu. yd. at June 30, 2006, respectively. Concurrently, the estimated years of closure were adjusted to 2023 and 2009, respectively.

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.

The Ina Road Landfill facility is closed to municipal solid waste and only receives construction debris. It is not subject to the closure and post-closure cost requirements referred to above. Pima County estimates that it will cost approximately $9,011 when closure occurs and plans to fund the cost with proceeds of general obligation bonds and with solid waste tipping fees. At this time, there is no closure date available.

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 209 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's Department 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 19 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

Note 10: Retirement Plans (continued)

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

3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85012-0250
(602) 240-2000 or
(800) 621-3778

PSPRS and CORP

3010 East Camelback Road
Suite 200
Phoenix, AZ 85016-4416
(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, 2006, active **ASRS** members and the County were each required by statute to contribute at the actuarially determined rate of 7.40 percent (6.90 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. The County's contributions to **ASRS** for the years ended June 30, 2006, 2005 and 2004 were $17,551, $12,602 and $13,231 respectively, which were equal to the required contributions for the applicable year.

Agent plans For the year ended June 30, 2006, 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 13.71 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 6.59 percent.

Annual Pension Cost: The County's pension cost for the two agent plans for the year ended June 30, 2006, and related information follow:

	PSPRS	CORP
Contribution rates:		
County	17.36%	6.59%
Plan members	4.00%	8.50%
Annual pension cost	$ 4,720	$ 1,088
Contributions made	$ 4,720	$ 1,088
Actuarial valuation date	June 30, 2004	June 30, 2004
Actuarial cost method	Individual entry age	Individual entry age
Actuarial assumptions:		
Investment rate of return	8.75%	8.75%
Projected salary increases	6.25% - 9.25%	5.25% - 9.25%
includes inflation at	5.25%	5.25%
Amortization method	Level percent open	Level percent open
Remaining amortization period	20 years	20 years
Asset valuation method	smoothed market	smoothed market

Note 10: Retirement Plans (continued)

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	2006	$ 4,720	100%	$ -
	2005	3,325	100%	-
	2004	2,694	100%	-
CORP	2006	$ 1,088	100%	$ -
	2005	782	100%	-
	2004	632	100%	-

Note 11: Segment Information

The Wastewater Management Enterprise Fund 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 the Fund is presented in the following table.

CONDENSED STATEMENT OF NET ASSETS

	Wastewater Management Liquid Waste
Assets:	
Current assets	$ 68,668
Due from other funds	1
Capital assets, net	587,954
Other non-current assets	1,243
Total assets	657,866
Liabilities:	
Current liabilities	26,679
Due to other funds	177
Non-current liabilities	125,347
Total liabilities	152,203
Net assets:	
Invested in capital assets, net of related debt	456,846
Restricted	4,794
Unrestricted	44,023
Total net assets	$ 505,663

Note 11: Segment Information (continued)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

	Wastewater Management Liquid Waste
Operating revenues/(expenses):	
Charges for services	$ 62,274
Depreciation expense	(20,416)
Other operating expenses	(56,902)
Operating loss	(15,044)
Non-operating revenues/(expenses):	
Sewer connection revenue	42,220
Other non-operating revenues	3,220
Interest expense	(4,624)
Loss on disposal of capital assets	(20)
Other non-operating expenses	(97)
Capital contributions	14,607
Transfers out to other county funds	(22)
Change in net assets	40,240
Beginning net assets	465,423
Ending net assets	$ 505,663

CONDENSED STATEMENT OF CASH FLOWS

Net cash provide by:	
Operating activities	$ 4,582
Non-capital financing activities	625
Capital and related financing activities	15,356
Investing activities	1,862
Net increase	22,425
Beginning cash and cash equivalents	35,000
Ending cash and cash equivalents	$ 57,425

Note 12: Interfund Transactions

Interfund Assets/Liabilities

Due from / Due to Other Funds are used to record loans or unpaid operating transfers between funds.

Amounts recorded as due to:	Amounts recorded as due from: General	Transportation	Capital Projects	Other Governmental	PHS & Services	Wastewater Management	Internal Service	Total
General		$	22	$ 919	$ 1	$	310	$ 1,252
Transportation	81							$ 81
Capital Projects	$ 63	$ 48						111
Other Governmental	2,832			38			70	2,940
Pima Health System & Services	1,657							1,657
Wastewater Management	29		124	23			1	177
Other Enterprise	4			2	$	1		7
Internal Service	3			99				102
Total	$ 4,669	$ 48	$ 146	$ 1,081	$ 1	$ 1	$ 381	$ 6,327

Transfers

Transfers are used to record transactions between individual funds to subsidize their operations and fund debt service payments and capital construction projects.

Amounts recorded as transfers in:	Amounts recorded as transfers out: General	Transportation	Other Governmental	Wastewater Management	Total
General		$ 130	$ 3,433	$	3,563
Transportation				$ 22	22
Capital Projects		7,000	10,529		17,529
Other Governmental	$ 15,580	17,787	1,178	4,289	38,834
Internal Service	626				626
Total	$ 16,206	$ 24,917	$ 15,140	$ 4,311	$ 60,574

The table above does not include transfers of capital assets and long-term liabilities from proprietary funds to governmental activities because these transfers are not reported in the governmental funds. During the year, the County reclassified the Solid Waste Division of the Wastewater Management Enterprise Fund to the Solid Waste Special Revenue Fund reported within the governmental funds. This resulted in a net transfer in to the Wastewater Management Enterprise Fund of $156, consisting of the following:

Net current assets and liabilities transfer to other governmental funds	$ (4,289)
Capital assets transfer to governmental activities	(11,335)
Long-term liabilities transfer to governmental activities	15,780
Total net transfer in to Wastewater Management Enterprise Fund	$ 156

Note 13: Construction and Other Significant Commitments

At June 30, 2006, Pima County had the following major contractual commitments related to Facilities Management, General Government, Pima Health Systems and Services, Transportation and Wastewater Management.

Facilities Management
At June 30, 2006, the Pima County Facilities Management Department had construction contractual commitments of $4,143. Funding for these expenditures will be provided from general obligation bonds.

General Government
At June 30, 2006, Pima County had contractual commitments related to service contracts for Human Resources of $45,530, Institutional Health of $105,859 and Risk Management of $1,161. Funding for these expenditures will be primarily provided from general fund revenues.

Pima Health Systems and Services
At June 30, 2006, Pima County had contractual commitments related to service contracts for Pima Health Systems & Services of $119,146. Funding for these expenditures will be primarily provided from federal and state funding sources.

Transportation
At June 30, 2006, the Pima County Transportation Department had construction contractual commitments of $21,263 and other contractual commitments related to service contracts of $7,871. 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.

Wastewater Management
At June 30, 2006, the Wastewater Management Enterprise fund had contractual commitments related to service contracts of $8,306.

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 $3,550 for the year ended June 30, 2006.

Note 14: Stewardship, Compliance, and Accountability (Deficit Fund Balances)

The Special Revenue Grants fund (a non-major governmental fund) had a deficit fund balance at June 30, 2006, of $260. This deficit can be eliminated in the future through normal operations.

Note 15: Non-cancelable Operating Leases

The County leases buildings and equipment under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. The County rental expenditures under the terms of the non-cancelable operating leases were $139 for the year ended June 30, 2006. These leases have remaining terms of 4 to 9 years and provide renewal options. The future minimum payments required under these leases at June 30, 2006 are as follows.

		Governmental Activities
Year ending June 30,		
	2007	$ 142
	2008	142
	2009	142
	2010	142
	2011	113
	2012-2015	379
Total minimum lease payments		$ 1,060

Note 16: Subsequent Events

On July 1, 2006, the Pima County Free Library District (District) assumed the operations of library services, previously provided by the City of Tucson, in accordance with an intergovernmental agreement (IGA) with the City of Tucson (City). Under the IGA the City will provide transitional assistance to the District in the amount of $6,000, $4,000 and $2,000 for fiscal years ending June 30, 2007, 2008 and 2009 respectively. Subsequent to June 30, 2009, the City will provide no additional assistance.

Effective July 1, 2006, City library personnel became District employees with equivalent pay and benefits. Two of the library branch properties will be conveyed to the District with the remaining properties being leased at no cost for 50 years.

The Pima County Board of Supervisors approved an increase in tax revenues to the District, effective in fiscal year 2006-07.

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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 Bonds, Series 2007 (the "Sewer Bonds Resolution"). The summary does not purport to be a full statement of the terms of the Sewer Bonds 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 2007 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 Sewer Improvement and Refunding Revenue Bonds, Series 1998, the Sewer Revenue Refunding Bonds, Series 2001, the Sewer Revenue Refunding Bonds, Series 2004, and the Series 2007 Bonds and the Loan Agreements between the Water Infrastructure Finance Authority of Arizona and the County, as borrower, dated February 1, 1996, June 1, 1997, October 27, 2000, as amended, and May 11, 2004, as amended, issued or incurred 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 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.

"Series 2007 Bonds" – the $50,000,000 principal amount of Sewer Revenue Bonds, Series 2007, of the County, dated January 1, 2007.

"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 2007 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 2007 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 2007 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 Bond 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

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

CONTINUING DISCLOSURE UNDERTAKING FOR THE PURPOSE OF PROVIDING CONTINUING DISCLOSURE INFORMATION UNDER SECTION (b)(5) OF RULE 15c2-12

This Continuing Disclosure Undertaking (the "Undertaking") is executed and delivered by Pima County, Arizona (the "County"), in connection with the issuance and sale of the $50,000,000 aggregate principal amount of Sewer Revenue Bonds, Series 2007 (the "Bonds").

In connection with the Bonds, the County covenants and agrees as follows:

1. Purpose of this Undertaking. This Undertaking is executed and delivered by the County as of the date set forth below, for the benefit of the beneficial owners of the Bonds and in order to assist the Underwriter in complying with the requirements of the Rule (as defined below).

2. Definitions. The terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires.

"Annual Information" means the financial information and operating data set forth in Exhibit I.

"Annual Information Disclosure" means the dissemination of disclosure concerning Annual Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

"Audited Financial Statements" means the general purpose audited financial statements of the County prepared pursuant to the standards and as described in Exhibit I.

"Bond Resolution" means, together, Resolution No. 1991-138 adopted by the Board of Supervisors of the County on June 18, 1991, as supplemented and amended, including a supplemental resolution adopted by the Board of Supervisors of the County on January __, 2007, authorizing the issuance and sale of the Bonds.

"Commission" means the Securities and Exchange Commission.

"Dissemination Agent" means any agent designated as such in writing by the County and which has filed with the County a written acceptance of such designation, and such agent's successors and assigns.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Material Event" means the occurrence of any of the events with respect to the Bonds set forth in Exhibit II that is material, as materiality is interpreted under the Exchange Act.

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIRs" means, as of any date, any Nationally Recognized Municipal Securities Information Repository then recognized by the Commission for purposes of the Rule. As of the date of this Undertaking, the NRMSIRs are:

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, 15th Floor
New York, New York 10038
Phone: (212) 771-6999; 800-689-8466
Fax: (212) 771-7390
E-mail: NRMSIR@interactivedata.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

The names and addresses of all current NRMSIRs should be verified each time information is delivered pursuant to this Undertaking.

"Rule" means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

"SID" means any public or private repository designated by the State as the state repository and recognized as such by the Commission for purposes of the Rule. As of the date of this Undertaking, no SID exists within the State. The name and address of the SID, if any, should be verified each time information is delivered pursuant to this Undertaking.

"State" means the State of Arizona.

"Undertaking" means the obligations at the County pursuant to Sections 4, 5, 6 and 7 hereof.

"Underwriter" includes each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Bonds.

3. CUSIP Number/Final Official Statement. The base CUSIP Number of the Bonds is 721876. The Final Official Statement relating to the Bonds is dated January __, 2007.

4. Annual Information Disclosure. Subject to Section 9 of this Undertaking, the County shall disseminate its Annual Information and its Audited Financial Statement, if any (in the form and by the dates set forth in Exhibit I), to all NRMSIRs and to the SID, if any. The County is required to deliver such information in such manner and by such time so that such entities receive the information on the date specified.

If any part of the Annual Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the County will disseminate a statement to such effect as part of its Annual Information for the year in which such event first occurs.

If any amendment is made to this Undertaking, the Annual Information for the year in which such amendment is made shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. Material Events Disclosure. Subject to Section 9 of this Undertaking, the County hereby covenants that it will disseminate in a timely manner notice of occurrence of a Material Event to each NRMSIR, or to the MSRB and to the SID, if any.

6. Duty to Update NRMSIRs/SID. The County shall determine, in the manner it deems appropriate, the names and addresses of the then existing NRMSIRs and SID each time it is required to file information with such entities.

7. Consequences of Failure of the County to Provide Information. The County shall give notice in a timely manner to each NRMSIR, or to the MSRB and to the SID, if any, of any failure to provide Annual Information Disclosure when the same is due hereunder.

In the event of a failure of the County to comply with any provision of this Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the County to comply with its obligations under this Undertaking. A default under this Undertaking shall not be an Event of Default on the Bonds. The sole remedy under this Undertaking in the event of any failure of the County to comply with this Undertaking shall be an action to compel performance.

8. Alternate Means of Disclosure. Notwithstanding the provisions of Sections 4, 5 and 7 requiring that the County file its Annual Information Disclosure, notice of any Material Event and notice of any failure to comply with this Undertaking with each of the NRMSIRS and any SID, the County may instead comply with the provisions of this Undertaking by filing the required information with an entity then recognized by the Commission as eligible to receive and submit such filings to the NRMSIRS and any SID for purposes of the Rule (a "Central Post Office"). As of the date of this Disclosure Undertaking, the Central Post Office that has been so recognized by the Commission is:

DisclosureUSA.org
P.O. Box 684667
Austin, Texas 78768-4667
Fax: (512) 476-6403
http://www.disclosureUSA.org

9. Amendments; Waiver. Notwithstanding any provision of this Undertaking, the County by certified resolutions authorizing each amendment or waiver, may amend the Undertaking, and any provision of the Undertaking may be waived, if:

(a) The amendment is 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 the County, or type of business conducted;

(b) This Undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of the beneficial owners of the Bonds, as determined by an independent counsel or other entity unaffiliated with the County.

10. Non-Appropriation. The performance by the County of its obligations in this Undertaking shall be subject to the annual appropriation of any funds that may be necessary to permit such performance. In the event of a failure by the County to comply with its covenants under this Undertaking due to a failure to appropriate the necessary funds, the County covenants to provide prompt notice of such fact to each NRMSIR and the SID.

11. Termination of Undertaking. The Undertaking of the County shall be terminated hereunder when the County no longer has liability for any obligation relating to repayment of the Bonds or the Rule no longer applies to the Bonds. The County shall give notice in a timely manner if this Section is applicable to each NRMSIR, or to the MSRB, and to the SID, if any.

12. Dissemination Agent. The County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

13. Additional Information. Nothing in this Undertaking shall be deemed to prevent the County from disseminating any other information using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Information Disclosure or notice of occurrence of a Material Event, in addition to that which is required by this Undertaking. If the County chooses to include any information from any document or notice of occurrence of Material Event in addition to that which is specifically required by this Undertaking, the County shall have no obligation under this Undertaking to update such information or include it in any future disclosure or notice of occurrence of a Material Event.

14. Beneficiaries. This Undertaking has been executed in order to assist the Underwriter in complying with the Rule; however, this Undertaking shall inure solely to the benefit of the County, the Dissemination Agent, if any, and the beneficial owners of the Bonds, and shall create no rights in any other person or entity.

15. Recordkeeping. The County shall maintain records of all Annual Information Disclosure and notices of occurrence of Material Events including the content of such disclosure or notices, the names of the entities with whom such disclosure or notices were filed and the date of filing such disclosure or notices.

16. Assignment. The County shall not transfer its obligations under the Bond Resolution unless the transferee agrees to assume all obligation of the County under this Undertaking or to execute an Undertaking under the Rule.

17. Governing Law. This Undertaking shall be governed by the laws of the State.

PIMA COUNTY, ARIZONA

By: _____

Thomas Burke
Finance and Risk Management Director

Date: [Closing Date]

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND AUDITED FINANCIAL STATEMENTS

"Annual Financial Information" means quantitative financial information and operating data concerning the operations of the County of the type set forth in the Official Statement in Appendix A in the tables entitled "PIMA COUNTY, ARIZONA SUMMARY OF WASTEWATER USERS FEES," PIMA COUNTY, ARZIONA, SUMMARY OF USER FEES 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.

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted to each NRMSIR and to the SID, if any, or filed with the Commission. If the information included by reference is contained in a Final Official Statement, the Final Official Statement must be available from the MSRB; the Final Official Statement need not be available from each NRMSIR, the SID or the Commission. The County shall clearly identify each such item of information included by reference.

Annual Financial Information exclusive of Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, no later than the first business day in February of each year, commencing February 1, 2008. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, to be followed up by Audited Financial Statements when available.

Audited Financial Statements will be prepared according to GAAP, as applied to governmental units as modified by State law, Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, at the same time as Annual Financial Information is filed, or if not available when such Annual Financial Information is filed, within 30 days after availability to the County.

If any change is made to the Annual Financial Information as permitted by Section 4 of this Undertaking, the County will disseminate a notice of such change as required by Section 4, including changes in Fiscal Year or GAAP.

EXHIBIT II

EVENTS FOR WHICH NOTICE OF OCCURRENCE OF MATERIAL EVENTS IS REQUIRED

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 creditor liquidity providers, or their failure to perform
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds
7. Modifications to the rights of holders of the Bonds
8. Bond calls
9. Defeasances
10. Release, substitution or sale of property securing repayment of the Bonds
11. Rating changes

NOTICE INVITING BIDS FOR THE PURCHASE OF SEWER REVENUE BONDS

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS,
SERIES 2007

NOTICE IS HEREBY GIVEN that unconditional bids will be received to and including the hour of 10:30 A.M., Mountain Standard Time (M.S.T.), on January 16, 2007, only through the facilities of PARITY® ("PARITY") by Pima County, Arizona (the "County"), for the purchase of all, but not less than all, of $50,000,000 aggregate principal amount of its Sewer Revenue Bonds, Series 2007 (the "Sewer Bonds"), unless the County acting through the County Administrator or his designee postpones receipt of bids to a later date. A determination to postpone the sale date will be made and announced by 10:30 A.M., M.S.T. on the business day preceding the scheduled sale date. Submission of bids is further discussed below. The Board of Supervisors of the County will meet on that date to consider the bids received and award the Sewer Bonds to the bidder offering the best bid or reject all bids.

TIME FOR RECEIPT OF BIDS: Bids will be received to and including the hour of 10:30 A.M., M.S.T. The time maintained by PARITY shall constitute the official time.

ELECTRONIC BIDDING PROCEDURES: Bids may be submitted only through the facilities of PARITY. Bids must be submitted on the Official Bid Form that resides on the PARITY system, without alteration or interlineations. Subscription to the Thomson Financial Municipal Group's BIDCOMP Competitive Bidding System is required in order to submit a bid. The County will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe. The County is using PARITY as a communications media, and not as the County's agent, to conduct electronic bidding for the Sewer Bonds.

All bids made through the facilities of PARITY shall be deemed irrevocable offers to purchase the Sewer Bonds on the terms provided in this Notice Inviting Bids for the Purchase of Sewer Bonds, and shall be binding upon the bidder. Neither the County nor RBC Dain Rauscher Inc., doing business under the name RBC Capital Markets, the County's Financial Consultant, shall be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of PARITY, the use of such facilities being the sole risk of the prospective buyer.

If any provision of this Notice Inviting Bids for the Purchase of Sewer Bonds conflicts with information provided by PARITY as the approved provider of electronic bidding services, this Notice Inviting Bids for the Purchase of Sewer Bonds shall control. Further information about PARITY, including any fee charged, may be obtained from BIDCOMP/PARITY, 1395 Broadway, 2nd Floor, New York, New York, 10018, attention: Customer Support (212) 849-5021.

For information purposes only, bidders are requested to state in their electronic bids the net interest cost to the Board, as described under "AWARD AND DELIVERY" herein. All electronic bids shall be deemed to incorporate the provisions of this Notice Inviting Bids for the Purchase of Sewer Bonds.

THE SEWER BONDS: The Sewer Bonds will be dated January 1, 2007, and upon initial issuance, will bear interest from such date to the maturity or earlier redemption of each of the Sewer Bonds at a rate or rates, none of which may exceed twelve percent (12%) per annum, payable on July 1, 2007, and semiannually thereafter on January 1 and July 1 of each year during the term of each of the Sewer Bonds. The Sewer Bonds are to mature on July 1 in the years and in the amounts as follows:

Due July 1	Principal Amount	Due July 1	Principal Amount
2007	$2,665,000	2017	$2,405,000
2008	1,550,000	2018	2,525,000
2009	1,625,000	2019	2,650,000
2010	1,710,000	2020	2,785,000
2011	1,795,000	2021	2,925,000
2012	1,885,000	2022	3,070,000
2013	1,980,000	2023	3,220,000
2014	2,075,000	2024	3,385,000
2015	2,180,000	2025	3,550,000
2016	2,290,000	2026	3,730,000

PURPOSE: The Sewer Bonds are being issued pursuant to the Constitution and laws of the State of Arizona, including Title 11, Chapter 2, Article 4, Arizona Revised Statutes and all amendments thereto, and under the provisions of a resolution adopted by the Board of Supervisors of Pima County on October 17, 2006 and a resolution to be adopted by the Board of Supervisors of Pima County on the sale date (collectively, the "Resolution"), and are being issued for the purpose of (i) financing the expansion of the County's sewer facilities, and (ii) paying costs relating to the issuance of the Sewer Bonds.

OPTIONAL REDEMPTION: The Sewer Bonds maturing on or before July 1, 2017 are not subject to call for redemption prior to their respective maturity dates. The Sewer Bonds maturing on or after July 1, 2018 are subject to call for redemption on any date on or after July 1, 2017 at the election of the County, in whole or in part from maturities selected by the County and within any maturity by lot, by the payment of a redemption price equal to the principal amount of each Sewer Bond called for redemption plus accrued interest to the date fixed for redemption, without premium.

NOTICE OF REDEMPTION: Notice of redemption will be given by mail to the registered owners of the Sewer Bonds at the address shown on the bond register maintained by the bond registrar not less than thirty (30) days nor more than sixty (60) days prior to the specified redemption date.

BOOK ENTRY ONLY SYSTEM: The Sewer 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 Sewer Bonds. One fully registered Revenue 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 Sewer 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 Sewer Bonds will not receive certificates representing their interests in the Sewer Bonds and will not be deemed to be registered owners under the Resolution.

So long as the book entry only system is in operation, principal of and interest on the Sewer Bonds will be payable by The Bank of New York Trust Company, N.A., as bond registrar and paying agent, to Cede & Co., as nominee of DTC which organization consequently bears sole responsibility for remitting such principal and interest to the DTC participants for subsequent credit or disbursement to the beneficial owners of the Sewer 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 Sewer Bonds and the County does not select another qualified securities depository, the County is required to deliver to DTC for redistribution to beneficial owners of the Sewer Bonds one or more bond certificates 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.

CUSIP NUMBERS: It is anticipated that CUSIP numbers will be assigned to the Sewer Bonds, but no failure to assign such numbers to any Sewer Bonds, nor any error with respect thereto, shall constitute cause for failure or refusal by the purchaser thereof to accept and pay for the Sewer Bonds in accordance with the terms of the sale. No CUSIP number shall be deemed to be a part of any Revenue Bond or of the contract evidenced thereby. The CUSIP Service Bureau charge for the assignment of CUSIP numbers shall be paid by the purchaser of the Sewer Bonds.

INTEREST RATES: Bids for the purchase of the Sewer Bonds must state the rate or rates of interest to be paid. All Sewer Bonds of the same maturity must bear the same rate of interest. The difference between the highest interest rate bid for any maturity and the lowest interest rate bid for any other maturity shall not exceed one and one-half percent (1 ½ %) per annum. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. Interest rates must be expressed in multiples of one-eighth (1/8th) or one-twentieth (1/20th) of one percent (1%). No bid will be considered for less than par on the Sewer Bonds, plus accrued interest to the delivery date.

Any interest rate bid which would result in an interest payment amount having fractional cents will be deemed a waiver of the right to payment of such fractional cents. No fractional cents will be paid or accumulated for payment on any Sewer Bond.

SECURITY: The Sewer Bonds are payable solely from the net revenues derived by the County from the operation of its sewer system after provision has been made for the operation and maintenance of the sewer system, subject to no prior lien granted under the Act, but subject to the rights of the holders of certain bonds refunded by the irrevocable deposit in trust of moneys and obligations issued or guaranteed by the United States government or its agencies to an equal claim on such revenues in the event such trust does not provide for all payments, when due on such refunded bonds. The Sewer Bonds are issued on parity with the County's outstanding Sewer Improvement and Refunding Revenue Bonds, Series 1998; Sewer Revenue Refunding Bonds, Series 2001; and Sewer Revenue Refunding Bonds, Series 2004; and certain Loan Agreements between the Water Infrastructure Finance Authority of Arizona and the County, as borrower, dated February 1, 1996, June 1, 1997, October 27, 2000 and May 11, 2004. The aggregate principal amount of outstanding parity debt is $135,892,236.94.

BOND INSURANCE: Each bidder may, in making its bid, assume, as a premise, either that the payment of principal of and interest on the Sewer Bonds will be insured at the bidder's expense, or that the Sewer Bonds will not be insured, and shall indicate on the bid form the premise on which its bid is based. If the accepted bid is based on an assumption that such a policy will be issued, the successful bidder shall cause the policy to be issued at the bidder's expense.

FORM OF PROPOSAL AND BID DEPOSIT: The prescribed form of bid for the Sewer Bonds will be available on the PARITY system and all bids must be submitted on that form. All bids must be covered by a financial surety bond from an insurance company licensed to do business in the State of Arizona and submitted to the County or the Financial Consultant prior to the opening of the bids in the amount of $1,000,000, which is equal to two percent (2%) of the par value of the Sewer Bonds (the "Deposit"). The financial surety bond must identify each bidder whose bid is guaranteed by such financial surety bond. The bidder to whom the Sewer Bonds are awarded must submit its Deposit to the County, in the form of a certified check or wire transfer as instructed by the Financial Consultant, not later than 10:30 A.M., M.S.T. on the next business day following the award. If the Deposit is not received by that time, the financial surety bond may be drawn on by the County to satisfy the Deposit requirement. The Deposit of the successful bidder will be applied to the purchase price of the Sewer Bonds or retained and forfeited as liquidated damages in the event such bidder does not take up and pay for the Sewer Bonds immediately upon the County's satisfaction of all conditions necessary to their issuance and delivery. No interest will be paid on the Deposit of any bidder.

The Financial Consultant to the County has reserved the right to bid on the Sewer Bonds.

RIGHT OF REJECTION: The County reserves the right, in its discretion, to reject any and all bids received and to waive any irregularity or informality in the bids, except that the time for receiving bids shall be of the essence.

AWARD AND DELIVERY: Unless all bids are rejected, the Sewer Bonds will be awarded to the bidder whose bid results in the lowest net interest cost to the County. The net interest cost will be determined by computing the aggregate amount of interest payable on the Sewer Bonds based upon the total principal amount of Sewer Bonds offered as scheduled to mature in this Notice from their date to their respective maturities and by deducting therefrom any premium. Delivery of the Sewer Bonds will be made to the purchaser upon payment in immediately available funds in Tucson, Arizona, or, at the purchaser's request and expense, at any other place mutually agreeable to both the County and the purchaser.

NOTICE REGARDING STATE CONTRACTS: Arizona law requires that every contract to which the State, its political subdivisions or any of the departments or agencies of the State or its political subdivisions, including the County, is a party include notice that such contract is subject to cancellation, within three (3) years after its execution, by the State, or the political subdivision, including the County, 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, or the political subdivision, including the County, 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.

LEGAL OPINION: The Sewer Bonds are sold with the understanding that the County will furnish the purchaser with the approving opinion of Squire, Sanders & Dempsey L.L.P. Said attorneys have been retained by the County as Bond Counsel and in such capacity are to render their opinion only upon the legality of the Sewer Bonds under Arizona law and on the exclusion of the interest on the Sewer Bonds from the gross income of the owners of the Sewer Bonds for federal and state of Arizona income tax purposes. Fees of Bond Counsel will be paid from the Revenue Bond proceeds.

TAX EXEMPT STATUS: The Internal Revenue Code of 1986, as amended (the "Code") prescribes a number of qualifications and conditions which apply to the Sewer Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of Sewer 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 Sewer Bonds to be excludable from gross income. Failure to comply with certain of such covenants could cause interest on the Sewer Bonds to become includable in gross income retroactive to the date of issuance of the Sewer Bonds.

Subject to the condition that the County comply with the above-referenced covenants, under present law, in the opinion of Bond Counsel, the Sewer Bonds are not "private activity bonds" under the Code, and interest on the Sewer Bonds will not be includable in gross income of the owners thereof for federal or Arizona income tax purposes, and will not be treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations. Interest on the Sewer Bonds may be subject to certain federal taxes imposed only on certain corporations including the corporate alternative minimum tax on a portion of that interest.

Ownership of the Sewer Bonds may result in collateral federal income tax consequences to certain taxpayers. Prospective purchasers of the Sewer Bonds should consult their tax advisors as to applicability of any such collateral consequences. Bond Counsel will express no opinion regarding these consequences.

CERTIFICATE TO BE DELIVERED BY SUCCESSFUL BIDDER: Simultaneously with or before delivery of the Sewer Bonds, the successful bidder shall furnish to the County a certificate acceptable to Bond Counsel to the effect that (i) all of the Sewer Bonds have been the subject of an initial bona fide offering to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at the prices shown on such certificate plus accrued interest, if any, (ii) at the time they agreed to purchase the Sewer Bonds, based upon their assessment of the then prevailing market conditions, they reasonably expected that all Sewer Bonds would be initially sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of the underwriters or wholesalers) at the prices shown on such certificate, plus accrued interest, if any, and (iii) the prices shown on such certificate for each of the Sewer Bonds were the fair market value of such Sewer Bonds as of the sale date.

CERTIFICATES TO BE DELIVERED BY COUNTY: Representatives of the County will deliver certificates to the effect that (i) no litigation is pending affecting the issuance and sale of the Sewer Bonds and (ii) to

their best knowledge, information and belief, the information contained in the Official Statement relating to the Sewer Bonds is true and correct in all material respects. The County will also deliver a tax compliance certificate covering its reasonable expectations concerning use of the proceeds of the Sewer Bonds and related matters.

PRELIMINARY OFFICIAL STATEMENT DEEMED FINAL; FINAL OFFICIAL STATEMENT: The County deems the Preliminary Official Statement provided in connection with the sale of the Sewer Bonds to be final as of its date except for the omission of offering prices, selling compensation, delivery dates, terms to be specified in the winning bidder's bid, ratings, other terms depending on such matters and the identity of the winning bidder.

The winning bidder must provide the County, within twenty-four (24) hours after the award of the Sewer Bonds, with all necessary offering price information, selling compensation information, all other terms of the sale which are depending on such matters and any underwriter information, all as may be necessary to complete the final Official Statement.

Within seven (7) business days after the award of the Sewer Bonds, the County will provide the winning bidder with up to two hundred (200) copies of the final Official Statement at no cost. Additional copies of the final Official Statement may be obtained from the County at the winning bidder's expense. The final Official Statement will be in substantially the same form as the Preliminary Official Statement with such additions, deletions or revisions as the County deems necessary.

CONTINUING DISCLOSURE: The County will enter into a continuing disclosure undertaking with respect to the Sewer Bonds, which undertaking will be described in the Official Statement.

ADDITIONAL INFORMATION: Copies of the Official Statement relating to the Sewer Bonds will be furnished to any bidder upon request made to RBC Dain Rauscher Inc., doing business under the name RBC Capital Markets, 2398 East Camelback Road, Suite 700, Phoenix, Arizona 85016, Financial Consultant to the County, telephone number (602) 381-5368.

PIMA COUNTY, ARIZONA

/s/ Lori Godoshian
Clerk, Board of Supervisors

MATURITY DATES, PRINCIPAL AMOUNTS AND BOND YEAR LIFE

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

Maturity Dates (July 1)	Principal Amounts	Bond Years	Cumulative Bond Years
2007	$2,665,000	1,332.50	1,332.50
2008	1,550,000	2,325.00	3,657.50
2009	1,625,000	4,062.50	7,720.00
2010	1,710,000	5,985.00	13,705.00
2011	1,795,000	8,077.50	21,782.50
2012	1,885,000	10,367.50	32,150.00
2013	1,980,000	12,870.00	45,020.00
2014	2,075,000	15,562.50	60,582.50
2015	2,180,000	18,530.00	79,112.50
2016	2,290,000	21,755.00	100,867.50
2017	2,405,000	25,252.50	126,120.00
2018	2,525,000	29,037.50	155,157.50
2019	2,650,000	33,125.00	188,282.50
2020	2,785,000	37,597.50	225,880.00
2021	2,925,000	42,412.50	268,292.50
2022	3,070,000	47,585.00	315,877.50
2023	3,220,000	53,130.00	369,007.50
2024	3,385,000	59,237.50	428,245.00
2025	3,550,000	65,675.00	493,920.00
2026	3,730,000	72,735.00	566,655.00

Average Bond Life: 11.333 Years

Certificate of Clerk

Board of Supervisors of Pima County, Arizona

State of Arizona
County of Pima ss

I, Lori Godoshian, do hereby certify that I am the duly appointed, and qualified, Clerk of the Board of Supervisors of Pima County, Arizona.

I further certify that the attached resolution entitled

RESOLUTION NO. 2007-17

(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 16th *day of* January, 2007, *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* 19th *day of* January, 2007.

Lori Godoshian
Clerk

RESOLUTION NO. 2007-17

RESOLUTION PROVIDING FOR THE ISSUANCE AND SALE OF PIMA COUNTY, ARIZONA SEWER REVENUE BONDS, SERIES 2007; PROVIDING FOR THE PAYMENT OF THE BONDS; PROVIDING TERMS, COVENANTS AND CONDITIONS CONCERNING THE BONDS; ACCEPTING A BID FOR THE PURCHASE OF THE BONDS; AUTHORIZING AND DIRECTING THE EXECUTION AND DELIVERY OF DOCUMENTS AND FURTHER ACTIONS RELATING TO THE ISSUANCE OF THE BONDS; APPOINTING AN INITIAL BOND REGISTRAR AND PAYING AGENT 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) At a special bond election held in and for the County on May 20, 1997 (the "1997 Bond Election"), a majority of the qualified voters of the County voting approved the issuance of sewer revenue bonds in the principal amount of $105,000,000, of which $101,057,627 aggregate principal amount have previously been issued. This Resolution will provide for the issuance of an additional $-0- aggregate principal amount of the bonds so voted.

(c) At a special bond election held in and for the County on May 18, 2004 (the "2004 Bond Election" and, together with the 1997 Bond Election, the "Bond Elections"), a majority of the qualified voters of the County voting approved the issuance of sewer revenue bonds in the principal amount of $150,000,000, of which $-0- aggregate principal amount have previously been issued. This Resolution will provide for the issuance of an additional $50,000,000 aggregate principal amount of the bonds so voted.

(d) 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 2007 Bonds herein authorized. The Series 2007 Bonds to be issued pursuant to this Resolution shall be designated as Pima County, Arizona, Sewer Revenue Bonds, Series 2007 (the "Series 2007 Bonds").

(e) Bids for the purchase of the Series 2007 Bonds were previously solicited and received pursuant to an on-line bidding process. The Board has determined that the bid attached hereto as Exhibit A (the "Accepted Bid") is the most advantageous for the County.

(f) 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 2007 Bonds authorized herein.

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 2007 Bonds. Pursuant to the Act and for the purpose of providing funds to pay the costs of improvements, expansions and extensions to the County's sewer plant and system and paying the costs of issuance therefor and necessary premiums and commissions in connection therewith, the County hereby authorizes the issuance of the Series 2007 Bonds in the total principal amount of $50,000,000. Interest will be paid on each interest payment date by check mailed by the Paying Agent to each registered owner of the Series 2007 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 2007 Bonds. Principal of the Series 2007 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 2007 Bonds will be dated January 1, 2007 and will mature in such amounts on July 1 in the years and in the amounts, as follows:

Year (July 1)	Principal Amount	Year (July 1)	Principal Amount
2007	$2,665,000	2017	$2,405,000
2008	1,550,000	2018	2,525,000
2009	1,625,000	2019	2,650,000
2010	1,710,000	2020	2,785,000
2011	1,795,000	2021	2,925,000
2012	1,885,000	2022	3,070,000
2013	1,980,000	2023	3,220,000
2014	2,075,000	2024	3,385,000
2015	2,180,000	2025	3,550,000
2016	2,290,000	2026	3,730,000

The Series 2007 Bonds shall be payable as to interest on January 1 and July 1 of each year during the life of the Series 2007 Bonds, commencing July 1, 2007 at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months) established by the Accepted Bid. The Series 2007 Bonds will be issuable in the denomination of $5,000 each or integral multiples thereof, in fully registered form.

Section 4. Security. The Series 2007 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, subject to no prior lien granted under the Act. The Series 2007 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 2007 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 2007 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 2007 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 2007 Bonds and all Bonds Outstanding; and

(b) Commencing the tenth day of the month immediately succeeding the date of delivery of the Series 2007 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 2007 Bonds and all Bonds Outstanding.

Section 5. Series 2007 Bonds on a Parity. The Series 2007 Bonds are issued on a parity with the outstanding Pima County, Arizona, Sewer Improvement and Refunding Revenue Bonds, Series 1998, Sewer Revenue Refunding Bonds, Series 2001, and Sewer Revenue Refunding Bonds, Series 2004, 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, as amended, and May 11, 2004, as amended, respectively, and any other bonds hereafter issued on a parity with such bonds (together, the "Parity Obligations"), and holders of the Series 2007 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 2007 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 2007 Bonds. Payment of the Series 2007 Bonds may be provided as described in Resolution No. 1991-138 and additional Parity Obligations may be issued or incurred as provided in Resolution No. 1991-138.

If necessary, the Reserve Fund Value shall be increased by the amount of the Reserve Requirement for the Series 2007 Bonds and all other outstanding Parity Obligations. If, upon issuance of the Series 2007 Bonds, the Reserve Fund Value is less than the Reserve

Requirement, the County shall (i) immediately upon execution and delivery of the Series 2007 Bonds, deposit Series 2007 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 2007 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 2007 Bonds or (iii) any combination of (i) and (ii).

Section 6. Prior Redemption.

(a) Optional Redemption. The Series 2007 Bonds maturing on or before July 1, 2017 are not subject to call for redemption prior to their respective maturity dates. The Series 2007 Bonds maturing on or after July 1, 2018 are subject to call for redemption on any date on or after July 1, 2017 at the election of the County, in whole or in part from maturities selected by the County and within any maturity by lot by the payment of a redemption price equal to the principal amount of each Series 2007 Bond called for redemption plus accrued interest to the date fixed for redemption, without premium.

(b) Notice of Redemption. Notice of redemption will be given by mail to registered owners of the Series 2007 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 2007 Bonds shall affect the regularity of the proceedings for redemption of any other Series 2007 Bonds.

(c) Redemption of Less Than All of a Series 2007 Bond. The County may redeem a portion of any Series 2007 Bond in $5,000 increments. In that event, the registered owner shall submit the Series 2007 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 2007 Bond in a principal amount which reflects the redemption so made to be authenticated and delivered to the registered owner thereof.

(d) Effect of Call for Redemption. On the date designated for redemption by notice given as herein provided, the Series 2007 Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Series 2007 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 2007 Bonds or portions of Series 2007 Bonds so called for redemption shall cease to accrue, such Series 2007 Bonds shall cease to be entitled to any benefit or security hereunder and the owners of such Series 2007 Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof and accrued interest and such Series 2007 Bonds shall be deemed paid and no longer outstanding.

Section 7. Use of Proceeds.

(a) Upon delivery of the Series 2007 Bonds and payment therefor, the amount paid as accrued interest shall be deposited to the Bond Fund. The balance shall be set aside in a separate fund and used solely for the purpose approved by the electors of the County at the Bond Elections.

(b) Pending any disbursement(s) as set forth in subsection (a) above, the County Treasurer is directed to invest the proceeds from the sale of the Series 2007 Bonds in the State Treasurer's Local Government Investment Pool (LGIP); provided, however, that the County, acting through the County Administrator or its Finance and Risk Management Director, may at any time provide other written investment instructions to the County Treasurer and the County Treasurer, to the extent that such investments are lawful, is authorized and directed to invest the monies designated in the written instructions in the investments set forth in the instructions.

Section 8. Form of Series 2007 Bonds.

(a) The Series 2007 Bonds shall be in substantially the form of Exhibit B, attached hereto and incorporated by reference herein, with such necessary and appropriate omissions, insertions and variations as are permitted or required hereby or by the Notice Inviting Proposals for the Purchase of Sewer Revenue Bonds and are approved by those officers executing the Series 2007 Bonds and execution thereof by such officers shall constitute conclusive evidence of such approval.

(b) The Series 2007 Bonds may have notations, legends or endorsements required by law, securities exchange rule or usage. Each Series 2007 Bond shall show the date of its authentication and registration.

Section 9. Book Entry Only System.

(a) The Series 2007 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 2007 Bonds. One fully registered Series 2007 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.

(b) So long as the book entry only system is in effect, beneficial ownership interests in the Series 2007 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 2007 Bonds will not receive certificates representing their interests in the Series 2007 Bonds and will not be deemed to be registered owners of the Series 2007 Bonds.

(c) So long as the book entry only system is in operation, principal of, premium, if any, and interest on the Series 2007 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 2007 Bonds.

(d) 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 2007 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 2007 Bonds one or more Series 2007 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 2007 Bonds.

(a) The Series 2007 Bonds shall be executed for and on behalf of the County by the Chairman of the Board and attested by the Clerk of the Board by their manual or facsimile signatures.

(b) If an officer whose signature is on a Series 2007 Bond no longer holds that office at the time the Series 2007 Bond is authenticated and registered, the Series 2007 Bond shall nevertheless be valid.

(c) A Series 2007 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 2007 Bond has been authenticated and issued under this resolution.

Section 11. Mutilated, Lost or Destroyed Series 2007 Bonds. In case any Series 2007 Bond becomes mutilated or destroyed or lost, the County shall cause to be executed and delivered a new Series 2007 Bond of like date and tenor in exchange and substitution for and upon the cancellation of such mutilated Series 2007 Bond or in lieu of and in substitution for such Series 2007 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 2007 Bond destroyed or lost, filing with the Clerk of the Board by the registered owner evidence satisfactory to the County that such Series 2007 Bond was destroyed or lost, and furnishing the County with a sufficient indemnity bond pursuant to § 47-8405, Arizona Revised Statutes.

Section 12. Acceptance of Bid.

(a) The bid of the winning bidder attached hereto as Exhibit A for the purchase of the Series 2007 Bonds is hereby accepted and the Series 2007 Bonds are hereby ordered sold to such purchaser in accordance with the terms of such bid and the terms and conditions of the Notice Inviting Bids for the Purchase of Sewer Revenue Bonds. The Series 2007 Bonds will bear interest at the rates set forth in the Accepted Bid.

(b) The County Administrator or his designee is hereby authorized and directed to cause the Series 2007 Bonds to be delivered to the purchaser upon receipt of payment therefor and satisfaction of the other conditions for delivery thereof in accordance with the terms of the sale.

Section 13. Bond Registrar and Paying Agent.

(a) The County will maintain an office or agency where Series 2007 Bonds may be presented for registration of transfer (the "Bond Registrar") and an office or agency where Series 2007 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 2007 Bonds.

(b) As provided in Resolution No. 1991-138, The Bank of New York Trust Company, N.A. (as successor in interest to J.P. Morgan Trust Company, National Association, Bank One Trust Company, N.A., Bank One Arizona, NA and The Valley National Bank of Arizona), or successors thereto, is hereby appointed and shall act as the Bond Registrar and Paying Agent for the Series 2007 Bonds.

(c) The Bond Registrar may appoint an authenticating agent acceptable to the County to authenticate Series 2007 Bonds. An authenticating agent may authenticate Series 2007 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.

(d) The Bond Registrar shall keep a register of the Series 2007 Bonds, the registered owners of the Series 2007 Bonds and of transfer of the Series 2007 Bonds. When Series 2007 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 2007 Bonds registered in the name of the transferee of the same principal amount, maturity and rate of interest as the surrendered Series 2007 Bonds. Any Series 2007 Bond may be exchanged at the designated office of the Bond Registrar for a Series 2007 Bond of the same maturity date and aggregate principal amount as the surrendered Series 2007 Bond. The "Record Date" for the Series 2007 Bonds will be the close of business of the Bond Registrar on the 15th day of the month preceding an interest payment date. Series 2007 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.

(e) The Bond Registrar shall authenticate Series 2007 Bonds for original issue in up to $50,000,000 aggregate principal amount upon the written request of the County Administrator or his designee. The aggregate principal amount of Series 2007 Bonds outstanding at any time may not exceed that amount except for replacement Series 2007 Bonds as to which the requirements of the Bond Registrar and the County are met.

Section 14. Reserve Fund Guaranty and Bond Insurance. In the event a Reserve Fund Guaranty is delivered in connection with the Series 2007 Bonds, the County Administrator or his designee is hereby authorized to negotiate with and secure, with proceeds of the Series 2007 Bonds or otherwise, such a Reserve Fund Guaranty, in amounts required by Resolution No.

1991-138. The Chairman of the Board or the County Administrator or the designee or either is hereby further authorized to execute and deliver any instruments or documents necessary in connection with the purchase of any such Reserve Fund Guaranty, including those making provision for the repayment of amounts advanced by the institutions issuing such Reserve Fund Guaranty. If a Municipal Bond Insurance Policy is issued in connection with the Series 2007 Bonds, the County Administrator or the designee or either is hereby further authorized to execute and deliver any instruments or documents necessary in connection with such Municipal Bond Insurance Policy, including those making provision for the repayment of amounts advanced by the institutions issuing such Municipal Bond Insurance Policy

Section 15. Resolution a Contract. This Resolution shall constitute a contract between the County and the owners of the Series 2007 Bonds issued hereunder and shall not be repealed or amended except as provided in Resolution No. 1991-138 for repeal or amendment thereof.

Section 16. Tax Covenants.

(a) The County recognizes that the purchasers and owners of the Series 2007 Bonds will have accepted them on and paid a price for them reflecting 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 2007 Bonds are delivered. In this connection, the County covenants that it will use, and will restrict the use and investment of, the proceeds of the Series 2007 Bonds in such manner and to such extent as may be necessary so that (i) the Series 2007 Bonds will not constitute private activity bonds, arbitrage bonds or hedge bonds under Section 141, 148 or 149 of the Code, or to be treated other than as bonds to which Section 103(a) of the Code applies, and (ii) the interest on the Series 2007 Bonds will not be an item of tax preference under Section 57 of the Code. For purposes of this Section 17, the "Code" means, collectively, the Internal Revenue Code of 1986, as amended, the Treasury Regulations (whether temporary or final) promulgated pursuant thereto, and any amendments or successor provisions thereto, any official rulings, announcements, notices, procedures and judicial determinations regarding any of them.

(b) The County further covenants that (i) it will take or cause to be taken such actions that may be required of it for the interest on the Series 2007 Bonds to be and remain excluded from gross income for federal income tax purposes; (ii) it will not take or authorize to be taken any actions that would adversely affect that exclusion; (iii) it, or persons acting for it, will, among other acts of compliance, (a) apply the proceeds of the Series 2007 Bonds to the governmental purposes of the borrowing; (b) restrict the yield on investment property acquired with the proceeds; (c) make timely and adequate payments of to the federal government as required under the Tax Compliance Certificate of the County, to be dated as of the date of issuance of the Series 2007 Bonds (the "Tax Compliance Certificate") relating to the Series 2007 Bonds; (d) maintain books and records and make calculations and reports; and (e) refrain from certain uses of those proceeds, and, as applicable, of property financed with such proceeds all in such manner and to the extent necessary to assure that exclusion of that interest under the Code.

(c) The County Administrator or his designee is authorized to (i) make or effect any election, selection, designation, choice, consent, approval or waiver on behalf of the County with respect to the Series 2007 Bonds as the County is permitted to make or give under

the federal income tax laws, including, without limitation, any of the elections provided for in Section 148(f)(4)(C) of the Code or available under Section 148 of the Code, for the purpose of assuring, enhancing or protecting favorable tax treatment or status of the Series 2007 Bonds or interest thereon or assisting compliance with requirements for that purpose, reducing the burden or expense of such compliance, reducing the rebate amount or payments of penalties, or making payments of special amounts in lieu of making computations to determine, or paying, excess earnings as rebate, or obviating those amounts or payments, as determined by that officer, which actions shall be in writing and signed by that officer; (ii) take any and all other actions, make or obtain calculations, make payments, and make or give reports, covenants and certifications of and on behalf of the County, as may be appropriate to assure the exclusion of interest from gross income and the intended tax status of the Series 2007 Bonds; and (iii) give one or more appropriate certificates, for inclusion in the transcript of proceedings for the Series 2007 Bonds, setting for the reasonable expectations of the County regarding the amount and use of all the proceeds of the Series 2007 Bonds, the facts, circumstances and estimates on which they are based, and other facts and circumstances relevant to the tax treatment of the interest on and the tax status of the Series 2007 Bonds.

(d) The County authorizes the creation by the County Administrator or his designee of a fund that is hereinafter referred to as the "Rebate Fund," and any other such accounts or sub-accounts as necessary or advisable in order to comply with the foregoing covenants and the Tax Compliance Certificate. The County will comply with the rebate requirements set forth in the Tax Compliance Certificate.

(e) The County Administrator or his designee is hereby authorized to execute on behalf of the County the Tax Compliance Certificate. The Tax Compliance Certificate shall constitute a certification, representation and agreement of the County and no investment shall be made of the proceeds of the Series 2007 Bonds herein authorized nor of the money in the accounts established hereunder in violation of the expectations and covenants prescribed by the Tax Compliance Certificate. The Tax Compliance Certificate 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 the Tax Compliance Certificate.

(f) The County further recognizes that Section 149(a) of the Code requires the Series 2007 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 Bonds are delivered. In this connection, the County agrees that it will not take any action to permit the Series 2007 Bonds to be issued in, or converted into, bearer or coupon form if such action would cause interest on the Series 2007 Bonds to be included in gross income for federal income tax purposes.

Section 17. Continuing Disclosure Undertaking. The County also recognizes that the initial purchaser of the Series 2007 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, as amended (the "Rule"), in connection with purchasing or selling the Series 2007 Bonds as an underwriter. In order to assist the initial purchaser in complying with the Rule, the County will

enter into a Continuing Disclosure Undertaking with respect to the Series 2007 Bonds, and a Continuing Disclosure Undertaking in substantially the form presented to the Board of Supervisors is hereby approved. The County Administrator or his designee is hereby authorized and directed to execute and deliver the Continuing Disclosure Undertaking and to do all such acts and things necessary to carry out the terms and intent of the Continuing Disclosure Undertaking.

Section 18. Official Statement. The County Administrator or his designee is hereby authorized and directed to prepare or authorize to be prepared, and to complete, a final Official Statement (the "Official Statement") relating to the original issuance of the Series 2007 Bonds in substantially the form of the Preliminary Official Statement (the "Preliminary Official Statement") prepared in connection with the original issuance of the Series 2007 Bonds, with such additions, deletions and modifications consistent with this Resolution as shall be approved by the County Administrator or his designee. If and to the extent applicable, the County Administrator or his designee shall certify or otherwise represent that the Preliminary Official Statement, in original or revised form, is a "deemed final" official statement (except for permitted omissions) of the County as of a particular date and that a completed version is a "final" official statement for purposes of the Rule. The distribution and use of the Preliminary Official Statement and the final Official Statement by the County and the original purchaser of the Series 2007 Bonds is hereby authorized, ratified, confirmed and approved.

The Chairman or any member of this Board of Supervisors and the County Administrator or his designee are each further authorized to use and distribute, or authorize the use and distribution of, any supplements in connection with the original issuance of the Series 2007 Bonds as may be necessary or appropriate, and to sign and deliver, on behalf of the County, the Official Statement and such certificates in connection with the accuracy of the Preliminary Official Statement and the Official Statement and any amendment thereto as may be necessary or appropriate.

Section 19. 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 2007 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 20. 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 2007 Bonds as contemplated by this Resolution whether heretofore or hereafter taken shall be and are hereby ratified, confirmed and approved. Any changes made in the Notice Inviting Bids for the Purchase of Sewer Revenue Bonds that does not conform to the prior order of this Board of Supervisors is hereby ratified. 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 21. Emergency. It is necessary to utilize an emergency clause with this Resolution to make the award of the contract for the purchase of the Series 2007 Bonds effectively immediately, thereby committing the purchaser to the interest rates the Series 2007 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 2007 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.

PASSED, ADOPTED AND APPROVED by the Board of Supervisors of Pima County, Arizona, on January 16, 2007.

PIMA COUNTY

By:_____
Chairman, Board of Supervisors

JAN 16 2007

ATTEST:

By:_____
Clerk, Board of Supervisors

APPROVED AS TO FORM:

SQUIRE, SANDERS & DEMPSEY L.L.P.,
Bond Counsel

By:_____
Timothy E. Pickrell

383726.3

EXHIBIT A TO RESOLUTION NO. 2007-17

Resolution No. 2007-17 awarding $50,000,000 of Sewer Revenue Bonds, Series 2007, to the low bidder, Merrill Lynch & Co., at a Net Interest Cost of 4.243212%.

Result

Merrill Lynch & Co.'s Reoffering Scale

PARITY

Pima County
$50,000,000 Sewer Revenue Bonds, Series 2007

Maturity Date	Amount $	Coupon %	Yield %	Dollar Price	Call Date
07/01/2007	2,665M	4.0000	3.5400	100.192	
07/01/2008	1,550M	4.0000	3.5600	100.607	
07/01/2009	1,625M	3.7500	3.6300	100.275	
07/01/2010	1,710M	4.0000	3.6700	101.053	
07/01/2011	1,795M	4.0000	3.6900	101.255	
07/01/2012	1,885M	3.7500	3.7200	100.144	
07/01/2013	1,980M	4.0000	3.7600	101.358	
07/01/2014	2,075M	4.0000	3.8200	101.153	
07/01/2015	2,180M	5.0000	3.8600	108.137	
07/01/2016	2,290M	5.0000	3.9000	108.609	
07/01/2017	2,405M	5.0000	3.9500	108.904	
07/01/2018	2,525M	4.1250	4.0400	100.715	07/01/2017
07/01/2019	2,650M	4.2500	4.1000	101.260	07/01/2017
07/01/2020	2,785M	4.2500	4.1800	100.584	07/01/2017
07/01/2021	2,925M	4.3750	4.2500	101.041	07/01/2017
07/01/2022	3,070M	4.5000	4.2500	102.086	07/01/2017
07/01/2023	3,220M	4.5000	4.3100	101.580	07/01/2017
07/01/2024	3,385M	4.0000	4.3300	95.987	
07/01/2025	3,550M	4.0000	4.3500	95.591	
07/01/2026	3,730M	4.0000	4.3700	95.185	

Accrued Interest: $141,275.84

Gross Production: $50,442,843.60

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EXHIBIT B TO RESOLUTION NO. 2007-____

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number: R-_____ Denomination: $_____

Interest Rate	Maturity Date	Original Issue Date	CUSIP
		January 1, 2007	

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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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. 2007-___ adopted by the Board of Supervisors of Pima County on June 18, 1991, August 6, 1991 and January 16, 2007, respectively (collectively, the "Bond Resolution"), for the purpose of providing funds to pay the costs of improvements, expansions and extensions to the County's sewer plant and system and 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.

