

**Clean Water Act
Plan 208 Amendment
for the Town of Buckeye**

**Festival Ranch
Water Reclamation Facility**



June 12, 2003

Prepared For:

Prepared By:



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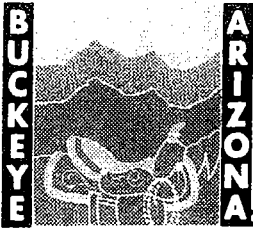
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Town of Buckeye

June 9, 2003

Ms. Brenda Geisen, Environmental Planner
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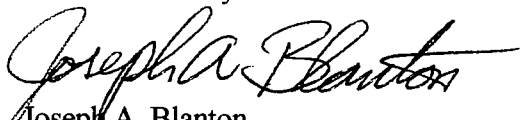
Re: Town of Buckeye MAG 208 Amendment

Dear Ms. Geisen:

The Town of Buckeye is submitting a Clean Water Act Section 208 Amendment for the Buckeye Planning Area. In accordance with the MAG 208 Water Quality Management Plan, we are officially requesting that you initiate the amendment process to consider the Festival Ranch Service Area and the Festival Ranch Water Reclamation Facility.

We look forward to working with you and appreciate your assistance to facilitate the MAG approval process for this 208 Amendment.

Sincerely,
Town of Buckeye


Joseph A. Blanton
Town Manager

C: Ken Knickerbocker, Coe & Van Loo Consultants, Inc.

Wastewater Reclamation Facility Clean Water Act Plan 208 Amendment

Table of Contents

1.0 20-YEAR NEEDS	1
1.1 Description of Existing Wastewater Treatment Facilities.....	1
1.2 Description of the Proposed WRF Plan	1
1.2.1 Site Location and Property Ownership	1
1.2.2 Estimated Wastewater Generation	2
1.2.3 Collection System Description.....	3
1.2.4 WRF Description.....	3
1.2.4.1 Unit Processes	4
1.2.4.1.1 Preliminary Treatment.....	4
1.2.4.1.2 Biological Treatment.....	4
1.2.4.1.3 Tertiary Treatment.....	5
1.2.4.1.4 Disinfection and Effluent Pump Station.....	5
1.2.4.1.5 Odor Control	5
1.2.4.2 Effluent Disposal and Quality Requirements.....	6
1.2.4.3 Stormwater Discharge	6
1.2.5 Reclaimed Water System Description.....	6
1.2.6 Sanitary Districts, Private Utilities, and WWT Service Areas.....	7
1.3 Summary of Alternatives	7
1.4 Permitting Requirements.....	7
1.5 Pretreatment Requirements	8
1.6 Sludge Management Requirements.....	8
2.0 CONSTRUCTION, OPERATION, AND MAINTENANCE	9
2.1 Construction Responsibility	9
2.2 Operation and Maintenance Responsibility	9
2.3 Sources of Construction Pollution	9
3.0 FINANCING AND OTHER ACTIONS TO IMPLEMENT PLAN	10
3.1 Financing Plan.....	10
3.2 Financing Capacity to Construct.....	10
3.3 Financing Capacity to Operate.....	10
4.0 IMPACTS AND IMPLEMENTATION PLAN	11
4.1 Implementation Plan	11
4.2 Impacts of Proposed Plan.....	11
5.0 PUBLIC PARTICIPATION	12



Table of Tables

Table 1 – Ultimate Wastewater Generation Rates	3
Table 2 – Festival Ranch WRF Preliminary Design Data	3
Table 3 - Ultimate SBR Design Criteria	5

Table of Figures

Figure 1 - Location Map.....	A
Figure 2 – Land Use Plan.....	A
Figure 3 - Wastewater Master Infrastructure Plan	A
Figure 4 – Phase 1 WRF Process Flow Schematic	A
Figure 5 – Ultimate WRF Process Flow Schematic.....	A
Figure 6 - WRF Site Plan	A
Figure 7 - WRF Site Layout.....	A

Appendices

Appendix A - Location and Site Maps.....	A
Appendix B - Water Balance	B
Appendix C – Project Schedule	C
Appendix D - Financial Statements	D
Appendix E - Letters of No Objection	E

EXECUTIVE SUMMARY

Pulte Homes is currently in the planning stages for Festival Ranch, a proposed 4,274 acre master planned community located northwest of the White Tank Mountains in Buckeye, Arizona. The majority of the community will be developed as active adult homes with single-family residential areas, golf courses, recreation centers, open space, and commercial areas within the Town of Buckeye (Town).

The area is bounded on the north by the CAP Canal, on the west by 295th Avenue, on the south by the Union Hills Drive alignment, and Rooks Road on the east. The property is northwest of the White Tank Mountain Regional Park, and is intersected by Wagner Wash. The Hassayampa River lies directly west. The area is located in Township 4 North, Range 4 West, Sections 13 and 20 thru 29.

Pulte Homes is currently under contract to purchase the 3,133 acres of the Festival Ranch property south of the CAP canal from 10,000 West, L.L.C. This study also includes capacity for the 321 acre State Land parcel, approximately 167 acres of privately owned parcels and 653 acres comprising the balance of Festival Ranch south of the CAP.

The Maricopa Association of Governments (MAG) is the Designated Planning Agency (DPA) with the authority required by Section 208(a)(2)(B) of the Clean Water Act (CWA) to prepare the water management plan for the Maricopa County Planning Area. The Town of Buckeye has requested a CWA Section 208 amendment to the Regional Water Quality Management Plan to include the Festival Ranch Water Reclamation Facility (WRF), which will treat wastewater generated within the area of Festival Ranch south of the CAP canal in Buckeye, Arizona. Wastewater will be treated through conventional processes including a fine screen headworks, sequencing batch reactors, filtration and ultraviolet disinfection. The WRF will have a Phase 1 capacity of 1.0 mgd, with an ultimate capacity of 4.0 mgd. The Phase 1 effluent will be reused for golf course irrigation. Upon expansion of the WRF beyond the demand of the golf courses, treated effluent will also be used for open access landscape irrigation and groundwater recharge and recovery.

The CWA Section 208 Checklist on the following pages provides a summary of the amendment application requirements and how and where these issues are addressed in the document.

**SECTION 208 CLEAN WATER ACT 208 AMENDMENT CHECKLIST
FESTIVAL RANCH WATER RECLAMATION FACILITY**

Requirement	Summary of How Requirements are Addressed	Page	Section
AUTHORITY			
<p>Proposed Designated Management Agency (DMA) shall self-certify that it has the authorities required by Section 208(c)(2) of the Clean Water Act to implement the plan for its proposed planning and service areas. Self-certification shall be in the form of a legal opinion by the DMA or entity attorney.</p>	<p>The Designated Planning Authority (DPA) with authority to implement the plan for the Town of Buckeye is Maricopa Association of Governments (MAG).</p>	1	1.0
20-YEAR NEEDS			
Clearly describe the existing wastewater treatment (WWT) facilities:			
<p>Describe existing WWT facilities.</p>	<p>Currently, there are no existing WWT facilities in the vicinity of Festival Ranch. However, the facilities within the Town of Buckeye are: <u>Verrado WRF</u>: 0.45 mgd - Screening, secondary treatment (SBR) with biological nitrogen removal, chlorination. The ultimate capacity will be 3.35 mgd. <u>Sundance WRF</u>: 1.2 mgd – Screening, secondary treatment (SBR), biological nutrient removal, secondary clarification, tertiary filtration, UV disinfection, and sludge processing. <u>Buckeye WWTP</u>: 0.6 mgd oxidation ditch with boat clarifier, chlorination/dechlorination, and sludge drying beds.</p>	1	1.1
<p>Show WWT certified and service areas for private utilities and sanitary district boundaries if appropriate.</p>	<p>The proposed WRF will serve the Festival Ranch development area located south of the CAP Canal and selected outparcels.</p>	1	1.2.1

Clearly describe alternatives and the recommended WWT plan:			
Provide POPTAC population estimates (or COG-approved estimates only where POPTAC not available) over 20-year period.	Population estimates were based on a land use model.	2	1.2.2
Provide wastewater flow estimates over the 20-year planning period.	Rated flow estimates range from 1.0 mgd in Phase 1 to 4.0 mgd at final build-out.	2	1.2.2
Illustrate the WWT planning and service areas.	The planning and service areas will include the portion of the Festival Ranch development south of the CAP canal in Buckeye, Arizona.	.1	1.2.1
Describe the type and capacity of the recommended WWT Plant.	<u>Phase 1:</u> Screening, grit removal, secondary treatment, tertiary filtration, and ultraviolet disinfection is provided with an initial capacity of 1.0 mgd. <u>Ultimate:</u> Screenings, grit removal, secondary treatment, filtration, ultraviolet disinfection, and sludge processing will treat the ultimate capacity of 4.0 mgd.	1	1.1
Identify water quality problems, consider alternative control measures, and recommend solution for implementation.	No water quality problems are anticipated. Effluent quality will meet the Class A+ reclaimed water standards for open access irrigation and the Aquifer Water Quality Standards.	6	1.2.4.2
If private WWT utilities with certificated areas are within the proposed regional service area, define who (municipal or private utility) serves what area and when. Identify whose sewer lines can be approved in what areas and when?	Not applicable. There are no private WWT utilities with certificated areas within the proposed regional service area. The Town of Buckeye will own and maintain the collection system and treatment plant.	1	1.1
Describe method of effluent disposal and reuse sites (if appropriate).	The effluent will be used to irrigate three golf courses, lakes, and open access areas such as green belt areas, turf at the proposed school, and parks. Effluent that exceeds reuse demands will be used for groundwater recharge and recovery. Consideration will be given to acquiring an AzPDES permit for seasonal discharge to Wagner Wash to support recharge.	6	1.2.4.2

<p>If Sanitary Districts are within a proposed planning or service area, describe who serves the Sanitary Districts and when.</p>	<p>There are no Sanitary Districts within the planning or service area.</p>	<p>1</p>	<p>1.1</p>
<p>Describe ownership of land proposed for plant sites and reuse areas.</p>	<p>The land used by the plant site is owned by 10,000 West, L.L.C. The sewage collection system and reclaimed water pipelines will be located on land owned by Pulte Homes and 10,000 West, L.L.C. Reuse will occur on public areas, community association land, and land owned by private golf courses. After acceptance by the Town of Buckeye, the plant site will be dedicated to the Town of Buckeye.</p>	<p>1</p>	<p>1.2.1</p>
<p>Address time frames in the development of the treatment works.</p>	<p>The plant is designed for an initial flow of 1.0 mgd with an ultimate capacity of 4.0 mgd. Phased expansion sizes are not known, and will be determined based upon expansion within the development. Facility sizing is modular, and accommodates flexibility in phasing.</p>	<p>3</p>	<p>1.2.4</p>
<p>Address financial constraints in the development of the treatment works.</p>	<p>There are no financial constraints in the development of the treatment works.</p>	<p>10</p>	<p>3.2</p>
<p>Describe how discharges will comply with EPA municipal and industrial stormwater discharge regulations (Section 405, CWA).</p>	<p>The collection system will be designed to prevent stormwater infiltration and the plant will treat wastewater only. The plant site will not receive stormwater runoff from adjacent properties. Stormwater discharges from the plant site will be subject to NPDES stormwater permitting requirements when design flows exceed 1.0 mgd. The flows will be addressed through implementation of a stormwater pollution prevention plan.</p>	<p>6</p>	<p>1.2.4.3</p>

Describe how open areas & recreational opportunities will result from improved water quality and how those will be used.	The reuse of treated effluent will safely enhance golf course landscaping, lakes, and other large common area landscape tracts, while reducing the need for unnecessary use of groundwater/surface water resources.	6	1.2.4.2
Describe potential use of lands associated with treatment works and increased access to water-based recreation, if applicable.	Not applicable.		
REGULATIONS			
Describe types of permits needed, including NPDES, APP and reuse.	The WRF will require an Aquifer Protection Permit, Reuse Permit, AzPDES Permit and Air Quality Permit.	7	1.4
Describe restrictions on NPDES permits, if needed, for discharge and sludge disposal.	The quality of the effluent will met the requirements of the Clean Water Act.		
Provide documentation of communication with ADEQ Permitting Section 30 to 60 days prior to public hearing regarding the need for specific permits.	Pulte Homes is in the process of obtaining necessary permits from ADEQ.		
Describe pretreatment requirements and method of adherence to requirements (Section 208 (b)(2)(D), CWA).	There will be no industrial users contributing to the WRF.	8	1.5
Identify, if appropriate, specific pollutants that will be produced from excavations and procedures that will protect ground and surface water quality (Section 208(b)(2)(K) and Section 304, CWA).	Not applicable.		
Describe alternatives and recommendation in the disposition of sludge generated. (Section 405 CWA)	Sludge will be dewatered and disposed of at a permitted landfill.	8	1.6
Define any non-point issues related to the proposed facility and outline procedures to control them.	No non-point issues are anticipated. Stormwater flow from the WRF site will be diverted to the Wagner Wash. On-site stormwater retention will be provided to accommodate a 100-year, 2-hour storm.	6	1.2.4.3

Describe process to handle all mining runoff, orphan sites and underground pollutants, if applicable.	Not applicable.		
If mining related, define where collection of pollutants has occurred, and what procedures are going to be initiated to contain contaminated areas.	Not applicable.		
If mining related, define what specialized procedures will be initiated for orphan sites, if applicable.	Not applicable.		
CONSTRUCTION			
Define construction priorities and time schedules for initiation and completion.	The plant is designed for an initial flow of 1.0 mgd, with a final build-out flow of 4.0 mgd by the year 2018. The initial 1.0 mgd phase of the project is projected to be in operation by January 2005.	9	2.0
Identify agencies that will construct, operate and maintain the facilities and otherwise carry out the plan.	The Town of Buckeye will create a community facilities district (CFD) through which the construction of the WRF will be financed. The CFD will complete all phases of the collection system, effluent reuse distribution system, and WRF. The Town of Buckeye will operate and maintain the WRF, collection system, and effluent distribution system.	10	3.1
Identify construction activity-related sources of pollution and set forth procedures and methods to control, to the extent feasible, such sources.	Pollutants associated with construction activities are expected to be limited to solid water, inert materials, and residual construction materials such as paint or adhesives. The construction activities will be subject to stormwater permitting and will implement Best Management Practices.	9	2.3
FINANCING AND OTHER MEASURES NECESSARY TO CARRY OUT THE PLAN			
If plan proposes to take over certificated private utility, describe how, when and financing will be managed.	Not applicable.		

Describe any significant measure necessary to carry out the plan, e.g., institutional, financial, economic, etc.	Not applicable.		
Describe proposed method(s) of community financing.	The Town of Buckeye will create a community facilities district through which community improvements will be financed.	10	3.1
Provide financial information to assure DMA has financial capability to operate and maintain wastewater system over its useful life.	The Town of Buckeye is the DMA. The Town of Buckeye is a municipality and has successfully owned and operated its existing WWTP.	10	3.3
Provide a timeline outlining period of time necessary for carrying out plan implementation.	The initial phase of this project is planned to be in operation by January 2005. Subsequent expansions to ultimate capacity will be completed as needed.	11	4.1
Provide financial information indicating the method and measures necessary to achieve project financing. (Section 201 CWA or Section 604 may apply.)	The project will be financed through a community facilities district.	10	3.2
IMPLEMENTABILITY			
Describe impacts and implementability of Plan:			
Describe impacts on existing wastewater (WW) facilities, e.g., Sanitary district, infrastructure/facilities and certificated areas.	There are no impacts on existing wastewater facilities.	11	4.2
Describe how and when existing package plants will be connected to a regional system.	Not applicable.		
Describe the impact on communities and businesses affected by the plan.	No impacts on communities and businesses are anticipated.	11	4.2
If a municipal wastewater (WWT) system is proposed, describe how WWT service will be provided until the municipal system is completed: i.e., will package plants and septic systems be allowed and under what circumstances. (Interim services).	Not applicable. The WRF will be completed concurrently with the first model homes. No wastewater flow will be generated until the WRF is operational.	11	4.1

PUBLIC PARTICIPATION

Submit copy of mailing list used to notify the public of the public hearing on the 208 amendment. (40 CFR, Chapter 1, Part 25.5)	Public participation requirements will be satisfied through MAG.	12	5.0
List location where documents are available for review at least 30 days before public hearing.	Public participation requirements will be satisfied through MAG.	12	5.0
Submit copy of the public notice of the public hearing as well as an official affidavit of publication from the area newspaper. Clearly show the announcement appeared in the newspaper at least 45 days before the hearing.	Public participation requirements will be satisfied through MAG.	12	5.0
Submit affidavit of publication for official newspaper publication.	Public participation requirements will be satisfied through MAG.	12	5.0
Submit responsiveness summary for public hearing.	Public participation requirements will be satisfied through MAG.	12	5.0

1.0 20-YEAR NEEDS

The Maricopa Association of Governments (MAG) is the Designated Planning Agency (DPA) with the authority required by Section 208(a)(2)(B) of the Clean Water Act (CWA) to prepare the water management plan for the Maricopa County Planning Area. The Town of Buckeye has requested a CWA Section 208 amendment to the Regional Water Quality Management Plan to include the Festival Ranch Water Reclamation Facility (WRF), which will treat wastewater generated within the area of Festival Ranch south of the CAP canal in Buckeye, Arizona. The Phase 1 effluent will be reused for golf course irrigation. Upon expansion of the WRF beyond the demand of the golf courses, treated effluent will also be used for open access landscape irrigation and groundwater recharge and recovery. A location map showing the WRF and site maps depicting the collection system and treated effluent pipeline alignments are included in Appendix A.

This CWA 208 Amendment application includes required information on the proposed WRF, collection system, and reclaimed water system locations. The WRF will have a Phase 1 capacity of 1.0 mgd, with an ultimate capacity of 4.0 mgd. The collection system will be phased to minimize potential problems from initial low flows. The reclaimed water piping will be sized for the irrigation of three golf courses and open access irrigation across the development.

1.1 Description of Existing Wastewater Treatment Facilities

This CWA 208 Amendment is for the construction of a new water reclamation facility in Festival Ranch, located in Buckeye, Arizona. There are no existing wastewater treatment facilities, sanitary districts, or certificated service areas within the development boundaries at this time.

The Town of Buckeye currently operates a 0.6 mgd oxidation ditch facility, which is equipped with a boat clarifier, chlorination/dechlorination facilities, and sludge drying beds. Pacific Environmental Resources Corporation is under contract with the Town of Buckeye to operate the 1.2 mgd Sundance WWTP. This facility includes screening, secondary treatment (SBR), biological nutrient removal, secondary clarification, tertiary filtration, UV disinfection, and sludge processing. The 0.45 mgd Verrado WRF is currently under construction, and will include screening, secondary treatment (SBR) with biological nitrogen removal, and chlorination. These three facilities are all over 13 miles south of the Festival Ranch WRF.

1.2 Description of the Proposed WRF Plan

A description of the recommended Festival Ranch WRF is detailed in the following sections.

1.2.1 Site Location and Property Ownership

Pulte Homes is currently in the planning stages for Festival Ranch, a proposed 3,133 acre master planned community located northwest of the White Tank Mountains in Buckeye, Arizona. The majority of the community will be developed as active adult residential areas, golf courses, recreation centers, open space, and commercial areas. An additional 1140.5 acres adjacent to the Pulte Homes property is also served by the WRF. Figure 1 is a location map illustrating the limits of the service area, and is included in Appendix A.

The Festival Ranch WRF will be located at the southwest corner of the development, south of Sun Valley Parkway. The location of the WRF is shown in Figure 2 of Appendix A. The WRF will serve the Festival Ranch area south of the CAP canal.

The Phase 1 wastewater collection system is located northeast of the WRF, and is routed west along Beardsley Road and southwest along the west side of Wagner Wash to the treatment facility, as shown in the wastewater collection system map in Figure 3 of Appendix A.

The reclaimed waterline alignment is along Sun Valley Parkway from the WRF to the Phase 1 golf course, and north along 287th Avenue to proposed golf courses 2 and 3 as shown in Figure 3 of Appendix A.

Pulte Homes is currently under contract to purchase the majority of the Festival Ranch property south of the CAP canal from 10,000 West, L.L.C. With the exception of the 321-acre State Land parcel and a 153-acre privately owned parcel and a small private parcel, 10,000 West, L.L.C. owns the remainder of the property in Festival Ranch both north and south of the CAP canal. Pulte Homes will obtain all required permits on behalf of the Town of Buckeye for the Phase 1 WRF and treated effluent discharge. The Town of Buckeye will create a Community Facilities District (CFD) through which the Phase 1 WRF design and construction will be financed. The Town of Buckeye will own and operate the facility upon completion of construction. The CFD will assume responsibility for financing the subsequent phases until build out of the 4.0 mgd facility.

The Arizona Administrative Code (AAC), Title 18, Chapter 9, Article 2 requires the WRF to maintain a minimum setback of 350 feet from the nearest adjacent property line since the WRF will have noise, odor and aesthetic controls.

The existing ground slopes generally away from the White Tank Mountains, which lie southeast of the project, and towards the Wagner Wash. East of the Wagner Wash the ground slopes to the northwest, and west of the Wagner Wash the ground slopes to the southeast. The proposed development currently consists of undeveloped desert.

The CAP canal lies at the northern boundary of the service area, and Sun Valley Parkway intersects the development's south end. The Wagner Wash intersects the property, and the Hassayampa River lies directly west.

1.2.2 Estimated Wastewater Generation

The proposed Festival Ranch development is located within the Town of Buckeye service area. Detailed wastewater generation calculations are located in Appendix B. Table 1 summarizes the projected wastewater flows.

Table 1 – Ultimate Wastewater Generation Rates

	Active Adult	Single Family	Multi Family	School	Commercial	Total
Ultimate Land Use (acres)	1,819	1,046	15	15.00	577	3,472
Residential Dwelling Units	8,187	4,706	135			13,028
Population (cpdu)	2.1	3.5	2.5	1,000		
Unit Flow (gpcd)	80	100	80	25		
Unit Flow (gpd/ac)					1,500	
Wastewater Flow (gpd)	1,375,383	1,647,041	27,000	25,000	865,500	3,939,924

1.2.3 Collection System Description

Based on the natural topography, the property can be served by gravity sewer lines to the WRF. Figure 3 in Appendix A graphically depicts the proposed collection system.

The sewer was designed to convey the peak hour flow at no more than 90 percent of the calculated pipe capacity, with mean velocities between 2 fps and 10 fps. Ultimately, four gravity trunk sewers will convey wastewater to the WRF. The sewers will discharge into the influent pump station located within the WRF.

1.2.4 WRF Description

The WRF will consist of a multi-phased sequencing batch reactor (SBR) treatment system. The treatment processes consists of:

- Influent pumping
- Fine screening with manual bypass screen
- Grit removal
- Secondary treatment with biological nitrogen removal
- Secondary equalization
- Filtration
- Ultraviolet disinfection
- Effluent pumping for reuse
- Aerobic digestion
- Belt filter press

Expansions of the WRF will be at the discretion of the Town of Buckeye, and will be financed through the CFD. The phasing will be dependent upon the increase in population within the Festival Ranch development, and resultant wastewater flows. Facility sizing is modular, and accommodates flexibility in phasing. The final build-out capacity is planned to be 4.0 mgd by the year 2018. Table 2 presents preliminary design criteria and process flows for the project.

Table 2 – Festival Ranch WRF Preliminary Design Data

	Initial	Ultimate
Design Flows, mgd		
Average Day	1.0	4.0
Peak Hour	2.9	10.0
Influent Wastewater Characteristics, mg/L		
BOD ₅	350	350
TSS	300	300
NH ₃ -N	30	30
TKN	40	40
Miscellaneous		
Wastewater Temp, °C		
Winter	23	23
Summer	32	32
Air Temp, °C		
Winter	-1	-1
Summer	46	46
Elevation, feet MSL	1,500	1,500

1.2.4.1 Unit Processes

1.2.4.1.1 Preliminary Treatment

Minimal grit is expected within the collection system initially, therefore grit removal facilities will not be provided in Phase 1, but site considerations for future grit removal facilities, if needed, have been incorporated into the master site plan.

Preliminary treatment for the WRF will consist of a micro strainer, which will remove coarse solids and wash, compact, and dewater the captured screenings. The micro strainer retains solids in a semicircular screening basket. The solids are transported by a screw conveyor, in which the solids are macerated, spray washed, compacted and dewatered. Dewatered screenings will be disposed of at a landfill.

1.2.4.1.2 Biological Treatment

The SBR facilities consist of batch tanks, aeration blowers, mixing pumps, jet headers and nozzles, effluent decanters, motorized influent valves and air control valves, and waste sludge pumps. The ultimate SBRs are sized to accommodate the peak influent flowrate of 10 mgd without resorting to fill-decant. The sizing criteria for the SBRs are presented in Table 3.

Table 3 - Ultimate SBR Design Criteria

Number of SBR Units	6
Basin Sidewater Depth, feet	22
Mixed Liquor Suspended Solids, mg/L	2,500
Solids Retention Time, days	11.6
Decant Rate, gpm	7,940
Oxygen Requirement for BOD Removal, lb _{O2} /lb _R	1.33
Oxygen Requirement for TKN Oxidized, lb _{O2} /lb _R	4.6
Alpha/Beta	.85 / .95
Average Day, Peak Hour AOR/SOR, lb/h / lb/h	747 / 1,213
Clean Water O ₂ Transfer Efficiency, %	27.7

1.2.4.1.3 Tertiary Treatment

In all phases of the WRF, treated water is decanted from the SBR reactor into an equalization basin. The equalization basin is designed to provide a hydraulic buffer for downstream processes. From the equalization basin, the secondary treated wastewater will be discharged to one of two prepackaged Discfilter units. The Discfilter is a synthetic media, gravity filtration process consisting of woven fabric covered disks. Initially, two units containing fewer discs will be installed to provide complete redundancy. As flowrates increase, more discs will be added to each unit.

1.2.4.1.4 Disinfection and Effluent Pump Station

The filtered effluent will be treated with ultraviolet (UV) radiation to disinfect the water for reuse/recharge. The UV system will disinfect the effluent to the standards required by A.A.C. Title 18, Chapter 11, Article 3 for Class A+ effluent. The effluent pump station will pump effluent from the WRF to discharge at golf course lakes for golf course irrigation. The treated effluent will be stored at the golf course lakes until it is used for irrigation.

1.2.4.1.5 Odor Control

In all phases of the WRF, odor control facilities will be provided to treat off-gasses from the influent pump station, screenings facility, SBRs, sludge-holding tank, and solids handling facility. All basins are covered to reduce odor emissions and include a ventilation conduit for collecting off gasses. The odor scrubbing system will create a negative pressure by drawing from each reactor. Air will pass through the plenum, between the water surface and the tank cover, and will be directed to an odor control system.

1.2.4.2 Effluent Disposal and Quality Requirements

Treated effluent from the WRF will be recharged and reused for golf course irrigation. The effluent pumps will pump treated effluent to the golf course lakes, where it will be stored for irrigation. Effluent will be recharged during wet weather events, and as effluent generation exceeds the irrigation demand. This recharged effluent may be recovered when irrigation demands are higher than effluent generation. As more effluent becomes available, additional disposal methods will include open access irrigation in common areas, parks, and right-of-way landscaping. Consideration will be given to acquiring an AzPDES permit for seasonal discharge to Wagner Wash to support recharge.

A water balance showing the anticipated treated effluent supply and golf course irrigation demand is included in Appendix B.

The reuse of effluent for golf course irrigation will reduce the need to use pumped groundwater for irrigation. The WRF effluent will comply with Class A+ reclaimed water quality requirements as outlined in the A.A.C. Title 18, Chapter 11, Article 3. Class A is required for open access landscape irrigation, such as in right-of-ways, common areas, schools, and parks.

There are no anticipated water quality issues for Class A+ effluent.

1.2.4.3 Stormwater Discharge

On-site stormwater retention will be provided to accommodate a 100-year, 2-hour storm. Stormwater discharge in excess of a 100-year, 2-hour storm from within the WRF site will be diverted to the Wagner Wash, a 100-year flood plain located east of the WRF. The plant site will not receive stormwater runoff from adjacent properties. Stormwater discharges from the plant site will be subject to NPDES stormwater permitting requirements when design flows exceed 1.0 mgd. The flows will be addressed through implementation of a stormwater pollution prevention plan.

1.2.5 Reclaimed Water System Description

Effluent from the WRF will ultimately be 1) reused for irrigation of three golf courses, 2) reused for public access irrigation of parks, school turf, and right-of-ways, and 3) recharged to the groundwater. Consideration will be given to acquiring an AzPDES permit for seasonal discharge to Wagner Wash to support recharge. The reclaimed water infrastructure includes reclaimed water transmission lines, booster pump stations, and storage lakes. One golf course will be operational and capable of receiving effluent at the beginning of Phase 1 of the WRF. A second golf course will be constructed in Phase 3 and a third in Phase 5. The effluent pump station will be located at the WRF. The reclaimed water transmission lines will follow the major street alignments. Additional booster pump stations and reclaimed water distribution lines will be installed as needed to provide irrigation for each phase of golf course construction and public access reuse sites.

Effluent will be pumped from the WRF to onsite storage lakes at each golf course. Each storage lake will be sized to regulate the flow of reclaimed water between the time it is delivered and the time it is used for irrigation.

1.2.6 Sanitary Districts, Private Utilities, and WWT Service Areas

The location of the Festival Ranch WRF and the alignment corridors for the proposed collection system are shown on Figure 3 of Appendix A. There are no existing wastewater treatment facilities, sanitary districts, or certified service areas that would be impacted by either the construction of the WRF, collection system, or the discharge lines.

1.3 Summary of Alternatives

The Third Management Plan for Phoenix Active Management Area's (AMA) Industrial Conservation Program imposes annual application rates for turf acreage, bodies of water, and low water use landscaping for all turf-related facilities. The Phoenix AMA defines a turf-related facility as any facility, including schools, parks, cemeteries, golf courses, or common areas within a housing subdivision, with ten or more acres of water-intensive landscaped area. In order to encourage the use of treated effluent for irrigation, the Third Management Plan discounts all direct effluent use by 40 percent, which would provide a higher application rate to facilities using higher percentages of effluent.

Treated effluent from the Phase 1 WRF will be used for golf course irrigation and groundwater recharge and recovery. The demand for irrigation water varies throughout the year, with the summer demand significantly surpassing the winter demand. In the summer months, treated effluent may be supplemented with recovered effluent from an underground storage facility, surface water or groundwater to provide the required irrigation water demand. Upon future expansion of the WRF, alternative means of disposal will be used, such as for irrigation of open access landscaping and groundwater recharge to balance the effluent generation with irrigation demands. Consideration will be given to acquiring an AzPDES permit for seasonal discharge to Wagner Wash to support recharge.

1.4 Permitting Requirements

The WRF will require the following environmental permits or clearances:

Permit	Regulatory Agency
Aquifer Protection Permit (APP)	Arizona Department of Environmental Quality (ADEQ)
Type 2 Reclaimed Water General Permit for Direct Reuse of Class A+ Reclaimed Water	ADEQ
Sludge Disposal Agreement	ADEQ
AzPDES Permit (alternatively)	ADEQ
Reclaimed Wastewater Recharge Permit	Arizona Department of Water Resources (ADWR)
Underground Storage Facility Permit	ADWR
Water Storage Permit	ADWR
Recovery Well Permit	ADWR
Air Quality Permit	Maricopa County Environmental Services Department (MCESD)
Wastewater Facility Approval to Construct	MCESD
Reclaimed Water System Approval to Construct	MCESD
Hazardous Materials Management Plan (HMMP)	Town of Buckeye Fire Department
Grading Permit	Town of Buckeye
Architectural Approval	Town of Buckeye
Building Permit	Town of Buckeye

1.5 Pretreatment Requirements

No pretreatment is required by 40 CFR Section 403.8 since it is not anticipated that the WRF will have any industrial users, and the ultimate capacity of the facility is less than 5.0 mgd.

1.6 Sludge Management Requirements

The sludge from the WRF will be wasted from the SBRs to an aerobic sludge digester. The digester is sized to accommodate maximum loadings. Sludge will be pumped from the digester to a belt filter press for dewatering (Class B pathogen reduction according to A.A.C., Title 18, Chapter 9, Article 10). Dewatered sludge from the belt press may be additionally treated by heat drying (Class A pathogen reduction), which may be constructed during Phase 2 of the WRF. This process will be added only if necessary for ultimate sludge disposal.

Sludge of this quality (Class A and B) may be land applied for agricultural purposes. The sludge may also be delivered to a landfill for disposal. A valid sludge hauler and sludge disposal permit will be obtained.

2.0 CONSTRUCTION, OPERATION, AND MAINTENANCE

A project schedule through construction is located in Appendix C.

2.1 Construction Responsibility

The Town of Buckeye will sponsor the Festival Ranch WRF for purposes of the MAG 208 Plan Amendment.

Pulte Homes will carry out the plan for design and construction of the sewer collection system, Phase 1 of the WRF, and the reclaimed water system. The CFD created by the Town of Buckeye will fund the construction of the WRF, collection system, and reclaimed water system. The Town of Buckeye, through the CFD will fund all future expansions of the WRF, collection system, and reclaimed water system.

2.2 Operation and Maintenance Responsibility

After Phase 1 is constructed and accepted by the Town of Buckeye, ownership will be transferred to the Town. The Town of Buckeye will operate and maintain the WRF, collection system, and reclaimed water system and will collect operation and maintenance costs from individual users through monthly service fees.

The Town of Buckeye is exploring operation and maintenance options at this time. The Town may publicly bid operation and maintenance services or directly hire qualified and licensed operators.

2.3 Sources of Construction Pollution

Construction of the WRF and reclaimed waterline will not be a pollution-intensive activity. Anticipated pollutants include fugitive dust from the construction activities, construction-related solid waste, inert materials, and residual construction materials such as paint and adhesives. Any waste generated during construction will be properly managed and disposed of in an appropriately permitted facility. The construction activities will be subject to stormwater permitting and will implement Best Management Practices.

3.0 FINANCING AND OTHER ACTIONS TO IMPLEMENT PLAN

3.1 Financing Plan

The Town of Buckeye will form a Community Facilities District (CFD) through which the construction of the treatment plant, collection system, and reclaimed water system will be financed. Pulte Homes will initially fund the CFD. In the case that the CFD is not formed, the construction of the WRF, collection system, and reclaimed water system will be funded by the development interests requiring the capacity of the plant.

The Town of Buckeye will collect monthly user fees to finance the operation and maintenance of the treatment plant, collection system, and reclaimed water system.

3.2 Financing Capacity to Construct

The construction of the treatment plant, collection system, and reclaimed water system will be financed through the CFD. In the case that the CFD is not formed, the construction of the WRF, collection system, and reclaimed water system will be funded by the development interests requiring the capacity of the plant.

3.3 Financing Capacity to Operate

The Town of Buckeye will collect monthly user fees to finance the operation and maintenance of the treatment plant, collection system, and reclaimed water system. It is anticipated that the fees will offset the total cost of operation and maintenance at buildout.

The financial statements for the Town of Buckeye are included in Appendix D.

4.0 IMPACTS AND IMPLEMENTATION PLAN

4.1 Implementation Plan

The initial phase of the Festival Ranch WRF will have a capacity of 1.0 mgd, and is anticipated to be operational by January 2005. A detailed start-up plan will be developed for the facility during the design phase.

Subsequent expansions of the WRF will be dependent upon the increase in population within the development, and resultant wastewater flows. The final build-out capacity is planned to be a flow of 4.0 mgd by the year 2018.

4.2 Impacts of Proposed Plan

The effect of implementing the initial phase of the WRF is not expected to impact the operation of any adjacent municipality, nor any existing sanitary district or certificated area, nor any communities or businesses. The effluent will be used primarily for golf course irrigation, thereby reducing the amount of groundwater or surface water used. The high quality effluent will have very little organic content and therefore will be very unlikely to produce odors. The effluent reuse and recharge is not anticipated to create a noticeable insect population or odor. Letters of no objection from the Maricopa County Environmental Services Department and the City of Surprise have been included in Appendix E, because the proposed plant will be located within three miles of Maricopa County and the City of Surprise planning areas.