Bonds maturing on or before July 1, 2017 are not subject to call for redemption prior to their respective maturity dates. The Bonds maturing on or after July 1, 2018 are subject to call for redemption on any date on or after July 1, 2017 at the election of the County, in whole or in part from maturities selected by the County and within any maturity by lot 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, without premium.

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 The Bank of New York Trust Company, N.A. 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 Chairman 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

_____

Chairman, Board of Supervisors

ATTEST:

_____

Clerk, Board of Supervisors

AUTHENTICATION CERTIFICATE

This Bond is one of the Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2007, described in the Bond Resolution mentioned herein.

Date of Authentication: _____

The Bank of New York Trust Company, N.A.,
as Registrar

By: _____
Authorized Representative

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.

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.

OFFICIAL STATEMENT

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

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (ii) interest on the Bonds is exempt from Arizona state income tax. Interest on the Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of tax aspects, see "TAX EXEMPTION" herein.

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

Dated: January 1, 2007 **Due: July 1, as shown on next page**

The Sewer Revenue Bonds, Series 2007 (the "Bonds") are being issued by Pima County, Arizona (the "County") in accordance with applicable State of Arizona law. The Bonds are issued in the form of fully registered bonds in denominations of $5,000 and integral multiples thereof and will bear interest from the date of the Bonds to the date of maturity or prior redemption of each of the Bonds. Interest on the Bonds is payable semiannually on each January 1 and July 1 (each an "Interest Payment Date"), commencing July 1, 2007. Interest 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 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 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 owning an aggregate principal amount of at least $1,000,000. Principal of the Bonds will be payable at the designated corporate trust office of The Bank of New York Trust Company, N.A., or any successor thereto, as registrar and paying agent.

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

The Bonds are being issued for the purpose of providing funds to (i) make various improvements in the County's sewer system (the "System") and to (ii) pay costs relating to the issuance of the Bonds.

Principal of and interest on the Bonds is payable solely from and secured by a pledge of the Net Revenues of the System on a parity of lien with certain outstanding sewer revenue debt and additional parity debt that may be issued or incurred in the future under the herein-described Sewer Bond Resolution. The 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 Bonds from any sources of funds except from the sources and funds described herein. See "THE BONDS - Security and Source of Payment" herein.

The County initially intends to utilize the book-entry-only system of The Depository Trust Company ("DTC"), although the County and DTC each reserve the right to discontinue that system at any time. Utilization of the book-entry-only system will affect the method and timing of payment and the method of transfer of beneficial interests in the Bonds. So long as the book-entry-only system is in effect, the County will issue a single fully-registered bond for each maturity registered in the name of Cede & Co., as nominee of DTC, and will make all payments of principal and interest to Cede & Co. DTC will be responsible for distributing the principal and interest payments to its direct and indirect participants which will, in turn, be responsible for distribution to the purchasers of beneficial interests in the Bonds pursuant to this offering (the "Beneficial Owners"). So long as the book-entry-only system is in effect and Cede & Co., as nominee of DTC, is the registered owner of the Bonds, all references herein to owners of the Bonds and provisions for consents by owners of the Bonds will refer to and be solicited from Cede & Co. and not the Beneficial Owners.

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

FSA.

MATURITY SCHEDULE

Due July 1	Principal Amount	Interest Rate	Yield	Due July 1	Principal Amount	Interest Rate	Yield
2007	$2,665,000	4.000%	3.540%	2017	$2,405,000	5.000%	3.950%
2008	1,550,000	4.000%	3.560%	2018	2,525,000	4.125%	4.040% *
2009	1,625,000	3.750%	3.630%	2019	2,650,000	4.250%	4.100% *
2010	1,710,000	4.000%	3.670%	2020	2,785,000	4.250%	4.180% *
2011	1,795,000	4.000%	3.690%	2021	2,925,000	4.375%	4.250% *
2012	1,885,000	3.750%	3.720%	2022	3,070,000	4.500%	4.250% *
2013	1,980,000	4.000%	3.760%	2023	3,220,000	4.500%	4.310% *
2014	2,075,000	4.000%	3.820%	2024	3,385,000	4.000%	4.330%
2015	2,180,000	5.000%	3.860%	2025	3,550,000	4.000%	4.350%
2016	2,290,000	5.000%	3.900%	2026	3,730,000	4.000%	4.370%

* Yield to the July 1, 2017 par call date.

(Accrued Interest to be Added)

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

The Bonds are offered when, as and if issued by the County subject to the approving opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, as to validity and tax exemption. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about January 25, 2007.

January 16, 2007

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PIMA COUNTY, ARIZONA
BOARD OF SUPERVISORS

Richard Elías, *Chairman*

Sharon Bronson

Ray Carroll

Ann Day

Ramón Valadez

COUNTY ADMINISTRATIVE OFFICIALS

ELECTED OFFICIALS

Bill Staples
County Assessor

Beth Ford
County Treasurer

Barbara La Wall
County Attorney

APPOINTED OFFICIALS

C. H. Huckelberry
County Administrator

Thomas Burke
Finance and Risk Management Director

FINANCIAL CONSULTANT

RBC Capital Markets
Phoenix, Arizona

BOND COUNSEL

Squire, Sanders & Dempsey L.L.P.
Phoenix, Arizona

BOND REGISTRAR AND PAYING AGENT

The Bank of New York Trust Company, N.A.
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 Bonds identified on the cover hereof. No person has been authorized by Pima County, Arizona (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.

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 the past experience, as shown by such financial and other information, will necessarily continue or be repeated in the future. This Official Statement contains, in part, estimates and matters of opinion, whether or not expressly stated to be such, which are not intended as statements or representations of fact or certainty, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. All forecasts, projections, assumptions, opinions or estimates are "forward looking statements," which must be read with an abundance of caution and which may not be realized or may not occur in the future. 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, create any implication that there has been no change in the affairs of the County since the date hereof.

The issuance and sale of the 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 Sections 3(a)2 and 3(a)12, respectively, for the issuance and sale of municipal securities; nor have the issuance and sale of the Bonds been qualified under the Securities Act of Arizona, in reliance upon various exemptions thereunder. 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.

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.

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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, 2006

Appendix F - Excerpts from Pima County, Arizona Comprehensive Annual Financial Report For The Fiscal Year Ended June 30, 2006

Appendix G - Summary of Resolution No. 1991-138 (as Amended and Supplemented) Authorizing the Issuance of Sewer Revenue Bonds

Appendix H - Continuing Disclosure Undertaking

Appendix I - Specimen Municipal Bond Insurance Policy

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$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

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 Bonds, Series 2007 (the "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 BONDS

Authorization and Use of Funds

The 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 Bonds, adopted by the Board on January 16, 2007 (collectively, the "Sewer Bond Resolution"). Excerpts of the Sewer Bond Resolution are presented in Appendix G.

The Bonds offered herein represent a portion of the remaining authorization approved at special bond elections held on May 20, 1997 and May 18, 2004. After the sale and delivery of the Bonds, the County will have $153,942,383 principal amount of authorized but unissued sewer revenue bonds remaining for issuance.

Proceeds of the sale of the Bonds will be used to provide funds to (i) make various improvements in the County's sewer system (the "System") and (ii) pay costs relating to the issuance of the Bonds.

General Description

The Bonds will be dated January 1, 2007 and will be issued in the form of fully registered bonds in denominations of $5,000 or any integral multiple thereof. The Bonds will bear interest from January 1, 2007, payable semiannually on January 1 and July 1 (each an "Interest Payment Date"), commencing July 1, 2007.

Interest will be paid on each Interest Payment Date by check mailed to each registered owner of the Bonds at the address shown on the registration books (the "Bond Register") maintained by the 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 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 owning an aggregate principal amount of Bonds of at least $1,000,000 and the principal of the Bonds will be payable at maturity upon surrender of the Bonds to The Bank of New York Trust Company, N.A., as the bond registrar and paying agent (the "Bond Registrar" and "Paying Agent" as applicable).

Security and Source of Payment

Principal and interest on the 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 Bonds will be on a parity of lien on such Net Revenues with the County's outstanding Sewer Improvement and Refunding Revenue Bonds, Series 1998, Sewer Revenue Refunding Bonds, Series 2001, and Sewer Revenue Refunding Bonds, Series 2004, and certain loan agreements between the Water Infrastructure Finance Authority of Arizona ("WIFA") and the County, as borrower, dated February 1, 1996, June 1, 1997, October 27, 2000 as amended, and May 11, 2004, as amended (collectively, the "Outstanding Parity Bonds") and additional parity bonds that may be issued in the future as provided in the Sewer Bond Resolution (collectively with the Bonds and the Outstanding Parity Bonds, the "Parity Bonds"). The aggregate principal amount of Parity Bonds that will be outstanding after the issuance of the Bonds will be $185,892,237. See "Parity Bonds" below and "SEWER REVENUE BONDS TO BE OUTSTANDING" herein.

Redemption

The Bonds maturing on or before July 1, 2017 are not subject to call for redemption prior to their respective maturity dates. The Bonds maturing on or after July 1, 2018 are subject to call for redemption on any date on or after July 1, 2017 at the election of the County, in whole or in part from maturities selected by the County and within any maturity by lot, 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, without premium.

Notice of Redemption

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 not more than sixty (60) nor less than thirty (30) days prior to the date set for redemption. Failure to give proper notice of redemption shall not affect the redemption of any Bond for which proper notice was given.

Book-Entry-Only System

THE INFORMATION PROVIDED UNDER THIS SUBCAPTION "BOOK-ENTRY-ONLY SYSTEM" HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE COUNTY, BOND COUNSEL OR THE FINANCIAL CONSULTANT AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of the Bonds, 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" and, together with the Direct Participants, the "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 beneficial interests in the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of a beneficial interest in a Bond ("Beneficial Owner") is in turn to be recorded on the Direct Participants' 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 Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of beneficial ownership interests in the Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants 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 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds such as redemptions, defaults, and proposed amendments to the Sewer Bond Resolution. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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 Bond Registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Registrar and Paying Agent 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments represented by the Bonds will be made by the Paying Agent 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 or the Paying Agent 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, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, 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, 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 Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Paying Agent or the County. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds 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, Bonds will be printed and delivered to DTC.

NEITHER THE COUNTY NOR THE BOND REGISTRAR WILL HAVE RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS OR TO INDIRECT PARTICIPANTS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (2) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE SEWER BOND RESOLUTION; (3) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (4) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE BONDS; (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF BONDS; OR (6) ANY OTHER MATTERS.

So long as Cede & Co. is the registered Owner of the Bonds, as nominee for DTC, references herein to "Owner" or registered owners of the Bonds (other than under the caption "TAX EXEMPTION") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of such 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.

Registration and Transfer

The Bonds will be transferable only upon the Bond Register maintained by the Bond Registrar and only upon surrender of the Bond or Bonds to be transferred to the registrar with an appropriate instrument of transfer executed by the transferor.

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 bonds 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 bonds' 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 Bonds and adjusted upon the issuance of 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 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 investment and any amount thereof is subsequently withdrawn and transferred to the Bond Fund to pay debt service on the 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 ("Financial Guaranty"), AMBAC Indemnity Corporation ("AMBAC Indemnity") and MBIA Insurance Company ("MBIA") satisfying the requirements of a Reserve Fund Guaranty under the Sewer Bond Resolution, in an amount equal to the Reserve Requirement for all outstanding sewer revenue bonds. The County intends to fund the increase in the Reserve Requirement resulting from the issuance of the Bonds, through the delivery of a Reserve Fund Guaranty issued by Financial Security Assurance Inc.

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 Parity 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 Guaranty) 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 and Risk Management) 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 Bonds."

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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 September 30, 2006, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,581,107,000 and its total net unearned premium reserve was approximately $1,992,163,000 in accordance with statutory accounting principles. At September 30, 2006, Financial Security's consolidated shareholder's equity was approximately $3,058,987,000 and its total net unearned premium reserve was approximately $1,590,538,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the 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 Bonds or the advisability of investing in the 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 TO BE OUTSTANDING

The following chart lists the sewer revenue debt of the County that is currently outstanding and that will be outstanding after the issuance of the Bonds.

Date of Issue	Original Amount	Purpose	Original Maturity Dates	Balance Outstanding
03-01-96	$11,313,350	Refunding (a)(b)	7-1-97/12	$ 9,069,388.26
08-06-97	7,500,000	Sewer Improvements (b)	7-1-00/11	3,670,007.52
05-01-98	29,185,000	Sewer Improvements	7-1-99/15	17,655,000.00
10-27-00	61,180,286	Sewer Improvements (b)(c)	7-1-02/16	49,089,531.99
04-01-01	19,440,000	Refunding	7-1-02/15	14,980,000.00
05-01-04	25,770,000	Refunding	7-1-05/15	22,890,000.00
05-11-04	19,967,331	Sewer Improvements (b)(d)	7-1-05/24	18,538,309.17
Total Direct Sewer Revenue Bonded Debt Outstanding				$135,892,236.94
Plus: The Series 2007 Bonds offered herein				50,000,000.00
Net Direct Sewer Revenue Bonds Outstanding				$185,892,236.94

(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) May 11, 2004, the County entered into certain Loan Agreements with WIFA totaling $18,015,219. In September 2005, the County amended those Loan Agreements and added an additional $1,952,112. Amount outstanding as of November 21, 2006.

PIMA COUNTY, ARIZONA
STATEMENT OF NET REVENUES,
DEBT SERVICE REQUIREMENTS
AND PROJECTED COVERAGE

Fiscal Year	Net Revenues Available for Debt Service(a)	Outstanding Debt Service Requirements	Plus: The Bonds Dated: January 1, 2007 Principal	Interest (b)	Total Debt Service Requirements	Debt Service Coverage (c)
2006	$48,452,577					
2007		$16,422,395	$2,665,000	$1,059,569	$20,146,964	2.40
2008		16,447,430	1,550,000	2,012,538	20,009,968	2.42
2009		16,453,327	1,625,000	1,950,538	20,028,865	2.42
2010		15,565,883	1,710,000	1,889,600	19,165,483	2.53
2011		16,608,054	1,795,000	1,821,200	20,224,254	2.40
2012		17,349,316	1,885,000	1,749,400	20,983,716	2.31
2013		15,213,349	1,980,000	1,678,713	18,872,061	
2014		14,714,627	2,075,000	1,599,513	18,389,139	
2015		15,615,800	2,180,000	1,516,513	19,312,313	
2016		7,148,337	2,290,000	1,407,513	10,845,850	
2017		7,164,978	2,405,000	1,293,013	10,862,990	
2018		1,423,808	2,525,000	1,172,763	5,121,571	
2019		1,423,179	2,650,000	1,068,606	5,141,786	
2020		1,422,529	2,785,000	955,981	5,163,511	
2021		1,421,858	2,925,000	837,619	5,184,477	
2022		1,421,164	3,070,000	709,650	5,200,814	
2023		1,420,448	3,220,000	571,500	5,211,948	
2024		1,419,708	3,385,000	426,600	5,231,308	
2025		13,571	3,550,000	291,200	3,854,771	
2026			3,730,000	149,200	3,879,200	

(a) Net Revenues of the System reported by the County for fiscal year 2005-06.

(b) The first Interest Payment Date is July 1, 2007.

(c) Under the provisions of the Sewer Bond Resolution, the County may issue 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 BONDS - Parity Bonds" herein.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds by the County are subject to the approving opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel to the County. Copies of such opinion will be available at the time of delivery of the Bonds. The form of opinion is included as Appendix D to this Official Statement. Fees of Bond Counsel will be paid from Bond proceeds.

TAX EXEMPTION

General

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum

tax imposed on individuals and corporations, and (ii) interest on the Bonds is exempt from Arizona state income tax. Bond Counsel will express no opinion as to any other tax consequences regarding the Bonds.

The opinion on federal tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the County to be contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the interest on the Bonds is and will remain excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of those certifications and representations or compliance.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations in order for the interest to be and to remain so excluded from the date of issuance. Noncompliance with these requirements by the County may cause the interest on the Bonds to be included in gross income for federal income tax purposes and thus to be subject to federal income tax retroactively to the date of their issuance. The County has covenanted to take the actions required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

A portion of the interest on the Bonds earned by corporations may be subject to the federal corporate alternative minimum tax. In addition, interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

Pursuant to the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these or other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding such consequences.

Purchasers of the Bonds at other than their original issuance at the respective prices indicated on the inside front cover of this Official Statement should consult their own tax advisers regarding other tax considerations such as the consequences of any market discount.

Original Issue Discount/Original Issue Premium

Certain of the Bonds ("Discount Bonds") as indicated on the front cover of this Official Statement may be offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond. The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excluded from the owner's gross income for federal income tax purposes to the same extent and subject to the same considerations discussed above as to other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond.

A purchaser of a Discount Bond in the initial public offering at the price for that Discount Bond stated on the front cover of this Official Statement who holds that Discount Bond to maturity will realize no gain or loss upon the retirement of that Discount Bond.

Certain of the Bonds (for purposes of this subheading, "Premium Bonds") as indicated on the front cover of this Official Statement may be offered and sold to the public at a price in excess of their stated principal amounts payable at the scheduled principal payment dates. That excess constitutes premium. For federal income tax purposes, premium is amortized over the period to scheduled principal payment date of a Premium Bond, based on the yield to scheduled principal payment date of that Premium Bond (or, in the case of a Premium Bond callable prior to its scheduled principal payment date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. No portion of that premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, payment (including payment at the scheduled principal payment date) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the inside front cover of this Official Statement who holds that Premium Bond to its scheduled principal payment date (or, in the case of a callable Premium Bond, to its earlier prepayment date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Owners of Premium Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the amount of premium properly accruable in any period with respect to the Premium Bonds and as to other federal tax consequences and the treatment of bond premium for purposes of state and local taxes on, or based on, income.

LITIGATION

To the knowledge 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 Bonds; the collection or receipt of revenues to pay the principal of, and interest on, the Bonds; contesting or questioning the proceedings and authority under which the Bonds have been authorized and are to be issued, sold, executed or delivered; or the validity of the Bonds. The County will deliver a certificate to that effect at the time of the original delivery of the Bonds.

The County has been named as a defendant in several lawsuits for which the County believes either that it has adequate self-insurance or insurance coverage in the event of liability or that such liability would not otherwise materially and adversely affect the financial condition of the County.

RATINGS

Moody's Investor's Service ("Moody's") and Standard & Poor's Rating Group ("S&P") have assigned the Bonds the ratings of "Aaa" and "AAA", respectively, with the understanding that upon delivery of the Bonds the Municipal Bond Insurance Policy will be issued with respect to the Bonds by Financial Security. Moody's and S&P have also assigned the Bonds uninsured ratings of "A1 and "A+", respectively. 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 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 Bonds.

CONTINUING SECONDARY MARKET DISCLOSURE

The County has covenanted for the benefit of holders of the 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, 2008 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material (the "Notice of Material Events"). The Annual Report 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 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 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

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 filed, however, 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

The financial statements of the Pima County Department of Wastewater Management and excerpts of the County's Comprehensive Annual Financial Report as of June 30, 2006 and for the fiscal year then ended, which are included as Appendices E and F of this Official Statement, respectively, have been audited by Heinfeld & Meech and the Office of the Auditor General, State of Arizona, respectively, as stated in their respective opinions which appear in Appendices E and F. The County neither requested nor obtained the consent of Heinfeld & Meech or the Office of the Auditor General to include their reports and Heinfeld & Meech and the Office of the Auditor General have performed no procedures subsequent to rendering their opinions on the financial statements.

ADDITIONAL INFORMATION

Additional information and copies of the Official Statement and the Sewer Bond Resolution may be obtained from RBC Dain Rauscher Inc., doing business under the name RBC Capital Markets, 2398 East Camelback Road, Suite 700, Phoenix, Arizona 85016 (telephone 602-381-5368), Financial Consultant to the County.

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 Bonds.

By: /s/ Richard Elias
Chairman, Board of Supervisors

By: /s/ C.H. Huckelberry
County Administrator

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 Bonds.

By: _____
Chairman, Board of Supervisors

By: _____
County Administrator

APPENDIX A

PIMA COUNTY, ARIZONA
WASTEWATER MANAGEMENT DEPARTMENT

Organization and Administration

The Pima County, Arizona Wastewater Management Department (the "Department") operates as a separate enterprise of Pima County. The County is authorized to operate and maintain the sewer system (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 December 2002. 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 Roger Road Wastewater Treatment Plant, the Ina Road Water Pollution Control Facility, and the Randolph Park Water Reclamation Facility serve Metropolitan Pima County. Together, the three metropolitan facilities have a combined, current treatment capacity of approximately 69 million gallons per day (mgd). In 2007, of the new Biological Nutrient Removal (BNR) process at Ina Road will increase total metropolitan system capacity to 81.5 mgd. The non-metropolitan Pima County areas are served by eight wastewater treatment facilities: Green Valley, Avra Valley, Corona de Tucson, Arivaca Junction, Marana, Rillito Vista, Mt. Lemmon, and the Pima County Fairgrounds.

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. In addition, the Board has established a thirteen member advisory committee to review, evaluate and make recommendations on short and long-range capital improvement needs and revenue requirements of the Department.

The Department has been under the direction of Michael Gritzuk P.E., since he was appointed as Director in July 2005. During the past 25 years, Mr. Gritzuk has held director positions involving the development and management of major water and wastewater systems in Arizona, Florida, Massachusetts, and New Jersey. In addition, he was an engineering manager with the U.S. Environmental Protection Agency for six years. He served as the Director in the City of Phoenix's Water Services Department for seventeen years. Mr. Gritzuk holds a Bachelor of Engineering degree in Civil Engineering and Master Degrees in Engineering and Environmental Sciences from New York University. He is a professional engineer in the State of Arizona. He is a member of the Board of Directors of the Arizona Water and Pollution Control Association and American Water Works Association, as well as being the past President of the National WaterReuse Association.

Litigation or Administrative Actions

The metropolitan wastewater treatment facilities operate under discharge permits issued by the U.S. Environmental Protection Agency and Arizona Department of Environmental Quality (ADEQ). In September 2002, a portion of a main sewer trunk line, which is part of the System, collapsed. The County repaired the line and entered into a Consent Decree with ADEQ in June 2005. The Superior Court of the State of Arizona dismissed the Consent Decree on August 30, 2006.

Wastewater Fees and Revenues

The Department's structure of rates, fees and other charges for the System is 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 a one-time connection fee 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 certain other fixed costs of the Department and was set at $5.72. 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. As of January 1, 2007, the user fee rate, charged for what is considered to be normal, domestic strength sewage for a residential user, was set at $1.33 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 user fee rates for the last ten fiscal years.

PIMA COUNTY, ARIZONA
SUMMARY OF WASTEWATER USER FEES

Fiscal Year	Date User Fee Charges Adopted (a)	Monthly Service Charge	User Fee Rates ($ per Ccf) Residential	Commercial/Industrial (b)
1996-97	February 20, 1996	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
2005-06	June 21, 2005	5.72	1.18	1.18 – 4.27
2006-07	July 11, 2006 (c)	5.72	1.25	1.25 – 4.54
2006-07	July 11, 2006 (c)	5.72	1.33	1.33 – 4.81

(a) 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 increases.
(b) 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.
(c) During Fiscal Year 2006-07, two rate increases were approved. The first 6% rate increase was effective on August 11, 2006 and the second 6% rate increase was effective on January 1, 2007.

Source: Pima County User Fee Ordinance for the applicable year

Based on the residential user fee rate changes adopted by the Board, the following table summarizes the fiscal year percentage changes in user fee rates.

PIMA COUNTY, ARIZONA
SUMMARY OF PERCENTAGE INCREASES IN
RESIDENTIAL USER FEE RATES

Fiscal Year	User Fee Percentage Rate Increases
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
2005-06	8.0
2006-07 (a)	12.0

(a) The 12% rate increase represents two 6% rate increases that occurred during the fiscal year.

Source: Pima County User Fee Ordinance for the applicable year

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	Billed User Fee Revenue			Percent of User Fee Revenue		Percent User Fee Revenue
Year	Residential	Comm./Ind.	Total	Res.(a)	Comm./Ind.(a)	Increase(b)
1996-97	$21,062,013	$11,950,541	$33,012,554	63.8%	36.2%	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	30,280,270	17,405,195	47,685,465	63.5	36.5	5.2
2004-05	32,402,896	17,990,410	50,393,306	64.3	35.7	5.7
2005-06	37,781,910	23,953,237	61,735,147	61.2	38.8	22.5

(a) Beginning in fiscal year 1996-97, amounts reflect Tucson Water's reclassification of multifamily from residential to commercial/industrial.

(b) Changes in Total Billed User Fee Revenue.

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 user classes are delineated for connection fee purposes: single family residential, multifamily residential and commercial/industrial. The construction of a qualifying public sewer improvement shall qualify a developer for a discount against the connection fee otherwise due per dwelling unit or per ten commercial fixture units. The amount of discount from each eligible connection fee shall be $1,100 for the construction of a qualifying public sewer collection improvement and $250 for the construction of a qualifying public sewer treatment improvement. The aggregate discounts received shall not exceed the net construction cost of the qualifying public sewer improvements.

The connection fee charged to a user is based on the number of fixture units in the building or structure connecting to the System. Effective January 1, 2007, the residential connection fee will be $189.62 per fixture unit equivalent, and the fee will increase 6% every six months until it reaches $213.06 on January 1, 2008. Effective January 1, 2007, the commercial and industrial connection fee will be $379.33 per fixture unit equivalent, and the fee will increase 6% every six months until it reaches $426.22 on January 1, 2008.

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
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	17,479,914
2002-03	20,279,607
2003-04	29,404,130
2004-05	36,906,421
2005-06	42,219,962

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
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	104,062	213,288	1,199,727	1,517,077
2004-05	70,754	498,130	1,397,749	1,966,633
2005-06	29,005	1,783,873	456,248	2,269,126

(a) Under the terms of the Sewer Resolution (Pima County Resolution 1991-138), 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.

Source: Pima County Wastewater Management Department

Accounting and Billing

For the Fiscal Year Ended June 30, 2006, the Department's financial statements were audited by Heinfeld, Meech & Co., P.C. The Department performs accounting for System revenues and expenses.

Billing and collection services for user fees and turn-on fees are primarily provided by the City of Tucson, through its agency Tucson Water, the Metropolitan Domestic Water Improvement District (MDWID), Oro Valley Water Utility, and the Town of Marana. As of June 30, 2006 billing through Tucson Water comprises most of the Department's accounts, approximately 212,977 customers. MDWID bills approximately 15,808 customers, Oro Valley bills approximately 15,569 customers, and Marana bills approximately 2,467 customers. The County directly bills those sewer customers served by the numerous smaller water companies and private wells in the other parts of the County.

Delinquent user accounts are managed by Tucson Water, MDWID, Oro Valley, Marana or the County, depending on the source of water for the user. An account becomes delinquent when payment has not been received within 30 days of the "service to" date on the bill. For the water companies listed above, a notice is mailed advising that water service will be terminated, 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.

For users receiving water utility service from either a private water company or a private well, the Department handles the delinquencies. Delinquency billing notices are sent at 30, 60 and 90 days. If the user fails to respond, a certified letter is mailed advising that the account is being referred to the County Collection Division 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.

Wastewater records show that the number of customers to the sanitary sewer system has been increasing every year. Since fiscal year 1996-97, the average number of customers being served by the System has been:

Fiscal Year	Customers	% Increase
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	218,995	5.4
2002-03	226,772	3.6
2003-04	228,459	0.7
2004-05	240,306	5.2
2005-06	246,821	2.7

Source: Pima County Wastewater Management Department

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 has been revised and it was approved by the Board of Supervisors on March 21, 2006. The Facility Plan forecasts when capital expenditures would be required for treatment plant expansions and interceptor construction. The Department's 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.

The Department has budgeted approximately $42 million for the CIP for fiscal year 2006-07 and has a 5-year plan totaling $330 million. Highlights of the CIP projects under construction and planning efforts underway in fiscal year 2006-07 include:

- Corona Wastewater Treatment Facility – Lakeside expansion project will increase treatment capacity to 1 million gallons per day (MGD).

- Marana Waste Water Treatment Facility – Biological Nutrient Removal Oxidation Ditch (BNROD) expansion will increase treatment capacity to 2 million gallons per day (MGD).

- Santa Cruz Interceptor – 66 to 72 inch gravity interceptor sewer north from downtown near Franklin Street to Prince Road where it will connect to the 78 inch diameter interceptor tributary to the Roger Road WWTP.

- Regional Optimization Master Plan (ROMP) – Master planning effort to determine the optimum configuration of some of the department's metropolitan facilities (Roger Road Wastewater Treatment Plant, Plant interconnect and Ina Road Water Pollution Control Facility).

Financial Data

The following table depicts audited financial information for the past five years.

Pima County Wastewater Management Department

Comparative Statements of System Gross Revenues, Operation and Maintenance Expenditures and Net Revenues Available for Debt Service

	2001-2002	2002-2003	2003-2004 (b)	2004-2005	2005-2006
REVENUES:					
Sewer Utility Service	$ 40,935,336	$ 45,318,741	$47,685,465	$50,393,306	$61,735,147
Sewer Connection Revenue	17,479,915	20,279,607	29,404,130	36,906,421	42,219,962
Engineering Review and Inspection Fees	61,564	245,820	104,062	70,754	29,005
Other Income (a)	2,367,825	2,530,600	2,334,645	2,154,886	1,843,295
Gross Revenues	60,844,640	68,374,768	79,528,302	89,525,367	105,827,409
MAINTENANCE AND OPERATIONS COSTS:					
Employee Compensation	20,350,669	23,290,692	25,367,949	24,639,951	27,541,776
Consultants and Outside Services	2,918,701	2,523,079	2,510,706	2,652,106	5,113,446
Treatment Supplies and Chemicals	6,069,710	7,276,779	6,375,637	6,230,226	7,616,054
Repair & Maintenance	3,204,525	4,699,452	1,430,383	2,747,503	4,291,962
General and Administrative	6,102,213	8,320,189	8,749,542	10,202,490	11,735,333
Capital Expenses	3,925,136	827,240	132,247 (b)	322,314	1,072,669
Maintenance and Operation Cost	42,570,954	46,937,431	44,566,464	46,794,590	57,371,240
Net Revenues	18,273,686	21,437,337	34,961,838	42,730,777	48,456,169
REVENUE BONDED DEBT SERVICE:					
Principal	7,661,855	8,886,774	7,979,721	4,705,000	9,500,734
Interest	5,782,368	5,912,681	5,377,763	4,471,844	5,709,880
Total Debt Service Payments	13,444,223	14,799,455	13,357,484	9,176,844	15,210,614
Debt Service Coverage	1.36X	1.45X	2.62X	4.66X	3.19X
Net Revenues Remaining After Debt Service	$4,829,463	$6,637,882	$21,604,354	$33,553,933	$33,245,555

(a) Other income includes revenues generated from licenses, permits and fines, sanitation fees, net interest income, and other miscellaneous income.

(b) See Note 2 to the Financial Statements for the Fiscal Year Ending June 30, 2005 regarding a restatement of the prior year's net assets.

Source: Annual audited financial statement for the Pima County Wastewater Management Department, excluding all grant activity.

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APPENDIX B

PIMA COUNTY, ARIZONA
General Economic And Demographic Information

General Information

Pima County, Arizona (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 2005 population of 957,635 Approximately 55% of the County's population resides in the City of Tucson, Arizona ("Tucson"), the County seat of government and southern Arizona's largest city.

TABLE 1
Population Statistics For Pima County, the City of Tucson and the State of Arizona

	Pima County	City of Tucson	State of Arizona
2005 Estimate (a)	957,635	529,770	6,044,985
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

(a) Population estimate as of July 1, 2005.

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 the Flood Control District (the "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. 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.

Mr. Thomas Burke was appointed Finance and Risk Management Director in January 2005 and had served as Deputy Director of Finance from May 2004. Prior to his move to Finance, Mr. Burke served as Deputy Director of Pima County's Department of Natural Resources, Parks and Recreation from 2003 to 2004. From 2000 to 2003, he was a Deputy County Attorney representing various Pima County departments primarily including the County Assessor, the County Treasurer and Public Works departments. From 1989 to 1998 Mr. Burke served as the Manager of Pima County's Real Property Services and from 1994 to 1998 also served as the County's

Superintendent of Streets overseeing special taxing districts. During 1998 to 2000, he was a partner in an Arizona law firm representing local governments. Prior to his work with Pima County, Mr. Burke was an attorney with a Tucson law firm from 1983 to 1989 and was a Certified Public Accountant with Ernst & Whinney from 1976 to 1980. Mr. Burke holds a Bachelor of Science in Business Administration with a major in Accounting and a Juris Doctor, both from the University of Arizona, and is licensed as an attorney in the State of Arizona.

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 State Highways 77, 83, 85 and 86. 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 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. 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 nearly 84.9% of total employment in 2005. Figures from the Arizona Department of Economic Security indicate that 365,800 persons were employed, on average (not including the agricultural industry), in the County in 2005. The following table presents the County's average annual total employment by industry for the years indicated:

TABLE 2
Pima County
Average Annual Employment
Number of Persons Employed 2001-2006

Industry	2001	2002	2003	2004	2005	2006*
Goods Producing						
Natural Resources and Mining	1,800	1,500	1,200	1,200	1,400	1,700
Construction	22,700	22,500	22,900	23,700	25,700	27,900
Manufacturing	33,000	30,500	28,700	28,300	28,200	29,000
Service Producing						
Trade, Transportation and Utilities	55,300	54,400	54,400	54,600	58,500	60,200
Information	7,700	7,900	7,600	7,700	7,200	7,100
Financial Activities	14,400	14,400	15,100	15,900	16,400	17,500
Professional and Business Services	41,300	41,500	41,300	41,800	45,800	48,200
Education and Health Services	41,800	43,600	45,600	47,700	50,300	52,200
Leisure and Hospitality	38,200	37,300	36,500	37,700	40,200	42,900
Other Services	14,300	14,500	14,500	14,800	14,700	14,800
Government	76,800	77,900	78,200	78,100	77,400	76,200
Total Wage & Salary Employment	347,300	346,000	346,000	351,500	365,800	377,700

*Data collected through August 31, 2006.

Source: Arizona Department of Economic Security.

The average unemployment rate for the County in 2005 was 4.6%. The average annual unemployment rate for 2004 and 2003 was 4.6% and 5.3%, respectively. The table below shows comparative unemployment rates for the County, the State and the United States.

TABLE 3
Pima County
Comparative Employment Statistics

Calendar Year	Pima County		Unemployment Rate		
	Average Employment	Average Unemployment	Pima County	Arizona	U.S.
2006*	426,700	19,100	4.3%	4.4%	4.7%
2005	415,500	20,000	4.6%	4.7%	5.1%
2004	416,800	20,200	4.6%	5.0%	5.5%
2003	403,200	22,500	5.3%	5.7%	6.0%
2002	397,600	23,700	5.6%	6.1%	5.8%
2001	395,500	17,900	4.3%	4.7%	4.7%

*Data collected through August 31, 2006.

Source: Arizona Department of Economic Security

TABLE 4
Pima County
Major Employers

Company	Type of Business	Approximate Number of Full-Time Equivalents
Raytheon Missile Systems	Missile Manufacturing	10,756
University of Arizona	Education	10,282
State of Arizona	Government	9,742
Davis-Monthan Airforce Base	Military	8,233
Tucson Unified School District	Education	7,623
Pima County	Government	6,765
City of Tucson	Government	5,306
Wal-Mart Stores Inc.	Retail	4,980
Phelps Dodge Mining Company	Mining	4,123
Carondelet Health Network	Health Care	3,751
Tohono O'Odham Nation	Tribal Government	3,665
TMC Health Care	Health Care	3,276
University Medical Center Corp.	Health Care	2,969
U.S. Border Patrol	Government	2,500
Pima Community College	Education	2,248
Pascua Yaqui Tribe	Tribal Government	2,184
Amphitheater Public Schools	Education	2,174
Sunnyside Unified School District	Education	2,126
Fry's Food and Drug Stores	Retail	2,063
CheckMate Professional Employer	Service	2,036

Source: *The Star 200 Directory*, published by *The Arizona Daily Star* (March 2006).

Services

From 2001 to 2005, the service-providing industry in the County (excluding Government employees) expanded by 20,100 jobs or 9.4%. The average annual employment in the service-providing industry in 2005 was 233,100. It is anticipated that as the County continues to grow in population and economic activity, the service-providing industry will continue to be a significant contributor. As detailed above, Health Care and Education were a dominating force in the service-providing industry.

Government

Government employment plays an important role in the County with Federal, State and local government employees numbering approximately 77,400 in 2005. This sector expanded by 600 jobs from 2001 to 2005. 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 and electronics. Raytheon Missile Systems, the largest manufacturing company in the County, is a major supplier of advanced munitions. Civilian aviation products and services are provided by Bombardier, which has an aircraft maintenance facility in Tucson, and Universal Avionics Systems Corp., which builds and installs advanced instrumentation, communication and navigation systems for civil aircraft. Texas Instruments and International Business Machines manufacture electronic circuitry and data storage devices. Ventana Medical Systems provides computerized medical laboratory equipment.

Average annual employment in the manufacturing sector within the County in 2005 was 28,200, representing 7.7% of the County's total wage and salary employment base. Manufacturing employment during 2004 and 2003 averaged 28,300 and 28,700, respectively.

The following table presents the major manufacturers in the County and Tucson metropolitan area:

TABLE 5
Metropolitan Pima County
Major Manufacturers

Company	Type of Business	Approximate 2006 Employment
Raytheon Missile Systems	Missile Manufacturing	10,756
International Business Machines Corp.	Computer Systems	1,800
Honeywell Aerospace	Aircraft Electronic Systems	740
Texas Instruments	Semiconductor Products	650
Bombardier Aerospace	Aircraft Maintenance	600
Ventana Medical Systems Inc.	Computer Systems	498
Northrop Grumman Corp.	Missile Manufacturing	450
Hart & Cooley	Air Registers	375
Beacon Group SW Inc.	Contract Labor Work	347
Kalil Bottling Co.	Soft Drinks	322

Source: *The Star 200 Directory*, published by *The Arizona Daily Star* (March 2006).

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 Tucson, the Tucson Regional Economic Opportunities Inc., a private, non-profit corporation.

Tourism

Tourism is an important economic mainstay in the County and the Tucson area. The County's climate, historical and cultural sites, location and proximity to vacation areas in California, Mexico, and other Southwest destinations attract vacationers, conventioneers and other visitors. The Metropolitan Tucson Convention and Visitors Bureau estimates that over 700 convention bookings with 199,738 convention delegates visited the Tucson area in fiscal year 2005-06. In the Tucson area, there are 232 hotels and resorts with over 15,165 rooms. Points of interest, recreational sites and sight-seeing attractions include the Arizona-Sonora Desert Museum, Kitt Peak National Observatory, Pima Air and Space Museum, Titan Missile 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.

According to the Arizona Hospitality Research & Resource Center, nearly $1.4 billion was spent in the County in 2005. These figures include the estimated tourist portion of amusement, bar and restaurant, hotel and motel, and retail gross sales. Shown below are tourist dollars expended in the County and State economies between 2001 and 2005.

Total Tourist Expenditures
($ in millions)

Year	Pima County	State of Arizona
2005	$1,435	$9,680
2004	1,283	8,515
2003	1,190	7,808
2002	1,163	7,441
2001	1,161	7,413

Source: Arizona Hospitality Research & Resources Center.

Education

The University of Arizona (the "University") provides approximately 14,363 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 2005 were estimated at 34,237 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.

Pima County Community College offers two-year programs in vocational and technical education. Total student enrollment for Pima County Community College for 2004-05 was estimated at 75,408 students.

Source: University of Arizona and Pima County Community College.

Wholesale and Retail Trade

Wholesale and retail trade includes restaurants, hotels, taverns, service stations, automobile repair shops, shopping malls and wholesale dealers. 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., Home Depot, Albertsons-Osco and Crosstown Traders.

The retail sales figures set forth below 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.

TABLE 6
Pima County Retail Sales (a)

Year	Amount	% Change
2006 (b)	$5,254,658,935	N/A
2005	7,201,701,654	9.21%
2004	6,594,312,765	6.08%
2003	6,216,097,166	3.39%
2002	6,012,022,946	1.13%
2001	5,944,792,196	2.20%

(a) Excludes Food Sales and Gas Tax.
(b) Through August 2006

Source: Arizona Department of Revenue.

Financial Institutions

The following table illustrates the total dollars on deposit with participating banks in the County on December 31 of each year.

TABLE 7
Pima County
Bank Deposits (a)

Year	Amount
2005	$8,402,642,000
2004	7,552,788,000
2003	6,954,508,000
2002	6,062,996,000
2001	6,157,765,000

(a) As of December 31, for commercial banks, savings institutions and U.S. branches of foreign banks.

Source: Arizona Bankers Association.

Mining

According to the Arizona Mining Association, Arizona leads the nation in copper production, accounting for 65% of the total U.S. mine production. However, the cyclical nature of this industry has caused some consolidation of its resources to improve production. In the early 1980's, the Arizona copper industry's direct economic impact on the Arizona economy regularly exceeded $1.0 billion, peaking in 1981 at approximately $1.612 billion when the industry employed roughly 25,000 persons. This level of impact dropped to $0.875 billion in 1986, but increased to $1.49 billion in 1999. The direct economic impact of the industry statewide was approximately $1.605 billion, $1.296 billion, and $1.087 billion in 2005, 2004, and 2003, respectively. The direct impact of the copper industry within the County was nearly $580 million in 2005, $421million in 2004 and $370 million in 2003. Employment in the mining industry within the County was approximately 1,400 in 2005, 1,200 in 2004 and 1,200 in 2003.

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.

TABLE 8
Cash Receipts From Agricultural Marketing
(Total Crops and Livestock)
Pima County

Year	Receipts
2005	$84,452,000
2004	80,103,000
2003	68,694,000
2002	51,983,000
2001	48,013,000

Source: *Arizona Agricultural Statistics Bulletin,* September 2005.

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.

TABLE 9
Pima County
Value of Building Permits

Year	Residential	Commercial	Industrial	Other	Total
2006(a)	$ 973,877,000	$128,490,000	$ 5,555,000	$ 51,173,000	$1,159,095,000
2005	2,180,381,000	315,946,000	8,546,000	150,686,000	2,655,559,000
2004	1,680,800,000	284,275,000	16,206,000	117,220,000	2,098,501,000
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

(a) Data for 2006 is through June 30, 2006.

Source: Arizona Real Estate Center, ASU Polytechnic Campus, Arizona State University.

TABLE 10
Pima County
New Housing Starts

Year	Total Housing Units Permitted
2006 (a)	5,817
2005	12,272
2004	11,452
2003	9,635
2002	8,915
2001	8,735

(a) Data for 2006 is through June 30, 2006.

Source: Arizona Real Estate Center, ASU Polytechnic Campus, Arizona State University.

Counties are required to adopt a Comprehensive Plan and cities and towns a General Plan under Arizona laws adopted in 1998 and 2000. All subsequent rezoning activity must conform to the plan. Most cities and towns and each of the larger counties, including Pima, are 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. Pima County's Comprehensive Plan was updated and adopted in 2001. State law requires that every 10 years the plan be redone or updated and approved by the voters. Also, as a result of these laws, counties have broader authority to adopt development impact fees and review lot splitting. Pima County has been implementing the policies of the Comprehensive Plan since its adoption.

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 December of guidelines to all departments within which budgets must be developed. Department budget requests are submitted in February. 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 1979-80, 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.

The County's expenditure limitation for the 2005-06 fiscal year was $411,190,872. The County's expenditures for the 2005-06 fiscal year were under the limit. The County's 2006-07 fiscal year expenditure limitation is $438,128,547.

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. Under a proposition approved by the voters in November 2006, the tax levy limit was readjusted to actual levy amounts for 2005 as the new base year.

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 2002-03 through 2006-07 for each class of property are set forth below.

Property Tax Assessment Ratios
2002-03 through 2006-07

Classification (a)	2002-03	2003-04	2004-05	2005-06	2006-07
Mining , Utility, Commercial and Industrial (b)(c)	25%	25%	25%	25%	24.5%
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%	20%	21%	21%	22%

(a) Additional classes of property exist, but seldom amount to a significant portion of a municipal body's total valuation.

(b) The assessment ratio for Mining, Utility, Commercial and Industrial property will decrease ½% per year, starting from 25% in 2005-06 to 20% in and after 2015-16.

(c) The first $59,099 of full cash value of commercial, industrial and agricultural personal property is exempt from taxation for fiscal year 2006-07. This exemption is indexed annually for inflation. Any portion of the full cash value in excess of those amounts will be assessed at 24.5% 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.

From time to time, bills have been introduced in the Arizona Legislature to reduce the property tax assessment ratios on utility, commercial and/or industrial property and such bills may be introduced in the current or

future legislative sessions. The County cannot determine whether any such measures will become law or how they might affect property tax collections for the County.

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 2006-07

Estimated Actual Valuation*	$59,890,228,997
Net Secondary Assessed Valuation	$ 6,869,955,457
Net Primary Assessed Valuation	$ 6,467,201,516

* Actual full cash value net of estimated value of property exempt from taxation.

Source: Pima County Assessor's *Abstract of the 2006 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
2006-07	$6,869,955,457	$59,890,228,997	11.47%
2005-06	6,050,950,040	47,971,147,096	12.61%
2004-05	5,620,156,274	43,778,402,824	12.84%
2003-04	5,221,270,997	43,733,555,507	11.94%
2002-03	4,835,561,219	36,999,609,652	13.07%

Source: Arizona Tax Research Foundation, *Property Tax Rates and Assessed Value*, Pima County Finance and Risk Management Department and Pima County Assessor's *Abstract of the 2006 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
2006-07	$3,016,230,759	10.77%	$6,869,955,457	13.54%	$54,436,547,031	11.25%
2005-06	2,722,915,853	6.44%	6,050,950,040	7.67%	48,931,946,145	10.05%
2004-05	2,558,231,181	5.40%	5,620,156,274	7.64%	44,461,738,026	8.87%
2003-04	2,427,120,926	6.98%	5,221,270,997	7.98%	40,839,898,348	10.96%
2002-03	2,268,733,334	6.09%	4,835,561,219	7.66%	36,805,206,912	6.76%

Source: Arizona Tax Research Foundation, *Property Tax Rates and Assessed Value*, Pima County Finance and Risk Management Department and Pima County Assessor's *Abstract of the 2006 Tax Roll for Pima County*.

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 2006-07 Net Secondary Assessed Valuation	As Percent of County's 2006-07 Net Secondary Assessed Valuation
Tucson Electric Power Co.	$143,361,816	2.09%
Qwest Corporation	87,092,898	1.27%
Southwest Gas Corporation	62,846,160	0.91%
Phelps Dodge	55,176,116	0.80%
Arizona Portland Cement	22,857,520	0.33%
Raytheon Company	21,665,114	0.32%
Dnd Neffson Co.	19,087,235	0.28%
Starr Pass Resort Developments LLC	17,068,423	0.25%
Scg Tucson Property LLC (Westin Hotel)	15,504,143	0.23%
Trico Electric Co-Op Inc	14,806,148	0.22%
	$459,465,573	6.69%

(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, its Financial Advisor 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
2006-07	$330,240,186	(c)	(c)	$154,361,275	46.74%
2005-06	302,126,724	$292,019,235	96.65%	298,404,156	98.77%
2004-05	281,171,502	271,480,760	96.55%	280,611,871	99.80%
2003-04	260,569,500	250,928,829	96.30%	260,429,742	99.95%
2002-03	241,415,870	231,618,482	95.94%	241,373,567	99.98%
2001-02	228,476,979	218,191,563	95.50%	228,400,369	99.97%

(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 November 30, 2006 against the current and 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
2006-07	$3.8420	$1.4986	$5.3406
2005-06	4.0720	1.3891	5.4611
2004-05	4.0720	1.4247	5.4967
2003-04	4.0720	1.4261	5.4981
2002-03	4.0720	1.4278	5.4998

Source: *Property Tax Rates and Assessed Values,* The Arizona Tax Research Foundation and Pima County Finance and Risk Management 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 after the issuance of the Bonds.

Net Secondary Assessed Valuation (FY 2006-07)	**$6,869,955,457**
15% Constitutional Limitation	1,030,493,318
Net Direct General Obligation Bonds Outstanding	326,310,000
Unused 15% Limitation	$704,183,318

General Obligation Bonded Debt to be Outstanding

The following chart lists the outstanding general obligation bonded debt of the County that will be outstanding after the issuance of the General Obligation Bonds, Series 2007, which are being issued concurrently with the sale of the Bonds.

Date of Issue	Original Amount	Original Purpose	Original Maturity Dates	Average Int. Rates	Remaining Balance Outstanding
05-01-98	42,420,000	Various Improvements	7-1-99/13	4.620%	$18,795,000
10-01-99	50,000,000	Various Improvements	7-1-00/10	5.040%	16,115,000
08-01-00	50,000,000	Various Improvements	7-1-01/14	4.760%	26,000,000
07-01-01	17,835,000	Refunding	7-1-03/09	4.410%	7,610,000
01-01-02	20,000,000	Various Improvements	7-1-02/16	4.000%	10,000,000
01-15-03	50,000,000	Various Improvements	7-1-03/17	3.900%	40,350,000
06-01-04	65,000,000	Various Improvements	7-1-05/19	4.207%	53,615,000
05-01-05	65,000,000	Various Improvements	7-1-06/20	3.937%	58,825,000
Total General Obligation Bonded Debt Outstanding					$231,310,000
Plus: The General Obligation Bonds, Series 2007 (a)					95,000,000
Total General Obligation Bonded Debt to be Outstanding					$326,310,000

(a) The General Obligation Bonds, Series 2007 are being issued concurrently with the sale of the Bonds under a separate Official Statement.

Estimated Annual Debt Service Requirements of General Obligation Bonded Debt to be Outstanding

The following chart indicates the general obligation debt service requirements of the County that will be outstanding after the issuance of the County's General Obligation Bonds, Series 2007, which are being issued concurrently with the sale of the Bonds under a separate official statement.

Fiscal Year	Existing General Obligation Bonded Debt Outstanding		Series 2007 Bonds Dated: January 1, 2007		Total Debt Service
June 30	Principal	Interest	Principal	Interest (a)	Requirement
2007	$32,335,000	$10,027,760	$4,385,000	$2,000,550	$48,748,310
2008	25,005,000	8,538,905	6,250,000	3,803,775	43,597,680
2009	20,260,000	7,416,755	5,400,000	3,522,525	36,599,280
2010	19,790,000	6,502,705	5,290,000	3,279,525	34,862,230
2011	17,190,000	5,615,725	5,550,000	3,041,475	31,397,200
2012	17,525,000	4,846,125	5,830,000	2,791,725	30,992,850
2013	17,885,000	4,064,425	6,120,000	2,529,375	30,598,800
2014	15,935,000	3,273,225	6,425,000	2,253,975	27,887,200
2015	13,265,000	2,568,825	6,750,000	1,964,850	24,548,675
2016	13,270,000	1,987,706	7,085,000	1,661,100	24,003,806
2017	13,500,000	1,433,025	7,440,000	1,342,275	23,715,300
2018	9,850,000	858,425	7,810,000	1,044,675	19,563,100
2019	10,330,000	515,575	8,205,000	722,513	19,773,088
2020	5,170,000	180,950	8,615,000	376,800	14,339,750
2021			3,845,000	115,350	3,960,350

(a) The first interest payment date on the General Obligation Bonds, Series 2007 is July 1, 2007.

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	2006-07 Net Secondary Assessed Valuation	General Obligation Bonded Debt Outstanding (a)(f)	*Portion Applicable to the County*		Combined Tax Rate Per $100 Assessed Valuation (e)
			Percent	Net Debt Amount	
State of Arizona	$54,436,547,031	None	100%	None	$0.0000
Pima County	**6,869,955,457**	**$326,310,000**	**100%**	**$ 326,310,000**	**4.9660 (b)**
Pima County Flood Control District (c)	6,113,952,541	2,230,000	100%	2,230,000	0.3746
Elementary School Districts	284,785,948	2,755,000	100%	2,755,000	2.5751 (d)
Unified School Districts	6,573,518,237	586,595,000	100%	586,595,000	6.9627 (d)
Cities and Towns	3,935,967,898	281,134,070	100%	281,134,070	0.9405 (d)
Pima County Community College District	6,869,955,457	61,730,000	100%	61,730,000	1.2515
Total				$1,260,754,070	

Jurisdiction	2006-07 Net Secondary Assessed Valuation	General Obligation Bonded Debt Outstanding (a)(f)	Combined Tax Rate Per $100 Assessed Valuation (e)
State of Arizona	$54,436,547,031	None	None
Pima County	6,869,955,457	$326,310,000	$4.9660
Pima County Flood Control District (c)	6,113,952,541	2,230,000	0.3746
Pima County Community College District	6,869,955,457	61,730,000	1.2515
Elementary School Districts:			
San Fernando ESD #35	831,896	None	3.7481
Empire ESD #37	5,489,030	None	8.4864
Continental ESD #39	249,037,971	2,755,000	2.0682
Redington ESD #44	1,339,389	None	4.8853
Altar Valley ESD #51	28,087,662	None	5.7696
Unified School Districts:			
Tucson USD #1	2,951,009,121	309,160,000	7.3857
Marana USD #6	593,166,842	67,125,000	5.9117
Flowing Wells USD #8	184,631,194	10,730,000	6.8677
Amphitheater USD #10	1,253,084,786	62,380,000	6.1193
Sunnyside USD #12	368,702,550	41,770,000	9.1529
Tanque Verde USD #13	169,903,216	4,335,000	5.4806
Ajo USD #15	15,767,445	None	4.4929
Catalina Foothills USD #16	528,078,948	38,485,000	6.7428
Vail USD #20	324,977,649	27,635,000	6.7032
Sahuarita USD #30	183,013,895	24,975,000	7.7345
Indian Oasis USD #40	1,182,591	None	0.0000
Cities and Towns:			
City of Tucson	3,016,230,759	281,134,070	1.2257
City of South Tucson	20,643,396	None	0.2383
Town of Marana	310,319,014	None	0.0000
Town of Oro Valley	468,769,764	None	0.0000
Town of Sahuarita	120,004,965	None	0.0000

(a) Includes general obligation bonds outstanding, including the County's General Obligation Bonds, Series 2007 which are being issued concurrently with the Bonds under a separate Official Statement. Does not include outstanding principal amount of various cities and towns improvement districts' bonded debt 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 legislation. Federal authorizing legislation was enacted in 2004. 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 $0.3675 tax rate of the Free Library District, and the $0.0415 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 after the issuance of the County's Bonds.

Jurisdiction (g)	Authorized But Unissued General Obligation Bonds
Pima County	$478,681,000
Tucson Unified School District No. 1	178,000,000
City of Tucson	39,140,000
Catalina Foothills Unified School District No. 16	7,730,000
Indian Oasis Unified School District No. 40	500,000

(g) 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.

		As Percent of County's 2006-07	
	Per Capita Net Debt (Pop. @ 957,635) (a)	**Secondary Assessed Valuation ($6,869,955,457)**	**Est. Actual Valuation ($59,890,228,997)**
Net Direct General Obligation Bonded Debt ($326,310,000) (b)	$ 340.75	4.75%	0.54%
Net Direct and Overlapping General Obligation Bonded Debt ($1,260,754,070)	$1,316.53	18.35%	2.11%

(a) Source: U.S. Department of Commerce, Bureau of the Census; Arizona Department of Economic Security, Population Statistics, July, 2005.

(b) Reflects the Net General Obligation Bonds Outstanding after the issuance of the General Obligation Bonds, Series 2007, which are being issued concurrently with the Bonds under a separate Official Statement.