5.0 PUBLIC PARTICIPATION

MAG is responsible, with cooperation from the Town of Buckeye, for ensuring that the following actions are taken as this CWA 208 Amendment process proceeds:

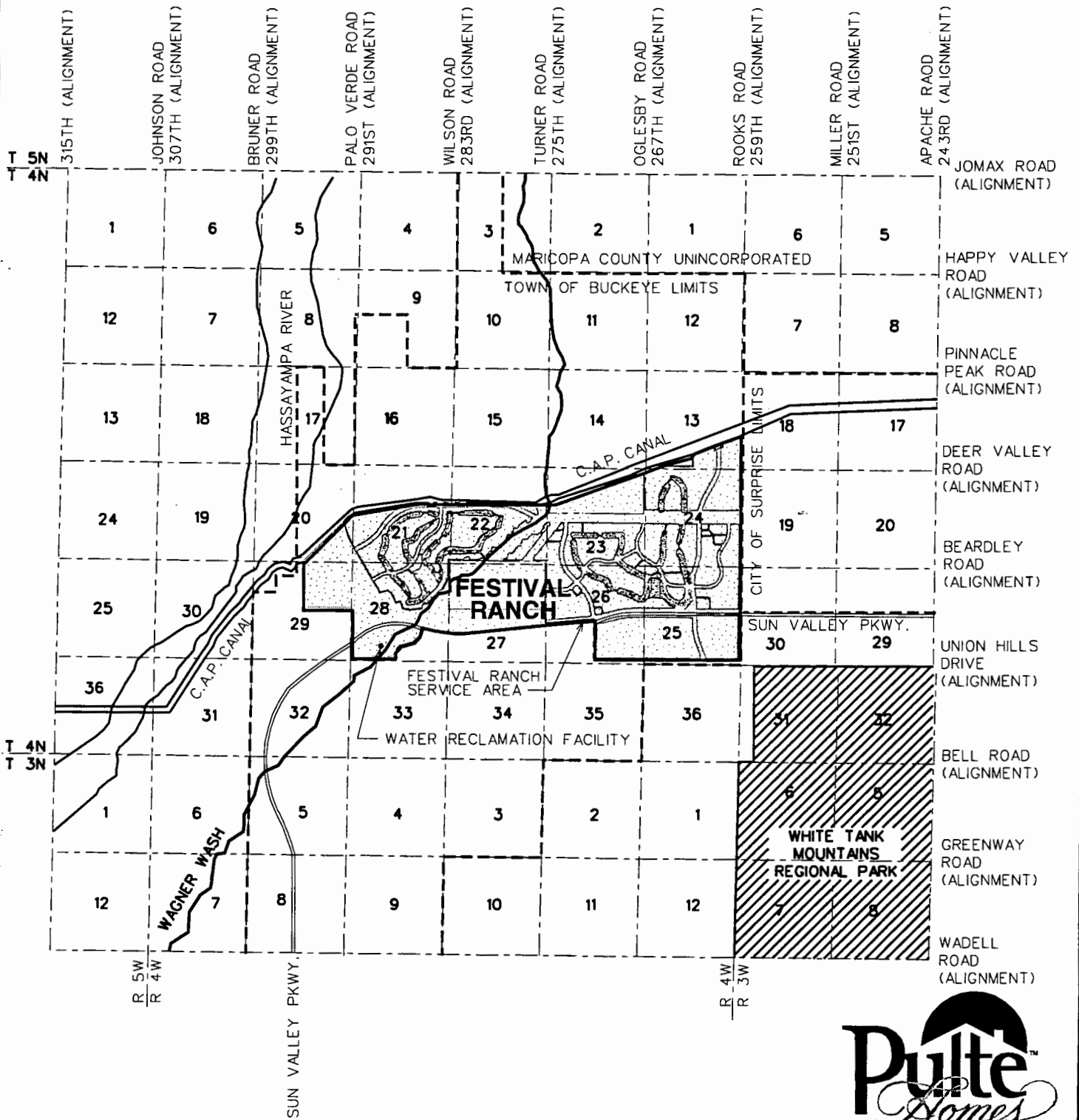
1. Submittal of a mailing list that will be used to notify the public of the hearing on this 208 Amendment.
2. 30-day notification to the public of the location where documentation pertaining to this 208 Amendment is available for review.
3. Publication of a public notice with information on the date, time, subject, and location of the public hearing on this 208 Amendment at least 45 days prior to the hearing.
4. Submittal of an affidavit of publication of the public notice.
5. Submittal of a responsiveness summary for the public hearing.

Appendix A

Location and Site Maps

FESTIVAL RANCH

BUCKEYE, ARIZONA



SCALE : NONE

LOCATION MAP

COE & VAN LOO
 PLANNING • ENGINEERING • LANDSCAPE ARCHITECTURE

4550 NORTH 12TH STREET
 PHOENIX, ARIZONA 85014
 TELEPHONE (602) 264-6831

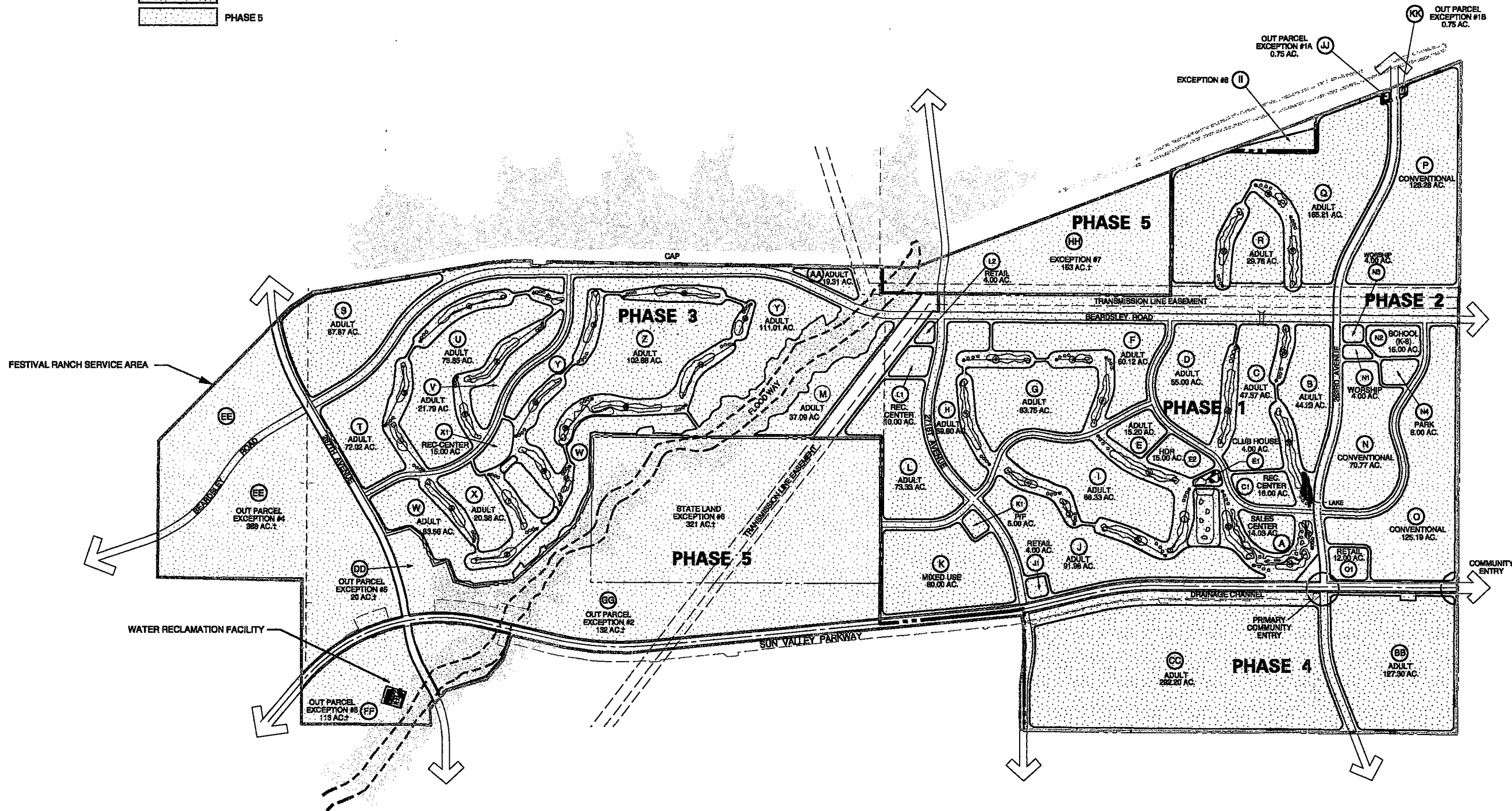
JOB NO.	FIGURE
680001-08	1

FESTIVAL RANCH PLANNED COMMUNITY

BUCKEYE, ARIZONA

LEGEND

	PHASE 1
	PHASE 2
	PHASE 3
	PHASE 4
	PHASE 5



LAND USE PLAN

COE & VAN LOO
PLANNING • ENGINEERING • LANDSCAPE ARCHITECTURE

4550 NORTH 12TH STREET PHOENIX, ARIZONA 85014 TELEPHONE (602) 264-6831	JOB NO. 880001-08	FIGURE 2
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SCALE: 1" = 2000'

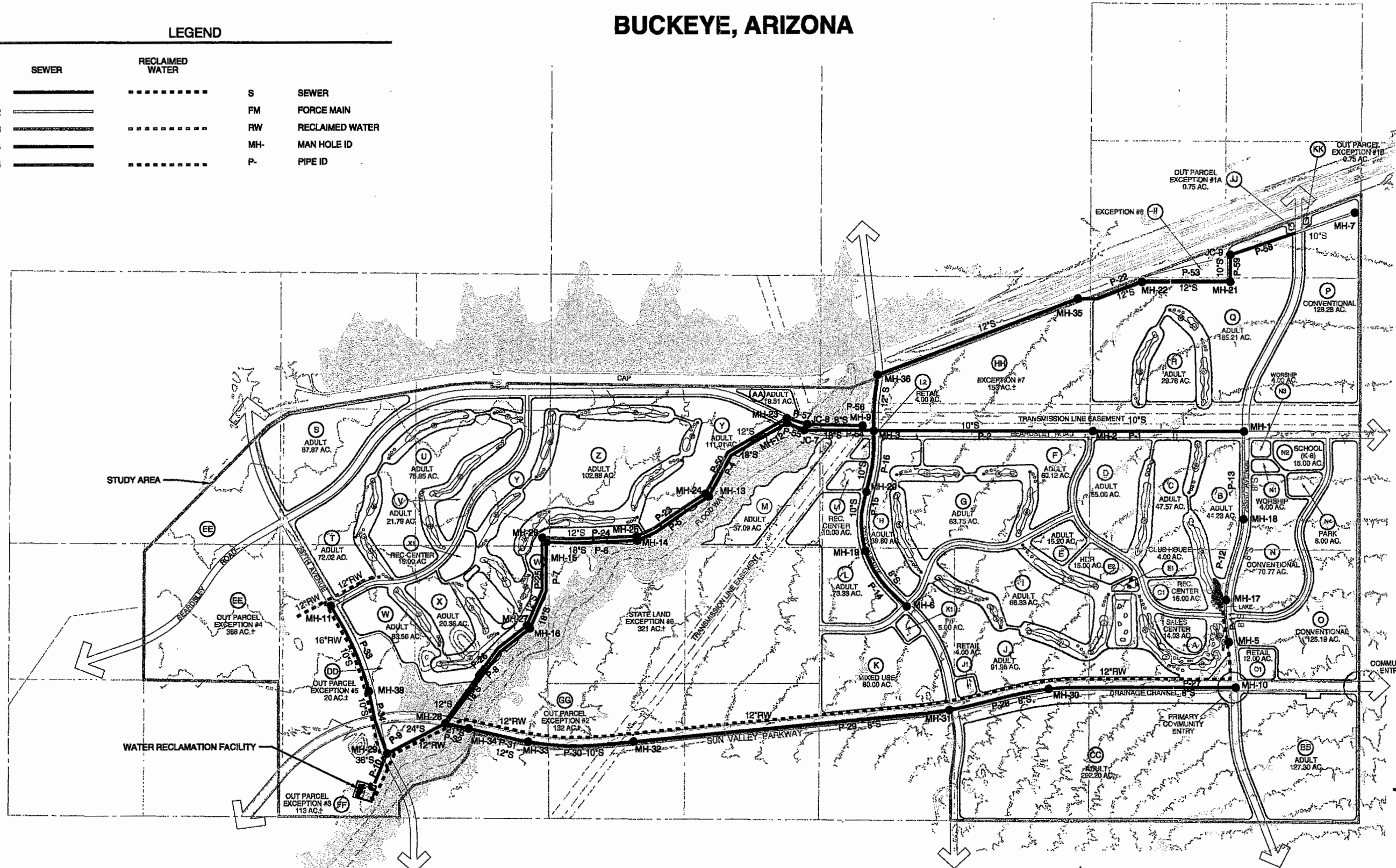
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FESTIVAL RANCH PLANNED COMMUNITY

BUCKEYE, ARIZONA

LEGEND

SEWER		RECLAIMED WATER	
PHASE 1			S SEWER
PHASE 2			FM FORCE MAIN
PHASE 3			RW RECLAIMED WATER
PHASE 4			MH- MAN HOLE ID
PHASE 5			P- PIPE ID



WASTEWATER INFRASTRUCTURE MASTER PLAN

COE & VAN LOO
PLANNING • ENGINEERING • LANDSCAPE ARCHITECTURE

4550 NORTH 12TH STREET
PHOENIX, ARIZONA 85014
TELEPHONE (602) 264-6831

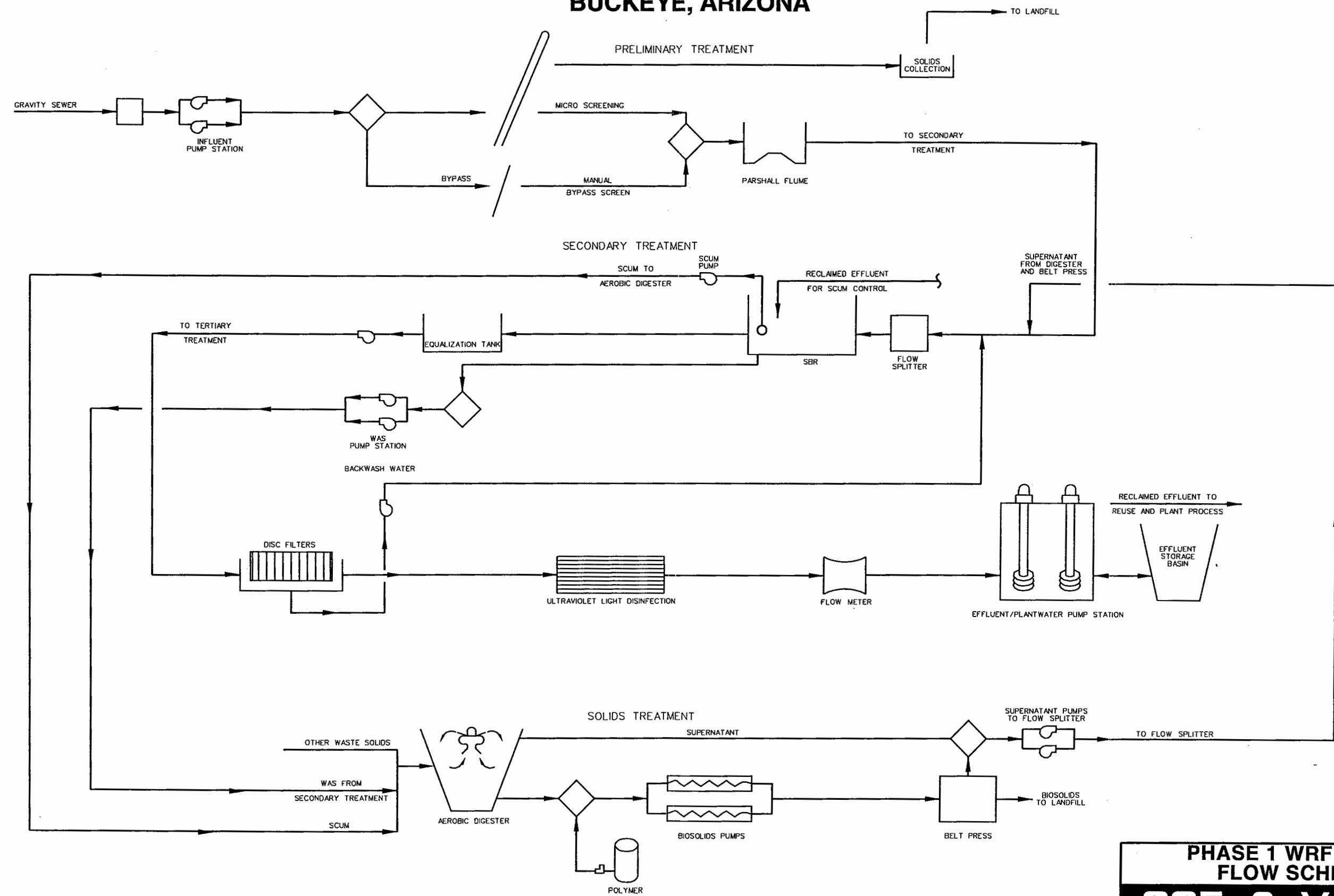
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FIGURE 3

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FESTIVAL RANCH

BUCKEYE, ARIZONA



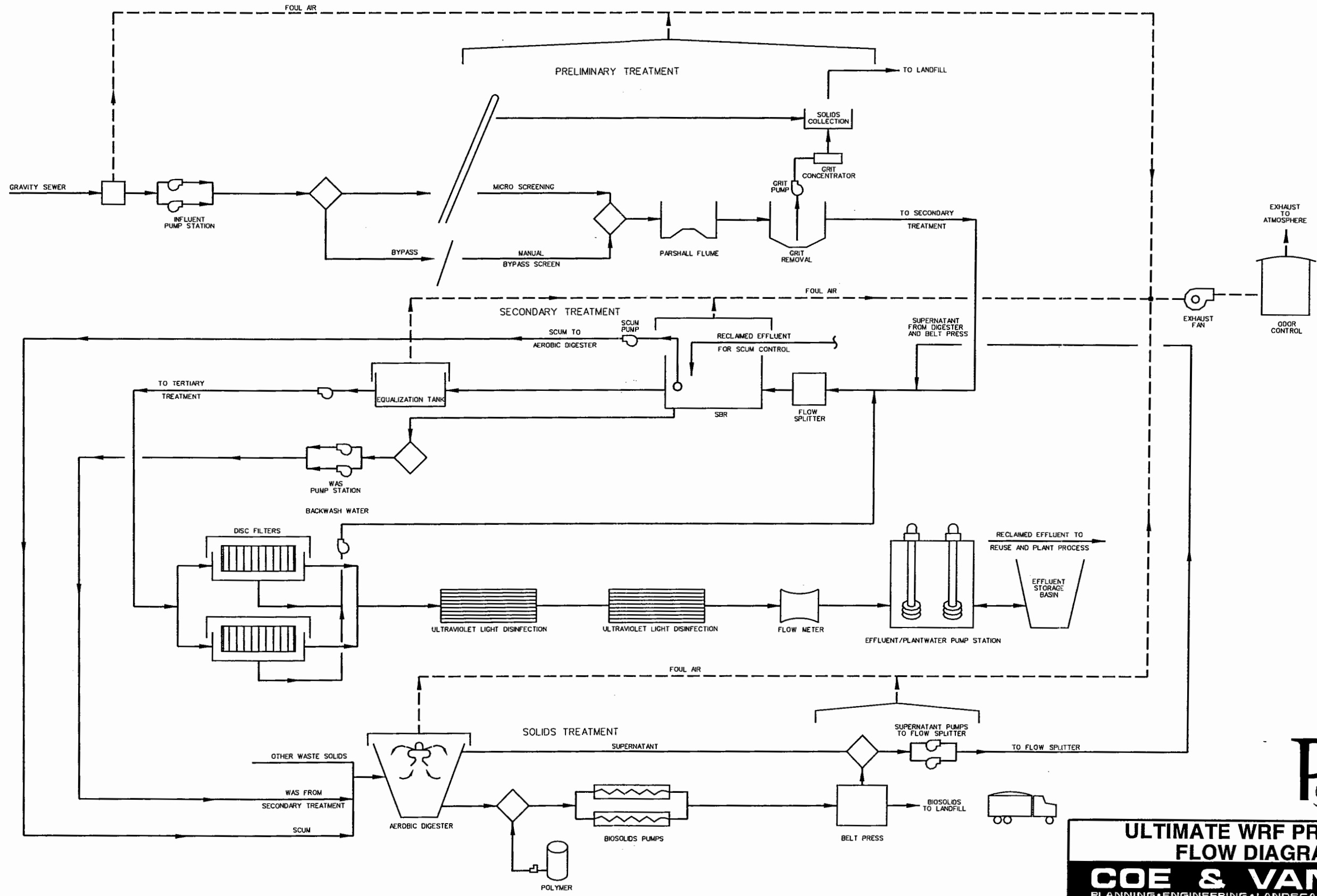
**PHASE 1 WRF PROCESS
FLOW SCHEMATIC**

COE & VAN LOO
PLANNING • ENGINEERING • LANDSCAPE ARCHITECTURE

4550 NORTH 12TH STREET PHOENIX, ARIZONA 85014 TELEPHONE (602) 264-6831	JOB NO. 680001-08	FIGURE 4
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FESTIVAL RANCH BUCKEYE, ARIZONA



**ULTIMATE WRF PROCESS
FLOW DIAGRAM**

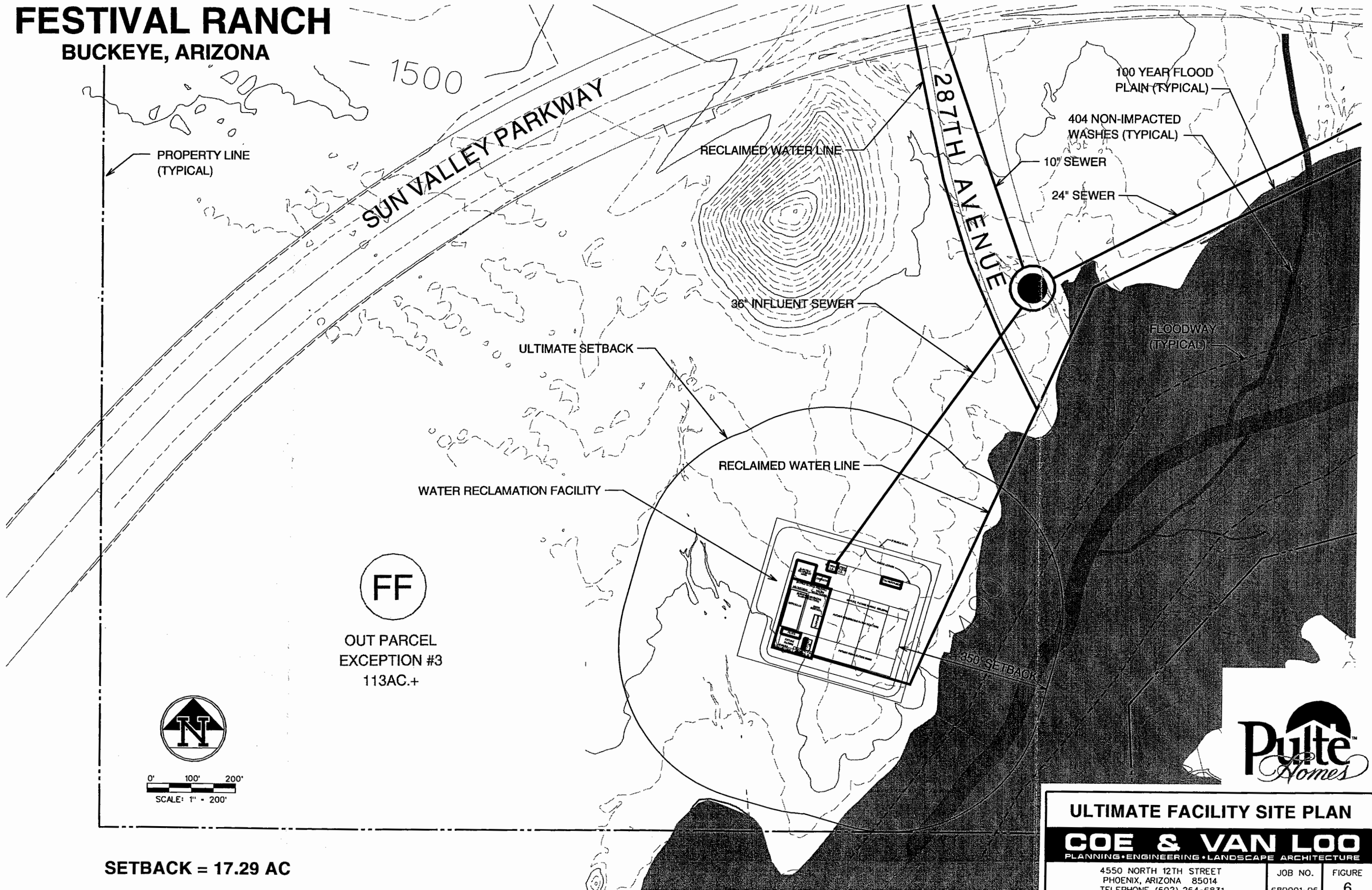
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PLANNING • ENGINEERING • LANDSCAPE ARCHITECTURE

4550 NORTH 12TH STREET PHOENIX, ARIZONA 85014 TELEPHONE (602) 264-6831	JOB NO. 680001-06	FIGURE 5
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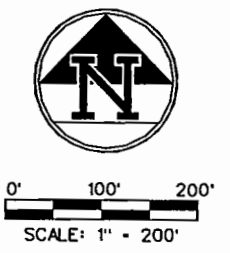
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FESTIVAL RANCH

BUCKEYE, ARIZONA



FF
 OUT PARCEL
 EXCEPTION #3
 113AC.+



SETBACK = 17.29 AC

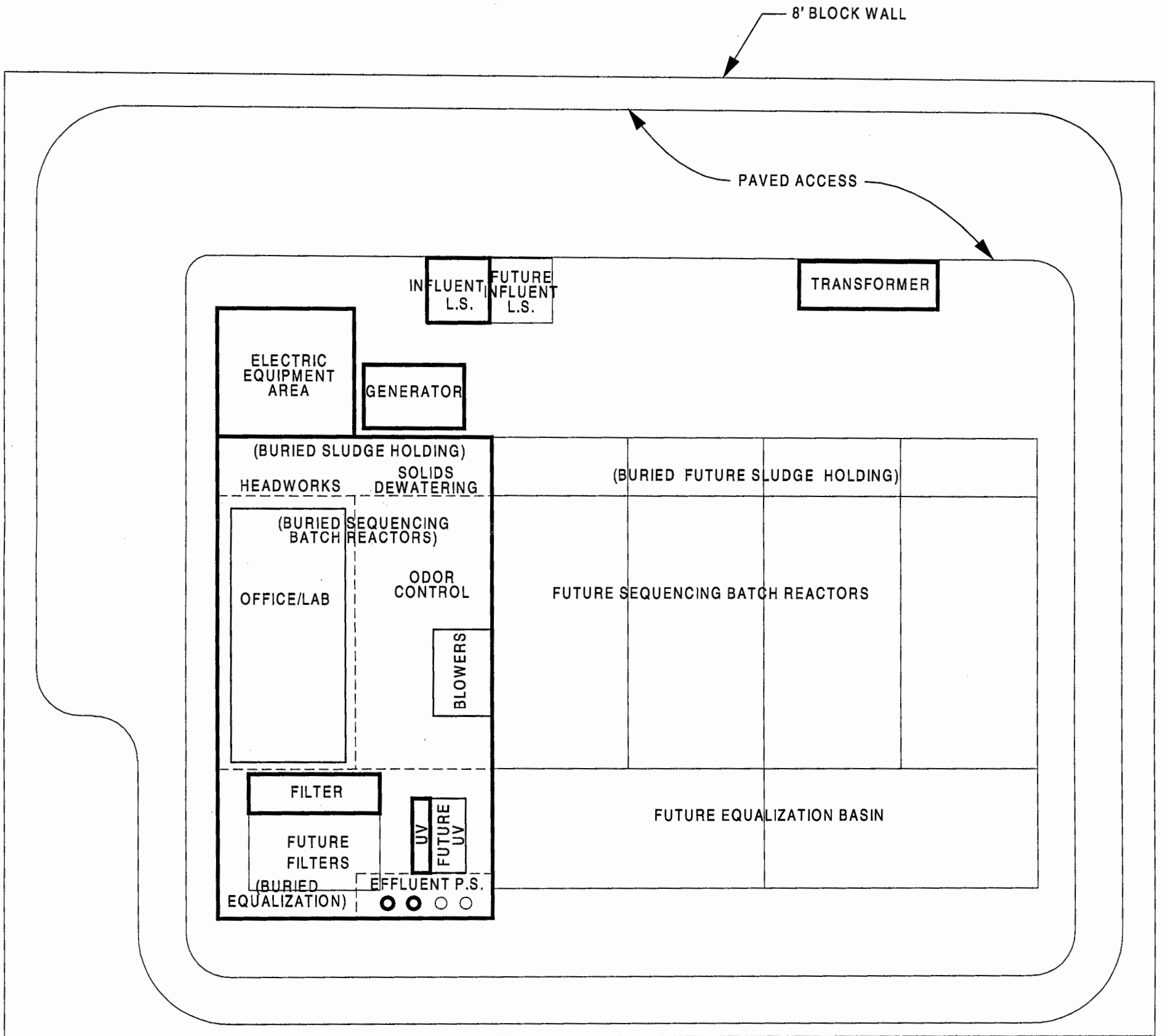


ULTIMATE FACILITY SITE PLAN		
COE & VAN LOO		
PLANNING • ENGINEERING • LANDSCAPE ARCHITECTURE		
4550 NORTH 12TH STREET PHOENIX, ARIZONA 85014 TELEPHONE (602) 264-6831	JOB NO. 680001-06	FIGURE 6

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FESTIVAL RANCH

BUCKEYE, ARIZONA



LEGEND

- PHASE 1
- ULTIMATE
- BELOW GRADE



0' 20' 40'
 SCALE: 1" = 40'



Appendix B

Water Balance



Project: Festival Ranch Water Reclamation Facility
 Location: Buckeye, Arizona
 Project Number: 680001-08

Year	Month	Single Family (dwelling units)	Active Adult (dwelling units)	Multiple Family (units)	Commercial (acres)	School (acres)	Park (acres) [1]	ROW Landscaping (acres) [1]	Golf Courses	Annual Average Daily Flow (gpd)	Annual Average Maximum Daily Flow (gpd)	Annual Average Maximum Daily Flow (gpm)	Annual Average Peak Hour Flow (gpm)	Annual Average Daily Flow (gpd)	Peak Hour Flow (gpm) [2]	Potable Water Demand [3]	Wastewater Flow [3]	Irrigation Demand (gpm) [4]	Rainfall minus Lake Evaporation (gpm) [4]	Effluent Generation (gpm) [5]	Effluent Reuse (gpm)	Supplemental Recharge (gpm)	Cumulative Irrigation (gpm)	Cumulative Groundwater Use (acre-feet)	Cumulative Recharge Credits (acre-feet)	Construction Water (gpm) [6]	Potable Water Demand (gpm)	Total Water Demand (gpm)	Cumulative Water Usage (acre-feet)	Potable Wells Required	Notes	
CUMULATIVE LAND USE PHASING SCHEDULE									POTABLE WATER				WASTEWATER				CUMULATIVE WATER BALANCE															
2004	January	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	63%	90%	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0		
	February	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	69%	92%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0	
	March	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	80%	95%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0	
	April	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	88%	97%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0	
	May	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	124%	106%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0	
	June	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	144%	112%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0	
	July	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	146%	112%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0	
	August	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	126%	107%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0	
	September	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	115%	104%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0	
	October	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	96%	99%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0	
	November	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	79%	94%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0	
	December	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	69%	92%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0	
2005	January	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	63%	90%	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0		
	February	0	0	0	0.0	0.0	0.0	0.0	0	0	0	0	0	0	69%	92%	0	0	0	0	0	0	0	0	0	0	0	0	0	1.0		
	March	0	0	0	0.0	0.0	0.0	0.2	0.1	0	0	0	0	0	80%	95%	32	5	0	0	0	26	4	0	30	0	56	8	2.0			
	April	0	0	0	0.0	0.0	0.0	0.3	0.2	0	0	0	0	0	88%	97%	75	2	0	0	0	73	13	0	31	0	105	22	2.0			
	May	0	0	0	0.0	0.0	0.0	0.5	0.3	0	0	0	0	0	124%	106%	131	-1	0	0	0	132	31	0	30	0	162	43	2.0			
	June	0	0	0	0.0	0.0	0.0	0.7	0.4	0	0	0	0	0	144%	112%	274	-3	0	0	0	277	68	0	31	0	308	85	2.0			
	July	0	105	0	4.0	0.0	0.0	0.8	0.5	41,128	74,030	51	87	23,668	35	146%	112%	390	23	17	17	0	350	115	0	111	42	503	152	2.0		
	August	0	210	0	4.0	0.0	0.0	1.0	0.6	74,255	133,659	93	158	41,336	50	126%	107%	412	34	29	29	0	349	162	0	101	65	515	222	2.0		
	September	0	316	0	4.0	0.0	0.0	1.2	0.7	107,383	193,289	134	228	59,004	63	115%	104%	352	28	40	40	0	284	201	0	104	86	474	285	2.0		
	October	0	421	0	4.0	0.0	0.0	1.3	0.8	140,510	252,918	176	299	76,672	76	96%	99%	298	28	49	49	0	221	230	0	101	94	416	341	2.0		
	November	0	526	0	4.0	0.0	0.0	1.5	0.9	173,638	312,548	217	369	94,340	88	79%	94%	254	34	57	57	0	163	252	0	104	95	362	390	2.0		
	December	0	631	0	20.0	0.0	0.0	1.7	1.0	238,765	429,777	298	507	136,008	120	69%	92%	177	58	81	81	0	39	257	0	144	114	297	430	2.0		
2006	January	20	700	11	21.3	0.0	0.0	1.8	1.0	277,588	499,658	347	590	158,662	136	63%	90%	167	53	92	92	0	22	260	0	71	121	215	459	2.0		
	February	39	769	23	22.7	0.0	0.0	2.0	1.0	316,411	569,540	396	672	181,316	152	69%	92%	209	46	108	108	0	55	268	0	79	152	285	497	2.0		
	March	59	837	34	24.0	0.0	0.0	2.2	1.0	355,234	639,421	444	755	203,971	168	80%	95%	263	54	125	125	0	84	279	0	71	197	352	544	2.0		
	April	78	906	45	25.3	0.0	0.0	2.3	1.0	394,057	709,302	493	837	226,625	183	88%	97%	321	9	142	142	0	170	302	0	73	241	484	609	2.0		
	May	98	975	56	26.7	0.0	0.0	2.5	1.0	432,880	779,183	541	920	249,279	199	124%	106%	381	-4	171	171	0	215	331	0	71	373	658	698	2.0		
	June	118	1,044	68	28.0	0.0	0.0	2.7	1.0	471,703	849,065	590	1,002	271,933	215	144%	112%	630	-8	197	197	0	441	390	0	73	472	986	830	2.0		
	July	137	1,112	79	29.3	0.0	0.0	2.8	1.0	510,525	918,946	638	1,085	294,587	231	146%	112%	726	46	213	213	0	467	453	0	71	518	1,055	972	2.0		
	August	157	1,181	90	30.7	0.0	0.0	3.0	1.0	549,348	988,827	687	1,167	317,241	247	126%	107%	632	56	219	219	0	356	501	0	71	481	908	1,094	2.0		
	September	176	1,250	101	32.0	0.0	0.0	3.2	1.0	588,171	1,058,708	735	1,250	339,896	263	115%	104%	448	40	228	228	0	179	525	0	73	470	722	1,191	2.0		
	October	196	1,319	113	33.3	0.0	0.0	3.3	1.0	626,994	1,128,590	784	1,332	362,550	278	96%	99%	318	34	232	232	0	52	532	0	71	418	541	1,264	2.0		
	November	215	1,387	124	34.7	0.0	0.0	3.5	1.0	665,817	1,198,471	832	1,415	385,204	294	79%	94%	229	38	234	191	43	0	526	0	73	365	439	1,323	2.0		
	December	235	1,456	135	36.0	0.0	0.0	3.7	1.0	704,640	1,268,352	881	1,497	407,858	310	69%	92%	179	58	242	122	121	0	510	0	71	338	409	1,378	2.0		
2007	January	268	1,526	135	41.0	15.0	0.0	3.8	1.0	878,858	1,581,944	1,099	1,868	463,584	349	63%	90%	169	53	269	116	153	0	489	0	123	385	508	1,446	3.0		
	February	301	1,595	135	51.0	15.0	0.0	4.0	1.0	938,075	1,688,535	1,173	1,993	501,810	376	69%	92%	211	46	298	164	134	0	471	0	107	449	556	1,521	3.0		
	March	334	1,665	135	55.4	15.0	0.0	4.2	1.0	986,093	1,774,967	1,233	2,095	531,636	397	80%	95%	265	54	326	211	115	0	456	0	81	548	629	1,606	3.0		
	April	367	1,734	135	59.8	15.0	0.0	4.3	1.0	1,034,110	1,861,398	1,293	2,197	561,462	418	88%	97%	323	9	352	314	37	0	451	0	84	632	716	1,702	3.0		
	May	400	1,804	135	64.2	15.0	0.0	4.5	1.0	1,082,128	1,947,830	1,353	2,300	591,288	438	124%	106%	383	-4	405	387	18	0	448	0	81	932	1,013	1,838	3.0		
	June	433	1,873	135	68.6	15.0	0.0	4.7	1.0	1,130,145	2,034,261	1,413	2,402	621,114	459	144%	112%	632	-8	449	449	0	190	474	0	84	1,130	1,404	2,027	3.0		
	July	466	1,943	135	73.0	15.0	0.0	4.8	1.0	1,178,163	2,120,693	1,473	2,504	650,940	480	146%	112%	728	46	471	471	0	211	502	0	81	1,195	1,487	2,227	3.0		
	August	499	2,012	135	77.4	15.0	0.0	5.0	1.0	1,226,180	2,207,124	1,533	2,606	680,766	501	126%	107%	634	56	470	470	0	107	517	0	81	1,073	1,261	2,396	3.0		
	September	532	2,082	135	81.8	15.0	0.0	5.2	1.0	1,274,198	2,293,556	1,593	2,708	710,592	522	115%	104%	450	40	477	410	68	0	508	0	84	1,018	1,101	2,544	3.0		
	October	565	2,151	135	86.2	15.0	0.0	5.3	1.0	1,322,215	2,379,987	1,653	2,810	740,418	542	96%	99%	320	34	473	286	188	0	482	0	81	881	963	2,674	3.0		
	November	598	2,221	135	90.6	15.0	0.0	5.5	1.0	1,370,233	2,466,419	1,713	2,912	770,244	563	79%	94%	231	38	468	193	275	0	445	0	84	752	836	2,786	3.0		
	December	631	2,290	135	95.0	15.0	0.0	5.7	1.0	1,418,250	2,552,850	1,773	3,014	800,070	584	69%	92%	181	58	475	123	352	0	398	0	81	680	761	2,888	3.0		

Year	Month	Single Family (dwelling units)	Active Adult (dwelling units)	Multiple Family (units)	Commercial (acres)	School (acres)	Park (acres) [1]	ROW Landscaping (acres) [1]	Golf Courses	Annual Average Daily Flow (gpd)	Annual Average Maximum Daily Flow (gpd)	Annual Average Maximum Daily Flow (gpm)	Annual Average Peak Hour Flow (gpm)	Annual Average Daily Flow (gpd)	Peak Hour Flow (gpm) [2]	Potable Water Demand [3]	Wastewater Demand [3]	Irrigation Demand (gpm) [3]	Rainfall minus Lake Evaporation (gpm) [4]	Effluent Generation (gpm) [4]	Effluent Reuse (gpm)	Effluent Recharge (gpm)	Supplemental Irrigation (gpm) (acre-feet)	Cumulative Irrigation (gpm)	Cumulative Groundwater Use (acre-feet)	Cumulative Recharge Credits (acre-feet)	Construction Water (gpm) [6]	Potable Water Demand (gpm)	Total Water Demand (gpm)	Cumulative Demand (gpm) [7]	Cumulative Water Usage (acre-feet)	Potable Wells Required	Notes
CUMULATIVE LAND USE PHASING SCHEDULE									POTABLE WATER				WASTEWATER				CUMULATIVE WATER BALANCE																
2008	January	694	2,318	135	99.0	15.0	8.0	5.8	1.0	1,467,996	2,642,393	1,835	3,119	832,721	607	63%	90%	179	53	484	126	358	0	350	0	94	642	736	2,987	3.0			
	February	756	2,346	135	99.0	15.0	8.0	6.0	1.0	1,509,743	2,717,537	1,887	3,208	859,373	625	69%	92%	220	46	511	174	337	0	305	0	68	723	791	3,093	3.0			
	March	819	2,374	135	99.0	15.0	8.0	6.2	1.0	1,551,489	2,792,680	1,939	3,297	886,024	644	80%	95%	274	54	544	221	323	0	261	0	61	862	923	3,218	3.0			
	April	882	2,402	135	99.0	15.0	8.0	6.3	1.0	1,593,235	2,867,823	1,992	3,386	912,675	662	88%	97%	333	9	572	324	248	0	228	0	63	974	1,037	3,357	3.0			
	May	944	2,430	135	99.0	15.0	8.0	6.5	1.0	1,634,981	2,942,966	2,044	3,474	939,327	681	124%	106%	393	-4	643	397	246	0	195	0	61	1,408	1,469	3,554	3.0			
	June	1,007	2,459	135	99.0	15.0	8.0	6.7	1.0	1,676,728	3,018,110	2,096	3,563	965,978	699	144%	112%	642	-8	699	649	49	0	188	0	63	1,677	1,740	3,788	3.0			
	July	1,070	2,487	135	103.0	15.0	8.0	6.8	1.0	1,726,474	3,107,653	2,158	3,669	998,629	722	146%	112%	738	46	722	691	31	0	184	0	72	1,750	1,823	4,033	3.0			
	August	1,132	2,515	135	103.0	15.0	8.0	7.0	1.0	1,768,220	3,182,796	2,210	3,757	1,025,281	741	126%	107%	644	56	709	587	121	0	168	0	61	1,547	1,609	4,250	3.0			
	September	1,195	2,543	135	103.0	15.0	8.0	7.2	1.0	1,809,966	3,257,939	2,262	3,846	1,051,932	759	115%	104%	459	40	707	419	287	0	129	0	63	1,445	1,509	4,452	3.0			
	October	1,258	2,571	135	103.0	15.0	8.0	7.3	1.0	1,851,713	3,333,083	2,315	3,935	1,078,583	778	96%	99%	330	34	690	295	394	0	76	0	61	1,234	1,296	4,627	3.0			
	November	1,320	2,599	135	103.0	15.0	8.0	7.5	1.0	1,893,459	3,408,226	2,367	4,024	1,105,235	796	79%	94%	240	38	671	202	469	0	13	0	63	1,039	1,102	4,775	4.0			
	December	1,383	2,627	135	103.0	15.0	8.0	7.7	1.0	1,935,205	3,483,369	2,419	4,112	1,131,886	815	69%	92%	191	58	673	133	539	0	0	59	61	927	989	4,908	4.0			
2009	January	1,389	2,702	135	103.0	15.0	8.0	7.8	1.1	1,962,243	3,532,037	2,453	4,170	1,146,744	825	63%	90%	199	57	667	142	524	0	0	130	80	858	938	5,034	4.0			
	February	1,396	2,778	135	103.0	15.0	8.0	8.0	1.2	1,989,280	3,580,704	2,487	4,227	1,161,601	835	69%	92%	266	54	690	212	478	0	0	194	89	953	1,042	5,174	4.0			
	March	1,402	2,853	135	103.0	15.0	8.0	8.2	1.3	2,016,318	3,629,372	2,520	4,285	1,176,459	846	80%	95%	355	67	722	288	433	0	0	252	80	1,120	1,200	5,335	4.0			
	April	1,408	2,929	135	103.0	15.0	8.0	8.3	1.3	2,043,355	3,678,039	2,554	4,342	1,191,316	856	88%	97%	460	12	746	448	298	0	0	292	83	1,249	1,331	5,514	4.0			
	May	1,414	3,004	135	103.0	15.0	8.0	8.5	1.4	2,070,393	3,726,707	2,588	4,400	1,206,174	866	124%	106%	576	-6	826	582	244	0	0	325	80	1,783	1,863	5,764	4.0			
	June	1,421	3,080	135	118.0	15.0	8.0	8.7	1.5	2,127,430	3,829,374	2,659	4,521	1,243,531	892	144%	112%	986	-11	899	899	0	97	0	312	124	2,127	2,349	6,080	4.0			
	July	1,427	3,155	135	118.0	15.0	8.0	8.8	1.6	2,154,468	3,878,042	2,693	4,578	1,258,389	903	146%	112%	1194	73	910	910	0	211	0	284	80	2,184	2,475	6,413	4.0			
	August	1,433	3,230	135	118.0	15.0	8.0	9.0	1.7	2,181,505	3,926,709	2,727	4,636	1,273,246	913	126%	107%	1102	94	880	880	0	128	0	267	80	1,909	2,117	6,697	4.0			
	September	1,439	3,306	135	118.0	15.0	8.0	9.2	1.8	2,208,543	3,975,377	2,761	4,693	1,288,104	923	115%	104%	837	70	865	766	99	0	0	280	83	1,764	1,846	6,946	4.0			
	October	1,446	3,381	135	118.0	15.0	8.0	9.3	1.8	2,235,580	4,024,044	2,794	4,751	1,302,961	933	96%	99%	641	63	833	578	255	0	0	314	80	1,490	1,570	7,157	4.0			
	November	1,452	3,457	135	118.0	15.0	8.0	9.5	1.9	2,262,618	4,072,712	2,828	4,808	1,317,819	944	79%	94%	500	73	800	427	373	0	0	364	83	1,241	1,324	7,335	4.0			
	December	1,458	3,532	135	118.0	15.0	8.0	9.7	2.0	2,289,655	4,121,379	2,862	4,866	1,332,676	954	69%	92%	368	115	792	253	539	0	0	437	80	1,097	1,177	7,493	4.0			
2010	January	1,458	3,608	135	118.0	15.0	8.0	9.8	2.0	2,313,621	4,164,518	2,892	4,916	1,345,458	963	63%	90%	348	106	782	243	539	0	0	509	52	1,012	1,064	7,636	4.0			
	February	1,458	3,684	135	118.0	15.0	8.0	10.0	2.0	2,337,588	4,207,658	2,922	4,967	1,358,240	972	69%	92%	431	93	807	338	469	0	0	572	57	1,120	1,177	7,794	4.0			
	March	1,458	3,760	135	118.0	15.0	8.0	10.2	2.0	2,361,554	4,250,797	2,952	5,018	1,371,022	980	80%	95%	539	107	841	432	410	0	0	627	52	1,312	1,364	7,977	4.0			
	April	1,458	3,836	135	118.0	15.0	8.0	10.3	2.0	2,385,520	4,293,936	2,982	5,069	1,383,804	989	88%	97%	656	18	867	638	229	0	0	658	53	1,458	1,511	8,181	4.0			
	May	1,458	3,912	135	118.0	15.0	8.0	10.5	2.0	2,409,486	4,337,075	3,012	5,120	1,396,586	998	124%	106%	776	-8	956	783	173	0	0	681	52	2,075	2,126	8,466	4.0			
	June	1,458	3,989	135	118.0	15.0	8.0	10.7	2.0	2,433,453	4,380,215	3,042	5,171	1,409,368	1,007	144%	112%	1273	-15	1019	1,019	0	269	0	645	53	2,433	2,756	8,837	4.0			
	July	1,458	4,065	135	118.0	15.0	8.0	10.8	2.0	2,457,419	4,423,354	3,072	5,222	1,422,150	1,016	146%	112%	1465	92	1029	1,029	0	344	0	599	52	2,492	2,887	9,225	4.0			
	August	1,458	4,141	135	118.0	15.0	8.0	11.0	2.0	2,481,385	4,466,493	3,102	5,273	1,434,932	1,025	126%	107%	1276	113	992	992	0	172	0	576	52	2,171	2,395	9,547	4.0			
	September	1,458	4,217	135	118.0	15.0	8.0	11.2	2.0	2,505,351	4,509,632	3,132	5,324	1,447,714	1,033	115%	104%	908	81	972	828	145	0	0	595	53	2,001	2,054	9,823	4.0			
	October	1,458	4,293	135	118.0	15.0	8.0	11.3	2.0	2,529,318	4,552,772	3,162	5,375	1,460,496	1,042	96%	99%	649	69	934	580	354	0	0	643	52	1,686	1,738	10,056	4.0			
	November	1,458	4,369	135	118.0	15.0	8.0	11.5	2.0	2,553,284	4,595,911	3,192	5,426	1,473,278	1,051	79%	94%	470	76	894	393	501	0	0	710	53	1,401	1,454	10,252	4.0			
	December	1,458	4,445	135	118.0	15.0	8.0	11.7	2.0	2,577,250	4,639,050	3,222	5,477	1,486,060	1,060	69%	92%	370	115	883	255	628	0	0	795	52	1,235	1,287	10,425	4.0			
2011	January	1,458	4,521	135	118.0	15.0	8.0	11.8	2.0	2,601,216	4,682,189	3,252	5,528	1,498,842	1,069	63%	90%	350	106	871	245	627	0	0	879	52	1,138	1,190	10,585	4.0			
	February	1,458	4,597	135	118.0	15.0	8.0	12.0	2.0	2,625,183	4,725,329	3,281	5,579	1,511,624	1,078	69%	92%	433	93	898	340	558	0	0	954	57	1,258	1,315	10,762	4.0			
	March	1,458	4,673	135	118.0	15.0	8.0	12.2	2.0	2,649,149	4,768,468	3,311	5,629	1,524,406	1,086	80%	95%	541	107	935	433	502	0	0	1,021	52	1,472	1,523	10,966	4.0			
	April	1,458	4,749	135	118.0	15.0	8.0	12.3	2.0	2,673,115	4,811,607	3,341	5,680	1,537,188	1,095	88%	97%	658	18	963	640	323	0	0	1,065	53	1,634	1,687	11,193	4.0			
	May	1,458	4,825	135	118.0	15.0	8.0	12.5	2.0	2,697,081	4,854,746	3,371	5,731	1,549,970	1,104	124%	106%	778	-8	1061	785	276	0	0	1,102	52	2,322	2,374	11,512	4.0			
	June	1,458	4,902	135	118.0	15.0	8.0	12.7	2.0	2,721,048	4,897,886	3,401	5,782	1,562,752	1,113	144%	112%	1275	-15	1130	1,130	0	160	0	1,080	53	2,721	2,934	11,907	5.0			
	July	1,458	4,978	135	118.0	15.																											

Year	Month	Single Family (dwelling units)	Active Adult (dwelling units)	Multiple Family (units)	Commercial (acres)	School (acres)	Park (acres) [1]	ROW Landscaping (acres) [1]	Golf Courses	Annual Average Daily Flow (gpd)	Annual Average Maximum Daily Flow (gpd)	Annual Average Maximum Daily Flow (gpm)	Annual Average Peak Hour Flow (gpm)	Annual Average Daily Flow (gpd)	Peak Hour Flow (gpm) [2]	Potable Water Demand [3]	Wastewater Flow [3]	Irrigation Demand (gpm) [4]	Rainfall minus Lake Evaporation (gpm) [4]	Effluent Generation (gpm) [5]	Effluent Reuse (gpm)	Effluent Recharge (gpm)	Supplemental Irrigation (gpm)	Cumulative Irrigation (acre-feet)	Cumulative Groundwater Use (acre-feet)	Cumulative Recharge Credits (acre-feet)	Construction Water (gpm) [6]	Potable Water Demand (gpm) [6]	Total Water Demand (gpm)	Cumulative Water Demand (gpm) [7]	Cumulative Water Usage (acre-feet)	Potable Wells Required	Notes
CUMULATIVE LAND USE PHASING SCHEDULE										POTABLE WATER				WASTEWATER				CUMULATIVE WATER BALANCE															
2012	January	1,458	5,434	135	118.0	15.0	8.0	13.8	2.0	2,888,628	5,199,530	3,611	6,138	1,652,128	1,175	63%	90%	352	106	960	247	714	0	0	1,405	51	1,264	1,315	13,812	5.0			
	February	1,458	5,509	135	118.0	15.0	8.0	14.0	2.0	2,912,410	5,242,338	3,641	6,189	1,664,812	1,184	69%	92%	435	93	989	342	647	0	0	1,492	57	1,396	1,452	14,007	5.0			
	March	1,458	5,585	135	118.0	15.0	8.0	14.2	2.0	2,936,193	5,285,147	3,670	6,239	1,677,496	1,192	80%	95%	543	107	1029	435	594	0	0	1,572	51	1,631	1,682	14,233	5.0			
	April	1,458	5,660	135	118.0	15.0	8.0	14.3	2.0	2,959,975	5,327,955	3,700	6,290	1,690,180	1,201	88%	97%	660	18	1059	642	417	0	0	1,628	53	1,809	1,862	14,484	5.0			
	May	1,458	5,736	135	118.0	15.0	8.0	14.5	2.0	2,983,758	5,370,764	3,730	6,340	1,702,864	1,210	124%	106%	780	-8	1166	787	378	0	0	1,679	51	2,569	2,621	14,836	5.0			
	June	1,458	5,811	135	118.0	15.0	8.0	14.7	2.0	3,007,540	5,413,572	3,759	6,391	1,715,548	1,219	144%	112%	1277	-15	1241	1,241	0	51	0	1,672	53	3,008	3,112	15,254	5.0			
	July	1,458	5,887	135	118.0	15.0	8.0	14.8	2.0	3,031,323	5,456,381	3,789	6,442	1,728,232	1,228	146%	112%	1469	92	1250	1,250	0	126	0	1,655	51	3,073	3,251	15,691	5.0			
	August	1,458	5,962	135	118.0	15.0	8.0	15.0	2.0	3,055,105	5,499,189	3,819	6,492	1,740,916	1,236	126%	107%	1280	113	1203	1,168	35	0	0	1,660	51	2,673	2,724	16,057	5.0			
	September	1,458	6,038	135	118.0	15.0	8.0	15.2	2.0	3,078,888	5,541,998	3,849	6,543	1,753,600	1,245	115%	104%	912	81	1178	831	346	0	0	1,706	53	2,459	2,512	16,395	5.0			
	October	1,458	6,113	135	118.0	15.0	8.0	15.3	2.0	3,102,670	5,584,806	3,878	6,593	1,766,284	1,254	96%	99%	653	69	1129	584	546	0	0	1,779	51	2,068	2,120	16,680	5.0			
	November	1,458	6,189	135	118.0	15.0	8.0	15.5	2.0	3,126,453	5,627,615	3,908	6,644	1,778,968	1,263	79%	94%	473	76	1080	397	683	0	0	1,871	53	1,715	1,768	16,918	5.0			
	December	1,458	6,264	135	118.0	15.0	8.0	15.7	2.0	3,150,235	5,670,423	3,938	6,694	1,791,652	1,272	69%	92%	374	115	1065	259	806	0	0	1,980	51	1,509	1,561	17,127	5.0			
2013	January	1,458	6,349	135	118.0	15.0	8.0	15.8	2.0	3,176,958	5,718,524	3,971	6,751	1,805,904	1,281	63%	90%	354	106	1050	248	801	0	0	2,087	57	1,390	1,447	17,322	5.0			
	February	1,458	6,434	135	118.0	15.0	8.0	16.0	2.0	3,203,680	5,766,624	4,005	6,808	1,820,156	1,291	69%	92%	437	93	1081	344	737	0	0	2,186	64	1,535	1,599	17,537	5.0			
	March	1,458	6,519	135	118.0	15.0	8.0	16.2	2.0	3,230,403	5,814,725	4,038	6,865	1,834,408	1,301	80%	95%	545	107	1125	437	688	0	0	2,279	57	1,795	1,852	17,786	5.0			
	April	1,458	6,603	135	118.0	15.0	8.0	16.3	2.0	3,257,125	5,862,825	4,071	6,921	1,848,660	1,311	88%	97%	662	18	1158	644	514	0	0	2,348	59	1,990	2,050	18,061	5.0			
	May	1,458	6,688	135	118.0	15.0	8.0	16.5	2.0	3,283,848	5,910,926	4,105	6,978	1,862,912	1,321	124%	106%	781	-8	1275	789	486	0	0	2,413	57	2,828	2,885	18,449	5.0			
	June	1,458	6,773	135	118.0	15.0	8.0	16.7	2.0	3,310,570	5,959,026	4,138	7,035	1,877,164	1,331	144%	112%	1279	-15	1358	1,294	63	0	0	2,422	59	3,311	3,370	18,902	5.0			
	July	1,458	6,858	135	118.0	15.0	8.0	16.8	2.0	3,337,293	6,007,127	4,172	7,092	1,891,416	1,341	146%	112%	1470	92	1368	1,368	0	10	0	2,420	57	3,384	3,451	19,366	5.0			
	August	1,458	6,943	135	118.0	15.0	8.0	17.0	2.0	3,364,015	6,055,227	4,205	7,149	1,905,668	1,351	126%	107%	1282	113	1317	1,170	147	0	0	2,440	57	2,944	3,001	19,769	5.0			
	September	1,458	7,027	135	118.0	15.0	8.0	17.2	2.0	3,390,738	6,103,328	4,238	7,205	1,919,920	1,360	115%	104%	914	81	1290	833	456	0	0	2,502	59	2,708	2,767	20,141	5.0			
	October	1,458	7,112	135	118.0	15.0	8.0	17.3	2.0	3,417,460	6,151,428	4,272	7,262	1,934,172	1,370	96%	99%	655	69	1237	586	651	0	0	2,589	57	2,278	2,336	20,455	5.0			
	November	1,458	7,197	135	118.0	15.0	8.0	17.5	2.0	3,444,183	6,199,529	4,305	7,319	1,948,424	1,380	79%	94%	475	76	1183	399	784	0	0	2,694	59	1,890	1,949	20,717	5.0			
	December	1,458	7,282	135	118.0	15.0	8.0	17.7	2.0	3,470,905	6,247,629	4,339	7,376	1,962,676	1,390	69%	92%	376	115	1166	261	905	0	0	2,816	57	1,663	1,721	20,949	5.0			
2014	January	1,541	7,282	135	131.9	15.0	8.0	17.8	2.1	3,542,473	6,376,452	4,428	7,528	2,012,706	1,425	63%	90%	370	110	1170	260	910	0	0	2,938	118	1,550	1,668	21,173	5.0			
	February	1,625	7,282	135	145.8	15.0	8.0	18.0	2.2	3,614,041	6,505,274	4,518	7,680	2,062,737	1,460	69%	92%	473	101	1226	373	853	0	0	3,053	131	1,732	1,863	21,423	5.0			
	March	1,708	7,282	135	159.7	15.0	8.0	18.2	2.3	3,685,610	6,634,097	4,607	7,832	2,112,767	1,495	80%	95%	612	121	1296	491	805	0	0	3,161	118	2,048	2,166	21,714	5.0			
	April	1,791	7,282	135	173.6	15.0	8.0	18.3	2.3	3,757,178	6,762,920	4,696	7,984	2,162,797	1,530	88%	97%	770	21	1355	749	606	0	0	3,243	122	2,296	2,418	22,039	6.0			
	May	1,875	7,282	135	187.5	15.0	8.0	18.5	2.4	3,828,746	6,891,743	4,786	8,136	2,212,828	1,565	124%	106%	941	-9	1515	951	564	0	0	3,319	118	3,297	3,415	22,499	6.0			
	June	1,958	7,282	135	201.5	15.0	8.0	18.7	2.5	3,900,314	7,020,565	4,875	8,288	2,262,858	1,599	144%	112%	1595	-19	1637	1,614	23	0	0	3,322	122	3,900	4,023	23,039	6.0			
	July	2,041	7,282	135	215.4	15.0	8.0	18.8	2.6	3,971,882	7,149,388	4,965	8,440	2,312,888	1,634	146%	112%	1894	119	1673	1,673	0	102	0	3,308	118	4,027	4,248	23,610	6.0			
	August	2,125	7,282	135	229.3	15.0	8.0	19.0	2.7	4,043,450	7,278,211	5,054	8,592	2,362,918	1,669	126%	107%	1704	150	1633	1,553	79	0	0	3,319	118	3,538	3,657	24,102	6.0			
	September	2,208	7,282	135	243.2	15.0	8.0	19.2	2.8	4,115,019	7,407,034	5,144	8,744	2,412,949	1,704	115%	104%	1249	111	1621	1,139	482	0	0	3,383	122	3,286	3,409	24,560	6.0			
	October	2,291	7,282	135	257.1	15.0	8.0	19.3	2.8	4,186,587	7,535,856	5,233	8,896	2,462,979	1,739	96%	99%	919	98	1575	821	753	0	0	3,485	118	2,791	2,910	24,951	6.0			
	November	2,375	7,282	135	271.0	15.0	8.0	19.5	2.9	4,258,155	7,664,679	5,323	9,049	2,513,009	1,774	79%	94%	684	111	1526	573	953	0	0	3,613	122	2,336	2,459	25,282	6.0			
	December	2,458	7,282	135	284.9	15.0	8.0	19.7	3.0	4,329,723	7,793,502	5,412	9,201	2,563,040	1,809	69%	92%	554	173	1523	381	1,142	0	0	3,766	118	2,075	2,193	25,576	6.0			
2015	January	2,541	7,282	135	298.8	15.0	8.0	19.8	3.0	4,401,291	7,922,324	5,502	9,353	2,613,070	1,843	63%	90%	524	159	1519	365	1,154	0	0	3,921	94	1,926	2,019	25,848	6.0			
	February	2,625	7,282	135	312.7	15.0	8.0	20.0	3.0	4,472,860	8,051,147	5,591	9,505	2,663,100	1,878	69%	92%	647	139	1582	508	1,074	0	0	4,066	104	2,143	2,247	26,150	6.0			
	March	2,708	7,282	135	326.6	15.0	8.0	20.0	3.0	4,544,428	8,179,970	5,681	9,657	2,713,131	1,913	80%	95%	809	161	1665	648	1,017	0	0	4,202	93	2,525	2,618	26,502	6.0			
	April	2,791	7,282	135	340.5	15.0	8.0	20.0	3.0	4,615,996	8,308,793	5,770	9,809	2,763,161	1,948	88%	97%	984	27	1731	957	774	0	0	4,306	97	2,821	2,917	26,894	6.0			
	May	2,875	7,282	135	354.5	15.0	8.0	20.0	3.0	4,687,564	8,437,615	5,859	9,961	2,813,191	1,983	124%	106%	1164	-12	1926	1,175	750	0	0	4,407	93	4,037	4,130	27,449	6.0			
	June	2,958	7,282	135	368.4	15.0	8.0	20.0	3.0	4,759,132	8,566,438	5,949	10,113	2,863,221	2,018	144%																	

Year	Month	Single Family (dwelling units)	Active Adult (dwelling units)	Multiple Family (units)	Commercial (acres)	School (acres)	Park (acres) [1]	ROW Landscaping (acres) [1]	Golf Courses	Annual Average Daily Flow (gpd)	Annual Average Maximum Daily Flow (gpm)	Annual Average Maximum Daily Flow (gpm)	Annual Average Peak Hour Flow (gpm)	Peak Hour Daily Flow (gpd)	Potable Water Demand [2]	Wastewater Flow [3]	Irrigation Demand (gpm) [4]	Rainfall minus Lake Evaporation (gpm) [4]	Effluent Generation (gpm) [5]	Effluent Reuse (gpm)	Effluent Recharge (gpm)	Supplemental Irrigation (gpm)	Cumulative Irrigation (acres-feet)	Cumulative Groundwater Use (acres-feet)	Cumulative Recharge Credits (acres-feet)	Construction Water (gpm) [6]	Potable Water Demand (gpm)	Total Water Demand (gpm)	Cumulative Water Demand (gpm) [7]	Potable Water Usage (acres-feet)	Potable Wells Required	Notes
CUMULATIVE LAND USE PHASING SCHEDULE									POTABLE WATER				WASTEWATER				CUMULATIVE WATER BALANCE															
2016	January	3,541	7,282	135	465.7	15.0	8.0	20.0	3.0	5,260,110	9,468,197	6,575	11,178	3,213,434	2,261	63%	90%	524	159	1868	365	1,503	0	0	5,303	93	2,301	2,395	31,432	7.0		
	February	3,625	7,282	135	479.6	15.0	8.0	20.0	3.0	5,331,678	9,597,020	6,665	11,330	3,263,464	2,296	69%	92%	647	139	1939	508	1,431	0	0	5,495	103	2,555	2,658	31,790	7.0		
	March	3,708	7,282	135	493.5	15.0	8.0	20.0	3.0	5,403,246	9,725,843	6,754	11,482	3,313,494	2,331	80%	95%	809	161	2033	648	1,385	0	0	5,682	93	3,002	3,095	32,206	7.0		
	April	3,791	7,282	135	507.5	15.0	8.0	20.0	3.0	5,474,814	9,854,665	6,844	11,634	3,363,524	2,366	88%	97%	984	27	2107	957	1,150	0	0	5,836	97	3,346	3,442	32,668	7.0		
	May	3,875	7,282	135	521.4	15.0	8.0	20.0	3.0	5,546,382	9,983,488	6,933	11,786	3,413,555	2,401	124%	106%	1164	-12	2337	1,175	1,161	0	0	5,992	93	4,776	4,869	33,323	7.0		
	June	3,958	7,282	135	535.3	15.0	8.0	20.0	3.0	5,617,950	10,112,311	7,022	11,938	3,463,585	2,436	144%	112%	1910	-23	2505	1,933	573	0	0	6,069	97	5,618	5,618	34,078	7.0		
	July	4,041	7,282	135	549.2	15.0	8.0	20.0	3.0	5,689,519	10,241,134	7,112	12,090	3,513,615	2,470	146%	112%	2197	138	2542	2,058	483	0	0	6,134	93	5,769	5,769	34,853	8.0		
	August	4,125	7,282	135	563.1	15.0	8.0	20.0	3.0	5,761,087	10,369,956	7,201	12,242	3,563,646	2,505	126%	107%	1914	169	2463	1,745	717	0	0	6,230	93	5,041	5,041	35,531	8.0		
	September	4,183	7,282	135	577.0	15.0	8.0	20.0	3.0	5,819,355	10,474,839	7,274	12,366	3,604,809	2,534	115%	104%	1361	121	2421	1,241	1,181	0	0	6,389	79	4,647	4,647	36,156	8.0		
	October	4,213	7,335	135	577.0	15.0	8.0	20.0	3.0	5,852,000	10,533,599	7,315	12,435	3,624,355	2,547	96%	99%	972	103	2317	869	1,448	0	0	6,584	56	3,901	3,901	36,680	8.0		
	November	4,244	7,388	135	577.0	15.0	8.0	20.0	3.0	5,884,644	10,592,359	7,356	12,505	3,643,900	2,561	79%	94%	703	114	2212	589	1,623	0	0	6,802	58	3,228	3,228	37,114	8.0		
	December	4,274	7,440	135	577.0	15.0	8.0	20.0	3.0	5,917,289	10,651,119	7,397	12,574	3,663,446	2,574	69%	92%	554	173	2177	381	1,796	0	0	7,043	56	2,835	2,835	37,495	8.0		
2017	January	4,305	7,493	135	577.0	15.0	8.0	20.0	3.0	5,949,933	10,709,879	7,437	12,644	3,682,991	2,588	63%	90%	524	159	2141	365	1,776	0	0	7,282	56	2,603	2,603	37,845	8.0		
	February	4,335	7,546	135	577.0	15.0	8.0	20.0	3.0	5,982,578	10,768,640	7,478	12,713	3,702,536	2,602	69%	92%	647	139	2200	508	1,692	0	0	7,509	62	2,867	2,867	38,230	8.0		
	March	4,366	7,599	135	577.0	15.0	8.0	20.0	3.0	6,015,222	10,827,400	7,519	12,782	3,722,082	2,615	80%	95%	809	161	2284	648	1,636	0	0	7,729	56	3,342	3,342	38,679	8.0		
	April	4,396	7,652	135	577.0	15.0	8.0	20.0	3.0	6,047,867	10,886,160	7,560	12,852	3,741,627	2,629	88%	97%	984	27	2344	957	1,387	0	0	7,916	58	3,696	3,696	39,176	8.0		
	May	4,427	7,704	135	577.0	15.0	8.0	20.0	3.0	6,080,511	10,944,920	7,601	12,921	3,761,173	2,642	124%	106%	1164	-12	2575	1,175	1,399	0	0	8,104	56	5,236	5,236	39,880	8.0		
	June	4,457	7,757	135	577.0	15.0	8.0	20.0	3.0	6,113,156	11,003,680	7,641	12,990	3,780,718	2,656	144%	112%	1910	-23	2735	1,933	802	0	0	8,212	58	6,113	6,113	40,702	8.0		
	July	4,488	7,810	135	577.0	15.0	8.0	20.0	3.0	6,145,800	11,062,440	7,682	13,060	3,800,263	2,669	146%	112%	2197	138	2749	2,058	690	0	0	8,304	56	6,231	6,231	41,539	8.0		
	August	4,518	7,863	135	577.0	15.0	8.0	20.0	3.0	6,178,445	11,121,200	7,723	13,129	3,819,809	2,683	126%	107%	1914	169	2640	1,745	894	0	0	8,425	56	5,406	5,406	42,266	8.0		
	September	4,549	7,916	135	577.0	15.0	8.0	20.0	3.0	6,211,089	11,179,960	7,764	13,199	3,839,354	2,696	115%	104%	1361	121	2579	1,241	1,338	0	0	8,604	58	4,960	4,960	42,933	8.0		
	October	4,579	7,968	135	577.0	15.0	8.0	20.0	3.0	6,243,734	11,238,720	7,805	13,268	3,858,900	2,710	96%	99%	972	103	2467	869	1,598	0	0	8,819	56	4,162	4,162	43,492	8.0		
	November	4,610	8,021	135	577.0	15.0	8.0	20.0	3.0	6,276,378	11,297,480	7,845	13,337	3,878,445	2,724	79%	94%	703	114	2355	589	1,766	0	0	9,057	58	3,443	3,443	43,955	8.0		
	December	4,640	8,074	135	577.0	15.0	8.0	20.0	3.0	6,309,023	11,356,241	7,886	13,407	3,897,990	2,737	69%	92%	554	173	2316	381	1,935	0	0	9,317	56	3,023	3,023	44,361	8.0		
2018	January	4,671	8,127	135	577.0	15.0	8.0	20.0	3.0	6,341,667	11,415,001	7,927	13,476	3,917,536	2,751	63%	90%	524	159	2277	365	1,912	0	0	9,574	56	2,774	2,774	44,734	8.0		
	February	4,701	8,180	135	577.0	15.0	8.0	20.0	3.0	6,374,312	11,473,761	7,968	13,545	3,937,081	2,764	69%	92%	647	139	2339	508	1,831	0	0	9,820	62	3,054	3,054	45,145	8.0		
	March	4,706	8,187	135	577.0	15.0	8.0	20.0	3.0	6,379,017	11,482,230	7,974	13,555	3,939,924	2,766	80%	95%	809	161	2417	648	1,769	0	0	10,058	8	3,544	3,544	45,621	8.0		
Total	4,706	8,187	135	577.0	15.0	8.0	20.0	3.0	6,418,217	11,482,230	7,974	13,555	3,939,924	2,766	100%	100%	1,145	106	2,545	1,039	1,505	0	0	10,058	0	4,453	4,453	66,376	8.0			

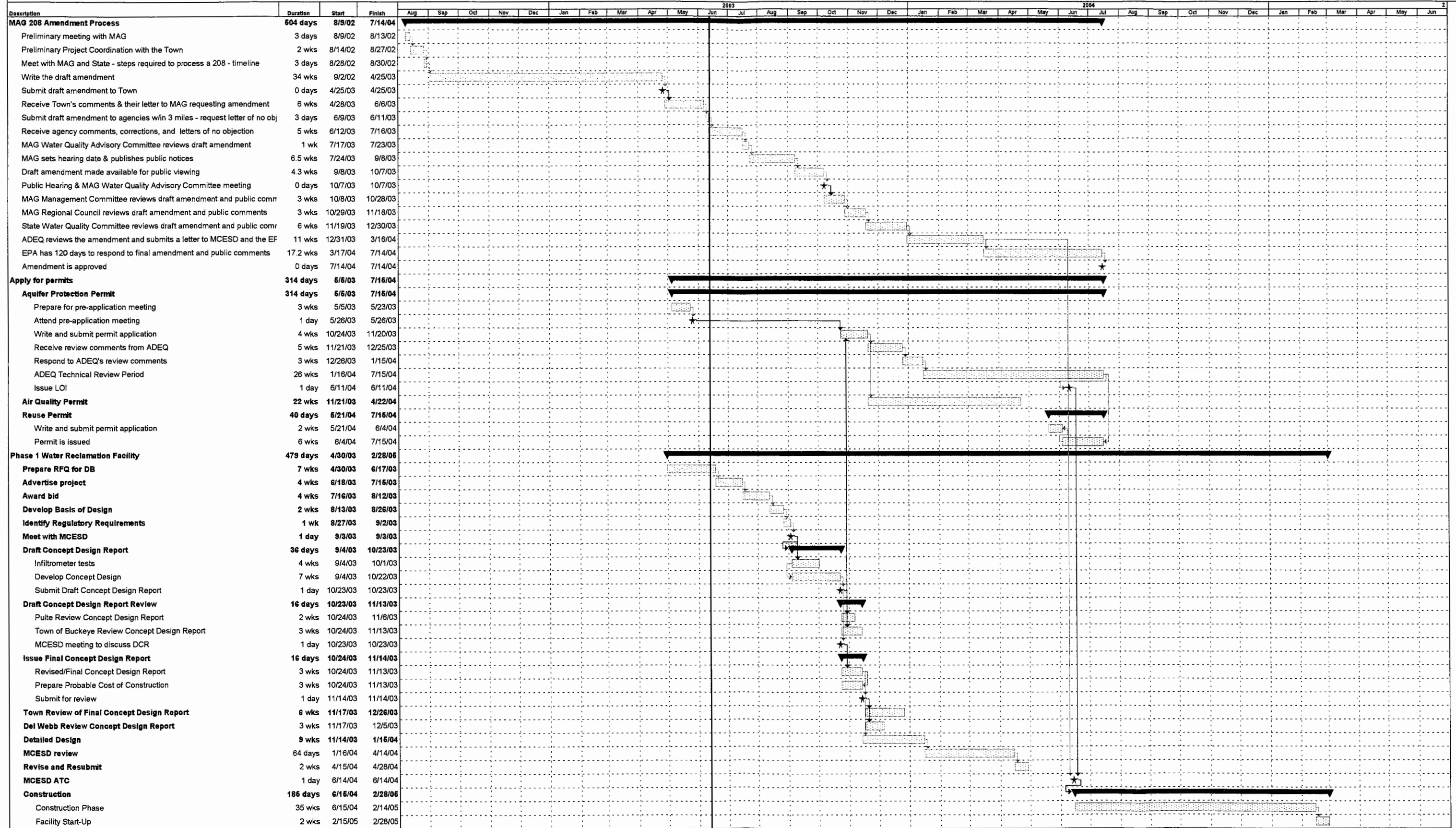
Population	3.5	2.1	2.5	10.0	16.7		
Water Demand	525	315	375	2,000	8,333	1,400	1,400
Max Day	1.8	1.8	1.8	1.8	1.8	1.0	1.0
Peak Hour	3.06	3.06	3.06	3.06	3.06	1.0	1.0
Sewer Flow	350	168	200	1,500	1,667		

- Notes:
- [1] Assumes all park and roadway landscaping areas are irrigated with reclaimed water, if available.
 - [2] The wastewater peaking factor is based on the Harmon equation.
 - [3] Flow seasonality factors from Arizona American's Anthem Water Resources Planning Study.
 - [4] Based on ADEQ's Blaney-Criddle Water Balance.
 - [5] The effluent generation is equal to the average wastewater flow minus treatment and water losses.
 - [6] Construction water demand estimated at 120,000 gallons/ac.
 - [7] Total water demand is equal to supplemental irrigation + construction demand + potable water demand.