Street and Highway Revenue Bonded Debt Outstanding (a)

The following chart indicates the outstanding street and highway bonds of the County that will be outstanding after the issuance of the Street and Highway User Revenue Bonds, Series 2007 being issued concurrently with the Bonds under a separate Official Statement.

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	$ 8,000,000
1-01-02	55,000,000	Street & Highway Improvements	7-1-03/12	35,735,000
1-15-03	35,000,000	Street & Highway Improvements	7-1-04/18	31,900,000
5-01-05	51,200,000	Street & Highway Improvements	7-1-09/20	51,200,000
Total Street and Highway Revenue Bonds Outstanding				$ 126,835,000
Plus: The Street and Highway Revenue Bonds (b)				21,000,000
Total Street and Highway Revenue Bonds to be Outstanding				$ 147,835,000

(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 allowed the County to accelerate by several years the completion of two projects that were scheduled to be funded from Federal aid highway revenues in future years. Final payments on each loan which are currently outstanding in the aggregate principal amount of $903,000 are due in January 2007. HELP loans are payable solely from revenues received by the County from the Arizona Highway User Revenue Fund on a basis junior and subordinate to amounts due on the bonds shown above and all parity bonds. In 2006, the County received another HELP loan totaling $4.8 million. Final payment on this loan which is currently outstanding in the aggregate principal amount of $4.8 million is due in June 2009. These loans are in addition to the debt listed in this table.

(b) The Street and Highway Revenue Bonds, Series 2007 are being issued concurrently with the sale of the Bonds under a separate Official Statement.

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	**2003-04**	**2004-05**	**2005-06**
Clerk of Superior Court	$ 195,417	$146,562	$31,361
Juvenile Court	73,986		
Public Works Building	1,642,680		
Sheriff	42,274	42,274	42,273
Fiscal Year Total	$1,954,357	$188,836	$73,634

Source: Pima County Finance Department.

Certificates of Participation (a)

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
09-01-99	$4,875,000	Refunding	1-1-13/14	$ 4,000,000
10-01-03	27,525,000	Refunding	1-1-05/18	24,335,000
Total Certificates of Participation Obligations Outstanding				$28,335,000

(a) The County currently anticipates issuing approximately $30,000,000 in additional certificates of participation in fiscal year 2007.

Retirement Plans

A brief description of the various retirement programs in which County employees participate is located in Footnote 10 in the excerpts from the County's Comprehensive Annual Financial Report in Appendix F.

Other Post Employment Benefits

The County does not offer Other Post Employment Benefits.

PIMA COUNTY, ARIZONA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF ALL GOVERNMENTAL FUND TYPES
(In $000)

	Actual					Budget
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (a)
Revenues by Source:						
Taxes	$244,807	$258,375	$279,527	$300,972	$321,474	$350,440
Special Assessments	598	1,023	505	244	215	291
Licenses and Permits	6,077	6,087	6,566	7,265	7,452	7,739
Intergovernmental	260,218	245,378	273,225	278,414	291,059	295,121
Charges for Services	31,112	35,721	43,505	53,568	63,582	63,526
Fines and Forfeits	4,882	5,047	5,010	5,967	6,014	6,846
Interest Income	6,952	4,152	2,656	5,181	11,379	7,651
Miscellaneous	8,143	10,356	11,918	14,806	13,165	16,124
Total Revenues	$562,789	$566,139	$622,912	$666,417	$714,340	$747,738
Expenditures by Fund:						
General	285,486	308,917	323,591	372,899	402,811	439,535
Special Revenues	153,888	149,633	161,716	160,614	170,696	223,126
Debt Service	48,102	57,563	60,828	56,067	66,829	73,419
Capital Projects	109,670	97,147	103,167	127,632	121,007	155,902
Total Expenditures	$597,146	$613,260	$649,302	$717,212	761,343	$891,982
Excess of Revenues Over (Under) Expenditures	(34,357)	(47,121)	(26,390)	($50,795)	(47,003)	(144,244)
Proceeds of Long-Term Debt	82,717	85,247	65,148	116,450	4,836	120,000
Proceeds of Refunding Bonds	22,420	0	6,880	0	0	0
Payment to Refunded Bond Escrow Agent	(22,551)	0	(6,846)	0	0	0
Gain on Investment	0	0	0	0	3	0
Operating Transfers In (Out)	(12,905)	(15,140)	(21,333)	3,046	3,685	613
Capital Leases	0	177	0	0	231	0
Sale of General Fixed Assets	590	37	406	27	416	0
Beginning Fund Balance, as restated	110,664	147,803	165,395	182,894	252,007	213,998
Restatement Adjustment/LGIP Loss	1,175	(6,237)	0	0	0	0
Changes in Reserve for Inventory	64	629	(379)	398	(188)	0
Charges in Reserve for Prepaid	(14)	0	13	(13)	11	0
Ending Fund Balance	$147,803	$165,395	$182,894	$252,007	$213,998	$190,367

(a) Obtained from the FY 2006-07 Adopted Budget, except for the beginning fund balance which was based on the actual June 30, 2006 fund balance rather than the estimated fund balance contained in the budget adopted before that date. These amounts are estimated data and are subject to change based on final audited results.

Source: Pima County Finance and Risk Management 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
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (a)
General						
Reserved	$ 2,486	$ 2,549	$7,068	$4,056	$5,152	
Unreserved	28,656	30,999	25,628	33,171	46,423	
	31,142	**33,548**	**32,696**	**37,227**	**51,575**	**28,736**
Special Revenue						
Reserved	2,570	3,623	3,399	2,742	5,111	
Unreserved	61,134	42,312	45,325	54,232	64,961	
Designated					1,044	
	63,704	**45,935**	**48,724**	**56,974**	**71,116**	**43,024**
Debt Service						
Reserved	5,964	3,078	4,202	10,004	6,673	
Unreserved				152	162	
	5,964	**3,078**	**4,202**	**10,156**	**6,835**	**5,883**
Capital Projects						
Reserved	8	41	2	0	0	
Unreserved	46,985	82,793	97,270	147,650	84,472	
	46,993	**82,834**	**97,272**	**147,650**	**84,472**	**112,724**
Total Fund Balance	$147,803	$165,395	$182,894	$252,007	$213,998	$190,367

(a) Amount calculated utilizing the revenues and expenditures presented in the FY 2006-07 Adopted Budget plus the actual June 30, 2006 ending fund balance for each fund. Pima County does not budget the ending fund balance at a detailed level; therefore, only the calculated ending fund balance totals are presented. These amounts are estimated data and are subject to change based on final audited results.

Source: Pima County Finance and Risk Management 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
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07(a)
Revenues by Source:						
Taxes	$181,840	$194,552	$209,672	$225,959	$242,948	$253,565
Licenses and Permits	2,071	2,010	2,166	2,350	2,536	2,473
Intergovernmental	111,922	112,530	120,058	125,203	143,982	145,517
Charges for Services	19,974	23,750	24,133	24,905	27,102	30,648
Fines and Forfeits	3,898	4,111	4,023	5,035	5,786	5,495
Interest	2,086	1,015	530	1357	2,491	1,623
Miscellaneous	1,995	2,884	2,132	4,435	4,935	3,732
Total Revenues	323,786	340,852	362,174	389,244	429,780	443,053
Expenditures:						
Current						
General Government	101,397	110,813	120,755	160,378	168,394	200,813
Public Safety	86,039	90,375	100,650	84,694	96,687	103,697
Sanitation	0	0	0	0	0	0
Health	2,567	2,762	2,898	2,189	2,401	2,579
Welfare	73,060	84,130	76,619	96,996	102,496	98,146
Culture & Recreation	13,453	12,858	14,448	11,236	13,104	14,338
Education & Econ.,Opport.	5,299	4,812	5,578	14,637	16,682	16,942
Debt Service:						
Principal	1,913	1,550	1,610	1,440	1,750	1,785
Interest	1,754	1,613	1,030	1,324	1,292	1,230
Miscellaneous	4	4	3	5	5	5
Total Expenditures	285,486	308,917	323,591	372,899	402,811	439,535
Excess of Revenues Over (Under) Expenditures	38,300	31,935	39,123	16,345	26,969	3,518
Other Financing Sources (uses):						
Proceeds of Long-Term Debt	0	0	0	0	0	0
Sale of General Fixed Assets	0	0	2	8	22	0
Operating Transfers In (Out)	(29,624)	(27,799)	(39,977)	(11,822)	(12,643)	(26,357)
Total Other Financing Sources (Uses):	(29,624)	(27,799)	(39,975)	(11,814)	(12,621)	(26,357)
Excess of Revenues and Other Sources						
Extraordinary item:						
Loss from State Treasurer's Local Government Investment Pool	0	(1,730)	0	0		0
Over (Under) Expenditure and Other Uses	8,676	2,406	(852)	4,531	14,348	(22,839)
Beginning Fund Balance, as restated	22,466	31,142	33,548	32,696	37,227	51,575
In (Out)	0	0	0	0	0	0
Ending Fund Balance	$ 31,142	$ 33,548	$ 32,696	$ 37,227	$ 51,575	$28,736

(a) Obtained from the FY 2006-07 Adopted Budget, except for the beginning fund balance which was based on the actual June 30, 2006 fund balance rather than the estimated fund balance contained in the budget adopted before that date. These amounts are estimated data and are subject to change based on final audited results.

Source: Pima County Finance and Risk Management 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

January 25, 2007

Pima County, Arizona
Tucson, Arizona

Ladies and Gentlemen:

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by Pima County, Arizona (the "County") of its $50,000,000 aggregate principal amount of bonds designated the Pima County, Arizona, Sewer Revenue Bonds, Series 2007 (the "Bonds"). The Bonds are issued pursuant to Title 11, Chapter 2, Article 4 of the Arizona Revised Statutes, as amended (the "Act"), and under the provisions of an authorizing resolution adopted by the Board of Supervisors of the County on June 18, 1991, as supplemented and amended, including a supplemental resolution adopted by the Board of Supervisors of the County on January 16, 2007 (the "Bond Resolution"). The documents in the Transcript include a certified copy of the Bond Resolution. All capitalized terms not defined herein shall have the meanings set forth in the Bond Resolution. We have also examined a conformed copy of a Bond.

Based on this examination, we are of the opinion that, under existing law:

1. The Bonds are valid, legal and binding special obligations of the County which, together with other bonds and obligations issued on a parity therewith and subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion, are to be paid solely from, and secured by a pledge of 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 (the "Net Revenues"), subject to no other liens granted under the Act. The Bonds are issued on a parity with the County's outstanding Sewer Improvement and Refunding Revenue Bonds, Series 1998, Sewer Revenue Refunding Bonds, Series 2001, and Sewer Revenue Refunding Bonds, Series 2004, 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, as amended, and May 11, 2004, as amended. The Bonds and the payment of principal thereof and interest thereon are not secured by an obligation or pledge of any moneys or property of the County other than the Net Revenues, and the Bonds do not represent or constitute a general obligation or a pledge of the full faith and credit of the County or the State of Arizona.

2. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 as amended (the "Code"), and is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. The interest on the Bonds is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Bonds.

In giving the foregoing opinion with respect to the treatment of the interest on the Bonds under the tax laws, we have assumed and relied upon compliance with the covenants of the County and the accuracy, which we have not independently verified, of the representations and certifications of the County, contained in the Transcript. The accuracy of those representations and certifications, and the County's compliance with those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes

and for certain of the other tax effects stated above. Failure to comply with certain of those covenants subsequent to issuance of the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Under the Code, a portion of the interest on the Bonds earned by corporations may be subject to the federal corporate alternative minimum tax, and the interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

Respectfully submitted,

SQUIRE, SANDERS & DEMPSEY L.L.P.

APPENDIX E

AUDITED FINANCIAL STATEMENTS OF THE PIMA COUNTY DEPARTMENT OF WASTEWATER MANAGEMENT FOR FISCAL YEAR ENDED JUNE 30, 2006

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HEINFELD, MEECH & CO., P.C.
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INDEPENDENT AUDITORS' REPORT

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, 2006, as listed in the table of contents. These financial statements are the responsibility of the management of Pima County Department of Wastewater Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Pima County Department of Wastewater Management 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, Arizona that is attributable to the Pima County Department of Wastewater Management. They do not purport to, and do not, present fairly the financial position of Pima County, Arizona, as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pima County Department of Wastewater Management, as of June 30, 2006, and the respective changes in its financial position and its cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2006 on our consideration of the Pima County Department of Wastewater Management's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 are 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.

Heinfeld, Meech & Co., P.C.

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

September 21, 2006

Pima County
Department of Wastewater Management
Statement of Net Assets - Enterprise Fund
June 30, 2006

Assets

Current assets:	
Cash and cash equivalents	$ 42,260,533
Restricted cash and cash equivalents	14,672,299
Accounts receivable, net	8,317,829
Due from other Pima County funds	1,502
Due from other governments	293,053
Inventory of materials and supplies	3,031,674
Prepaid expenses	92,889
Total current assets	68,669,779
Noncurrent assets:	
Restricted cash and cash equivalents	492,372
Capital assets, net of accumulated depreciation where applicable:	
Land and other improvements	6,844,999
Conveyance systems, net	327,334,713
Treatment facilities, net	233,899,359
Equipment, net	5,032,936
Construction in progress	14,841,706
Total capital assets, net	587,953,713
Deferred financing costs	750,701
Total noncurrent assets	589,196,786
Total assets	$ 657,866,565

(Continued)

See accompanying notes to financial statements

Pima County
Department of Wastewater Management
Statement of Net Assets - Enterprise Fund
June 30, 2006
(Continued)

Liabilities

Current liabilities:		
Accounts payable	$	8,330,318
Accrued payroll and employee benefits		2,990,674
Due to other Pima County funds		177,284
Due to other governments		24,297
Interest payable		1,431,501
Current portion of sewer revenue bonds payable		5,570,000
Current portion of wastewater loans payable		5,502,956
Deferred revenue		2,828,758
Total current liabilities		26,855,788
Noncurrent liabilities:		
Construction contract retentions payable		4,562,235
Sewer revenue bonds payable, less current portion		49,955,000
Wastewater loans payable, less current portion		74,864,281
Deferred interest expense and bond discount		(4,034,071)
Total noncurrent liabilities		125,347,445
Total liabilities		152,203,233

Net Assets

Invested in capital assets, net of related debt		456,846,248
Restricted for:		
Debt service		438,569
Operation and maintenance		4,355,797
Unrestricted		44,022,718
Total net assets	$	505,663,332

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, 2006

Operating revenues:	
Sewer utility service	$ 61,735,147
Engineering review and inspection fees	29,005
Permits and fines	58,906
Other income	451,046
Total operating revenues	62,274,104
Operating expenses:	
Employee compensation	27,625,536
Operating supplies	6,321,867
Utilities	5,314,030
Sludge and refuse disposal	1,297,758
Repairs and maintenance	4,296,842
General and administrative	6,435,640
Consultants and professional services	5,610,305
Depreciation	20,416,294
Total operating expenses	77,318,272
Operating loss	(15,044,168)
Nonoperating revenues (expenses):	
Intergovernmental revenue	1,435,703
Interest income	1,783,906
Sewer connection revenue	42,219,962
Loss on disposal of equipment	(20,354)
Interest expense	(4,623,759)
Amortization of deferred charges	(97,087)
Total nonoperating revenues (expenses)	40,698,371
Income before capital contributions and transfers	25,654,203
Capital contributions	14,607,737
Transfers in	156,156
Transfers out	(21,710)
Increase in net assets	40,396,386
Net assets—July 1, 2005	465,266,946
Net assets—June 30, 2006	$ 505,663,332

See accompanying notes to financial statements

Pima County
Department of Wastewater Management
Statement of Cash Flows - Enterprise Fund
Year Ended June 30, 2006

Cash flows from operating activities:	
Receipts from customers	$ 61,819,344
Miscellaneous receipts	451,046
Payments to suppliers for goods and services	(21,805,603)
Payments to other Pima County funds for goods and services	(7,477,555)
Payments to employees	(28,215,923)
Net cash provided by operating activities	4,771,309
Cash flows from noncapital financing activities:	
Intergovernmental receipts	528,751
Repayment of interfund borrowings	126,968
Cash transfers to other Pima County funds	(4,311,153)
Net cash used for noncapital financing activities	(3,655,434)
Cash flows from capital and related financing activities:	
Sewer connection receipts from customers	42,141,638
Proceeds from the sale of capital assets	2,000
Intergovernmental contract receipts	191,418
Purchase and construction of capital assets	(14,339,450)
Proceeds from issuance of sewer loans	1,085,658
Principal payments on revenue bonds and loans	(9,500,734)
Interest payments on revenue bonds and loans	(4,224,328)
Net cash provided by capital and related financing activities	15,356,202
Cash flows from investing activities:	
Interest received on investments	1,870,914
Net cash provided by investing activities	1,870,914
Net increase in cash and cash equivalents	18,342,991
Cash and cash equivalents, July 1, 2005	39,082,213
Cash and cash equivalents, June 30, 2006	$ 57,425,204

(Continued)

See accompanying notes to financial statements

Pima County
Department of Wastewater Management
Statement of Cash Flows - Enterprise Fund
Year Ended June 30, 2006
(Continued)

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	$ (15,044,168)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	20,416,294
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Accounts receivable	(240,818)
Due from other governments	237,104
Inventory of materials and supplies	(216,781)
Prepaid expenses	(66,646)
Increase (decrease) in liabilities:	
Accounts payable	265,062
Due to other governments	11,649
Accrued payroll and employee benefits	(590,387)
Net cash provided by operating activities	$ 4,771,309

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2006, developers conveyed capital assets with an estimated fair value of $14,407,846 and the County's Internal Service Fund conveyed capital assets with a net book value of $26,050 to the Department. These transactions were recorded as capital contributions.

During the year ended June 30, 2006, the Pima County Board of Supervisors approved Connection Fee Flow-Through Sewer Credit Agreements totaling $16,697. This transaction was recorded as an increase to deferred revenue and a decrease in capital contributions.

During the year ended June 30, 2006, the Department retired expired Sewer Credit Agreements totaling $190,538. This transaction was recorded as a decrease to deferred revenue and an increase in capital contributions.

During the year ended June 30, 2006, the Department retired assets with a net book value of $22,354.

During the year ended June 30, 2006, the Department transferred to the County's general government the assets of the Solid Waste Management division with a net book value of $11,334,107.

During the year ended June 30, 2006, the Department conveyed the long-term liabilities of the Solid Waste Management division in the amount of $15,779,706 to the County's general government.

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 wastewater treatment and water pollution control programs throughout Pima County. The Department segregated the operation of the Solid Waste from the Liquid Waste division effective July 2005, and Solid Waste activities are now reported in a special revenue fund.

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 presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when 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. The Department has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

Note 1 - Summary of Significant Accounting Policies (continued)

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 transfers. Operating revenues and expenses generally result from providing waste services. Accordingly, operating revenues, such as sewer utility service fee result from transactions associated with the Department's principal activities. Other revenues, such as sewer connection revenues and interest income, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the costs of providing sewer services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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 developer contributions regardless of cost. Sewage conveyance system, buildings and improvements, and infrastructure are capitalized at $100,000 or more, as is equipment costing $5,000 or more. 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. All assets other than land are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Treatment facilities and equipment	4 to 30 years
Conveyance systems	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.

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, except for the actual amount used during the thirty day period subsequent to fiscal year end. 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 service charge.

Land developers contribute capital and aid in the construction of certain portions of the conveyance systems. Contributions are recorded as contributed capital at their estimated fair value. In those instances when a developer makes enhancements that exceed the requirements for the conveyance systems, the Department establishes reduced

Note 1 - Summary of Significant Accounting Policies (continued)

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	
Cash on hand	$ 2,700
Cash and cash equivalents	42,257,833
Restricted cash and cash equivalents:	
Construction	2,002,510
Debt service	8,313,992
Operation and maintenance	4,355,797
Total restricted cash	14,672,299
Total current cash and cash equivalents	56,932,832
Noncurrent	
Restricted cash and cash equivalents:	
Deposits held in escrow accounts	492,372
Total cash and cash equivalents	$ 57,425,204

Current restricted cash and cash equivalents represents cash received for capital projects, anticipated debt service payments, and an estimated one-twelfth of annual operating expenses. In prior years, only one-twelfth of the annual debt principal and interest was restricted. However, because the Water Infrastructure Finance Authority debt payment is paid July 1, the entire amount of the payment is now included as restricted cash for debt service. Noncurrent restricted cash and cash equivalents are deposits held in escrow pending completion of capital projects.

The Department's cash and investments in the Pima County Treasurer's investment pool represent a portion of the County Treasurer's investment pool portfolio. There is no oversight provided for the County Treasurer's investment pool, and the pool's structure does not provide for shares. The Department's portion in the pool is not identified with specific investments and is not subject to custodial credit risk.

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Department does not have a formal investment policy with respect to credit risk. The Pima County Treasurer's investment pool is unrated.

Note 2 - Cash and Cash Equivalents (continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The Department does not have a formal investment policy with respect to interest rate risk. The Pima County Treasurer's investment pool had a weighted average maturity of 22 days at June 30, 2006.

Legal Provisions – Arizona Revised Statutes authorize counties to invest public monies in the State Treasurer's investment pool: obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk - Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's Investors Service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors' service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors' service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk - Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk - Statutes do not include any requirements for concentration of credit risk.

Interest rate risk - Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk - Statutes do not allow foreign investments.

Note 3 - Capital Asset Activity

Capital asset activity for the year ended June 30, 2006, is presented in the following schedule:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets not being depreciated:				
Land and other improvements	$ 12,397,849	$ 2,287,789	$ 7,840,639	$ 6,844,999
Construction in progress	63,324,807	11,017,366	59,500,467	14,841,706
Total capital assets not being depreciated	75,722,656	13,305,155	67,341,106	21,686,705
Capital assets being depreciated:				
Transfer stations	2,168,380		2,168,380	
Conveyance systems	475,148,141	15,451,683		490,599,824
Treatment facilities	278,054,466	62,297,745	92,226	340,259,985
Equipment	18,409,923	929,643	6,365,155	12,974,411
Total capital assets being depreciated	773,780,910	78,679,071	8,625,761	843,834,220
Less accumulated depreciation for:				
Transfer stations	672,829		672,829	
Conveyance systems	153,003,285	10,261,826		163,265,111
Treatment facilities	96,947,504	9,413,122		106,360,626
Equipment	11,545,014	741,345	4,344,884	7,941,475
Total accumulated depreciation	262,168,632	20,416,293	5,017,713	277,567,212
Total capital assets being depreciated, net	511,612,278	58,262,778	3,608,048	566,267,008
Capital assets, net	$ 587,334,934	$71,567,933	$70,949,154	$ 587,953,713

Decreases in capital assets include transfers to Pima County as a result of the transfer of the Solid Waste division to a special revenue fund.

Note 4 - Long-Term Liabilities

The following schedule details the Department's long-term liability and obligation activity for the year ended June 30, 2006. The decrease in the landfill closure and postclosure care costs represents the transfer of the Solid Waste division to a special revenue fund.

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006	Due Within 1 year
Sewer revenue bonds	$ 60,075,000		$4,550,000	$ 55,525,000	$5,570,000
Less unamortized deferred amounts	4,265,696		450,219	3,815,477	
Total sewer revenue bonds payable	55,809,304			51,709,523	5,570,000
Wastewater loans payable	84,232,313	1,085,658	4,950,734	80,367,237	5,502,956
Less unamortized deferred amounts	255,027		36,433	218,594	
Total wastewater loans payable	83,977,286			80,148,643	5,502,956
Landfill closure and postclosure care costs	15,635,842		15,635,842		
Construction contract retentions payable	4,851,976	163,086	452,827	4,562,235	
Total long-term liabilities	$160,274,408	$ 1,248,744	$ 25,102,751	$136,420,401	$11,072,956

Sewer Revenue Bonds Payable—The Department has issued several series of sewer revenue bonds (Series 1998, Refunding 2001, and Refunding 2004) to provide funds for the defeasance of prior sewer revenue bonds, the construction of a utility plant, and the construction of 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, $3,943,000 from the May 20, 1997, bond election, and $150,000,000 from the May 18, 2004, bond election remain unissued.

Wastewater Loans Payable—The Department has entered into four loan agreements with the Water Infrastructure Financing Authority of Arizona (1996, 1997, 2000, and 2004 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.

At June 30, 2006, the Department has drawn down only $18,538,309 of the $19,967,331 authorized loan amount for the 2004 Water Infrastructure Financing Authority of Arizona (WIFA) loan. Payments of principal, which are subject to change, are based on 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, 2006, the Department had a surety bond 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.

Note 4 - Long-Term Liabilities (continued)

Bonds and loans outstanding at June 30, 2006, were as follows:

Description	Interest Rates	Maturity Dates	Outstanding Principal
Series 1998	4.0-5.5%	2007 – 15	17,655,000
Refunding 2001	4.0-5.4%	2007 – 15	14,980,000
Refunding 2004	2.63-5.5%	2007 – 15	22,890,000
Total sewer revenue bonds payable			$55,525,000
1996 loan payable	3.19%	2006 – 12	9,069,388
1997 loan payable	2.95%	2006 – 11	3,670,008
2000 loan payable	2.20%	2006 – 16	49,089,532
2004 loan payable	1.81%	2007 – 24	18,538,309
Total wastewater loans payable			$80,367,237

Revenue bond debt service and loan payment requirements to maturity, are as follows:

	Revenue Bond Debt Service		Loan Payment Requirements	
	Principal	Interest	Principal	Interest
Year ending June 30,				
2007	$ 5,570,000	$ 2,573,045	$ 5,502,956	$ 2,776,392
2008	5,800,000	2,339,501	5,721,589	2,586,339
2009	6,025,000	2,098,076	5,955,046	2,375,205
2010	5,280,000	1,816,076	6,316,650	2,153,157
2011	5,515,000	1,587,777	7,604,514	1,900,764
2012-2016	27,335,000	3,452,414	33,623,000	5,631,015
2017-2021			11,574,417	1,281,937
2022-2025			4,069,065	205,827
Total	$55,525,000	$13,866,889	$ 80,367,237	$18,910,636

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

Due to other Pima County funds represents payables for goods or services. At June 30, 2006, the payables included $28,820 due to the General Fund, $1,331 due to the Automotive Services Fund, $23,053 due to the Environmental Quality Fund, and $124,080 due to the Capital Projects 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 $1,967,662 for the allocation of overhead; $1,329,338 for self-insurance premiums; $1,363,679 for interdepartmental supplies and services charges; $1,169,633 for motor pool charges; $321,889 for professional charges; $811,284 for repair and maintenance charges; $79,083 for printing charges; and $213,740 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 totaled $221,247 for the year ended June 30, 2006.

Note 7 - Significant Commitments

Commitments under construction contracts at June 30, 2006 totaled $8,306,221.

Note 8 – Claims, Judgments and 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 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 reported in the financial statements. At June 30, 2006, there were no material lawsuits related to contractual breaches.

Note 9 - Intergovernmental Agreements

The City of Tucson, Metropolitan Domestic Water Improvement District (MDWID), Town of Marana Water, 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, 2006, the Department paid fees totaling $2,125,336, $93,134, $17,465, and $110,226, 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, Town of Marana Water and Oro Valley Water submit cash receipts to the Department regularly. However, cash collections are not invested, and therefore, MDWID, Town of Marana Water, and Oro Valley Water do not remit interest to the Department.

Note 10 - Segment Information

Liquid Waste operates the sewer system that 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.

Condensed Statement of Net Assets

Assets:	
Current assets and restricted assets	$ 68,668,277
Due from other Pima County funds	1,502
Noncurrent restricted assets	492,372
Capital assets, net of accumulated depreciation	587,953,713
Other noncurrent assets	750,701
Total assets	657,866,565
Liabilities:	
Current liabilities	26,678,504
Due to other Pima County funds	177,284
Noncurrent liabilities	125,347,445
Total liabilities	152,203,233
Net Assets:	
Invested in capital assets, net of related debt	456,846,248
Restricted	4,794,366
Unrestricted	44,022,718
Total net assets	$505,663,332

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

Operating revenues (expenses):	
Sewer utility service	$ 61,735,147
Other operating revenues	538,957
Depreciation expense	(20,416,294)
Other operating expenses	(56,901,978)
Operating loss	(15,044,168)
Nonoperating revenues (expenses):	
Sewer connection revenue	42,219,962
Other nonoperating revenues	3,219,609
Interest expense	(4,623,759)
Other nonoperating expenses	(117,441)
Capital contributions	14,607,737
Transfers out to other county funds	(21,710)
Increase in net assets	40,240,230
Net assets, July 1, 2005	465,423,102
Net assets, June 30, 2006	$505,663,332

Note 10 - Segment Information (continued)

Condensed Statement of Cash Flows

Net cash provided by:	
Operating activities	$ 4,582,047
Noncapital financing activities	624,664
Capital and related financing activities	15,356,202
Investing activities	1,861,957
Increase in cash and cash equivalents	22,424,870
Cash and cash equivalents, July 1, 2005	35,000,334
Cash and cash equivalents, June 30, 2006	$ 57,425,204

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 (ASRS) 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 ASRS is governed by the Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes Title 38, Chapter 5, Article 2.

The ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910, by calling (602) 240-2000 or on-line at http://www.ASRS.state.az.us/web/Aboutus.do.

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, 2006, active plan members and the Department were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Department's contributions to the ASRS for the years ended June 30, 2006, 2005, and 2004, were $1,528,578, $1,172,625, and $1,219,545, respectively, which were equal to the required contributions for the year.

Supplementary Schedules

Pima County
Department of Wastewater Management
Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Year Ended June 30, 2006

	Liquid Waste	Solid Waste	Total
Operating revenues:			
Sewer utility service	$ 61,735,147		$ 61,735,147
Engineering review and inspection fees	29,005		29,005
Permits and fines	58,906		58,906
Other income	451,046		451,046
Total operating revenues	62,274,104		62,274,104
Operating expenses:			
Employee compensation	27,625,536		27,625,536
Operating supplies	6,321,867		6,321,867
Utilities	5,314,030		5,314,030
Sludge and refuse disposal	1,297,758		1,297,758
Repairs and maintenance	4,296,842		4,296,842
General and administrative	6,435,640		6,435,640
Consultants and professional services	5,610,305		5,610,305
Depreciation	20,416,294		20,416,294
Total operating expenses	77,318,272		77,318,272
Operating loss	(15,044,168)		(15,044,168)
Nonoperating revenues (expenses):			
Intergovernmental revenue	1,435,703		1,435,703
Interest income	1,783,906		1,783,906
Sewer connection revenue	42,219,962		42,219,962
Loss on disposal of equipment	(20,354)		(20,354)
Interest expense	(4,623,759)		(4,623,759)
Amortization of deferred charges	(97,087)		(97,087)
Total nonoperating revenues (expenses)	40,698,371		40,698,371
Income before capital contributions and transfers	25,654,203		25,654,203
Capital contributions	14,607,737		14,607,737
Transfers in		$ 156,156	156,156
Transfers out	(21,710)		(21,710)
Increase in net assets	40,240,230	156,156	40,396,386
Net assets—July 1, 2005	465,423,102	(156,156)	465,266,946
Net assets—June 30, 2006	$ 505,663,332		$ 505,663,332

Pima County
Department of Wastewater Management
Combining Statement of Cash Flows
Year Ended June 30, 2006

	Liquid Waste	Solid Waste	Total
Cash flows from operating activities:			
Receipts from customers	$ 61,216,418	$ 602,926	$ 61,819,344
Miscellaneous receipts	451,046		451,046
Payments to suppliers for goods and services	(21,504,915)	(300,688)	(21,805,603)
Payments to other Pima County funds for goods and services	(7,477,555)		(7,477,555)
Payments to employees	(28,102,947)	(112,976)	(28,215,923)
Net cash provided by operating activities	4,582,047	189,262	4,771,309
Cash flows from noncapital financing activities:			
Intergovernmental receipts	528,751		528,751
Repayment of interfund borrowings	117,623	9,345	126,968
Cash transfers to other Pima County funds	(21,710)	(4,289,443)	(4,311,153)
Net cash provided by (used for) noncapital financing activities	624,664	(4,280,098)	(3,655,434)
Cash flows from capital and related financing activities:			
Sewer connection receipts from customers	42,141,638		42,141,638
Proceeds from the sale of capital assets	2,000		2,000
Intergovernmental contract receipts	191,418		191,418
Purchase and construction of capital assets	(14,339,450)		(14,339,450)
Proceeds from issuance of sewer loans	1,085,658		1,085,658
Principal payments on revenue bonds and loans	(9,500,734)		(9,500,734)
Interest payments on revenue bonds and loans	(4,224,328)		(4,224,328)
Net cash provided by capital and related financing financing activities	15,356,202		15,356,202
Cash flows from investing activities:			
Interest received on investments	1,861,957	8,957	1,870,914
Net cash provided by investing activities	1,861,957	8,957	1,870,914
Net increase (decrease) in cash and cash equivalents	22,424,870	(4,081,879)	18,342,991
Cash and cash equivalents, July 1, 2005	35,000,334	4,081,879	39,082,213
Cash and cash equivalents, June 30, 2006	$ 57,425,204		$ 57,425,204

(Continued)

Pima County
Department of Wastewater Management
Combining Statement of Cash Flows
Year Ended June 30, 2006
(Continued)

	Liquid Waste	Solid Waste	Total
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$ (15,044,168)		$ (15,044,168)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	20,416,294		20,416,294
Changes in assets and liabilities:			
Decrease (increase) in assets:			
Accounts receivable	(570,637)	329,819	(240,818)
Due from other governments	(36,003)	273,107	237,104
Inventory of materials and supplies	(216,781)		(216,781)
Prepaid expenses	(68,405)	1,759	(66,646)
Increase (decrease) in liabilities:			
Accounts payable	556,293	(291,231)	265,062
Due to other governments	22,865	(11,216)	11,649
Accrued payroll and employee benefits	(477,411)	(112,976)	(590,387)
Net cash provided by operating activities	$ 4,582,047	$ 189,262	$ 4,771,309

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2006, developers conveyed capital assets with an estimated fair value of $14,407,846 and the County's Internal Service Fund conveyed capital assets with a net book value of $26,050 to the Department. These transactions were recorded as capital contributions.

During the year ended June 30, 2006, the Pima County Board of Supervisors approved Connection Fee Flow-Through Sewer Credit Agreements totaling $16,697. This transaction was recorded as an increase to deferred revenue and a decrease in capital contributions.

During the year ended June 30, 2006, the Department retired expired Sewer Credit Agreements totaling $190,538. This transaction was recorded as a decrease to deferred revenue and an increase in capital contributions.

During the year ended June 30, 2006, the Department retired assets with a net book value of $22,354.

During the year ended June 30, 2006, the Department transferred to the County's general government the assets of the Solid Waste Management division with a net book value of $11,334,107.

During the year ended June 30, 2006, the Department conveyed the long-term liabilities of the Solid Waste Management division in the amount of $15,779,706 to the County's general government.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Supervisors
of Pima County, Arizona

Members of the Board:

We have audited the financial statements of Pima County Department of Wastewater Management as of and for the year ended June 30, 2006, and have issued our report thereon dated September 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pima County Department of Wastewater Management's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pima County Department of Wastewater Management's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Supervisors, management and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, Meech & Co., P.C.

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

September 21, 2006

APPENDIX F

EXCERPTS FROM
PIMA COUNTY, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006

The following are excerpts from the County's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006 The County has not requested the State of Arizona Auditor General to perform any review of the County's Comprehensive Annual Financial Report subsequent to June 30, 2006. These are the most recent audited financial statements available to the County. These financial statements are not current and may not represent the current financial position of the County.

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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 governmental activities, business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of Pima County as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. 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 certain departments, two major funds, and a component unit, which account for the following percentages of the assets, liabilities, revenues, and expenses or expenditures of the opinion units affected:

Opinion Unit/Department	Assets	Liabilities	Revenues	Expenses/ Expenditures
Government-wide Statements				
Governmental Activities:				
Stadium District	0.09%	0.08%	0.42%	0.29%
Self-Insurance Trust	2.75%	6.77%	0.29%	0.70%
Business-type Activities:				
Wastewater Management	91.89%	86.15%	30.42%	23.10%
Pima Health System & Services	4.36%	12.47%	64.74%	72.18%
Development Services	2.50%	1.23%	4.46%	4.04%
Self-Insurance Trust	0.00%	0.00%	0.00%	0.29%
Component Unit—Southwestern Fair Commission	100.00%	100.00%	100.00%	100.00%
Fund Statements				
Major Funds:				
Wastewater Management	100.00%	100.00%	100.00%	100.00%
Pima Health System & Services	100.00%	100.00%	100.00%	100.00%
Aggregate Remaining Fund Information:				
Stadium District	0.28%	0.35%	1.23%	0.74%
Development Services	3.85%	1.86%	7.39%	5.68%
Self-Insurance Trust	8.83%	30.60%	6.84%	7.95%

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Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based 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, the discretely presented component unit, each major fund, and aggregate remaining fund information of Pima County as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the County retroactively reported infrastructure assets not previously capitalized as part of the phased implementation requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

The Management's Discussion and Analysis on pages 13 through 27, the Budgetary Comparison Schedules on pages 71 through 73, and the Schedule of Agent Retirement Plans' Funding Progress on page 74 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining statements and other schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining statements and other schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In connection with our audit, except for the instances of noncompliance that will be reported in the County's Single Audit Reporting Package that will be issued at a future date, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the County solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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 grant agreements and other matters at a future date. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

December 1, 2006

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Management's Discussion and Analysis

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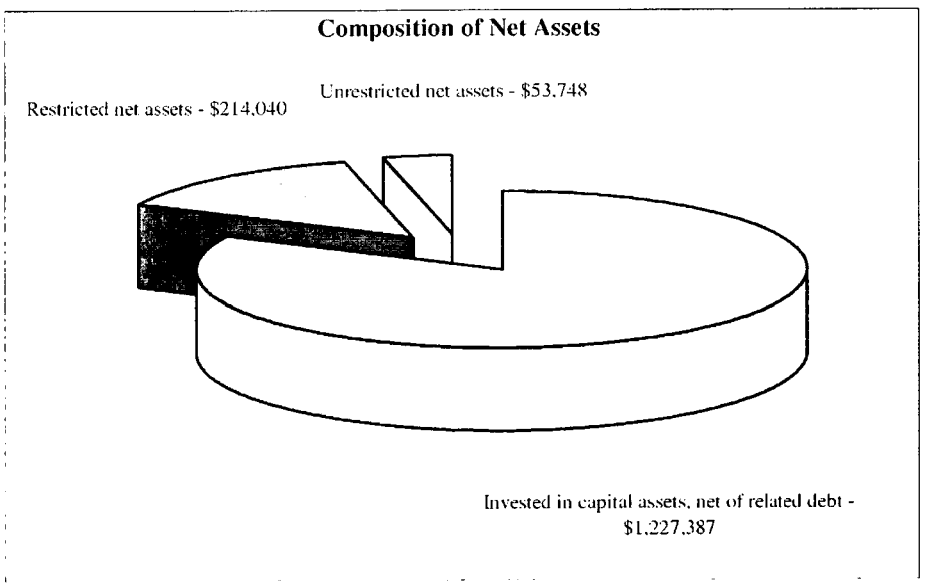
Management's Discussion & Analysis

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, 2006, 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, 2006, the County's combined assets exceeded combined liabilities (*net* assets) by $1,495,175, an increase of 9.1% from the prior year. Of this amount, $53,748 is available for general government expenditures (*unrestricted net assets*), $214,040 is restricted for specific purposes (*restricted net assets*), and $1,227,387 is invested in capital assets, net of related debt and accumulated depreciation.



- Of the total fund balances of the County's governmental funds, total fund balance decreased $38,009 to $213,998, with $196,018 of this amount available for expenditure. The amount available for expenditure is comprised of $46,423 for the General fund, $15,685 for the Transportation fund, $84,472 for the Capital Projects fund and $49,438 for the County's other governmental funds.

- The General fund unreserved fund balance increased $13,252 from the previous year to $46,423. This balance represents approximately 11.5% of the County's General fund expenditures and 6.1% of total governmental funds expenditures.

- The Solid Waste fund, formally a division of Wastewater Management Enterprise Fund, has been reclassified as a special revenue fund.

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, and (3) Notes to the basic financial statements. Required supplementary information (4) 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, sanitation, health, welfare, culture and recreation, and education and economic opportunity. The business-type activities of the County include Pima Health System & Services, Wastewater Management, Development Services and the County's downtown parking garages.

A discretely presented component unit is included in the basic financial statements and consists of a legally separate entity for which the County is financially accountable. The County reports the Southwestern Fair Commission, which operates the County Fairgrounds and the annual Pima County Fair, as a discretely presented component unit.

The government-wide financial statements can be found on pages 29-31 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 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 fifteen 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, Transportation and Capital Projects funds. 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 32-35 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 graphic services and telecommunications. 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 System & Services 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 36-39 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 40-41 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 42-69 of this report.

Required Supplementary Information (RSI) is presented concerning the County's General and Transportation Special Revenue funds' budgetary schedules and the schedule of retirement plans' funding progress. Required supplementary information can be found on pages 71-74 of this report.

Combining Statements and Other 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 76-106 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. County assets exceeded liabilities by $1,495,175 at June 30, 2006. The following table shows condensed information for the Statement of Net Assets:

Table 1
Statement of Net Assets
At June 30, 2006

	Governmental Activities Fiscal Year		Business-type Activities Fiscal Year		Total Fiscal Year	
	2005-2006	2004-2005*	2005-2006	2004-2005	2005-2006	2004-2005*
Current and other assets	$ 342,194	$ 372,920	$ 114,925	$ 96,000	$ 457,119	$ 468,920
Capital assets:						
Land, buildings, equipment, infrastructure & other	1,146,334	1,072,091	597,365	596,538	1,743,699	1,668,629
Total assets	1,488,528	1,445,011	712,290	692,538	2,200,818	2,137,549
Current and other liabilities	83,175	79,660	40,048	43,514	123,223	123,174
Long-term liabilities	446,000	469,861	136,420	160,275	582,420	630,136
Total liabilities	529,175	549,521	176,468	203,789	705,643	753,310
Net assets :						
Invested in capital assets, net of related debt	761,130	754,742	466,257	457,600	1,227,387	1,212,342
Restricted	159,759	107,297	54,281	10,298	214,040	117,595
Unrestricted (deficit)	38,464	33,451	15,284	20,851	53,748	54,302
Total net assets	$ 959,353	$ 895,490	$ 535,822	$ 488,749	$ 1,495,175	$ 1,384,239

*As restated - See Note 2 & Note 5 of the financial statements

The largest portion of the County's net assets reflects its investment in capital assets (i.e. land, buildings, infrastructure and equipment), less any related outstanding debt used to acquire those assets. As of June 30, 2006, investment in capital assets totaled $1,227,387, comprising approximately 82.1% 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 $15,045 increase in capital assets, net of related debt, is primarily due to the significant 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, 2006, restricted net assets totaled $214,040 and comprised approximately 14.3% of total net assets. This represents a $96,445 increase in restricted net assets from the $117,595 balance of fiscal year 2004-05.

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, 2006, unrestricted net assets totaled $53,748 and comprised approximately 3.6% of total net assets.

Governmental activities

Governmental activities contributed $63,863, or 57.6% of the County's $110,936 increase, in total net assets during fiscal year 2005-06. 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, 2006 and 2005

	Fiscal Year		Variance	
	2005-2006	2004-2005	Amount	Percent
Program revenues:				
Charges for services	$ 72,121	$ 61,882	$ 10,239	16.5%
Operating grants and contributions	133,113	125,121	7,992	6.4%
Capital grants and contributions	12,188	23,663	(11,475)	-48.5%
Total program revenues	217,422	210,666	6,756	3.2%
General revenues:				
Property taxes	316,170	294,643	21,527	7.3%
State-shared taxes	129,052	115,140	13,912	12.1%
Investment earnings	12,942	6,140	6,802	110.8%
Other general revenues	35,720	35,422	298	0.8%
Total general revenues	493,884	451,345	42,539	9.4%
Total revenues	711,306	662,011	49,295	7.4%
Expenses:				
General government	208,293	194,873	13,420	6.9%
Public safety	132,583	118,412	14,171	12.0%
Highways and streets	70,392	65,414	4,978	7.6%
Sanitation	7,258		7,258	100.0%
Health	32,043	31,798	245	0.8%
Welfare	103,085	96,199	6,886	7.2%
Culture and recreation	34,510	29,663	4,847	16.3%
Education and economic opportunity	39,517	39,714	(197)	-0.5%
Unallocated depreciation and amortization	165	1,010	(845)	-83.7%
Interest on long-term debt	19,463	16,152	3,311	20.5%
Total expenses	647,309	593,235	54,074	9.1%
Excess before transfers	63,997	68,776	(4,779)	-6.9%
Transfers in (out)	(134)	1,935	(2,069)	-106.9%
Change in net assets	$ 63,863	$ 70,711	$ (6,848)	-9.7%

Key elements of the change in net assets from governmental activities include:

- Program revenues increased $6,756, reflecting increases by Charges for services and Operating grants & contributions of $18,231 and a decrease of $11,475 in Capital grants & contributions.

    - Revenue from Charges for services increased by $10,239 primarily due to the reclassification of Solid Waste from a business-type activity under Wastewater Management to a governmental fund. This accounted for 44.3% of the increase, or $4,531. There was also a 13.8% increase, or $3,152, within the functional class general government that was primarily due to a reclassification of Internal Service fund revenues of $2,709 from general miscellaneous revenues to charges for services.

    - Revenue from Operating grants and contributions increased by $7,992 due primarily to an increase of $5,666 in the function class general government. The County received $2,100 in federal revenue from the Help America Vote Act (HAVA) grant to purchase touch screen voting equipment, and a $1,575 increase in federal revenue for the County Law Enforcement Antiracketeering grant. In addition, there was a $3,058 increase for HURF revenue in the functional class highways and streets.

    - Revenue from Capital grants & contributions decreased by $11,475 due primarily to a $14,089 decline in governmental funding for County capital projects. There was a $9,016 and $484 decrease in federal and state funding, respectively, for the Veterans Memorial Overpass project and a $2,685 decline in state funding for the La Cholla Boulevard project. There was also a $2,110 decline in federal funding for the Wetmore/Ruthrauff intersection project. These projects were completed during the fiscal year.

- General revenues increased by $42,539, primarily due to increases in property tax revenues and state-shared tax revenues. Increases in real property assessed valuations and residential construction activity were the primary factors generating increases in property tax revenues of $21,527. Sales tax revenue increased $11,648, or 12.7%, due to growth in retail sales.

- Investment earnings continue to improve as interest rates rose for a second consecutive fiscal year. During the majority of the fiscal year, the County invested a majority of its funds in the State Treasurer's Local Government Investment Pool. The average interest rate for the pool was 2.34% for fiscal year 2004-05 and 3.94% for fiscal year 2005-06.

- Total expenses for governmental activities increased by $54,074 due to the following:

    - An increase of $22,201 in personnel costs, primarily attributable to salary adjustments of 4.2% for County employees and a one step increase for Sheriff's deputies and sergeants. Additionally, increases in the County's required contribution to the Public Safety Retirement system for Sheriff's deputies generated increases in personnel costs. This increase is predominately reflected in the public safety category.

    - The Solid Waste fund was reclassified into the Governmental activities resulting in an increase of $7,258 in expenses for the sanitation function.

    - The increase in expenditures for welfare was due to a state-mandated increase of $360 in the monthly contribution to the Arizona Long-Term Care system (ALTCS), an increase of $3,925 for health care services to both the adult and juvenile detention centers and an increase of $1,128 for psychiatric services.

- The addition of bridge structures to infrastructure resulted in $1,244 for depreciation expense. This addition is reflected in the highway and streets functional expense.

Business-type activities

Business-type activities contributed $47,073, or 42.4%, of the County's increase of $110,936 in total net assets during the year ended June 30, 2006. The following table shows changes in net assets for business-type activities:

Table 3
Business-type Activities
Comparative Statements of Activities
For the Years Ended June 30, 2006 and 2005

	Fiscal Year		Variance	
	2005-2006	2004-2005	Amount	Percent
Program revenues:				
Charges for services	$ 376,874	$ 353,548	$ 23,326	6.6%
Operating grants and contributions	4,997	4,238	759	17.9%
Capital grants and contributions	449		449	100.0%
Total program revenues	382,320	357,786	24,534	6.9%
General revenues:				
Capital contributions	14,607	20,722	(6,115)	-29.5%
Investment earnings	3,849	1,609	2,240	139.2%
Other general revenues	1,348	4,028	(2,680)	-66.5%
Total general revenues	19,804	26,359	(6,555)	-24.9%
Total revenues	402,124	384,145	17,979	4.7%
Expenses:				
Wastewater Management	82,701	76,079	6,622	8.7%
Pima Health System & Services	256,583	249,809	6,774	2.7%
Development Services	14,422	10,857	3,565	32.8%
Parking Garages	1,479	1,494	(15)	-1.0%
Total expenses	355,185	338,239	16,946	5.0%
Excess before transfers	46,939	45,906	1,033	2.3%
Transfers in (out)	134	(1,935)	2,069	-106.9%
Change in net assets	$ 47,073	$ 43,971	$ 3,102	7.1%

Key elements of the change in net assets from business-type activities include:

- Charges for services increased by $23,326, primarily as a result of:
  - Wastewater Management increased sewer utility service and connection fees, resulting in an increase of $12,122 in charges for services.
  - An increase of $8,816 within Pima Health System & Services primarily due to an increase of $8,117 in the Arizona Long Term Care System (ALTCS) and an increase of

$5,752 in the Arizona Health Care Cost Containment System (AHCCCS) programs, a result of rate increases. This was offset by a loss in revenue from reinsurance claims.

- An increase of $2,410 in license and permit revenue for Development Services due to an increase in construction activity in FY 2005-06.

- Operating grants and contributions increased by $759 due primarily to Pima Health System & Services. During FY 2005-06, there was an increase in carry-over dollars from Pima Council on Aging that drove this increase. "Carry-over dollars" are Title III funds. When these funds are not fully expended in the prior fiscal year, then the State reallocates and distributes the money across various regions in the state in the following fiscal year.

- Expenses increased by $16,946, due to the following changes:

  - An increase of $6,774 in Pima Health System & Services due primarily to increases of $2,351 for employee compensation the result of salary adjustments of 4.2% for County employees and $3,408 for medical claims due to a rate increase.

  - An increase of $6,622 in Wastewater Management due primarily to increases of $2,071 in consultants and professional services and $2,308 in depreciation expenses.

  - An increase of $3,565 in Development Services due primarily to an increase of $2,079 in employee compensation the result of salary adjustments of 4.2% for County employees.

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, 2006, the County's governmental funds reported combined fund balances of $213,998, a decrease of $38,009 from the prior year. Approximately 91.6% of the combined fund balances, or $196,018, constitutes unreserved and undesignated fund balance, which is available to meet the County's current and future needs. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has been committed to the following:

- $6,784 to pay debt service

- $5,769 to reflect inventories and prepaid amounts

- $2,648 for specified programs

- $1,660 to reflect a loan receivable

- $1,044 designated for Mt. Lemmon flood mitigation

- $75 for capital repairs and refurbishments

The General Fund is the chief operating fund of the County. At June 30, 2006, unreserved fund balance of the general fund was $46,423 while total fund balance reached $51,575. As a measure of the General fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 11.5% of total General fund expenditures, while total fund balance represents 12.8% of that same amount.

Revenues for governmental functions totaled approximately $714,340 in fiscal year 2005-06, which represents an increase of $47,923 (7.2%) 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 Governmental Funds

	Fiscal Year					
	2005-2006		2004-2005		Variance	
	Amount	Percent	Amount	Percent	Amount	Percent
Revenues by source:						
Taxes	$ 321,474	45.0%	$ 300,972	45.2%	$ 20,502	6.8%
Special assessments	215	0.0%	244	0.0%	(29)	-11.9%
Licenses and permits	7,452	1.0%	7,265	1.1%	187	2.6%
Intergovernmental	291,059	40.8%	278,414	41.8%	12,645	4.5%
Charges for services	63,582	8.9%	53,568	8.0%	10,014	18.7%
Fines and forfeits	6,014	0.8%	5,967	0.9%	47	0.8%
Interest	11,382	1.6%	5,181	0.8%	6,201	119.7%
Miscellaneous	13,165	1.9%	14,806	2.2%	(1,641)	-11.1%
Total revenues	$ 714,343	100.0%	$ 666,417	100.0%	$ 47,926	7.2%

The following provides an explanation of revenues by source that changed significantly over the prior year:

- Taxes Revenues from property taxes increased $20,502. 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 The $12,645 increase in intergovernmental revenue was due primarily to a $12,335 increase in state shared sales tax revenue, the result of increased construction and retail sales and population growth.

- Charges for services The $10,014 increase in charges for services revenues is due primarily to the reclassification of Solid Waste to a governmental fund and an increase in overhead allocation.

- Interest As previously mentioned, during the majority of the fiscal year the County invested a majority of its funds in the State Treasurer's Local Government Investment Pool. Interest rates

increased in fiscal year 2005-06 to 3.94% from 2.34% in the prior year, and resulted in increased 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 2005-2006 Amount	Percent	2004-2005 Amount	Percent	Variance Amount	Percent
General government	$ 203,881	26.8%	$ 193,308	27.0%	$ 10,573	5.5%
Public safety	121,229	15.9%	109,798	15.3%	11,431	10.4%
Highways and streets	39,394	5.2%	38,363	5.4%	1,031	2.7%
Sanitation	6,271	0.8%			6,271	100.0%
Health	30,038	3.9%	30,802	4.3%	(764)	-2.5%
Welfare	103,034	13.5%	96,996	13.5%	6,038	6.2%
Culture and recreation	28,561	3.8%	23,172	3.2%	5,389	23.3%
Education and economic opportunity	37,918	5.0%	38,098	5.3%	(180)	-0.5%
Capital outlay	121,007	15.9%	127,632	17.8%	(6,625)	-5.2%
Debt service:						
- Principal	50,547	6.6%	42,891	6.0%	7,656	17.9%
- Interest	19,448	2.6%	16,127	2.2%	3,321	20.6%
- Miscellaneous	15	0.0%	25	0.0%	(10)	-40.0%
Total expenditures	$ 761,343	100.0%	$ 717,212	100.0%	$ 44,131	6.2%

Total expenditures in governmental funds increased during fiscal year 2005-06 by $44,131.

- The $11,431 increase in public safety expenditures was due primarily to an increase in personnel costs. The County Sheriff's deputies and sergeants received a one step salary adjustment. In addition, corrections officer staffing numbers were increased.

- The $7,656 increase in debt service principal payments was the result of the addition of the 2005 general obligation and street and highways bonds to the payment schedule.

- The $10,573 increase in general government expenditures was due primarily to the increase in the County's administration overhead. In addition, personnel costs increased due to salary adjustments of 4.2% for County employees.

- The $6,271 in sanitation expenditures resulted from the transfer of the Solid Waste fund into a governmental fund from the Wastewater Management Enterprise Fund.