Appendix C

Project Schedule

Festival Ranch WRF
Design & Construction
Preliminary Schedule



CVL offers this schedule as an approximation only, and while making every effort to achieve the schedule, CVL cannot and does not make any guarantee or warranties that the schedule is actually attainable or will be achieved.

Task [Gantt bar] Progress [Dotted line] Milestone [Star] Summary [Arrow] Rolled Up Task [Thick bar] Rolled Up Milestone [Star] Rolled Up Progress [Dotted line] Split [Dashed line] External Tasks [Dotted line] Project Summary [Thick bar]

Appendix D

Financial Statements

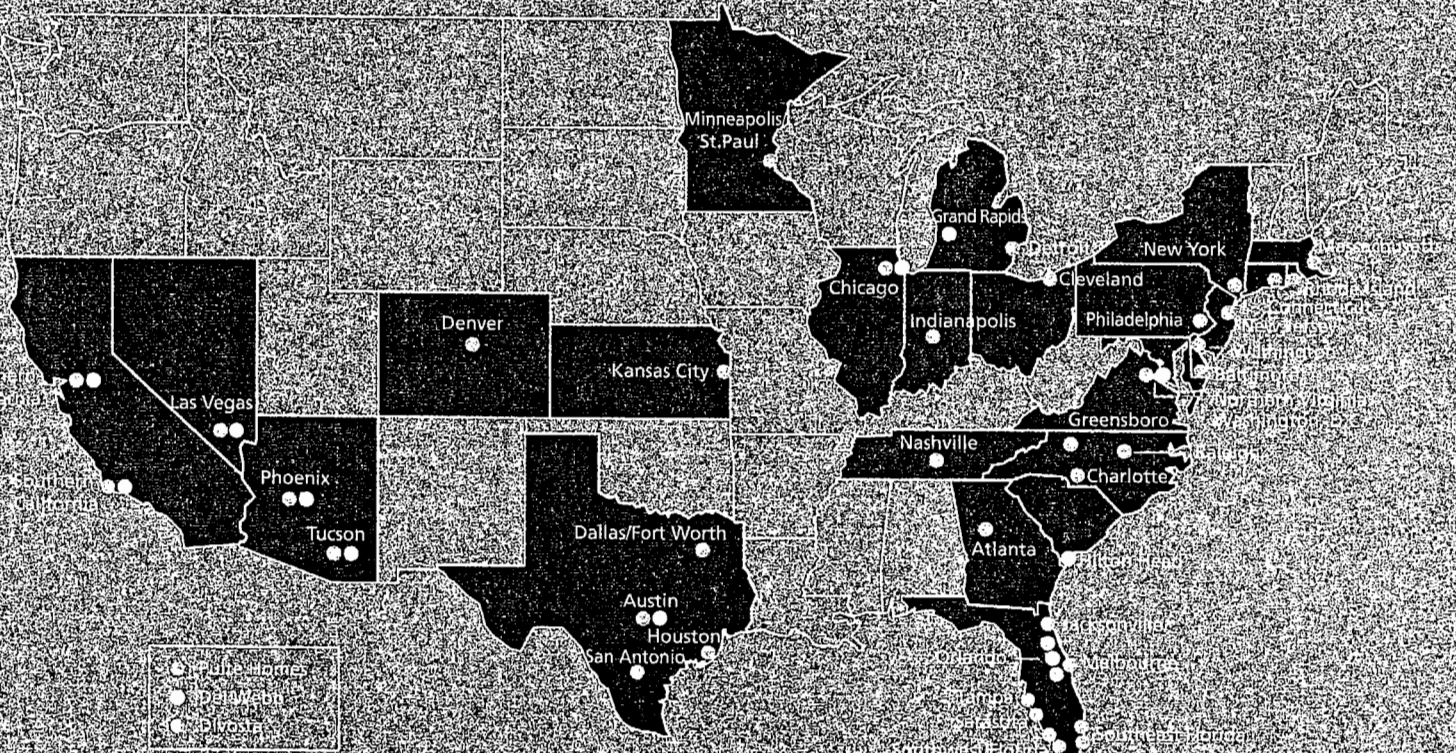


Pulte Homes

A Vision for Success



Communities by Pulte



Company Profile

For more than 50 years, Pulte Homes has been helping individuals, couples and families build a better life. Today, the Company's operations span more than 40 markets throughout the United States, Argentina, Mexico and Puerto Rico. Through its merger with Dai Webb, the Company is also now the country's leading builder of active adult communities. In building nearly 300,000 homes in its history, Pulte Homes has been honored as "America's Best Builder," and was named builder of the Year 2002. Providing excellent customer service and offering a wide variety of loan products, Pulte Mortgage, Pulte Homes' national mortgage company, meets the financing needs of Pulte Homes' customers throughout the country. Whether it's a first-time buyer or a growing family, Pulte Homes' commitment to quality is reflected in the way it builds homes, is demonstrated in the way it treats customers and is evident in the 9,400 employees who provide customers with exceptional value and with a buying experience that exceeds their expectations.

Financial Highlights

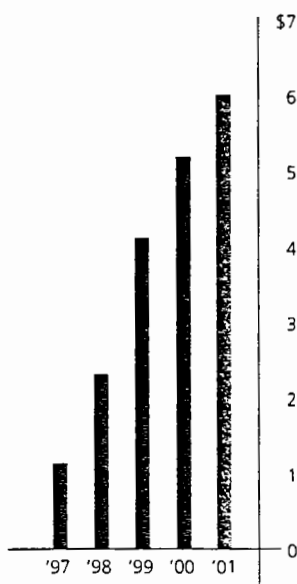
<i>(\$000's omitted, except per share data)</i>	2001	2000	1999	1998	1997
CONSOLIDATED RESULTS					
Revenues	\$5,381,920	\$4,243,751	\$3,763,817	\$2,894,080	\$2,553,327
Income from continuing operations	302,425	218,384	178,287	101,148	49,800 ^(a)
Net Income	301,393	188,513	178,165	102,183	52,761 ^(a)
Per share data:					
Earnings per share—basic:					
Continuing operations	6.16	5.29	4.12	2.35	1.14 ^(b)
Net Income	6.14	4.56	4.12	2.38	1.21 ^(b)
Earnings per share—assuming dilution:					
Continuing operations	6.01	5.18	4.07	2.30	1.13 ^(b)
Net Income	5.99	4.47	4.07	2.33	1.20 ^(b)
Cash dividends per share	.16	.16	.16	.15	.12
Total assets	\$5,714,276	\$2,886,483	\$2,487,351	\$2,262,561	\$2,060,436
Long-term debt	1,737,869	677,602	525,965	570,114	584,313
Debt-to-capital ratio	44.80%	35.19%	32.48%	38.22%	41.82%
Shareholders' equity	\$2,276,665	\$1,247,931	\$1,093,319	\$ 921,442	\$ 812,837
Return on average shareholders' equity	18.11%	16.58%	17.69%	11.78%	6.43%
Book value per share	\$ 38.43	\$ 30.02	\$ 25.27	\$ 21.35	\$ 19.10
Number of employees	9,400	5,200	5,000	4,300	4,300
DOMESTIC HOMEBUILDING RESULTS					
Revenues	\$5,274,660	\$4,168,516	\$3,689,255	\$2,825,558	\$2,491,042
Pre-tax income	523,292	389,034	311,023	178,380	109,319 ^(c)
Settlements (units)	22,915	19,799	19,569	16,051	15,068
Net new orders (units)	26,116	19,844	19,367	18,193	15,226
Backlog (units)	8,678	5,477	5,432	5,415	3,507
Total markets, at year end	43	41	41	41	40
Active communities, at year end	440	396	388	403	398
Average selling price	\$ 225	\$ 206	\$ 187	\$ 174	\$ 162
Gross profit margin	20.0%	18.8%	17.8%	16.1%	14.9%

(a) Net of a one-time, pre-tax restructuring charge of \$20,000, \$12,300 net of income taxes.
 (b) Earnings per share net of \$0.28 per share attributable to a one-time restructuring charge, net of income taxes.
 (c) Net of a one-time, pre-tax restructuring charge of \$14,800.

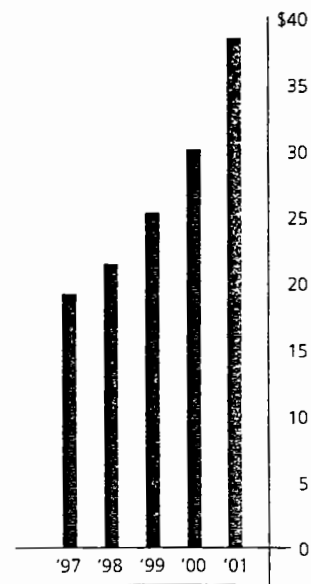
Total Revenue
(in billions)



Earnings Per Share, Assuming Dilution
From Continuing Operations
(in dollars)



Book Value Per Share
(in dollars)



Letter to Pulte Homes

Shareholders,

Customers, Employees and Business Partners,



Mark J. O'Brien
*President and
Chief Executive Officer*

With our success in 2001, Pulte Homes completed its sixth consecutive year of record-setting financial results and its 51st year of uninterrupted profitability. As Bill and I review these results, we do so from our new roles, Bill as Chairman (a position he last held in 1998) and I as President and CEO, following the retirement of Bob Burgess in December of last year. Between the two of us, we have over 70 years of history with this Company. This fact is noteworthy only in providing some context in our making the following observations: 2001 was one of the most rewarding years in this Company's history, and Pulte Homes today is in its strongest competitive position ever.

Looking back at 2001, our \$1.7 billion merger with Del Webb Corporation clearly stands out as a bold stroke that forever changed the face of Pulte Homes. Over the past few years, we've looked at countless companies as potential acquisitions, but none offered the strategic value, competitive strengths and business synergies that we saw in Del Webb. With its unmatched position among active adult homebuyers, strong brand names, excellent land pipeline and more than 7,000 closings annually, Del Webb has given us a dominant position within the country's fastest growing demographic segment.

In the months following the merger's completion, we moved deliberately, but swiftly, to integrate the Webb operations. Duplicate functions were eliminated, management and community reporting relationships were realigned to leverage available resources, and we initiated an exhaustive review of construction and purchasing practices to uncover additional sources of cost savings. Throughout it all, the sharing of best practices between two industry leaders is making the ongoing business even stronger. Through these and other actions, we expect to realize "synergy savings" of \$50-\$75 million in the first year, while strengthening Pulte Homes' overall market position. The combination of Pulte Homes and Del Webb has created a homebuilding powerhouse with a size, geographic presence and product portfolio that is unrivaled in the homebuilding industry and, likely, cannot be duplicated.

Record Financial Results in 2001

Just as with the merger, 2001 saw success throughout the Company. Growth in all our operations, plus the benefit of five months of Del Webb's operations, resulted in record revenues of \$5.4 billion, up 27 percent over the prior year. Reflecting our initiatives to drive increased profitability, net income from continuing operations of \$302 million, or \$6.01 per share, was up 38 percent over 2000. These results are consistent with our previously stated five-year goals of generating revenue growth of 10-15 percent and earnings growth of 20-25 percent, annually.

As a result of the Company's financial success in 2001, Pulte Homes ended the year with a book value of \$38.43 per share, as return on average equity registered 18 percent.

Pulte Homes' domestic homebuilding operations, inclusive of five months of Del Webb, reported another record year. Revenues increased 27 percent to \$5.3 billion, as total domestic settlements grew 16 percent to 22,915 homes. Through a combination of initiatives to increase market prices

for our homes, to improve the mix of homes delivered and to lower construction costs, gross margins increased 120 basis points to a record 20.0 percent (20.2 percent prior to the impact of acquisition accounting). The combination of higher revenues and lower costs resulted in a 35 percent increase in pre-tax income for the group of \$523 million. With a year-end backlog of 8,678 homes, valued at \$2.1 billion, the business enters 2002 with tremendous momentum.

Benefiting from increased homebuilding volumes, a declining interest rate environment and enhanced operating efficiencies, Pulte Mortgage Corporation (PMC) also posted record financial results. In 2001, we advanced several initiatives designed to more fully integrate PMC into the home selling process in all our markets. As a result, PMC's capture rate rose to 60 percent, as compared to 56 percent in 2000. A higher capture rate, combined with a downward trend in interest rates over the year, helped drive a 49 percent jump in pre-tax income of \$28 million.

Our International operations realized important gains in 2001, but it seems that progress is measured in two-steps forward and one-step back. Our Mexico and Puerto Rico operations continued to grow as we implemented new strategies to better serve these markets. While entry into Argentina got off to an excellent start, with strong demand for our new communities, uncertainty over the Argentine economy weighed on the market and hurt our 2001 results. The overall mix of events had a negative impact as the Company's International Operations reported a pre-tax loss of \$2.4 million. We remain encouraged by gains made during the year as we drive toward realizing consistent earnings contributions.

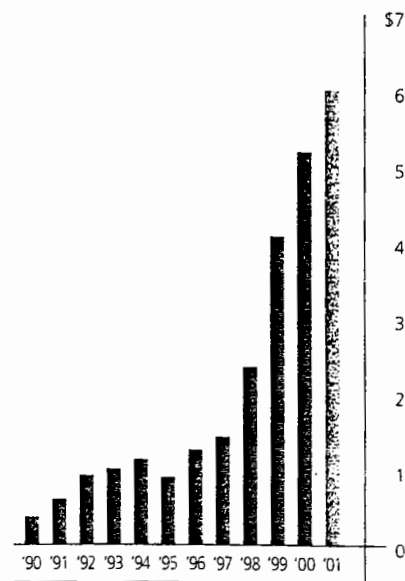
Overall, we were very pleased with Pulte Homes' operating results in 2001, and we see opportunities for even greater success in the future.

Three I's on Quality

Last year, we introduced Pulte Homes' new brand platform of Quality, Involvement, Integrity and Innovation, also known as the Three I's on Quality. The order of these strategic pillars is intentional as quality is the foundation upon which the brand and the entire Company must stand. As Pulte Homes continues to grow, we believe that our ability to deliver homes of superior and consistent quality will become a critical, sustainable competitive advantage; a vital point of differentiation from the rest of the industry. Progress to seize this advantage in the field continued on many fronts last year.

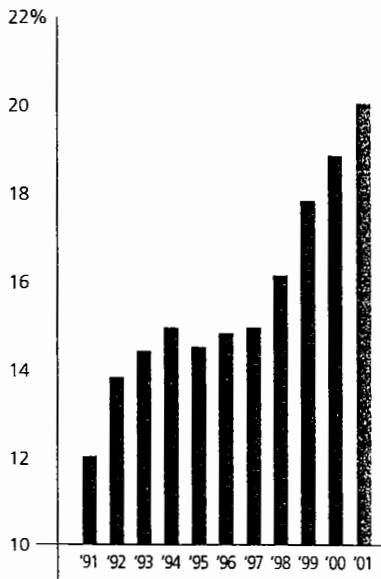
First, our internal Customer Satisfaction Measurement Survey, through which we question all new customers about their level of satisfaction, increased another four percent to its highest level ever. Second, in the JD Power and Associates 2001 New Home Builder Customer Satisfaction StudySM, Pulte Homes ranked or tied for first in four of the 10 markets surveyed (Charlotte (tied), Denver, Las Vegas and Southern California (tied)), and ranked among the top three homebuilders in seven of the 10 markets covered. And finally, *Professional Builder Magazine*, citing a variety of

Earnings Per Share
(in dollars)



Over the past decade, Pulte Homes' revenues and earnings per share have grown at a compounded annual rate of 20% and 26%, respectively.

Domestic Homebuilding
Gross Margins



Over the past 10 years, margins within Pulte Homes domestic homebuilding operations have increased better than 50% to 2001's record of 20%.

factors including the Company's commitment to customer satisfaction and quality, named Pulte Homes its Builder of the Year.

It's been demonstrated across countless industries that having happy, satisfied customers makes good business sense. For Pulte Homes, the potential benefits are significant as higher quality can support a premium pricing position in the market and can help increase repeat/referral business. Today, 36 percent of our buyers have either previously owned a Pulte home or were referred by another Pulte homeowner. In other words, more than one-third of our business has minimal customer acquisition costs. The potential to increase sales and lower customer acquisition and warranty-service costs can have a dramatic impact on Pulte Homes' top- and bottom-line results.

What began in Pulte Homes as a simple concept called *customer delight* has grown into a business culture focused on the delivery of quality homes and unsurpassed customer satisfaction. We must acknowledge that in the past we have not always achieved the standard we expect of ourselves. This has only served as a wake-up call that we must always deliver on our promise.

Looking Ahead

Last year's letter discussed the battle waging between a slowing US economy, lower employment and reduced consumer confidence versus an aggressive Federal Reserve policy of lower interest rates. As we enter 2002, we believe the experts who forecast the worst of the economic weakness is behind us and that a rebound in the second half of 2002 is possible, if not likely.

We'll continue to monitor all the key economic metrics and trends, but we're homebuilders not economists. The best thing we can do for our shareholders is to focus on the long term and take the steps necessary to prepare for success. This means keeping our cost structure in alignment with market conditions, reaching our historical 40 percent debt-to-capital level by the end of 2002 and maintaining a well-positioned and well-balanced land portfolio. This final point is critical given that Pulte Homes must reinvest approximately \$1.7 billion in 2002 just to remain even with the land that will be charged off through cost of goods sold. Put another way, that means investing an average of almost \$5.0 million a day in land and related land development. We believe very strongly that our entire land management competency is a critical skill that will increasingly be viewed as an important competitive advantage.

Vision

As we continue transitioning to the new senior management team, you can expect that the fundamentals that have been the cornerstone of this Company will not change:

- Growth through conservative business practices emphasizing returns in excess of our cost of capital;
- Maintenance of a strong balance sheet to take advantage of market opportunities when they appear;
- Industry leadership in construction efficiency, while delivering unmatched quality and customer satisfaction;
- Hire, train and retain the best employees;
- Acquisitions where they make strategic, operating and financial sense; and
- Challenge ourselves everyday to become better.

These fundamentals will not change, but we will continue to challenge ourselves to get better and continue developing unmatched capabilities in other key areas including human resources, information systems and marketing.

These principles help form the foundation of Pulte Homes' success, and they were clearly embodied in the leadership of Bob Burgess who retired as Chairman and CEO following 19 years with the Company. Bob's focus on improving the quality of people we employ and homes we deliver were instrumental in Pulte Homes' growth from a \$900 million, mid-sized homebuilder in 1983 to the nation's largest builder with over \$5 billion in revenues. Bob's counsel will be missed, but the values he instilled will help guide this Company for years to come.

To paraphrase the opening line from *A Tale of Two Cities*, 2001 was the best of times; it was the worst of times. For Pulte Homes, it was a year of unprecedented accomplishments and record-setting successes. It was a year in which revenues grew past the \$5 billion mark, while we completed the largest merger in the history of homebuilding. Yet, it would be impossible to look back on 2001 without gazing through the smoke and tears evoked by the tragedy of September 11. We salute the thousands of heroes who stood up that day and in the many days that followed. In their spirit, we as a country and as a company must and will move forward.

We thank our customers, employees, business partners and shareholders for their continued support during this past year...a year in which having such relationships took on an even deeper meaning. Within these changing times, we at Pulte Homes see tremendous opportunities to reach new milestones, to set the bar higher and to achieve even greater successes. Our time is now to seize these opportunities, and to take a good company and make it great.



William J. Pulte
Chairman of the Board

Sincerely,

A handwritten signature in black ink, appearing to read "Mark J. O'Brien". The signature is fluid and cursive, written over a light-colored background.

Mark J. O'Brien
President and Chief Executive Officer

A handwritten signature in black ink, appearing to read "William J. Pulte". The signature is fluid and cursive, written over a light-colored background.

William J. Pulte
Chairman of the Board



Q & A

To drive increasingly profitable business will require that we significantly expand (concentrate) our business within the major metropolitan markets around the country resulting in greater efficiencies and operating leverage.



Quality

With more than 30 years in homebuilding, Mark O'Brien, Pulte Homes' new President and CEO, has a lot of experience to draw upon as he begins his new leadership role. In a recent interview, Mark offered his insights on the future of Pulte Homes and the industry.

How will Pulte Homes change over the next 3-5 years?

Almost a decade ago, we completed a comprehensive review of Pulte's operations wherein we set our strategy to focus on homebuilding and exit ancillary businesses. That focus is evident in the growth of our homebuilding operations into 43 markets across the US. The next steps in this focus strategy are the interrelated ideas of *concentration* and *leverage*. To drive increasingly profitable business will require that we significantly expand (concentrate) our business within the major metropolitan markets around the country resulting in greater efficiencies and operating leverage.

Building homes for all buyer segments—first-time, trade up, second trade up and active adult—helps make this strategy possible. Unlike companies that build to a single buyer group, we can target the entire buying population within a market, rather than be limited to any single segment. As unit volumes increase, so does leverage with the suppliers and contractors, particularly at the local market level.

In the future, we'll likely apply greater resources toward searching out potential acquisitions as a way to support and accelerate internal growth. We believe that by continuing to expand the customer base, getting Pulte Homes to \$10 billion in annual sales in as little as three years is achievable, and then we'll set our sites on reaching \$15 billion toward the end of this decade.



Involvement

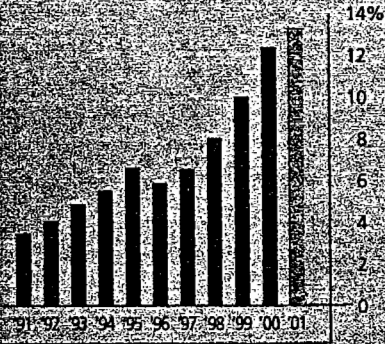


Over the past decade, Pulte Homes' revenues have grown at a compounded annual rate of 20 percent, while earnings per share have increased from \$0.60 to \$6.01. Were these gains just a result of a great economy or do you plan for such growth to continue?

The five-year plan we developed in 2000 targeted annual top-line expansion of 10–15 percent and earnings growth of 20–25 percent. Of course, good economic conditions make business easier for everyone, but Pulte Homes' success goes well beyond just having a good macroenvironment. One of the important drivers has been the ongoing expansion of Pulte Homes' share of the new home construction market. Historically, the homebuilding industry has been extremely fragmented, with more than 75,000 builders delivering new homes each year. Over the past decade, however, the industry has been undergoing a needed transformation and consolidation: Pulte Homes is on track to double its share of the market for new homes to almost four percent (it averages less than six percent across the markets in which the Company operates). This growth is coming at the expense of small- and mid-sized builders in key markets around the country. In simple terms, the big are getting bigger.

Recent research by the National Association of Homebuilders and other organizations suggest demand for new homes over the next decade should "...rival—if not exceed—1990s levels." That would equate to total demand of about 18 million units or roughly 1.8 million units annually. In a stable demand environment, unit growth for Pulte Homes requires taking market share. The potential to realize dramatic gains is very real as the advantages that come with size—greater access to capital, control of larger and better land positions, lower house construction costs, etc.—strengthen our competitive position, which, in turn, drives increased share growth. Keep in mind that across the markets we operate in, one percent market share equals roughly 5,000 new homes. This is a big number, but with roughly 450 communities in operation today, that equates to selling less than one additional home per month in each community.

Share of New Home Market Held
by 5 Largest U.S. Homebuilders



Over the past decade, however, the industry has been undergoing an unprecedented transformation and consolidation. Pulte Homes is on track to double its share of the national market for new, single-family homes to almost four percent.



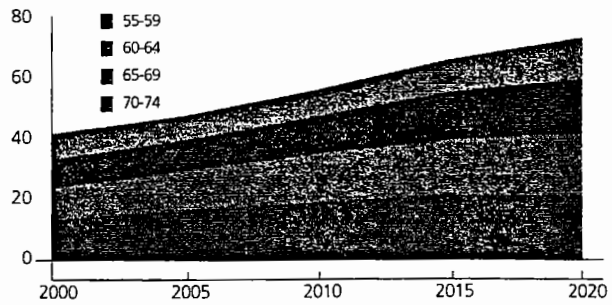
PHOTO BY AP/WIDE
WORLD



NUMBER OF
In less than 20 years, the population of people aged 55 and over will
increase from 42 million to almost 74 million. For successful results
demographic wave is critical that the resources are in place today.
playing catch up just won't work.



Population Aged 55-74
(in millions)



Integrity

Pulte Homes spent \$1.7 billion to acquire Del Webb. What made this acquisition so important and what are your expectations as to the future of Webb's operating model?

The strategic underpinnings of this deal went very deep. Among the critical pieces we acquired with Webb was a dominant position in the fastest growing consumer segment, the potential for significant operating synergies, the strongest brand names in the industry (Del Webb and Sun City) and excellent land positions. In less than 20 years, the US population of people aged 55 to 74 will increase from 42 million to almost 74 million. To successfully ride this demographic wave it is critical that the resources are in place today...playing catch up just won't work.

As we have demonstrated in the traditional new home market, we believe that sustained success with the active adult buyer means you must offer communities targeting different consumer preferences. Del Webb and Sun City will be our primary brands, but we plan to serve this vast market through multiple channels. In certain areas of the country, particularly in the West and Southwest, Webb's traditional destination communities with in excess of 5,000 homes and wide-ranging amenities are still appropriate. We see an opportunity, however, to accelerate expansion of the Webb name into other markets by modifying this model to serve active adults who retire within approximately 100 miles of where they live today. We see smaller communities of 500-3,000 homes, with appropriately sized and targeted amenity packages, as a way to meet the lifestyle needs of these "in-place" retirees. Examples of these new communities are already in development in California, Nevada and Virginia, with other markets already under advanced review in Colorado and Massachusetts. It should also be noted that our traditional builder continues to develop age-targeted communities for the active adult buyer looking for a low-maintenance lifestyle, but within a more traditional community. In total, we expect the active adult market will make up about 30-35 percent of Pulte Homes' sales volume each year, with the remainder coming from first-time, move-up and second-move-up buyers.



Innovation

COPPER ROOF PER SPEC

SLE BAY WINDOW
DETAIL

DOTTED LINE OF
BASE HOUSE 2ND
FLOOR

SICKET 2ND FLOOR
WIN 3/12 PITCH

What is Pulte Homes' international strategy?

Our strategy is to build an international homebuilding operation on sufficient scale to accelerate Pulte Homes' reported earnings growth, while further diversifying the company's overall business. We target non-US markets that offer the potential for rapid unit growth and substantial risk-adjusted returns.

The process has been slower than we anticipated, but I think we're getting there. Effective in 2002, we adjusted the joint-venture structure in Mexico such that Pulte Homes now has controlling interest in these operations. If we look at our 2001 results assuming this new structure, International generated over \$200 million in revenues on almost 7,500 closings. Six years ago, our international business barely existed. We're getting the scale. Going forward, we need to increase profitability and returns, while also generating a more consistent earnings stream from the operations.

Pulte Homes has identified *innovation* as a key element of its brand strategy. What does innovation entail for a homebuilding company?

As defined, innovation means the introduction of something new. Businesses must innovate or they stagnate. We must continually introduce new ideas and business practices into the organization or risk being left behind. It must be new, not just for the sake of doing something different, but with the specific goals of advancing a better home buying and ownership experience for our customers and an improved business result for Pulte Homes.

Most people equate innovation with technology, and in our case they would be only partly right. Progress on an initiative started two years ago to link the sales, construction and ownership process through Internet-based technology continues. We are now developing a more robust technology infrastructure to link all of our communities and market offices in support of greatly enhanced communication and data transfer. We are also rolling out the next generation of our online scheduling software to enhance the consumers' online experience. We see new technology as holding the key to lower customer acquisition and construction costs.

It's not just about virtual innovation, as Pulte Homes is developing new building processes that can deliver enhanced home functionality and environmental efficiency, at a lower cost and with improved cycle times. Through construction innovation and a culture that embraces change, Pulte Homes continues to achieve new levels of operating and financial success, quality and customer satisfaction.



Selected Financial Data

Set forth below is selected consolidated financial data for each of the past five fiscal years. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and Notes thereto included elsewhere in this report.

Years Ended December 31,
(\$000's omitted)

	2001 ^(a)	2000	1999	1998	1997
OPERATING DATA					
Homebuilding:					
Revenues	\$5,309,829	\$4,195,675	\$3,711,196	\$2,837,710	\$2,508,507
Income before income taxes	\$ 520,908	\$ 392,383	\$ 316,561	\$ 173,346	\$ 106,178 ^(b)
Financial services:					
Revenues	\$ 69,881	\$ 47,443	\$ 49,873	\$ 43,678	\$ 34,038
Income before income taxes	\$ 28,331	\$ 19,009	\$ 20,828	\$ 15,194	\$ 5,014 ^(c)
Corporate:					
Revenues	\$ 2,210	\$ 633	\$ 2,748	\$ 12,692	\$ 10,782
Loss before income taxes	\$ (57,452)	\$ (56,296)	\$ (50,984)	\$ (22,726)	\$ (30,217) ^(d)
Consolidated results:					
Revenues	\$5,381,920	\$4,243,751	\$3,763,817	\$2,894,080	\$2,553,327
Income from continuing operations before income taxes	\$ 491,787	\$ 355,096	\$ 286,405	\$ 165,814	\$ 80,975 ^(e)
Income taxes	189,362	136,712	108,118	64,666	31,175
Income from continuing operations	302,425	218,384	178,287	101,148	49,800
Income (loss) from discontinued operations	(1,032)	(29,871)	(122)	1,035	2,961
Net income	\$ 301,393	\$ 188,513	\$ 178,165	\$ 102,183	\$ 52,761

(a) Includes Del Webb's operations since July 31, 2001.

(b) Includes restructuring charge of \$14,800.

(c) Includes restructuring charge of \$2,100.

(d) Includes restructuring charge of \$3,100.

(e) Includes restructuring charge of \$20,000.

Selected Financial Data (continued)

	Years Ended December 31,				
	2001	2000	1999	1998	1997
PER SHARE DATA					
Earnings per share—basic:					
Income from continuing operations	\$ 6.16	\$ 5.29	\$ 4.12	\$ 2.35	\$ 1.14 ^(a)
Income (loss) from discontinued operations	(.02)	(.73)	—	.03	.07
Net income	\$ 6.14	\$ 4.56	\$ 4.12	\$ 2.38	\$ 1.21 ^(a)
Weighted-average common shares outstanding (000's omitted)	49,098	41,310	43,246	42,984	43,510
Earnings per share—assuming dilution:					
Income from continuing operations	\$ 6.01	\$ 5.18	\$ 4.07	\$ 2.30	\$ 1.13 ^(a)
Income (loss) from discontinued operations	(.02)	(.71)	—	.03	.07
Net income	\$ 5.99	\$ 4.47	\$ 4.07	\$ 2.33	\$ 1.20 ^(a)
Weighted-average common shares outstanding and effect of dilutive securities (000's omitted)	50,323	42,146	43,823	43,884	43,908
Shareholders' equity	\$ 38.43	\$ 30.32	\$ 25.27	\$ 21.35	\$ 19.10
Cash dividends declared	\$.16	\$.16	\$.16	\$.15	\$.12

(a) Earnings per share amounts include \$.28 per share attributable to one-time restructuring charge, net of income taxes.

	December 31, (\$000's omitted)				
	2001	2000	1999	1998	1997
BALANCE SHEET DATA					
House and land inventories	\$3,833,763	\$1,896,856	\$1,822,060	\$1,462,235	\$1,141,952
Total assets	5,714,276	2,886,483	2,487,351	2,262,561	2,060,436
Total long-term indebtedness	1,737,869	677,602	525,965	570,114	584,313
Shareholders' equity	2,276,665	1,247,931	1,093,319	921,442	812,837

	Years Ended December 31,				
	2001	2000	1999	1998	1997
OTHER DATA					
Domestic Homebuilding operations:					
Total markets, at year-end	43	41	41	41	40
Total active communities, at year-end	440	396	388	403	398
Total settlements—units	22,915	19,799	19,569	16,051	15,068
Total net new orders—units	26,116	19,844	19,367	18,193	15,226
Backlog units, at year-end	8,678	5,477	5,432	5,415	3,507
Average unit selling price	\$ 225,000	\$ 206,000	\$ 187,000	\$ 174,000	\$ 162,000
Gross profit margin %	20.0%	18.8%	17.8%	16.1%	14.9%
Pulte and Pulte-affiliate settlements—units:					
Domestic	22,915	19,799	19,848	16,511	15,068
International	7,479	7,982	6,774	3,848	1,905
Total Pulte and Pulte-affiliate settlements—units	30,394	27,781	26,622	20,359	16,973

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

A summary of our operating results by business segment for the years ended December 31, 2001, 2000 and 1999 is as follows (\$000's omitted, except per share data):

	Years Ended December 31,		
	2001	2000	1999
Pre-tax income (loss):			
Homebuilding operations	\$520,908	\$392,383	\$316,561
Financial Services operations	28,331	19,009	20,828
Corporate	(57,452)	(56,296)	(50,984)
Income from continuing operations before income taxes	491,787	355,096	286,405
Income taxes	189,362	136,712	108,118
Income from continuing operations	302,425	218,384	178,287
Loss from discontinued operations	(1,032)	(29,871)	(122)
Net income	\$301,393	\$188,513	\$178,165
Per share data—assuming dilution:			
Income from continuing operations	\$ 6.01	\$ 5.18	\$ 4.07
Loss from discontinued operations	(.02)	(.71)	—
Net income	\$ 5.99	\$ 4.47	\$ 4.07

A comparison of pre-tax income (loss), for the years ended December 31, 2001, 2000 and 1999 is as follows:

- Pre-tax income of our homebuilding business segment increased 33% in 2001 and 24% in 2000. Results in 2001 reflect a 9% increase in average selling price to \$225,000 and a 120 basis point improvement in gross margin to 20%. Our 2001 results also reflect five months of the acquired operations of Del Webb Corporation as this merger was completed on July 31, 2001 (please see Note 3 of Notes to Consolidated Financial Statements). Compared to 1999, our 2000 results primarily reflect a 10% increase in domestic average selling price to \$206,000 and a 100 basis point improvement in gross margins.

- Pre-tax income of \$28,331,000 for our financial services business segment represents an increase of 49% over 2000 due to increased loan originations and secondary marketing gains resulting from a favorable interest rate environment. Del Webb's mortgage operations also contributed to this increase. Pre-tax income decreased 9% in 2000 from 1999 to \$19,009,000. Pre-tax income for 2000 was impacted by competitive market conditions due to higher interest rates early in the year, which reduced profitability. Results for 1999 also reflect a net gain of approximately \$1,700,000 in connection with the sale of the mortgage-backed securities by Pulte Financial Companies, Inc., one of our subsidiaries.

- Pre-tax loss of our corporate business segment increased \$1,156,000 in 2001 from \$56,296,000 in 2000 as an increase in net interest expense, primarily due to the inclusion of Del Webb's debt, was partially offset by lower Corporate expenditures. In 2000, our pre-tax loss increased \$5,312,000 from \$50,984,000 in 1999 reflecting an increase in net interest expense.

HOMEBUILDING OPERATIONS

Our homebuilding operations are organized into two distinct business units: Domestic and International.

- Domestic Homebuilding operations are conducted in 43 markets, located throughout 25 states. Domestic Homebuilding offers a broad product line to meet the needs of the first-time, first and second move-up, and active adult homebuyers.

- International Homebuilding operations are conducted through subsidiaries of Pulte International Corporation in Mexico, Puerto Rico and Argentina. International Homebuilding product offerings focus on the demand of first-time buyers, and social interest housing in Mexico and Puerto Rico. Housing for middle-to-upper income consumer groups is also available in Puerto Rico and Argentina. We have agreements in place with multi-national corporations to provide social interest housing in Mexico.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Certain operating data relating to our homebuilding operations and our joint ventures are as follows (\$000's omitted):

	Years Ended December 31,		
	2001	2000	1999
Pulte/Pulte-affiliate homebuilding settlement revenues:			
Domestic	\$5,145,526	\$4,083,816	\$3,713,332
International	215,790	175,957	127,310
Total Homebuilding	\$5,361,316	\$4,259,773	\$3,840,642
Pulte/Pulte-affiliate settlements—units:			
Domestic:			
Pulte	22,915	19,799	19,569
Pulte-affiliated entity	—	—	279
Total Domestic	22,915	19,799	19,848
International:			
Pulte	221	264	262
Pulte-affiliated entities	7,258	7,718	6,512
Total International	7,479	7,982	6,774
Total Pulte/Pulte-affiliate settlements—units	30,394	27,781	26,622

Domestic Homebuilding

The Domestic Homebuilding business unit represents our core business. Operations are conducted in 43 markets, located throughout 25 states, and are organized into five groups as follows:

- Northeast:** Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Virginia
- Southeast:** Florida, Georgia, North Carolina, South Carolina, Tennessee
- Midwest:** Illinois, Indiana, Kansas, Michigan, Minnesota, Ohio
- Central:** Colorado, Texas
- West:** Arizona, California, Nevada

The metropolitan Atlanta market accounted for 10% of the total unit settlements in 2000. No other individual market represented more than 10% of total Domestic Homebuilding net new orders, unit settlements or revenues during the three years ended December 31, 2001.

The following table presents selected unit information for our Domestic Homebuilding operations:

	Years Ended December 31,		
	2001	2000	1999
Unit settlements:			
Northeast	2,014	2,000	2,486
Southeast	8,126	7,820	7,607
Midwest	3,288	2,903	3,044
Central	3,982	3,622	3,337
West	5,505	3,454	3,095
	22,915	19,799	19,569
Net new orders—units:			
Northeast	2,035	1,970	2,511
Southeast	8,544	7,815	7,920
Midwest	3,756	2,818	3,166
Central	4,071	3,644	2,956
West	7,710	3,597	2,814
	26,116	19,844	19,367
Net new orders—dollars (\$000's omitted)	\$5,926,000	\$4,211,000	\$3,784,000
Backlog at			
December 31—units:			
Northeast	831	810	840
Southeast	2,559	2,141	2,146
Midwest	1,375	907	992
Central	903	814	792
West	3,010	805	662
	8,678	5,477	5,432
Backlog at December 31—dollars (\$000's omitted)	\$2,118,000	\$1,307,000	\$1,180,000

Net new orders increased for the thirteenth consecutive year to an all-time record of 26,116 units in 2001, a 32% increase over 2000 order levels. This increase is primarily due to the inclusion of Del Webb's operations, which contributed 5,968 units, including an acquired backlog of 3,823 units. Order growth in the Central and West groups offset by softer performance in the Northeast and Midwest groups contributed to a 2% increase in 2000 orders over 1999 levels.

Unit settlements in 2001 also hit a record-setting high, to 22,915 units with the majority of the increase due to the inclusion of Del Webb's operations, which contributed 2,797 units. Unit settlement activity in 2000 increased 1% over 1999 levels reflecting strong performance in the Southeast, Central and West groups offset by a decline in the Northeast. The average home sales price increased from \$187,000 in 1999 to \$206,000 in 2000 and to \$225,000 in the current year.

Changes in average selling price reflect a number of factors, including price increases, the mix of product closed during a period and the number of options purchased by customers. 2001 benefited from increased product prices, improved product mix and the inclusion of Del Webb product offerings, which had an average selling price of \$264,000.

Ending backlog, which represents orders for homes that have not yet closed, jumped 58% to 8,678 homes, including 3,171 Del Webb units, while the dollar value was up 62% to \$2.1 billion at December 31, 2001. Unit backlog at December 31, 2000, was slightly higher than that noted at the end of 1999 while the dollar value was up 11%. Overall, strong demand supported by a favorable interest rate environment and the addition of Del Webb's operations drove increased order activity and record levels of backlog.

The following table presents a summary of pre-tax income for our Domestic Homebuilding operations (\$000's omitted):

Years Ended December 31,			
	2001	2000	1999
Home sale revenue (settlements)	\$ 5,145,526	\$ 4,083,816	\$ 3,655,775
Land sale revenue	129,134	84,700	33,480
Home cost of sales	(4,118,442)	(3,315,106)	(3,003,504)
Land cost of sales	(97,941)	(56,250)	(25,697)
Selling, general and administrative expenses	(482,128)	(365,704)	(314,463)
Interest ^(a)	(36,006)	(28,019)	(25,187)
Other expense, net	(16,851)	(14,403)	(9,381)
	\$ 523,292	\$ 389,034	\$ 311,023
Average sales price	\$ 225	\$ 206	\$ 187

(a) We capitalize interest cost into homebuilding inventories and charge the interest to homebuilding interest expense over a period that approximates the average life cycle of our communities.

Gross profit margins in 2001 increased 120 basis points over 2000 to 20.0%, including the effect of purchase accounting associated with the Del Webb merger. Excluding the effect of purchase accounting, gross margins in 2001 would have been 20.2%. Gross profit margins in 2000 increased to 18.8%, up 100 basis points over 1999. Factors that contributed to this

favorable trend include strong customer demand, positive home pricing, the benefits of leverage-buy purchasing activities and effective production and inventory management.

Land sales increased over each of the prior three years representing our land development core competency which includes development and entitlement of certain land positions for sale primarily to other homebuilders, as well as to retail and commercial establishments. Revenues and their related gains/losses may vary significantly between periods, depending on the timing of future land sales. We continue to rationalize certain existing land positions to ensure the most effective use of invested capital.

For the year ended December 31, 2001, selling, general and administrative expenses (SG&A), as a percentage of home settlement revenues, increased 42 basis points to 9.37% after increasing 35 basis points to 8.95% in 2000. Higher start-up costs for new communities, increased compensation related costs, local market advertising expenses and the inclusion of Del Webb's operations are the primary reasons for the increase in 2001. The increase in 2000 reflects higher sales and marketing expenses, and start-up costs associated with the opening of new communities.

Other expense, net increased to \$16,851,000 in 2001 as a result of increased land inventory valuation reserves for certain land positions and amortization of tradenames and trademarks acquired in the merger with Del Webb. The increase from 1999 to 2000 represents an increase in various market level non-operational expenditures.

Our Domestic Homebuilding operations controlled approximately 116,000 and 74,900 lots, of which approximately 81,200 and 40,800 lots were owned, and approximately 34,800 and 34,100 lots were controlled through option agreements at December 31, 2001 and 2000, respectively. Domestic Homebuilding inventory at December 31, 2001, was approximately \$3.7 billion of which \$2.8 billion is related to land and land development. At December 31, 2000, inventory was approximately \$1.8 billion of which \$1.3 billion was related to land and land development. Included in other assets is approximately \$223.5 million in land held for disposition as of December 31, 2001, as compared to \$88.3 million in the prior year.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

International Homebuilding

International Homebuilding operations are primarily conducted through subsidiaries of Pulte International Corporation (International) in Mexico, Puerto Rico and Argentina.

Mexico International's 100%-owned subsidiary, Pulte International-Mexico, Inc., conducts its operations primarily through five joint ventures located throughout Mexico. Its net investment in these joint ventures approximated \$47.7 million at December 31, 2001. The largest of these ventures, Condak-Pulte S. De R.L. De C.V. (Condak-Pulte), is based in Ciudad Juarez. Condak-Pulte is currently developing communities in Juarez, Chihuahua, Nuevo Laredo, Monterrey, Reynosa, Saltillo and Matamoros, under agreements with Delphi Automotive Systems, Gigante, S.A. de C.V. and Centro Comerciales Soriana, S.A. De C. V. As of December 31, 2001, International's net investment in Condak-Pulte approximated \$38.9 million.

Desarrollos Residenciales Turisticos, S.A. de C.V., another of its joint ventures in Mexico, is constructing primarily social interest housing in Central Mexico. Current development plans for this venture include housing projects in the Bajio region surrounding Mexico City, targeting the cities of Celaya, Leon, Puebla, Queretaro, San Jose du Iturbide and San Juan del Rio. At December 31, 2001, International's net investment in this joint venture approximated \$7.2 million.

Effective January 1, 2002, Pulte International reorganized its structure within Mexico to create a single company, Pulte Mexico, which ranks as one of the largest builders in the country. The new operating structure will facilitate growth, enable operating leverage and improve efficiencies through standardized systems and procedures. The new company, which combines several entities, including Condak-Pulte and DRT, will be consolidated into our financial statements.

Puerto Rico Operations in Puerto Rico are primarily conducted through International's 100%-owned subsidiary, Pulte International Caribbean Corporation. Desarrolladores Urbanos (Canovanas), S.E., its Puerto Rican joint venture, is developing 121 acres located in Metropolitan San Juan. At December 31, 2001, its net investment in this joint venture approximated \$3.8 million.

Argentina Operations in Argentina are conducted through Pulte SRL, International's 100%-owned Argentine subsidiary which recorded its first closings during the second quarter of 2001.

The following table presents selected financial data for Pulte's International Homebuilding operations for the years ended December 31, 2001, 2000 and 1999 (\$000's omitted):

	Years Ended December 31,		
	2001	2000	1999
Revenues	\$ 35,169	\$ 27,159	\$ 21,941
Cost of sales	(30,937)	(24,611)	(20,337)
Selling, general and administrative expense	(11,820)	(5,621)	(4,588)
Other income, net	66	967	2,522
Equity in income of Mexico operations	5,138	5,455	6,000
Pre-tax income (loss)	\$ (2,384)	\$ 3,349	\$ 5,538
Unit settlements:			
Pulte	221	264	262
Pulte-affiliated entities	7,258	7,718	6,512
	7,479	7,982	6,774

Increased revenues in 2001 are due to the opening of operations in Argentina and a higher average selling price for our Puerto Rican operations. The higher average selling price in Puerto Rico, which results from concentrating more in middle-market housing than in social interest housing, was offset by a decrease in closings from 264 in 2000 to 176 in 2001. Increased revenues in 2000 from 1999 are also attributable to this shift in focus. Results in 1999 benefited from a \$2,400,000 land sale gain. SG&A expense increased \$6,199,000 in 2001 as a result of the start-up of the Argentine operations. The Argentine operations recorded a \$463,000 foreign currency transaction loss in 2001 as a result of the Argentine government's decision to de-link the valuation of the Argentine peso from the U. S. dollar. We also recorded a foreign currency translation loss of \$14,110,000, net of income taxes of \$8,833,000, as a component of other comprehensive income in 2001. It is unclear at this time how the Argentine financial and currency markets will be affected in 2002. It is also unclear how the current economic situation may affect customer homebuying attitudes and the homebuilding business in general.

In 2001, the Mexican operations were affected by changes in government lending practices, which slowed mortgage funding, resulting in lower closings than in 2000. It is anticipated that the rate of mortgage funding in Mexico will accelerate in 2002, which should increase the pace of closings over what was experienced in 2001. Our Mexican joint venture operations recorded 7,718 closings in 2000, representing a 19%

increase over comparable 1999 results. Our share of pre-tax income of \$5,455,000 for 2000 for the Mexican joint ventures was slightly lower than the \$6,000,000 recorded in 1999 as earnings in 1999 included currency gains of \$1,702,000 versus currency losses of \$78,000 for 2000. Currency losses in Mexico amounted to \$378,000 in 2001. Eliminating the impact of the currency gains and losses, operating income for our Mexican operations increased by approximately 29% in 2000.

FINANCIAL SERVICES OPERATIONS

We conduct our financial services operations principally through Pulte Mortgage Corporation (PMC), our mortgage banking subsidiary and during 1999, through Pulte Financial Companies, Inc. (PFCI). Pre-tax income of our financial services operations is as follows (\$000's omitted):

	Years Ended December 31,		
	2001	2000	1999
Pre-tax income:			
Mortgage banking	\$28,331	\$19,009	\$19,017
Financing activities	—	—	1,811
Pre-tax income	\$28,331	\$19,009	\$20,828

Mortgage Banking

	Years Ended December 31,		
	2001	2000	1999
Total originations:			
Loans	19,018	13,415	13,728
Principal	\$2,937,100	\$1,957,300	\$1,908,200
Originations for Pulte customers:			
Loans	13,786	11,109	10,858
Principal	\$2,131,000	\$1,697,600	\$1,558,400

We sell our servicing rights on a flow basis through fixed price servicing sales contracts. Due to the short period of time the servicing rights are held, usually three to four months, we do not amortize the servicing asset. Since the servicing rights are recorded at the value in the servicing sales contracts, there are no impairment issues related to these assets. We also originate mortgage loans using our own funds or borrowings made available through various credit arrangements, and then sell such mortgage loans to outside investors.

Mortgage origination principal volume for the year ended December 31, 2001, increased 50% over 2000, which benefited from an increase in the capture rate of 400 basis points

to 60%, an increased average loan size and the inclusion of Del Webb's mortgage operations, which accounted for approximately 13% of the increase. Origination unit volume increased 42% due to the same factors. Mortgage origination principal volume in 2000 increased 3% over 1999, due to increases in year-to-date unit sales and higher average selling prices realized in our Domestic Homebuilding operations. However, the number of loans for 2000 was down 2% from 1999 levels due to competitive market conditions and rising mortgage interest rates during the last six months of 1999 and first three quarters of 2000. Our home buying customers continue to account for the majority of total loan production, representing 79% of total PMC unit production for 2001, compared with 83% in 2000 and 79% in 1999. Refinancings represented 10% of total loan production in 2001, compared with 2% in 2000 and 4% during 1999. At December 31, 2001, loan application backlog increased 54% to \$827 million as compared to \$536 million and \$499 million at December 31, 2000 and 1999, respectively.

Pre-tax income for the year ended December 31, 2001, increased 49% to \$28.3 million, due to increases in volume, capture rate and secondary marketing gains. The addition of Del Webb's mortgage operations for the last five months of 2001 contributed approximately 8% of this increase. Pricing and marketing gains increased \$17.4 million, or 71%, from the same period in 2000, primarily due to a consistent drop in interest rates throughout 2001. As compared with 2000, net interest income increased \$3.1 million to \$5.0 million during 2001 due to increased production and a steeper yield curve as a result of the drop in interest rates during 2001. Offsetting these gains was an increase in SG&A expenses of \$10 million as a result of increased headcount and other related costs due to the increase in volume during 2001.

Pre-tax income for the year ended December 31, 2000, was unchanged from 1999, as increases in origination fees and other income were offset by decreases in pricing and marketing gains and net interest income. During 2000, origination fees increased \$1.6 million, or 23%, over the prior year due primarily to an increase in brokered loans. Pricing and marketing gains decreased \$3.6 million, or 13%, from the same period in 1999, primarily due to competitive market conditions for much of 2000. As compared with 1999, net interest income decreased 17% to \$1.8 million during 2000 as a result of a drop in funded production and a higher cost of funds due to a new warehouse line that became effective March 31, 2000. During 2000, we recognized increased equity income from our minority interest in a Mexican mortgage banking company, and also recognized income from mortgage reinsurance operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by Financial Accounting Standards Board Statement No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge.

We hedge portions of our forecasted cash flow from sales of closed mortgage loans with derivative financial instruments. For the year ended December 31, 2001, we did not recognize any net gains or losses related to the ineffective portion of the hedging instrument excluded from the assessment of hedge effectiveness. We also did not recognize any gains or losses during 2001, for cash flow hedges that were discontinued because it is probable that the original forecasted transaction will not occur. At December 31, 2001, we expect to reclassify \$592,000, net of taxes, of net losses on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months from sales of closed mortgage loans.

Financing Activities

Our secured financing operations, which were conducted by a limited-purpose subsidiary of PFCI, ceased operations during 1999. During the first quarter of 1999, we recognized a net gain of approximately \$1.7 million in connection with the sale of its remaining mortgage-backed securities portfolio.

CORPORATE

Corporate is a non-operating business segment whose primary purpose is to support the operations of our subsidiaries as the internal source of financing, to develop and implement strategic initiatives centered on new business development and operating efficiencies, and to provide the administrative support associated with being a publicly traded entity. As a result, the corporate segment's operating results will vary from year to year as these strategic initiatives evolve.

The following table presents this segment's results of operations (\$000's omitted):

	Years Ended December 31,		
	2001	2000	1999
Net interest expense	\$34,261	\$28,987	\$22,824
Other corporate expenses, net	23,191	27,309	28,160
Loss before income taxes	\$57,452	\$56,296	\$50,984

An increase in net interest expense offset by a decrease in other corporate expenses, net, resulted in a 2% increase in the net loss for the Corporate segment. The increase in the corporate net interest spread, which is net of interest capitalized into inventory, is attributable to a higher debt balance as a result of the Del Webb merger and the issuance in February 2001 of \$200 million and in August 2001 of \$500 million in Senior Notes, primarily for use in repaying certain indebtedness acquired from Del Webb (see "Del Webb Merger"). The decrease in other corporate expenses, net in 2001 is primarily due to the effect of the write-down of a commercial land position in 2000. The increase in 2000 of the pre-tax loss to \$56.3 million was primarily a result of an increase in net interest expense. Increases in net interest expense were attributed to higher average use of our unsecured revolving credit facility in addition to the April 2000 issuance of \$175 million Senior Notes. Interest incurred for the years ended December 31, 2001, 2000, and 1999, excluding interest incurred by our financial services operations, was approximately \$116.9, \$62.8 and \$49.5 million, respectively.

Corporate net interest expense is net of amounts capitalized into homebuilding inventories. Interest is amortized to homebuilding interest expense over a period that approximates the average life cycle of our communities. Interest in inventory at December 31, 2001, increased primarily as a result of higher levels of indebtedness and the addition of the Del Webb properties, which have a longer life cycle. Information related to Corporate interest capitalized into inventory is as follows (\$000's omitted):

	Years Ended December 31,		
	2001	2000	1999
Interest in inventory at beginning of year	\$ 24,202	\$ 19,092	\$ 16,356
Interest capitalized	80,399	33,129	27,923
Interest expensed	(36,006)	(28,019)	(25,187)
Interest in inventory at end of year	\$ 68,595	\$ 24,202	\$ 19,092

LIQUIDITY AND CAPITAL RESOURCES

Continuing Operations

Our net cash used in operating activities for the year ended December 31, 2001, was \$418,796,000 as higher net income was offset by increases in inventory and residential mortgage loans available-for-sale over 2000 and the resolution of the First Heights litigation. Net cash provided by investing activities in 2001 increased primarily due to the net cash acquired from Del Webb. Net cash provided by financing activities in 2001 was \$297,131,000 as proceeds from the issuance of Senior Notes of \$200 million and \$500 million, and increased borrowings under the revolving credit arrangements, were offset by the repayment of debt acquired from Del Webb (see "Del Webb Merger").

Net cash provided by operating activities for the year ended December 31, 2000, amounted to \$23,322,000. Increases in inventory, other assets, accounts payable and accrued liabilities during 2000 were less than during 1999, and were offset by a larger increase in residential mortgage loans available-for-sale. Net cash used in investing activities was \$5,185,000 for 2000. The effects of PFCI's sale of the underlying collateral of its mortgage-backed securities portfolio and the purchase of BRE's interest in the net assets of our active adult joint venture are reflected in 1999. Net cash provided by financing activities for the year ended December 31, 2000, was \$114,051,000, as compared to a use of cash of \$87,642,000 in 1999. These increased cash flows primarily reflect our issuance of \$175 million Senior Notes in April 2000 and issuance of common stock pursuant to our employee stock option plans, offset by stock repurchases.

We finance homebuilding land acquisition, development and construction activities from internally generated funds and existing credit agreements. We had \$110 million outstanding under our \$560 million unsecured revolving credit facilities at December 31, 2001. PMC provides mortgage financing for

many of our home sales and uses its own funds and borrowings made available through various committed and uncommitted credit arrangements which, at December 31, 2001, amounted to \$450 million, an amount deemed adequate to cover foreseeable needs. There were approximately \$410 million of borrowings outstanding under the PMC arrangements at December 31, 2001. Mortgage loans originated by PMC are subsequently sold. We anticipate that there will be adequate mortgage financing available for purchasers of our homes.

In February 2001, we sold \$200 million of 8½% Senior Notes, due 2011 from an active \$500 million shelf registration. The net proceeds from the sale of the Senior Notes were used to repay short-term borrowings under our revolving bank credit arrangements and for general corporate purposes.

In August 2001, we sold in a private placement, \$500 million of 7½% Senior Notes due in 2011 and subsequently filed an S-4 Registration Statement with the Securities and Exchange Commission, in December 2001. Net proceeds received from the sale were used to repay certain indebtedness acquired in the Del Webb transaction, to pay certain expenses associated with that transaction and for general corporate purposes.

Our income tax liabilities are affected by a number of factors. In 2001, our effective tax rate was 38.50% compared to 38.50% in 2000 and 37.75% in 1999. Our lower effective income tax rate in 1999 resulted from a lower effective state tax rate and the favorable resolution of various state income tax matters. We anticipate that our effective tax rate for 2002 will be approximately 39%.

At December 31, 2001, we had cash and equivalents of \$72.1 million and total long-term indebtedness of \$1.7 billion. Our total long-term indebtedness includes \$1.4 billion of unsecured Senior Notes, \$368.6 million of unsecured Senior Subordinated Notes, other limited recourse debt of \$15 million and other non-recourse short-term notes payable of \$60.7 million.

The following table summarizes our payments under contractual obligations as of December 31, 2001:

	Payments Due by Period (\$000's omitted)				
	Total	2002	2003-2004	2005-2006	After 2006
Contractual obligations:					
Guarantor short-term borrowings	\$ 110,000	\$110,000	\$ —	\$ —	\$ —
Non-guarantor short-term borrowings	413,675	413,675	—	—	—
Long-term indebtedness	1,737,869	3,147	395,606	198,339	1,140,777
Operating leases	102,423	30,505	33,618	17,673	20,627
Total contractual obligations	\$2,363,967	\$557,327	\$429,224	\$216,012	\$1,161,404

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

The following table summarizes our other commercial commitments as of December 31, 2001:

	Amount of Commitment Expiration by Period (\$000's omitted)				
	Total	2002	2003-2004	2005-2006	After 2006
Other commercial commitments:					
Guarantor revolving credit facilities	\$ 560,000	\$ —	\$ —	\$560,000	\$ —
Non-guarantor revolving credit facilities	450,000	225,000	225,000	—	—
Standby letters of credit	125,617	107,841	16,825	951	—
Total commercial commitments	\$1,135,617	\$332,841	\$241,825	\$560,951	\$ —

Standby letters of credit and performance bonds are used to guarantee our performance under various contracts, principally in connection with the development of our projects. The expiration dates of the letter of credit contracts coincide with the expected completion date of the related project. If the obligations related to the project are ongoing, annual extensions are granted on a year-to-year basis. Performance bonds do not have stated expiration dates; rather, we are released from the bonds as the contractual performance is completed. These bonds, which approximated \$775 million at December 31, 2001, are typically outstanding over a period that approximates 3-5 years.

In the normal course of business, we acquire rights under options or option-type agreements to purchase land to be used in homebuilding operations at future dates. These rights, which may be cancelled at our discretion, may extend over several years and are typically secured by small deposits. Further, these rights are frequently extended or renegotiated to better match the needs of our homebuilding operations. The total purchase price applicable to approved land under option for use by our homebuilding operations at future dates approximated \$1.1 billion at December 31, 2001, which represented approximately 35,000 lots. In addition, there were approximately 25,000 lots valued at \$644 million under option at December 31, 2001, pending approval, that are under review and evaluation for future use by our homebuilding operations.

Sources of our working capital at December 31, 2001, include our cash and equivalents, our \$560 million committed unsecured revolving credit facilities and PMC's \$450 million revolving credit facilities. Our debt-to-total capitalization, excluding our non-guarantor asset secured borrowings, was 44.8% as of December 31, 2001. We expect to manage our debt-to-total capitalization to the 40% level by the end of 2002. It is our intent to exercise, over time, the early call provisions of the Senior Subordinated Notes issued by Del Webb, as allowed

under these notes. We routinely monitor current operational requirements and financial market conditions to evaluate the use of available financial sources, including securities offerings.

Del Webb Merger

On July 31, 2001, we merged with Del Webb Corporation as discussed in Note 3 of the Notes to Consolidated Financial Statements. At closing, we paid off and cancelled Del Webb's revolving credit facility, which had a balance outstanding of approximately \$300 million at closing. Under the terms of Del Webb's \$100 million, 9¾%, due 2003, Senior Subordinated Notes, we exercised our option to redeem the entire bond issuance at par during the third quarter of 2001. Under the terms of Del Webb's other Senior Subordinated Notes, we were required, as a result of the change in control, to offer to purchase four series of its Senior Subordinated Notes. As of December 31, 2001, we had repurchased, through tender offers and open-market purchases, \$127 million of these Notes. Under the terms of Del Webb's \$150 million 9¾%, due 2008, Senior Subordinated Notes, we exercised our optional right to redeem the remaining outstanding balance of \$122 million at the price stipulated in the indenture by placing with the trustee as of December 31, 2001, sufficient proceeds to satisfy a January 15, 2002, final payoff.

Inflation

We, and the homebuilding industry in general, may be adversely affected during periods of high inflation because of higher land and construction costs. Inflation also increases our financing, labor and material costs. In addition, higher mortgage interest rates significantly affect the affordability of permanent mortgage financing to prospective homebuyers. We attempt to pass our customers any increases in our costs through increased sales prices. To date, inflation has not had a material adverse effect on our results of operations. However, there is no assurance that inflation will not have a material adverse impact on our future results of operations.

CRITICAL ACCOUNTING POLICIES

The accompanying consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States. When more than one accounting principle, or the method of its application, is generally accepted, we select the principle or method that is appropriate in our specific circumstances (see Note 1 of Notes to Consolidated Financial Statements). Application of these accounting principles requires us to make estimates about the future resolution of existing uncertainties; as a result, actual results could differ from these estimates. In preparing these financial statements, we have made our best estimates and judgments of the amounts and disclosures included in the financial statements, giving due regard to materiality.

Inventory valuation

Our finished inventories are stated at the lower of accumulated cost or net realizable value. Included in inventories are all direct development costs. We capitalize interest cost into homebuilding inventories and charge the interest to homebuilding interest expense over a period that approximates the average life cycle of our communities. This period increased in 2001 due to the addition of the Del Webb properties, which have a longer life cycle. Inventories under development or held for development are stated at accumulated cost, unless they are determined to be impaired, in which case these inventories are measured at fair value. If actual market conditions are less favorable than those projected by management, additional inventory adjustments may be required.

Sold units are expensed on a specific identification basis or on a relative sales value basis as cost of sales. Under the specific identification basis, units are assigned an average cost by project based on actual costs-to-date plus the estimated cost of completion. Units costed using the relative sales value basis are assigned cost based on the sales value of the unit in relation to the total estimated sales value of the project.

Goodwill and Intangible Assets

Goodwill and intangible assets are reviewed by management for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Goodwill and other intangible assets totaled \$467 million at the end of 2001, which represented 8% of total assets. The majority of these assets resulted from the acquisition of Del Webb in 2001. Del Webb has a long history of operating success and profitability, has well recognized brand names and holds a significant position in the active adult market which should continue in the future. The integration of Del Webb should enable the combined businesses to accelerate the pace of land absorptions, enhance the visibility of the "Del Webb" and "Sun City" brand names and obtain the synergies of enhanced purchasing leverage, complementary product offerings and combined operations in the future. Changes in strategy and/or market conditions could impact these judgments and require adjustments to recorded asset balances.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk on our long-term debt to the extent long-term rates decline. The following tables set forth, as of December 31, 2001 and 2000, our long-term debt obligations, principal cash flows by scheduled maturity, weighted-average interest rates and estimated fair market value (\$000's omitted).

As of December 31, 2001 for the Years Ended December 31,

	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value
Rate sensitive liabilities								
Fixed interest rate debt:								
Pulte Homes, Inc., public debt instruments	\$ —	\$275,000	\$112,000	\$125,000	\$69,810	\$1,130,887	\$1,712,697	\$1,744,726
Average interest rate	—	8.59%	8.38%	7.30%	9.00%	8.37%	8.36%	—
Pulte Home Corporation, other non-recourse debt	\$3,147	\$ 6,100	\$ 3,000	\$ 2,758	\$ —	\$ —	\$ 15,005	\$ 15,005
Average interest rate	4.48%	7.78%	9.00%	9.00%	—	—	7.56%	—

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

As of December 31, 2000 for the Years Ended December 31,

	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value
Rate sensitive liabilities								
Fixed interest rate debt:								
Pulte Homes, Inc., public debt instruments	\$ —	\$ —	\$275,000	\$112,000	\$125,000	\$150,000	\$662,000	\$635,855
Average interest rate	—	—	8.59%	8.38%	7.30%	7.63%	8.09%	—
Pulte Diversified Companies, Inc., unsecured promissory note	\$ 7,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7,000	\$ 7,000
Average interest rate	8.00%	—	—	—	—	—	8.00%	—
Pulte Home Corporation, other non-recourse debt	\$10,878	\$428	\$ —	\$ —	\$ —	\$ —	\$ 11,306	\$ 11,306
Average interest rate	7.51%	3.00%	—	—	—	—	7.34%	—

PMC, operating as a mortgage banker, is also subject to interest rate risk. Interest rate risk begins when we commit to lend money to a customer at agreed upon terms (i.e., commits to lend at a certain interest rate for a certain period of time). The interest rate risk continues through the loan closing and until the loan is sold to an investor. During 2001 and 2000, this period of interest rate exposure averaged approximately 60 days. In periods of rising interest rates, the length of exposure will generally increase due to customers locking in an interest rate sooner as opposed to letting the interest rate float.

We minimize interest rate risk by (i) financing the loans via a variable rate borrowing agreement tied to the Federal Funds rate and (ii) hedging our loan commitments and closed loans through derivative financial instruments with off-balance sheet risk. These financial instruments include cash forward placement contracts on mortgage-backed securities, whole loan investor commitments, options on treasury future contracts and options on cash forward placement contracts on mortgage-backed securities. We do not use any derivative financial instruments for trading purposes.

Hypothetical changes in the fair values of our financial instruments arising from immediate parallel shifts in long-term mortgage rates of plus 50, 100 and 150 basis points would not be material to our financial results.

Our aggregate net equity investment in Mexico approximated \$61.1 million at December 31, 2001. This investment, which is exposed to foreign currency exchange risk, could devalue by as much as \$10 million in 2002, assuming a hypothetical 18% annualized devaluation of the Mexican peso against the U.S. dollar during 2002.

Our aggregate net investment in Argentina approximated \$20.1 million at December 31, 2001. This investment is exposed to foreign currency exchange risk. It is unclear at this

time how the Argentine financial and currency markets will be affected in 2002 as a result of the Argentine government's decision to de-link the valuation of the Argentine peso from the U. S. dollar. It is therefore unclear what effect this may have on the continuing value of our investment in Argentina.

SPECIAL NOTES CONCERNING FORWARD-LOOKING STATEMENTS

As a cautionary note, except for the historical information contained herein, certain matters discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk," are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such matters involve risks and uncertainties, including:

- our exposure to certain market risks, changes in economic conditions, tax and interest rates, increases in raw material and labor costs, issues and timing surrounding land entitlement and development, weather conditions, government regulations and environmental matters, as well as, general competitive factors, that may cause actual results to differ materially; and
- our ability to integrate the recently acquired business operations of Del Webb Corporation, including Del Webb's activities, management and corporate culture, with our own, and our ability to develop and manage large-scale active adult communities which differ from our historical home-building business.

Consolidated Balance Sheets

December 31, 2001 and 2000

(\$000's omitted, except share data)

	2001	2000
ASSETS		
Cash and equivalents	\$ 72,144	\$ 183,985
Unfunded settlements	69,631	83,147
House inventory	875,690	545,767
Land inventory	2,958,073	1,351,089
Residential mortgage loans available-for-sale	431,735	259,239
Goodwill	307,693	30,449
Intangible assets, net of accumulated amortization of \$3,396 in 2001	159,604	—
Other assets	772,687	376,235
Deferred income taxes	67,019	56,572
	\$5,714,276	\$2,886,483
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, including book overdrafts of \$119,229 and \$111,211 in 2001 and 2000, respectively	\$ 333,845	\$ 220,916
Accrued liabilities	806,852	487,262
Unsecured short-term borrowings	110,000	—
Collateralized short-term debt, recourse solely to applicable non-guarantor subsidiary assets	413,675	242,603
Income taxes	35,370	10,169
Subordinated Notes and Senior Notes	1,737,869	677,602
Total liabilities	3,437,611	1,638,552
Shareholders' Equity:		
Preferred stock, \$.01 par value; 25,000,000 shares authorized, none issued	—	—
Common stock, \$.01 par value; 100,000,000 shares authorized, 59,249,233 and 41,566,960 shares issued and outstanding in 2001 and 2000, respectively	592	416
Additional paid-in capital	862,881	109,593
Unearned compensation	(3,859)	—
Accumulated other comprehensive income (loss), net of income taxes of \$(8,418) and \$59 in 2001 and 2000, respectively	(13,969)	185
Retained earnings	1,431,020	1,137,737
Total shareholders' equity	2,276,665	1,247,931
	\$5,714,276	\$2,886,483

See Notes to Consolidated Financial Statements.

Consolidated Statements of Operation

For the years ended December 31, 2001, 2000 and 1999

(\$000's omitted, except per share data)

	2001	2000	1999
Revenues:			
Homebuilding	\$5,309,829	\$4,195,675	\$3,711,196
Financial services	69,881	47,443	49,873
Corporate	2,210	633	2,748
Total revenues	5,381,920	4,243,751	3,763,817
Expenses:			
Homebuilding, principally cost of sales	4,794,059	3,808,747	3,401,451
Financial services, principally interest	41,550	28,434	29,045
Corporate, net	59,662	56,929	53,732
Total expenses	4,895,271	3,894,110	3,484,228
Other income:			
Equity in income of Pulte-affiliates	5,138	5,455	6,816
Income from continuing operations before income taxes	491,787	355,096	286,405
Income taxes	189,362	136,712	108,118
Income from continuing operations	302,425	218,384	178,287
Loss from discontinued operations	(1,032)	(29,871)	(122)
Net income	\$ 301,393	\$ 188,513	\$ 178,165
Per share data:			
Basic:			
Income from continuing operations	\$ 6.16	\$ 5.29	\$ 4.12
Loss from discontinued operations	(.02)	(.73)	—
Net income	\$ 6.14	\$ 4.56	\$ 4.12
Assuming dilution:			
Income from continuing operations	\$ 6.01	\$ 5.18	\$ 4.07
Loss from discontinued operations	(.02)	(.71)	—
Net income	\$ 5.99	\$ 4.47	\$ 4.07
Cash dividends declared	\$.16	\$.16	\$.16
Number of shares used in calculation:			
Basic:			
Weighted-average common shares outstanding	49,098	41,310	43,246
Assuming dilution:			
Effect of dilutive securities—stock options	1,225	836	577
Adjusted weighted-average common shares and effect of dilutive securities	50,323	42,146	43,823

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2001, 2000 and 1999

(\$000's omitted, except per share data)

	Common Stock	Additional Paid-in Capital	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Shareholders' Equity, December 31, 1998	\$432	\$ 75,051	\$ —	\$ 1,130	\$ 844,829	\$ 921,442
Stock option exercise, including tax benefit of \$374	1	2,019	—	—	—	2,020
Cash dividends declared—\$.16 per share	—	—	—	—	(6,919)	(6,919)
Comprehensive income:						
Net income	—	—	—	—	178,165	178,165
Change in unrealized gains on securities available-for-sale, net of income taxes of \$(722)	—	—	—	(1,130)	—	(1,130)
Foreign currency translation adjustments, net of income taxes of \$52	—	—	—	(259)	—	(259)
Total comprehensive income						176,776
Shareholders' Equity, December 31, 1999	433	77,070	—	(259)	1,016,075	1,093,319
Stock option exercise, including tax benefit of \$9,837	16	38,605	—	—	—	38,621
Cash dividends declared—\$.16 per share	—	—	—	—	(6,583)	(6,583)
Stock repurchases	(33)	(6,082)	—	—	(60,268)	(66,383)
Comprehensive income:						
Net income	—	—	—	—	188,513	188,513
Foreign currency translation adjustments, net of income taxes of \$7	—	—	—	444	—	444
Total comprehensive income						188,957
Shareholders' Equity, December 31, 2000	416	109,593	—	185	1,137,737	1,247,931
Common stock issued and stock options exchanged in merger	168	729,219	—	—	—	729,387
Stock option exercise, including tax benefit of \$4,982	7	18,512	—	—	—	18,519
Restricted stock award	1	5,557	(5,558)	—	—	—
Restricted stock award amortization	—	—	1,699	—	—	1,699
Cash dividends declared—\$.16 per share	—	—	—	—	(8,110)	(8,110)
Comprehensive income:						
Net income	—	—	—	—	301,393	301,393
Change in fair value of derivatives, net of income taxes of \$371	—	—	—	592	—	592
Foreign currency translation adjustments, net of income taxes of \$(8,445)	—	—	—	(14,746)	—	(14,746)
Total comprehensive income						287,239
Shareholders' Equity, December 31, 2001	\$592	\$862,881	\$(3,859)	\$(13,969)	\$1,431,020	\$2,276,665

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2001, 2000 and 1999

(\$000's omitted)

	2001	2000	1999
Cash flows from operating activities:			
Net income	\$ 301,393	\$ 188,513	\$ 178,165
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:			
Amortization, depreciation and other	32,876	14,230	13,497
Deferred income taxes	(8,176)	652	23,161
Gain on sale of securities	—	—	(1,664)
Increase (decrease) in cash, excluding effects of acquired entities, due to:			
Inventories	(648,266)	(210,025)	(258,196)
Residential mortgage loans available-for-sale	(157,124)	(41,177)	16,912
Other assets	10,808	(14,141)	(60,559)
Accounts payable and accrued liabilities.	5,022	77,034	101,245
Income taxes	44,671	8,236	2,552
Net cash provided by (used in) operating activities	(418,796)	23,322	15,113
Cash flows from investing activities:			
Proceeds from sale of securities available-for-sale	—	—	27,886
Principal payments on mortgage-backed securities	—	—	1,490
Increase in covered assets and FRF receivables	(2,877)	(3,862)	—
Cash paid for acquisitions, net of cash acquired	11,644	—	(24,714)
Other, net	1,057	(1,323)	(5,665)
Net cash provided by (used in) investing activities	9,824	(5,185)	(1,003)
Cash flows from financing activities:			
Payment of long-term debt and bonds	(363,391)	(19,969)	(50,480)
Proceeds from borrowings	980,507	209,930	18,717
Repayment of borrowings	(325,714)	(32,161)	(49,989)
Issuance of common stock	13,537	28,784	1,646
Stock repurchases	—	(66,383)	—
Dividends paid	(8,110)	(6,583)	(6,919)
Other, net	302	433	(617)
Net cash provided by (used in) financing activities	297,131	114,051	(87,642)
Net increase (decrease) in cash and equivalents	(111,841)	132,188	(73,532)
Cash and equivalents at beginning of year	183,985	51,797	125,329
Cash and equivalents at end of year	\$ 72,144	\$ 183,985	\$ 51,797
Supplemental Cash Flow Information:			
Non-cash investing and financing activities:			
Issuance of common stock and exchange of stock options in merger	\$ 729,387	\$ —	\$ —
Cash paid during the year for:			
Interest, net of amount capitalized	\$ 31,364	\$ 29,579	\$ 26,225
Income taxes	\$ 137,684	\$ 115,352	\$ 63,685

See Notes to Consolidated Financial Statements.