Budget to Actual Comparison for the General Fund

Overall, budgeted revenues and expenditures for the General Fund were generally consistent with actual fund activity. Actual revenues exceeded budgeted revenues by $17,481 and actual expenditures were less than budgeted expenditures by $1,236. 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 System and Services, 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, 2006 and 2005

	Fiscal Year		Variance	
	2005-2006	2004-2005	Amount	Percent
Operating revenues:				
Net patient services	$ 252,034	$ 243,032	$ 9,002	3.7%
Charges for services	82,162	73,372	8,790	12.0%
Other	1,348	2,943	(1,595)	-54.2%
Total net operating revenues	335,544	319,347	16,197	5.1%
Operating expenses:				
Employee compensation	73,452	68,266	5,186	7.6%
Medical claims	205,951	202,543	3,408	1.7%
Operating supplies & services	9,105	7,146	1,959	27.4%
Utilities	6,007	4,470	1,537	34.4%
Sludge and refuse disposal	1,298	2,456	(1,158)	-47.2%
Repair and maintenance	5,184	4,463	721	16.2%
General and administrative	14,328	13,602	726	5.3%
Consultants and professional services	8,018	5,679	2,339	41.2%
Depreciation and amortization	21,092	18,783	2,309	12.3%
Total operating expenses	344,435	327,408	17,027	5.2%
Operating loss	(8,891)	(8,061)	(830)	10.3%
Nonoperating revenues (expenses):				
Intergovernmental revenue	5,904	4,397	1,507	34.3%
Shared state tax revenue		1,163	(1,163)	-100.0%
Interest income	3,849	1,609	2,240	139.2%
Sewer connection fees	42,220	36,907	5,313	14.4%
Interest expense	(4,720)	(4,294)	(426)	9.9%
Loss on disposal of capital assets	(22)	(577)	555	-96.2%
Amortization of deferred charges	(97)	(97)		0.0%
Premium tax	(4,949)	(4,792)	(157)	3.3%
Total nonoperating revenues	42,185	34,316	7,869	22.9%
Income (loss) before contributions and transfers	33,294	26,255	7,039	26.8%
Capital contributions	14,607	21,926	(7,319)	-33.4%
Transfers in	156		156	100.0%
Transfers (out)	(22)	(3,139)	3,117	-99.3%
Change in net assets	$ 48,035	$ 45,042	$ 2,993	6.6%

Key activity within the enterprise funds for fiscal year 2005-06 include the following:

- While net operating revenues for the County's Enterprise Funds increased $16,197, operating expenses increased $17,027, resulting in an operating loss of $8,891, or a decline of $830 from the prior year. The operating loss was due to Wastewater Management, which reported a loss of $15,044, as compared to the operating income reported by Pima Health System and Services of $3,076, Development Services of $3,050 and Parking Garages of $27.

- Net patient services revenues increased by $9,002 from fiscal year 2004-05. This is attributable to increased membership enrollment for Pima Health System and Services, which generated increases in capitation revenues.

- Charges for services revenues increased by $8,790 as compared to the prior year. Wastewater Management reported an increase of $6,587 due to an increase in sewer utility service fee revenue. Development Services reported an increase of $2,410 due to an increase in permit revenue, as a result of an increase in construction activity.

- Employee compensation expenses increased by $5,186 from fiscal year 2004-05, due to an increase of $2,351 for Pima Health System and Services and an increase of $2,079 for Development Services. Both increases were primarily due to the Board of Supervisor's approved salary rate increases and position reclassifications.

- Medical claims expense continued to increase this year as a result of higher enrollment for Pima Health System and Services during the fiscal year. An increase in doctor fees is also responsible for a portion of the rise in medical claims expenditures.

- Sewer connection fees charged by Wastewater Management increased by $5,313 due to increased connection fee rates.

Capital Assets and Debt Administration

Capital Assets

The County's capital assets increased as a result of retroactively reporting the County's general governmental infrastructure bridge assets. GASB Statement No.34 allowed for a phase-in period for retroactively reporting infrastructure. GASB 34 required this to be completed in Fiscal Year 2006. The implementation of this accounting pronouncement has resulted in a restatement of beginning net assets of $13,289. Additional information regarding the County's restatement of beginning net assets can be found in Note 2 of the financial statements on page 47 of this report.

The County's investment in capital for its governmental and business-type activities as of June 30, 2006 amounted to $1,743,699 (net of accumulated depreciation), an increase of 4.5%. Of the $75,070 increase in net capital assets, $74,243 (98.9%) came from governmental activities and $827 (1.1%) came from business-type activities. 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 $14,993 due primarily to the following acquisitions for governmental activities: $2,017 for the Justice Court complex property, $1,806 for the Canoa Ranch property, $1,084 for the Tortolita Mountain Park property, $1,795 for the Tucson Mountain Park property, $1,073 for the Rillito Race Track property, $3,001 for land acquisition related to flood control projects and $3,698 that represented Solid Waste assets transferred from Wastewater Management.

- Buildings and improvements increased by $53,655 due primarily to the expansion and upgrade of the Ina Road Treatment Facility for $62,010.

- Infrastructure increased by $49,726 due primarily to the capitalization of $23,610 for the Veteran's Memorial Overpass project, $18,727 for the Wetmore/Ruthrauff Intersection project, $12,681 for the La Cholla Boulevard: River Road to Omar Road project and $7,809 for the Catalina Highway: Tanque Verde to Houghton Road project.

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	
	2005-2006	2004-2005*	2005-2006	2004-2005	2005-2006	2004-2005*
Land	$ 222,954	$ 202,408	$ 8,706	$ 14,259	$ 231,660	$ 216,667
Construction in progress	115,305	117,118	14,842	63,325	130,147	180,443
Buildings and improvements	271,771	268,996	239,799	188,919	511,570	457,915
Sewage conveyance system			327,335	322,145	327,335	322,145
Equipment	38,634	35,625	6,683	7,890	45,317	43,515
Infrastructure	497,670	447,944			497,670	447,944
Total	$ 1,146,334	$ 1,072,091	$ 597,365	$ 596,538	$ 1,743,699	$ 1,668,629

*As restated - See Note 2 and Note 5 of the financial statements

The County's infrastructure assets are recorded at historical cost and estimated 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 51-53 of this report.

Long-term Debt

Significant, comparative long-term debt entered into during the last two fiscal years is presented below:

Table 8
Long-Term Debt
Governmental Funds

	Fiscal Year	
	2005-2006	2004-2005
Bonds issued (at face value):		
General obligation		$ 65,000
Street and highway revenue		51,200
Loans	$ 4,836	
Capital leases	231	
Total	$ 5,067	$ 116,200

During the fiscal year, the Transportation Department received $4,836 in loan proceeds for the Alvernon Way road project from the state's Highway Expansion and Extension Loan Program (HELP). As of June 30, 2006, $1,511 of this amount remained unspent. On May 16, 2006, Pima County voters approved $54,000 in general obligation bonds for psychiatric facilities.

In the prior year, the county received $65,000 in proceeds from the sale of general obligation bonds and $51,200 from the sale of transportation revenue bonds. As of June 30, 2006, $4,186 of proceeds from general obligation bonds and $9,168 from transportation revenue bonds were unspent. The majority of the general obligation bonds were spent on public health and community facilities, parks and recreational facilities and the Sonoran Desert open space and habitat protection plan, while proceeds from transportation revenue bonds were allocated to various roadway projects.

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, except for the General Obligation Bonds, Series 2004 which Standard & Poor's upgraded to AA-.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its net assessed valuation. The current debt limitation for Pima County is $907,643, 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 54-62 of this report.

Economic Factors and Next Year's Budget

Pima County continues to record steady increases in various aspects of its economy. Increases in residential construction continue to contribute to increases in the real property taxes, along with increases in valuation. Increases in per-capita wage income and sales taxes have also provided indications of economic growth.

The budget for fiscal year 2006-07 has expenditures for the General Fund increasing by approximately $35.5 million primarily due to the following:

- $8.2 million of expenditure authority in the Budget Stabilization Fund in anticipation of various legislative relief actions partially offset by like reductions in individual affected department budgets
- $8.0 million for an employee compensation package consisting of one step for commissioned and corrections staff, 2.8 percent for most other employees to address inflation, 1.7 percent for employees who are members of the Arizona State Retirement System whose required contribution will increase by that percentage, and an increase in the shift differential hourly rate
- $5.4 million in supplemental funding for individual departments
- $5.0 million for possible unallowable fiscal year 2004-05 Transportation expenditures
- $4.8 million of various increase identified for General Fund departments that underwent the zero base budget process
- $4.6 million increase in payments to the Metropolitan Tucson Convention & Visitors Bureau
- $2.1 million net increase in state mandated employer contributions to the various state retirement systems; $1.8 million increase in the County's contribution toward the cost of other non-retirement benefits
- $1.7 million representing the annual cost of salary adjustments for correction officers and specialists approved during fiscal year 2005-06

- $1.1 million in supplemental funding in the Budget Stabilization Fund to fund possible loss of grant funding by the County Attorney and Sheriff
- $3.1 million increase for the primary and general elections held in the fall of 2006 partially offset by a $1.6 million reduction for the regional transportation plan election held in the spring of 2006
- $1.9 million increase in the adult detention health care contract cost partially offset by a $551 decrease in juvenile detention health care contract costs
- $900 reduction for Vocation Rehabilitation costs moved to the Employment & Training Fund
- $1.8 million net reduction due to the transfer of Economic Development & Tourism funding to a new special revenue fund
- $5.0 million scheduled decrease in the County's obligations under the agreement with University Physicians Healthcare to operate the former Kino Community Hospital

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 and Risk Management Department, 130 W. Congress, 6th Floor, Tucson, AZ, 85701.

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Basic Financial Statements

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Exhibit A -1

PIMA COUNTY
STATEMENT OF NET ASSETS
June 30, 2006
(in thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Southwestern Fair Commission
ASSETS				
Cash and cash equivalents	$ 260,630	$ 73,347	$ 333,977	$ 1,294
Property taxes receivable (net)	8,824		8,824	
Interest receivable	463		463	
Internal balances	3,659	(3,659)		
Due from other governments	53,046	3,136	56,182	
Accounts receivable (net)	2,960	22,944	25,904	16
Inventories	2,645	3,147	5,792	30
Prepaids	4,397	95	4,492	17
Investments	911		911	
Other assets	696	751	1,447	4
Restricted assets:				
Cash and cash equivalents	2,303	15,164	17,467	
Loans receivable	1,660		1,660	
Capital assets not being depreciated:				
Land	222,954	8,706	231,660	
Construction in progress	115,305	14,842	130,147	
Capital assets being depreciated (net):				
Buildings and improvements	271,771	239,799	511,570	1,507
Sewage conveyance system		327,335	327,335	
Equipment	38,634	6,683	45,317	402
Infrastructure	497,670		497,670	
Total assets	1,488,528	712,290	2,200,818	3,270
LIABILITIES				
Accounts payable	34,685	10,566	45,251	215
Accrued medical and healthcare claims		18,736	18,736	
Interest payable		1,432	1,432	
Contract retentions	634		634	
Employee compensation	30,670	6,369	37,039	
Due to other governments	7,790	114	7,904	
Deposits and rebates	2,303		2,303	22
Deferred revenues	7,093	2,831	9,924	
Noncurrent liabilities:				
Due within one year	56,055	11,073	67,128	104
Due in more than one year	389,945	125,347	515,292	140
Total liabilities	529,175	176,468	705,643	481
NET ASSETS				
Invested in capital assets, net of related debt	761,130	466,257	1,227,387	1,665
Restricted for:				
Special revenue	53,384		53,384	
Highways and streets	21,353		21,353	
Debt service	7,934	438	8,372	
Capital projects	77,088		77,088	75
Wastewater management		48,379	48,379	
Healthcare		5,464	5,464	
Unrestricted	38,464	15,284	53,748	1,049
Total net assets	$ 959,353	$ 535,822	$ 1,495,175	$ 2,789

See Notes to the Financial Statements

PIMA COUNTY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006
(in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	$ 208,293	$ 26,033	$ 30,532	$ 692
Public safety	132,583	8,136	12,193	1,300
Highways and streets	70,392	21,617	57,057	8,068
Sanitation	7,258	4,531	1,136	
Health	32,043	9,693	11,664	
Welfare	103,085		839	
Culture and recreation	34,510	1,797	8	2,090
Education and economic opportunity	39,517	314	19,684	38
Amortization - unallocated	165			
Interest on long-term debt	19,463			
Total governmental activities	647,309	72,121	133,113	12,188
Business-type activities:				
Wastewater Management	82,701	104,501	529	449
Pima Health System & Services	256,583	253,748	4,468	
Development Services	14,422	17,140		
Parking Garages	1,479	1,485		
Total business-type activities	355,185	376,874	4,997	449
Total primary government	$ 1,002,494	$ 448,995	$ 138,110	$ 12,637
Component unit:				
Southwestern Fair Commission	$ 5,411	$ 5,563	$ 88	
Total component units	$ 5,411	$ 5,563	$ 88	

General revenues:
Property taxes, levied for general purposes
Property taxes, levied for regional flood control district
Property taxes, levied for library district
Property taxes, levied for debt service
Hotel/motel taxes, levied for sports facility and tourism
Other taxes, levied for stadium district
Unrestricted share of state sales tax
Unrestricted share of state vehicle license tax
Grants and contributions not restricted to specific programs
Interest and penalties on delinquent taxes
Investment earnings
Miscellaneous
Gain on sale of capital assets
Capital and other contributions
Transfers
Total general revenues and transfers
Change in net assets
Net assets at beginning of year, as restated
Net assets at end of year

See Notes to the Financial Statements

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business-type Activities	Total	Southwestern Fair Commission	Functions/Programs
				Primary government:
				Governmental activities:
$ (151,036)		$ (151,036)		General government
(110,954)		(110,954)		Public safety
16,350		16,350		Highways and streets
(1,591)		(1,591)		Sanitation
(10,686)		(10,686)		Health
(102,246)		(102,246)		Welfare
(30,615)		(30,615)		Culture and recreation
(19,481)		(19,481)		Education and economic opportunity
(165)		(165)		Amortization - unallocated
(19,463)		(19,463)		Interest on long-term debt
(429,887)		(429,887)		**Total governmental activities**
				Business-type activities:
	$ 22,778	22,778		Wastewater Management
	1,633	1,633		Pima Health System & Services
	2,718	2,718		Development Services
	6	6		Parking Garages
	27,135	27,135		**Total business-type activities**
(429,887)	27,135	(402,752)		**Total primary government**
				Component unit:
			$ 240	Southwestern Fair Commission
			$ 240	**Total component units**
				General revenues:
237,510		237,510		Property taxes, levied for general purposes
19,929		19,929		Property taxes, levied for regional flood control district
15,539		15,539		Property taxes, levied for library district
43,192		43,192		Property taxes, levied for debt service
6,856		6,856		Hotel/motel taxes, levied for sports facility and tourism
1,808		1,808		Other taxes, levied for stadium district
103,158		103,158		Unrestricted share of state sales tax
25,894		25,894		Unrestricted share of state vehicle license tax
7,975		7,975		Grants and contributions not restricted to specific programs
5,683		5,683		Interest and penalties on delinquent taxes
12,942	3,849	16,791		Investment earnings
12,828	1,348	14,176	86	Miscellaneous
323		323		Gain on sale of capital assets
247	14,607	14,854	15	Capital and other contributions
(134)	134			Transfers
493,750	19,938	513,688	101	Total general revenues and transfers
63,863	47,073	110,936	341	Change in net assets
895,490	488,749	1,384,239	2,448	Net assets at beginning of year, as restated
$ 959,353	$ 535,822	$ 1,495,175	$ 2,789	Net assets at end of year

See Notes to the Financial Statements

Exhibit A - 3

PIMA COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006
(in thousands)

	General	Transportation	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 45,695	$ 19,605	$ 93,966	$ 58,999	$ 218,265
Property taxes receivable (net)	6,562			2,262	8,824
Interest receivable	1	54	256	20	331
Due from other funds	4,669	48	146	1,081	5,944
Due from other governments	24,869	9,441	2,647	15,995	52,952
Accounts receivable	1,334	3	28	1,338	2,703
Inventory		2,027		136	2,163
Prepaid expenditures	3,492	43		71	3,606
Loan receivable	1,660				1,660
Other assets	160				160
Restricted cash equivalents			2,303		2,303
Total assets	$ 88,442	$ 31,221	$ 99,346	$ 79,902	$ 298,911
Liabilities and fund balances					
Liabilities:					
Accounts payable	$ 11,868	$ 1,825	$ 10,846	$ 8,665	$ 33,204
Contract retentions			601	33	634
Employee compensation	6,090	568	25	1,604	8,287
Due to other funds	1,252	81	111	2,940	4,384
Due to other governments	56	7,389	309	36	7,790
Deposits and rebates			2,303		2,303
Deferred revenues	17,601	3,603	679	6,428	28,311
Total liabilities	36,867	13,466	14,874	19,706	84,913
Fund balances:					
Reserved for:					
Inventory		2,027		136	2,163
Prepaid expenditures	3,492	43		71	3,606
Debt service				6,784	6,784
Capital repairs and refurbishments				75	75
Specified programs				2,648	2,648
Loan receivable	1,660				1,660
Unreserved, designated for:					
Special revenue, flood mitigation				1,044	1,044
Unreserved, undesignated:					
General fund	46,423				46,423
Capital projects			84,472		84,472
Special Revenue		15,685		49,276	64,961
Debt service				162	162
Total fund balances	51,575	17,755	84,472	60,196	213,998
Total liabilities and fund balances	$ 88,442	$ 31,221	$ 99,346	$ 79,902	$ 298,911

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, 2006
(in thousands)

Fund balances - total governmental funds		$ 213,998
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	$ 1,674,587	
Less accumulated depreciation	(546,029)	1,128,558
Some liabilities and their associated issuance costs are not due and payable in the current period and therefore are not reported in the governmental funds		
Bonds payable	(362,059)	
Loans and leases payable	(32,165)	
Unamortized deferred issuance costs reported as other assets	536	(393,688)
Some compensated absences are not due and payable shortly after June 30, 2006, and therefore are not reported in the governmental funds		
Employee compensation		(21,731)
Some liabilities are not due and payable shortly after June 30, 2006, and are therefore not reported in the governmental funds		
Landfill liability		(16,268)
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements		21,218
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		27,266
Net assets of governmental activities		$ 959,353

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, 2006
(in thousands)

	General	Transportation	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 242,948			$ 78,526	$ 321,474
Special assessments				215	215
Licenses and permits	2,536	$ 368		4,548	7,452
Intergovernmental	143,982	58,368	$ 11,157	77,552	291,059
Charges for services	27,102	1,603	19,101	15,776	63,582
Fines and forfeits	5,786			228	6,014
Interest	2,491	840	4,639	3,412	11,382
Miscellaneous	4,935	765	567	6,898	13,165
Total revenues	429,780	61,944	35,464	187,155	714,343
Expenditures:					
Current:					
General government	168,394			35,487	203,881
Public safety	96,687			24,542	121,229
Highways and streets		39,337		57	39,394
Sanitation				6,271	6,271
Health	2,401			27,637	30,038
Welfare	102,496			538	103,034
Culture and recreation	13,104			15,457	28,561
Education and economic opportunity	16,682			21,236	37,918
Capital outlay			121,007		121,007
Debt service - principal	1,750			48,797	50,547
- interest	1,292			18,156	19,448
- miscellaneous	5			10	15
Total expenditures	402,811	39,337	121,007	198,188	761,343
Excess (deficiency) of revenues over (under) expenditures	26,969	22,607	(85,543)	(11,033)	(47,000)
Other financing sources (uses):					
Capital leases				231	231
Proceeds from sale of capital assets	22	376		18	416
Face amount of long-term debt			4,836		4,836
Transfers in	3,563	22	17,529	38,834	59,948
Transfers (out)	(16,206)	(24,917)		(15,140)	(56,263)
Total other financing sources (uses)	(12,621)	(24,519)	22,365	23,943	9,168
Net change in fund balances	14,348	(1,912)	(63,178)	12,910	(37,832)
Fund balance at beginning of year	37,227	19,793	147,650	47,337	252,007
Change in reserve for inventory		(126)		(62)	(188)
Change in reserve for prepaids				11	11
Fund balance at end of year	$ 51,575	$ 17,755	$ 84,472	$ 60,196	$ 213,998

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, 2006
(in thousands)

Net change in fund balances - total governmental funds		$ (37,832)
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	$ 105,537	
Less current year depreciation	(42,629)	62,908
Transfers of capital assets between governmental activities and proprietary funds are not reported in the governmental funds but are recognized in the statement of activities		11,335
Transfers of long term liabilities between governmental activities and proprietary funds are not reported in the governmental funds but are recognized in the statement of activities		(15,780)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds but increases long-term liabilities in the statement of net assets. Repayment of the principal of debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of 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	(4,836)	
Face amount of capital lease	(231)	
Debt service - principal payments	50,547	
Amortization expense	(165)	45,315
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.		
Property tax revenues	378	
Other	1,464	1,842
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	(1,920)	
Change in landfill liability	(632)	
Net book value of capital asset disposals	(127)	
Change in reservation of fund balances	(177)	(2,856)
Internal service funds are used by management to charge the costs of certain activities to individual funds. A portion of the net expense of the internal service funds is reported with governmental activities		(1,069)
Change in net assets of governmental activities		$ 63,863

See Notes to the Financial Statements

PIMA COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006
(in thousands)

	Business-type Activities Enterprise Funds				Governmental Activities- Internal Service Funds
	Pima Health System & Services	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	
Assets					
Current assets:					
Cash and cash equivalents	$ 12,739	$ 42,261	$ 18,347	$ 73,347	$ 42,365
Restricted cash and cash equivalents		14,672		14,672	
Interest receivable					132
Due from other funds	1	1		2	381
Due from other governments	2,843	293		3,136	94
Accounts receivable (net)	14,624	8,318	2	22,944	257
Inventory	116	3,031		3,147	482
Prepaid expense		93	2	95	791
Total current assets	30,323	68,669	18,351	117,343	44,502
Noncurrent assets:					
Restricted cash and cash equivalents		492		492	
Investments					911
Capital assets:					
Land and other improvements		6,845	1,861	8,706	592
Buildings and improvements	1,116	340,260	12,927	354,303	614
Sewage conveyance system		490,600		490,600	
Equipment	1,302	12,974	1,989	16,265	29,361
Less accumulated depreciation	(1,528)	(277,567)	(8,256)	(287,351)	(12,791)
Construction in progress		14,842		14,842	
Total capital assets (net of accumulated depreciation)	890	587,954	8,521	597,365	17,776
Deferred financing costs		751		751	
Total noncurrent assets	890	589,197	8,521	598,608	18,687
Total assets	31,213	657,866	26,872	715,951	63,189
Liabilities					
Current liabilities:					
Accounts payable	911	8,330	1,325	10,566	1,481
Accrued medical and health care claims	18,736			18,736	
Employee compensation	2,348	2,991	1,030	6,369	652
Interest payable		1,432		1,432	
Due to other funds	1,657	177	7	1,841	102
Due to other governments		24	90	114	
Deferred revenues	2	2,829		2,831	
Current portion of sewer revenue bonds		5,570		5,570	
Current portion of wastewater loans payable		5,503		5,503	
Current portion reported but unpaid losses					5,507
Current portion incurred but not reported losses					2,046
Total current liabilities	23,654	26,856	2,452	52,962	9,788
Noncurrent liabilities:					
Contracts and notes		4,562		4,562	
Sewer revenue bonds		46,140		46,140	
Wastewater loans payable		74,645		74,645	
Reported but unpaid losses					20,257
Incurred but not reported losses					7,698
Total noncurrent liabilities		125,347		125,347	27,955
Total liabilities	23,654	152,203	2,452	178,309	37,743
Net assets					
Invested in capital assets, net of related debt	890	456,846	8,521	466,257	17,776
Restricted for:					
Debt service		438		438	
Wastewater management		4,356		4,356	
Healthcare	5,464			5,464	
Unrestricted	1,205	44,023	15,899	61,127	7,670
Total net assets	$ 7,559	$ 505,663	$ 24,420	537,642	$ 25,446

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.	(1,820)
Net assets of business-type activities	$ 535,822

See Notes to the Financial Statements

PIMA COUNTY

Exhibit A - 8

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006
(in thousands)

	Business-type Activities Enterprise Funds				Governmental Activities-
	Pima Health System & Services	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating revenues:					
Net patient services	$ 252,034			$ 252,034	
Charges for services	1,714	$ 61,823	$ 18,625	82,162	$ 32,177
Other	649	451	248	1,348	2,128
Total net operating revenues	254,397	62,274	18,873	335,544	34,305
Operating expenses:					
Employee compensation	35,801	27,625	10,026	73,452	6,772
Medical claims	205,951			205,951	
Operating supplies and services	1,602	6,322	1,181	9,105	5,404
Utilities	372	5,314	321	6,007	808
Sludge and refuse disposal		1,298		1,298	
Repair and maintenance	397	4,297	490	5,184	3,133
Incurred losses					12,185
Insurance premiums					5,163
General and administrative	5,493	6,436	2,399	14,328	2,243
Consultants and professional services	1,487	5,610	921	8,018	503
Depreciation	218	20,416	458	21,092	2,316
Total operating expenses	251,321	77,318	15,796	344,435	38,527
Operating income (loss)	3,076	(15,044)	3,077	(8,891)	(4,222)
Nonoperating revenues (expenses):					
Intergovernmental revenue	4,468	1,436		5,904	
Interest income	1,464	1,784	601	3,849	1,531
Sewer connection fees		42,220		42,220	
Interest expense	(96)	(4,624)		(4,720)	
Gain (loss) on disposal of capital assets		(20)	(2)	(22)	34
Amortization of deferred charges		(97)		(97)	
Premium tax	(4,949)			(4,949)	
Total nonoperating revenues (expenses)	887	40,699	599	42,185	1,565
Income (loss) before contributions and transfers	3,963	25,655	3,676	33,294	(2,657)
Capital contributions		14,607		14,607	
Transfers in		156		156	626
Transfers (out)		(22)		(22)	
Change in net assets	3,963	40,396	3,676	48,035	(2,031)
Net assets at beginning of year	3,596	465,267	20,744	489,607	27,477
Net assets at end of year	$ 7,559	$ 505,663	$ 24,420	537,642	$ 25,446

Some amounts reported for business-type activities in the Statement of Activities are different because a portion of the net expense of certain internal service funds is reported with business-type activities.	(962)
Change in net assets of business-type activities	$ 47,073

See Notes to the Financial Statements

Exhibit A - 9

PIMA COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006
(in thousands)

	Pima Health System & Services	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	$ 1,670		$ 78	$ 1,748	$ 32,177
Cash received from customers for goods and services provided	247,244	$ 61,819	18,659	327,722	
Cash received from miscellaneous operations	662	451	248	1,361	2,387
Cash payments to suppliers for goods and services	(218,327)	(21,805)	(2,531)	(242,663)	(14,430)
Cash payments to other funds for goods and services	(3,363)	(7,478)	(2,932)	(13,773)	(2,956)
Cash payments for incurred losses					(6,950)
Cash payments to employees for services	(36,039)	(28,215)	(9,296)	(73,550)	(7,004)
Net cash provided by (used for) operating activities	(8,153)	4,772	4,226	845	3,224
Cash flows from noncapital financing activities:					
Interest paid on short-term credit	(103)			(103)	
Cash transfers in from other funds					322
Cash transfers out to other funds		(4,312)		(4,312)	
Loans with other funds	(1,797)	128		(1,669)	(15)
Premium Tax	(4,949)			(4,949)	
Intergovernmental revenues	4,661	529		5,190	
Net cash provided by (used for) noncapital financing activities	(2,188)	(3,655)		(5,843)	307
Cash flows from capital and related financing activities:					
Proceeds from issuance of bonds and loans		1,086		1,086	
Principal paid on bonds and loans		(9,501)		(9,501)	
Interest paid on bonds and loans		(4,225)		(4,225)	
Sewer connection fees		42,142		42,142	
Proceeds from sale of capital assets		2		2	275
Proceeds from intergovernmental contract		191		191	
Purchase of capital assets	(47)	(14,340)	(843)	(15,230)	(2,686)
Net cash provided by (used for) capital and related financing activities	(47)	15,355	(843)	14,465	(2,411)
Cash flows from investing activities:					
Interest received on cash and investments	1,538	1,871	630	4,039	1,547
Net cash provided by investing activities	1,538	1,871	630	4,039	1,547
Net increase (decrease) in cash and cash equivalents	(8,850)	18,343	4,013	13,506	2,667
Cash and cash equivalents at beginning of year	21,589	39,082	14,334	75,005	39,698
Cash and cash equivalents at end of year	$ 12,739	$ 57,425	$ 18,347	$ 88,511	$ 42,365

(Continued)

See Notes to the Financial Statements

PIMA COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006
(in thousands)

(Continued)

Reconciliation of operating income (loss) to net cash provided (used) by operating activities	Pima Health System & Services	Wastewater Management	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities-Internal Service Funds
Operating income (loss)	$ 3,076	$ (15,044)	$ 3,077	$ (8,891)	$ (4,222)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	218	20,416	458	21,092	2,316
Decrease (increase) in assets:					
Accounts Receivable	(5,773)	(241)	16	(5,998)	273
Due from other governments	834	237	18	1,089	(13)
Inventory and other assets	(3)	(216)		(219)	42
Prepaid expenses		(67)	(1)	(68)	
Increase (decrease) in liabilities:					
Accounts payable	(5,471)	265	719	(4,487)	(175)
Interfund payables	(3)			(3)	
Due to other funds			7	7	
Due to other governments		12	34	46	
Reported but unpaid losses					4,921
Incurred but not reported losses					314
Other current liabilities	(1,031)	(590)	(102)	(1,723)	(232)
Net cash provided by (used for) operating activities	$ (8,153)	$ 4,772	$ 4,226	$ 845	$ 3,224

Noncash investing, capital, and noncapital financing activities during the year ended June 30, 2006:

Wastewater Management Enterprise Fund retired capital assets with a net book value of $22

Wastewater Management Enterprise Fund received contributed developer-built conveyance systems with estimated fair values totaling $14,408, and other capital assets with a net book value of $26. These contributions were recorded as an increase in capital assets and capital contributions.

Wastewater Management Enterprise Fund recorded a Board of Supervisor approved connection fee credit agreement of $17. This credit was recorded as an increase to deferred revenue and a decrease to capital contributions.

Wastewater Management Enterprise Fund retired expired sewer credit agreements totaling $190. This transaction was recorded as a decrease to deferred revenue and an increase in capital contributions.

Wastewater Management Enterprise Fund transferred the capital assets of the Solid Waste Management division with a net book value of $11,335 to the County's general government.

Wastewater Management Enterprise Fund conveyed the long-term liabilities of the Solid Waste Management division in the amount of $15,780 to the County's general government.

Other Enterprise Funds disposed of capital assets with a net book value of $2.

Internal Service Funds sold assets with a net book value of $241, resulting in a gain on disposal of $34.

Internal Service Funds had unpaid transfers of $304 at year-end.

Internal Service Funds transferred $5 of completely depreciated capital assets to, and received $11 of completely depreciated capital assets from, the County's general capital assets.

See Notes to the Financial Statements

Exhibit A - 10

PIMA COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006
(in thousands)

	Investment Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ 236,494	$ 53,521
Interest receivable	727	
Due from other governments		3,715
Total assets	237,221	57,236
LIABILITIES		
Employee compensation		7,558
Due to other governments		26,594
Deposits and rebates		23,084
Total liabilities		$ 57,236
NET ASSETS		
Held in trust for pool participants	$ 237,221	

See Notes to the Financial Statements

Exhibit A - 11

PIMA COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2006
(in thousands)

	Investment Trust Funds
ADDITIONS	
Contributions from participants	$ 2,263,471
Total contributions	2,263,471
Investment earnings	9,002
Total investment earnings	9,002
Total additions	2,272,473
DEDUCTIONS	
Distributions to participants	2,237,409
Total deductions	2,237,409
Change in net assets	35,064
Net assets held in trust July 1, 2005	202,157
Net assets held in trust June 30, 2006	$ 237,221

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 government-wide 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 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 Department of Finance and Risk Management 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 Library District and the City of Tucson had intergovernmental agreements to provide library services since 1986 through June 30, 2006. On July 1, 2006, the District assumed control of the operations of the libraries. The transition of operations from the City of Tucson to the District is governed by an intergovernmental agreement that is described in Note 16. The Library District is reported as a special revenue fund (blended component unit) in these financial statements. Separate financial statements for the District are not available.

The Pima County Regional Flood Control District was established in 1978. The District is responsible for floodplain management activities for the unincorporated areas of Pima County (except national forests, parks, monuments and Native American Nations), 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 Regional Flood Control District is reported as a special revenue fund (blended component unit) in these financial statements. Separate financial statements for the District are not available.

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, and because SFC does not provide services entirely, or almost entirely to the County, but rather to the general citizenry, 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 Department of Finance and Risk Management located at 130 West Congress Street, Tucson, Arizona 85701.

Note 1 - Summary Of Significant Accounting Policies (continued)

Related Organization

The Industrial Authority of Pima County (Authority) is a legally separate entity that was created to promote economic development and the development of affordable housing. The Authority fulfills its function through the issuance of tax-exempt bonds. The County Board of Supervisors appoints the Authority's Board of Directors. The Authority's operations are completely separate from the County and the County is not financially accountable for the Authority. Therefore, the financial activities of the Authority have not been included in the accompanying financial statements.

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 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 unit. Governmental activities are financed primarily 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 funds are financed mainly by fees and charges to users of the services provided by the funds' operations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 1 - Summary Of Significant Accounting Policies (continued)

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 **Transportation Fund** accounts for administrative and operating costs, as well as resources transferred to the Capital Projects Fund for construction of highways and streets, and resources transferred to the Debt Service Fund for payment of Transportation Revenue bonds. Financing is provided primarily from the County share of gasoline and vehicle license tax collected by the State.

The County reports the following major enterprise funds:

Pima Health System and Services provides payment for health care services 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 and water pollution control programs.

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 fleet maintenance and operation, insurance, printing and graphic services, 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.

C. Basis of Accounting

Primary government:

The government-wide, proprietary funds and fiduciary 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

Note 1 - Summary Of Significant Accounting Policies (continued)

available if the revenues are collected within 30 days after year-end. Revenues that are collected after 30 days are reported as deferred revenues. The County's major revenue sources that are susceptible to accrual are property taxes, intergovernmental and charges for services.

Expenditures are recorded when the related fund liability is incurred except for principal and interest on general long-term debt, claims and judgments, and compensated absences, 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. The County has chosen the option not to follow FASB statements and interpretations issued after November 30, 1989.

Discretely presented component unit:

SFC's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The Commission's policy is to apply all FASB pronouncements issued after November 30, 1989.

D. Cash and Investments

Primary government:

For purposes of its statement of cash flows, the County considers only those highly liquid investments with a maturity period of 3 months or less when purchased to be cash equivalents. All 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.

Discretely presented component unit:

SFC's cash and cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less.

E. Inventories and Prepaids

The County accounts for its inventories in the governmental funds using the purchases method.

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.

Note 1 - Summary Of Significant Accounting Policies (continued)

Inventories of Pima Health System and Services, an enterprise fund, are valued at the lower of cost or market, cost being determined on the first-in, first-out method.

Inventories of Wastewater Management, an enterprise fund, are valued at lower of cost or market, cost being determined using the moving average method.

Inventories of Fleet Services, an internal service fund, are valued at the lower of cost or market, cost being determined using the moving average method.

Prepaid expenses/expenditures are accounted for using the consumption method, except for the School Reserve Fund reported as an Other Governmental Fund, which uses the purchases method.

F. Property Tax Calendar

The County levies real and personal 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. 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.

Capitalization thresholds, depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows (excluding component units):

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	All	N/A	N/A
Land improvements	All	Straight Line	20 to 30 Years
Buildings and building improvements	$100	Straight Line	10 to 50 Years
Equipment	$ 5	Straight Line	4 to 25 Years
Fleet service vehicles	$ 5	Units of Production based on number of hours or miles	5 to 15 Years
Infrastructure	$100	Straight Line	10 to 50 Years

Discretely presented component unit:

SFC capital assets are reported at actual cost. Depreciation is provided by the straight-line method over the assets' estimated useful life, which range from 3 to 40 years.

Note 1 - Summary Of Significant Accounting Policies (continued)

H. Investment Earnings

Investment earnings 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 a limited 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 employees who are eligible to retire from County service into the Arizona State Retirement System, Public Safety Personnel Retirement System, or Corrections Officer Retirement Plan may request sick leave be converted to annual leave, on a predetermined conversion basis. An estimate of those retirement payouts is accrued as a liability in the government-wide financial statements.

Note 2: Net Asset Beginning Balances Restated

In compliance with GASB Statement No. 34, Pima County retroactively reported its Transportation bridges infrastructure network that was acquired or received substantial improvement subsequent to December 31, 1975. The retroactive capitalization amount at July 1, 2005, was based on historical cost, where applicable, and on estimated historical cost, where determining historical cost was not practical due to inadequate records. The depreciation amount was calculated using the straight-line method and a useful life of 30 years.

The following summarizes the restatement for infrastructure:

	Governmental Activities
Net assets – June 30, 2005, as previously reported	$ 882,201
Transportation bridges	13,289
Net assets – July 1, 2005, as restated	$ 895,490

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 or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporation, or instrumentalities; specified state and local government bonds; specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States; and bonds of the State of Arizona or any of its counties, cities, towns,

Note 3: Cash And Investments (continued)

or school districts as specified by statute. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk—The State statutes have the following requirements for credit risk;

1. Commercial paper must be rated P1 by Moody's Investors Service or A1 or better by Standard and Poor's rating service.

2. Corporate bonds, debentures, and notes must be rated A or better by Moody's Investors Service or Standard and Poor's rating service.

3. Fixed income securities must carry one of the two highest ratings by Moody's Investors Service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk—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.

Concentration of credit risk—Statutes do not include any requirements for concentration of credit risk.

Interest rate risk—Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk—Statutes do not allow foreign investments.

Deposits—At June 30, 2006, the carrying amount of the County's deposits was $27,113 and the bank balance was $37,291.

Custodial credit risk—Custodial credit risk is the risk that the County will not be able to recover its deposits if a financial institution fails. The County does not have a formal policy with respect to custodial credit risk. As of June 30, 2006, $783 of the County's bank balance was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 700
Uninsured with collateral held by the bank's safekeeping department	83
Total	$ 783

Investments—At June 30, 2006, the County's investments consisted of $420,115 invested in marketable securities, $194,151 invested in the State Treasurer's Investment Pool, and $911 invested in a local government bond. Cash from the County and from external legally separate governments are pooled to purchase the investments in marketable securities and the State Treasurer's Pool. The State Board of Investment provides oversight for the State Treasurer's pools. The fair value of a participant's position in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

Note 3: Cash And Investments (continued)

Credit risk—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal investment policy with respect to credit risk. At June 30, 2006, credit risk for the County's investments was as follows;

Investment Type	Rating	Rating Agency	Amount
Commercial paper	A1 - P1	S & P - Moody's	$ 22,894
Fannie Mae (Federal National Mortgage Association)	AAA - Aaa	S & P - Moody's	178,797
Freddie Mac (Federal Home Loan Mortgage Corporation)	AAA - Aaa	S & P - Moody's	59,436
Tri-party repurchase agreement	Unrated		158,988
State Treasurer's Investment Pool	Unrated		194,151
Local governments bonds	Unrated		911
Total			$ 615,177

Custodial credit risk—For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County has no formal policy with respect to custodial credit risk. Of the County's $615,177 of investments, 100% of the commercial paper, Freddie Mac and Fannie Mae discount notes, and tri-party repurchase agreement totaling $420,115 are uninsured and held by the counterparty in the County's name.

Concentration of credit risk—The County has no formal policy with respect to limiting the amount the Treasurer may invest in any one issuer. More than 5% of the County's investments were with the Bank of America (including the tri-party repurchase agreement and 87% of the commercial paper), Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association. These investments were 29%, 10% and 29% respectively, of total investments.

Interest rate risk—Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The County does not have a formal investment policy with respect to interest rate risk.

As of June 30, 2006, the County had the following investments:

Investment Type	Amount	Weighted Average Maturity (Years)
State Treasurer's Investment Pool 5	$103,729	0.14
State Treasurer's Investment Pool 7	90,422	0.10
Commercial paper	22,894	0.09
Fannie Mae (Federal National Mortgage Association)	178,797	0.08
Freddie Mac (Federal Home Loan Mortgage Corporation)	59,436	0.09
Tri-party repurchase agreement	158,988	0.01
Local governments bonds	911	2.50
	$615,177	

Note 3: Cash And Investments (continued)

A reconciliation of cash, deposits, and investments to amounts shown on the Statements of Net Assets follows;

	Cash on hand	Amount of deposits	Amount of investments	Totals
Cash deposits and investments:	$ 80	$ 27,113	$ 615,177	$ 642,370

	Governmental Activities	Business-Type Activities	Investment Trust Funds	Agency Funds	Totals
Statement of Net Assets:					
Cash and cash equivalents	$ 262,933	$ 88,511	$ 236,494	$ 53,521	$ 641,459
Investments	911				911
Total	$ 263,844	$ 88,511	$ 236,494	$ 53,521	$ 642,370

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. The County Treasurer allocates interest earnings to each of the Pool's participants.

The Pool's net assets consist of $178,797 of Fannie Mae, $158,988 of tri-party repurchase agreement, $59,436 of Freddie Mac, $35,306 of State Treasurer's Investment Pool, $22,894 of commercial paper, and $3,062 of cash and are subject to applicable risks as disclosed above.

A condensed statement of the Pool's net assets and changes in net assets follows:

Statement of Net Assets	
Net assets held in trust for:	
Internal participants	$ 312,411
External participants	146,072
Total Liabilities	0
Total net assets held in trust	$ 458,483
Statement of Changes in Net Assets	
Total additions	$ 4,974,430
Total deductions	(4,895,603)
Net increase	78,827
Net assets held in trust:	
July 1, 2005	379,656
June 30, 2006	$ 458,483

Discretely Presented Component Units

Southwestern Fair Commission—At June 30, 2006, the commission's cash and cash equivalents of $1,294 consisted of deposits with financial institutions. Of the total balance, $994 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4: Due from Other Governments

Governmental Activities

	General	Transportation Fund	Capital Projects Fund	Other Governmental Funds	Internal Service Funds	Total Governmental Activities
Federal government:						
Grants and contributions	$ 357	$ 395	$ 535	$ 11,368	$ 1	$ 12,656
State of Arizona						
Taxes and shared revenues	23,125	8,875		717		32,717
Grants and contributions		100	257	1,969	5	2,331
City of Tucson						
Reimbursement for services	1,090		1,855	1,783		4,728
Due from other governments						
Reimbursement for services	297	71		158	88	614
Total due from other governments	$ 24,869	$ 9,441	$ 2,647	$ 15,995	$ 94	$ 53,046

Business-type Activities

	Pima Health System and Services	Wastewater Management	Total Business-type Activities
Federal government:			
Grants and contributions		$ 293	$ 293
State of Arizona			
Grants and contributions	$ 2,843		2,843
Total due from other governments	$ 2,843	$ 293	$ 3,136

Note 5: Capital Assets

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

	Balance July 1, 2005 (as restated)	Increases	Decreases	Balance June 30, 2006
Governmental activities				
Capital assets not being depreciated:				
Land	$ 202,408	$ 20,546		$ 222,954
Construction in progress	117,118	80,508	$ (82,321)	115,305
Total capital assets not being depreciated	319,526	101,054	(82,321)	338,259
Capital assets being depreciated:				
Buildings and improvements	371,874	12,146		384,020
Infrastructure	812,700	76,951		889,651
Equipment	79,452	16,593	(2,821)	93,224
Total capital assets being depreciated	1,264,026	105,690	(2,821)	1,366,895
Less accumulated depreciation for:				
Buildings and improvements	(102,878)	(9,371)		(112,249)
Infrastructure	(364,756)	(27,225)		(391,981)
Equipment	(43,827)	(13,216)	2,453	(54,590)
Total accumulated depreciation	(511,461)	(49,812)	2,453	(558,820)
Total capital assets being depreciated, net	752,565	55,878	(368)	808,075
Governmental activities capital assets, net	$ 1,072,091	$ 156,932	$ (82,689)	$ 1,146,334

Note 5: Capital Assets (continued)

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Business-type activities				
Capital assets not being depreciated:				
Land	$ 14,259	$ 2,288	$ (7,841)	$ 8,706
Construction in progress	63,325	11,017	(59,500)	14,842
Total capital assets not being depreciated	77,584	13,305	(67,341)	23,548
Capital assets being depreciated:				
Buildings and improvements	294,265	62,298	(2,260)	354,303
Infrastructure	475,148	15,452		490,600
Equipment	20,932	1,819	(6,486)	16,265
Total capital assets being depreciated	790,345	79,569	(8,746)	861,168
Less accumulated depreciation for:				
Buildings and improvements	(105,346)	(9,831)	673	(114,504)
Infrastructure	(153,003)	(10,262)		(163,265)
Equipment	(13,042)	(999)	4,459	(9,582)
Total accumulated depreciation	(271,391)	(21,092)	5,132	(287,351)
Total capital assets being depreciated, net	518,954	58,477	(3,614)	573,817
Business-type activities capital assets, net	$ 596,538	$ 71,782	$ (70,955)	$ 597,365

The July 1, 2005, governmental activities capital asset balance was restated to include recognition of the bridges network general infrastructure assets, as explained in Note 2 to the financial statements. The increase to governmental activities capital assets include capital assets transferred from the Wastewater Management Enterprise Fund – Solid Waste division with acquisition costs of $16,185 and accumulated depreciation of $4,867.

Depreciation expense was charged to functions as follows:

Governmental activities	
General government	$ 5,144
Public safety	8,974
Highway and streets	22,972
Sanitation	446
Health	1,444
Welfare	8
Culture and recreation	3,381
Education and economic opportunity	260
Internal service funds	2,316
Total governmental activities depreciation	$ 44,945
Business-type activities	
Pima Health System & Services	$ 218
Parking Garages	337
Wastewater Management	20,416
Development Services	121
Total business-type activities depreciation	$ 21,092

Note 5: Capital Assets (continued)

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Discretely presented component unit				
Southwestern Fair Commission (SFC):				
Capital assets being depreciated:				
Buildings and improvements	$ 3,654	$ 56	$ (3)	$ 3,707
Equipment	1,492	122	(2)	1,612
Total capital assets being depreciated	5,146	178	(5)	5,319
Less accumulated depreciation for:				
Buildings and improvements	(2,092)	(111)	3	(2,200)
Equipment	(1,140)	(72)	2	(1,210)
Total accumulated depreciation	(3,232)	(183)	$ 5	(3,410)
Total capital assets being depreciated, net	1,914	(5)		1,909
SFC capital assets, net	$ 1,914	$ (5)		$ 1,909

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.

Solid Waste

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 expenditures 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 litigation is uncertain and the amount of the loss cannot be reasonably estimated.

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, unemployment and dental losses. Environmental losses are based on reported claims and the County risk manager's knowledge and experience. Unemployment and dental losses are based on claims that have been submitted but not yet paid by the Fund. Losses accounted for include reported and paid, reported but unpaid, and incurred but not reported. All liabilities of the Fund except for environmental, unemployment and dental 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, unemployment and dental losses, payments to the Fund are based on actuarial estimates of the amounts needed to pay prior and

Note 6: Claims, Judgments And Risk Management (continued)

current-year claims. Payments to the Fund for environmental losses are based on historical experience, since an actuarial basis is not available. Payments for unemployment and dental losses are based on actual claims made. The claims liability of $35,508 reported in the Fund at June 30, 2006, 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.

	2006	2005
Claims liability balance—beginning	$30,273	$ 25,696
Current year claims and changes in estimates	12,185	12,925
Claims payments	(6,950)	(8,348)
Claims liability balance—ending	$35,508	$ 30,273

Note 7: Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within 1 year
Governmental activities:					
General obligation bonds	$ 267,270		$ 35,960	$ 231,310	$ 32,335
Plus unamortized deferred amount	657		49	608	49
Total general obligation bonds	267,927		36,009	231,918	32,384
Flood control bonds	3,010		780	2,230	760
Transportation revenue bonds	137,545		10,710	126,835	11,435
Plus unamortized deferred amount	191		26	165	26
Total transportation revenue bonds	137,736		10,736	127,000	11,461
Special assessment bonds with governmental commitment	1,093		182	911	182
Loans and Leases:					
Transportation loans payable	1,943	$ 4,836	1,040	5,739	2,025
Capital leases payable:					
Jail capital lease	30,085		1,750	28,335	1,785
Less unamortized deferred amount	(2,297)		(191)	(2,106)	(192)
Other capital leases	91	231	125	197	97
Total capital leases	27,879	231	1,684	26,426	1,690
Total loans and leases	29,822	5,067	2,724	32,165	3,715
Reported but unpaid losses (Note 6)	20,842	11,872	6,950	25,764	5,507
Incurred but not reported losses (Note 6)	9,431	313		9,744	2,046
Landfill closure and post-closure care costs (Note 9)		16,268		16,268	
Total governmental activities long -term liabilities	$ 469,861	$ 33,520	$ 57,381	$ 446,000	$ 56,055

Note 7: Long-Term Liabilities (continued)

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within 1 year
Business-type activities:					
Sewer revenue bonds	$ 60,075		$ 4,550	$ 55,525	$ 5,570
Less unamortized deferred amount	(4,266)		(451)	(3,815)	
Total revenue bonds payable	55,809		4,099	51,710	5,570
Wastewater loans payable	84,232	$1,086	4,951	80,367	5,503
Less unamortized deferred amount	(254)		(35)	(219)	
Total loans payable	83,978	1,086	4,916	80,148	5,503
Landfill closure & post-closure care cost	15,636		15,636		
Contracts and notes	4,852	163	453	4,562	
Total business-type activities long-term liabilities	$ 160,275	$1,249	$ 25,104	$ 136,420	$11,073
Discretely presented component unit:					
Southwestern Fair Commission notes payable	$ 392		$ 148	$ 244	$ 104

GENERAL OBLIGATION BONDS OUTSTANDING
Governmental Activities
(Payments made from property tax revenues of the Debt Service Fund)

General obligation bonds payable at June 30, 2006, consisted of the outstanding general obligation bonds presented below. Of the total amounts originally authorized, $3,069 from the November 2, 1982 bond election, $40,180 from the May 20, 1997, and $476,432 from the May 18, 2004 bond election remain unissued. On May 16, 2006 voters authorized $54,000 for building of psychiatric facilities, all of which remain unissued.

The following table presents amounts outstanding by issue.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
Series of 1998	$ 42,420	4.40 – 4.60%	2007-13	$ 18,795
Series of 1999	50,000	5.00 – 5.08%	2007-10	16,115
Series of 2000	50,000	4.00 – 5.00%	2007-14	26,000
Series of 2001 Refunding	17,835	4.50 – 5.00%	2007-09	7,610
Series of 2002	20,000	4.00 – 4.50%	2007-16	10,000
Series of 2003	50,000	3.25 – 4.25%	2007-17	40,350
Series of 2004	65,000	3.00 – 5.00%	2007-19	53,615
Series of 2005	65,000	3.50 – 5.00%	2007-20	58,825
G.O. bonds outstanding				231,310
Plus unamortized deferred amount:				608
Total G.O. bonds outstanding				$ 231,918

Note 7: Long-Term Liabilities (continued)

The following schedule details general obligation bond debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 32,335	$ 10,028
2008	25,005	8,539
2009	20,260	7,417
2010	19,790	6,503
2011	17,190	5,616
2012-2016	77,880	16,740
2017-2020	38,850	2,988
Total	$ 231,310	$ 57,831

ADVANCED REFUNDINGS OF GENERAL OBLIGATION BONDS

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 liability for these defeased bonds are not included in the County's financial statements. At June 30, 2006, the following outstanding bonds were considered defeased:

	Outstanding June 30, 2006
1979 General Obligation Refunding Bonds	$ 1,930
Series of 1999	$ 5,785

FLOOD CONTROL REFUNDING BONDS OUTSTANDING
Governmental Activities
(Payments made from property tax revenues of the Debt Service Fund of the District)

The Pima County Regional Flood Control District outstanding bonds payable at June 30th is presented below.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
Series 2001 Refunding	$ 4,585	4.00 - 4.20%	2007-09	$ 2,230

The following schedule details flood control bond debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 760	91
2008	745	61
2009	725	30
Total	$2,230	$ 182

Note 7: Long-Term Liabilities (continued)

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, $168,800 from the November 4, 1997 bond election remains unissued.

	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
Series of 1998	$ 40,000	4.50%	2007-08	$ 8,000
Series of 2002	55,000	4.00 - 4.50%	2007-12	35,735
Series of 2003	35,000	3.38 - 4.38%	2007-18	31,900
Series of 2005	51,200	3.50 – 5.00%	2007-20	51,200
Transportation bonds outstanding				126,835
Plus unamortized deferred amount:				165
Total transportation bonds outstanding				$ 127,000

The following schedule details transportation bond debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 11,435	$ 5,257
2008	11,745	4,752
2009	11,465	4,276
2010	11,935	3,821
2011	12,450	3,302
2012-2016	41,225	9,975
2017-2020	26,580	2,294
Total	$ 126,835	$ 33,677

TRANSPORTATION LOANS PAYABLE
Governmental Activities

During the fiscal year ended June 30, 2002, and fiscal year ended June 30, 2006, Pima County Transportation Department entered into loan agreements to provide funds for the construction and improvement of certain highways and streets. Interest is payable semiannually and is calculated based on the principal amount of the loan outstanding during such period. Interest on the Alvernon HELP loan is calculated and paid on an annual basis.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
2002 HELP Loan – Ajo	$ 3,700	3.23%	2007	$ 703
2002 HELP Loan – Shannon	1,400	3.23%	2007	200
2006 HELP Loan – Alvernon	4,836	3.59%	2007-09	4,836
Total transportation loans payable				$ 5,739

Note 7: Long-Term Liabilities (continued)

The following schedule details transportation loans debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 2,025	$ 169
2008	2,714	114
2009	1,000	61
Total	$ 5,739	$ 344

SPECIAL ASSESSMENT BONDS OUTSTANDING
Governmental Activities
(Payments made from assessments received in the Debt Service Fund and the Transportation Fund)

At June 30, 2006, there was only one special assessment district with outstanding bonds. 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 the Improvement District.

Improvement District	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
La Cholla Boulevard	$ 1,821	6.50%	2007-11	$ 911
Total special assessment bonds outstanding				$ 911

The following schedule details special assessment bond debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 182	$ 53
2008	182	41
2009	182	30
2010	182	18
2011	183	6
Total	$ 911	$ 148

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 and October 1, 2003, 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 and 2018 respectively, increased the range of interest rates and increased the County's obligation under the lease agreement.

The County has also entered into capital leases for telephone and computer equipment. The outstanding balance as of June 30, 2006, for these leases totaled $197.

The net book value of assets acquired through capital leases consists of $20,091 of buildings and $260 of equipment.

Note 7: Long-Term Liabilities (continued)

The following schedule details capital lease debt service requirements to maturity at June 30, 2006.

Governmental Activities:

	Buildings		Equipment	
Year Ending June 30,	Principal	Interest	Principal	Interest
2007	$ 1,785	$ 1,230	$ 97	$ 6
2008	1,870	1,139	80	2
2009	1,965	1,062	20	
2010	2,025	982		
2011	2,125	879		
2012-2016	12,810	2,624		
2017-2018	5,755	243		
Total	$ 28,335	$ 8,159	$ 197	$ 8

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, $3,943 from the May 20, 1997, and $150,000 from the May 18, 2004 bond election remain unissued.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
Series of 1998	$ 29,185	4.00 - 5.50%	2007-15	$ 17,655
Series 2001 Refunding	19,440	4.00 - 5.40%	2007-15	14,980
Series 2004 Refunding	25,770	2.63 - 5.50%	2007-15	22,890
Sewer revenue bonds outstanding				55,525
Less unamortized deferred amount:				(3,815)
Total sewer revenue bonds outstanding				$ 51,710

The following schedule details sewer revenue bond debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 5,570	$ 2,573
2008	5,800	2,340
2009	6,025	2,098
2010	5,280	1,816
2011	5,515	1,588
2012-2015	27,335	3,452
Total	$55,525	$13,867

Note 7: Long-Term Liabilities (continued)

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, 2000 and 2004 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 2004 loan payable, principal payments to maturity are subject to change based upon the total amounts drawn down.
During fiscal year 05/06 the 2004 WIFA loan was amended to a total of $19,967. Of that amount, as of June 30, 2006, WWM has drawn down $18,538.