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements include the accounts of Pulte Homes, Inc. (the "Company" or "Pulte"), and all of its direct subsidiaries. The Company's direct subsidiaries include Pulte Diversified Companies, Inc. (PDCI), Del Webb Corporation (Del Webb) and other subsidiaries, which are engaged in the homebuilding business. PDCI's operating subsidiaries include Pulte Home Corporation (PHC), Pulte International Corporation (International) and other subsidiaries, which are engaged in the homebuilding business. PDCI's non-operating thrift subsidiary, First Heights Bank, fsb (First Heights), is classified as a discontinued operation (see Note 4). The Company also has a mortgage banking company, Pulte Mortgage Company (PMC), which is a subsidiary of PHC.

Certain amounts related to land sales previously reported in the 2000 financial statements and notes thereto were reclassified to conform to the 2001 presentation.

Significant accounting policies

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and equivalents

For purposes of the Consolidated Statements of Cash Flows, commercial paper and time deposits with a maturity of three months or less when acquired are classified as cash equivalents.

Stock-based compensation

The Company grants stock options to key employees for a fixed number of shares with an exercise price not less than the fair value of the shares at the date of grant. The Company accounts for the stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." No compensation expense is recognized because all stock options granted have exercise prices equal to the market value of the Company's stock on the date of the grant. The pro forma disclosures required by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," are included in Note 7.

Foreign investments

The Company has investments in Mexico, Puerto Rico and Argentina. Gains and losses resulting from the change in foreign exchange rates are recognized in accordance with

SFAS No. 52, "Foreign Currency Translation." The Company recorded losses of \$841,000 and \$78,000 for the years ended December 31, 2001 and 2000, respectively. The Company recorded a \$1,702,000 gain on foreign currency transactions for the year ended December 31, 1999.

The Company's investments primarily include the Mexican homebuilding joint ventures of Condak-Pulte S. De R.L. De C.V. and Desarrollos Residenciales Turisticos, S.A. de C.V., the net investments of which comprise \$38.9 million and \$7.2 million, respectively, at December 31, 2001. The Company recorded equity income of \$5,138,000, \$5,455,000 and \$6,000,000 related to its Mexican homebuilding operations in 2001, 2000 and 1999, respectively. To support homebuilding activities in Mexico, the Company also has a minority ownership interest (approximately 21.9%) in a Mexican mortgage banking company, the balance of which approximated \$13.4 million at December 31, 2001. The Company's aggregate net equity investment in the Mexican joint ventures is approximately \$61.1 million as of December 31, 2001.

Income per share

Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted-average number of common shares, adjusted for nonvested shares of restricted stock (the denominator) for the period. Computing diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the dilutive effects of options, warrants and convertible securities. Any options that have an exercise price greater than the average market price are excluded from the diluted income per share calculation. For the years ended December 31, 2001, 2000 and 1999, 1,795,500, 873,000 and 2,623,000, respectively, of the outstanding stock options were excluded from this calculation.

Fair values of financial instruments

The estimated fair values of financial instruments were determined by management using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret the market data and develop the estimated fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The carrying amounts of cash and equivalents approximate their fair values due to their short-term nature.

The fair value of residential mortgage loans available-for-sale is estimated using the quoted market prices for securities backed by similar loans.

Notes to Consolidated Financial Statements (continued)

The fair values of Subordinated Debentures and Senior Notes are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of similar issues.

Disclosures about the fair value of financial instruments are based on pertinent information available to management as of December 31, 2001. Although management is not aware of any factors that would significantly affect the reasonableness of the fair value amounts, such amounts were not comprehensively revalued for purposes of these financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

Advertising cost

The Company expenses advertising costs as incurred. For the years ended December 31, 2001, 2000 and 1999, the Company incurred advertising costs of approximately \$56,835,000, \$40,440,000 and \$31,800,000, respectively.

Employee benefits

The Company maintains two defined contribution plans that cover substantially all of the Company's employees. Company contributions to the plans are expensed as paid. The total Company contributions pursuant to the plans were approximately \$3,800,000, \$2,300,000 and \$2,100,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Other comprehensive income

The accumulated balances related to each component of other comprehensive income are as follows (\$000's omitted):

	December 31,	
	2001	2000
Foreign currency translation adjustments, net of income taxes of \$(8,386) in 2001 and \$59 in 2000	\$(14,561)	\$185
Change in fair value of derivatives, net of income taxes of \$371 in 2001	592	—
	\$(13,969)	\$185

Intangible assets

Intangible assets, which consist of goodwill and certain trademarks and tradenames, are routinely reviewed for impairment indicators or when events and circumstances warrant. If impairment indicators exist, an assessment of undiscounted future cash flows for the assets related to these intangibles are evaluated accordingly. If the results of the analysis indicate impairment, the assets are adjusted to fair market value. Trademarks and tradenames are amortized on a straight-line basis over a 20 year life.

Derivative instruments and hedging activities

Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, requires companies to recognize all of

their derivative instruments as either assets or liabilities at fair value in the statement of financial position. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge.

For derivative instruments that are designated and qualify as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change. The Company currently uses only cash flow hedge accounting.

Market risks arise from movements in interest rates and cancelled or modified commitments to lend. In order to reduce these risks, the Company uses derivative financial instruments. These financial instruments include cash forward placement contracts on mortgage-backed securities, whole loan investor commitments, options on treasury futures contracts, and options on cash forward placement contracts on mortgage-backed securities. The Company does not use any derivative financial instruments for trading purposes. When the Company commits to lend to the borrower (interest rate is locked to the borrower), the Company enters into one of the aforementioned derivative financial instruments. The change in the value of the loan commitment and the derivative financial instrument is recognized in current earnings during the period of change.

The Company hedges portions of its forecasted cash flow from sales of closed mortgage loans with derivative financial instruments. The cumulative effect recognized in adopting this statement was not material to the Company in 2001. For the year ended December 31, 2001, the Company did not recognize any net gains or losses related to the ineffective portion of the hedging instrument excluded from the assessment of hedge effectiveness. In addition, the Company did not recognize any gains or losses during 2001 for cash flow hedges that

were discontinued because it is probable that the original forecasted transaction will not occur. At December 31, 2001, the Company expects to reclassify \$592,000, net of taxes, of net losses on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months from sales of closed mortgage loans.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the SFAS No. 142. Other intangible assets will continue to be amortized over their useful lives.

Effective January 1, 2002, the Company will apply the non-amortization provisions of SFAS No. 142 related to the goodwill existing at June 30, 2001, which is expected to result in an increase in net income of approximately \$4 million (\$0.07 per diluted share) per year. As required by SFAS No. 142, the goodwill recorded as a result of the July 2001 merger with Del Webb (Note 3) has not been amortized. During 2002, the Company will perform the first of the required impairment tests of goodwill as of January 1, 2002, and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective for fiscal years beginning after December 15, 2001. This standard supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and provides a single accounting model for long-lived assets to be disposed of. SFAS No. 144 provides guidance on differentiating between assets held and used and assets to be disposed of. Assets to be disposed of would be classified as held for sale (and depreciation would cease) when management, having the authority to approve the action, commits to a plan to sell the asset(s) meeting all required criteria. The Company plans to adopt this statement on January 1, 2002, but has not yet determined what effect, if any, SFAS No. 144 will have on its earnings and financial position.

Homebuilding

Allowance for warranties

Home purchasers are provided with warranties against certain building defects. Estimated warranty cost is provided in the period in which the sale is recorded.

Start-up costs

Costs and expenses associated with entry into new homebuilding markets and opening new communities in existing markets are expensed when incurred.

Revenues

Homebuilding revenues are recorded when the sales of homes are completed and ownership has transferred to the customer. Unfunded settlements are deposits in transit on homes for which the sale was completed.

Inventories

Finished inventories are stated at the lower of accumulated cost or net realizable value. Inventories under development or held for development are stated at accumulated cost, unless certain facts indicate such cost would not be recovered from the cash flows generated by future disposition. In this instance, such inventories are measured at fair value.

Sold units are expensed on a specific identification basis or on a relative sales value basis as cost of sales. Included in inventories are all direct costs specifically identifiable to its development. The Company capitalizes interest cost into homebuilding inventories and charges the interest to homebuilding interest expense over a period that approximates the average life cycle of its communities. The Company capitalized interest in the amount of \$80,399,000, \$33,129,000 and \$27,923,000, and expensed to homebuilding interest expense \$36,006,000, \$28,019,000 and \$25,187,000 in 2001, 2000 and 1999, respectively.

Financial Services

Mortgage servicing rights

The Company sells its servicing rights on a flow basis through fixed price servicing sales contracts. Due to the short period of time the servicing rights are held, usually three to four months, the Company does not amortize the servicing asset. Since the servicing rights are recorded at the value in the servicing sales contracts, there are no impairment issues related to these assets. The Company could be required to repurchase loans found to be defective. Reserves for such future repurchases or indemnifications are reflected in accounts payable and accrued liabilities. During 2001, 2000 and 1999, total servicing rights recognized were \$41,614,000, \$33,048,000 and \$38,290,000, respectively.

Residential mortgage loans available-for-sale

Residential mortgage loans available-for-sale are stated at the lower of aggregate cost or market value. Unamortized net mortgage discounts totaled \$1,827,000 and \$1,119,000 at December 31, 2001 and 2000, respectively.

Gains and losses from sales of mortgage loans are recognized when the loans are sold. The Company hedges its residential mortgage loans available-for-sale (see Note 11). Gains and losses from closed commitments and futures contracts are matched against the related gains and losses on the sale of mortgage loans.

Notes to Consolidated Financial Statements (continued)

Mortgage servicing, origination and commitment fees
Mortgage servicing fees represent fees earned for servicing loans for various investors. Servicing fees are based on a contractual percentage of the outstanding principal balance and are credited to income when the related mortgage payments are received. Loan origination fees, commitment fees and certain direct loan origination costs are deferred as an adjustment to the cost of the related mortgage loan until such loan is sold.

2. SEGMENT INFORMATION

The Company's operations are classified into three reportable segments: Homebuilding, Financial Services and Corporate.

The Company's Homebuilding segment consists of the following two business units:

- Domestic Homebuilding, the Company's core business, is engaged in the acquisition and development of land primarily for residential purposes within the continental United States

and the construction of housing on such land targeted for the first-time, first and second move-up, and active adult home buyers.

- International Homebuilding is primarily engaged in the acquisition and development of land principally for residential purposes, and the construction of housing on such land in Mexico, Puerto Rico and Argentina.

The Company's Financial Services segment consists principally of mortgage banking operations conducted through PMC and its subsidiaries.

Corporate is a non-operating business segment whose primary purpose is to support the operations of the Company's subsidiaries as the internal source of financing, to develop and implement strategic initiatives centered on new business development and operating efficiencies, and to provide the necessary administrative functions to support the Company as a publicly traded entity.

Operating Data by Segment (\$000's omitted)

	Years Ended December 31,		
	2001	2000	1999
Revenues:			
Homebuilding	\$5,309,829	\$4,195,675	\$3,711,196
Financial Services	69,881	47,443	49,873
Corporate	2,210	633	2,748
Total revenues	5,381,920	4,243,751	3,763,817
Cost of sales:			
Homebuilding	4,247,320	3,395,967	3,049,538
Selling, general and administrative:			
Homebuilding	493,948	371,325	319,051
Financial Services	32,471	20,906	21,391
Corporate	15,443	12,372	12,682
Total selling, general and administrative	541,862	404,603	353,124
Interest:			
Homebuilding	36,006	28,019	25,187
Financial Services	9,079	7,478	7,404
Corporate	36,471	29,620	24,224
Total interest	81,556	65,117	56,815
Other expense, net:			
Homebuilding	16,785	13,436	7,675
Financial Services	—	50	250
Corporate	7,748	14,937	16,826
Total other expense, net	24,533	28,423	24,751
Total costs and expenses	4,895,271	3,894,110	3,484,228
Equity in income of joint ventures:			
Homebuilding	5,138	5,455	6,816
Income before income taxes:			
Homebuilding	520,908	392,383	316,561
Financial Services	28,331	19,009	20,828
Corporate	(57,452)	(56,296)	(50,984)
Total income before income taxes	\$ 491,787	\$ 355,096	\$ 286,405

Supplemental Operating Data by Geographic Region (\$000's omitted)

Years Ended December 31,

	2001	2000	1999
Revenues:			
Domestic United States	\$5,346,751	\$4,216,592	\$3,740,528
International	35,169	27,159	23,289
Total revenues	5,381,920	4,243,751	3,763,817
Cost of sales:			
Domestic United States	4,216,383	3,371,356	3,029,201
International	30,937	24,611	20,337
Total cost of sales	4,247,320	3,395,967	3,049,538
Selling, general and administrative:			
Domestic United States	531,319	399,323	349,633
International	10,543	5,280	3,491
Total selling, general and administrative	541,862	404,603	353,124
Interest:			
Domestic United States	81,556	65,117	56,815
Other (income) expense, net:			
Domestic United States	24,553	30,116	27,273
International	(20)	(1,693)	(2,522)
Total other expense, net	24,533	28,423	24,751
Total costs and expenses	4,895,271	3,894,110	3,484,228
Equity in income of joint ventures	5,138	5,455	6,816
Income before income taxes	\$ 491,787	\$ 355,096	\$ 286,405

Asset Data by Segment (\$000's omitted)

	Homebuilding	Financial Services	Corporate	Total
At December 31, 2001:				
Inventory	\$3,833,763	\$ —	\$ —	\$3,833,763
Identifiable assets	5,060,583	485,297	168,396	\$5,714,276
At December 31, 2000:				
Inventory	\$1,896,856	\$ —	\$ —	\$1,896,856
Identifiable assets	2,443,540	283,265	159,678	\$2,886,483

Supplemental Asset Data by Geographic Region (\$000's omitted)

	Domestic United States	International	Total
At December 31, 2001:			
Inventory	\$3,796,092	\$37,671	\$3,833,763
Identifiable assets	5,617,063	97,213	\$5,714,276
At December 31, 2000:			
Inventory	\$1,869,127	\$27,729	\$1,896,856
Identifiable assets	2,821,490	64,993	\$2,886,483

Notes to Consolidated Financial Statements (continued)

3. DEL WEBB MERGER

On July 31, 2001, the Company merged with Del Webb Corporation in a tax-free stock-for-stock transaction. Under the terms of the merger agreement, each outstanding share of Del Webb common stock was exchanged for approximately 0.894 shares of newly issued Company stock. Approximately 16,800,000 shares were issued to Del Webb shareholders. Del Webb is primarily a homebuilder with operations in six states. For the fiscal year ended June 30, 2001, Del Webb reported net income of \$91.2 million on revenues of \$1.9 billion and 7,038 unit settlements. Backlog reported at June 30, 2001 was 3,682 units valued at approximately \$994 million.

This merger expands and supports the Company's leadership position. In particular, the Company believes the merger will strengthen its position among active adult homebuyers, enhance its overall land position, provide operational savings from economies of scale while enhancing purchasing leverage, and enhance the Company's overall competitive position.

The merger was accounted for using the purchase method of accounting. Approximately 16,800,000 shares were issued and assigned an approximate accounting value of \$42.74 per share based on the average closing price of the Company's stock for the five trading days ended July 26, 2001. The components of the purchase price and allocation are as follows (\$000's omitted):

Consideration and merger costs:	
Stock issued to Del Webb stockholders	\$720,111
Cash paid to Del Webb stock option and restricted stock holders	29,498
Fair value of stock options exchanged	9,276
Cash paid for certain change-in-control and consulting arrangements	52,709
Other transaction costs	22,389
Total purchase price	\$833,983
Purchase price allocation:	
Inventory	1,522,797
Other assets	387,301
Trademarks and tradenames	163,000
Accounts payable and other	(494,029)
Unsecured short-term borrowings	(300,000)
Subordinated Notes	(729,096)
	549,973
Goodwill	\$284,010

This goodwill, which is not deductible for tax purposes, was allocated solely to the Homebuilding segment. Trademarks and tradenames are being amortized on a straight-line basis over a period of 20 years. Independent appraisers and advisors

utilizing proven valuation procedures allocated portions of the purchase price, including inventory, intangible assets and various other assets. The final determination of purchase accounting is subject to the resolution of certain issues related to assumed liabilities.

Del Webb's operations have been included in the consolidated results since August 1, 2001. The following table presents a summary of the unaudited pro forma operating results for the Company assuming that the merger with Del Webb occurred on January 1, 2001 and 2000.

	Years Ended December 31, (Unaudited)	
	2001	2000
Revenues (\$000's omitted)	\$6,494,795	\$6,251,844
Income from continuing operations (\$000's omitted)	\$ 336,856	\$ 285,129
Basic earnings per share	\$ 5.73	\$ 4.90
Diluted earnings per share	\$ 5.62	\$ 4.84

The pro forma information presented does not purport to be indicative of the results of operations that would have actually been reported had the merger occurred on January 1, 2001 and 2000. For the purposes of the above pro forma information presented and in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized for transactions occurring subsequent to June 30, 2001. As such, operations for all periods presented do not include amortization of the goodwill recognized in the Del Webb merger.

4. DISCONTINUED OPERATIONS

In September 1988, substantially all of the assets, business operations and certain liabilities of five Texas-based insolvent thrifts were acquired by First Heights. Assistance with each acquisition was provided by the Federal Savings and Loan Insurance Corporation (FSLIC) pursuant to an Assistance Agreement. The FSLIC issued promissory notes representing the estimated negative net worth of the acquired associations at the date of acquisition, the balances of which, including accrued interest, were \$0 and \$81,035,000 at December 31, 2001 and 2000, respectively. The notes had a weighted-average interest rate of 5.6% at December 31, 2000. The FSLIC Resolution Fund (FRF) is entitled to payments of up to 25% of certain tax benefits which may be derived as a result of the assistance transactions.

During the first quarter of 1994, the Company adopted a plan of disposal for First Heights and announced its strategy to exit the thrift industry and increase its focus on housing and related mortgage banking. First Heights sold all but one of its 32 bank branches and related deposits to two unrelated purchasers. The sale was substantially completed during the fourth quarter of 1994, although the Company held brokered deposits which were not liquidated until 1998.

Although the Company in 1994, expected to complete the plan of disposal within a reasonable period of time, contractual disputes with the Federal Deposit Insurance Corporation (FDIC) prevented the prepayment of the FRF notes, thereby precluding the Company from completing the disposal in accordance with its original plan. To provide liquidity for the sale, First Heights liquidated its investment portfolios and its single-family residential loan portfolio and, as provided in the Assistance Agreement, entered into a Liquidity Assistance Note (LAN) with the FDIC acting in its capacity as manager of the FRF. The LAN was collateralized by the FRF notes. The LAN and FRF notes matured in September 1998; however, payment of these obligations was withheld by both parties pending resolution of all open matters with the FDIC. As discussed in Note 10, the Company settled its litigation with the FDIC in October 2001, and, as part of the settlement, all obligations under the LAN and the FRF notes have been extinguished.

First Heights no longer holds any deposits, nor does it maintain an investment portfolio. First Heights' day-to-day activities have been principally devoted to supporting residual regulatory compliance matters and the litigation with the United States government, and are not reflective of the active operations of the former thrift, such as maintaining traditional transaction accounts (e.g., checking and savings accounts) or making loans. Accordingly, such operations are being presented as discontinued.

Included in accrued liabilities are litigation-related accruals recorded by the Company, offset by accounts and notes receivable due from the FRF, of \$0 and \$30,250,000 as of December 31, 2001 and 2000, respectively.

Revenues of discontinued operations were \$29,000, \$3,685,000 and \$3,677,000 for the years ended December 31, 2001, 2000 and 1999, respectively. For the years ended December 31, 2001, 2000 and 1999, discontinued thrift operations resulted in losses of \$1,032,000, \$29,871,000 and \$122,000, respectively. The after-tax loss in 2000 includes a \$30 million charge for related litigation as discussed in Note 10.

The Company had previously recognized, as part of discontinued thrift operations, after-tax income of approximately \$110 million. Such income related to tax benefits associated with net operating losses (NOLs), all of which have now been utilized. Although the Company has computed its NOLs and reported them to the Internal Revenue Service in a manner that it believes will comply with applicable law, there is no assurance that the IRS will agree with the Company's determination of the amount of NOLs, in which case, if the IRS were to prevail, the use of a portion or all of the Company's NOLs could be disallowed.

5. SHORT-TERM CREDIT ARRANGEMENTS

Short-term financing for the Company on an operating segment basis is as follows:

Corporate/Homebuilding

In July 2001, the Company expanded its revolving credit facilities to a total of \$560 million as allowed under the credit agreements, in contemplation of its acquisition of Del Webb. This facility, which includes an option to expand the facility size to \$600 million, expires August 31, 2005. The bank credit agreements contain restrictive covenants. The following is aggregate borrowing information (\$000's omitted):

	2001	2000	1999
Available credit lines at year-end	\$560,000	\$415,000	\$375,000
Unused credit lines at year-end	\$450,000	\$415,000	\$368,000
Maximum amount outstanding at the end of any month	\$334,000	\$245,000	\$200,000
Average monthly indebtedness	\$ 72,000	\$137,000	\$107,000
Range of interest rates during the year	2.65 to 6.81%	5.19 to 9.50%	4.87 to 9.25%
Weighted-average rate at year-end	3.79%	6.86%	6.26%

Financial Services

Notes payable to banks (collateralized short-term debt) are secured by residential mortgage loans available-for-sale. The carrying amounts of such borrowings approximate fair values.

Notes to Consolidated Financial Statements (continued)

At December 31, 2001, PMC had a committed bank credit line of \$225 million. The bank credit agreements require PMC to pay a fee for the committed credit line. The committed line expires March 31, 2003. PMC also has a \$225 million annual asset-backed commercial paper program, which expires September 22, 2002. During the three years ended December 31, 2001, PMC provided compensating balances, in the form of escrows and other custodial funds, in order to further reduce interest rates. The bank credit agreements each contain certain restrictions, including the maintenance of levels of equity. Under the most restrictive of the agreements, PMC is required to maintain a minimum tangible net worth of \$15 million.

The following is aggregate borrowing information (\$000's omitted):

	2001	2000	1999
Available credit lines at year-end	\$450,000	\$325,000	\$345,000
Unused credit lines at year-end	\$ 40,000	\$ 91,000	\$147,000
Maximum amount outstanding at the end of any month	\$410,000	\$234,000	\$198,000
Average monthly indebtedness	\$219,000	\$117,000	\$122,000
Range of interest rates during the year	0.45 to 9.18%	0.45 to 8.15%	0.60 to 8.15%
Weighted-average rate at year-end	2.35%	7.31%	7.11%

6. LONG-TERM DEBT

Long-term debt is summarized as follows (\$000's omitted):

	At December 31,	
	2001	2000
Corporate		
9.5% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2003, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	\$ 174,672	\$174,409
7% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2003, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	99,920	99,880
8.375% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2004, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	111,914	111,880
7.3% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2005, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	124,960	124,949
8.125% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2011, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	198,883	—
7.875% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2011, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	495,654	—
7.625% unsecured Senior Notes, issued by Pulte Homes, Inc. due 2017, not redeemable prior to maturity, guaranteed on a senior basis by Pulte and certain wholly-owned subsidiaries of Pulte. See Note 12.	148,287	148,178
9% Senior Subordinated Notes, issued by Del Webb Corporation, due 2006, callable prior to maturity, guaranteed by certain wholly-owned subsidiaries of Pulte. See Note 12	70,621	—
9.375% Senior Subordinated Notes, issued by Del Webb Corporation, due 2009, callable prior to maturity, guaranteed by certain wholly-owned subsidiaries of Pulte. See Note 12	175,083	—
10.25% Senior Subordinated Notes, issued by Del Webb Corporation, due 2010, callable prior to maturity, guaranteed by certain wholly-owned subsidiaries of Pulte. See Note 12	122,870	—
8% unsecured promissory note, issued by Pulte Diversified Companies, Inc., due 2001, unconditionally guaranteed by Pulte.	—	7,000
Homebuilding		
Other non-recourse debt, minimum annual principal payments required, maturing at various times through 2005, interest rates ranging from 0% to 9%	15,005	11,306
	\$1,737,869	\$677,602
Estimated fair value	\$1,759,731	\$654,161

Total Corporate and Homebuilding long-term debt maturities and mandatory annual sinking fund payments during the five years after 2001 are as follows: 2002 – \$3,147,000; 2003 – \$280,692,000; 2004 – \$114,914,000; 2005 – \$127,718,000; 2006 – \$70,621,000; and thereafter \$1,140,777,000.

7. STOCK COMPENSATION PLANS AND MANAGEMENT INCENTIVE COMPENSATION

The Company has fixed stock option plans for both employees (the "Employee Plans") and for nonemployee directors (the "Director Plans"); information related to the Plans is as follows:

Plan Name	Shares Authorized
Employee plans	
Pulte Corporation 2000 Stock Incentive Plan for Key Employees	2,500,000
Pulte Corporation 1995 Stock Incentive Plan for Key Employees	4,000,000
Pulte Corporation 1994 Stock Incentive Plan for Key Employees	2,000,000
Pulte Corporation 1990 Stock Incentive Plan for Key Employees	1,600,000
Nonemployee director plans	
2000 Stock Plan for Nonemployee Directors	250,000
1997 Stock Plan for Nonemployee Directors	133,400

As of December 31, 2001, 801,000 stock options remain available for grant under the Employee Plans and 201,000 stock options remain available for grant under the Director Plans.

The Employee Plans provide for the grant of options (both non-qualified options and incentive stock options as defined in each respective plan), stock appreciation rights and restricted stock to key employees of the Company or its subsidiaries (as determined by the Compensation Committee of the Board of Directors) for periods not exceeding 10 years. Options granted under the Employee Plans vest incrementally in periods ranging from six months to five years. Under the Director Plans, each new nonemployee director will receive 900 shares of common stock and options to purchase an additional 4,000 shares. Nonemployee directors are also entitled to an annual distribution of 900 shares of common stock and options to purchase an additional 4,000 shares. All options granted are non-qualified, vest immediately and are exercisable on the date of grant. Options granted under the Director Plans are exercisable for 10 years from the grant date.

As a result of the Del Webb merger, the Company assumed Del Webb's employee stock plans and their director stock plans. No stock options remain available for grant under the Del Webb plans.

A summary of the status of the Company's stock option plans as of December 31, 2001, 2000 and 1999 and changes during the years ending on those dates is presented below (000's omitted):

	2001		2000		1999	
	Shares	Weighted-Average Per Share Exercise Price	Shares	Weighted-Average Per Share Exercise Price	Shares	Weighted-Average Per Share Exercise Price
Outstanding, beginning of year	5,358	\$23	5,589	\$19	4,400	\$18
Granted	1,933	37	1,439	33	1,427	23
Exercised	(678)	19	(1,631)	17	(93)	15
Forfeited	(74)	25	(39)	24	(145)	20
Outstanding, end of year	6,539	\$28	5,358	\$23	5,589	\$19
Options exercisable at year-end	3,338	\$21	1,939	\$18	2,028	\$17
Weighted-average per share fair value of options granted during the year	\$23.26		\$15.20		\$10.45	

The following table summarizes information about fixed stock options outstanding at December 31, 2001.

Range of Per Share Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31 (000's omitted)	Weighted-Average Remaining Contract Life	Weighted-Average Per Share Exercise Price	Number Exercisable at December 31 (000's omitted)	Weighted-Average Per Share Exercise Price
\$13 to 19.99	1,951	4.3	\$17	1,665	\$17
\$20 to 30.99	2,139	6.0	\$23	1,487	\$23
\$31 to 44	2,449	9.2	\$41	186	\$37

Notes to Consolidated Financial Statements (continued)

Under SFAS No. 123, compensation cost for the Company's stock-based compensation plans is determined based on the fair value at the grant dates for awards under those plans. Additional stock option awards are anticipated in future years. For the years ended December 31, 2001, 2000 and 1999, the Company's income from continuing operations, net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	2001	2000	1999
Income from continuing operations (\$000's omitted):			
As reported	\$302,425	\$218,384	\$178,287
Pro forma	\$288,101	\$212,796	\$174,685
Net income (\$000's omitted):			
As reported	\$301,393	\$188,513	\$178,165
Pro forma	\$287,069	\$182,925	\$174,563
Per share data:			
Basic:			
Income from continuing operations:			
As reported	\$ 6.16	\$ 5.29	\$ 4.12
Pro forma	\$ 5.87	\$ 5.15	\$ 4.04
Net income:			
As reported	\$ 6.14	\$ 4.56	\$ 4.12
Pro forma	\$ 5.85	\$ 4.43	\$ 4.04
Assuming dilution:			
Income from continuing operations:			
As reported	\$ 6.01	\$ 5.18	\$ 4.07
Pro forma	\$ 5.73	\$ 5.05	\$ 3.98
Net income:			
As reported	\$ 5.99	\$ 4.47	\$ 4.07
Pro forma	\$ 5.70	\$ 4.34	\$ 3.98

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 2001, 2000 and 1999, respectively: weighted-average dividend yields of .39%, .57% and .67%, expected volatility 34.8%, 34.5% and

30.5%, weighted-average risk-free interest rates of 4.94%, 5.54% and 5.48%, and weighted-average expected lives of 6.97 years, 7.33 years and 7.27 years.

Homebuilding operating management personnel are paid current cash incentive compensation based on operating performance. Mortgage banking management personnel are paid current cash incentive compensation substantially based on the performance of the applicable subsidiary. The Company's corporate management personnel are paid current cash incentive compensation based on overall performance of the Company. For the years ended December 31, 2001, 2000 and 1999, the Company's total current cash incentive compensation expense was \$70,605,000, \$51,300,000 and \$45,300,000, respectively. The Company also utilizes a long-term cash incentive plan as a means of compensating key operating employees for long-term performance and contributions to the growth of the Company. For the years ended December 31, 2001, 2000 and 1999 the Company expensed \$5,325,000, \$2,300,000 and \$10,087,000, respectively, relating to this plan.

8. INCOME TAXES

The Company's net deferred tax asset is as follows (\$000's omitted):

	At December 31,	
	2001	2000
Deferred tax liabilities:		
Capitalized items, principally real estate basis differences, deducted for tax, net	\$ (59,050)	\$(13,229)
Trademarks and tradenames	(62,755)	—
	(121,805)	(13,229)
Deferred tax assets:		
Non-deductible reserves and other	134,637	67,544
Adjustments to the fair value of acquired Senior Subordinated Notes	16,509	—
Net operating loss carryforwards	27,320	2,257
State and other credit carryforwards	11,610	—
	190,076	69,801
Asset valuation allowance	(1,252)	—
Net deferred tax asset	\$ 67,019	\$ 56,572

The federal net operating loss (NOL) of \$67,749,000 is subject to certain limitations but is expected to be utilized fully by 2003. The state NOLs of \$72,190,000 expire in years 2006

through 2022 and are generally available to offset the Company's taxable income in future years. Realization of the net deferred tax asset is dependent on future reversals of existing taxable temporary differences and adequate future taxable income. Although realization is not assured, management believes that, except for the valuation allowance stated, it is more likely than not that the net deferred tax asset will be realized.

Components of current and deferred income tax expense (benefit) of continuing operations are as follows (\$000's omitted):

	Current	Deferred	Total
Year ended December 31, 2001			
Federal	\$179,428	\$(7,879)	\$171,549
State and other	18,110	(297)	17,813
	\$197,538	\$(8,176)	\$189,362
Year ended December 31, 2000			
Federal	\$123,381	\$ 1,594	\$124,975
State and other	12,679	(942)	11,737
	\$136,060	\$ 652	\$136,712
Year ended December 31, 1999			
Federal	\$ 78,351	\$22,980	\$101,331
State and other	6,606	181	6,787
	\$ 84,957	\$23,161	\$108,118

The following table reconciles the statutory federal income tax rate to the effective income tax rate for continuing operations:

	2001	2000	1999
Income taxes at federal statutory rate	35.00%	35.00%	35.00%
Effect of state and local income taxes, net of federal tax	3.09	2.91	2.23
Settlement of state tax issues and other	.41	.59	.52
Effective rate	38.50%	38.50%	37.75%

9. LEASES

The Company leases certain property and equipment under non-cancelable leases. Office and equipment leases are generally for terms of three to five years and generally provide renewal options for terms of up to an additional three years. Model home leases are generally for shorter terms approximating one year with renewal options on a month-to-month basis. In most cases, management expects that in the normal

course of business, leases that expire will be renewed or replaced by other leases. The future minimum lease payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year are as follows (\$000's omitted):

Years Ending December 31,	
2002	\$ 30,505
2003	20,139
2004	13,479
2005	9,648
2006	8,025
After 2006	20,627
Total minimum lease payments	\$102,423

Net rental expense for the years ended December 31, 2001, 2000 and 1999 was \$36,463,000, \$25,513,000 and \$22,122,000, respectively. Certain leases contain purchase options and generally provide that the Company shall pay for insurance, taxes and maintenance.

10. COMMITMENTS AND CONTINGENCIES

In the normal course of business, Pulte acquires rights under options or option-type agreements to purchase land to be used in homebuilding operations at future dates. The total purchase price applicable to land under option approximated \$1.1 billion at December 31, 2001 and 2000.

At December 31, 2001, Pulte, in the normal course of business, had outstanding letters of credit and performance bonds of \$126 million and \$775 million, respectively.

The Company is involved in various litigation incidental to its continuing business operations. Management does not believe that this litigation will have a material adverse impact on the results of operations, financial position or cash flows of the Company.

First Heights-related litigation

The Company was a party to three lawsuits relating to First Heights' 1988 acquisition from the Federal Savings and Loan Insurance Corporation (FSLIC) and First Heights' ownership of five failed Texas thrifts. The first lawsuit (the "District Court Case") was filed on July 7, 1995, in the United States District Court, Eastern District of Michigan, by the Federal Deposit Insurance Corporation (FDIC) against the Company, PDCI and First Heights (collectively, the "Pulte Parties"). The second lawsuit (the "Court of Federal Claims Case") was filed on

Notes to Consolidated Financial Statements (continued)

December 26, 1996, in the United States Court of Federal Claims (Washington, D.C.) by the Pulte Parties against the United States. The third lawsuit was filed by First Heights on January 10, 2000, in the United States District Court, Eastern District of Michigan against the FDIC regarding the amounts, including interest, the FDIC was obligated to pay First Heights on two promissory notes which had been executed by the FDIC's predecessor, the FSLIC.

In the District Court Case, the FDIC, as successor to the FSLIC, sought a declaration of rights and other relief related to the Assistance Agreement entered into between First Heights and the FSLIC. The FDIC and the Pulte Parties disagreed about the proper interpretation of provisions in the Assistance Agreement which provide for sharing of certain tax benefits achieved in connection with First Heights' 1988 acquisition and ownership of the five failed Texas thrifts. The District Court Case also included certain other claims relating to the foregoing, including claims resulting from the Company's and First Heights' amendment of a tax sharing and allocation agreement between the Company and First Heights. The Pulte Parties disputed the FDIC's claims and filed an answer and a counterclaim, seeking, among other things, a declaration that the FDIC had breached the Assistance Agreement in numerous respects. On December 24, 1996, the Pulte Parties voluntarily dismissed without prejudice certain of their claims in the District Court Case and, on December 26, 1996, initiated the Court of Federal Claims Case.

On March 5, 1999, the United States District Court (the Court), entered a "Final Judgment" against First Heights and PDCI resolving by summary judgment in favor of the FDIC most of the FDIC's claims against the Pulte Parties. The Final Judgment required PDCI and First Heights to pay the FDIC monetary damages totaling approximately \$221.3 million, including interest but excluding costs (such as attorneys fees) to be determined in the future by the District Court and post-judgment interest. However, the FDIC acknowledged that it had already paid itself or withheld from assistance its obligation to pay to First Heights approximately \$105 million, excluding interest thereon. The Company believed that it was entitled to a credit or actual payment of such amount plus interest. The Final Judgment did not address this issue. The Company disagreed with the District Court's rulings and appealed the decision to the Sixth Circuit Court of Appeals.

On October 12, 2000, the Sixth Circuit Court of Appeals rendered its opinion in which it affirmed in part, reversed in part and remanded the case to the District Court for further proceedings. The Sixth Circuit affirmed most of the District Court's adverse liability rulings, including as to the sharing of

certain tax benefits achieved in connection with First Heights' 1988 acquisition and ownership of the five failed Texas thrifts and regarding the Company's and First Heights' amendment of a tax sharing and allocation agreement and rescission of a warrant assumption agreement between PDCI and First Heights. The Sixth Circuit, however, vacated the District Court's damage calculations as to a number of issues, vacated the District Court's pre-judgment interest award, and remanded to the District Court for a proper recalculation of all such amounts. Although the Sixth Circuit opinion left certain significant issues to be resolved through further Court proceedings, based upon its reading of the Sixth Circuit opinion, the Company determined that an after-tax charge of \$30 million to Discontinued Operations was appropriate in 2000.

In October 2001, the FDIC and the Pulte Parties settled the District Court Case, the related appeal to the Sixth Circuit Court of Appeals and the third lawsuit. As part of this settlement (the "Settlement"), the Pulte Parties paid the FDIC \$41.5 million, and the FDIC retained all amounts previously withheld from First Heights including the FRF notes (see Note 4). In addition, the First Heights Assistance Agreement was terminated, except certain tax benefit sharing provisions will continue in effect, and the warrants issued by First Heights to the FDIC were extinguished. The Company does not believe that the claims in the Court of Federal Claims Case are in any way prejudiced by the Settlement.

In the Court of Federal Claims Case, the Pulte Parties assert breaches of contract on the part of the United States in connection with the enactment of Section 13224 of the Omnibus Budget Reconciliation Act of 1993 ("OBRA"). That provision repealed portions of the tax benefits that the Pulte Parties claim they were entitled to under the contract to acquire the failed Texas thrifts. The Pulte Parties also assert another claim concerning the contract that the United States (through the FDIC as receiver) improperly attempted to amend the failed thrifts' pre-acquisition tax returns and that this attempt was made in an effort to deprive the Pulte Parties of tax benefits for which they had contracted.

On August 17, 2001, the United States Court of Federal Claims ruled that the United States government is liable to the Company for breach of contract by enacting Section 13224 of OBRA. The Court will now proceed to determine the amount of damages to which the Pulte Parties are entitled. While it is unclear at this time what amount the Court will award, the Pulte Parties are currently seeking approximately \$80 million in after-tax damages for the United States government's breach of contract.

11. FINANCIAL INSTRUMENTS, INCLUDING THOSE WITH OFF-BALANCE SHEET RISK

Market risks arise from movements in interest rates and canceled or modified commitments to lend. To reduce these risks, the Company uses derivative financial instruments with off-balance sheet risk. These financial instruments include cash forward placement contracts on mortgage-backed securities, whole loan investor commitments, options on treasury futures contracts and options on cash forward placement contracts on mortgage-backed securities. The Company does not use any derivative financial instruments for trading purposes.

Cash forward placement contracts on mortgage-backed securities are commitments to either purchase or sell a specified financial instrument at a specified future date for a specified price and may be settled in cash by offsetting the position, or through the delivery of the financial instrument. Whole loan investor commitments are obligations of the investor to buy loans at a specified price within a specified time period. Options on treasury future contracts and options on mortgage-backed securities grant the purchaser, for a premium payment, the right to either purchase or sell a specified treasury futures contract or a specified mortgage-backed

security, respectively, for a specified price within a specified period of time or on a specified date from or to the writer of the option.

Mandatory cash forward contracts on mortgage-backed securities are the predominant derivative financial instruments used to minimize the market risk during the period from when the Company extends an interest rate lock to a loan applicant until the time the loan is sold to an investor. Options on cash forward contracts on mortgage-backed securities are used in the same manner as mandatory cash forward contracts, but provide protection from interest rates rising, while still allowing an opportunity for profit if interest rates fall. Options on the treasury futures contracts are used as cross hedges on various loan product types and to protect the Company in a volatile interest rate environment from unexpected increases, cancellations or modifications in lending commitments.

Since PMC can terminate a loan commitment if the borrower does not comply with the terms of the contract, and some loan commitments may expire without being drawn upon, these commitments do not necessarily represent future cash requirements of PMC. PMC evaluates the creditworthiness of these transactions through its normal credit policies.

The following are PMC's loan commitments (\$000's omitted):

	Commitment Amount	Fair Market Value	Interest Rates	Expiration Dates
At December 31, 2001:				
Loan commitments to borrowers	\$66,163	\$66,407	5.00 to 9.88%	January 2002–April 2002
At December 31, 2000:				
Loan commitments to borrowers	\$28,823	\$28,421	6.49 to 13.80%	January 2001–June 2001

PMC has credit risk to the extent that the counterparties to the derivative financial instruments do not perform their obligation under the agreements. If one of the counterparties does not perform, PMC would not receive the cash to which it is entitled under the conditions of the agreement. PMC manages credit risk by entering into agreements with large national investment bankers or financial institutions, all of whom meet PMC's established credit underwriting standards. Options on futures are traded on organized exchanges with the exchange clearinghouse serving as the counterparty in the trade, reducing the risk of non-performance. Management does not anticipate any material losses as a result of its agreements and does not consider them to represent an undue level of credit, interest or liquidity risk for PMC.

The table below summarizes, by class, the contractual amounts of PMC's derivative financial instruments (\$000's omitted).

	Commitment Amount	Fair Market Value	Interest Rates	Expiration Dates
At December 31, 2001:				
Sell Securities	\$421,269	\$423,422	4.38 to 10.00%	January 2002–March 2002
At December 31, 2000:				
Sell Securities	\$267,534	\$265,816	5.88 to 13.80%	January 2001–February 2001

Notes to Consolidated Financial Statements (continued)

12. SUPPLEMENTAL GUARANTOR INFORMATION (\$000'S OMITTED)

The Company has the following outstanding Senior Note obligations: (1) \$175,000, 9.5%, due 2003, (2) \$100,000, 7%, due 2003, (3) \$112,000, 8.375%, due 2004, (4) \$125,000, 7.3%, due 2005, (5) \$200,000, 8.125%, due 2011, (6) \$500,000, 7.875%, due 2011, and (7) \$150,000, 7.625%, due 2017. Such obligations to pay principal, premium, if any, and interest are guaranteed jointly and severally on a senior basis by the Company's wholly-owned Domestic Homebuilding subsidiaries (collectively, the Guarantors). The Company has the following outstanding Senior Subordinated Note obligations: (1) \$69,810, 9%, due 2006, (2) \$166,418, 9.375%, due 2009, and (3) \$114,469, 10.25%, due 2010. Such obligations to pay principal, premium, (if any) and interest are guaranteed jointly and severally on a senior subordinated basis by the Guarantors. Such guarantees are full and unconditional. The principal non-Guarantors include PDCI, Pulte International Corporation, PMC and First Heights.

Supplemental consolidating financial information of the Company, specifically including such information for the Guarantors, is presented below. Investments in subsidiaries are presented using the equity method of accounting. Separate financial statements of the Guarantors are not provided as the consolidating financial information contained herein provides a more meaningful disclosure to allow investors to determine the nature of the assets held by and the operations of the combined groups.

SELECTED BALANCE SHEET DATA

December 31, 2001 and 2000

	2001	2000
Assets		
Cash and equivalents	\$ 33,643	\$ 133,860
House and land inventories	3,796,092	1,869,127
Other	2,158,013	443,321
	\$5,987,748	\$2,446,308
Liabilities and Shareholders' Equity		
Accounts payable and accrued liabilities	\$ 935,481	\$ 565,611
Other liabilities	2,833,577	384,477
	3,769,058	950,088
Shareholders' equity	2,218,690	1,496,220
	\$5,987,748	\$2,446,308

SELECTED STATEMENT OF OPERATIONS DATA

For the years ended December 31, 2001, 2000, and 1999

	2001	2000	1999
Revenues	\$5,276,681	\$4,168,832	\$3,689,974
Expenses	4,759,052	3,794,797	3,389,618
Equity in income of Pulte-affiliates	—	—	816
Income before income taxes and equity in net income of subsidiaries	517,629	374,035	301,172
Income taxes	199,369	144,508	118,796
Income before equity in net income of subsidiaries	318,260	229,527	182,376
Equity in net income of subsidiaries	16,599	11,750	11,727
Net Income	\$ 334,859	\$ 241,277	\$ 194,103

SELECTED STATEMENT OF CASH FLOWS DATA

For the years ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Net cash provided by (used in) operating activities	\$ (167,875)	\$ 157,908	\$ 76,446
Net cash provided by (used in) investing activities	(893,350)	2,171	(21,401)
Net cash provided by (used in) financing activities	961,008	(70,425)	(56,948)
Net (decrease) increase cash and equivalents	(100,217)	89,654	(1,903)
Cash and equivalents at beginning of year	133,860	44,206	46,109
Cash and equivalents at end of year	\$ 33,643	\$ 133,860	\$ 44,206

Expanded supplemental financial information of the Company, specifically including combining statements for the parent company, Guarantor subsidiaries, and non-Guarantor subsidiaries, is included in the Company's Form 10-K as filed with the Securities and Exchange Commission.



Report of Management

The management of Pulte Homes, Inc. is responsible for the integrity and objectivity of the accompanying financial statements and related information. The statements were prepared in accordance with accounting principles generally accepted in the United States, and include amounts that are based on our best judgments and estimates.

Management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions and events are recorded properly. While the Company is organized on the principle of decentralized management, appropriate control measures are also evidenced by well-defined organizational responsibilities, management selection, development and evaluation processes, communication techniques, financial planning and reporting systems and formalized procedures. In addition, internal auditors monitor the operation of the internal control system and report findings and recommendations to management and the audit committee, and corrective actions are taken to remedy deficiencies if and when they are identified.

Ernst & Young LLP, independent auditors, is engaged to audit our financial statements. Ernst & Young LLP maintains an understanding of our internal controls and conducts such tests and other auditing procedures considered necessary in the circumstances to express their opinion in the report that follows.

The Audit Committee, composed entirely of nonemployee directors, meets periodically with the independent auditors, management and internal auditors to review their work and confirm they are properly performing their duties. Both the internal and independent auditors have unrestricted access to the Committee, without the presence of management, to discuss any appropriate matters.



Roger A. Cregg
Senior Vice President and
Chief Financial Officer

Vincent J. Frees
Vice President and
Controller

Report of Independent Auditors

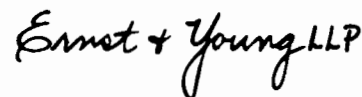
The Board of Directors and Shareholders
Pulte Homes, Inc.

We have audited the accompanying consolidated balance sheets of Pulte Homes, Inc. as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pulte Homes, Inc. at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, the Company has not amortized goodwill acquired in a business combination consummated subsequent to June 30, 2001, in accordance with Statement of Financial Accounting Standards No. 142.



Detroit, Michigan
January 24, 2002

Unaudited Quarterly Information

(\$000's omitted, except per share data)

	1st Quarter	2nd Quarter	3rd Quarter ^(a)	4th Quarter ^(a)	Total
2001					
Homebuilding operations:					
Revenues	\$825,047	\$1,040,685	\$1,463,427	\$1,980,670	\$5,309,829
Income before income taxes	67,698	106,221	144,542	202,447	520,908
Financial services operations:					
Revenues	\$ 14,075	\$ 16,436	\$ 18,014	\$ 21,356	\$ 69,881
Income before income taxes	5,452	5,763	6,977	10,139	28,331
Corporate:					
Revenues	\$ 717	\$ 905	\$ 494	\$ 94	\$ 2,210
Loss before income taxes	(9,542)	(13,417)	(16,296)	(18,197)	(57,452)
Consolidated results:					
Revenues	\$839,839	\$1,058,026	\$1,481,935	\$2,002,120	\$5,381,920
Income from continuing operations before income taxes	63,608	98,567	135,223	194,389	491,787
Income taxes	24,489	37,948	52,072	74,853	189,362
Income from continuing operations	39,119	60,619	83,151	119,536	302,425
Income (loss) from discontinued operations	252	(825)	(364)	(95)	(1,032)
Net income	\$ 39,371	\$ 59,794	\$ 82,787	\$ 119,441	\$ 301,393
Per share data:					
Basic:					
Income from continuing operations	\$.94	\$ 1.44	\$ 1.56	\$ 2.03	\$ 6.16
Income (loss) from discontinued operations	.01	(.02)	(.01)	—	(.02)
Net income	\$.95	\$ 1.42	\$ 1.55	\$ 2.03	\$ 6.14
Weighted-average common shares outstanding	41,795	41,987	53,421	58,951	49,098
Assuming dilution:					
Income from continuing operations	\$.91	\$ 1.40	\$ 1.53	\$ 1.99	\$ 6.01
Income (loss) from discontinued operations	.01	(.02)	(.01)	(.01)	(.02)
Net income	\$.92	\$ 1.38	\$ 1.52	\$ 1.98	\$ 5.99
Adjusted weighted-average common shares and effect of dilutive securities	42,999	43,365	54,518	60,187	50,323

(a) Included in the 3rd and 4th quarter information are the operations of Del Webb Corporation, which was acquired on July 31, 2001 as discussed in Note 3 of Notes to Consolidated Financial Statements.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2000					
Homebuilding operations:					
Revenues	\$772,262	\$ 983,603	\$1,060,964	\$1,378,846	\$4,195,675
Income before income taxes	45,910	87,272	106,585	152,616	392,383
Financial services operations:					
Revenues	\$ 10,165	\$ 10,535	\$ 12,135	\$ 14,608	\$ 47,443
Income before income taxes	3,467	3,437	5,215	6,890	19,009
Corporate:					
Revenues	\$ 66	\$ 56	\$ 286	\$ 225	\$ 633
Loss before income taxes	(9,915)	(13,219)	(12,850)	(20,312)	(56,296)
Consolidated results:					
Revenues	\$782,493	\$ 994,194	\$1,073,385	\$1,393,679	\$4,243,751
Income from continuing operations before income taxes	39,462	77,490	98,950	139,194	355,096
Income taxes	15,193	29,830	38,091	53,598	136,712
Income from continuing operations	24,269	47,660	60,859	85,596	218,384
Income (loss) from discontinued operations	67	32	(29,967)	(3)	(29,871)
Net income	\$ 24,336	\$ 47,692	\$ 30,892	\$ 85,593	\$ 188,513
Per share data:					
Basic:					
Income from continuing operations	\$.57	\$ 1.16	\$ 1.50	\$ 2.09	\$ 5.29
Loss from discontinued operations	—	—	(.74)	—	(.73)
Net income	\$.57	\$ 1.16	\$.76	\$ 2.09	\$ 4.56
Weighted-average common shares outstanding	42,696	41,053	40,476	41,027	41,310
Assuming dilution:					
Income from continuing operations	\$.57	\$ 1.15	\$ 1.47	\$ 2.01	\$ 5.18
Loss from discontinued operations	—	—	(.73)	—	(.71)
Net income	\$.57	\$ 1.15	\$.74	\$ 2.01	\$ 4.47
Adjusted weighted-average common shares and effect of dilutive securities	42,871	41,569	41,527	42,527	42,146

Price Range of Common Shares Traded on the New York Stock Exchange

Our common stock is listed on the New York Stock Exchange (Symbol: PHM). The table below sets forth, for the quarterly periods indicated, the range of high and low closing prices and cash dividends declared per share.

	2001			2000		
	High	Low	Declared Dividends	High	Low	Declared Dividends
1st Quarter	\$42.63	\$32.62	\$.04	\$21.13	\$15.69	\$.04
2nd Quarter	49.57	37.56	.04	23.38	20.44	.04
3rd Quarter	48.01	27.00	.04	34.25	20.31	.04
4th Quarter	45.94	30.28	.04	43.75	28.06	.04

At December 31, 2001, there were 1,684 shareholders of record.

Management Team

CORPORATE MANAGEMENT

William J. Pulte
Chairman of the Board

Mark J. O'Brien
President and Chief Executive Officer

Roger A. Cregg
Senior Vice President and Chief Financial Officer

Michael A. O'Brien
Senior Vice President—Corporate Development

Mary S. Alexander
Vice President, Legal

Larry Beckner
Vice President, CIO

Vincent J. Frees
Vice President and Controller

Elaine A. Kramer
Vice President, H.R. Development and Training

Alan E. Laing
Vice President, E-Business, Supply Chain and Customer Satisfaction

James P. Lesinski
Vice President, Marketing

Norma J. Machado
Vice President, H.R. Employee Services

Gregory M. Nelson
Vice President and Assistant Secretary

Bruce E. Robinson
Vice President and Treasurer

Robert P. Schafer
Vice President Finance and Homebuilding Operations

John R. Stoller
Senior Vice President, General Counsel and Secretary

Leo Taylor
Vice President H.R./Sales Development

Maureen E. Thomas
Vice President, Legal

James P. Zeumer
Vice President of Investor and Corporate Communications

OPERATING DIVISIONS

Central Group

Richard L. Strom

NORTH CENTRAL REGION

Denver
C. Dean Amann II

Colorado Springs
C. Dean Amann II

SOUTH CENTRAL REGION

Austin
Donald R. Evans

Dallas
Donald J. Dykstra

Houston
Kyle S. Davison

San Antonio
Donald R. Evans

West Group

John S. Gallagher

CALIFORNIA REGION
Matthew W. Koart

Sacramento
Christopher B. Cady

Northern California
Matthew W. Koart

Southern California
L.J. Edgcomb

SOUTHWEST REGION

Steven C. Petruska

Las Vegas
Steven C. Petruska

Phoenix
Randall M. Bury

Tucson
Steven S. Atchison

Midwest Group

Robert J. Halso

HEARTLAND REGION

Patrick J. Beirne

Illinois
Patrick J. Beirne

Minneapolis
Thomas J. Standke

GREAT LAKES REGION

Jeffery K. Parsigian

Cleveland
Greg C. Williams

Kansas City
Tamara S. Gross

Michigan
Jeffery K. Parsigian

Grand Rapids
Jeffrey D. Chamberlain

Indianapolis
Mark A. Thomas

Del Webb

Anne L. Mariucci

Arizona
Scott J. Peterson

California & Texas
John H. Gleason

Florida, Illinois, Nevada & South Carolina
Frank D. Pankratz

DiVosta and Company

Thomas H. Harvey

DiVosta and Company
Charles W. Hathaway

Northeast Group

Jeffrey A. Croft

MID-ATLANTIC REGION

Richard D. DiBella

Maryland
George Baker

Washington
Richard D. DiBella

NORTHEAST REGION

Central New Jersey
William E. Weber

Delaware Valley
William E. Reiser, Jr.

New England
James R. McCabe

International

Wayne B. Williams

Pulte Caribbean
Francisco J. Arrivi

Pulte Mexico, Inc.
William J. Crombie

Pulte Argentina
Arthur W. Broslat

Southeast Group

Norman B. White

COASTAL REGION

Richard J. Dugas

Charlotte
Thomas W. Bruce

Georgia
Richard J. Dugas

Raleigh
Larry E. Lippincott

Tennessee
Jeff J. Logsdon

NORTH FLORIDA REGION

Central Florida
James C. Leiferman

Northeast Florida
John D. Molyneaux

SOUTH FLORIDA REGION

Gregory G. Wolpert

Fort Myers
Gregory G. Wolpert

South Florida
Louis E. Steffens

West Florida
James D. Brown

Corporate Information

SENIOR CORPORATE OFFICERS

William J. Pulte
Chairman of the Board

Mark J. O'Brien
President and Chief Executive Officer

Roger A. Cregg
Senior Vice President and Chief Financial Officer

Michael A. O'Brien
Senior Vice President—Corporate Development

John R. Stoller
Senior Vice President, General Counsel and Secretary

DIRECTORS

D. Kent Anderson⁽¹⁾
Chairman
Beacon Management Corporation

Debra Kelly-Ennis⁽¹⁾⁽²⁾
General Manager Oldsmobile Division
General Motors Corporation

David N. McCammon⁽¹⁾⁽³⁾
Retired Vice President of Finance
Ford Motor Company

Mark J. O'Brien
President and Chief Executive Officer

Patrick J. O'Meara⁽¹⁾
Chairman
Ann Arbor Acquisition Corporation

William J. Pulte
Chairman of the Board and Founder

Michael E. Rossi⁽¹⁾
Retired Chairman, Bank of America

Glenn W. Schaeffer
President, Chief Financial Officer
Mandalay Resort Group

Alan E. Schwartz
Partner
Honigman, Miller, Schwartz and Cohn, Attorneys
Counsel to the Company

Francis J. Sehn⁽¹⁾⁽³⁾
Chief Executive Officer
The Fran Sehn Company, Inc.

John J. Shea⁽²⁾
Retired Vice Chairman, President and
Chief Executive Officer
Speigel, Inc.

William B. Smith⁽²⁾
Advisory Director
Morgan Stanley Dean Witter & Co.

(1) Audit Committee Member

(2) Compensation Committee Member

(3) Nominating Committee Member

OPERATING SUBSIDIARIES

Pulte Homes, Inc.
33 Bloomfield Hills Parkway
Suite 200
Bloomfield Hills, Michigan 48304

Pulte Mortgage Corporation
7475 South Joliet Street
Englewood, Colorado 80112
Roger C. Pastore, President

INVESTOR INFORMATION

Information Requests

The Company's annual report to stockholders and proxy statement together contain substantially all the information presented in the Form 10-K report filed with the Securities and Exchange Commission. Individuals interested in receiving the annual report, Form 10-K, Form 10-Qs or other printed corporate literature should check the Company's website at www.pulte.com, write to the Investor Relations Department at the corporate office or call (248) 647-2750.

Investor inquiries

Shareholders, securities analysts, portfolio managers and others with inquiries about the company should contact James P. Zeumer, Vice President of Investor and Corporate Communications, at the corporate office or call (248) 433-4597. Shareholders with inquiries relating to shareholder records, stock transfers, change of ownership, change of address and dividend payments should contact: State Street Bank and Trust Company
c/o EquiServe
150 Royall Street
Canton, MA 02021
(877) 282-1168
www.equiserve.com

INTERNET ADDRESS

Additional information about Pulte Homes may be obtained by visiting our website at <http://www.pulte.com>.

ANNUAL MEETING OF THE SHAREHOLDERS

The annual meeting of shareholders of Pulte Homes, Inc. will be held at 10 a.m. (EDT), Wednesday, May 15, 2002, at the Michigan State University Management Education Center, Troy, Michigan.

COMMON STOCK INFORMATION

Ticker Symbol: PHM

Pulte Homes, Inc. is a component of the S&P 500 Composite Stock Price Index. Common stock of Pulte Homes, Inc. is listed and traded on the New York Stock Exchange, which is the principal market for the common stock, and is also traded on the Boston, Cincinnati, Midwest, Pacific and Philadelphia stock exchanges. Option trading in Pulte is conducted on the Chicago Board of Exchange.

Pulte Homes, Inc.
33 Bloomfield Hills Parkway
Suite 200
Bloomfield Hills, Michigan
48304
www.pulte.com



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Professional
Builder.
Builder
OF THE
Year

TOWN OF BUCKEYE, ARIZONA

Annual Financial Statements

June 30, 2002

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
------------------------------------	---

General Purpose Financial Statements

Combined Balance Sheet All Fund Types and Account Groups	3
---	---

Combined Statement of Revenue, Expenditures, and Changes in Fund Balance All Governmental Fund Types	5
--	---

Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual General Fund	6
--	---

Combined Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual Special Revenue Funds	7
--	---

Combined Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual Debt Service Fund	8
--	---

Combined Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual Capital Projects Funds	9
---	---

Combined Statement of Revenue, Expenses, and Changes in Retained Earnings/Fund Balance Proprietary Fund Types and Fiduciary Fund Types	10
--	----

Combined Statement of Cash Flows Proprietary Fund Types	11
--	----

Notes to Financial Statements	13
-------------------------------------	----

Combining Statements

Combining Balance Sheet Special Revenue Funds	33
Combining Statement of Revenue, Expenditures, and Changes in Fund Balance Special Revenue Funds	34
Combining Balance Sheet Capital Projects Funds	35
Combining Statement of Revenue, Expenditures, and Changes in Fund Balance Capital Projects Funds	36
Combining Balance Sheet Enterprise Funds	37
Combining Statement of Revenue, Expenses, and Changes in Retained Earnings Enterprise Funds	38
Combining Statement of Cash Flows Enterprise Funds	39

Single Audit Act Reports Section

Schedule of Expenditures of Federal Awards.....	41
Notes to Schedule of Expenditures of Federal Awards	42
Summary Schedule of Prior Audit Findings	43
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	46
Schedule of Findings and Questioned Costs.....	48

Colby & Company
CERTIFIED PUBLIC ACCOUNTANTS
1415 East Guadalupe #104
Tempe, Arizona 85283

David M. Colby, C.P.A.
Scott T. Powell, C.P.A.

TEL (480) 897-1743
FAX (480) 820-9959

INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Buckeye, Arizona

We have audited the accompanying general purpose financial statements of the Town of Buckeye, Arizona, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Town of Buckeye, Arizona's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

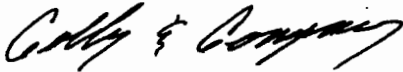
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Buckeye, Arizona, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2002, on our consideration of the Town of Buckeye, Arizona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements.

In addition, the combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Town of Buckeye, Arizona. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects, in relation to the general purpose financial statements taken as a whole.



October 25, 2002

TOWN OF BUCKEYE, ARIZONA
Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002

	Governmental Fund Types				Proprietary	Fiduciary	Account Groups		Total (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Enterprise Funds	Trust and Agency Funds	General Fixed Assets	General Long-term Debt	
ASSETS AND OTHER DEBITS									
Assets									
Cash and cash equivalents	\$ 2,497,163	\$ 233,774	\$ -	\$ 391,224	\$ 210,810	\$ -	\$ -	\$ -	\$ 3,332,971
Restricted cash and investments	22,792	-	748,243	2,897,832	58,995	178,649	-	-	3,906,511
Accounts receivable - net	447,196	-	-	2,274	157,506	-	-	-	606,976
Taxes receivable	4,481	-	8,553	-	-	-	-	-	13,034
Assessments receivable	-	-	-	4,435,000	-	-	-	-	4,435,000
Due from other governments	72,957	338,446	-	-	30,073	-	-	-	441,476
Prepaid expenses	32,843	1,438	-	-	4,553	-	-	-	38,834
Interest receivable	-	464	-	4,418	-	-	-	-	4,882
Due from other funds	728,302	-	-	-	-	-	-	-	728,302
Inventories	7,482	-	-	-	14,159	-	-	-	21,641
Bond issuance costs	-	-	-	-	161,965	-	-	-	161,965
Fixed assets - net	-	-	-	-	6,681,023	-	8,075,869	-	14,756,892
Other Debits									
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	7,362,115	7,362,115
TOTAL ASSETS AND OTHER DEBITS	\$ 3,813,216	\$ 574,122	\$ 756,796	\$ 7,730,748	\$ 7,319,084	\$ 178,649	\$ 8,075,869	\$ 7,362,115	\$ 35,810,599

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combined Balance Sheet
All Fund Types and Account Groups – Continued
June 30, 2002

LIABILITIES, EQUITY AND OTHER CREDITS	Governmental Fund Types			Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)	
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Enterprise Funds	Trust and Agency Funds	General Fixed Assets		General Long-term Debt
Liabilities									
Accounts payable	\$ 202,929	\$ 198,876	\$ 3,942	\$ 1,061,100	\$ 60,350	\$ -	\$ -	\$ -	\$ 1,527,197
Accrued expenses	149,013	1,854	-	-	74,482	-	-	-	225,349
Refundable deposits	20,872	-	-	-	46,536	-	-	-	67,408
Due to other funds	-	227,072	-	501,230	-	-	-	-	728,302
Deferred revenues	6,907	-	-	4,435,000	-	-	-	-	4,441,907
Compensated absences payable	-	-	-	-	37,114	-	-	255,687	292,801
Interest payable	-	37	507,727	-	-	-	-	189,929	697,693
Bonds payable	-	-	330,000	-	2,740,000	-	-	5,735,000	8,805,000
Obligations under capital lease	-	-	-	-	81,264	-	-	1,181,499	1,262,763
Total liabilities	379,721	427,839	841,669	5,997,330	3,039,746	-	-	7,362,115	18,048,420
Equity and Other Credits									
Contributed capital	-	-	-	-	5,466,305	-	-	-	5,466,305
Investment in general fixed assets	-	-	-	-	-	-	8,075,869	-	8,075,869
Retained earnings (deficit)	-	-	-	-	(1,186,967)	178,649	-	-	(1,008,318)
Fund balance									
Reserved	2,500,000	-	(84,873)	-	-	-	-	-	2,415,127
Unreserved	933,495	146,283	-	1,733,418	-	-	-	-	2,813,196
Total equity and other credits	3,433,495	146,283	(84,873)	1,733,418	4,279,338	178,649	8,075,869	-	17,762,179
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	\$ 3,813,216	\$ 574,122	\$ 756,796	\$ 7,730,748	\$ 7,319,084	\$ 178,649	\$ 8,075,869	\$ 7,362,115	\$ 35,810,599

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combined Statement of Revenue, Expenditures, and
Changes in Fund Balance – All Governmental Fund Types
For the Year Ended June 30, 2002

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Total (Memorandum Only)
Revenue					
Taxes	\$ 2,409,107	\$ -	\$ 449,421	\$ -	\$ 2,858,528
Intergovernmental	1,724,993	1,517,339	-	-	3,242,332
Fines and forfeitures	180,260	-	-	-	180,260
Licenses and permits	389,226	-	-	-	389,226
Charges for services	656,406	9,250	-	15,000	680,656
Assessments	-	-	-	293,066	293,066
Mitigation	2,500,000	-	-	-	2,500,000
Rents and royalties	31,766	-	-	-	31,766
Interest	27,855	6,433	-	77,140	111,428
Other revenue	968,524	-	-	1,242	969,766
Total revenue	8,888,137	1,533,022	449,421	386,448	11,257,028
Expenditures					
Current					
General government	2,430,117	-	-	-	2,430,117
Public safety	3,523,631	221,251	-	-	3,744,882
Highways and streets	-	1,043,029	-	-	1,043,029
Culture and recreation	669,719	390,416	-	-	1,060,135
Capital outlay	-	1,903	-	3,358,317	3,360,220
Debt service					
Principal	-	-	330,000	-	330,000
Interest and other charges	-	-	556,972	-	556,972
Total expenditures	6,623,467	1,656,599	886,972	3,358,317	12,525,355
Non-Operating Revenues (Expenses)					
Impact fees	-	-	-	46,337	46,337
Total non-operating revenues (expenses)	-	-	-	46,337	46,337
Excess (deficiency) of revenue over (under) expenditures	2,264,670	(123,577)	(437,551)	(2,925,532)	(1,221,990)
Other Financing Sources (Uses)					
Bond proceeds	-	-	-	4,652,595	4,652,595
Bond issue cost	-	-	-	(199,421)	(199,421)
Operating transfers in	6,254	-	438,963	-	445,217
Operating transfers out	-	(52,454)	-	(231,923)	(284,377)
Total other financing sources (uses)	6,254	(52,454)	438,963	4,221,251	4,614,014
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	2,270,924	(176,031)	1,412	1,295,719	3,392,024
Fund balance, beginning of year	1,162,571	322,314	(86,285)	437,699	1,836,299
FUND BALANCE, END OF YEAR	\$ 3,433,495	\$ 146,283	\$ (84,873)	\$ 1,733,418	\$ 5,228,323

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Statement of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended June 30, 2002

	Budget	Actual	Variance -- Favorable/ (Unfavorable)
Revenue			
Taxes	\$ 2,211,433	\$ 2,409,107	\$ 197,674
Intergovernmental	2,000,178	1,724,993	(275,185)
Fines and forfeitures	131,300	180,260	48,960
Licenses and permits	734,250	389,226	(345,024)
Charges for services	511,025	656,406	145,381
Rents	44,800	31,766	(13,034)
Mitigation	-	2,500,000	2,500,000
Interest	40,500	27,855	(12,645)
Other revenue	310,000	968,524	658,524
Total revenue	<u>5,983,486</u>	<u>8,888,137</u>	<u>2,904,651</u>
Expenditures			
Current			
General government			
Non-departmental	1,311,835	1,445,792	(133,957)
Mayor and council	28,375	23,356	5,019
Administration	496,460	331,138	165,322
Irrigation	167,650	166,856	794
Cemetery	53,725	43,037	10,688
Planning	576,790	419,938	156,852
Public safety			
Vehicle maintenance	242,325	272,490	(30,165)
Law/legal	192,320	188,705	3,615
Fire	971,450	1,120,393	(148,943)
Police	1,941,550	1,942,043	(493)
Culture and recreation			
Parks	202,425	148,606	53,819
Swimming pool	151,050	129,608	21,442
Library	226,170	219,670	6,500
Community center	321,361	171,835	149,526
Total expenditures	<u>6,883,486</u>	<u>6,623,467</u>	<u>260,019</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(900,000)</u>	<u>2,264,670</u>	<u>3,164,670</u>
Other Financing Sources (Uses)			
Operating transfers in	-	6,254	(6,254)
Total other financing sources (uses)	<u>-</u>	<u>6,254</u>	<u>(6,254)</u>
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	(900,000)	2,270,924	3,158,416
Fund balance, beginning of year	<u>1,162,571</u>	<u>1,162,571</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 262,571</u></u>	<u><u>\$ 3,433,495</u></u>	<u><u>\$ 3,158,416</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combined Statement of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual – Special Revenue Funds
For the Year Ended June 30, 2002

	Budget	Actual	Variance – Favorable/ (Unfavorable)
Revenue			
Intergovernmental	\$ 1,833,461	\$ 1,517,339	\$ (316,122)
Charges for services	-	9,250	9,250
Interest	2,500	6,433	3,933
Total revenue	1,835,961	1,533,022	(302,939)
Expenditures			
Public safety	516,064	221,251	294,813
Highways and streets	909,732	1,043,029	(133,297)
Culture and recreation	317,063	390,416	(73,353)
Capital Outlay	-	1,903	(1,903)
Total expenditures	1,742,859	1,656,599	86,260
Excess (deficiency) of revenue over (under) expenditures	93,102	(123,577)	(216,679)
Other Financing Sources (Uses)			
Operating transfers in	-	-	-
Operating transfers out	(93,102)	(52,454)	40,648
Total other financing sources (uses)	(93,102)	(52,454)	40,648
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	-	(176,031)	(176,031)
Fund balance, beginning of year	322,314	322,314	-
FUND BALANCE, END OF YEAR	\$ 322,314	\$ 146,283	\$ (176,031)

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combined Statement of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual – Debt Service Fund
For the Year Ended June 30, 2002

	Budget	Actual	Variance -- Favorable/ (Unfavorable)
Revenue			
Taxes	\$ 463,000	\$ 449,421	\$ (13,579)
Total revenue	463,000	449,421	(13,579)
Expenditures			
Debt service			
Principal	375,000	330,000	45,000
Interest and other charges	261,302	556,972	(295,670)
Total expenditures	636,302	886,972	(250,670)
Excess (deficiency) of revenue over (under) expenditures	(173,302)	(437,551)	(264,249)
Other Financing Sources (Uses)			
Operating transfers in	173,302	438,963	265,661
Total other financing sources (uses)	173,302	438,963	265,661
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	-	1,412	1,412
Fund balance, beginning of year	(86,285)	(86,285)	-
FUND BALANCE, END OF YEAR	\$ (86,285)	\$ (84,873)	\$ 1,412

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combined Statement of Revenue, Expenditures, and Changes in Fund Balance
Budget and Actual – Capital Projects Funds
For the Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	Variance -- Favorable/ (Unfavorable)
Revenue			
Intergovernmental	\$ 266,000	\$ -	\$ (266,000)
Charges for services	5,500	15,000	9,500
Assessments	-	293,066	293,066
Other	-	1,242	1,242
Interest	105,915	77,140	(28,775)
	<u>377,415</u>	<u>386,448</u>	<u>9,033</u>
Total revenue			
Expenditures			
Current			
General government	264,250	-	264,250
Capital outlay			
Miller road	-	3,220,188	(3,220,188)
Airport improvement	296,000	-	296,000
Sewer improvement	-	138,129	(138,129)
Cemetery	49,900	-	49,900
	<u>610,150</u>	<u>3,358,317</u>	<u>(2,748,167)</u>
Total expenditures			
Excess (deficiency) of revenue over (under) expenditures	<u>(232,735)</u>	<u>(2,971,869)</u>	<u>(2,739,134)</u>
Non-Operating Revenues (Expenses)			
Impact fees	206,850	46,337	(160,513)
	<u>206,850</u>	<u>46,337</u>	<u>(160,513)</u>
Total non-operating revenues (expenses)			
Other Financing Sources (Uses)			
Bond proceeds	4,746,240	4,652,595	(93,645)
Bond issue cost	-	(199,421)	199,421
Operating transfers in	-	-	-
Operating transfers out	-	(231,923)	231,923
	<u>4,746,240</u>	<u>4,221,251</u>	<u>337,699</u>
Total other financing sources (uses)			
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	4,720,355	1,295,719	(3,424,636)
Fund balance, beginning of year	<u>437,699</u>	<u>437,699</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 5,158,054</u></u>	<u><u>\$ 1,733,418</u></u>	<u><u>\$(3,424,636)</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combined Statement of Revenue, Expenses, and
Changes in Retained Earnings/Fund Balance
Proprietary Fund Types and Fiduciary Fund Types
For the Year Ended June 30, 2002

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Total</u>
	<u>Enterprise Funds</u>	<u>Trust and Agency Funds</u>	<u>(Memorandum Only)</u>
Operating Revenue			
Charges for services	\$ 1,201,489	\$ -	\$ 1,201,489
State fire insurance premiums	-	-	-
Contributions	-	11,036	11,036
Other revenue	27,153	-	27,153
Total operating revenue	<u>1,228,642</u>	<u>11,036</u>	<u>1,239,678</u>
Operating Expenses			
Personnel	331,196	-	331,196
Insurance	87,747	-	87,747
Professional/technical services	25,958	-	25,958
Utilities	125,986	-	125,986
Repairs, maintenance, and fuel	125,258	-	125,258
Materials and supplies	59,343	-	59,343
Pension payments	-	10,682	10,682
Other	49,332	18,196	67,528
Depreciation and amortization	209,712	-	209,712
Total operating expenses	<u>1,014,532</u>	<u>28,878</u>	<u>1,043,410</u>
Operating income	<u>214,110</u>	<u>(17,842)</u>	<u>196,268</u>
Nonoperating Revenue (Expenses)			
Interest revenue	1,853	7,235	9,088
Interest expense	(160,339)	-	(160,339)
Unrealized loss on trading securities held in trust	-	(17,060)	(17,060)
Total nonoperating revenue (expenses)	<u>(158,486)</u>	<u>(9,825)</u>	<u>(168,311)</u>
Other Financial Sources (Uses)			
Transfer Out	(160,840)	-	(160,840)
Total other financial sources (uses)	<u>(160,840)</u>	<u>-</u>	<u>(160,840)</u>
Net income	(105,216)	(27,667)	(132,883)
Retained earnings (deficit)/fund balance, beginning of year	(1,081,751)	206,316	(875,435)
RETAINED EARNINGS/FUND BALANCE, END OF YEAR	<u><u>\$ (1,186,967)</u></u>	<u><u>\$ 178,649</u></u>	<u><u>\$ (1,008,318)</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combined Statement of Cash Flows
Proprietary Fund Types
For the Year Ended June 30, 2002

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash Flows from Operating Activities	
Cash received from customers	\$ 1,207,382
Cash paid to suppliers for goods/services	(445,330)
Cash paid to employees for services	<u>(328,190)</u>
Net cash provided by operating activities	<u>433,862</u>
Cash Flows from Non-Capital and Related Financing Activities	
Loans form other funds	149,518
Payments to other funds	(149,518)
Transfers to other funds	<u>(160,840)</u>
Net cash used by non-capital and related financing activities	<u>(160,840)</u>
Cash Flows from Capital and Related Financing Activities	
Principal payments on capital lease payable	(68,741)
Principal payments on bonds payable	(75,000)
Purchases of property & equipment	<u>(20,638)</u>
Net cash used by capital and related financing activities	<u>(164,379)</u>
Cash Flows from Investing Activities	
Interest received	1,853
Interest paid	<u>(160,339)</u>
Net cash used by investing activities	<u>(158,486)</u>
Net decrease in cash and cash equivalents	(49,843)
Cash and cash equivalents, beginning of year	<u>319,648</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 269,805</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combined Statement of Cash Flows
Proprietary Fund Types – *Continued*
For the Year Ended June 30, 2002

**Reconciliation of Operating Income to
Net Cash Provided by Operating Activities**

Operating income		\$ 214,110
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	\$ 209,712	
Changes in assets and liabilities:		
Increase in accounts receivable	(24,243)	
Increase in prepaid expenses	(929)	
Increase in accounts payable	26,837	
Increase in accrued expenses	3,469	
Increase in refundable deposits	2,231	
Decrease in due from other governments	752	
Increase in compensated absences payable	<u>1,923</u>	
 Total adjustments		 <u>219,752</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES		 <u><u>\$ 433,862</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA

Notes to Financial Statements

June 30, 2002

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Buckeye, Arizona, conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

Reporting Entity – The Town is a general purpose local government that is governed by a separately elected Town Council. These general purpose financial statements present all the fund types and account groups of the Town (a primary government) and its component units.