Issue	Issue Amount	Interest Rates	Maturities	Outstanding June 30, 2006
1996 Loan Payable	$11,313	3.19%	2006-12	$9,069
1997 Loan Payable	7,500	2.95%	2006-11	3,670
2000 Loan Payable	61,180	2.20%	2006-16	49,090
2004 Loan Payable	18,538	1.81%	2006-24	18,538
Loans payable				80,367
Less unamortized deferred amount				(219)
Total loans payable				$80,148

The following schedule details loans payable debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$ 5,503	$ 2,777
2008	5,722	2,586
2009	5,955	2,375
2010	6,317	2,153
2011	7,604	1,901
2012-2016	33,623	5,631
2017-2021	11,574	1,282
2022-2025	4,069	206
Total	$80,367	$18,911

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.

Note 7: Long-Term Liabilities (continued)

NOTES PAYABLE
Component Unit - Southwestern Fair Commission (SFC)
(Payments made from user charges)

Southwestern Fair Commission has a note payable to Pima County, due in annual installments of $50, unsecured and non-interest bearing.

Description	Interest Rates	Maturities	Outstanding June 30, 2006
Pima County	None	Annual installments until June 2007	$50

Southwestern Fair Commission's other notes payable are due in monthly installments and are secured by equipment, inventory, and accounts receivable.

Description	Interest Rates	Maturities	Outstanding June 30, 2006
Bank	Prime with 4% floor	Monthly installments until July 2008	$149
Bank	Wall Street Journal interest rate	Monthly installments until July 2008	45
Total			$194

The following schedule details Southwestern Fair Commission's notes payable debt service requirements to maturity at June 30, 2006.

Year Ending June 30,	Principal	Interest
2007	$104	$13
2008	53	9
2009	87	1
Total	$244	$23

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, 2006, is as follows:

Net assessed valuation:		$6,050,950
Debt Limit (15% of net assessed valuation):		907,643
Amount of debt applicable to debt limit:		
General obligation bonds outstanding	$231,310	
Less net assets in debt service fund available for payment of general obligation bond principal	(5,571)	(225,739)
Legal debt margin available		$ 681,904

Note 7: Long-Term Liabilities (continued)

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, 2006, is as follows:

Net assessed valuation:		$5,323,433
Debt Limit (5% of net assessed valuation):		266,171
Amount of debt applicable to debt limit:		
Flood Control general obligation bonds outstanding	$2,230	
Less net assets in debt service fund available for payment of flood control bond principal	(24)	(2,206)
Legal debt margin available		$ 263,965

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 to meet its short-term cash needs. At June 30, 2006, 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.

	July 1, 2005 Balance	Draws	Repayments	June 30, 2006 Balance
Line of credit	$0	$36,000	$36,000	$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 $16,268 reported as landfill closure and postclosure care liability in the governmental activities 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 $6,675 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, 2006; actual costs may change due to inflation, changes in technology, or changes in regulations.

Note 9: Landfill Liabilities (continued)

Landfill Site	Capacity Used June 30, 2006	Estimated Remaining Service Life
Ajo *	100%	
Sahuarita **	43%	17 Years
Tangerine **	82%	3 Years

* Life extending facility development options are presently being considered for the Ajo Landfill, including vertical and/or horizontal expansion.

** The Sahuarita and Tangerine Landfill capacities were adjusted from 5,233,952 cu. yd. and 5,737,761 cu. yd. at June 30, 2005 to 4,932,103 cu. yd. and 6,484,362 cu. yd. at June 30, 2006, respectively. Concurrently, the estimated years of closure were adjusted to 2023 and 2009, respectively.

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.

The Ina Road Landfill facility is closed to municipal solid waste and only receives construction debris. It is not subject to the closure and post-closure cost requirements referred to above. Pima County estimates that it will cost approximately $9,011 when closure occurs and plans to fund the cost with proceeds of general obligation bonds and with solid waste tipping fees. At this time, there is no closure date available.

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 209 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's Department 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 19 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

Note 10: Retirement Plans (continued)

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

3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85012-0250
(602) 240-2000 or
(800) 621-3778

PSPRS and CORP

3010 East Camelback Road
Suite 200
Phoenix, AZ 85016-4416
(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, 2006, active **ASRS** members and the County were each required by statute to contribute at the actuarially determined rate of 7.40 percent (6.90 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. The County's contributions to **ASRS** for the years ended June 30, 2006, 2005 and 2004 were $17,551, $12,602 and $13,231 respectively, which were equal to the required contributions for the applicable year.

Agent plans For the year ended June 30, 2006, 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 13.71 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 6.59 percent.

Annual Pension Cost: The County's pension cost for the two agent plans for the year ended June 30, 2006, and related information follow:

	PSPRS	CORP
Contribution rates:		
County	17.36%	6.59%
Plan members	4.00%	8.50%
Annual pension cost	$ 4,720	$ 1,088
Contributions made	$ 4,720	$ 1,088
Actuarial valuation date	June 30, 2004	June 30, 2004
Actuarial cost method	Individual entry age	Individual entry age
Actuarial assumptions:		
Investment rate of return	8.75%	8.75%
Projected salary increases	6.25% - 9.25%	5.25% - 9.25%
includes inflation at	5.25%	5.25%
Amortization method	Level percent open	Level percent open
Remaining amortization period	20 years	20 years
Asset valuation method	smoothed market	smoothed market

Note 10: Retirement Plans (continued)

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	2006	$ 4,720	100%	$ -
	2005	3,325	100%	-
	2004	2,694	100%	-
CORP	2006	$ 1,088	100%	$ -
	2005	782	100%	-
	2004	632	100%	-

Note 11: Segment Information

The Wastewater Management Enterprise Fund 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 the Fund is presented in the following table.

CONDENSED STATEMENT OF NET ASSETS

	Wastewater Management Liquid Waste
Assets:	
Current assets	$ 68,668
Due from other funds	1
Capital assets, net	587,954
Other non-current assets	1,243
Total assets	657,866
Liabilities:	
Current liabilities	26,679
Due to other funds	177
Non-current liabilities	125,347
Total liabilities	152,203
Net assets:	
Invested in capital assets, net of related debt	456,846
Restricted	4,794
Unrestricted	44,023
Total net assets	$ 505,663

Note 11: Segment Information (continued)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

	Wastewater Management Liquid Waste
Operating revenues/(expenses):	
Charges for services	$ 62,274
Depreciation expense	(20,416)
Other operating expenses	(56,902)
Operating loss	(15,044)
Non-operating revenues/(expenses):	
Sewer connection revenue	42,220
Other non-operating revenues	3,220
Interest expense	(4,624)
Loss on disposal of capital assets	(20)
Other non-operating expenses	(97)
Capital contributions	14,607
Transfers out to other county funds	(22)
Change in net assets	40,240
Beginning net assets	465,423
Ending net assets	$ 505,663

CONDENSED STATEMENT OF CASH FLOWS

Net cash provide by:	
Operating activities	$ 4,582
Non-capital financing activities	625
Capital and related financing activities	15,356
Investing activities	1,862
Net increase	22,425
Beginning cash and cash equivalents	35,000
Ending cash and cash equivalents	$ 57,425

Note 12: Interfund Transactions

Interfund Assets/Liabilities

Due from / Due to Other Funds are used to record loans or unpaid operating transfers between funds.

Amounts recorded as due from:

Amounts recorded as due to:	General	Transportation	Capital Projects	Other Governmental	PHS & Services	Wastewater Management	Internal Service	Total
General			$ 22	$ 919	$ 1		$ 310	$ 1,252
Transportation	81							$ 81
Capital Projects	$ 63	$ 48						111
Other Governmental	2,832			38			70	2,940
Pima Health System & Services	1,657							1,657
Wastewater Management	29		124	23			1	177
Other Enterprise	4			2		$ 1		7
Internal Service	3			99				102
Total	$ 4,669	$ 48	$ 146	$ 1,081	$ 1	$ 1	$ 381	$ 6,327

Transfers

Transfers are used to record transactions between individual funds to subsidize their operations and fund debt service payments and capital construction projects.

Amounts recorded as transfers out:

Amounts recorded as transfers in:	General	Transportation	Other Governmental	Wastewater Management	Total
General		$ 130	$ 3,433		$ 3,563
Transportation				$ 22	22
Capital Projects		7,000	10,529		17,529
Other Governmental	$ 15,580	17,787	1,178	4,289	38,834
Internal Service	626				626
Total	$ 16,206	$ 24,917	$ 15,140	$ 4,311	$ 60,574

The table above does not include transfers of capital assets and long-term liabilities from proprietary funds to governmental activities because these transfers are not reported in the governmental funds. During the year, the County reclassified the Solid Waste Division of the Wastewater Management Enterprise Fund to the Solid Waste Special Revenue Fund reported within the governmental funds. This resulted in a net transfer in to the Wastewater Management Enterprise Fund of $156, consisting of the following:

Net current assets and liabilities transfer to other governmental funds	$ (4,289)
Capital assets transfer to governmental activities	(11,335)
Long-term liabilities transfer to governmental activities	15,780
Total net transfer in to Wastewater Management Enterprise Fund	$ 156

Note 13: Construction and Other Significant Commitments

At June 30, 2006, Pima County had the following major contractual commitments related to Facilities Management, General Government, Pima Health Systems and Services, Transportation and Wastewater Management.

Facilities Management
At June 30, 2006, the Pima County Facilities Management Department had construction contractual commitments of $4,143. Funding for these expenditures will be provided from general obligation bonds.

General Government
At June 30, 2006, Pima County had contractual commitments related to service contracts for Human Resources of $45,530, Institutional Health of $105,859 and Risk Management of $1,161. Funding for these expenditures will be primarily provided from general fund revenues.

Pima Health Systems and Services
At June 30, 2006, Pima County had contractual commitments related to service contracts for Pima Health Systems & Services of $119,146. Funding for these expenditures will be primarily provided from federal and state funding sources.

Transportation
At June 30, 2006, the Pima County Transportation Department had construction contractual commitments of $21,263 and other contractual commitments related to service contracts of $7,871. 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.

Wastewater Management
At June 30, 2006, the Wastewater Management Enterprise fund had contractual commitments related to service contracts of $8,306.

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 $3,550 for the year ended June 30, 2006.

Note 14: Stewardship, Compliance, and Accountability (Deficit Fund Balances)

The Special Revenue Grants fund (a non-major governmental fund) had a deficit fund balance at June 30, 2006, of $260. This deficit can be eliminated in the future through normal operations.

Note 15: Non-cancelable Operating Leases

The County leases buildings and equipment under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. The County rental expenditures under the terms of the non-cancelable operating leases were $139 for the year ended June 30, 2006. These leases have remaining terms of 4 to 9 years and provide renewal options. The future minimum payments required under these leases at June 30, 2006 are as follows.

		Governmental Activities
Year ending June 30,		
	2007	$ 142
	2008	142
	2009	142
	2010	142
	2011	113
	2012-2015	379
Total minimum lease payments		$ 1,060

Note 16: Subsequent Events

On July 1, 2006, the Pima County Free Library District (District) assumed the operations of library services, previously provided by the City of Tucson, in accordance with an intergovernmental agreement (IGA) with the City of Tucson (City). Under the IGA the City will provide transitional assistance to the District in the amount of $6,000, $4,000 and $2,000 for fiscal years ending June 30, 2007, 2008 and 2009 respectively. Subsequent to June 30, 2009, the City will provide no additional assistance.

Effective July 1, 2006, City library personnel became District employees with equivalent pay and benefits. Two of the library branch properties will be conveyed to the District with the remaining properties being leased at no cost for 50 years.

The Pima County Board of Supervisors approved an increase in tax revenues to the District, effective in fiscal year 2006-07.

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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 Bonds, Series 2007 (the "Sewer Bond Resolution"). The summary does not purport to be a full statement of the terms of the Sewer Bonds 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 2007 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 2007 Bonds, the Sewer Improvement and Refunding Revenue Bonds, Series 1998, the Sewer Revenue Refunding Bonds, Series 2001, the Sewer Revenue Refunding Bonds, Series 2004, and the Series 2007 Bonds and the Loan Agreements between the Water Infrastructure Finance Authority of Arizona and the County, as borrower, dated February 1, 1996, June 1, 1997, October 27, 2000, as amended, and May 11, 2004, as amended), issued or incurred 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 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.

"Series 2007 Bonds" – the $50,000,000 principal amount of Sewer Revenue Bonds, Series 2007, of the County, dated January 1, 2007.

"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 2007 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 2007 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 2007 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 Bond 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.

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APPENDIX H

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

CONTINUING DISCLOSURE UNDERTAKING FOR THE PURPOSE OF PROVIDING CONTINUING DISCLOSURE INFORMATION UNDER SECTION (b)(5) OF RULE 15c2-12

This Continuing Disclosure Undertaking (the "Undertaking") is executed and delivered by Pima County, Arizona (the "County"), in connection with the issuance and sale of the $50,000,000 aggregate principal amount of Sewer Revenue Bonds, Series 2007 (the "Bonds").

In connection with the Bonds, the County covenants and agrees as follows:

1. Purpose of this Undertaking. This Undertaking is executed and delivered by the County as of the date set forth below, for the benefit of the beneficial owners of the Bonds and in order to assist the Underwriter in complying with the requirements of the Rule (as defined below).

2. Definitions. The terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires.

"Annual Information" means the financial information and operating data set forth in Exhibit I.

"Annual Information Disclosure" means the dissemination of disclosure concerning Annual Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

"Audited Financial Statements" means the general purpose audited financial statements of the County prepared pursuant to the standards and as described in Exhibit I.

"Bond Resolution" means, together, Resolution No. 1991-138 adopted by the Board of Supervisors of the County on June 18, 1991, as supplemented and amended, including a supplemental resolution adopted by the Board of Supervisors of the County on January 16, 2007, authorizing the issuance and sale of the Bonds.

"Commission" means the Securities and Exchange Commission.

"Dissemination Agent" means any agent designated as such in writing by the County and which has filed with the County a written acceptance of such designation, and such agent's successors and assigns.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Material Event" means the occurrence of any of the events with respect to the Bonds set forth in Exhibit II that is material, as materiality is interpreted under the Exchange Act.

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIRs" means, as of any date, any Nationally Recognized Municipal Securities Information Repository then recognized by the Commission for purposes of the Rule. As of the date of this Undertaking, the NRMSIRs are:

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, 15th Floor
New York, New York 10038
Phone: (212) 771-6999; 800-689-8466
Fax: (212) 771-7390
E-mail: NRMSIR@interactivedata.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

The names and addresses of all current NRMSIRs should be verified each time information is delivered pursuant to this Undertaking.

"Rule" means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

"SID" means any public or private repository designated by the State as the state repository and recognized as such by the Commission for purposes of the Rule. As of the date of this Undertaking, no SID exists within the State. The name and address of the SID, if any, should be verified each time information is delivered pursuant to this Undertaking.

"State" means the State of Arizona.

"Undertaking" means the obligations at the County pursuant to Sections 4, 5, 6 and 7 hereof.

"Underwriter" includes each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Bonds.

3. CUSIP Number/Final Official Statement. The base CUSIP Number of the Bonds is 721876. The Final Official Statement relating to the Bonds is dated January 16, 2007.

4. Annual Information Disclosure. Subject to Section 9 of this Undertaking, the County shall disseminate its Annual Information and its Audited Financial Statement, if any (in the form and by the dates set forth in Exhibit 1), to all NRMSIRs and to the SID, if any. The County is required to deliver such information in such manner and by such time so that such entities receive the information on the date specified.

If any part of the Annual Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the County will disseminate a statement to such effect as part of its Annual Information for the year in which such event first occurs.

If any amendment is made to this Undertaking, the Annual Information for the year in which such amendment is made shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. Material Events Disclosure. Subject to Section 9 of this Undertaking, the County hereby covenants that it will disseminate in a timely manner notice of occurrence of a Material Event to each NRMSIR, or to the MSRB and to the SID, if any.

6. Duty to Update NRMSIRs/SID. The County shall determine, in the manner it deems appropriate, the names and addresses of the then existing NRMSIRs and SID each time it is required to file information with such entities.

7. Consequences of Failure of the County to Provide Information. The County shall give notice in a timely manner to each NRMSIR, or to the MSRB and to the SID, if any, of any failure to provide Annual Information Disclosure when the same is due hereunder.

In the event of a failure of the County to comply with any provision of this Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the County to comply with its obligations under this Undertaking. A default under this Undertaking shall not be an Event of Default on the Bonds. The sole remedy under this Undertaking in the event of any failure of the County to comply with this Undertaking shall be an action to compel performance.

8. Alternate Means of Disclosure. Notwithstanding the provisions of Sections 4, 5 and 7 requiring that the County file its Annual Information Disclosure, notice of any Material Event and notice of any failure to comply with this Undertaking with each of the NRMSIRS and any SID, the County may instead comply with the provisions of this Undertaking by filing the required information with an entity then recognized by the Commission as eligible to receive and submit such filings to the NRMSIRS and any SID for purposes of the Rule (a "Central Post Office"). As of the date of this Disclosure Undertaking, the Central Post Office that has been so recognized by the Commission is:

DisclosureUSA.org
P.O. Box 684667
Austin, Texas 78768-4667
Fax: (512) 476-6403
http://www.disclosureUSA.org

9. Amendments; Waiver. Notwithstanding any provision of this Undertaking, the County by certified resolutions authorizing each amendment or waiver, may amend the Undertaking, and any provision of the Undertaking may be waived, if:

(a) The amendment is 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 the County, or type of business conducted;

(b) This Undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of the beneficial owners of the Bonds, as determined by an independent counsel or other entity unaffiliated with the County.

10. Non-Appropriation. The performance by the County of its obligations in this Undertaking shall be subject to the annual appropriation of any funds that may be necessary to permit such performance. In the event of a failure by the County to comply with its covenants under this Undertaking due to a failure to appropriate the necessary funds, the County covenants to provide prompt notice of such fact to each NRMSIR and the SID.

11. Termination of Undertaking. The Undertaking of the County shall be terminated hereunder when the County no longer has liability for any obligation relating to repayment of the Bonds or the Rule no longer applies to the Bonds. The County shall give notice in a timely manner if this Section is applicable to each NRMSIR, or to the MSRB, and to the SID, if any.

12. Dissemination Agent. The County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

13. Additional Information. Nothing in this Undertaking shall be deemed to prevent the County from disseminating any other information using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Information Disclosure or notice of occurrence of a Material Event, in addition to that which is required by this Undertaking. If the County chooses to include any information from any document or notice of occurrence of Material Event in addition to that which is specifically required by this Undertaking, the County shall have no obligation under this Undertaking to update such information or include it in any future disclosure or notice of occurrence of a Material Event.

14. Beneficiaries. This Undertaking has been executed in order to assist the Underwriter in complying with the Rule; however, this Undertaking shall inure solely to the benefit of the County, the Dissemination Agent, if any, and the beneficial owners of the Bonds, and shall create no rights in any other person or entity.

15. Recordkeeping. The County shall maintain records of all Annual Information Disclosure and notices of occurrence of Material Events including the content of such disclosure or notices, the names of the entities with whom such disclosure or notices were filed and the date of filing such disclosure or notices.

16. Assignment. The County shall not transfer its obligations under the Bond Resolution unless the transferee agrees to assume all obligation of the County under this Undertaking or to execute an Undertaking under the Rule.

17. Governing Law. This Undertaking shall be governed by the laws of the State.

PIMA COUNTY, ARIZONA

By: _____

Thomas Burke
Finance and Risk Management Director

Date: January 25, 2007

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND AUDITED FINANCIAL STATEMENTS

"Annual Financial Information" means quantitative financial information and operating data concerning the operations of the County of the type set forth in the Official Statement in Appendix A in the tables entitled "PIMA COUNTY, ARIZONA SUMMARY OF WASTEWATER USERS FEES," PIMA COUNTY, ARZIONA, SUMMARY OF USER FEES 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.

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted to each NRMSIR and to the SID, if any, or filed with the Commission. If the information included by reference is contained in a Final Official Statement, the Final Official Statement must be available from the MSRB; the Final Official Statement need not be available from each NRMSIR, the SID or the Commission. The County shall clearly identify each such item of information included by reference.

Annual Financial Information exclusive of Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, no later than the first business day in February of each year, commencing February 1, 2008. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, to be followed up by Audited Financial Statements when available.

Audited Financial Statements will be prepared according to GAAP, as applied to governmental units as modified by State law, Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, at the same time as Annual Financial Information is filed, or if not available when such Annual Financial Information is filed, within 30 days after availability to the County.

If any change is made to the Annual Financial Information as permitted by Section 4 of this Undertaking, the County will disseminate a notice of such change as required by Section 4, including changes in Fiscal Year or GAAP.

EXHIBIT II

EVENTS FOR WHICH NOTICE OF OCCURRENCE OF MATERIAL EVENTS IS REQUIRED

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 creditor liquidity providers, or their failure to perform
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds
7. Modifications to the rights of holders of the Bonds
8. Bond calls
9. Defeasances
10. Release, substitution or sale of property securing repayment of the Bonds
11. Rating changes

APPENDIX I

SPECIMEN 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 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

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

BOND REGISTRAR, TRANSFER AGENT AND PAYING AGENT AGREEMENT

This Bond Registrar, Transfer Agent and Paying Agent Agreement, dated as of January 1, 2007 (the "Agreement"), between Pima County, Arizona (the "County"), and The Bank of New York Trust Company, N.A. (the "Registrar"),

WITNESSETH

WHEREAS, the County proposes to issue its Sewer Revenue Bonds, Series 2007, in the aggregate principal amount of $50,000,000 (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 Treasurer and the County's Finance and Risk Management Director 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 America) 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, the County's Finance and Risk Management Director 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 $50,000,000 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, 2007, 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 and shall be subject to the provisions of applicable law.

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, Section 35-323.

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. In lieu of destruction and immediately prior to the date the Registrar would destroy any Bondholder or Bond payment records maintained by the Registrar pursuant to this Agreement, such records shall be provided to the Treasurer.

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 Squire, Sanders & Dempsey L.L.P. as Bond Counsel to the County, and (d) the debt service payment schedule relating to the Bonds.

Section 20. The County and the Registrar each 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 other party hereto.

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:	The Bank of New York Trust Company, N.A. Corporate Trust Services 1225 West Washington Street, Suite 126 Tempe, Arizona 85281

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.

[Signature page to follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

THE BANK OF NEW YORK TRUST
COMPANY, N.A.,
as Registrar

By:_____
Mark E. Krietemeyer
Vice President

PIMA COUNTY, ARIZONA

By:_____
Richard Elías
Chairman, Board of Supervisors

ATTEST:

By:_____
Lori Godoshian
Clerk, Board of Supervisors

APPROVED AS TO FORM:

SQUIRE, SANDERS & DEMPSEY L.L.P.,
Bond Counsel

By:_____
Timothy E. Pickrell

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COMPANY, N.A.,
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By:_____
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Vice President

PIMA COUNTY, ARIZONA

By:_____
Richard Elías
Chairman, Board of Supervisors

ATTEST:

By:_____
Lori Godoshian
Clerk, Board of Supervisors

APPROVED AS TO FORM:

SQUIRE, SANDERS & DEMPSEY L.L.P.,
Bond Counsel

By:_____
Timothy E. Pickrell

EXHIBIT A

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

MATURITY SCHEDULE

Maturity Date (July 1)	Principal Amount	Interest Rate
2007	$2,665,000	4.000%
2008	1,550,000	4.000
2009	1,625,000	3.750
2010	1,710,000	4.000
2011	1,795,000	4.000
2012	1,885,000	3.750
2013	1,980,000	4.000
2014	2,075,000	4.000
2015	2,180,000	5.000
2016	2,290,000	5.000
2017	2,405,000	5.000
2018	2,525,000	4.125
2019	2,650,000	4.250
2020	2,785,000	4.250
2021	2,925,000	4.375
2022	3,070,000	4.500
2023	3,220,000	4.500
2024	3,385,000	4.000
2025	3,550,000	4.000
2026	3,730,000	4.000

The Bank of New York Trust Company, N.A.
Registrar and Paying Agent Fee Schedule for the
Pima County, Arizona Sewer Revenue Bonds, Series 2007

EXHIBIT B

Acceptance Fee $150.00

The Acceptance Fee covers acceptance of contractual responsibilities and the establishment of administrative records and procedures to comply with the agency documents.

Annual Administration Fee $350.00

The Administrative Fee covers the performance of specified agent duties and responsibilities under the agency documents.

Out-of-pocket Expenses:

*A charge in the amount of **6%** of total fees will be added to cover ordinary business expenses for postage, checks, stationery, printing, messenger deliveries, and telephone. Expenses for extraordinary services, such as, but not limited to, travel, legal, securities delivery, and legal notice publication will be billed additionally.*

Additional Terms and Conditions:

Please note that our willingness to act in the capacities specified above and the fees designated herein are indicative and based upon our current understanding of the transaction and is subject to receipt of any necessary internal credit approval by The Bank of New York Trust Company. In addition, this proposal is subject to review of the additional documentation and the receipt of appropriate indemnities, opinions of counsel and indemnification. After review of the governing documentation, we will quote fees for any services required of us not contemplated herein.

The fees quoted in this letter apply to services ordinarily rendered in the administration of a registrar and paying agency account. They are subject to reasonable adjustment based on final review of the documents. Fees may be adjusted based upon changes required by legal or regulatory changes or as the costs of doing business demand. Fees for services not specifically covered in this or other applicable schedules will be based on appraisal of services rendered and agreed upon by the parties. In the event The Bank of New York Trust Company is required to administer a default and/or workout matter in relation to the appointment, additional hourly fees will apply.

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. When you open an account, we will ask for information that will allow us to identify you.

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Pima County, Arizona

BONDS: $50,000,000 in aggregate principal amount of Sewer Revenue Bonds, Series 2007 dated January 1, 2007

Policy No.: 208043-N

Effective Date: January 25, 2007

Premium: $142,400.00

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.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

NOTICE OF CLAIM AND CERTIFICATE

Financial Security Assurance Inc.
31 West 52nd Street
New York, NY 10019

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. 208043-N dated January 25, 2007 (the "Policy") issued by Financial Security in respect of the Pima County, Arizona Sewer Revenue Bonds, Series 2007 dated January 1, 2007 (the "Bonds"), that:

(i) The Trustee/Paying Agent is the Trustee/Paying Agent under the document authorizing the issuance of the Bonds (the "Indenture") 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 Indenture 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 Indenture 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 _____

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY

ISSUER: Pima County, Arizona

Policy No.: 208043-R

BONDS: $50,000,000 in aggregate principal amount of Sewer Revenue Bonds, Series 2007 and any Parity Obligations issued under the Bond Document

Effective Date: January 25, 2007

Premium: $10,937.50

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 (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, 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.

Financial Security will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business 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, in a form reasonably satisfactory to it. 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 Issuer, as appropriate, who may submit an amended Notice of Nonpayment. 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. Upon such payment, Financial Security shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the Bond Document. 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 and all insurance policies in respect of the Bond, to the extent of any payment by Financial Security hereunder.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to Financial Security by or on behalf of the Issuer. Within three Business Days of such reimbursement, Financial Security shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall Financial Security incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that Financial Security has issued.

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 are, or the Insurer's Fiscal Agent is, 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. "Insurance Agreement" means the Insurance Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds 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 that 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 the Issuer, 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 of principal or interest thereunder, 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. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed $625,000. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document. "Termination Date" means the earlier of July 1, 2026 and the date the Bonds are no longer outstanding under the Bond Document.

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.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

RESERVE POLICY AGREEMENT

This RESERVE POLICY AGREEMENT, dated as of January 25, 2007, by and between Pima County, Arizona (the "Issuer") and Financial Security Assurance Inc. (the "Insurer") (the "Agreement").

In consideration of the issuance by the Insurer of its Municipal Bond Debt Service Reserve Insurance Policy No. 208043-R (the "Reserve Policy") with respect to the Issuer's $50,000,000 Sewer Revenue Bonds, Series 2007 and any other Parity Obligations issued pursuant to the Bond Resolution (the "Bonds") issued pursuant to Resolution No. 1991-138, adopted by the Board of Supervisors of the Issuer on June 18, 1991, as amended by Resolution No. 1991-183, adopted on August 6, 1991, as supplemented, including as supplemented by Resolution No. 2007-16, adopted by the Board of Supervisors of the Issuer on January 16, 2007 (collectively, the "Bond Resolution") and the Issuer's payment to the Insurer of the insurance premium for the Reserve Policy, the Insurer and the Issuer hereby covenant and agree as follows:

1. Upon any payment by the Insurer under the Reserve Policy, the Insurer shall furnish to the Issuer written instructions as to the manner in which payment of amounts owed to the Insurer as a result of such payment under the Reserve Policy shall be made.

2. The Issuer shall pay the Insurer the principal amount of any draws under the Reserve Policy and pay all related reasonable expenses incurred by the Insurer and shall pay interest thereon from the date of payment by Financial Security at the Late Payment Rate. "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such national bank as the Insurer shall designate.

3. Repayment of draws and payment of expenses and the interest accrued thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12th of the aggregate of Policy Costs related to such draw.

4. Amounts in respect of Policy Costs paid to the Insurer shall be credited first to interest due, then to the expenses due and then to principal due.

5. As and to the extent that payments are made to the Insurer on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy.

6. All cash and investments in the Reserve Fund shall be transferred to the debt service fund for payment of debt service on the Bonds before any drawing may be made on the Reserve Policy or on any alternative credit instrument. Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all alternative credit instruments (including the Reserve Policy) on which there is available coverage shall be made on a pro rata basis (calculated by reference to coverage then available under each such alternative credit instrument) after applying available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to alternative credit instruments shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund.

7. If the Issuer shall fail to pay any Policy Costs in accordance with the requirements of the Bond Resolution and this Agreement, the Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Bond Resolution., other than (i) acceleration of the maturity of the Bonds or (ii) remedies which would adversely affect owners of the Bonds.

8. The Bond Resolution. shall not be discharged until all Policy Costs owing to the Insurer shall have been paid in full. The Issuer's obligation to pay such amounts shall expressly survive payment in full of the Bonds.

9. In order to secure the Issuer's payment obligations with respect to the Policy Costs, there is hereby granted and perfected in favor of the Insurer a security interest (subordinate only to that of the owners of the Bonds) in all revenues and collateral pledged as security for the Bonds but on a parity with other Reserve Fund Guaranties as provided in the Bond Resolution.

10. Policy Costs due and owing shall be included in debt service requirements for purposes of calculation of the test for additional Parity Bonds and the rate covenant in the Bond Resolution.

11. The Issuer shall ascertain the necessity for a claim upon the Reserve Policy and provide notice to the Paying Agent for the Bonds and the Insurer in accordance with the terms of the Reserve Policy at least five business days prior to each date upon which interest or principal is due on the Bonds. Where deposits are required to be made by the Issuer with the Paying Agent for the Bonds to the debt service fund for the Bonds more often than semi-annually, the Issuer shall give notice to the Insurer of any failure of the Issuer to make timely payment in full of such deposits within two business days of the date due.

12. Notices to the Insurer shall be sent to the following address (or such other address as the Insurer may designate in writing): Financial Security Assurance Inc., 31 West 52nd Street, New York, New York 10019 Attention: Managing Director – Surveillance; Re: Policy No. 208043-R.

13. If any one or more of the agreements, provisions or terms of this Agreement shall be for any reason whatsoever held invalid, then such agreements, provisions or terms shall be deemed severable from the remaining agreements, provisions or terms of this Agreement and shall in no way affect the validity or enforceability of the other provisions of this Agreement.

14. All capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Bond Resolution.

15. Notwithstanding anything to the contrary in this Agreement, all amounts owed by the Issuer under this Agreement shall be payable and collectible solely out of the Net Revenues (as defined in the Resolution) and the Insurer may not look to any general or other fund for the payment of any such amounts by the Issuer hereunder. Nothing in this Agreement shall constitute an indebtedness or a debt within the meaning of any constitutional or statutory provisions or limitation applicable to the Issuer.

16. This Agreement and the rights and obligations of the parties of the Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of New York.

17. This Agreement may be executed in counterparts, each of which alone and all of which together shall be deemed one original Agreement.

IN WITNESS WHEREOF, the parties hereto have set their hands as of the date written above.

PIMA COUNTY, ARIZONA

By: _____
Title: Chairman, Board of Supervisors

FINANCIAL SECURITY
SECURITY INC.

By: _____
Title: Authorized Officer

IN WITNESS WHEREOF, the parties hereto have set their hands as of the date written above.

PIMA COUNTY, ARIZONA

By: _____
Title: Chairman, Board of Supervisors

FINANCIAL SECURITY
SECURITY INC.

By: _____
Title: Authorized Officer

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

CONTINUING DISCLOSURE UNDERTAKING FOR THE PURPOSE OF PROVIDING CONTINUING DISCLOSURE INFORMATION UNDER SECTION (b)(5) OF RULE 15c2-12

This Continuing Disclosure Undertaking (the "Undertaking") is executed and delivered by Pima County, Arizona (the "County"), in connection with the issuance and sale of the $50,000,000 aggregate principal amount of Sewer Revenue Bonds, Series 2007 (the "Bonds").

In connection with the Bonds, the County covenants and agrees as follows:

1. Purpose of this Undertaking. This Undertaking is executed and delivered by the County as of the date set forth below, for the benefit of the beneficial owners of the Bonds and in order to assist the Underwriter in complying with the requirements of the Rule (as defined below).

2. Definitions. The terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires.

"Annual Information" means the financial information and operating data set forth in Exhibit I.

"Annual Information Disclosure" means the dissemination of disclosure concerning Annual Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

"Audited Financial Statements" means the general purpose audited financial statements of the County prepared pursuant to the standards and as described in Exhibit I.

"Bond Resolution" means, together, Resolution No. 1991-138 adopted by the Board of Supervisors of the County on June 18, 1991, as supplemented and amended, including a supplemental resolution adopted by the Board of Supervisors of the County on January 16, 2007, authorizing the issuance and sale of the Bonds.

"Commission" means the Securities and Exchange Commission.

"Dissemination Agent" means any agent designated as such in writing by the County and which has filed with the County a written acceptance of such designation, and such agent's successors and assigns.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Material Event" means the occurrence of any of the events with respect to the Bonds set forth in Exhibit II that is material, as materiality is interpreted under the Exchange Act.

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIRs" means, as of any date, any Nationally Recognized Municipal Securities Information Repository then recognized by the Commission for purposes of the Rule. As of the date of this Undertaking, the NRMSIRs are:

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, 15th Floor
New York, New York 10038
Phone: (212) 771-6999; 800-689-8466
Fax: (212) 771-7390
E-mail:NRMSIR@interactivedata.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

The names and addresses of all current NRMSIRs should be verified each time information is delivered pursuant to this Undertaking.

"Rule" means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

"SID" means any public or private repository designated by the State as the state repository and recognized as such by the Commission for purposes of the Rule. As of the date of

this Undertaking, no SID exists within the State. The name and address of the SID, if any, should be verified each time information is delivered pursuant to this Undertaking.

"State" means the State of Arizona.

"Undertaking" means the obligations at the County pursuant to Sections 4, 5, 6 and 7 hereof.

"Underwriter" includes each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Bonds.

3. CUSIP Number/Final Official Statement. The base CUSIP Number of the Bonds is 721876. The Final Official Statement relating to the Bonds is dated January 16, 2007.

4. Annual Information Disclosure. Subject to Section 9 of this Undertaking, the County shall disseminate its Annual Information and its Audited Financial Statement, if any (in the form and by the dates set forth in Exhibit I), to all NRMSIRs and to the SID, if any. The County is required to deliver such information in such manner and by such time so that such entities receive the information on the date specified.

If any part of the Annual Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the County will disseminate a statement to such effect as part of its Annual Information for the year in which such event first occurs.

If any amendment is made to this Undertaking, the Annual Information for the year in which such amendment is made shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. Material Events Disclosure. Subject to Section 9 of this Undertaking, the County hereby covenants that it will disseminate in a timely manner notice of occurrence of a Material Event to each NRMSIR, or to the MSRB and to the SID, if any.

6. Duty to Update NRMSIRs/SID. The County shall determine, in the manner it deems appropriate, the names and addresses of the then existing NRMSIRs and SID each time it is required to file information with such entities.

7. Consequences of Failure of the County to Provide Information. The County shall give notice in a timely manner to each NRMSIR, or to the MSRB and to the SID, if any, of any failure to provide Annual Information Disclosure when the same is due hereunder.

In the event of a failure of the County to comply with any provision of this Undertaking, the beneficial owner of any Bond may seek mandamus or specific performance by court order, to cause the County to comply with its obligations under this Undertaking. A default under this Undertaking shall not be an Event of Default on the Bonds. The sole remedy under this Undertaking in the event of any failure of the County to comply with this Undertaking shall be an action to compel performance.

8. Alternate Means of Disclosure. Notwithstanding the provisions of Sections 4, 5 and 7 requiring that the County file its Annual Information Disclosure, notice of any Material Event and notice of any failure to comply with this Undertaking with each of the NRMSIRS and any SID, the County may instead comply with the provisions of this Undertaking by filing the required information with an entity then recognized by the Commission as eligible to receive and submit such filings to the NRMSIRS and any SID for purposes of the Rule (a "Central Post Office"). As of the date of this Disclosure Undertaking, the Central Post Office that has been so recognized by the Commission is:

DisclosureUSA.org
P.O. Box 684667
Austin, Texas 78768-4667
Fax: (512) 476-6403
http://www.disclosureUSA.org

9. Amendments; Waiver. Notwithstanding any provision of this Undertaking, the County by certified resolutions authorizing each amendment or waiver, may amend the Undertaking, and any provision of the Undertaking may be waived, if:

(a) The amendment is 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 the County, or type of business conducted;

(b) This Undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of the beneficial owners of the Bonds, as determined by an independent counsel or other entity unaffiliated with the County.

10. Non-Appropriation. The performance by the County of its obligations in this Undertaking shall be subject to the annual appropriation of any funds that may be necessary to permit such performance. In the event of a failure by the County to comply with its covenants under this Undertaking due to a failure to appropriate the necessary funds, the County covenants to provide prompt notice of such fact to each NRMSIR and the SID.

11. Termination of Undertaking. The Undertaking of the County shall be terminated hereunder when the County no longer has liability for any obligation relating to repayment of the Bonds or the Rule no longer applies to the Bonds. The County shall give notice in a timely manner if this Section is applicable to each NRMSIR, or to the MSRB, and to the SID, if any.

12. Dissemination Agent. The County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

13. Additional Information. Nothing in this Undertaking shall be deemed to prevent the County from disseminating any other information using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Information Disclosure or notice of occurrence of a Material Event, in addition to that which is required by this Undertaking. If the County chooses to include any information from any document or notice of occurrence of Material Event in addition to that which is specifically required by this Undertaking, the County shall have no obligation under this Undertaking to update such information or include it in any future disclosure or notice of occurrence of a Material Event.

14. Beneficiaries. This Undertaking has been executed in order to assist the Underwriter in complying with the Rule; however, this Undertaking shall inure solely to the benefit of the County, the Dissemination Agent, if any, and the beneficial owners of the Bonds, and shall create no rights in any other person or entity.

15. Recordkeeping. The County shall maintain records of all Annual Information Disclosure and notices of occurrence of Material Events including the content of such disclosure or notices, the names of the entities with whom such disclosure or notices were filed and the date of filing such disclosure or notices.

16. Assignment. The County shall not transfer its obligations under the Bond Resolution unless the transferee agrees to assume all obligation of the County under this Undertaking or to execute an Undertaking under the Rule.

17. Governing Law. This Undertaking shall be governed by the laws of the State.

[Signature page to follow]

PIMA COUNTY, ARIZONA

By: _____
Thomas Burke
Finance and Risk Management Director

Date: January 25, 2007

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND AUDITED FINANCIAL STATEMENTS

"Annual Financial Information" means quantitative financial information and operating data concerning the operations of the County of the type set forth in the Official Statement in Appendix A in the tables entitled "PIMA COUNTY, ARIZONA SUMMARY OF WASTEWATER USERS FEES," PIMA COUNTY, ARZIONA, SUMMARY OF USER FEES 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.

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted to each NRMSIR and to the SID, if any, or filed with the Commission. If the information included by reference is contained in a Final Official Statement, the Final Official Statement must be available from the MSRB; the Final Official Statement need not be available from each NRMSIR, the SID or the Commission. The County shall clearly identify each such item of information included by reference.

Annual Financial Information exclusive of Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, no later than the first business day in February of each year, commencing February 1, 2008. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, to be followed up by Audited Financial Statements when available.

Audited Financial Statements will be prepared according to GAAP, as applied to governmental units as modified by State law, Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, at the same time as Annual Financial Information is filed, or if not available when such Annual Financial Information is filed, within 30 days after availability to the County.

If any change is made to the Annual Financial Information as permitted by Section 4 of this Undertaking, the County will disseminate a notice of such change as required by Section 4, including changes in Fiscal Year or GAAP.

EXHIBIT II

EVENTS FOR WHICH NOTICE OF OCCURRENCE OF MATERIAL EVENTS IS REQUIRED

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 creditor liquidity providers, or their failure to perform
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds
7. Modifications to the rights of holders of the Bonds
8. Bond calls
9. Defeasances
10. Release, substitution or sale of property securing repayment of the Bonds
11. Rating changes

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. Huckelberry
(Authorized Officer's Signature)

C. H. HUCKELBERRY, 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: Polly 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.

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

GENERAL CERTIFICATE OF THE COUNTY

The undersigned, Chairman (the "Chairman") 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 $50,000,000 aggregate principal amount of Pima County, Arizona, Sewer Revenue Bonds, Series 2007 (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 1991-183 adopted by the Board of Supervisors of the County on August 6, 1991 (collectively, the "Master Resolution"), as supplemented by Resolution No. 2007-17, passed, adopted and approved by the Board of Supervisors of the County on January 16, 2007 (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 Chairman 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. Regular meetings of the Board of Supervisors of the County were duly called, noticed and held on October 17, 2006 and January 16, 2007, in accordance with the laws of the State of Arizona. Copies of the notices and agendas for such meetings are attached hereto as Exhibit A. The Supplemental Resolution, as executed by the Chairman 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 January 16, 2007.

3. The persons named below were on October 17, 2006 and January 16, 2007 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
Richard Elías	Chairman and Supervisor
Ray Carroll	Supervisor
Ann Day	Supervisor
Sharon Bronson	Supervisor
Ramón Valadez	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 Chairman 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 Bond Registrar, Transfer Agent and Paying Agent Agreement, dated as of January 1, 2007 (the "Bond Registrar and Paying Agent Agreement"), between the County and The Bank of New York Trust Company, N.A. (the "Registrar"), the Continuing Disclosure Undertaking, dated January 25, 2007 (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 Master Resolution and the Supplemental 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 Chairman and the Clerk hereby authorize, ratify and adopt the facsimile signatures of the Chairman and the Clerk executing and attesting, respectively, the Bonds in the aggregate principal amount of $50,000,000 issued under the 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
2007	$2,665,000	4.000%
2008	1,550,000	4.000
2009	1,625,000	3.750
2010	1,710,000	4.000
2011	1,795,000	4.000
2012	1,885,000	3.750
2013	1,980,000	4.000
2014	2,075,000	4.000
2015	2,180,000	5.000
2016	2,290,000	5.000
2017	2,405,000	5.000
2018	2,525,000	4.125
2019	2,650,000	4.250
2020	2,785,000	4.250
2021	2,925,000	4.375
2022	3,070,000	4.500
2023	3,220,000	4.500
2024	3,385,000	4.000
2025	3,550,000	4.000
2026	3,730,000	4.000

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. 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 threatened against the County, which questions its right to set rates and collect Revenues with respect to its sewer system or to pledge the Net Revenues thereof 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, or 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 its sewer system, or (b) a material adverse effect on the

transactions contemplated by the Official Statement, dated January 16, 2007 (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, or (d) impair the County's ability to comply with the requirements set forth in the Bond 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. The Bank of New York Trust Company, N.A., as Registrar, pursuant to the Supplemental Resolution and the Bond Registrar, Transfer Agent and Paying Agent Agreement, is hereby authorized and directed to authenticate the fully-registered Bonds and to receipt for and deliver said Bonds to Merrill Lynch & Co. (the "Underwriter"), pursuant to The Depository Trust Company's F.A.S.T. closing procedures, after authentication and upon receipt by the Treasurer of the County of $50,258,125.68, representing $50,000,000.00 principal amount thereof plus a net premium of $116,849.85 and accrued interest of $141,275.83. The Treasurer will deposit and apply the proceeds of the sale of the Bonds as provided in Section 7 of the Supplemental Resolution.

11. To the best knowledge, information and belief of the undersigned, (a) the description and statements contained in the Official Statement and the other documents, information and materials, together with any supplements thereto (collectively, the "Offering Materials"), 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 January 16, 2007, the date the proposal for the purchase of the Bonds (the "Proposal") by the Underwriter, which is on file in the office of the Clerk of the Board of Supervisors of the County, was accepted by the Board of Supervisors of the County, and are on the date hereof, true, correct and complete in all material respects and do not contain any untrue statements of a material fact or omit to state any material fact which should be included therein for the purposes for which the Offering Materials 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 Resolution.

12. Except as disclosed 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. The County will use the proceeds of the Bonds (other than the proceeds deposited into the Bond Fund pursuant to Section 7 of the Resolution) in a manner and for purposes consistent with the voter approval obtained at the special bond elections held in and for the County on May 20, 1997 and May 18, 2004, respectively.

15. The Bonds are payable solely from a pledge of, and are secured by a first lien on, and are on a parity of lien with $135,892,236.94 aggregate outstanding principal amount of the County's Sewer Improvement and Refunding Revenue Bonds, Series 1998, Sewer Revenue Refunding Bonds, Series 2001, and Sewer Revenue Refunding Bonds, Series 2004 and those certain Loan Agreements between the County and the Water Infrastructure of Arizona, dated February 1, 1996, June 1, 1997, October 27, 2000, as amended, and May 11, 2004, as amended, respectively, with respect to the 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, certificate or indebtedness of any kind or character whatsoever outstanding payable from such 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 Bond Resolution.

[Signature page to follow]

Dated: January 25, 2007

PIMA COUNTY, ARIZONA

By: _____
Richard Elías
Chairman, Board of Supervisors

By: _____
Lori Godoshian
Clerk, Board of Supervisors

EXHIBIT "A"

NOTES/ACTION

AGENDA, BOARD OF SUPERVISORS' MEETING

BOARD OF SUPERVISORS' HEARING ROOM

130 W. CONGRESS, 1ST FLOOR

OCTOBER 17, 2006 9:00 A.M.

1. **ROLL CALL**

2. **INVOCATION**

3. **PLEDGE OF ALLEGIANCE**

... **EXECUTIVE SESSION**

(**CLERK'S NOTE**: As of the posting date of 10/11/06, no executive session item has been placed on the regular agenda. However, this is subject to any addendum.)

BOARD OF SUPERVISORS SITTING AS OTHER BOARDS

... **FLOOD CONTROL DISTRICT BOARD**

UNFINISHED BUSINESS
(RM 9/19/06 and RM 10/3/06)

CONTRACTS

A. John D. and Tonya F. Stofko, to provide an Acquisition Agreement for property located at 12310 S. Old Spanish Trail, Vail, for the Floodprone Land Acquisition Program, Tax Parcel No. 205-81-0250, Flood Control Levy Fund, contract amount $459,478.00 including closing costs (22-59-S-138551-0906)

EXHIBIT "A"

NOTES/ACTION

NEW BUSINESS

B. Stephen W. and Pamela J. Evans, to provide an Acquisition Agreement and Warranty Deed for property located at 16140 and 16150 N. Lago Del Oro Parkway needed for the Floodprone Land Acquisition Program, Tax Parcel Nos. 222-02-078C and 222-02-078D, Flood Control Levy Fund, contract amount $114,269.00 including closing costs (22-59-E-138672-1006)

... **LIBRARY DISTRICT BOARD**

CONTRACTS

A. RESOLUTION NO. 2006 - LD 6 , approving and authorizing assignment of the Intergovernmental Agreement with the City of Tucson, to provide maintenance of the El Pueblo Library, Library Fund, contract amount $25,000.00 (01-66-T-138692-0706)

B. RESOLUTION NO. 2006 - LD 7 , approving and authorizing assignment of the Intergovernmental Agreement with the Town of Oro Valley, to provide library services, Library Fund, contract amount $300,000.00 revenue (01-66-T-138693-0706)

BOARD OF SUPERVISORS SITTING IN REGULAR SESSION

4. **CONSENT CALENDAR**: For consideration and approval

A. Call to the Public

B. Approval of Consent Calendar

5. **COUNTY ADMINISTRATOR**

A. CLASSIFICATION AND COMPENSATION

The Assistant County Administrator for Public Works Policy requests approval of the creation of the following new

classifications. There are no associated costs.

Class Code	Class Title	Grade Code	EEO, O/T Code
7101	Project Manager Unclassified	U2 ($34,106 -$90,396)	2, E*
7103	Project Manager Senior Unclassified	U3 ($45,474 - $105,323)	2, E*

*E = Exempt, Not Paid Overtime

B. The Finance and Risk Management Department requests approval of the creation of the following classification. There are no associated costs.

Class Code	Class Title	Grade Code	EEO, O/T Code
7573	Finance and Risk Management Deputy Director	U4 ($65,357-$127,858)	1, E*

*E = Exempt, Not Paid Overtime

6. **FIRE DISTRICT - GOLDER RANCH FIRE DISTRICT**

Pursuant to A.R.S. §48-262.A.12, validation of the petitions presented from the Golder Ranch Fire District for the proposed Palisades Point Estates Annexation. (District 1)

7. **DIVISION OF ELECTIONS**

Staff requests that the name Terri Berg be removed from the September 12, 2006 Primary Election Canvass in the Office of Precinct Committeeman from Precinct 058 - Democrat, and add the name Judi White in the Office of Precinct Committeeman from Precinct 058 - Republican.

NOTES/ACTION

WASTEWATER MANAGEMENT

8. QUARTERLY REPORT

Wastewater Management Department Quarterly Report for the period July through September, 2006.

* * * HEARINGS * * *

9. **COUNTY ADMINISTRATOR**

BOND PROJECT AMENDMENTS

A. ORDINANCE NO. 2006 - **82**, of the Board of Supervisors, relating to General Obligation and Sewer Revenue Bond Projects, amending Ordinance No. 1997-35, Bond Implementation Plan, May 20, 1997 Special Election, as amended by Ordinance No. 1998-58; Ordinance No. 2001-111; Ordinance No. 2004-15; Ordinance No. 2005-91; and Ordinance No. 2006-19, to reallocate bond funds, amend the scope of certain projects, amend implementation periods for certain bond projects, and authorize the use of additional other funds to finance certain projects.

B. ORDINANCE NO. 2006 - **83**, of the Board of Supervisors, relating to Highway User Revenue Fund Revenue Bond Projects, amending Ordinance No. 1997-80. Bond Implementation Plan, November 4, 1997 Special Election, as amended by Ordinance No. 1998-59; Ordinance No. 2001-112; Ordinance No. 2004-118; Ordinance No. 2005-90; and Ordinance No. 2006-20, to amend project scopes, implementation period schedules, and bond and other fund allocations for certain projects.

NOTES/ACTION

C. ORDINANCE NO. 2006 - **84**, of the Board of Supervisors, relating to General Obligation and Sewer Revenue Bond Projects, amending Ordinance No. 2004-18, Bond Implementation Plan, May 18, 2004 Special Election, as amended by Ordinance No. 2005-92 and Ordinance No. 2006-21, to reallocate bond funds, amend the scope of certain projects, amend implementation periods for certain bond projects, and authorize the use of additional other funds to finance certain projects.

FRANCHISES/LICENSES/PERMITS

LIQUOR LICENSES

10. 06-37-8860, Robert Earl Updike, Jr., Catalina Mountain Elks Lodge No. 2815, 16045 N. Oracle Rd., Catalina, Series 14, Private Club, New License.

11. 06-38-8861, Michael Lawrence Deimerly, Firelite Lounge and Café, 2413 W. Wetmore Drive, Tucson, Series 6, Bar License, Person Transfer.

12. 06-39-8862, Clare Hollie Abel, Wal-Mart Neighborhood Market No. 3777, 2823 W. Valencia Road, Tucson, Series 9, Liquor Store License, Person and Location Transfer.

13. 06-40-8863, Amy Martino, Trattoria della Famiglia, 6060 N. Oracle Road, Tucson, Series 12, Restaurant License, New License.

EXTENSION OF PREMISES/PATIO PERMIT

14. Sharon O. Rahe, Water Hole, 16540 W. Avra Valley Road, Marana, Temporary Extension of Premises/Patio Permit for October 28, 2006.

NOTES/ACTION

PUBLIC WORKS

DEVELOPMENT SERVICES

COMPREHENSIVE PLAN AMENDMENTS

15. Co7-06-02, OLIVAREZ/VELASCO - W. VELO ROAD PLAN AMENDMENT
Request of Saul Olivarez and Felipe Velasco, to amend the Pima County Comprehensive Plan from Low Intensity Rural (LIR) to Medium Intensity Rural (MIR). The subject property is approximately 4.77 acres and is located on the north side of W. Velo Road, approximately 1,300 feet east of Vahalla Road, and approximately 630 feet south of Los Reales Road in Section 21, T15S, R12E, in the Southwest Subregion. On motion, the Planning and Zoning Commission voted 7-0 (Commissioners Membrila and Smith were absent) to recommend **APPROVAL WITH A REZONING POLICY: DEVELOPMENT IS LIMITED TO TWO HOUSES**. Staff recommends **APPROVAL**. (District 3)

16. Co7-06-08, WER - INTERSTATE 19 FRONTAGE ROAD PLAN AMENDMENT
Request of Jeff and Reina Wer, to amend the Pima County Comprehensive Plan from Resource Transition (RT) and Low Intensity Rural (LIR) to Rural Crossroads (RX). The subject property is approximately 9.22 acres and is located on the east side of east Interstate 19 Frontage Road, approximately 400 feet north of W. Arivaca Road in Section 31, T19S, R13E, in the Upper Santa Cruz Valley Subregion. On motion, the Planning and Zoning Commission voted 7-0 (Commissioners Membrila and Smith were absent) to recommend **DENIAL**. Staff recommends **DENIAL**. (District 3)

17. Co7-06-09, ALAS - S. NOGALES HIGHWAY PLAN AMENDMENT
Request of Orlando and Edilma Alas, to amend the Pima County Comprehensive Plan from Resource Transition (RT) to Rural Crossroads (RX). The subject property is approximately 4.59 acres and is located approximately 375 feet east of the east

Interstate 19 Frontage Road, approximately 800 feet north of W. Arivaca Road, in Section 31, T19S, R13E, in the Upper Santa Cruz Valley Subregion. On motion, the Planning and Zoning Commission voted 7-0 (Commissioners Membrila and Smith were absent) to recommend **DENIAL**. Staff recommends **DENIAL**. (District 3)

18. Co7-06-10, DVL INVESTMENTS, L.L.C. - N. ANWAY ROAD PLAN AMENDMENT
Request of DVL Investments, L.L.C., to amend the Pima County Comprehensive Plan from Low Intensity Rural (LIR) to Medium Intensity Rural (MIR). The subject property is approximately 108 acres and is located on the northeast corner of the intersection of Anway Road and Sunset Road in Section 10, T13S, R10E, in the Tucson Mountains/Avra Valley Subregion. On motion, the Planning and Zoning Commission voted 5-2 (Commissioners Cuyugan and Poulos voted **NAY**; Commissioners Membrila and Smith were absent).to recommend **APPROVAL, SUBJECT TO TWO SPECIAL AREA POLICIES**: (1) standard policy language regarding the Western Burrowing Owl, and (2) require on-site mitigation for Multiple Use management areas in the (CLS) Conservation Lands System and a dwelling unit cap of 36 homes Staff recommends **APPROVAL WITH A SPECIAL AREA POLICY**, and a suggested density cap of 40 homes, with some level of off-site mitigation. (District 3)

ZONING CODE TEXT AMENDMENT

19. Co8-06-001, COMMUNICATION TOWER ZONING CODE REVISION
An ordinance of the Pima County Board of Supervisors; relating to zoning; amending the Pima County Code by amending Chapter 18.03, General Definitions and amending Chapter 18.07 General Regulations and Exceptions, to revise development standards for communication towers and appurtenances located within public rights-of-way and on private property. On motion, the Planning and Zoning Commission voted 7-0 (Commissioners

Membrila and Smith were absent) to recommend **APPROVAL**. Staff recommends **APPROVAL**. (All Districts)

If approved, pass and adopt:

ORDINANCE NO. 2006 - **85**

CONDITIONAL USE PERMIT

20. P21-06-17, DONALD DAVIS and PEGGY JONES - S. DANCIL DRIVE
Request of Donald Davis and Peggy Jones, on property located at 26995 S. Dancil Drive, in an RH zone, for a Conditional Use Permit for a water pumping and distribution facility. Chapter 18.97, in accordance with Section 18.13.030.B.28 of the Pima County Zoning Code, allows a water pumping and distribution facility as a Type II conditional use in the RH zone. The Hearing Administrator recommends **APPROVAL**, subject to standard conditions. (District 3)

WAIVER OF PLATTING REQUIREMENT

21. PPW06-02, MADERA PLAZA II - A COMMERCIAL CONDOMINIUM
Request of Madera Plaza II, L.L.C., Madera Plaza L.L.C., and Bayshore 67 L.L.C., Tax Parcel Nos. 304-65-735A, 304-65-7370, 304-65-7380, 304-72-0370 represented by Mendelson & Oseran, P.L.C., for a waiver of the subdivision plat requirements pursuant to Section 18.69.080 of the Pima County Zoning Code which allows a waiver of any or all code standards for a subdivision which has received or is not subject to an order of exemption from the public report requirements administered by the Arizona Department of Real Estate. The subject property compromises of Park Center Subdivision (Bk. 41, Pg. 19), Lots 4, 6, and 7 and a portion of Lot 5, known as Block A Madera Plaza (P1201-056, Bk. 55, Pg. 23-2), is approximately 5 acres, zoned CB-1 (local business)

and is located south of the Town of Sahuarita one mile east of Interstate 19 on the corner of East Continental and South Park Center Avenue. Staff recommends **APPROVAL WITH CONDITIONS**. (District 4)

22. STREET NAME CHANGE

Present	Proposed
Unnamed easement/road for alignment Co14-06-018 (District 3)	Sea Tac Way

TRANSPORTATION

23. ROAD ESTABLISHMENT

RESOLUTION NO. 2006 - **275**, of the Board of Supervisors of Pima County, Arizona, providing for the establishment of a County highway lying within Sections 14, 15, 22, 26, 27, 34 and 35, T15S, R14E; Sections 2, 3, 10, 11, 14, 15, 34, and 35, T16S, R14E; Sections 2, 3, 10 and 11, T17S, R14E, Pima County, Arizona, Proceeding No. 2995, for a portion of Swan Road. (District 2)

24. ACCEPTANCE OF PROJECT/ROADWAY FOR MAINTENANCE

Swan Road Extension, south from Nogales - Old Vail Connection R-796. Developer: Aries Enterprises, Ltd. (District 2)

25. TRAFFIC ORDINANCES

A. ORDINANCE NO. 2006 - **86**, of the Board of Supervisors, prohibiting traffic on Pontatoc Road in Pima County, Arizona. Staff recommends **APPROVAL**. (District 1)

NOTES/ACTION

B. ORDINANCE NO. 2006 - **87**, of the Board of Supervisors, regulating parking on Pontatoc Road in Pima County, Arizona. Staff recommends **APPROVAL**. (District 1)

C. ORDINANCE NO. 2006 - **88**, of the Board of Supervisors, establishing prima facie speed limits on Silverbell Road in Pima County, Arizona. Staff recommends **APPROVAL**. (District 3)

26. TRAFFIC RESOLUTION

RESOLUTION NO. 2006 - **276**, of the Board of Supervisors, temporarily reducing the speed limit on a segment of Old Spanish Trail in Pima County, Arizona, for the Everyone Runs Half Marathon. Staff recommends **APPROVAL**. (District 4)

27. **CALL TO THE PUBLIC**

28. **ADJOURNMENT**

POSTED: Levels A & B, 1st and 5th Floors, Pima County Administration Building.

DATE POSTED: 10/11/06

TIME POSTED: 5:00 P.M.

NOTES/ACTION

CONSENT CALENDAR, OCTOBER 17, 2006

1. **CONTRACTS AND AWARDS**

A. **COMMUNITY DEVELOPMENT AND NEIGHBORHOOD CONSERVATION**

1. Governor's Office for Children, Youth and Families, Amendment No. 1, to provide for travel expenses for local law enforcement training regarding Violence Against Women, AZ State Fund, contract amount $1,786.00 decrease (02-70-G-137195-0105)

B. **COMMUNITY SERVICES EMPLOYMENT AND TRAINING**

2. Arizona Department of Economic Security, Amendment No. 4, to provide employment and training services, WIA Grant Fund, contract amount $39,000.00 revenue (01-39-A-134231-0404)

3. RESOLUTION NO. 2006 - **273**, approving an Intergovernmental Agreement with the City of Tucson, to provide for the administration of a Bridges/Supportive Housing Program, HUD Grant Fund, contract amount $84,111.00 revenue (01-69-T-138707-1006)

4. Arizona Department of Economic Security, Amendment No. 3, to provide employment and training services to participants in Pima County's Workforce Investment Act Programs, WIA Grant Fund, contract amount $104,861.00 revenue (01-69-A-136196-0405)

C. **PIMA HEALTH SYSTEM**

5. General Dentistry for Kids, L.L.C., Amendment No. 5, to provide dental services, extend contract term to

10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $200,000.00 (18-15-G-131601-1102)

6. General Dentistry 4 Kids Tucson, L.L.C., Amendment No. 5, to provide dental services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $200,000.00 (07-15-G-133243-1103)

7. Arete Sleep, L.L.C., Amendment No. 4, to provide sleep diagnostic center/lab services, reflect name change from Phoenix Sleep, L.L.C., d.b.a. American Sleep Diagnostic and amend notices, PHCS Enterprise Fund, no cost (07-15-A-133893-0304)

8. Arizona Oral and Maxillofacial Surgeons, P.C., Amendment No. 2, to provide dental and oral surgery services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $150,000.00 (18-15-A-135072-1004)

9. Michael T. Mayo, D.D.S., P.C., Amendment No. 1, to provide dental services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, no cost (18-15-M-135156-1104)

10. Palo Verde Surgical Associates, P.C., Amendment No. 2, to provide general surgery services, extend contract term to 9/30/07 and amend contractual language, PHCS Enterprise Fund, no cost (18-15-P-135247-1104)

11. Devon Gables Health Care Center, Amendment No. 2, to provide long term care services, extend contract term to 10/31/07 and amend contractual language

PHCS Enterprise Fund, contract amount $5,000,000.00 (18-15-D-137015-1005)

12. Manor Care of Arizona, Inc., d.b.a. Manor Care Health Services (Tucson) No. 498, Amendment No. 2, to provide long term care services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $500,000.00 (18-15-M-137016-1005)

13. Presidio Health Associates, L.L.C., d.b.a. Catalina Healthcare Center, Amendment No. 1, to provide long term care services, reflect name change from Presidio Health Associates, L.L.C., d.b.a. Catalina Care and Rehabilitation Center, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $3,000,000.00 (18-15-P-137017-1005)

14. Kindred Nursing Centers West, L.L.C., d.b.a. Villa Campana Health Care Center, Amendment No. 3, to provide long term care services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $1,000,000.00 (18-15-K-137034-1005)

15. Santa Rita Care Center, L.L.C., d.b.a. Santa Rita Care Center, Amendment No. 2, to provide long term care services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $4,000,000.00 (18-15-S-137035-1005)

16. Kindred Nursing Centers West, L.L.C., d.b.a. Desert Life Rehabilitation and Care Center, Amendment No. 3, to provide long term care services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract

amount $4,000,000.00 (18-15-K-137036-1005)

17. Ensign Sabino, L.L.C., d.b.a. Sabino Canyon Rehabilitation and Care Center, Amendment No. 1, to provide long term care services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $2,000,000.00 (18-15-E-137038-1005)

18. Villa Maria Care Center, L.L.C., Amendment No. 2, to provide long term care services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $2,000,000.00 (18-15-V-137039-1005)

19. SVRC-Rosa, L.L.C., d.b.a. Santa Rosa Care Center, Amendment No. 2, to provide long term care services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $1,000,000.00 (18-15-S-137045-1005)

20. Kindred Nursing Centers West, L.L.C., d.b.a. Valley Health Care and Rehabilitation Center, Amendment No. 2, to provide long term care services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $2,000,000.00 (18-15-K-137062-1005)

21. Handmaker Jewish Services for the Aging, Amendment No. 1, to provide long term care services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $1,000,000.00 (18-15-H-137063-1005)

22. Avalon Care Center-Tucson, L.L.C., d.b.a. La Colina Health Care Center, Amendment No. 1, to provide long term

care services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $3,000,000.00 (18-15-A-137067-1005)

23. Holy Cross Hospital, Inc., Amendment No. 1, to provide long term care services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $4,000,000.00 (18-15-H-137075-1005)

24. Park Waverly Healthcare, L.L.C., d.b.a. Waverly Park Health Care Center, Amendment No. 2, to provide long term care services, extend contract term to 10/31/07 and amend contractual language, PHCS Enterprise Fund, contract amount $2,000,000.00 (18-15-P-137077-1005)

25. L. Hunter Nash, D.D.S., P.C., to provide dental services, PHCS Enterprise Fund contract amount not to exceed $400,000.00/2 year term (18-15-N-138661-1106)

D. **PROCUREMENT**

26. Office Depot, Inc., Amendment No. 2, to provide copy paper and extend contract term to 1/31/08, Various Department Funds, contract amount 350,000.00 (11-68-O-135788-0205)

27. Blindheim Southwest, Inc., d.b.a. Earth Reinforcement Specialists, to provide emergency soil nailing services for the Mt. Lemmon retaining wall collapse and slope failure, HURF Fund, contract amount $364,000.00 (03-04-B-138720-0806) Transportation

AWARDS

28. Cooperative Procurement: Award of Contract, Requisition No. 0701143 in the amount of $800,000.00 to Waxie Enterprises, Inc. (Headquarters: San Diego, CA) for janitorial supplies. Funding Source: Various Department Funds Administering Department: Procurement.

29. Highest Scoring Proposal: Award of Contract, Requisition No. 0602859, in an amount not to exceed $254,000.00 to the respondent submitting the highest scoring proposal, Brown and Caldwell (Headquarters: Walnut Creek, CA), for the Hydraulic Model Development for Wastewater Management. Contract is for a one year period with the option to extend for purposes of project completion. Funding Source: Wastewater Management Enterprise Fund. Administering Department: Wastewater Management.

E. **REAL PROPERTY**

30. Fidelity National Title Agency Inc., Trust No. 60,230 and the Garold C. Brown Family, L.P., to provide an Acquisition Agreement for urban open space to prevent encroachment on Davis-Monthan Air Force Base, 2004 Bond Fund, contract amount $3,217,200.00 including closing costs (22-05-F-138673-1006)

31. R. Harley Morrison, Trustee of the R. Harley Morrison Declaration of Trust and Mary F. M. Shaffer, to provide an Acquisition Agreement for urban open space to prevent encroachment on Davis-Monthan Air Force Base, 2004 Bond Fund, contract amount $412,624.00 including closing costs (22-05-M-138674-1006)

F. **SHERIFF**

32. RESOLUTION NO. 2006 - **274**, approving an Intergovernmental Agreement with the Arizona Criminal Justice Commission, to provide for Driving or Operating Under the Influence Abatement Program, State Grant Fund, contract amount $57,500.00 revenue (01-11-A-138666-0706)

33. Maricopa County Probation Office, Amendment No. 1, to provide for participation in the H.I.D.T.A. XV Program, H.I.D.T.A. XV Grant Fund, contract amount $2,631.00 (01-11-M-136284-1004)

G. **WASTEWATER MANAGEMENT**

34. Mission Linen Supply, Amendment No. 2, to provide for the re-plumb of the Mission Linen Sanitary Sewer and extend contract term to 6/1/07, no cost (03-03-M-137759-1004)

2. **DIVISION OF ELECTIONS**

Pursuant to A.R.S. §16-531, appointment of all election boards and tally boards recruited and on file in the Division of Elections Office for the General Election, November 7, 2006.

3. **SPECIAL EVENT LIQUOR LICENSES APPROVED PURSUANT TO RESOLUTION NO. 2002-273**

A. Patrick Murray Connors, Tucson Culinary Foundation, Loews Ventana Canyon Resort, 7000 N. Resort Drive, Tucson, October 6, 7 and 8, 2006.

B. James W. Zimmerman, Corpus Christi Parish, 300 N. Tanque Verde Loop, Tucson, October 14, 2006.

C. Michael Anthony Galvin, Catholic Community of St. Odilia, 7570 N. Paseo Del Norte, Tucson, October 14, 2006.

D. Peter P. Chan, Asian American Scholarship, Chinese Cultural Center, 1288 W. River Road, Tucson, October 14, 2006.

PUBLIC WORKS

WASTEWATER MANAGEMENT

4. PUBLIC ANNOUNCEMENT

Pursuant to A.R.S. §49-391(C), a public comment period of 30 days must occur before any Pretreatment Consent Decree or Negotiated Settlement Agreement is made final. The Public Information Enforcement File for the following case will be made available for public review or copies may be obtained for $.35 per page at the Public Works Building, Pima County Wastewater Department's reception desk, 201 North Stone, 8th Floor, Tucson, Arizona, 85701. Comments will be taken for the next thirty days and written comments may be sent to Industrial Wastewater Control, 5025 W. Ina Road, Tucson, Arizona, 85743. If sufficient interest is expressed, a public hearing may be held by the Board of Supervisors. After the comment period, the Board of Supervisors will vote on acceptance of the following Settlement Agreement:

G and Y Investments, an Arizona Corporation, d.b.a. Sparkle Carwash, No. 2006-04. Proposed settlement amount is $1,400.00.

5. **PROCLAMATION**

Proclaiming the month of November, 2006 to be:

"FAIR LENDING MONTH"

6. **RATIFY AND/OR APPROVE**

Minutes: September 5, 2006
September 11, 2006

NOTES/ACTION

ADDENDUM, BOARD OF SUPERVISORS' MEETING

BOARD OF SUPERVISORS' HEARING ROOM

130 W. CONGRESS, 1ST FLOOR

OCTOBER 17, 2006 9:00 A.M.

... **EXECUTIVE SESSIONS**

Public discussion and action may occur on the executive session items listed below during the regularly scheduled meeting.

A. Pursuant to A.R.S. §38-431.03(A)(3) and (4), for legal advice and direction regarding Pima County v. Maucci, Pima County Superior Court Cause No. C20051457.

B. Pursuant to A.R.S. §38-431.03(A)(3) and (4), for legal advice and direction regarding Dufour v. Pima County et. al., Pima County Superior Court Cause No. 20056484.

BOARD OF SUPERVISORS SITTING IN REGULAR SESSION

1. **BOARD OF SUPERVISORS**

Approval of the Board of Supervisors' Meeting Schedule for the period of January through May, 2007.

2. **FINANCE AND RISK MANAGEMENT**

A. RESOLUTION NO. 2006 - **277**, ordering the sale of not to exceed $25,000,000.00 principal amount of Pima County, Arizona, Street and Highway Revenue Bonds.

B. RESOLUTION NO. 2006 - **278**, ordering the sale of not to exceed $50,000,000.00 principal amount of Pima County, Arizona, Sewer Revenue Bonds.

NOTES/ACTION

C. RESOLUTION NO. 2006 - **279**, ordering the sale of not to exceed $100,000,000.00 principal amount of Pima County, Arizona, General Obligation Bonds.

3. **INDUSTRIAL DEVELOPMENT AUTHORITY**

RESOLUTION NO. 2006 - **280**, of the Board of Supervisors of Pima County, Arizona, approving the proceedings of the Industrial Development Authority of the County of Pima, regarding the issuance of its not to exceed $8,000,000.00 Educational Facility Revenue Bonds (Success and Superior Schools Project), Series 2006 and declaring an emergency.

4. **CONTRACTS**

A. Community Services, Employment and Training

Arizona Department of Economic Security/ Community Services Administration, Amendment No. 4, to provide emergency assistance to low income residents, State Grant Fund, contract amount $257,360.00 revenue (01-69-A-136291-0705)

B. Procurement

United Fire and Casualty Company, to provide a Takeover Agreement for the completion of the Honea Heights Colonia Sanitary Sewage Conveyance System, Department of Agriculture Grant Fund, contract amount $990,000.00; Town of Marana, contract amount $370,625.00 (03-03-U-138761-1006) Wastewater Management

C. Transportation

Parsons Brinckerhoff Quade and Douglas, Inc., Amendment No. 2, to provide roadway planning and design services for Vail Road/Colossal

Cave Road Project and amend scope of work, Development Impact Fee Fund, contract amount $53,567.95 (16-04-P-134047-0204)

D. Wastewater Management

Vail Valley Joint Venture, to provide a Connection Fee Credit Agreement, no cost (11-03-V-138721-1006)

5. **BOARDS, COMMISSIONS AND/OR COMMITTEES**

A. Board of Adjustment No. 4

Appointment of Chet Davis to replace John Moore. Term expiration: 10/17/08. (District 4)

B. Tucson-Pima County Bicycle Advisory Committee

Appointment of John C. Thaxton, Davis-Monthan Air Force Base Representative, to replace David Beirne. Term expiration: 12/31/08. (Jurisdictional recommendation)

C. Community Action Agency Board

Reappointment of Doralina Skidmore. Term expiration: 10/31/07. (District 5)

D. Pima County/Tucson Women's Commission

Appointment of Diana Jimenez-Young to fill unexpired term of Margot Veranes. Term expiration: 12/31/08. (District 5)

6. **PROCLAMATION**

Proclaiming the evening of Sunday, October 29, 2006, to be:

"UNA NOCHE DE ALEGRIA -
60 YEARS OF PIO DECIMO CENTER"

NOTES/ACTION

* * * HEARING * * *

FRANCHISE/LICENSE/PERMIT

EXTENSION OF PREMISES/PATIO PERMIT

7. Jim C. Counts, Nimbus Brewing Co., L.L.C., 3850 E. 44th Street, No. 138, Tucson, Temporary Extension of Premises/Patio Permit for November 3 and 4, 2006.

POSTED: Levels A & B, 1st and 5th Floors, Pima County Administration Building.

DATE POSTED: 10/13/06

TIME POSTED: 11:00 A.M.

NOTES/ACTION

AGENDA, BOARD OF SUPERVISORS' MEETING

BOARD OF SUPERVISORS' HEARING ROOM

130 W. CONGRESS, 1ST FLOOR

JANUARY 16, 2007 9:00 A.M.

1. **ROLL CALL**

2. **INVOCATION**

3. **PLEDGE OF ALLEGIANCE**

4. **PAUSE 4 PAWS**

... **EXECUTIVE SESSION**

(**CLERK'S NOTE**: As of the posting date of 1/9/07, no executive session item has been placed on the regular agenda. However, this is subject to any addendum.)

BOARD OF SUPERVISORS SITTING AS OTHER BOARDS

... **FLOOD CONTROL DISTRICT BOARD**

A. Riparian Habitat Mitigation Plan

Staff requests approval of the Hydro/Meso Riparian Habitat Mitigation Plan to construct a single family residence on property located at 1595 N. Freeman Road. (District 4)

B. Contracts

1. Falcone Bros. and Associates, Inc., Change Order No. 6, to provide for the Ajo Detention Basin Phase 3: Piping Modifications Project and amend scope of work, Capital Improvement Project Fund, contract amount $361,800.00 (03-59-F-138393-0706)

NOTES/ACTION

2. Manuel A. Cuen and Santos L. Pena, to provide an Acquisition Agreement in accordance with the Floodprone Land Acquisition Program, Tax Parcel No. 208-41-0420, Flood Control Levy Fund, contract amount $132,000.00 including closing costs (22-59-C-139086-0107)

3. Joseph D. Marco, IV, Trustee of L. Marco Investment Trust, to provide an Acquisition Agreement in accordance with the Floodprone Land Acquisition Program, Tax Parcel Nos. 114-19-010N and 114-18-007G, Flood Control Levy Fund, contract amount $867,865.00 including closing costs (22-59-M-139088-0107)

BOARD OF SUPERVISORS SITTING IN REGULAR SESSION

5. **CONSENT CALENDAR**: For consideration and approval

A. Call to the Public

B. Approval of Consent Calendar

6. **BOARD OF SUPERVISORS**

UNFINISHED BUSINESS
(RM 10/3/06, 11/14/06 and 12/5/06)

RESOLUTION NO. 2006 - 262, in opposition to mining in the Rosemont Valley, Santa Rita Mountains. (District 4)

NEW BUSINESS

7. **COUNTY ADMINISTRATOR**

Classification and Compensation

The Pima County Attorney's Office requests approval to create four Position Control Numbers (PCNs) to be allocated as 3146/Vicim Witness

Advocate (2 positions), 3147/Criminal Investigator and 3139/Information Processing Support Specialist - CA. Grant funded, no General Fund cost associated.

8. **BOARD, COMMISSION AND/OR COMMITTEE**

Presentation by Joan McNamara, Chair of the Pima County-Tucson Commission on Addiction Prevention and Treatment, providing an update on Commission actions and concerns.

9. **CONSERVATION ACQUISITION AGREEMENTS**

A. William and Gaye Lowery, to provide an Acquisition Agreement for approximately 4 acres of habitat protection priority land on property located at 2344 W. La Cresta Rd., Tax Parcel No. 225-04-004C, 2004 Bond Fund, contract amount $373,600.00 including closing costs. On motion, the Conservation Acquisition Commission voted 5-4 (Commissioners Shattuck, Prouty, Johnson and Marshall voted NAY, Commissioner Marion abstained and Commissioner Pettis was absent) to recommend **APPROVAL**. Staff recommends **DENIAL**. (22-05-L-139063-0107) Natural Resources, Parks and Recreation

B. Linda Vista/Patrick 9.11 Acres Partnership, to provide an Acquisition Agreement for approximately 9.11 acres of habitat protection priority land on property located at the northwest corner of the intersection of W. Linda Vista Blvd. and N. Saint Patrick Rd., Tax Parcel No. 216-30-0200, 2004 Bond Fund, contract amount $460,200.00 including closing costs. On motion, the Conservation Acquisition Commission voted 5-4 (Commissioners Johnson, Shattuck, Sheridan and Marshall voted NAY, Commissioner Arnold abstained and Commissioner Pettis was absent) to recommend **APPROVAL**. Staff recommends **APPROVAL**. (22-05-L-139064-0107) Natural Resources, Parks and Recreation

NOTES/ACTION

C. Quest Land Group, L.L.C., to provide an Acquisition Agreement for approximately 13,243 acres of habitat protection priority land on property located at Camino del Aurora near the intersection of Overton Rd. and La Cholla Blvd., Tax Parcel No. 225-04-002A, 2004 Bond Fund, contract amount $1,349,500.00 including closing costs. On November 9, 2006, the Conservation Acquisition Committee voted 6-0 (Commissioners Corey, Johnson, Marshall and Pettis were absent) to recommend **APPROVAL**. On December 14, 2006, the Conservation Acquisition Committee voted 3-5, to reconsider the action of November 9, 2006, motion failed (Commissioners Roe, Corey, Hare, Sheridan and Wilson voted Nay, Commissioner Pettis was absent, and Commissioners Marion and Marshall abstained). Staff recommends **DENIAL**. (22-05-Q-139038-0107) Natural Resources, Parks and Recreation

D. Phil and Sheva J. Chess, to provide an Acquisition Agreement for approximately 37.29 acres of habitat protection priority land on property adjacent to the Cienega Creek Natural Preserve, Tax Parcel Nos. 305-16-002A and 305-16-002B, 2004 Bond Fund, contract amount $136,000.00 including closing costs. On motion, the Conservation Acquisition Commission voted 11-0 to recommend **APPROVAL**. Staff recommends **APPROVAL**. (22-05-C-139087-0107) Natural Resources, Parks and Recreation

E. E. Janet Greenwood Reid, to provide an Acquisition Agreement for approximately 3.38 acres in fee and a 4 acre Conservation Easement on habitat protection priority land on property located at the northeast corner of the intersection of W. Linda Vista Blvd., and N. Quail Lane, Tax Parcel No. 216-30-019B. 1997 Bond Fund, contract amount $329,700.00 including closing cost. On motion, the Conservation Acquisition Commission voted 8-1 (Commissioner Pettis was absent, Commissioner Shattuck voted NAY,

Commissioner Johnson abstained) to recommend **APPROVAL**. Staff recommends **APPROVAL**. (22-05-R-139101-0107) Natural Resources, Parks and Recreation

10. **INDUSTRIAL DEVELOPMENT AUTHORITY**

RESOLUTION NO. 2007 - **13**, of the Board of Supervisors of Pima County, Arizona, approving the proceedings of the Industrial Development Authority of the County of Pima, regarding the issuance of its not to exceed $8,000,000.00 Education Revenue Refunding Bonds (Tucson Country Day School Project), Series 2007 and declaring an emergency.

PUBLIC WORKS

DEVELOPMENT SERVICES

11. FINAL PLAT WITH ASSURANCES

P1205-120, Estates at Old Spanish Trail Re-Plat, Lots 1-56 and Common Areas A and B. (District 4)

12. NATURAL RESOURCES, PARKS AND RECREATION

RESOLUTION NO. 2007 - **14**, of the Board of Supervisors of Pima County, approving an application for Local, Regional and State Parks Heritage Funds in the amount of $708,855.00 for the Dan Felix Memorial Park Improvements and matching 2004 Bond Funds in the amount of $708,856.00.

WASTEWATER MANAGEMENT

13. REGIONAL OPTIMIZATION MASTER PLAN

Staff requests authorization to submit Regional Optimization Master Plan to the Arizona Department of Environmental Quality to fulfill our initial obligation to present a program for achieving mandated treatment processes at our wastewater treatment facilities.

* * * HEARINGS * * *

FRANCHISE/LICENSE/PERMIT

LIQUOR LICENSE

14. 06-59-8882, Michael James Hanson, Soleil, 3001 E. Skyline Drive, Tucson, Series 12, Restaurant License, New License.

PUBLIC WORKS

DEVELOPMENT SERVICES

REZONINGS

15. Co9-05-30, STEWART TITLE AND TRUST NO. 1580 - KINNEY ROAD REZONING
Request of Stewart Title and Trust No. 1580, represented by MMLA Psomas, for a rezoning of approximately 143 acres from GR-1 and 3.1 acres from GR-1 (Buffer Overlay Zone) to CR-4 (approximately 143 acres) and approximately 3.1 acres to CR-4 (Buffer Overlay Zone) on property located on the north side of Irvington Road and the east and west sides of Kinney Road. The proposed rezoning conforms to the Pima County Comprehensive Plan, Co7-00-20. On motion, the Planning and Zoning Commission voted 5-2 (Commissioners Smith and Membrila voted **NAY**, Commissioner Spediarian abstained and Commissioner Gungle was absent) to recommend **DENIAL**. Staff recommends **DENIAL**. (District 3)

*(**CLERK'S NOTE**: Regular Agenda Item Nos. 16 and 17 should be considered together.)

*16. Co9-06-27, PBH II, L.L.C. - VALENCIA ROAD REZONING
Request of PBH II, L.L.C., represented by Michael Owen of American Pacific Engineering, L.L.C., for a rezoning of approximately .9 acres from GR-1 (Rural Residential) to CB-2 (General Business), on property located on the southeast corner of Valencia Road and Camino de la Tierra. The

proposed rezoning conforms to the Pima County Comprehensive Plan Co7-00-20. On motion, the Planning and Zoning Commission voted 8-0, (Commissioner Gungle was absent) to recommend **APPROVAL WITH CONDITIONS**. Staff recommends **DENIAL**. (District 5)

MODIFICATION OF REZONING CONDITIONS (SUBSTANTIAL CHANGE)

*17. Co9-00-30, ARAVAIPA PROPERTIES, L.L.C. - VALENCIA ROAD REZONING
Request of PBH II L.L.C., represented by Michael Owen of American Pacific Engineering, L.L.C., for a modification (substantial change) of rezoning condition nos. 11 and 12 for the above referenced rezoning from GR-1 (Rural Residential) to CB-1 (Local Business) for 3.0 acres and to CB-2 (General Business) for 12.0 acres. The subject site was granted a five-year time extension on March 21, 2006. The site is located on the south side of Valencia Road, approximately 1/4 mile west of Cardinal Avenue. The proposed request conforms to the Pima County Comprehensive Plan, Co7-00-20. On motion, the Planning and Zoning Commission voted 8-0 (Commissioner Gungle was absent) to recommend **APPROVAL WITH CONDITIONS**. Staff recommends **DENIAL**. (District 5)

18. Co9-83-121, PIONEER NATIONAL NO. 11504 - CAMINO DE LA TIERRA REZONING
Request of Steve Laszlo, David Thomas and Aida Thomas, for a modification (substantial change) of rezoning condition no. 14 which reads, "Use restricted to day care center only." The applicant proposes to modify the use to condominiums. The subject property is approximately 1.4 acres, was rezoned from CR-4 (Mixed Dwelling Type) to TR (Transitional), and is located on the west side of Camino de la Tierra approximately 1/2 mile south of Valencia Road. On motion, the Planning and Zoning Commission voted 8-0 (Commissioner Gungle

was absent) to recommend **APPROVAL WITH CONDITIONS.** Staff recommends **APPROVAL WITH CONDITIONS.** (District 5)

ZONING CODE TEXT AMENDMENT

*(**CLERK'S NOTE**: Regular Agenda Item Nos. 19 and 20 should be considered together.)

*19. Co8-05-08, TRANSFER OF DEVELOPMENT RIGHTS (TDR)
An ordinance of the Board of Supervisors of Pima County, Arizona; relating to zoning; enacted pursuant to A.R.S §11-821.03, adding Chapter 18.92 - Transfer of Development Rights, to add procedures permitting the Transfer of Development Rights from designated sending areas to designated receiving areas, and to add maps showing the designated sending and receiving areas. On motion, the Planning and Zoning Commission voted 6-1 (Commissioner Membrila voted **NAY**; Commissioner Hirsch abstained, and Commissioner Gungle was absent) to recommend **APPROVAL WITH REVISIONS.** Staff recommends **APPROVAL WITH REVISIONS.** (All Districts)

If approved, pass and adopt:

ORDINANCE NO. 2007 - 7 .

COMPREHENSIVE PLAN AMENDMENT

*20. Co7-06-04, PIMA COUNTY - TRANSFER OF DEVELOPMENT RIGHTS REGIONAL COMPREHENSIVE PLAN POLICY PLAN AMENDMENT
Request of Pima County, to amend the Pima County Comprehensive Plan Regional, Rezoning, and Special Area Policies to add a regional policy addressing the Transfer of Development Rights (TDR) and to add development standards to the Land Use Intensity Legend for developments utilizing transferred development rights. Transfer of Development Rights is a process by which development rights from one or more sending properties are affixed to one or more receiving properties. On motion, the Planning and Zoning

NOTES/ACTION

Commission voted 6-2 (Commissioners Hirsch and Membrila voted **NAY;** Commissioner Gungle was absent) to recommend **APPROVAL.** Staff recommends **APPROVAL.** (All Districts)

21. **CALL TO THE PUBLIC**

22. **ADJOURNMENT**

POSTED: Levels A & B, 1st and 5th Floors, Pima County Administration Building.

DATE POSTED: 01/9/07

TIME POSTED: 5:00 P.M.

NOTES/ACTION

CONSENT CALENDAR, JANUARY 16, 2007

1. **CONTRACTS AND AWARDS**

A. **COMMUNITY DEVELOPMENT AND NEIGHBORHOOD CONSERVATION**

1. RESOLUTION NO. 2007 - **12**, approving an Intergovernmental Agreement with the Three Points Fire District, to provide for the purchase and installation of five fire hydrants in the Three Points Area, CDBG Fund, contract amount not to exceed $30,000.00 (01-70-T-139089-1006)

B. **COUNTY ATTORNEY**

2. Oversight Council of Driving, to provide for support staff overtime costs associated with the processing of DUI misdemeanor and felony cases, State Grant Fund, contract amount $10,080.00 revenue (02-02-O-139100-0107)

C. **PIMA HEALTH SYSTEM**

3. AccentCare At Home, Inc., d.b.a. AccentCare, Amendment No. 4, to provide homecare services and amend contractual language, PHCS Enterprise Fund, contract amount $500,000.00 (11-15-A-134438-0704)

4. Kindred Nursing Centers West, L.L.C., d.b.a. Villa Campana Health Care Center, Amendment No. 4, to provide nursing facility services and amend contractual language, PHCS Enterprise Fund, no cost (18-15-K-137034-1005)

5. Kindred Nursing Centers West, L.L.C., d.b.a. Desert Life Rehabilitation and Care Center, Amendment No. 4, to provide nursing facility services and amend

contractual language, PHCS Enterprise Fund, no cost (18-15-K-137036-1005)

D. **PROCUREMENT**

6. Siemens Communication, Inc., Amendment No. 2, to provide for the Siemens telephone system, products and maintenance support services, extend contract term to 4/16/08 and amend contractual language, Various Department Funds, contract amount $200,000.00 (11-14-S-137967-0406) Information Technology

7. Statistical Research, Inc., Amendment No. 2, to provide Pima County Justice Court/Tucson City Court Complex archaeological data recovery and amend contractual language, 2004 Bond Fund, contract amount $2,728,621.72 (07-73-S-138479-0806) Public Works, Cultural Resources and Historic Preservation

8. Greeley and Hansen, Amendment No. 1, to provide for the Pima County Metropolitan Wastewater Treatment System Capacity Management, Nutrient Removal, Solids Handling/Treatment and CIP Development Study and amend contractual language, Wastewater Management Enterprise Fund, no cost (16-03-G-137854-0206) Wastewater Management

Award

9. Award of Direct-Select Contract, Requisition No. 0702018, in an amount not to exceed $460,000.00 to RS Engineering, Inc. (Headquarters: Tucson, AZ) to complete engineering services for the Tanque Verde Road: Catalina Highway to Houghton Road Project. Because RS Engineering previously prepared design for 75% for this project, the County would lose a significant portion of the

investment made in that design and incur unnecessary delays if a new firm were contracted to complete the project. Therefore, it was determined under the provisions of Board Policy D29.1(B) and (D) and A.R.S. §34-103, that it would be of significant benefit to Pima County to direct-select RS Engineering to complete the work. Funding Source: 1997 HURF Bond and RTA Tax Revenue Funds. Administering Department: Transportation.

E. **SHERIFF**

10. Yuma County Sheriff's Office, Amendment No. 4, to provide for participation in the H.I.D.T.A. XIII Program and extend contract term to 6/30/07, no cost (01-11-Y-132422-1002)

11. Maricopa County Sheriff's Office, Amendment No. 1, to provide overtime costs incurred during clandestine methamphetamine lab cases and extend contract term to 6/30/07, no cost (01-11-M-136045-0305)

12. Nogales Police Department, Amendment No. 1, to provide for participation in the H.I.D.T.A. XV Program and extend contract term to 6/30/07, no cost (01-11-N-136313-1004)

F. **WASTEWATER MANAGEMENT**

13. S.R.S.A., L.L.C., Amendment No. 2, to provide a sewer facilities development agreement for construction of sewage treatment facility improvements at the Corona de Tucson Wastewater Treatment Facility and amend scope of work, Wastewater System Development Fund, contract amount $3,000,000.00 (14-03-S-134690-0704)

NOTES/ACTION

WASTEWATER MANAGEMENT

2. **PUBLIC ANNOUNCEMENT**

Pursuant to A.R.S. §49-391(C), a public comment period of 30 days must occur before any Pretreatment Consent Decree or Negotiated Settlement Agreement is made final. The Public Information Enforcement File for the following case will be made available for public review or copies may be obtained for $.35 per page at the Public Works Building, Pima County Wastewater Department's reception desk, 201 North Stone, 8th Floor, Tucson, Arizona, 85701. Comments will be taken for the next thirty days and written comments may be sent to Industrial Wastewater Control, 5025 W. Ina Road, Tucson, Arizona, 85743. If sufficient interest is expressed, a public hearing may be held by the Board of Supervisors. After the comment period, the Board of Supervisors will vote on acceptance of the following Settlement Agreements:

Emad Alwer, d.b.a. Mediterranean Garden, No. 2006-27. Proposed settlement amount is $1,321.81.

3. **RATIFY AND/OR APPROVE**

Minutes: November 21, 2006
December 5, 2006

NOTES/ACTION

ADDENDUM, BOARD OF SUPERVISORS' MEETING

BOARD OF SUPERVISORS' HEARING ROOM

130 W. CONGRESS, 1ST FLOOR

JANUARY 16, 2007 9:00 A.M.

BOARD OF SUPERVISORS SITTING IN REGULAR SESSION

1. **BOARD OF SUPERVISORS**

Assignment of Sidewinders Charity Game

Assignment of the June 12, 2007, Sidewinders Charity Baseball Game, proceeds to benefit the Tucson Conquistadors. (District 1)

2. **COUNTY ADMINISTRATOR**

*(**CLERK'S NOTE**: This item should be heard in conjunction with Regular Agenda Item No. 6)

*A. Rosemont Mine

RESOLUTION NO. 2007 - **15**, of the Pima County Board of Supervisors opposing the proposed Rosemont Mine.

B. Non-Profit Land Lease within the Master Plan for the Brandi Fenton Memorial Park

Staff requests approval of the concept of locating Native Seeds/SEARCH at the Brandi Fenton Memorial Park and direction to staff to develop a long-term, non-profit real property lease between Pima County and Native Seeds/SEARCH with the understanding that the headquarters and gift shop will be

constructed on the leased property within a reasonable time.

3. **BOARDS, COMMISSIONS AND COMMITTEES**

A. Pima County Bond Advisory Committee

Appointment of Ted Prezelski. Term expiration: 1/31/13. (District 5)

B. Corrections Officer Retirement Board

Reappointment of Leo Duffner, Citizen. Term expiration: 12/31/11. (Committee recommendation)

C. Public Safety Retirement Board

Reappointment of Sgt. Paul Leonardi, Elected Representative. Term expiration: 12/31/11. (Committee recommendation)

*(**CLERK'S NOTE**: These items to should be heard after 10:45 a.m., after the final bid openings.)

4. **FINANCE AND RISK MANAGEMENT**

*A. RESOLUTION NO. 2007 - **16**, providing for the issuance and sale of $21,000,000.00 principal amount of Pima County, Arizona, Street and Highway Revenue Bonds; Series 2007; providing for the payment of the bonds; providing terms, covenants and conditions concerning the bonds; accepting a bid for the purchase of the bonds; appointing an initial registrar and paying agent for the bonds; and declaring an emergency.

*B. RESOLUTION NO. 2007 - **17**, providing for the issuance and sale of $50,000,000.00 aggregate principal amount of Pima County, Arizona, Sewer Revenue Bonds, Series 2007; providing for the payment of the bonds;

providing terms, covenants and conditions concerning the bonds; accepting a bid for the purchase of the bonds; authorizing and directing the execution and delivery of documents and further actions relating to the issuance of the bonds; appointing an initial registrar and paying agent for the bonds; and declaring an emergency.

*C. RESOLUTION NO. 2007 - **18**, providing for the issuance and sale of $95,000,000.00 principal amount of Pima County, Arizona, General Obligation Bonds, Series 2007; providing for the annual levy of a tax for the payment of the bonds; providing terms, covenants and conditions concerning the bonds; accepting a bid for the purchase of the bonds; appointing an initial registrar and paying agent for the bonds; and declaring an emergency.

* * *

D. RESOLUTION NO. 2007 - **19**, of the Board of Supervisors of Pima County, Arizona, relating to the acquisition, construction, improvement and equipping certain real and personal property of the County and the lease-purchase financing of such property; authorizing the execution and delivery of ground leases, lease-purchase agreements and trust agreements or amendments thereto and other necessary agreements, instruments and documents; approving the execution and delivery of certificates of participation to provide the necessary financing, therefore; authorizing other actions and matters in connection therewith; and declaring an emergency.

NOTES/ACTION

PUBLIC WORKS

5. DEVELOPMENT SERVICES

Final Plat with Assurances

P1205-135, Riverside Crossing III, Lots 1-122, Blocks 1-4 and Common Areas A, B, C and D. (District 1)

6. REAL PROPERTY

License for Right-of-Way Encroachment Amendment

License Amendment to current License Agreement for Right-of-Way Encroachment with the Tucson Jewish Community Center, a.k.a. Tucson Jewish Community Council, Inc., to add two signs in the roundabout traffic circles on Dodge Boulevard to identify the entrance to the Tucson Jewish Community Center. (District 1)

7. WASTEWATER MANAGEMENT

Contracts

A. Sun-Western Contractors for Industry, Inc., Amendment No. 3, to provide a job order contract for the Wastewater Plant Construction Services and extend contract term to 1/31/08, Wastewater Management Enterprise Fund, contract amount $2,500,000.00 (26-03-S-137599-0106)

B. Quest Civil Constructors, Inc., Amendment No. 2, to provide a job order contract for the Wastewater Plant Construction Services and extend contract term to 1/31/08, Wastewater Management Enterprise Fund, contract amount $2,500,000.00 (26-03-Q-137603-0106)

NOTES/ACTION

* * * HEARINGS * * *

PUBLIC WORKS - DEVELOPMENT SERVICES

UNFINISHED BUSINESS
(RM 1/9/07)

PLAT NOTE MODIFICATION

8. Co12-81-57, CANYON RANCH CASITAS UNITS 1 THRU 56, COMMON AREA A AND COMMON AREA B SUBDIVISION PLAT - PLAT NOTE MODIFICATION (LOT 31 AND COMMON AREA A) BK. 34 PG. 91
Request of Merle Pinkwater Cahan Trust and Canyon Ranch Casitas Homeowners Association, represented by Psomas, for a plat note modification to allow an approximate 317 square foot portion of Common Area A (common property) between Lots 31 and 30, to be removed as common area and be incorporated into Lot 31 which is under private ownership. Lot 31 is approximately 2,720 square feet, zoned CR-5 and is located on the west side of Flower Hill Drive, off of North Elm Ridge Circle, approximately 150 feet northwest of North Canyon Ranch Drive and 1/3 mile south of East Rockcliff Road. Staff recommends **APPROVAL WITH A CONDITION.** (District 1)

UNFINISHED BUSINESS
(RM 1/9/07)

9. **REZONING ORDINANCE - Unadvertised Hearing**

ORDINANCE NO. 2007 - 4 , Co9-05-17, Magee Road Partnership - Magee Road Rezoning. Owner: Ducati Development Group, L.L.C. (District 1)

POSTED: Levels A & B, 1st and 5th Floors, Pima County Administration Building.

DATE POSTED: 01/11/07

TIME POSTED: 12:00 Noon

TAX COMPLIANCE CERTIFICATE
OF ISSUER

Pertaining to

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS, SERIES 2007

Dated as of January 25, 2007

Pima County, Arizona (the "Issuer"), by its officer signing this Certificate, certifies, represents, and covenants as follows with respect to the captioned bonds (the "Issue") being issued pursuant to the provisions of Resolutions adopted by the Board of Supervisors of the Issuer on June 18, 1991, as amended, and January 16, 2007 (collectively, the "Resolution"). All statements in this Certificate are of facts or, as to events to occur in the future, reasonable expectations.

I. DEFINITIONS

1.10. Attachment A. The definitions and cross-references set forth in Attachment A apply to this Certificate and its Attachments. All capitalized terms relating to a particular issue, such as Sale Proceeds, relate to the Issue, unless indicated otherwise. (For example, "Sale Proceeds" refers to Sale Proceeds of the Issue, unless indicated otherwise.)

1.20. Special Definitions. In addition, the following definitions apply to this Certificate and its Attachments:

"Bond Fund" means the portions of the Issuer's Bond Fund established by the Resolution that are properly allocable to the Issue.

"Bond Insurance" means the policy of municipal bond insurance pertaining to the Issue issued by the Bond Insurer.

"Bond Insurer" means Financial Security Assurance Inc.

"Instructions" means the Rebate Instructions attached hereto as Attachment A-1.

"Project" means the costs incurred by the Issuer in connection with the acquisition, constructing and equipping of extensions and improvements to the County's sewer system (the "System"), Arizona, pursuant to the authorization granted by the qualified electors of the Issuer voting at bond elections held on May 20, 1997 and May 18, 2004, and includes interest on the Issue for up to three years from the Issuance Date or, if later, one year after the date the Project is placed in service, all of which are governmental purposes for purposes of the Code.

"Reserve Fund" means the Reserve Fund created in the Resolution and held by the Issuer.

"Reserve Fund Guaranty" means the surety bond or insurance policy held by the Paying Agent for the account of the Reserve Fund meeting the requirements of the Resolution.

"Underwriter" means Merrill Lynch & Co.

1.30. References. Reference to a Section means a section of the Code. Reference by number only (for example, "2.10") means that numbered paragraph of this Certificate. Reference to an Attachment means an attachment to this Certificate.

II. ISSUE DATA

2.10. Issuer. The Issuer is a Governmental Unit.

2.20. Purpose of Issue. The Issue is being issued to provide funds to (A) pay costs of the Project, (B) purchase a Reserve Fund Guaranty, and (C) pay Issuance Costs.

2.30. Dates. The Sale Date is January 16, 2007 and the Issuance Date is January 25, 2007. The final maturity date of the Issue is July 1, 2026.

2.40. Issue Price. The Issue Price is described in Attachment B and is computed as follows:

Par amount	$50,000,000.00
Net original issue premium (discount)	442,843.60
Pre-Issuance Accrued Interest	141,275.83
Issue Price	$50,584,119.43

2.50. Sale Proceeds, Net Proceeds and Net Sale Proceeds. The Sale Proceeds, Net Proceeds and Net Sale Proceeds are as follows:

Issue Price	$50,584,119.43
Pre-Issuance Accrued Interest	(141,275.83)
Sale Proceeds	$50,442,843.60
Deposit to Reserve Fund	(-0-)
Net Proceeds	$50,442,843.60
Minor Portion	(100,000.00)
Net Sale Proceeds	50,342,843.60

2.60. Disposition of Sale Proceeds and Pre-Issuance Accrued Interest. Pre-Issuance Accrued Interest will be deposited in the Bond Fund. The Sale Proceeds will be applied as follows:

To pay costs of the Project and Issuance Costs	$50,105,912.35
To purchase Reserve Fund Guaranty	10,937.50
To pay Underwriter's Discount[1]	325,993.75
Deposit to Bond Fund	141,275.83
Total Sale Proceeds	$50,584,119.43

2.70. Higher Yielding Investments. Gross Proceeds will not be invested in Higher Yielding Investments except for (A) those Gross Proceeds identified in 3.10, 3.20, and 3.30, but only during the applicable Temporary Periods there described for those Gross Proceeds, and (B) the Minor Portion to the extent provided in 3.70.

2.80. Single Issue. All of the obligations of the Issue were sold on the Sale Date pursuant to the same plan of financing and are expected to be paid from substantially the same source of funds. Accordingly, all of the obligations of the Issue constitute a single "issue" for federal income tax purposes. No obligations, other than those comprising the Issue, have been or will be sold less than 15 days before or after the Sale Date that are expected to be paid from substantially the same source of funds as the Issue. Whether obligations are expected to be paid from substantially the same source of funds is determined without regard to guarantees from a person who is not a Related Party to the Issuer. Accordingly, no obligations other than those comprising the Issue are a part of a single issue with the Issue.

III. ARBITRAGE (NONREBATE) MATTERS

3.10. Use of Sale Proceeds and Pre-Issuance Accrued Interest; Temporary Periods; Transferred Proceeds.

(A) Pre-Issuance Accrued Interest and Premium. The aggregate amount received as Pre-Issuance Accrued Interest will be deposited in the Bond Fund and, together with the investment earnings thereon, will be used to pay Debt Service within one year from the Issuance Date, such period being the Temporary Period for those amounts.

(B) Underwriter's Discount and Bond Insurance. Sale Proceeds in the amount of $325,993.75 will be retained by the Underwriter from the Issue Price otherwise paid to the Issuer to purchase the Issue as compensation for its services in marketing the Issue to the public. The Underwriter will use a portion of such Sale Proceeds in the amount of $142,400.00 on the Issuance Date to pay the premium for the Bond Insurance, which constitutes a Qualified Guarantee. See 5.20 and Attachments B and C.

[1] Includes the $142,400.00 paid by the Underwriter to the Bond Insurer for the premium on the Bond Insurance.

(C) Payment of Issuance Costs and Project Costs.

(1) Sale Proceeds of the Issue in the amount of $50,116,849.85 will be used to pay Issuance Costs and a portion of the costs of the Project. Sale Proceeds in the amount of $154,937.50 will be used to pay Issuance Costs, including the premium on the below-described 2007 Reserve Fund Guaranty, within 13 months from the Issuance Date, such period being the Temporary Period for that amount. The remainder of $49,961,912.35 will be used for costs of the Project and may be used to acquire or hold Higher Yielding Investments for a period ending on the third anniversary of the Issuance Date (such period being the Temporary Period for such amount) because the following three tests are reasonably expected to be satisfied:

(a) At least 85% of the Net Sale Proceeds of the Issue will be allocated to expenditures on the Project by the end of the Temporary Period for such Net Sale Proceeds;

(b) Within 6 months of the Issuance Date, the Issuer will incur substantial binding obligations to one or more third parties to expend at least 5% of the Net Sale Proceeds on the Project; and

(c) Completion of the Project and the allocation of the Net Sale Proceeds to expenditures with respect to the Project will proceed with due diligence.

Any Sale Proceeds that remain unspent on the third anniversary of the Issuance Date, which is the expiration date of the Temporary Period for such Proceeds, shall not be invested in Higher Yielding Investments with respect to the Issue after that date except as part of the Minor Portion. In complying with the foregoing sentence, the Issuer may take into account "yield reduction payments" (within the meaning of Regulations §1.148-5(c)) timely paid to the United States.

(2) A Reimbursement Allocation is hereby made on this date in the financial records of the Issuer kept with respect to the Issue showing that $4,467,410.88 of the Sale Proceeds have been returned to the fund or account of the Issuer from which such amount was originally and temporarily advanced to finance Capital Expenditures comprising a portion of the Project paid before this date. Except for Capital Expenditures that constitute Preliminary Expenditures, (A) none of the Capital Expenditures were paid more than 60 days prior to the date on which the Issuer adopted or made a declaration of official intent with respect to such Capital Expenditure that satisfies Regulations §1.150-2(e) (copies attached as Attachment D), and (B) no Reimbursement Allocation has been made more than (i) 18 months after the later of the date the Capital Expenditures relating to such Reimbursement Allocation were paid or the date on which the property resulting from such Capital Expenditures and comprising part of the Project was Placed in Service or (ii) three years from the date the Capital Expenditures were paid.

3.20. Reserve Fund. Sale proceeds in the amount of $10,937.50 will not be invested but will be immediately paid to the Bond Insurer for delivery of a Debt Service Reserve Insurance Policy (the "2007 Reserve Fund Guaranty"). The Reserve Fund is a common reserve fund for all Parity Bonds, including the Issue. The Reserve Fund is to be funded with Net

Revenues and/or Reserve Fund Guaranties and maintained at the Reserve Fund Requirement, which means the lesser of (A) average annual debt service on all Parity Bonds or (B) the maximum amount permitted under Section 148 of the Code. At no time will the aggregate amounts held in the Reserve Fund that are invested in Higher Yielding Investments exceed the least of (i) 10% of the stated amount of the Parity Bonds ($18,589,223.00), (ii) maximum annual debt service on all Parity Bonds ($20,983,716.00), and (iii) 125% of average annual debt service on all Parity Bonds ($15,176,936.25). Any amounts in the Reserve Fund in excess of the least of these amounts will not be invested in Higher Yielding Investments with the respect to the Issue. The establishment and funding of the Reserve Fund to the Reserve Requirement was reasonably required by the Bond Insurer in order to obtain the Bond Insurance. See Attachment C. The Bond Insurance was a vital and necessary factor in marketing the Issue to the public. See Attachment B.

3.30. Investment Proceeds. Any Investment Proceeds will be used to pay costs of the Project and may be invested in Higher Yielding Investments during the Temporary Period identified in 3.10(C) or, if longer, during the one year period from the date of receipt, such period being the Temporary Period for such Proceeds.

3.40. Bond Fund. Amounts deposited from time to time in the Bond Fund, which is a Bona Fide Debt Service Fund, will be used to pay Debt Service within 13 months after the amounts are so deposited, such period being the Temporary Period for such amounts.

3.50. No Other Replacement Fund or Assured Available Funds. The Issuer has not established and does not expect to establish or use any sinking fund, debt service fund, redemption fund, reserve or replacement fund, or similar fund, or any other fund to pay Debt Service other than the Bond Fund and the Reserve Fund. Except for money referred to in 3.20 and 3.30 and Proceeds of a Refunding Issue, if any, no other money or Investment Property is or will be pledged as collateral or used for the payment of Debt Service (or for the reimbursement of any others who may provide money to pay that Debt Service), or is or will be restricted, dedicated, encumbered, or set aside in any way as to afford the holders of the Issue reasonable assurance of the availability of such money or Investment Property to pay Debt Service.

3.60. No Overissuance. The Proceeds are not reasonably expected to exceed the amount needed for the governmental purposes of the Issue as set forth in 2.20.

3.70. Other Uses of Proceeds Negated. Except as stated otherwise in this Certificate, none of the Proceeds will be used:

(A) to pay principal of or interest on, refund, renew, roll over, retire, or replace any other obligations issued by or on behalf of the Issuer or any other Governmental Unit,

(B) to replace any Proceeds of another issue that were not expended on the project for which such other issue was issued,

(C) to replace any money that was or will be used directly or indirectly to acquire Higher Yielding Investments,

(D) to make a loan to any person or other Governmental Unit,

(E) to pay any Working Capital Expenditures other than expenditures identified in Regulations §1.148 6(d)(3)(ii)(A) and (B) (i.e., Issuance Costs, Qualified Administrative Costs, reasonable charges for a Qualified Guarantee or for a Qualified Hedge, interest on the Issue for a period commencing on the Issuance Date and ending on the date that is the later of three years from such Issuance Date or one year after the date on which the project financed or refinanced by the Issue is Placed in Service, payments of the Rebate Amount, and costs, other than those already described, that do not exceed 5% of the Sale Proceeds and that are directly related to Capital Expenditures financed, principal or interest on an issue paid from unexpected excess Sale Proceeds or Investment Proceeds, principal or interest on an issue paid from investment earnings on a reserve or replacement fund that are deposited in a Bona Fide Debt Service Fund and expenditures for extraordinary, nonrecurring items that are not customarily payable from current revenues, such as casualty losses or extraordinary legal judgments in amounts in excess of reasonable insurance coverage), or

(F) to reimburse any expenditures made prior to the Issuance Date that do not satisfy the requirements for a Reimbursement Allocation.

No portion of the Issue is being issued solely for the purpose of investing Proceeds in Higher Yielding Investments.

3.80. Minor Portion. The Minor Portion of $100,000.00 may be invested in Higher Yielding Investments.

3.90. No Other Replacement Proceeds. That portion of the Issue that is to be used to finance Capital Expenditures has a weighted average maturity that does not exceed 120% of the weighted average reasonably expected economic life of the property resulting from such Capital Expenditures.

IV. REBATE MATTERS

4.10. Issuer Obligation Regarding Rebate. In accordance with its covenants contained in the Resolution, the Issuer will calculate and make, or cause to be calculated and made, payments of the Rebate Amount in the amounts and at the times and in the manner provided in Section 148(f) and the Instructions with respect to Gross Proceeds to the extent not exempted under Section 148(f)(4) and the Instructions.

4.20. No Avoidance of Rebate Amount. No amounts that are required to be paid to the United States will be used to make any payment to a party other than the United States through a transaction or a series of transactions that reduces the amount earned on any Investment Property or that results in a smaller profit or a larger loss on any Investment Property than would have resulted in an arm's length transaction in which the Yield on the Issue was not relevant to either party to the transaction.

4.30. Exceptions.

(A) Notwithstanding the foregoing, the computations and payments of amounts to the United States referred to in IV. need not be made to the extent that such failure

will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Issue, based on an Opinion of Bond Counsel.

(B) The Issue is a Construction Issue. The Issuer hereby elects to apply the 2-year spending exception to the rebate requirement on the basis of actual facts instead of the Issuer's reasonable expectations.

V. OTHER TAX MATTERS

5.10. Not Private Activity Bonds or Pool Bonds. No obligation of the Issue will be a Private Activity Bond or a pooled financing bond (within the meaning of Section 149(f)), based on the following:

(A) Not more than 5% of the Proceeds, if any, directly or indirectly, will be used for a Private Business Use and not more than 5%, if any, of the Debt Service, directly or indirectly, will be derived from or secured by Private Security or Payments.

(B) Less than 5% or $5,000,000, whichever is less, of the Proceeds, if any, will be used to make or finance loans to any Private Person or Governmental Unit other than the Issuer.

(C) The lesser of the Proceeds that are being or will be used for any Private Business Use or the Proceeds with respect to which there are Private Security or Payments does not exceed $15,000,000 and none of the Proceeds will be used with respect to an "output facility" (other than a facility for the furnishing of water) within the meaning of Section 141(b)(4).

(D) The Issuer does not intend to sell or otherwise dispose of the Project or any portion thereof during the term of the Issue except for dispositions of property in the normal course at the end of such property's useful life to the Issuer. With respect to tangible personal property, if any, that is part of the Project financed with the Issue, the Issuer reasonably expects that:

(1) Dispositions of such tangible personal property, if any, will be in the ordinary course of an established governmental program;

(2) The weighted average maturity of the bonds of the Issue financing or refinancing such property (treating the bonds of the Issue properly allocable to such personal property, as a separate issue for this purpose) will not be greater than 120% of the reasonably expected actual use of such property for governmental purposes;

(3) The fair market value of such property on the date of disposition will not be greater than 25% of its cost;

(4) The property will no longer be suitable for its governmental purposes on the date of disposition; and

(5) The amounts received from any disposition of such property are required to, and will be, deposited in the Issuer's General Fund and commingled with substantial tax or other governmental revenues and will be spent on governmental programs within 6 months from the date of such deposit and commingling.

5.20. Qualified Guarantee. Based on the representations of the Underwriter and the Bond Insurer attached hereto as Attachments B and C, respectively, the Bond Insurance is a qualified Guarantee and the premium therefor may be taken into account as additional interest paid on the Issue. The Issuer reasonably expects that the present value of the premium for the Bond Insurance will be less than the present value of the interest savings on the Issue as a result of the Bond Insurance, for which purpose the present value is computed using the Yield (taking into account such premium for Bond Insurance) as the discount rate.

5.30. Issue Not Federally Guaranteed. The Issue is not Federally Guaranteed.

5.40. Not Hedge Bonds. At least 85% of the Spendable Proceeds of the Issue will be used to carry out the governmental purposes of the Issue within three years from the Issuance Date. Not more than 50%, if any, of the Proceeds of the Issue will be invested in Nonpurpose Investments having a substantially guaranteed Yield for four years or more, including but not limited to any investment contract or fixed Yield investment having a maturity of four years or more. The reasonable expectations stated above were not and are not based on and do not take into account (A) any expectations or assumptions as to the occurrence of changes in market interest rates or changes of federal tax law or regulations or rulings thereunder or (B) any prepayments of items other than items that are customarily prepaid.

5.50. Hedge Contracts. The Issuer has not entered into, and does not reasonably expect to enter into, any Hedge with respect to the Issue, or any portion thereof. The Issuer acknowledges that entering into a Hedge with respect to the Issue, or any portion thereof, may change the Yield and that Bond Counsel should be contacted prior to entering into any Hedge with respect to the Issue in order to determine whether payments/receipts pursuant to the Hedge are to be taken into account in computing the Yield on the Issue.

5.60. Internal Revenue Service Information Return. Within the time and on the form prescribed by the Internal Revenue Service under Section 149(e), the Issuer will file with the Internal Revenue Service an Information Return setting forth the required information relating to the Issue. The information reported on that Information Return will be true, correct and complete to the best of the knowledge and belief of the undersigned.

5.70. Responsibility of Officer.

(A) The officer signing this Certificate is one of the officers of the Issuer responsible for issuing the Issue.

(B) In making the representations in this Certificate, the Issuer relies in part on the representations of the Underwriter as set forth in the Underwriter's Certificate attached hereto as Attachment B and the representations of the Bond Insurer in the Bond Insurer's Certificate attached hereto as Attachment C. To the best of the knowledge, information, and belief of the undersigned, all expectations stated in this Certificate and in Attachments B and C

are the expectations of the Issuer and are reasonable, all facts stated are true, and there are no other existing facts, estimates, or circumstances that would or could materially change the statements made in this Certificate or in Attachments B or C. The certifications and representations made in this Certificate and in Attachments B and C are intended to be relied upon as certifications described in Treasury Regulations § 1.148-2(b). The Issuer acknowledges that any change in the facts or expectations from those set forth in this Certificate or in Attachments B or C may result in different requirements or a change in status of the Issue or interest thereon under the Code, and that bond counsel should be contacted if such changes are to occur or have occurred.

[Signature page to follow]

The date of this Certificate is January 25, 2007.

PIMA COUNTY, ARIZONA

By: _____
Thomas Burke
Finance and Risk Management Director

List of Attachments

Attachment A – Definitions for Tax Compliance Certificate

Attachment A-1 – Rebate Instructions

Attachment B – Underwriter's Certificate

Attachment C – Bond Insurer's Certificate

Attachment D – Declarations of Official Intent to Reimburse

Attachment A

Definitions for Tax Compliance Certificate

The following terms, as used in Attachment A and in the Tax Compliance Certificate to which it is attached and in the other Attachments to the Tax Compliance Certificate, have the following meanings unless therein otherwise defined or unless a different meaning is indicated by the context in which the term is used. Capitalized terms used within these definitions that are not defined in Attachment A have the meanings ascribed to them in the Tax Compliance Certificate to which this Attachment A is attached. The word "Issue," in lower case, refers either to the Issue or to another issue of obligations or portion thereof treated as a separate issue for the applicable purposes of Section 148, as the context requires. The word "obligation" or "obligations," in lower case, includes any obligation, whether in the form of bonds, notes, certificates, or any other obligation that is a "bond" within the meaning of Section 150(a)(1). All capitalized terms used in this Certificate include either the singular or the plural. All terms used in this Attachment A or in the Tax Compliance Certificate to which this Attachment A is attached, including terms specifically defined, shall be interpreted in a manner consistent with Sections 103 and 141-150 and the applicable Regulations thereunder except as otherwise specified. All references to Section, unless otherwise noted, refer to the Code.

"Advance Refunding Issue" means any Refunding Issue that is not a Current Refunding Issue.

"Advance Refunding Portion" means that portion of a Multipurpose Issue that constitutes a separate governmental purpose and that would be treated as an Advance Refunding Issue if it had been issued as a separate issue.

"Available Construction Proceeds" means an amount equal to (a) the sum of (i) the Issue Price of an issue, (ii) Investment Proceeds on that Issue Price, (iii) earnings on any reasonably required reserve or replacement fund allocable to the issue not funded from the Issue Price, and (iv) Investment Proceeds and earnings on (ii) and (iii), (b) reduced by the portions, if any, of the Issue Price of the issue (i) attributable to Pre-Issuance Accrued Interest and earnings thereon, (ii) allocable to the underwriter's discount, (iii) used to pay other Issuance Costs of the issue, and (iv) deposited in a reasonably required reserve or replacement fund allocable to the issue. "Available Construction Proceeds" does not include Investment Proceeds or earnings on a reasonably required reserve or replacement fund allocable to the issue for any period after the earlier of (a) the close of the 2-year period that begins on the Issuance Date or (b) the date the construction of the project financed by the issue is substantially completed, provided, however, that such Investment Proceeds or earnings shall be excluded from "Available Construction Proceeds" if the Issuer has timely elected such exclusion. If an issue is a Multipurpose Issue that includes a New Money Portion that is a Construction Issue, this definition shall be applied by substituting "New Money Portion" for "issue" each place the latter term appears. If an issue or the New Money Portion of a Multipurpose Issue, as applicable, is not a Construction Issue, and the Issuer makes the bifurcation election under Regulations §1.148-7(j)(1) and Section 148(f)(4)(C)(v) to treat the issue

or the New Money Portion as two separate issues consisting of the Construction Portion and the Nonconstruction Portion, this definition shall be applied by substituting "Construction Portion" for "issue" each place the latter term appears.

"Bifurcated Issue" means a New Money Issue or the New Money Portion of a Multipurpose Issue that the Issuer, pursuant to Section 148(f)(4)(C)(v) and Regulations §1.148-7(j), has elected in its Tax Compliance Certificate to bifurcate into a Construction Portion, which finances 100% of the Construction Expenditures, and a Nonconstruction Portion.

"Bona Fide Debt Service Fund" means a fund, including a portion of or an account in that fund (or in the case of a fund established for two or more issues, the portion of that fund properly allocable to an issue), or a combination of such funds, accounts or portions that is used primarily to achieve a proper matching of revenues with Debt Service on an issue within each Bond Year and that is depleted at least once each year except for a reasonable carryover amount not to exceed the greater of the earnings thereon for the immediately preceding Bond Year or one-twelfth of the annual Debt Service on the issue for the immediately preceding Bond Year.

"**Bond Counsel's Opinion**" or **"Opinion of Bond Counsel"** means an opinion or opinions of a nationally recognized bond counsel firm whose opinion is given with respect to the Issue when issued, or its successors or other nationally recognized bond counsel appointed by the Issuer.

"Bond Year" means the annual period relevant to the application of Section 148(f) to an issue, except that the first and last Bond Years may be less than 12 months long. The last day of a Bond Year shall be the close of business on the day preceding the anniversary of the Issuance Date of an issue unless the Issuer selects another date on which to end a Bond Year in the manner permitted by the Code.

"Capital Expenditures" means costs of a type that are properly chargeable to a capital account (or would be so chargeable with a proper election) under general federal income tax principles, including capitalized interest computed taking into account the Placed in Service date.

"Code" means the Internal Revenue Code of 1986, the Regulations (whether temporary or final) under that Code or the statutory predecessor of that Code, and any amendments of, or successor provisions to, the foregoing and any official rulings, announcements, notices, procedures and judicial determinations regarding any of the foregoing, all as and to the extent applicable. Unless otherwise indicated, reference to a Section includes any applicable successor section or provision and such applicable Regulations, rulings, announcements, notices, procedures and determinations pertinent to that Section.

"Commingled Fund" means any fund or account of the Issuer that contains both Gross Proceeds of an issue and amounts in excess of $25,000 that are not Gross Proceeds of the issue if the amounts in the fund or account are invested and accounted for collectively, without regard to the source of funds deposited in the fund or account.

"Commingled Investment Proceeds" means Investment Proceeds of an issue (other than Investment Proceeds held in a Refunding Escrow) that are deposited in a Commingled Fund with substantial tax or other revenues from governmental operations of the Issuer and that are reasonably expected to be spent for governmental purposes within 6 months from the date of deposit in the Commingled Fund, using any reasonable accounting assumptions.

"Computational Base" means the amount of Gross Proceeds the Issuer or Conduit Borrower reasonably expects, as of the date a Guaranteed Investment Contract is required, to be deposited in that Guaranteed Investment Contract over its term.

"Computation Date" means each date on which the Rebate Amount for an issue is required to be computed under Regulations §1.148-3(e). In the case of a Fixed Yield Issue, the first Computation Date shall not be later than five years after the Issuance Date of the issue. Subsequent Computation Dates shall be not later than five years after the immediately preceding Computation Date for which an installment payment of the Rebate Amount was paid. In the case of a Variable Yield Issue, the first Computation Date shall be the last day of any Bond Year irrevocably selected by the Issuer ending on or before the fifth anniversary of the Issuance Date of such issue and subsequent Computation Dates shall be the last day of each Bond Year thereafter or each fifth Bond Year thereafter, whichever is irrevocably selected by the Issuer after the first date on which any portion of the Rebate Amount is required to be paid to the United States. The final Computation Date is the date an issue is retired.

"Conduit Borrower" means the obligor on a purpose investment.

"Conduit Financing Issue" means an issue the Proceeds of which are reasonably expected to be used to finance one or more Conduit Loans.

"Conduit Loan" means a purpose investment acquired by the Issuer with Proceeds of a Conduit Financing Issue, thereby effecting a loan to the Conduit Borrower.

"Construction Expenditures" means Capital Expenditures allocable to the cost of real property (including the construction or making of improvements to real property, but excluding acquisitions of interests in land or other existing real property) or constructed personal property within the meaning of Regulations §1.148-7(g).

"Construction Issue" means an issue at least 75% of the Available Construction Proceeds of which are to be used for Construction Expenditures with respect to property that is, or upon completion will be, owned by a Governmental Unit or a 501(c)(3) Organization. If an issue is a Multipurpose Issue that includes a New Money Portion, this definition shall be applied by substituting "New Money Portion" for "Construction Issue" each place the latter term appears. If an election under Section 148(f)(4)(C)(v) and Regulations §1.148-7(j) is made to bifurcate an issue or the New Money Portion of a Multipurpose Issue, this definition shall be applied by substituting "Construction Portion" for "Construction Issue" each place the latter term appears.

"Construction Portion" means that portion of an issue or the New Money Portion of a Multipurpose Issue at least 75% of the Available Construction Proceeds of which are to be used for Construction Expenditures with respect to property that is, or upon completion will be, owned

by a Governmental Unit or a 501(c)(3) Organization and that finances 100% of the Construction Expenditures.

"Controlled Group" means a group of entities controlled directly or indirectly by the same entity or group of entities within the meaning of Regulations §1.150-1(e).

"Current Refunding Issue" means a Refunding Issue that is issued not more than 90 days before the last expenditure of any Proceeds of the Refunding Issue for the payment of Debt Service on the Refunded Bonds.

"Current Refunding Portion" means that portion of a Multipurpose Issue that constitutes a separate governmental purpose and that would be treated as a Current Refunding Issue if it had been issued as a separate issue.

"Debt Service" means principal of and interest and any redemption premium on an issue.

"Excess Gross Proceeds" means all Gross Proceeds of an Advance Refunding Issue that exceed an amount equal to 1% of the Sale Proceeds of such Advance Refunding Issue, other than Gross Proceeds allocable to: (a) payment of Debt Service on the Refunded Bonds; (b) payment of Pre-Issuance Accrued Interest on the Advance Refunding Issue and interest on the Advance Refunding Issue that accrues for a period up to the completion date of any capital project financed by the Prior Issue, plus one year; (c) a reasonably required reserve or replacement fund for the Advance Refunding Issue or Investment Proceeds of such fund; (d) payment of Issuance Costs of the Advance Refunding Issue; (e) payment of administrative costs allocable to repaying the Refunded Bonds, carrying and repaying the Advance Refunding Issue, or investments of the Advance Refunding Issue; (f) Transferred Proceeds allocable to expenditures for the governmental purpose of the Prior Issue (treating for this purpose all unspent Proceeds of the Prior Issue properly allocable to the Refunded Bonds as of the Issuance Date of the Advance Refunding Issue as Transferred Proceeds); (g) interest on purpose investments; (h) Replacement Proceeds in a sinking fund for the Advance Refunding Issue; and (i) fees for a Qualified Guarantee for the Advance Refunding Issue or the Prior Issue. If an Issue is a Multipurpose Issue that includes an Advance Refunding Portion, this definition shall be applied by substituting "Advance Refunding Portion" for "Advance Refunding Issue" each place the latter term appears.

"Federally Guaranteed" means that (a) the payment of Debt Service on an issue, or the payment of principal or interest with respect to any loans made from the Proceeds of the issue, is directly or indirectly guaranteed in whole or in part by the United States or by an agency or instrumentality of the United States, within the meaning of Section 149(b), or (b) more than 5% of the Proceeds of an issue will be invested directly or indirectly in federally insured deposits or accounts. The preceding sentence does not apply to (a) Proceeds invested during an initial Temporary Period until such Proceeds are needed to pay costs of the project, (b) investments of a Bona Fide Debt Service Fund, (c) direct purchases from the United States of obligations issued by the United States Treasury, or (d) other investments permitted by Section 149(b) or Regulations §1.149(b)-1(b).

"501(c)(3) Organization" means an organization described in Section 501(c)(3) and exempt from tax under Section 501(a).

"Fixed Yield Issue" means an issue of obligations the Yield on which is fixed and determinable on the Issuance Date.

"Future Value" means the value of a Payment or Receipt at the end of a period determined using the economic accrual method as the value of that Payment or Receipt when it is paid or received (or treated as paid or received), plus interest assumed to be earned and compounded over the period at a rate equal to the Yield on the applicable issue, using the same compounding interval and financial conventions that were used to compute that Yield.

"Guaranteed Investment Contract" means any Nonpurpose Investment that has specifically negotiated withdrawal or retirement provisions and a specifically negotiated interest rate and any agreement to supply investments on two or more future dates (*e.g.*, a forward supply contract).

"Governmental Unit" means a state, territory or possession of the United States, the District of Columbia, or any political subdivision thereof referred to as a "State or local governmental unit" in Regulations §1.103-1(a). "Governmental Unit" does not include the United States or any agency or instrumentality of the United States.

"Gross Proceeds" means Proceeds and Replacement Proceeds of an issue.

"Hedge" means a contract entered into by the Issuer or the Conduit Borrower primarily to modify the Issuer's or the Conduit Borrower's risk of interest rate changes with respect to an obligation (e.g., an interest rate swap, an interest rate cap, a futures contract, a forward contract or an option).

"Higher Yielding Investments" means any Investment Property that produces a Yield that (a) in the case of Investment Property allocable to Replacement Proceeds of an issue and Investment Property in a Refunding Escrow, is more than one thousandth of one percentage point (.00001) higher than the Yield on the applicable issue, and (b) for all other purposes is more than one-eighth of one percentage point (.00125) higher than the Yield on the issue.

"Investment Proceeds" means any amounts actually or constructively received from investing Proceeds of an issue in Investment Property.

"Investment Property" means investment property within the meaning of Sections 148(b)(2) and 148(b)(3), including any security (within the meaning of Section 165(g)(2)(A) or (B)), any obligation, any annuity contract and any other investment-type property (including certain residential rental property for family units as described in Section 148(b)(2)(E) in the case of any bond other than a Private Activity Bond). Investment Property includes a Tax-Exempt Obligation that is a "specified private activity bond" as defined in Section 57(a)(5)(C), but does not include other Tax-Exempt Obligations.

"Issuance Costs" means costs to the extent incurred in connection with, and allocable to, the issuance of an issue, and includes underwriter's compensation withheld from the Issue Price, counsel fees, financial advisory fees, rating agency fees, trustee fees, paying agent fees, bond registrar, certification and authentication fees, accounting fees, printing costs for bonds and offering documents, public approval process costs, engineering and feasibility study costs, guarantee fees other than for a Qualified Guarantee and similar costs, but does not include fees charged by the Issuer.

"Issuance Date" means the date of physical delivery of an issue by the Issuer in exchange for the purchase price of the issue.

"Issue Price" means in the circumstances applicable to an issue:

(1) Public Offering. In the case of obligations actually offered to the general public in a bona fide public offering at the initial offering price for each maturity set forth in the certificate of the underwriter or placement agent attached to the Tax Compliance Certificate of the Issuer, the aggregate of the initial offering price for each maturity (including any Pre-Issuance Accrued Interest and taking into account any original issue premium and original issue discount), which price is not more than the fair market value thereof as of the Sale Date, and at which initial offering price not less than 10% of the principal amount of each maturity, as of the Sale Date, was sold or reasonably expected to be sold (other than to bond houses, brokers or other intermediaries). In the case of publicly offered obligations that are not described in the preceding sentence, Issue Price means the aggregate of the initial offering price to the public of each maturity set forth in the certificate of the underwriter or placement agent attached to the Tax Compliance Certificate of the Issuer, at which initial offering price not less than 10% of the principal amount of each maturity was sold to the public. Notwithstanding the foregoing, in no event shall the Issue Price of an issue exceed the fair market value of the issue as of the Sale Date thereof.

(2) Private Placement. In the case of obligations sold by private placement, the aggregate of the prices (including any Pre-Issuance Accrued Interest and original issue premium, but excluding any original issue discount) paid to the Issuer by the first purchaser(s) (other than bond houses, brokers or other intermediaries). Notwithstanding the foregoing, in no event shall the Issue Price of an issue exceed the fair market value of the issue as of the Sale Date thereof.

"Minor Portion" means an amount equal to the lesser of $100,000 or 5% of the Sale Proceeds of an issue.

"Multipurpose Issue" means an issue the bonds of which are allocable to two or more separate governmental purposes within the meaning of Regulations §1.148-9(h).

"Net Proceeds" means the Sale Proceeds of an issue less the portion thereof, if any, deposited in a reasonably required reserve or replacement fund for the issue.

"Net Sale Proceeds" means the Sale Proceeds of an issue less (a) the portion thereof, if any, deposited in a reasonably required reserve or replacement fund for the issue and (b) the portion invested as a part of a Minor Portion for the issue.

"New Money Issue" means an issue that is not a Refunding Issue.

"New Money Portion" means that portion of a Multipurpose Issue other than the Refunding Portion.

"Nonconstruction Portion" means that portion of a New Money Issue or of the New Money Portion other than the Construction Portion.

"Nonpurpose Investments" means any Investment Property that is acquired with Gross Proceeds as an investment and not in carrying out any governmental purpose of an issue. "Nonpurpose Investments" does not include any investment that is not regarded as "investment property" or a "nonpurpose investment" for the particular purposes of Section 148 (such as certain investments in U.S. Treasury obligations in the State and Local Government Series and certain temporary investments), but does include any other investment that is a "nonpurpose investment" within the applicable meaning of Section 148.

"Payment" means payments actually or constructively made to acquire Nonpurpose Investments, as specified in Regulations §1.148-3(d)(1)(i) through (v).

"Placed in Service" means the date on which, based on all the facts and circumstances, a facility has reached a degree of completion that would permit its operation at substantially its design level and the facility is, in fact, in operation at such level.

"Pre-Issuance Accrued Interest" means interest on an obligation that accrued for a period not greater than one year before its Issuance Date and that will be paid within one year after such Issuance Date.

"Preliminary Expenditures" means any Capital Expenditures that are "preliminary expenditures" within the meaning of Regulations §1.150-2(f)(2), i.e., architectural, engineering, surveying, soil testing, reimbursement bond issuance, and similar costs that are incurred prior to commencement of acquisition, construction, or rehabilitation of a project other than land acquisition, site preparation, and similar costs incident to commencement of construction. The aggregate amount of Preliminary Expenditures may not exceed 20% of the aggregate Issue Price of the issue or issues that financed or are reasonably expected to finance the project for which such Preliminary Expenditures are or were incurred.

"Prior Issue" means an issue of obligations all or a portion of the Debt Service on which is paid or provided for with Proceeds of a Refunding Issue. The Prior Issue may be a Refunding Issue.

"Private Activity Bond" means (a) obligations of an issue more than 10% of the Proceeds of which, directly or indirectly, are or are to be used for a Private Business Use and more than 10% of the Debt Service on which, directly or indirectly, is or is to be paid from or secured by payments with respect to property, or secured by property, used for a Private Business Use, or (b) obligations of an issue, the Proceeds of which are or are to be used to make or finance loans to any Private Person that, in the aggregate, exceed the lesser of 5% of such Proceeds or $5,000,000. In the event of Unrelated or Disproportionate Use, the tests in (a) shall be applied by substituting 5% for 10% each place the latter term is used.

"Private Business Use" means use (directly or indirectly) in a trade or business carried on by any Private Person other than use as a member of, and on the same basis as, the general public. Any activity carried on by a Private Person (other than a natural person) shall be treated as a trade or business. In the case of a Qualified 501(c)(3) Bond, Private Business Use excludes use by a 501(c)(3) Organization that is not an unrelated trade or business activity by such 501(c)(3) Organization within the meaning of Section 513(a).

"Private Person" means any natural person or any artificial person, including a corporation, partnership, trust or other entity, other than a Governmental Unit. "Private Person" includes the United States and any agency or instrumentality of the United States.

"Private Security or Payments" means (i) any interest in property used or to be used for a Private Business Use, or in payments in respect of such property, that directly or indirectly secures any payment of principal of, or interest on, an issue, or (ii) payments (whether or not to the Issuer) in respect of property, or borrowed money, used or to be used for a Private Business Use from which payments of principal of, or interest on, an issue are directly or indirectly derived, all as determined and measured in accordance with Treasury Regulations Section 1.141-4.

"Proceeds" means any Sale Proceeds, Investment Proceeds, and Transferred Proceeds of an issue. "Proceeds" does not include Replacement Proceeds.

"Qualified Administrative Costs" means the reasonable, direct administrative costs, other than carrying costs, of purchasing or selling Nonpurpose Investments such as separately stated brokerage or selling commissions. Qualified Administrative Costs do not include legal and accounting fees, recordkeeping, custody, and similar costs, general overhead costs and similar indirect costs of the Issuer such as employee salaries and office expenses and costs associated with computing the Rebate Amount. In general, Qualified Administrative Costs are not reasonable unless they are comparable to administrative costs that would be charged for the same investment or a reasonably comparable investment if acquired with a source of funds other than Gross Proceeds of Tax-Exempt Obligations.

"Qualified 501(c)(3) Bonds" means an issue of obligations that satisfies the requirements of Section 145(a).

"Qualified Guarantee" means any guarantee of an obligation that constitutes a "qualified guarantee" within the meaning of Regulations §1.148-4(f).

"Qualified Hedge" means a Hedge that is a "qualified hedge" within the meaning of Regulations §1.148-4(h)(2).

"Reasonable Retainage" means an amount, with respect to an issue, not to exceed 5% of the Net Sale Proceeds of the issue, that is retained for reasonable business purposes relating to the property financed with Proceeds of the issue. For example, Reasonable Retainage may include a retention to ensure or promote compliance with a construction contract in circumstances in which the retained amount is not yet payable, or in which the Issuer reasonably determines that a dispute exists regarding completion or payment.

"Rebate Amount" means the excess of the future value, as of any date, of all receipts on Nonpurpose Investments acquired with Gross Proceeds of an issue over the future value, as of that date, of all payments on those Nonpurpose Investments, computed in accordance with Section 148(f) and Regulations §1.148-3.

"Rebate Analyst" means an independent individual, firm or entity experienced in the computation of the Rebate Amount pursuant to Section 148(f).

"Receipt" means amounts actually or constructively received from Nonpurpose Investments as specified in Regulations §1.148-3(d)(2)(i) through (iii).

"Refunded Bonds" means obligations of a Prior Issue the Debt Service on which is or is to be paid from Proceeds of a Refunding Issue.

"Refunding Bonds" means obligations of a Refunding Issue.

"Refunding Issue" means an issue the Proceeds of which are or are to be used to pay Debt Service on Refunded Bonds and includes Issuance Costs, Pre-Issuance Accrued Interest or permitted capitalized interest, a reasonably required reserve or replacement fund and similar costs of the Refunding Issue.

"Refunding Escrow" means one or more funds established as part of a single transaction, or a series of related transactions, containing Proceeds of a Refunding Issue and any other amounts to be used to pay Debt Service on Refunded Bonds of one or more issues.

"Refunding Portion" means that portion of a Multipurpose Issue the Proceeds of which are, or are to be, used to pay Debt Service on Refunded Bonds and includes Issuance Costs, Pre-Issuance Accrued Interest or permitted capitalized interest, a reasonably required reserve or replacement fund and similar costs properly allocable to the Refunding Portion.

"Regulations" or **"Reg."** means Treasury Regulations.

"Reimbursement Allocation" means an allocation of the Proceeds of an issue for the reimbursement of Capital Expenditures paid prior to the Issuance Date of such issue that: (a) is

evidenced on the books or records of the Issuer maintained with respect to the issue, (b) identifies either actual prior Capital Expenditures, or the fund or account from which the prior Capital Expenditures were paid, (c) evidences the Issuer's use of Proceeds of the issue to reimburse a Capital Expenditure for a governmental purpose that was originally paid from a source other than the Proceeds of the issue, and (d) satisfies the following requirements: except for Preliminary Expenditures, (i) the Issuer adopted an official intent for the Capital Expenditure that satisfies Regulations §1.150-2(e) prior to, or within 60 days after, payment of the Capital Expenditure, and (ii) the allocation in reimbursement of that Capital Expenditure occurs or will occur within 18 months after the later of the date the Capital Expenditure was paid or the date the project resulting from such Capital Expenditure was Placed in Service or abandoned, but in no event more than 3 years after the Capital Expenditure was paid.

"Related Party" means, in reference to a Governmental Unit or 501(c)(3) Organization, any member of the same Controlled Group and, in reference to any person that is not a Governmental Unit or 501(c)(3) Organization, a "related person" as defined in Section 144(a)(3).

"Replacement Proceeds" means, with respect to an issue, amounts (including any investment income, but excluding any Proceeds of any issue) replaced by Proceeds of that issue within the meaning of Section 148(a)(2). "Replacement Proceeds" includes amounts, other than Proceeds, held in a sinking fund, pledged fund or reserve or replacement fund for an issue.

"Sale Date" means, with respect to an issue, the first date on which there is a binding contract in writing with the Issuer for the sale and purchase of an issue (or of respective obligations of the issue if sold by the Issuer on different dates) on specific terms that are not later modified or adjusted in any material respect.

"Sale Proceeds" means that portion of the Issue Price actually or constructively received by the Issuer upon the sale or other disposition of an issue, including any underwriter's compensation withheld from the Issue Price, but excluding Pre-Issuance Accrued Interest.

"Spendable Proceeds" means the Net Sale Proceeds of an issue.

"Tax-Exempt Obligation" means any obligation or issue of obligations (including bonds, notes and lease obligations treated for federal income tax purposes as evidences of indebtedness) the interest on which is excluded from gross income for federal income tax purposes within the meaning of Section 150, and includes any obligation or any investment treated as a "tax-exempt bond" for the applicable purpose of Section 148.

"Tax-Exempt Organization" means a Governmental Unit or a 501(c)(3) Organization.

"Temporary Period" means the period of time, as set forth in the Tax Compliance Certificate, applicable to particular categories of Proceeds of an issue during which such category of Proceeds may be invested in Higher Yielding Investments without the issue being treated as arbitrage bonds under Section 148.

"Transferred Proceeds" means that portion of the Proceeds of an issue (including any Transferred Proceeds of that issue) that remains unexpended at the time that any portion of the principal of the Refunded Bonds of that issue is discharged with the Proceeds of a Refunding Issue and that thereupon becomes Proceeds of the Refunding Issue as provided in Regulations §1.148-9(b). "Transferred Proceeds" does not include any Replacement Proceeds.

"Unrelated or Disproportionate Use" means Private Business Use that is not related to or is disproportionate to use by a Governmental Unit within the meaning of Section 141(b)(3) and Regulations §1.141-9.

"Variable Yield Issue" means any Issue that is not a Fixed Yield Issue.

"Working Capital Expenditures" means any costs of a type that do not constitute Capital Expenditures, including current operating expenses.

"Yield" has the meaning assigned to it for purposes of Section 148, and means that discount rate (stated as an annual percentage) that, when used in computing the present worth of all applicable unconditionally payable payments of Debt Service, all payments for a Qualified Guarantee, if any, and payments and receipts with respect to a Qualified Hedge, if any, as required by the Regulations, paid and to be paid with respect to an obligation (paid and to be paid during and attributable to the Yield Period in the case of a Variable Yield Issue), produces an amount equal to (a) the Issue Price in the case of a Fixed Yield Issue or the present value of the Issue Price at the commencement of the applicable Yield Period in the case of a Variable Yield Issue, or (b) the purchase price for yield purposes in the case of Investment Property, all subject to the applicable methods of computation provided for under Section 148, including variations from the foregoing. The Yield on Investment Property in which Proceeds or Replacement Proceeds of an issue are invested is computed on a basis consistent with the computation of Yield on that issue, including the same compounding interval of not more than one year selected by the Issuer.

"Yield Period" means, in the case of the first Yield Period, the period that commences on the Issuance Date and ends at the close of business on the first Computation Date and, in the case of each succeeding Yield Period, the period that begins immediately after the end of the immediately preceding Yield Period and ends at the close of business on the next succeeding Computation Date.

The terms "bond", "obligation", "reasonably required reserve or replacement fund", "reserve or replacement fund", "loan", "sinking fund", "purpose investment", "same plan of financing", "other replacement proceeds", and other terms relating to Code provisions used but not defined in this Certificate shall have the meanings given to them for purposes of Sections 103 and 141 to 150 unless the context indicates another meaning.

(End of Attachment A)

ATTACHMENT A-1
to
Tax Compliance Certificate of Issuer
Pertaining to

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

INSTRUCTIONS FOR COMPLIANCE WITH REBATE REQUIREMENTS OF SECTION 148(f) OF THE CODE.

The Issuer covenanted in the operative documents (i.e., Ordinance/Resolution/Trust Indenture and Tax Compliance Certificate) to comply with the arbitrage rebate requirement of Section 148(f) of the Code. These Instructions provide guidance for that compliance, including the spending exceptions that free the Issue from all or part of the rebate requirements. Capitalized terms that are not defined in these Rebate Instructions are defined in Attachment A to the Tax Compliance Certificate.

PART I: GENERAL

SECTION 1.01. REBATE GENERALLY.

The Rebate Amount with respect to the Issue must be paid (rebated) to the United States to prevent the bonds of the Issue from being arbitrage bonds, the interest on which is subject to federal income tax. In general, the Rebate Amount is the amount by which the actual earnings on Nonpurpose Investments purchased (or deemed to have been purchased) with Gross Proceeds of the Issue exceed the amount of earnings that would have been received if those Nonpurpose Investments had a Yield equal to the Yield on the Issue. Stated differently, the Rebate Amount for the Issue as of any date is the excess of the Future Value, as of that date, of all Receipts on Nonpurpose Investments over the Future Value, as of that date, of all Payments on Nonpurpose Investments, computed using the Yield on the Issue as the Future Value rate.[1]

If the Issue is a Fixed Yield Issue, the Yield on the Issue generally is the Yield to maturity, taking into account mandatory redemptions prior to maturity. If the Issue is a Variable Yield Issue, the Yield on the Issue is computed separately for each Yield Period selected by the Issuer.

[1] The scope of these Instructions does not permit a detailed description of the computation of the Rebate Amount with respect to the Issue. If you need assistance in computing the Rebate Amount on the Issue or want Squire, Sanders & Dempsey L.L.P. to do the computations, please feel free to contact the Squire, Sanders & Dempsey L.L.P. attorney with whom you normally consult to discuss engaging the Firm to provide such assistance.

PART II: EXCEPTIONS TO REBATE

SECTION 2.01. SPENDING EXCEPTIONS.

The rebate requirements with respect to the Issue are deemed to have been satisfied if any one of three spending exceptions (the 6-Month, the 18-Month, or the 2-Year Spending Exception, collectively, the "Spending Exceptions") is satisfied. The Spending Exceptions are each independent exceptions. The Issue need not meet the requirements of any other exception in order to use any one of the three exceptions. For example, a Construction Issue may qualify for the 6-Month Spending Exception or the 18-Month Spending Exception even though the Issuer makes one or more elections under the 2-Year Exception with respect to the Issue.

The following rules apply for purposes of all of the Spending Exceptions except as otherwise noted.

Refunding Issues. The only spending exception available for a Refunding Issue[2] is the 6-Month Spending Exception.

Special Transferred Proceeds Rules. In applying the Spending Exceptions to a Refunding Issue, unspent Proceeds of the Prior Issue that become Transferred Proceeds of the Refunding Issue are ignored. If the Prior Issue satisfies one of the rebate Spending Exceptions, the Proceeds of the Prior Issue that are excepted from rebate under that exception are not subject to rebate either as Proceeds of the Prior Issue or as Transferred Proceeds of the Refunding Issue.

However, if the Prior Issue does not satisfy any of the Spending Exceptions and is not otherwise exempt from rebate, the Transferred Proceeds from the Prior Issue will be subject to rebate, even if the Refunding Issue satisfies the 6-Month Spending Exception. The Rebate Amount will be calculated on the Transferred Proceeds on the basis of the Yield of the Prior Issue up to each transfer date and on the basis of the Yield of the Refunding Issue after each transfer date.

Application of Spending Exceptions to a Multipurpose Issue. If the Issue is a Multipurpose Issue, the Refunding Portion and the New Money Portion are treated for purposes of the rebate Spending Exceptions as separate issues. Thus, the Refunding Portion is eligible to use only the 6-Month Spending Exception. The New Money Portion is eligible to use any of the three Spending Exceptions.

Expenditures for Governmental Purposes of the Issue. Each of the spending exceptions requires that expenditures of Gross Proceeds be for the governmental purposes of the Issue. These purposes include payment of interest (but not principal) on the Issue.

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[2] For purposes of these Instructions, references to "Refunding Issue" include the Refunding Portion of a Multipurpose Issue.

SECTION 2.02. 6-MONTH SPENDING EXCEPTION.

The Issue will be treated as satisfying the rebate requirements if all of the Gross Proceeds of the Issue are allocated to expenditures for the governmental purposes of the Issue within the 6-month period beginning on the Issuance Date and the Rebate Amount, if any, with respect to earnings on amounts deposited in a reasonably required reserve or replacement fund or a Bona Fide Debt Service Fund if and to the extent that such Fund is subject to rebate (see footnote 3) is timely paid to the United States. If no bond of the Issue is a Private Activity Bond (other than a Qualified 501(c)(3) Bond) or a tax or revenue anticipation bond, the 6-month period is extended for an additional 6 months if the unexpended Gross Proceeds of the Issue at the end of the 6-month period do not exceed 5% of the Proceeds of the Issue.

For purposes of the 6-Month Spending Exception, Gross Proceeds required to be spent within 6 months do not include amounts in a reasonably required reserve or replacement fund for the Issue or in a Bona Fide Debt Service Fund for the Issue.

SECTION 2.03. 18-MONTH SPENDING EXCEPTION.

The Issue (or the New Money Portion if the Issue is a Multipurpose Issue) is treated as satisfying the rebate requirement if the conditions set forth in (A), (B) and (C) are satisfied.

(A) All of the Gross Proceeds of the Issue (excluding amounts in a reasonably required reserve or replacement fund for the Issue or in a Bona Fide Debt Service Fund for the Issue) are allocated to expenditures for the governmental purposes of the Issue in accordance with the following schedule, measured from the Issuance Date:

(1) at least 15% within 6 months;

(2) at least 60% within 12 months; and

(3) 100% within 18 months, subject to the Reasonable Retainage exception described below.

(B) The Rebate Amount, if any, with respect to earnings on amounts deposited in a reasonably required reserve or replacement fund or in a Bona Fide Debt Service Fund for the Issue, to the extent such Fund is subject to rebate (see footnote 3), is timely paid to the United States.

(C) The Gross Proceeds of the Issue qualify for the initial 3-year Temporary Period.

If the only unspent Gross Proceeds at the end of the 18th month are Reasonable Retainage, the requirement that 100% of the Gross Proceeds be spent by the end of the 18th month is treated as met if the Reasonable Retainage, and all earnings thereon, are spent for the governmental purposes of the Issue within 30 months of the Issuance Date.

For purposes of determining whether the spend-down requirements have been met as of the end of each of the first two spending periods, the amount of Investment Proceeds that the

Issuer reasonably expects as of the Issuance Date to earn on the Sale Proceeds and Investment Proceeds of the Issue during the 18-month period are included in Gross Proceeds of the Issue. The final spend-down requirement includes actual Investment Proceeds for the entire 18 months.

The 18-Month Spending Exception does not apply to the Issue (or the New Money Portion, as applicable) if any portion of the Issue (or New Money Portion) is treated as meeting the rebate requirement under the 2-Year Spending Exception discussed below. This rule prohibits use of the 18-Month Spending Exception for the Nonconstruction Portion of a Bifurcated Issue. The only Spending Exception available for the Nonconstruction Portion of a Bifurcated Issue is the 6-Month Spending Exception.

PART III: COMPUTATION AND PAYMENT

SECTION 3.01. COMPUTATION AND PAYMENT OF REBATE AMOUNT.

If none of the Spending Exceptions described above is satisfied (and if the 1-1/2% penalty election for a Construction Issue or the Construction Portion of a Bifurcated Issue has not been made), then within 45 days after each Computation Date, the Issuer shall compute, or cause to be computed, the Rebate Amount as of such Computation Date. The first Computation Date is a date selected by the Issuer, but shall be not later than 5 years after the Issuance Date. Each subsequent Computation Date shall end 5 years after the previous Computation Date except that, in a Variable Yield Issue, the Issuer may select annual Yield Periods. The final Computation Date shall be the date the last obligation of the Issue matures or is finally discharged.

Within 60 days after each Computation Date (except the final Computation Date), the Issuer shall pay to the United States not less than 90% of the Rebate Amount, if any, computed as of such Computation Date. Within 60 days after the final Computation Date, the Issuer shall pay to the United States 100% of the Rebate Amount, if any, computed as of the final Computation Date. In computing the Rebate Amount, a computation credit of $1,000 may be taken into account on the last day of each Bond Year to the Computation Date during which there are unspent Gross Proceeds that are subject to the rebate requirement, and on the final maturity date.

If the operative documents pertaining to the Issue establish a Rebate Fund and require the computation of the Rebate Amount at the end of each Bond Year, the Issuer shall calculate, or cause to be calculated, within 45 days after the end of each Bond Year the Rebate Amount, taking into account the computation credit of $1,000 for each Bond Year. Within 50 days after the end of each Bond Year, if the Rebate Amount is positive, the Issuer shall deposit in the Rebate Fund such amount as will cause the amount on deposit therein to equal the Rebate Amount, and may withdraw any amount on deposit in the Rebate Fund in excess of the Rebate Amount. Payments of the Rebate Amount to the Internal Revenue Service on a Computation Date shall be made first from amounts on deposit in the Rebate Fund and second from other amounts specified in the operative documents.

Each payment of the Rebate Amount or portion thereof shall be payable to the Internal Revenue Service and shall be made to the Internal Revenue Service Center, Ogden, UT 84201 by certified mail. Each payment shall be accompanied by Internal Revenue Service Form 8038-T and any other form or forms required to be submitted with such remittance.

SECTION 3.02. BOOKS AND RECORDS.

(A) The Issuer or Trustee, as applicable, shall keep proper books of record and accounts containing complete and correct entries of all transactions relating to the receipt, investment, disbursement, allocation and application of the Gross Proceeds of the Issue. Such records shall specify the account or fund to which each Nonpurpose Investment (or portion thereof) held by the Issuer or Trustee is to be allocated and shall set forth as to each Nonpurpose Investment (1) its purchase price, (2) identifying information, including par amount, interest rate, and payments dates, (3) the amount received at maturity or its sales price, as the case may be, including accrued interest, (4) the amounts and dates of any payments made with respect thereto, and (5) the dates of acquisition and disposition or maturity.

The Issuer, Trustee, or Rebate Analyst, as applicable, shall retain the records of all calculations and payments of the Rebate Amount until six years after the retirement of the last obligation that is a part of the Issue.

SECTION 3.03. FAIR MARKET VALUE.

No Nonpurpose Investment shall be acquired for an amount in excess of its fair market value. No Nonpurpose Investment shall be sold or otherwise disposed of for an amount less than its fair market value.

The fair market value of any Nonpurpose Investment shall be the price at which a willing buyer would purchase the Nonpurpose Investment from a willing seller in an arms-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 this Section, a Nonpurpose Investment that is not of a type traded on an established securities market (within the meaning of Section 1273 of the Code) is rebuttably presumed to be acquired or disposed of for a price that is not equal to its fair market value.

(A) Obligations purchased directly from the Treasury. The fair market value of a United States Treasury obligation that is purchased directly from the United States Treasury is its purchase price.

(B) Safe harbor for Guaranteed Investment Contracts. The purchase price of a Guaranteed Investment Contract shall be treated as its fair market value on the purchase date if all the following conditions are met:

(1) The Issuer or broker makes a bona fide solicitation for a specified Guaranteed Investment Contract and receives at least three bona fide bids from reasonably competitive providers (of Guaranteed Investment Contracts) that have no material financial interest in the Issue.

(2) The Issuer purchases the highest-yielding Guaranteed Investment Contract for which a qualifying bid is made (determined net of broker's fees);

(3) The Yield on the Guaranteed Investment Contract (determined net of broker's fees) is not less than the Yield then available from the provider on reasonably comparable Guaranteed Investment Contracts, if any, offered to other persons from a source of funds other than Gross Proceeds of Tax-Exempt Obligations;

(4) The determination of the terms of the Guaranteed Investment Contract takes into account as a significant factor the Issuer's reasonably expected drawdown schedule for the amounts to be invested, exclusive of amounts deposited in a Bona Fide Debt Service Fund and a reasonably required reserve or replacement fund;

(5) The terms of the Guaranteed Investment Contract, including collateral security requirements, are reasonable; and

(6) The obligor on the Guaranteed Investment Contract certifies the administrative costs that it is paying (or expects to pay) to third parties in connection with the Guaranteed Investment Contract.

(C) Safe harbor for certificates of deposit. The purchase price of a certificate of deposit shall be treated as its fair market value on the purchase date if all of the following requirements are met:

(1) The certificate of deposit has a fixed interest rate, a fixed payment schedule, and a substantial penalty for early withdrawal; and

(2) The Yield on the certificate of deposit is not less than (a) the Yield on reasonably comparable direct obligations of the United States, or (b) 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.

Certificates evidencing the foregoing requirements should be obtained before purchasing any Guaranteed Investment Contract or certificate of deposit.

SECTION 3.04. CONSTRUCTIVE SALE/PURCHASE.

(A) Nonpurpose Investments that are held by the Issuer or Trustee as of any Computation Date (or Bond Year if the computations are required to be done annually) shall be treated for purposes of computing the Rebate Amount as of such date as having been sold for their fair market value as of such date. Investment Property which becomes allocated to Gross Proceeds of the Issue on a date after such Investment Property has actually been purchased shall be treated for purposes of the rebate requirements as having been purchased by the Issuer on such date of allocation at its fair market value on such date.

(B) For purposes of constructive or deemed sales or purchases of Investment Property (other than Investment Property in the Escrow Fund or that is otherwise not invested for a Temporary Period or is not part of a reasonably required reserve or replacement fund for the Issue) must be valued at its fair market value on the date of constructive or deemed sale or purchase.

(C) Except as set forth in (B), fixed rate Investment Property that is (1) issued with not more than 2% of original issue discount or original issue premium, (2) issued with original issue premium that is attributable exclusively to reasonable underwriters' compensation or (3) acquired with not more than 2% of market discount or market premium, may be treated as having a fair market value equal to its outstanding stated principal amount, plus accrued interest. Fixed rate Investment Property also may be treated as having a fair market value equal to its present value.

SECTION 3.05. ADMINISTRATIVE COSTS.

(A) Administrative costs shall not be taken into account in determining the payments for or receipts from a Nonpurpose Investment unless such administrative costs are Qualified Administrative Costs. Thus, administrative costs or expenses paid, directly or indirectly, to purchase, carry, sell, or retire Nonpurpose Investments generally do not increase the Payments for, or reduce the Receipts from, Nonpurpose Investments.

(B) Qualified Administrative Costs are taken into account in determining the Payments and Receipts on Nonpurpose Investments and thus increase the Payments for, or decrease the Receipts from, Nonpurpose Investments. In the case of a Guaranteed Investment Contract, a broker's commission or similar fee paid on behalf of either the Issuer or the provider is a Qualified Administrative Cost to the extent that (1) the amount of the fee treated as a Qualified Administrative Cost does not exceed the lesser of (a) $32,000, or such higher amount as determined and published by the Internal Revenue Service as the "cost-of-living adjustment" for the calendar year in which the Guaranteed Investment Contract is acquired and (b) 0.2% of the Computational Base or, if more, $3,000, and (2) the aggregate amount of broker's commissions or similar fees with respect to all Guaranteed Investment Contracts and Nonpurpose Investments acquired for a yield restricted defeasance escrow purchased with Gross Proceeds of the Issue treated as Qualified Administrative Costs does not exceed $85,000, less the portion of such $85,000 cap, if any, used in prior years with respect to the Issue.

PART IV: COMPLIANCE AND AMENDMENT

SECTION 4.01. COMPLIANCE.

The Issuer, Trustee or Rebate Analyst, as applicable, shall take all necessary steps to comply with the requirements of these Instructions in order to ensure that interest on the Issue is excluded from gross income for federal income tax purposes under Section 103(a) of the Code. However, compliance shall not be required in the event and to the extent stated therein the Issuer and the Trustee receive a Bond Counsel's Opinion that either (A) compliance with such requirement is not required to maintain the exclusion from gross income for federal income tax purposes of interest on the Issue, or (B) compliance with some other requirement in lieu of such requirement will comply with Section 148(f) of the Code, in which case compliance with the other requirement specified in the Bond Counsel's Opinion shall constitute compliance with such requirement.

SECTION 4.02. LIABILITY.

If for any reason any requirement of these Instructions is not complied with, the Issuer and the Trustee, if applicable, shall take all necessary and desirable steps to correct such noncompliance within a reasonable period of time after such noncompliance is discovered or should

have been discovered with the exercise of reasonable diligence. The Trustee shall have no duty or responsibility to independently verify any of the Issuer's, or the Rebate Analyst's, calculations with respect to the payments of the Rebate Amount due and owing to the United States. Under no circumstances whatsoever shall the Trustee be liable to the Issuer, any bondholder or any other person for any inclusion of the interest on the Issue in gross income for federal income tax purposes, or any claims, demands, damages, liabilities, losses, costs or expenses resulting therefrom or in any way connected therewith, so long as the Trustee acts only in accordance with these Instructions and the operative documents pertaining to the Issue.

SQUIRE, SANDERS & DEMPSEY L.L.P.

January 25, 2007

Attachment B
To Tax Compliance Certificate of

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

Dated January 25, 2007

UNDERWRITER'S CERTIFICATE

Merrill Lynch & Co. (the "Underwriter"), as underwriter for the Bonds identified above (the "Issue"), issued by Pima County, Arizona (the "Issuer"), based on its knowledge regarding the sale of the Issue, certifies as of this date as follows:

1. Issue Price -- Section 148. All of the bonds of the Issue were actually offered to the general public in a bona fide public offering at the initial offering prices set forth on the cover to the Official Statement (the "Initial Offering Price" as applicable to respective maturities), plus any Pre-Issuance Accrued Interest, which is not more than the fair market value of each maturity as of January 16, 2007, the Sale Date of the Issue, and as of the Sale Date at least 10% in principal amount of each maturity was sold or was reasonably expected to be sold (other than to bond houses, brokers and other intermediaries) at the Initial Offering Price plus any Pre-Issuance Accrued Interest (the "Issue Price"). The aggregate Issue Price of the Issue, which includes aggregate Pre-Issuance Accrued Interest of $141,275.83, is $50,584,119.43.

2. Information Return. For purposes of the Information Return required by Section 149(e) of the Code to be filed in connection with the Issue:

(A) The Initial Offering Price of the entire Issue is $50,442,843.60.

(B) The Yield on the Issue, calculated in accordance with Section 148(h) of the Code and Treasury Regulations §1.148-4, is 4.1991850%. That is the Yield that, when used in computing the present worth of all payments of principal and interest to be paid on the Issue, computed on the basis of a 360 day year and semi-annual compounding, produces an amount equal to the aggregate Issue Price of the Issue as stated in paragraph (1), less the premium paid to Financial Security Assurance Inc. for the Bond Insurance and computed with the adjustment stated in paragraph 4.

(C) The Underwriter's discount or compensation is $325,993.75, $142,400.00 of which will be used to pay the premium for the Bond Insurance.

(D) The CUSIP Number assigned to the final maturity of the Issue is 721876 MY3.

3. Bond Insurance. The amount and time of payment of the premium for the Bond Insurance insuring all of the obligations of the Issue are stated in the Issuer's Tax Compliance Certificate. Based on that information and the Underwriter's knowledge and experience and, as to (B) below, based on an estimate by the Underwriter of the Yields at which such obligations would have sold in the absence of the Bond Insurance:

(A) The premium paid for the Bond Insurance does not exceed a reasonable charge for the transfer of credit risk, taking into account charges by bond insurers in similar transactions with which the Underwriter is familiar.

(B) The present value of the premium paid for the Bond Insurance is less than the present value of the interest reasonably expected to be saved on the Issue as a result of the Bond Insurance, for which purpose present value is computed by using the yield-to-maturity of the Issue (taking into account the premium paid for the Bond Insurance) as the discount rate.

(C) The Bond Insurance was a vital and necessary factor in the marketing of the Issue to the public at the Issue Price.

4. Premium Bonds. The bonds of the Issue maturing on July 1, 2018 through and including July 1, 2023 are the only bonds of the Issue that are subject to optional redemption before maturity (but not within five years of the Issuance Date of the Issue) and have an Initial Offering Price that exceeds their stated redemption price at maturity by more than one-fourth 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 Issue stated in paragraph (2), 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 Issue.

5. No Stepped Coupon Bonds. No bond of the Issue bears interest at an increasing interest rate.

All capitalized terms not defined in this Certificate have the meaning set forth in the Issuer's Tax Compliance Certificate or in Attachment A to it.

[Signature page to follow]

The signer is an officer of the Underwriter and duly authorized to execute and deliver this Certificate of the Underwriter. The Underwriter understands that the certifications contained in this Certificate will be relied on by the Issuer in making certain of its representations in its Tax Compliance Certificate and in completing and filing the Information Return for the Issue, and by Squire, Sanders & Dempsey L.L.P., as bond counsel, in rendering certain of its legal opinions in connection with the issuance of the Issue.

Dated: January 25, 2007

MERRILL LYNCH & CO.

By: _____

Title: DIRECTOR

Attachment C

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. 208043-N (the "Policy") in respect of the $50,000,000 in aggregate principal amount of Pima County, Arizona Sewer Revenue Bonds, Series 2007 dated January 1, 2007 (the "Bonds") that:

(i) the information set forth under the caption "BOND INSURANCE – Financial Security Assurance Inc." in the official statement dated January 16, 2007, 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 $142,400.00 (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: January 25, 2007

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. 208043-R (the "Policy") in respect of the Pima County, Arizona Sewer Revenue Bonds, Series 2007 dated January 1, 2007 (the "Bonds") that:

(i) 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,

(ii) the insurance premium of $10,937.50 (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,

(iii) 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),

(iv) 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,

(v) 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,

(vi) Financial Security does not expect that a claim will be made on the Policy,

(vii) 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

(viii) 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: January 25, 2007

Attachment D

DECLARATIONS OF OFFICIAL INTENT

**A copy of the County's
Declarations of Official Intent
has been placed in the transcript copies
distributed to Pima County, Arizona and Bond Counsel.**

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

CERTIFICATE OF REGISTRAR AND PAYING AGENT

The Bank of New York Trust Company, N.A. (the "Bank"), as bond registrar and paying agent pursuant to a Bond Registrar, Transfer Agent and Paying Agent Agreement, dated as of January 1, 2007 (the "Bond Registrar and Paying Agent Agreement"), between Pima County, Arizona (the "County") and the Bank, entered into in connection with the $50,000,000 Pima County, Arizona, Sewer Revenue Bonds, Series 2007 (the "Bonds") 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 Bond Registrar and Paying Agent Agreement.

2. The execution and delivery of 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 Bond Registrar and Paying Agent pursuant to the Bond Registrar and Paying Agent Agreement, and will comply with the requirements of such agreement, 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 the Bond Registrar and Paying Agent Agreement.

4. The representations of the Bank contained in 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 Bond Registrar and Paying Agent Agreement.

6. The Bond Registrar and Paying Agent Agreement was signed on behalf of the Bank by the person named below, and such person was, at the time of the execution of such agreement, 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 or bylaw excerpt 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 or bylaw excerpt was in effect on the date or dates said person or persons acted and remains in full force and effect on the date hereof.

Dated: January 25, 2007

THE BANK OF NEW YORK TRUST COMPANY, N.A.

By: _____
Gregory G. Cross
Vice President

EXHIBIT A

RESOLUTION OR BYLAW EXCERPT AS TO SIGNATURE AUTHORITY

THE BANK OF NEW YORK TRUST COMPANY, N.A.

I, the undersigned, Heather A. Sisler, Assistant Secretary of The Bank of New York Trust Company, N.A., a national banking association organized under the laws of the United States (the "Association") and located in the State of California, with a trust office located at 150 West University, Tempe, Arizona, DO HEREBY CERTIFY that the following individuals are duly appointed and qualified Officers of the Association:

Officer	Title	Signing Authority
Gregory C. Cross	Vice President	A, C2, J
Mark Krietemeyer	Vice President	A, C2, J

I further certify that as of this date they have been authorized to sign on behalf of the Association in discharging or performing their duties in accordance with the senior and limited signing powers provided under Article V, Sections 5.2 and 5.3 of the By-laws of the Association and the paragraphs indicated above of the signing authority resolution of the Board of Directors of the Association.

Attached hereto are true and correct copies of excerpts of the By-laws of the Association and the signing authority resolution, which have not been amended or revised since January 20, 2005 and are in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of The Bank of New York Trust Company, N.A. this 2nd day of October, 2006.

Heather A. Sisler, Assistant Secretary

Extracts from By-Laws

Of

The Bank of New York Trust Company, N.A.

As Amended Through January 20, 2005

ARTICLE V
SIGNING AUTHORITIES

Section 5.1 Real Property. Real property owned by the Association in its own right shall not be deeded, conveyed, mortgaged, assigned or transferred except when duly authorized by a resolution of the Board. The Board may from time-to-time authorize officers to deed, convey, mortgage, assign or transfer real property owned by the Association in its own right with such maximum values as the Board may fix in its authorizing resolution.

Section 5.2. Senior Signing Powers. Subject to the exception provided in Section 5.1, the President and any Executive Vice President is authorized to accept, endorse, execute or sign any document, instrument or paper in the name of, or on behalf of, the Association in all transactions arising out of, or in connection with, the normal course of the Association's business or in any fiduciary, representative or agency capacity and, when required, to affix the seal of the Association thereto. In such instances as in the judgment of the President, or any Executive Vice President may be proper and desirable, any one of said officers may authorize in writing from time-to-time any other officer to have the powers set forth in this section applicable only to the performance or discharge of the duties of such officer within his or her particular division or function. Any officer of the Association authorized in or pursuant to Section 5.3 to have any of the powers set forth therein, other than the officer signing pursuant to this Section 5.2, is authorized to attest to the seal of the Association on any documents requiring such seal.

Section 5.3. Limited Signing Powers. Subject to the exception provided in Section 5.1, in such instances as in the judgment of the President or any Executive Vice President, may be proper and desirable, any one of said officers may authorize in writing from time-to-time any other officer, employee or individual to have the limited signing powers or limited power to affix the seal of the Association to specified classes of documents set forth in a resolution of the Board applicable only to the performance or discharge of the duties of such officer, employee or individual within his or her division or function.

Section 5.4. Powers of Attorney. All powers of attorney on behalf of the Association shall be executed by any officer of the Association jointly with the President, any Executive Vice President, or any Managing Director, provided that the execution by such Managing Director of said Power of Attorney shall be applicable only to the performance or discharge of the duties of said officer within his or her particular division or function. Any such power of attorney may, however, be executed by any officer or officers or person or persons who may be specifically authorized to execute the same by the Board of Directors.

Section 5.5. Auditor. The Auditor or any officer designated by the Auditor is authorized to certify in the name of, or on behalf of the Association, in its own right or in a fiduciary or representative capacity, as to the accuracy and completeness of any account, schedule of assets, or other document, instrument or paper requiring such certification.

SIGNING AUTHORITY RESOLUTION

Pursuant to Article V, Section 5.3 of the By-Laws

RESOLVED that, pursuant to Section 5.3 of the By-Laws of the Association, authority be, and hereby is, granted to the President or any Executive Vice President, in such instances as in the judgment of any one of said officers may be proper and desirable, to authorize in writing from time-to-time any other officer, employee or individual to have the limited signing authority set forth in any one or more of the following paragraphs applicable only to the performance or discharge of the duties of such officer, employee or individual within his or her division or function:

(A) All signing authority set forth in paragraphs (B) through (I) below except Level C which must be specifically designated.

(B1) Individuals authorized to accept, endorse, execute or sign any bill receivable; certification; contract, document or other instrument evidencing, embodying a commitment with respect to, or reflecting the terms or conditions of, a loan or an extension of credit by the Association; note; and document, instrument or paper of any type, including stock and bond powers, required for purchasing, selling, transferring, exchanging or otherwise disposing of or dealing in foreign currency, derivatives or any form of securities, including options and futures thereon; in each case in transactions arising out of, or in connection with, the normal course of the Association's business.

(B2) Individuals authorized to endorse, execute or sign any certification; disclosure notice required by law; document, instrument or paper of any type required for judicial, regulatory or administrative proceedings or filings; and legal opinions.

(C1) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in excess of $100,000,000 with single authorization for all transactions.

(C2) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in excess of $100,000,000*.

(C3) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $100,000,000.

(C4) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check

certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $10,000,000.

(C5) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $5,000,000.

(C6) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $1,000,000.

(C7) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $250,000.

(C8) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $50,000.

(C9) Authority to accept, endorse, execute or sign or effect the issuance of any cashiers, certified or other official check; draft; order for payment of money; check certification; receipt; certificate of deposit; money transfer wire; and internal transfers resulting in a change of beneficial ownership; in each case, in an amount up to $5,000.

> *Dual authorization is required by any combination of senior officer and/or Sector Head approved designee for non-exempt transactions. Single authorization required for exempt transactions.

(D1) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to $1,000,000.

(D2) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to $250,000.

(D3) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to $50,000.

(D4) Authority to accept, endorse, execute or sign any contract obligating the Association for the payment of money or the provision of services in an amount up to $5,000.

(E) Authority to accept, endorse, execute or sign any guarantee of signature to assignments of stocks, bonds or other instruments; certification required for transfers and deliveries of stocks, bonds or other instruments; and document,

instrument or paper of any type required in connection with any Individual Retirement Account or Keogh Plan or similar plan.

(F) Authority to accept, endorse, execute or sign any certificate of authentication as bond, unit investment trust or debenture trustee and on behalf of the Association as registrar and transfer agent.

(G) Authority to accept, endorse, execute or sign any bankers acceptance; letter of credit; and bill of lading.

(H) Authority to accept, endorse, execute or sign any document, instrument or paper of any type required in connection with the ownership, management or transfer of real or personal property held by the Association in trust or in connection with any transaction with respect to which the Association is acting in any fiduciary, representative or agency capacity, including the acceptance of such fiduciary, representative or agency account.

(I1) Authority to effect the external movement of free delivery of securities and internal transfers resulting in changes of beneficial ownership.

(I2) Authority to effect the movement of securities versus payment at market or contract value.

(J) Authority to either sign on behalf of the Association or to affix the seal of the Association to any of the following classes of documents: Trust Indentures, Escrow Agreements, Pooling and Servicing Agreements, Collateral Agency Agreements, Custody Agreements, Trustee's Deeds, Executor's Deeds, Personal Representative's Deeds, Other Real Estate Deeds for property not owned by the Association in its own right, Corporate Resolutions, Mortgage Satisfactions, Mortgage Assignments, Trust Agreements, Loan Agreements, Trust and Estate Accountings, Probate Petitions, responsive pleadings in litigated matters and Petitions in Probate Court with respect to Accountings, Contracts for providing customers with Association products or services.

(N) Individuals authorized to accept, endorse, execute or sign internal transactions only, (i.e., general ledger tickets); does not include the authority to authorize external money movements, internal money movements or internal free deliveries that result in changes of beneficial ownership.

RESOLVED, that any signing authority granted pursuant to this resolution may be rescinded by the President or any Executive Vice President and such signing authority shall terminate without the necessity of any further action when the person having such authority leaves the employ of the Association.

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

CERTIFICATE OF FINANCIAL CONSULTANT

The undersigned authorized representative of RBC Dain Rauscher Inc., doing business under the name RBC Capital Markets, as Financial Advisor to Pima County, Arizona, hereby certifies, in connection with the $50,000,000 Pima County, Arizona, Sewer Revenue Bonds, Series 2007 (the "Bonds"), that for purposes of completing Form 8038-G to be filed with the Internal Revenue Service, the yield on the Bonds is 4.199185%, the net interest cost of the Bonds is 4.1568364 %, and the weighted average maturity of the Bonds is 11.244 years.

Dated: January 25, 2007

RBC DAIN RAUSCHER INC.

By: _____
Nick Dodd
Vice President

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

CERTIFICATE AS TO SATISFACTION OF REQUIREMENTS FOR ISSUANCE OF PARITY BONDS

The undersigned Finance and Risk Management Director of Pima County, Arizona (the "County"), acting for and on behalf of the County, does hereby certify as follows with respect to the issuance of the above-described Bonds as Parity Bonds within the meaning of 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 on August 6, 1991, as supplemented, including as supplemented by Resolution No. 2007-16, adopted by the Board of Supervisors of the County on January 16, 2007 (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 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-described 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-described 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-described Bonds, the Reserve Fund Value will be at least equal to the amount of the Reserve Requirement.

[Remainder of page left blank intentionally]

Dated: January 25, 2007

PIMA COUNTY, ARIZONA

By: _____
Thomas Burke
Finance and Risk Management Director

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

COUNTY TREASURER'S RECEIPT FOR BOND PROCEEDS

I, the undersigned, 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 $50,000,000 in aggregate principal amount of Pima County, Arizona Sewer Revenue Bonds, Series 2007 (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 supplemented and amended, including by Resolution No. 2007-17, passed, adopted and approved by the Board of Supervisors of the County on January 16, 2007 (the "Resolution"), authorizing and providing for the issuance and ordering the sale of the Bonds, the County has received from Merrill Lynch & Co. (the "Underwriter"), the sum of $50,258,125.68 (representing $49,258,125.68 received on the date hereof and a $1,000,000.00 good faith deposit previously received), representing the total purchase price of the Bonds, including accrued interest thereon to the date hereof in the amount of $141,275.83.

I do further certify that the proceeds from the sale of the Bonds have been apportioned and applied in the following manner.

(a) $141,275.83, representing accrued interest on the Bonds, has been deposited in the Bond Fund established pursuant to the Resolution.

(b) $50,116,849.85, representing the remaining proceeds from the sale of the Bonds will be set aside in the account established by the Resolution for such proceeds of the Bonds.

Dated: January 25, 2007

PIMA COUNTY, ARIZONA

Beth Ford, County Treasurer

By: Beth Ford

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

PAYING AGENT'S RECEIPT FOR INSURANCE POLICY AND SURETY BOND

The Bank of New York Trust Company, N.A. (the "Bank"), in its capacity as paying agent pursuant to that certain Bond Registrar, Transfer Agent and Paying Agent Agreement, dated as of January 1, 2007, between the Bank and Pima County, Arizona (the "County"), in connection with the County's issuance and sale of $50,000,000 in aggregate principal amount of its Sewer Revenue Bonds, Series 2007, hereby acknowledges receipt of Municipal Bond Insurance Policy No. 208043-N, and Municipal Bond Debt Service Reserve Insurance Policy No. 208043-R, issued by Financial Security Assurance.

Dated: January 25, 2007

THE BANK OF NEW YORK TRUST
COMPANY, N.A.

By: _____
Mark E. Kretemeyer
Vice President

$50,000,000
PIMA COUNTY, ARIZONA
SEWER REVENUE BONDS
SERIES 2007

UNDERWRITER'S RECEIPT FOR BONDS

Receipt of the Pima County, Arizona Sewer Revenue Bonds, Series 2007 (the "Bonds"), in the aggregate principal amount of $50,000,000 is hereby acknowledged as of the date hereof on behalf of the undersigned, Merrill Lynch & Co., as underwriter of the Bonds.

The Bonds are dated January 1, 2007, are in denominations of $5,000 or integral multiples thereof, mature on July 1 in the years 2007 through and including 2026, and bear interest at the rates per annum from the date of the Bonds to the maturity of each Bond as follows:

Year	Par Amount	Interest Rate
2007	$2,665,000	4.000%
2008	1,550,000	4.000%
2009	1,625,000	3.750%
2010	1,710,000	4.000%
2011	1,795,000	4.000%
2012	1,885,000	3.750%
2013	1,980,000	4.000%
2014	2,075,000	4.000%
2015	2,180,000	5.000%
2016	2,290,000	5.000%
2017	2,405,000	5.000%
2018	2,525,000	4.125%
2019	2,650,000	4.250%
2020	2,785,000	4.250%
2021	2,925,000	4.375%
2022	3,070,000	4.500%
2023	3,220,000	4.500%
2024	3,385,000	4.000%
2025	3,550,000	4.000%
2026	3,730,000	4.000%

Dated: January 25, 2007

MERRILL LYNCH & CO.

By: _____
Name: R Mascuttello
Title: VP

SQUIRE, SANDERS & DEMPSEY L.L.P.

Two Renaissance Square
40 North Central Avenue, Suite 2700
Phoenix, Arizona 85004-4498

Office: +1.602.528.4000
Fax: +1.602.253.8129

SQUIRE SANDERS | LEGAL COUNSEL WORLDWIDE

January 25, 2007

Pima County, Arizona
Tucson, Arizona

Ladies and Gentlemen:

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by Pima County, Arizona (the "County") of its $50,000,000 aggregate principal amount of bonds designated the Pima County, Arizona, Sewer Revenue Bonds, Series 2007 (the "Bonds"). The Bonds are issued pursuant to Title 11, Chapter 2, Article 4 of the Arizona Revised Statutes, as amended (the "Act"), and under the provisions of an authorizing resolution adopted by the Board of Supervisors of the County on June 18, 1991, as supplemented and amended, including a supplemental resolution adopted by the Board of Supervisors of the County on January 16, 2007 (the "Bond Resolution"). The documents in the Transcript include a certified copy of the Bond Resolution. All capitalized terms not defined herein shall have the meanings set forth in the Bond Resolution. We have also examined a conformed copy of a Bond.

Based on this examination, we are of the opinion that, under existing law:

1. The Bonds are valid, legal and binding special obligations of the County which, together with other bonds and obligations issued on a parity therewith and subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion, are to be paid solely from, and secured by a pledge of 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 (the "Net Revenues"), subject to no other liens granted under the Act. The Bonds are issued on a parity with the County's outstanding Sewer Improvement and Refunding Revenue Bonds, Series 1998, Sewer Revenue Refunding Bonds, Series 2001, and Sewer Revenue Refunding Bonds, Series 2004, 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, as amended, and May 11, 2004, as amended. The Bonds and the payment of principal thereof and interest thereon are not secured by an obligation or pledge of any moneys or property of the County other than the Net Revenues, and the Bonds do not represent or constitute a general obligation or a pledge of the full faith and credit of the County or the State of Arizona.

2. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 as amended (the "Code"), and is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. The interest on the Bonds is exempt from Arizona state income tax. We express no opinion as to any other tax consequences regarding the Bonds.

In giving the foregoing opinion with respect to the treatment of the interest on the Bonds under the tax laws, we have assumed and relied upon compliance with the covenants of the County and the accuracy, which we have not independently verified, of the representations and certifications of the County, contained in the Transcript. The accuracy of those representations and certifications, and the County's compliance with those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes and for certain of the other tax effects stated above. Failure to comply with certain of those covenants subsequent to issuance of the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Under the Code, a portion of the interest on the Bonds earned by corporations may be subject to the federal corporate alternative minimum tax, and the interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

Respectfully submitted,

Squire, Sanders & Dempsey L.L.P.

SQUIRE SANDERS | LEGAL COUNSEL WORLDWIDE

SQUIRE, SANDERS & DEMPSEY L.L.P.

Two Renaissance Square
40 North Central Avenue, Suite 2700
Phoenix, Arizona 85004-4498

Office: +1.602.528.4000
Fax: +1.602.253.8129

January 25, 2007

Financial Security Assurance Inc.
San Francisco, California

We have today delivered to you a copy of our executed legal opinion as bond counsel, dated this date, relating to the issuance of the Pima County, Arizona Sewer Revenue Bonds, Series 2007, in the aggregate principal amount of $50,000,000.

Please consider this letter as our advice to you that you are entitled to rely upon that opinion as issuer of the municipal bond insurance policy relating to the Bonds.

Respectfully submitted,

Squire, Sanders & Dempsey L.L.P

384843

SQUIRE, SANDERS & DEMPSEY L.L.P.

Two Renaissance Square
40 North Central Avenue, Suite 2700
Phoenix, Arizona 85004-4498

Office: +1.602.528.4000
Fax: +1.602.253.8129

SQUIRE SANDERS | LEGAL COUNSEL WORLDWIDE

January 25, 2007

Pima County, Arizona
Tucson, Arizona

Financial Security Assurance Inc.
San Francisco, California

Re: $50,000,000 Pima County, Arizona Sewer Revenue Bonds, Series 2007
Reserve Policy Agreement

Ladies and Gentlemen:

We have served as bond counsel for Pima County, Arizona (the "County") in connection with the execution and delivery by the County of a Reserve Policy Agreement, dated as of January 25, 2007 (the "Agreement") between the County and Financial Security Assurance Inc. ("FSA"), entered into in connection with FSA's issuance of a Municipal Bond Debt Service Reserve Insurance Policy (the "Policy"), of even date therewith, in connection with the issuance of the above-described bond (the "Bonds"). The Bonds are being issued pursuant to Title 11, Chapter 2, Article 4 of the Arizona Revised Statutes, as amended (the "Act"), and under the provisions of an authorizing resolution adopted by the Board of Supervisors of the County on June 18, 1991, as supplemented and amended, including a supplemental resolution adopted by the Board of Supervisors of the County on January 16, 2007 (the "Bond Resolution").

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 an executed counterpart of the Agreement. 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 as follows:

1. The Agreement has been duly authorized, executed and delivered by the County and constitutes a legal, valid and binding obligation of the County enforceable in accordance with its terms.

2. The Policy constitutes a Reserve Fund Guaranty within the meaning of the Bond Resolution.

This opinion is subject to the following qualifications and limitations:

(a) The enforceability of the Agreement may be subject to, or limited by, bankruptcy, insolvency, reorganization, arrangement, moratorium, or other similar laws relating to or affecting the rights of creditors generally.

(b) The enforceability of the Agreement is subject to general principles of equity.

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 actions, judicial decision, or otherwise.

This opinion letter is rendered solely to you and solely in connection with the delivery of the Policy. 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,

Squire, Sanders & Dempsey L.L.P.

FSA
A Dexia Company

January 25, 2007

Municipal Bond Insurance Policy No. 208043-N With Respect to
$50,000,000 In Aggregate Principal Amount of
Pima County, Arizona
Sewer Revenue Bonds, Series 2007 dated January 1, 2007

Ladies and Gentlemen:

I am Assistant 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 – Bond Insurance Policy" in the official statement relating to the above-referenced Bonds dated January 16, 2007 (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,

Dave A. Sanchez
Assistant General Counsel

Pima County Finance Department,
130 West Congress, 10th Floor,
Tucson, Arizona 85701.

Merrill Lynch & Co.,
Four World Financial Center, 9th Floor,
New York, New York 10080.

FSA
A Dexia Company

January 25, 2007

Municipal Bond Debt Service Reserve Insurance Policy No. 208043-R With Respect to
Pima County, Arizona
Sewer Revenue Bonds, Series 2007 dated January 1, 2007

Ladies and Gentlemen:

I am Assistant 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.

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,

Dave A. Sanchez
Assistant General Counsel

Pima County Finance Department,
130 West Congress, 10th Floor,
Tucson, Arizona 85701.

RBC Capital Markets,
2398 East Camelback Road, Suite 700,
Phoenix, Arizona 8501610080.

Financial Security Assurance
One Market · 1550 Spear Tower · San Francisco, California 94105 · Tel: 415.995.8000 · Fax: 415.995.8008
New York · Dallas · San Francisco · London · Madrid · Paris · Singapore · Sydney · Tokyo

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, 10th Floor	Room/suite	4 Report number 3 03
5	City, town, or post office, state, and ZIP code Tucson, Arizona 85701	6	Date of issue 1/25/2007
7	Name of issue Sewer Revenue Bonds, Series 2007	8	CUSIP number 721876 MY3
9	Name and title of officer or legal representative whom the IRS may call for more information Thomas Burke, Finance and Risk Management Director	10	Telephone number of officer or legal representative (520) 740-3030

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	
16	☐ Housing	16	
17	☑ Utilities	17	50,442,843.60
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 ▶ ☐		

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	July 1, 2026	$50,442,843.60	$50,000,000	11.244 years	4.199185 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22	Proceeds used for accrued interest			22	141,275.83
23	Issue price of entire issue (enter amount from line 21, column (b))			23	50,442,843.60
24	Proceeds used for bond issuance costs (including underwriters' discount)	24	183,593.75		
25	Proceeds used for credit enhancement	25	142,400.00		
26	Proceeds allocated to reasonably required reserve or replacement fund	26	0		
27	Proceeds used to currently refund prior issues	27	0		
28	Proceeds used to advance refund prior issues	28	0		
29	Total (add lines 24 through 28)			29	325,993.75
30	Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)			30	50,116,849.85

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 ▶	N/A	years
32	Enter the remaining weighted average maturity of the bonds to be advance refunded ▶	N/A	years
33	Enter the last date on which the refunded bonds will be called ▶	N/A	
34	Enter the date(s) the refunded bonds were issued ▶		

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	0

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.

▶ Tom Burke — 1/25/2007 — ▶ Thomas Burke, Finance and Risk Mngt Director

Signature of issuer's authorized representative — Date — Type or print name and title

SQUIRE, SANDERS & DEMPSEY L.L.P.

Two Renaissance Square
40 North Central Avenue, Suite 2700
Phoenix, Arizona 85004-4498

Office: +1.602.528.4000
Fax: +1.602.253.8129

SQUIRE SANDERS LEGAL COUNSEL WORLDWIDE

Direct: +1.602.528.4031
tpickrell@ssd.com

January 25, 2007

Via Certified Mail

Internal Revenue Service Center
Ogden, Utah 84201

Re: Pima County, Arizona
Sewer Revenue Bonds, Series 2007

Ladies and Gentlemen:

On behalf of Pima County, Arizona, enclosed is Form 8038-G, Information Return for Tax-Exempt Governmental Obligations.

Sincerely,

Timothy E. Pickrell

TEP:jer

Enclosure

Certified Number 7003 2260 0003 0952 4849

385870.1

7003 2260 0003 0952 4849

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Certified Fee	2.40
Return Receipt Fee (Endorsement Required)	
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	$ 2.79

Pima/Sewer
8038-G 2007

Postmark Here

PHX AZ 85026
APR 25 2007
USPS

Sent To
Internal Revenue Service Center
Street, Apt. No.; or PO Box No. Ogden, Utah 84201
City, State, ZIP+4

PS Form 3800, June 2002 See Reverse for Instructions

AFFIDAVIT OF MAILING

STATE OF ARIZONA)
) ss:
County of Maricopa)

I, Timothy E. Pickrell, being first duly sworn upon my oath, depose and say that I delivered to the United States Postal Service on the 25th day of January, 2007, an envelope containing a Form 8038-G, Information Return for Tax-Exempt Governmental Obligations, with respect to the Pima County, Arizona $50,000,000 Sewer Revenue Bonds, Series 2007, postage prepaid, certified mail (Certified Number 7003 2260 0003 0952 4849), addressed as follows:

Internal Revenue Service Center
Ogden, Utah 84201

Timothy E. Pickrell

SUBSCRIBED AND SWORN to before me this 25th day of January, 2007.

Notary Public

OFFICIAL SEAL
JEAN E. REYNOLDS
NOTARY PUBLIC-ARIZONA
PIMA COUNTY
My Comm. Expires Aug. 15, 2008

My Commission Expires:

August 15, 2008

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 Bonds, Series 2007	
3. Dated Date: January 1, 2007 Closing Date: January 25, 2007	4. Par amount: $50,000,000
5. Overall Interest rate (~~TIC~~ OR NIC): 4.2432124%	6. Type of Bond or Security: Revenue
7. Repayment sources: sewer system revenues.	
8. Total amount outstanding: $185,892,236.94	9. Total amount outstanding of senior or subordinate bonds: $135,892,236.94
10. Original issue price: a. Par Amount (Principal Amount) $50,000,000.00	11. Total limitations (Constitutional or Statutory) on the type of bonds/securities issued: N/A **For general obligation Bonds:** a. Secondary net assessed value: N/A
b. Original Issue Discount (-) (471,959.05)	
c. Premium Amount (+) 914,802.65	b. Debt limit percentage: N/A
d. Original Issue Price (=) $50,442,843.60	c. Total debt limit: N/A
e. Underwriter Compensation (Discount) (-) (325,993.75)	12. Available debt limit: N/A
f. Net Proceeds (=) $50,116,849.85	13. Total amount authorized: $265,000,000
14. Remaining authorized amount: $153,942,383	15. If voter authorized, Election dates: 5/20/97; 5/14/04

16 – 19 Please attach 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

January 25, 2007
Date

Title, address and phone number	**Trustee name, address and phone number**	**Political Subdivision Contact Name, address, phone number**
Timothy E. Pickrell., Esq. Bond Counsel Squire, Sanders & Dempsey L.L.P. 40 North Central Avenue, #2700 Phoenix, Arizona 85004 (602) 528-4031	The Bank of New York Trust Company, N.A. Bond Registrar and Paying Agent Corporate Trust Services 1225 West Washington, St. Suite 126 Tempe, Arizona 85281 (602) 629-2865	Pima County Finance Department Pima County, Arizona 130 West Congress, 10th Floor Tucson, Arizona 85701 (520) 740-3030

Submit this form with attachments within 60 days of issuance to:

Arizona Department of Revenue
Attention Econometrics Section
1600 W Monroe
Phoenix AZ 85007

ARIZONA DEPARTMENT OF REVENUE
Report of Bond and Security Issuance
Schedule 1

For each maturity date, list either 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 + 10c – 10e = 10f.

Name of Issue: PIMA COUNTY, ARIZONA SEWER REVENUE BONDS, SERIES 2007

Par Amount: $50,000,000 Date Closed: January 25, 2007

Maturity Date	Par Amount (Principal Amount) 10a	Coupon Rate	Yield	Original Issue Price	Premium or Discount 10b or 10c
2007	$2,665,000	4.000%	3.540%	$2,670,116.80	$5,116.80
2008	1,550,000	4.000%	3.560%	1,559,408.50	9,408.50
2009	1,625,000	3.750%	3.630%	1,629,468.75	4,468.75
2010	1,710,000	4.000%	3.670%	1,728,006.30	18,006.30
2011	1,795,000	4.000%	3.690%	1,817,527.25	22,527.25
2012	1,885,000	3.750%	3.720%	1,887,714.40	2,714.40
2013	1,980,000	4.000%	3.760%	2,006,888.40	26,888.40
2014	2,075,000	4.000%	3.820%	2,098,924.75	23,924.75
2015	2,180,000	5.000%	3.860%	2,357,386.60	177,386.60
2016	2,290,000	5.000%	3.900%	2,487,146.10	197,146.10
2017	2,405,000	5.000%	3.950%	2,619,141.20	214,141.20
2018	2,525,000	4.125%	4.040%	2,543,053.75	18,053.75
2019	2,650,000	4.250%	4.100%	2,683,390.00	33,390.00
2020	2,785,000	4.250%	4.180%	2,801,264.40	16,264.40
2021	2,925,000	4.375%	4.250%	2,955,449.25	30,449.25
2022	3,070,000	4.500%	4.250%	3,134,040.20	64,040.20
2023	3,220,000	4.500%	4.310%	3,270,876.00	50,876.00
2024	3,385,000	4.000%	4.330%	3,249,159.95	(135,840.05)
2025	3,550,000	4.000%	4.350%	3,393,480.50	(156,519.50)
2026	3,730,000	4.000%	4.370%	3,550,400.50	(179,599.50)
Total	$50,000,000			$50,442,843.60	$442,843.60
10e Underwriter's Discount and/or Placement Agent Fee, if any				325,993.75	
10f Net Proceeds (as shown on issuance form)				$50,116,849.85	

ATTACHMENT TO
REPORT OF BOND AND SECURITY ISSUANCE

Name of Issue: PIMA COUNTY, ARIZONA SEWER REVENUE BONDS, SERIES 2007

COSTS OF ISSUANCE

Bond Counsel	$34,300.00
Financial Advisor	50,000.00
Moody's Investors Service	21,700.00
Standard & Poor's	24,000.00
Bond Registrar/Paying Agent	1,500.00
Printing of Official Statement	7,500.00
Miscellaneous	5,000.00
Total:	$144,000.00

EXHIBIT A

$50,000,000
PIMA COUNTY, ARIZONA
Sewer Revenue Bonds
Series 2007

Principal and Interest Payments

Dated: 1/1/2007 **Delivery:** 1/25/2007

Date	Principal (a)	Coupon	Interest (b)	Total Debt Service	Fiscal Year Debt Service	CUSIP = (721876)
7/1/2007	$2,665,000.00	4.000%	$1,059,568.75	$3,724,568.75	$3,724,568.75	MD9
1/1/2008			1,006,268.75	1,006,268.75		
7/1/2008	1,550,000.00	4.000%	1,006,268.75	2,556,268.75	3,562,537.50	ME7
1/1/2009			975,268.75	975,268.75		
7/1/2009	1,625,000.00	3.750%	975,268.75	2,600,268.75	3,575,537.50	MF4
1/1/2010			944,800.00	944,800.00		
7/1/2010	1,710,000.00	4.000%	944,800.00	2,654,800.00	3,599,600.00	MG2
1/1/2011			910,600.00	910,600.00		
7/1/2011	1,795,000.00	4.000%	910,600.00	2,705,600.00	3,616,200.00	MH0
1/1/2012			874,700.00	874,700.00		
7/1/2012	1,885,000.00	3.750%	874,700.00	2,759,700.00	3,634,400.00	MJ6
1/1/2013			839,356.25	839,356.25		
7/1/2013	1,980,000.00	4.000%	839,356.25	2,819,356.25	3,658,712.50	MK3
1/1/2014			799,756.25	799,756.25		
7/1/2014	2,075,000.00	4.000%	799,756.25	2,874,756.25	3,674,512.50	ML1
1/1/2015			758,256.25	758,256.25		
7/1/2015	2,180,000.00	5.000%	758,256.25	2,938,256.25	3,696,512.50	MM9
1/1/2016			703,756.25	703,756.25		
7/1/2016	2,290,000.00	5.000%	703,756.25	2,993,756.25	3,697,512.50	MN7
1/1/2017			646,506.25	646,506.25		
7/1/2017	2,405,000.00	5.000%	646,506.25	3,051,506.25	3,698,012.50	MP2
1/1/2018			586,381.25	586,381.25		
7/1/2018	2,525,000.00	4.125%	586,381.25	3,111,381.25	3,697,762.50	MQ0
1/1/2019			534,303.13	534,303.13		
7/1/2019	2,650,000.00	4.250%	534,303.13	3,184,303.13	3,718,606.25	MR8
1/1/2020			477,990.63	477,990.63		
7/1/2020	2,785,000.00	4.250%	477,990.63	3,262,990.63	3,740,981.25	MS6
1/1/2021			418,809.38	418,809.38		
7/1/2021	2,925,000.00	4.375%	418,809.38	3,343,809.38	3,762,618.75	MT4
1/1/2022			354,825.00	354,825.00		
7/1/2022	3,070,000.00	4.500%	354,825.00	3,424,825.00	3,779,650.00	MU1
1/1/2023			285,750.00	285,750.00		
7/1/2023	3,220,000.00	4.500%	285,750.00	3,505,750.00	3,791,500.00	MV9
1/1/2024			213,300.00	213,300.00		
7/1/2024	3,385,000.00	4.000%	213,300.00	3,598,300.00	3,811,600.00	MW7
1/1/2025			145,600.00	145,600.00		
7/1/2025	3,550,000.00	4.000%	145,600.00	3,695,600.00	3,841,200.00	MX5
1/1/2026			74,600.00	74,600.00		
7/1/2026	3,730,000.00	4.000%	74,600.00	3,804,600.00	3,879,200.00	MY3
Total	$50,000,000.00		$24,161,225.00	$74,161,225.00	$74,161,225.00	

(a) The bonds maturing on or after July 1, 2018 are subject to redemption prior to maturity on or after July 1, 2017 at Par.
(b) Does not include accrued interest from 1/01/07 to 1/25/07 in the amount of $141,275.83.

-Prepared By-
RBC Capital Markets
1/17/2007

SQUIRE, SANDERS & DEMPSEY L.L.P.

Two Renaissance Square
40 North Central Avenue, Suite 2700
Phoenix, Arizona 85004-4498

Office: +1.602.528.4000
Fax: +1.602.253.8129

SQUIRE SANDERS LEGAL COUNSEL WORLDWIDE

Direct: +1.602.528.4031
tpickrell@ssd.com

January 25, 2007

Via Certified Mail
Return Receipt Requested

Arizona Department of Revenue
Attention: OERA, 9th Floor
1600 W. Monroe
Phoenix, AZ 85007

Re: $50,000,000 Pima County, Arizona
Sewer Revenue Bonds, Series 2007

Ladies and Gentlemen:

On behalf of Pima County, Arizona, enclosed is the Report of Bond and Security Issuance Pursuant to A.R.S. §35-501B for the above-referenced financing.

Sincerely,

Timothy E. Pickrell

TEP:jer
Enclosure

Certified No. 7003 2260 0003 0952 4870

385868.1

7003 2260 0003 0952 4870

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Return Reciept Fee (Endorsement Required)	1.85
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	$ 8.30

Pima/Sewer ADOR 2007

PHOENIX AZ 85007 JAN 25 2007

Sent To Arizona Dept. of Revenue
Street, Apt. No.; or PO Box No. Attn: OERA 9th Floor
City, State, ZIP+4 ~~1600 W. Monroe~~
Phoenix, AZ 85007

PS Form 3800, June 2002 See Reverse for Instructions

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 Dept. of Revenue
Attn: OERA 9th Floor
1600 W. Monroe
Phoenix, AZ 85007

COMPLETE THIS SECTION ON DELIVERY

A. Signature
X ☐ Agent ☐ Addressee

B. Received by (Printed Name) Arizona Dept of Revenue C. Date of Delivery JAN 29 2007

D. Is delivery address different from item 1? ☐ No
If YES, enter delivery address below:

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 *(Transfer from service label)* 7003 2260 0003 0952 4870

PS Form 3811, August 2001 Domestic Return Receipt 102595-02-M-1540

AFFIDAVIT OF MAILING

STATE OF ARIZONA)
) ss:
County of Maricopa)

I, Timothy E. Pickrell, being first duly sworn upon my oath, depose and say that I delivered to the United States Postal Service on the 25th day of January, 2007, an envelope containing the Report of Bond and Security Issuance Pursuant to A.R.S. §35-501B, with respect to $50,000,000 Pima County, Arizona Sewer Revenue Bonds, Series 2007, postage prepaid, certified mail (Certified Number 7003 2260 0003 0952 4870), return receipt requested, addressed as follows:

Arizona Department of Revenue
Attention: OERA, 9th Floor
1600 W. Monroe
Phoenix, AZ 85007

Timothy E. Pickrell

SUBSCRIBED AND SWORN to before me this 25th day of January, 2007.

Jean E. Reynolds
Notary Public

My Commission Expires:
August 15, 2008

OFFICIAL SEAL
JEAN E. REYNOLDS
NOTARY PUBLIC-ARIZONA
PIMA COUNTY
My Comm. Expires Aug. 15 2008

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number:			Denomination:
R-1			$2,665,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.000%	July 1, 2007	January 1, 2007	721876 MD9

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION SIX HUNDRED SIXTY-FIVE THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number:			Denomination:
R-2			$1,550,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.000%	July 1, 2008	January 1, 2007	721876 ME7

Registered Owner: CEDE & CO.

Principal Amount: ONE MILLION FIVE HUNDRED FIFTY THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number:			Denomination:
R-3			$1,625,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
3.750%	July 1, 2009	January 1, 2007	721876 MF4

Registered Owner: CEDE & CO.

Principal Amount: ONE MILLION SIX HUNDRED TWENTY-FIVE THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number:			Denomination:
R-4			$1,710,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.000%	July 1, 2010	January 1, 2007	721876 MG2

Registered Owner: CEDE & CO.

Principal Amount: ONE MILLION SEVEN HUNDRED TEN THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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PIMA COUNTY, ARIZONA
SEWER REVENUE BOND, SERIES 2007

Number:			Denomination:
R-5			$1,795,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.000%	July 1, 2011	January 1, 2007	721876 MH0

Registered Owner: CEDE & CO.

Principal Amount: ONE MILLION SEVEN HUNDRED NINETY-FIVE THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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PIMA COUNTY, ARIZONA
SEWER REVENUE BOND, SERIES 2007

Number:			Denomination:
R-6			$1,885,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
3.750%	July 1, 2012	January 1, 2007	721876 MJ6

Registered Owner: CEDE & CO.

Principal Amount: ONE MILLION EIGHT HUNDRED EIGHTY-FIVE THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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PIMA COUNTY, ARIZONA
SEWER REVENUE BOND, SERIES 2007

Number:			Denomination:
R-7			$1,980,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.000%	July 1, 2013	January 1, 2007	721876 MK3

Registered Owner: CEDE & CO.

Principal Amount: ONE MILLION NINE HUNDRED EIGHTY THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number:			Denomination:
R-8			$2,075,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.000%	July 1, 2014	January 1, 2007	721876 ML1

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION SEVENTY-FIVE THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number: R-9

Denomination: $2,180,000

Interest Rate	Maturity Date	Original Issue Date	CUSIP
5.000%	July 1, 2015	January 1, 2007	721876 MM9

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION ONE HUNDRED EIGHTY THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number: R-10

Denomination: $2,290,000

Interest Rate	Maturity Date	Original Issue Date	CUSIP
5.000%	July 1, 2016	January 1, 2007	721876 MN7

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION TWO HUNDRED NINETY THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number:			Denomination:
R-11			$2,405,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
5.000%	July 1, 2017	January 1, 2007	721876 MP2

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION FOUR HUNDRED FIVE THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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PIMA COUNTY, ARIZONA
SEWER REVENUE BOND, SERIES 2007

Number:			Denomination:
R-12			$2,525,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.125%	July 1, 2018	January 1, 2007	721876 MQ0

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION FIVE HUNDRED TWENTY-FIVE THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

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SPECIMEN

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PIMA COUNTY, ARIZONA
SEWER REVENUE BOND, SERIES 2007

Number:			Denomination:
R-13			$2,650,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.250%	July 1, 2019	January 1, 2007	721876 MR8

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION SIX HUNDRED FIFTY THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number:			Denomination:
R-14			$2,785,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.250%	July 1, 2020	January 1, 2007	721876 MS6

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION SEVEN HUNDRED EIGHTY-FIVE THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number:			Denomination:
R-15			$2,925,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.375%	July 1, 2021	January 1, 2007	721876 MT4

Registered Owner: CEDE & CO.

Principal Amount: TWO MILLION NINE HUNDRED TWENTY-FIVE THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number:			Denomination:
R-16			$3,070,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.500%	July 1, 2022	January 1, 2007	721876 MU1

Registered Owner: CEDE & CO.

Principal Amount: THREE MILLION SEVENTY THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number:			Denomination:
R-17			$3,220,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.500%	July 1, 2023	January 1, 2007	721876 MV9

Registered Owner: CEDE & CO.

Principal Amount: THREE MILLION TWO HUNDRED TWENTY THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number:			Denomination:
R-18			$3,385,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.000%	July 1, 2024	January 1, 2007	721876 MW7

Registered Owner: CEDE & CO.

Principal Amount: THREE MILLION THREE HUNDRED EIGHTY-FIVE THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number:			Denomination:
R-19			$3,550,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.000%	July 1, 2025	January 1, 2007	721876 MX5

Registered Owner: CEDE & CO.

Principal Amount: THREE MILLION FIVE HUNDRED FIFTY THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

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 AND DELIVERED IN RESPECT THEREOF 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 BOND, SERIES 2007

Number:			Denomination:
R-20			$3,730,000
Interest Rate	Maturity Date	Original Issue Date	CUSIP
4.000%	July 1, 2026	January 1, 2007	721876 MY3

Registered Owner: CEDE & CO.

Principal Amount: THREE MILLION SEVEN HUNDRED THIRTY THOUSAND 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 July 1, 2007, 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 The Bank of New York Trust Company, N.A.

This Bond is one of an issue of $50,000,000 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,

SPECIMEN

Article 4, Arizona Revised Statutes, as amended, and Resolutions No. 1991-138, 1991-182 and No. 2007-17, adopted by the Board of Supervisors of Pima County on June 18, 1991, August 6, 1991 and January 16, 2007, respectively (collectively, the "Bond Resolution"), for the purpose of providing funds to pay the costs of improvements, expansions and extensions to the County's sewer plant and system and 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.

Bonds maturing on or before July 1, 2017 are not subject to call for redemption prior to their respective maturity dates. The Bonds maturing on or after July 1, 2018 are subject to call for redemption on any date on or after July 1, 2017 at the election of the County, in whole or in part from maturities selected by the County and within any maturity by lot 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, without premium.

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 The Bank of New York Trust Company, N.A. 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

DRAFT

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 Chairman 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

Chairman, Board of Supervisors

ATTEST:

Clerk, Board of Supervisors

SPECIMEN

AUTHENTICATION CERTIFICATE

This Bond is one of the Pima County, Arizona, Sewer Revenue Refunding Bonds, Series 2007, described in the Bond Resolution mentioned herein.

Date of Authentication: January ____, 2007

The Bank of New York Trust Company, N.A.,
as Registrar

By: _____
Authorized Representative

SPECIMEN

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 The Bank of New York Trust Company, N.A., Tempe, 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.

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 the 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.

SPECIMEN

Moody's Investors Service

99 Church Street
New York, NY

January 24, 2007

Financial Security Assurance, Inc
31 West 52nd Street
New York, NY 10019

To Whom It May Concern:

Moody's Investors Service has assigned the rating of **Aaa** (Financial Security Assurance, Inc Insured - Policy No. **208043-N**) to the **$50,000,000.00, Pima County, Arizona - Sewer Revenue Bonds, Series 2007**, dated January 1, 2007 which sold on January 16, 2007. 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 Karen Malkowski at (201) 395-6370.

Sincerely yours,

Joann Hempel

Joann Hempel
Vice President / Senior Credit

Officer

JH / PS

Moody's Investors Service

One Front Street, Suite 1900
San Francisco, CA 94111

January 4, 2007

Mr. Tom Burke
Finance Director
Pima County
130 West Congress
10th Floor
Tucson, AZ 85701

Dear Mr. Burke:

We wish to inform you that on January 4, 2007, Moody's Investors Service reviewed and assigned a rating of **A1** to the Pima County, AZ, Sewer Revenue Bonds, Series 2007.

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Jolene Yee, at 415-274-1720.

Sincerely,

Kenneth B. Kurtz

Kenneth B. Kurtz
Managing Director

KBK:JY/cm

cc: Mr. Nick Dodd
RBC Dain Rauscher Inc.
2398 East Camelback Road, Suite 700
Phoenix, AZ 85016

STANDARD
&POOR'S

55 Water Street, 38th Floor
New York, NY 10041-0003
tel 212 438-2074
reference no.: 809552

January 24, 2007

Financial Security Assurance Inc.
1550 Spear Tower
One Market
San Francisco, CA 94105
Attention: Ms. Sheelagh Flanagan, Managing Director

Re: ***$50,000,000 Pima County, Arizona Sewer Revenue Bonds, Series 2007, dated: January 1, 2007, due: July 1, 2007-2026, (POLICY#208043-N)***

Dear Ms. Flanagan:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have changed the rating to "AAA" from "A+". 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 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.

Standard and Poor's /WSD

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STANDARD
&POOR'S

One Market
Steuart Tower, 15th Floor
San Francisco, CA 94105-1000
tel 415 371-5004
reference no.: 809552

January 4, 2007

Pima County
Finance Department
130 West Congress Street, 10th Floor
Tucson, AZ 85701
Attention: Mr. Thomas Burke, Director of Finance

Re: ***US$50,000,000 Pima County, Arizona, Sewer Revenue Bonds, Series 2007, dated: January 1, 2007, due: July 1, 2026***

Dear Mr. Burke:

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 "A+". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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 or by your agents 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/obligor 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 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.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial

information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

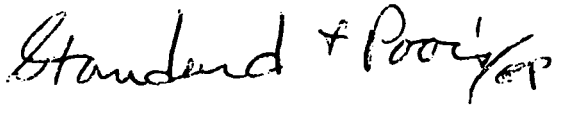
Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

Standard & Poor's is pleased to be of service to you. For more information on Standard & Poor's, please visit our website at www.standardandpoors.com. If we can be of help in any other way, please call or contact us at nypublicfinance@standardandpoors.com. 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.



jf
enclosures
cc: Mr. Nicholas J. Dodd, Vice President
RBC Capital Markets

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.

RBC Capital Markets

FINAL

SETTLEMENT, DELIVERY & CLOSING PROCEDURES

ISSUE: $50,000,000
Pima County, Arizona
Sewer Revenue Bonds
Series 2007

BONDS DATED: January 1, 2007

INTEREST PAYMENT DATES: Interest payable semiannually on January 1 and July 1 of each year, commencing July 1, 2007.

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES: See Exhibit A.

CLOSING: The Closing will be held on **Thursday, January 25, 2007** at 8:00 a.m. (MST) at the offices of Squire, Sanders & Dempsey, Two Renaissance Square, 40 North Central Avenue, Suite 2700, Phoenix, AZ 85004. Mr. Tim Pickrell will conduct the closing (602) 528-4031, Fax: (602) 253-8129.

PARTICIPANTS: See Exhibit B.

REGISTRATION & AUTHENTICATION: After the Bonds have been registered and executed, the Bond Registrar and Paying Agent will confirm arrangements for a F.A.S.T. closing with the Depository Trust Co. (DTC), 55 Water Street, 1st Floor, New York, New York 10041.

SETTLEMENT INSTRUCTIONS:

Par Value @ 100	$50,000,000.00
Plus: Excess Net Premium	116,849.85
Plus: Accrued Interest (January 1 – January 25, 2007)	141,275.83
Less: Good Faith Deposit	(1,000,000.00)
Remaining Purchase Price	$49,258,125.68

FLOW OF FUNDS: **$142,400.00**, representing the bond insurance premium for Financial Security Assurance, will be wire transferred prior to the closing by Merrill Lynch to:

The Bank of New York
ABA # 021-000-018
Acct. Name: Financial Security Assurance, Inc.
Acct. # 8900297263
Transactions # 97449
Reference: Policy No. 208043-N
Contact: Priscilla H. Lowe (415) 995-8013

SOURCES

(A) **$1,000,000.00,** representing the Merrill Lynch good faith deposit, will remain in the Bank of America, account of the Pima County Treasurer and be transferred into the Project Fund.

(B) On the day of closing, Merrill Lynch will wire transfer the remaining purchase price of **$49,258,125.68**, representing proceeds for deposit into the Interest Fund (Debt Service Fund) and the Project Fund to:

Bank of America, Arizona
Phoenix, Arizona
ABA #026009593
Credit to Pima County Treasurer
Account #412724156
Reference: Pima County Street & Highway User Revenue Bonds, Series 2007

Confirmation of the receipt of funds will be made with Eska Lachman at the Pima County Treasurer's Office at (520) 740-8814.

USES

Of the amount listed under Sources (A & B) above, the Pima County Treasurer will apply such amounts as follows:

(A) **$141,275.83** representing accrued interest, to the Interest Fund (Debt Service Fund).

(B) **$50,116,849.85**, representing construction costs and costs of issuance, to the Project Fund.

a. Of the monies deposited in (B) above, **$10,937.50** representing payment for the Debt Service Reserve Fund Surety Bond will be wired transferred by Pima County on or before the day of closing as follows:

The Bank of New York
ABA # 021-000-018
Acct. Name: Financial Security Assurance, Inc.
Acct. # 8900297263
Transactions # 97449
Reference: Policy No. 208043-R
Contact: Priscilla H. Lowe (415) 995-8013

DELIVERY INSTRUCTIONS: When all parties are satisfied that all monies have been transferred and that documentation is in order, the Bonds will be released to the credit of Merrill Lynch, via the DTC closing desk (212) 855-3752.

EXHIBIT A

$50,000,000
PIMA COUNTY, ARIZONA
Sewer Revenue Bonds
Series 2007

Principal and Interest Payments

Dated: **1/1/2007** **Delivery: 1/25/2007**

Date	Principal (a)	Coupon	Interest (b)	Total Debt Service	Fiscal Year Debt Service	CUSIP # (721876)
7/1/2007	$2,665,000.00	4.000%	$1,059,568.75	$3,724,568.75	$3,724,568.75	MD9
1/1/2008			1,006,268.75	1,006,268.75		
7/1/2008	1,550,000.00	4.000%	1,006,268.75	2,556,268.75	3,562,537.50	ME7
1/1/2009			975,268.75	975,268.75		
7/1/2009	1,625,000.00	3.750%	975,268.75	2,600,268.75	3,575,537.50	MF4
1/1/2010			944,800.00	944,800.00		
7/1/2010	1,710,000.00	4.000%	944,800.00	2,654,800.00	3,599,600.00	MG2
1/1/2011			910,600.00	910,600.00		
7/1/2011	1,795,000.00	4.000%	910,600.00	2,705,600.00	3,616,200.00	MH0
1/1/2012			874,700.00	874,700.00		
7/1/2012	1,885,000.00	3.750%	874,700.00	2,759,700.00	3,634,400.00	MJ6
1/1/2013			839,356.25	839,356.25		
7/1/2013	1,980,000.00	4.000%	839,356.25	2,819,356.25	3,658,712.50	MK3
1/1/2014			799,756.25	799,756.25		
7/1/2014	2,075,000.00	4.000%	799,756.25	2,874,756.25	3,674,512.50	ML1
1/1/2015			758,256.25	758,256.25		
7/1/2015	2,180,000.00	5.000%	758,256.25	2,938,256.25	3,696,512.50	MM9
1/1/2016			703,756.25	703,756.25		
7/1/2016	2,290,000.00	5.000%	703,756.25	2,993,756.25	3,697,512.50	MN7
1/1/2017			646,506.25	646,506.25		
7/1/2017	2,405,000.00	5.000%	646,506.25	3,051,506.25	3,698,012.50	MP2
1/1/2018			586,381.25	586,381.25		
7/1/2018	2,525,000.00	4.125%	586,381.25	3,111,381.25	3,697,762.50	MQ0
1/1/2019			534,303.13	534,303.13		
7/1/2019	2,650,000.00	4.250%	534,303.13	3,184,303.13	3,718,606.25	MR8
1/1/2020			477,990.63	477,990.63		
7/1/2020	2,785,000.00	4.250%	477,990.63	3,262,990.63	3,740,981.25	MS6
1/1/2021			418,809.38	418,809.38		
7/1/2021	2,925,000.00	4.375%	418,809.38	3,343,809.38	3,762,618.75	MT4
1/1/2022			354,825.00	354,825.00		
7/1/2022	3,070,000.00	4.500%	354,825.00	3,424,825.00	3,779,650.00	MU1
1/1/2023			285,750.00	285,750.00		
7/1/2023	3,220,000.00	4.500%	285,750.00	3,505,750.00	3,791,500.00	MV9
1/1/2024			213,300.00	213,300.00		
7/1/2024	3,385,000.00	4.000%	213,300.00	3,598,300.00	3,811,600.00	MW7
1/1/2025			145,600.00	145,600.00		
7/1/2025	3,550,000.00	4.000%	145,600.00	3,695,600.00	3,841,200.00	MX5
1/1/2026			74,600.00	74,600.00		
7/1/2026	3,730,000.00	4.000%	74,600.00	3,804,600.00	3,879,200.00	MY3
Total	$50,000,000.00		$24,161,225.00	$74,161,225.00	$74,161,225.00	

(a) The bonds maturing on or after July 1. 2018 are subject to redemption prior to maturity on or after July 1. 2017 at Par.
(b) Does not include accrued interest from 1/01/07 to 1/25/07 in the amount of $141.275.83.

-Prepared By-
RBC Capital Markets
1/17/2007

EXHIBIT B

PIMA COUNTY, ARIZONA
SEWER IMPROVEMENT REVENUE BONDS
SERIES 2007

DISTRIBUTION LIST

PIMA COUNTY

Finance and Risk Management Department
130 West Congress, 10th Floor
Tucson, AZ 85701
Fax: (520) 740-8171

Tom Burke
Finance Director
(520) 740-3030
e-mail: tom.burke@pima.gov

Finance and Risk Management Department
130 West Congress, 6th Floor
Tucson, AZ 85701
Fax: (520) 243-2329

Michelle Campagne
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e-mail: michelle.campagne@pima.gov

County Attorney's Office
130 West Congress
Tucson, Arizona 85701

Regina Nassen
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e-mail: regina.nassen@pcao.pima.gov

BOND COUNSEL

Squire, Sanders & Dempsey L.L.P.
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Phoenix, AZ 85004-4498
Fax: (602) 253-8129

Timothy E. Pickrell
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RATING AGENCIES

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Dan Steed
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EXHIBIT B

Standard & Poor's Corporation
One Market, Steuart Tower 15th Floor
San Francisco, California
94105-1000
Fax: (415) 371-5090

Edward McGlade
(212) 438-2061
e-mail: edward_mcglade@sandp.com

REGISTRAR & PAYING AGENT

The Bank of New York Trust Company, N.A.
150 University Drive, 1st Floor
Tempe, Arizona 85281
Fax: (480) 902-6879

Mark Krietemeyer
(480) 902-6880
e-mail: mark.e.krietemeyer@jpmorgan.com

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PURCHASER

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