Component units are legally separate entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the Town's operations and so data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the Town. Each blended component unit discussed below has a June 30 year-end. The Town has no discretely presented component units.

The BPCC – The BPCC board of directors consists of members who are appointed by the Buckeye Town Council. The BPCC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the Town in obtaining a landfill site. BPCC has a lease agreement for the landfill site from which the Town receives the funds. All related receivables and payables between the Town and the BPCC have been eliminated.

Sundance Community Facilities District is a special purpose district municipal corporation and political subdivision of the State of Arizona separate and apart from the Town. The District contains an area of approximately 1,860 acres of land within the incorporated boundaries of the Town. The principal objective of the District is to assist the developers of the Sundance sub-division in acquiring, constructing, financing, operating, and improving or modifying public facilities and infrastructure for the benefit of the Sundance community in the Town of Buckeye. The District's board of directors consists of the members of the governing body of the Town. The District may levy taxes on all taxable property located within the District to pay the costs of improvements constructed by the District; debt service charges on any general obligation bonds issued; the costs of administration of the District; and the costs of operation and maintenance of the District.

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

***NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued***

Whitestone District 1 Community Facilities District is a special purpose district municipal corporation and political subdivision of the State of Arizona separate and apart from the Town. The District contains an area of approximately 8,800 acres of land within the incorporated boundaries of the Town. The principal objective of the District is to assist the developers of the Whitestone District 1 sub-division in acquiring, constructing, financing, operating, and improving or modifying public facilities and infrastructure for the benefit of the Whitestone District 1 community in the Town of Buckeye. The District's board of directors consists of the members of the governing body of the Town. The District may levy taxes on all taxable property located within the District to pay the costs of improvements constructed by the District; debt service charges on any general obligation bonds issued; the costs of administration of the District; and the costs of operation and maintenance of the District.

Whitestone Western Overlay Community Facilities District is a special purpose district municipal corporation and political subdivision of the State of Arizona separate and apart from the Town. The District contains an area of approximately 5,120 acres of land within the incorporated boundaries of the Town. The principal objective of the District is to assist the developers of the Whitestone Western Overlay sub-division in acquiring, constructing, financing, operating, and improving or modifying public facilities and infrastructure for the benefit of the Whitestone Western Overlay community in the Town of Buckeye. The District's board of directors consists of the members of the governing body of the Town. The District may levy taxes on all taxable property located within the District to pay the costs of improvements constructed by the District; debt service charges on any general obligation bonds issued; the costs of administration of the District; and the costs of operation and maintenance of the District.

Separate financial statements of the blended component units are not prepared.

Fund Accounting – The Town's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Town's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with the activities or objectives specified for those resources. Each 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, fund equity, revenue, and expenditures (or expenses). Account groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – Continued**

Governmental Fund Types account for the Town's general governmental activities using the flow of current financial resources measurement focus and include the following fund types.

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

The *Special Revenue Funds* account for specific revenue sources, other than expendable trusts and major capital projects, that are legally restricted to expenditures for specified purposes.

The *Debt Service Funds* account for resources accumulated and used for the payment of general long-term debt principal, interest, and related costs.

The *Capital Projects Funds* account for resources to be used for acquiring or constructing major capital facilities, other than those financed by Proprietary Funds.

Proprietary Fund Types account for the Town's ongoing activities that are similar to those found in the private sector using the flow of economic resources measurement focus. The Town applies all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins to its proprietary activities unless those pronouncements conflict with or contradict GASB pronouncements.

The *Enterprise Funds* account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the Town Council 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; or for which the Town Council has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Funds Types account for assets the Town holds on behalf of others, and include the following fund types.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. This fund is used to account for assets that the government holds for others in an agency capacity.

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – Continued**

Account Groups are used to establish control and accountability for certain Town assets and liabilities that are not recorded in the funds and include the following two groups.

The *General Fixed Assets Account Group* accounts for all of the Town's fixed assets, except those accounted for in Proprietary Funds.

The *General Long-term Debt Account Group* accounts for all of the Town's long-term obligations, except those accounted for in Proprietary Funds.

Budgeting and Budgetary Control – Arizona Revised Statutes (A.R.S.) require the Town to prepare and adopt a balanced budget annually for each separate fund. The Town Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibit expenditures or liabilities in excess of the amounts budgeted.

Essentially, the Town prepares its budget on the same modified accrual basis of accounting used to record actual revenue and expenditures.

The Town has adopted budgets in accordance with the A.R.S. requirements for the General, Special Revenue, Debt Service, and Capital Projects Funds. Formal budget integration is not employed for the Agency and Enterprise Funds because effective budgetary control is alternatively achieved through either the terms of the trust agreement in the case of the Agency Fund, or the capability of cost recovery in the case of Enterprise Funds.

Encumbrance accounting, under which purchase orders, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is not employed by the Town during the year. However, the Town must encumber amounts necessary and available to pay liabilities outstanding for goods or services received but unpaid at June 30, after which warrants may be drawn against the encumbered amounts for 60 days immediately following the close of the fiscal year. After 60 days, the remaining encumbered balances lapse.

Cash and Investments – For purposes of its statement of cash flows, the Town considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Non participating interest-earning investment contracts are stated at cost.

Inventory – Inventory items are valued at estimated current cost.

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

***NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – Continued***

Fixed Assets – Purchased fixed assets capitalized in the General Fixed Assets Account Group are recorded at the time of purchase as expenditures in the funds from which the expenditures were made. Such assets are capitalized at cost, or estimated cost if historical records are not available. Donated fixed assets are capitalized at their estimated fair market value at the time received.

Depreciation on general fixed assets is not recorded, and interest incurred during construction is not capitalized. Also, public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs, and gutters, streets and sidewalks, and drainage and lighting systems, are not capitalized.

Purchased fixed assets of the proprietary Funds are capitalized in those funds at cost. Major outlays for assets or improvements to them are capitalized as projects are constructed. Interest incurred during the construction phase of the project is capitalized net of interest earned on the invested proceeds over the same period. Donated fixed assets are capitalized at their estimated fair market value at the time received. Depreciation of fixed assets in the Proprietary Funds is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method.

Capitalization of Interest – The Town has elected not to capitalize interest on general fixed assets. Interest is capitalized on fixed assets reported in the proprietary fund types when applicable.

Compensated Absences – The liability for vested compensated absences of the Governmental Funds is recorded in the General Long-term Debt Account Group since the amount expected to be paid from current financial resources is not significant. Vested compensated absences of the Proprietary Funds are recorded as expenses and liabilities of those funds as the benefits accrue to employees.

Investment Income – Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

Intergovernmental Grants – Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenue when entitlement occurs. Reimbursement grants for the acquisition of fixed assets of Proprietary Fund Types are recorded as intergovernmental receivables and contributed capital when the related expense is incurred. All other reimbursement grants are recorded as intergovernmental receivables and revenue when the related expenditures (or expenses) are incurred.

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Marketable Securities – Marketable securities held in the Buckeye Volunteer Fire Fighters' Pension Fund are disclosed at fair market value in the financial statements (see Note 2). All securities are classified as trading securities for purposes of Statement of Financial Accounting Standards No. 115. The aggregate fair market value and amortized cost basis of securities held at June 30, 2002, were \$178,649. Gross unrealized holding loss at June 30, 2002, was \$(17,060).

For the purposes of determining gross realized gains and losses, the cost of securities sold is based upon specific identification. During the year ended June 30, 2002, net realized gain from the sale of securities was \$0.

Allowance for Uncollectible Accounts – Allowances for uncollectible accounts receivable in the general and proprietary funds are estimated by the Town. The amounts recorded as uncollectible at June 30, 2002, were \$2,368 and \$13,032, respectively.

Fund Equity – The unreserved fund balances for governmental funds represent the amount available for future operations. The reserved fund balances for governmental funds represent amounts that have been legally segregated for a specific purpose. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distributions. The proprietary funds' contributed capital represents equity acquired through grants and contributions from developers, customers, or other funds.

Property Taxes – Property taxes are levied on or before the third Monday in August and are 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.

The County also levies various personal property taxes during the year which are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days thereafter.

A lien against real and personal property taxes assessed attaches on the first day of January preceding assessment and levy thereof.

Deferred Debt Expense – Bond issuance costs associated with proprietary fund debt are capitalized and amortized over the terms of the respective bonds.

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

***NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – Continued***

Encumbrances – Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable fund balance, was not employed as an extension of formal budgetary control by the Town during the year ended June 30, 2002.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Total Columns on the Combined and Combining Statements – Total columns on the combined and combining statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 – DEPOSITS AND INVESTMENTS

Arizona Revised Statutes authorize the Town to invest public monies in the State Treasurer’s investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. Statute requires collateral for demand deposits, certificates of deposit, and repurchase agreements at 100 percent of all deposits not covered by federal depository insurance.

Deposits – At June 30, 2002, the carrying amount of the Town’s total cash in bank was \$662,982 and the bank balance was \$1,132,831. Of the bank balance, \$289,441 was covered by federal depository insurance; \$1,605,000 was covered by collateral held by the pledging financial institution’s trust department or agent in the Town’s name; and \$550 was in petty cash funds.

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

Investments – At June 30, 2002, the Town’s non-pooled investments consisted of the following:

	Reported Amount	Fair Value
Investment in State Treasurer's investment pool	\$ 6,397,302	\$ 6,397,302
Total	\$ 6,397,302	\$ 6,397,302

The State Board of Deposit provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk. All other investments were insured or registered in the Town’s name, or were held by the Town or its agent in the Town’s name.

Restricted Cash and Investments/Reserved Fund Balances – Restricted cash and investments totaling \$3,906,511 at June 30, 2002, are invested in various mutual fund shares and cash held in the Town’s name by trustee banks. Of these assets, \$22,792 is being held in RICO funds, \$748,243 is being held for debt service, \$2,897,832 is being held for future capital projects, and \$58,995 is being held for future expansion in the water utility fund. The remaining \$178,649 represents amounts held in trust for the Buckeye Volunteer Fire Fighters’ Pension Fund (see Note 15). Reserve fund balance totaling \$2,500,000 is reserved for future APS and SRP transmission line mitigation and improvement projects within one mile of the transmission line or any park or recreation projects within the Town as determined by the Town Council.

NOTE 3 – PROPERTY TAXES

Taxes are levied on or before the third Monday in August and are 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.

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

NOTE 3 – PROPERTY TAXES – Continued

Property taxes levied on residential property for current operations and maintenance expenses are limited to a percentage of the primary full cash value of such property. In addition, taxes levied for current operations and maintenance expenses on all types of property are limited to a maximum percentage increase over the prior year's levy adjusted for new construction and annexations. Property taxes levied to pay principle and interest on bonded indebtedness are unlimited.

The property tax rate to finance current operations and maintenance expenses for the year ended June 30, 2002, was \$.5900 per \$100 of the primary assessed valuation of \$39,937,874.

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2002, are presented below:

Fund	Federal	State	Local	Total
General	\$ -	\$ 54,815	\$ 18,112	\$ 72,927
Proprietary	-	30,073	-	30,073
Special Revenue	267,386	71,060	-	338,446
	<u>\$ 267,386</u>	<u>\$ 155,948</u>	<u>\$ 18,112</u>	<u>\$ 441,446</u>

NOTE 5 – CHANGES IN GENERAL FIXED ASSETS

The general fixed assets were valued using the methods explained in Note 1. A summary of changes in general fixed assets follows:

	Balance June 30, 2001	Additions	Deletions	Balance June 30, 2002
Land and improvements	\$ 2,110,968	\$ -	\$ -	\$ 2,110,968
Buildings and improvements	2,381,190	56,970	-	2,438,160
Equipment and vehicles	3,579,896	85,623	(138,778)	3,526,741
	<u>\$ 8,072,054</u>	<u>\$ 142,593</u>	<u>\$ (138,778)</u>	<u>\$ 8,075,869</u>

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

NOTE 5 – CHANGES IN GENERAL FIXED ASSETS – Continued

A summary of the proprietary fund type fixed assets at June 30, 2002, is as follows:

Land and improvements	\$ 25,148
Buildings and improvements	4,258,359
Mains and lines	3,235,874
Machinery & equipment	748,516
Vehicles	159,433
Sewer collection system	<u>447,542</u>
 Total fixed assets	 8,874,872
Less: Accumulated depreciation	<u>(2,193,849)</u>
 Net fixed assets	 <u><u>\$ 6,681,023</u></u>

Proprietary fund depreciation expense for the year ended June 30, 2002, amounted to \$203,402.

NOTE 6 – CHANGES IN GENERAL LONG-TERM DEBT

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term debt account group:

	Balance June 30, 2001	Additions	Reductions	Balance June 30, 2002
Compensated absences payable	\$ 206,700	\$ 48,987	\$ -	\$ 255,687
Obligations under capital leases	1,406,697	-	225,198	1,181,499
Bonds payable	1,630,000	4,235,000	130,000	5,735,000
Bond discount	-	203,495	13,566	189,929
	<u>\$ 3,243,397</u>	<u>\$ 4,487,482</u>	<u>\$ 368,764</u>	<u>\$ 7,362,115</u>

Outstanding revenue bonds payable at June 30, 2002, include amounts recorded in the Debt Service Fund in the amount of \$130,000 to retire bonds payable on July 1, 2002, and \$200,000 to retire bonds payable on January 1, 2003.

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

NOTE 7 – COMPENSATED ABSENCES

Vacation – Each employee is entitled to annual vacation time based upon the number of years of employment. An employee is entitled to receive compensation for any unused/unpaid vacation time upon termination of employment. A long-term liability of \$255,687 is recorded in the General Long-term Debt Account Group at June 30, 2002, for the accrued vacation benefits to be funded by future operations. In the enterprise funds, vacation expense has been accrued in the amount of \$37,114.

Accumulated Sick Leave – Sick leave benefits provide ordinary sick pay and are cumulative. After three years of service, employees are vested for one-third of accumulated hours at the current rate of pay up to a maximum of 150 hours; liabilities related to vested sick pay were not formally recorded at June 30, 2002, and have not been included in the General Long-term Debt Account Group. Unvested sick leave amounts are forfeited upon termination. Accumulated sick leave of Town employees at June 30, 2002, totaled \$313,172.

NOTE 8 – BONDS PAYABLE

Bonds payable at June 30, 2002, consisted of the outstanding general obligation, revenue, and capital improvement bonds presented below. The bonds are both callable and non-callable with interest payable semiannually. All authorized bonds have been issued. The bonds are generally callable with interest payable semiannually.

TOWN OF BUCKEYE, ARIZONA

Notes to Financial Statements

June 30, 2002

NOTE 8 – BONDS PAYABLE – Continued

Principal and interest requirements at June 30, 2002, were as follows:

Description	Interest Rate(s)	Maturities	Outstanding Balance June 30, 2001	Issues / (Retirements)	Outstanding Principal June 30, 2002
General Obligation Bonds					
Refunding Sewer Bonds,					
Series 1994	5.00	1994-2008	\$ 1,430,000	\$ (115,000)	\$ 1,315,000
Water Bonds					
Project of 1987	6.90	1993-2001	120,000	(120,000)	-
Revenue Bonds					
Excise Tax Bonds, Series 2000	4.40	2000-2020	2,815,000	(75,000)	2,740,000
Street and Highway User					
Project 1990 Series A	7.40	1993-2005	380,000	(65,000)	315,000
Capital Improvement Bonds					
Series 2002	5.45	2002-2017	-	4,435,000	4,435,000
			<u>4,745,000</u>	<u>(375,000)</u>	<u>8,805,000</u>
Less amount transferred to Debt Service Fund to retire bonds payable on July 1, 2002					<u>(330,000)</u>
Net long-term bonds payable					<u>\$ 8,475,000</u>

Bond debt service requirements to maturity, including \$4,862,289 of interest, are as follows:

Year Ending June 30,	
2003	\$ 1,085,111
2004	1,099,720
2005	1,090,851
2006	1,092,511
2007	986,404
2008 - 2012	4,021,924
2013 - 2017	3,365,025
2018 - 2022	925,743
	<u>\$ 13,667,289</u>

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

NOTE 9 – OBLIGATIONS UNDER LEASES

Capital Leases – The Town has acquired equipment under the provision of a long-term lease agreements classified as a capital lease for accounting purposes because it provides for a bargain purchase option or a transfer of ownership by the end of the lease term. Following are the Town's capital leases at June 30, 2002:

	<u>Enterprise Funds</u>		General Long-term Debt Account	<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	<u>Group</u>	
Lease payable to Zions First National Bank; 5.35% interest; payable in semi-annual installments of \$8,734, including interest; final payment due October 2002.	\$ -	\$ -	\$ 7,843	\$ 7,843
Lease payable to Bank One Leasing Corp.; 5,8% interest; payable in annual installments of \$30,694, including interest; final payment due November 2004.	-	-	82,349	82,349
Lease payable to Ford Motor Credit Company; 6.30% interest; payable in annual installments of \$49,930, including interest; final payment due August 2003.	-	-	91,159	91,159
Lease payable to Emergency One, Inc; 4.95% interest; payable in annual installments of \$12,083, including interest; final payment due May 2011.	-	-	86,072	86,072
Lease payable to Jones Auto Centers; .90% interest; payable in annual installments of \$5,896 including interest; final payment due December 2006	-	-	28,700	28,700
Lease payable to Ford Motor Credit Company; 5.15% interest; payable in annual installments of \$63,308 including interest; final payment due June 2005.	54,766	26,498	90,657	171,921
Lease payable to Municipal Service Group; 4.71% interest; payable in annual installments of \$79,934, including interest; final payment due June 2010.	-	-	624,801	624,801
Lease payable to Government Capital Corporation; 6.092% interest; payable in annual installments of \$64,875, including interest; final payment due January 2005.	-	-	224,322	224,322
	<u>\$ 54,766</u>	<u>\$ 26,498</u>	<u>\$ 1,235,903</u>	<u>\$ 1,317,167</u>

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

NOTE 9 – OBLIGATIONS UNDER LEASES – Continued

These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments (as of the lease inception date). Amortization of capital leases recorded in funds is included in depreciation expense. The property acquired through these capital leases is included in the financial statements as follows:

	Enterprise Fund		General
	Sewer	Water	Fixed Assets
Equipment and vehicles	\$ 44,238	\$ 91,430	\$ 391,622
Mains and lines	-	180,000	-
Total	\$ 44,238	\$ 271,430	\$ 391,622

The future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments at June 30, 2002, were as follows:

Year Ending June 30,	Total
2003	\$ 394,723
2004	306,719
2005	256,789
2006	162,787
2007	97,912
2008 - 2012	368,064
Total minimum lease payments	1,586,994
Less amount representing interest	(269,827)
Present value of net minimum capital lease payments	\$ 1,317,167

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

NOTE 10 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts, theft, destruction of assets, errors and omissions, injuries to employees, civil rights violations, and other natural disasters. The Town carries commercial insurance for all risks of loss, including workers' compensation and employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 – DEFICIT FUND BALANCE/RETAINED EARNINGS

At June 30, 2002, the following funds had deficit fund balance/retained earnings amounts:

Debt Service Fund	\$ 84,873
Water Utility Fund - Proprietary	\$ 259,917 *
Sewer Utility Fund - Proprietary	\$ 1,278,665 *

* The deficit retained earnings balances in these funds are principally due to depreciation of contributed fixed assets.

NOTE 12 – INTERFUND TRANSACTIONS

Individual interfund receivable and payable balances at June 30, 2002, were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 728,302	\$ -
Water Utility Fund - Proprietary	333,430	-
Sewer Utility Fund - Proprietary	-	333,430
Grants - Special Revenue	-	227,072
Miller Road Improvement - Capital Projects	-	501,230
	<u>\$ 1,061,732</u>	<u>\$ 1,061,732</u>

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

NOTE 13 – CONTRIBUTED CAPITAL

The changes in the Town of Buckeye, Arizona's contributed capital accounts for its proprietary fund types were as follows:

	Sewer Fund	Town Water Fund	Total (Memorandum Only)
Beginning balance, contributed capital	\$3,554,362	\$1,911,943	\$5,466,305
Sources of contributed capital:			
Grant funds	-	-	-
	\$3,554,362	\$1,911,943	\$5,466,305

NOTE 14 – SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Town maintains five enterprise funds, which account for the operations of the Town's Sewer Utility, Water Utility, Sonoran Water Utility, and Municipal Airport Funds. Segment information for the year ended June 30, 2002, is as follows:

	Sewer Fund	Town Water Fund	Sonoran Water Fund	Sundance Sewer Fund	Sundance Water Fund	Municipal Airport Fund	Total
Operating revenue	\$ 284,820	\$ 738,703	\$ 166,759	\$ 4,400	\$ 6,650	\$ 27,313	\$1,228,645
Depreciation expense	80,272	114,030	15,410	-	-	-	209,712
Operating income (loss)	(37,546)	180,379	47,378	4,400	6,650	12,849	214,110
Net income (loss)	(200,151)	24,923	46,113	4,400	6,650	12,849	(105,216)
Net working capital	(307,609)	425,773	107,908	4,400	6,650	12,849	249,971
Fixed asset additions	-	2,439,324	15,175	-	-	-	2,454,499
Cash and							
cash equivalents	-	61,819	118,328	3,800	6,650	20,213	210,810
Total assets	2,656,845	4,575,976	388,430	4,400	6,650	20,213	7,652,514
Long-term liabilities	26,498	2,781,517	13,249	-	-	-	2,821,264
Total equity	2,275,697	1,652,026	327,716	4,400	6,650	12,849	4,279,338

TOWN OF BUCKEYE, ARIZONA

Notes to Financial Statements

June 30, 2002

NOTE 15 – RETIREMENT PLANS

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

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

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 167 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

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

ASRS

3300 N. Central Ave.
PO Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000 or (800) 621-3778

PSPRS

1020 E. Missouri Ave.
Phoenix, AZ 85014
(602) 255-5575

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the Town's contribution rates.

Cost-sharing plans – For the year ended June 30, 2002, active ASRS members and the Town were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The Town's contributions to ASRS for the years ended June 30, 2002, 2001, and 2000, were \$44,360, \$37,373, and \$32,974, respectively, which were equal to the required contributions for the year.

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

NOTE 15 – RETIREMENT PLANS – Continued

Agent plans – For the year ended June 30, 2002, active PSPRS Police and Firefighter members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the Town was required to contribute at the actuarially determined rate of 8.68 and 8.43 percent, respectively.

Annual Pension Cost – The Town's pension cost for the agent plans for the year ended June 30, 2002, and related information follows.

	PSPRS - POLICE	PSPRS - FIREFIGHTER
Contribution rates:		
Town	8.68%	8.43%
Plan members	7.65%	7.65%
Annual pension cost	75,466	-
Contributions made	75,466	18,396
Actuarial valuation date	June 30, 2001	June 30, 2001
Actuarial cost method	Entry age	Entry age
Actuarial assumptions:		
Investment rate of return	9%	9%
Projected salary increases	6.5% - 9.5%	6.5% - 9.5%
Includes inflation at	5.5%	5.5%
Cost-of-living adjustments	None	None
Amortization method	Level percent open	Level percent open
Remaining amortization period		
from 7/1/01	Open 20 years	Open 20 years
Asset valuation method	Smoothed market value	Smoothed market value

Trend Information – Information for each of the three most recent actuarial valuations for each of the agent plans follows.

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS - POLICE	2000	\$ 37,826	100 %	\$ -
	1999	36,902	100 %	-
	1998	42,445	100 %	-

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

NOTE 15 – RETIREMENT PLANS – Continued

Funding Progress – An analysis of funding progress for each of the agent plans as of June 30, 2002, follows:

<u>PSPRS - POLICE</u>						
Actuarial Valuation Date June 30,	(a) Actuarial Value of Plan Assets	(b) Actuarial Accrued Liability	(a-b) Funding (Liability) Excess	(a/b) Funded Ratio	(c) Annual Covered Payroll	([a-b]/c) Unfunded Liability as Percentage of Covered Payroll
2000	\$ 1,519,082	\$ 1,332,004	\$ 187,078	114.0 %		- %
1999	1,236,113	1,158,543	77,570	106.7 %		- %
1998	992,748	941,256	51,492	105.5 %		- %

Volunteer Firemen's Pension Fund – The Volunteer fireman's Relief and Pension Fund covers only the volunteer firemen and is established solely upon the provisions for such pension relief funds in the Arizona Revised Statutes. Sections therein give discretionary powers to the Board of Trustees in administering payment and/or nonpayment of benefits to qualified retired or disabled volunteer firemen. No vested interest exists in any of the revenue of the fund other than the employees' right to his or her own contributions. Total covered compensation to volunteer firefighters for the year ended June 30, 2002, was \$3,156; the Town's total payroll was \$3,632,051.

During the fiscal year ended June 30, 2002, the Town's required and actual contributions amounted to \$5,317. The state's contribution was \$0, and transfers to the fund by firefighters totaled \$3,752.

NOTE 16 – CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time. The Town expects such amounts, if any, to be immaterial.

TOWN OF BUCKEYE, ARIZONA
Notes to Financial Statements
June 30, 2002

NOTE 17 – CONCENTRATIONS

As a municipality, the Town of Buckeye, Arizona, provides proprietary fund services (i.e. sewer, water) to customers in a limited geographic area. Consequently, the ability of the Town's proprietary funds to cover their operating costs is at risk due to this geographic concentration of customers and the limited supply of available service providers (i.e. landfills) in the area. As with the majority of municipalities that operate similar proprietary funds, a downturn in the local economy or other unforeseen circumstances could adversely affect the ability of the Town's proprietary funds to collect amounts due from customers or to continue to generate the revenues needed to cover the costs of providing services.

NOTE 18 – SUBSEQUENT EVENTS

On September 1, 2002 the Sundance Community Facilities District issued \$11,300,000 of Special Assessment Revenue Bonds, Series 2002, with interest varying from 5.25% to 7.75 % per annum, with a final maturity date of July 1, 2022

The Bonds were issued to provide funds to pay a portion of the costs of the Public Infrastructure for the Sundance development.

Terms of the bond repayment are interest payments on January 1, and July 1, of each year, commencing January 1, 2003. Principal payments begin at the date of completion of the Public Infrastructure but in no event later than July 1, 2005, with the final payment due July 1, 2022.

TOWN OF BUCKEYE, ARIZONA
Combining Balance Sheet – Special Revenue Funds
June 30, 2002

	<u>HURF / LTAF</u>	<u>Cemetery</u>	<u>Grants</u>	<u>Housing Rehabilitation</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 117,317	\$ 116,457	\$ -	\$ -	\$ 233,774
Due from other governments	63,304	-	275,142	-	338,446
Interest receivable	-	464	-	-	464
Prepaid expenses	1,438	-	-	-	1,438
TOTAL ASSETS	<u><u>\$ 182,059</u></u>	<u><u>\$ 116,921</u></u>	<u><u>\$ 275,142</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 574,122</u></u>
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable	\$ 189,845	\$ 9,031	\$ -	\$ -	\$ 198,876
Accrued expenses	1,854	-	-	-	1,854
Leases payable	37	-	-	-	37
Due to other funds	-	-	227,072	-	227,072
Total liabilities	191,736	9,031	227,072	-	427,839
Fund Balance					
Fund balance - unreserved	<u>(9,677)</u>	<u>107,890</u>	<u>48,070</u>	<u>-</u>	<u>146,283</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 182,059</u></u>	<u><u>\$ 116,921</u></u>	<u><u>\$ 275,142</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 574,122</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combining Statement of Revenue, Expenditures and Change in Fund Balance
Special Revenue Funds
For the Year Ended June 30, 2002

	HURF / LTAF	Cemetery	Grants	Housing Rehabilitation	Total
Revenue					
Intergovernmental	\$ 523,400	\$ -	\$ 993,939	\$ -	\$ 1,517,339
Charges for services	-	9,250	-	-	9,250
Interest	-	6,433	-	-	6,433
Total revenue	<u>523,400</u>	<u>15,683</u>	<u>993,939</u>	<u>-</u>	<u>1,533,022</u>
Expenditures					
Public safety	-	-	221,251	-	221,251
Highways and streets	648,531	-	394,498	-	1,043,029
Culture and recreation	-	14,129	376,287	-	390,416
Capital outlay	-	-	1,903	-	1,903
Total expenditures	<u>648,531</u>	<u>14,129</u>	<u>993,939</u>	<u>-</u>	<u>1,656,599</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(125,131)</u>	<u>1,554</u>	<u>-</u>	<u>-</u>	<u>(123,577)</u>
Other Financing Sources (Uses)					
Operating transfers out	<u>(46,200)</u>	<u>-</u>	<u>-</u>	<u>(6,254)</u>	<u>(52,454)</u>
Total other financing sources (uses)	<u>(46,200)</u>	<u>-</u>	<u>-</u>	<u>(6,254)</u>	<u>(52,454)</u>
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	<u>(171,331)</u>	<u>1,554</u>	<u>-</u>	<u>(6,254)</u>	<u>(176,031)</u>
Fund balance, beginning of year	<u>161,654</u>	<u>106,336</u>	<u>48,070</u>	<u>6,254</u>	<u>322,314</u>
FUND BALANCE, END OF YEAR	<u><u>\$ (9,677)</u></u>	<u><u>\$ 107,890</u></u>	<u><u>\$ 48,070</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 146,283</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combining Balance Sheet – Capital Projects Funds
June 30, 2002

	Airport Improvement Fund	Water System Improvement Fund	Sewer Improvement Fund	Miller Road Improvement Fund	Street Improvement Fund	Total
ASSETS						
Cash and cash equivalents	\$ 2,277	\$ 131,785	\$ 173,968	\$ -	\$ 83,194	\$ 391,224
Restricted cash and investments	-	-	-	2,897,832	-	2,897,832
Accounts receivable	-	2,274	-	-	-	2,274
Assessments receivable	-	-	-	4,435,000	-	4,435,000
Interest receivable	-	-	-	4,075	343	4,418
TOTAL ASSETS	<u>\$ 2,277</u>	<u>\$ 134,059</u>	<u>\$ 173,968</u>	<u>\$ 7,336,907</u>	<u>\$ 83,537</u>	<u>\$ 7,730,748</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ -	\$ -	\$ 26,224	\$ 1,034,876	\$ -	\$ 1,061,100
Deferred revenue	-	-	-	4,435,000	-	4,435,000
Due to other funds	-	-	-	501,230	-	501,230
Total liabilities	-	-	26,224	5,971,106	-	5,997,330
Fund Balance						
Fund balance - unreserved	<u>2,277</u>	<u>134,059</u>	<u>147,744</u>	<u>1,365,801</u>	<u>83,537</u>	<u>1,733,418</u>
TOTAL LIABILITIES AND AND FUND BALANCE	<u>\$ 2,277</u>	<u>\$ 134,059</u>	<u>\$ 173,968</u>	<u>\$ 7,336,907</u>	<u>\$ 83,537</u>	<u>\$ 7,730,748</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combining Statement of Revenue, Expenditures, and Changes in Fund Balance
Capital Projects Funds
For the Year Ended June 30, 2002

	Airport Improvement Fund	Water System Improvement Fund	Sewer Improvement Fund	Miller Road Improvement Fund	Street Improvement Fund	Total
Revenue						
Charges for services	\$ -	\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Assessments	-	-	-	293,066	-	293,066
Other	-	-	-	-	1,242	1,242
Interest	-	-	-	71,672	5,468	77,140
Total revenue	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>364,738</u>	<u>6,710</u>	<u>386,448</u>
Expenditures						
Capital outlay	-	-	138,129	3,220,188	-	3,358,317
Total expenditures	<u>-</u>	<u>-</u>	<u>138,129</u>	<u>3,220,188</u>	<u>-</u>	<u>3,358,317</u>
Non-operating revenue (expenses)						
Impact fees	-	19,985	26,352	-	-	46,337
Excess (deficiency) of revenue over (under) expenditures	<u>-</u>	<u>34,985</u>	<u>(111,777)</u>	<u>(2,855,450)</u>	<u>6,710</u>	<u>(2,925,532)</u>
Other Financing Sources (Uses)						
Bond proceeds	-	-	-	4,652,595	-	4,652,595
Bond issue cost	-	-	-	(199,421)	-	(199,421)
Operating transfers out	-	-	-	(231,923)	-	(231,923)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,221,251</u>	<u>-</u>	<u>4,221,251</u>
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	<u>-</u>	<u>34,985</u>	<u>(111,777)</u>	<u>1,365,801</u>	<u>6,710</u>	<u>1,295,719</u>
Fund balance, beginning of year	<u>2,277</u>	<u>99,074</u>	<u>259,521</u>	<u>-</u>	<u>76,827</u>	<u>437,699</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 2,277</u></u>	<u><u>\$ 134,059</u></u>	<u><u>\$ 147,744</u></u>	<u><u>\$ 1,365,801</u></u>	<u><u>\$ 83,537</u></u>	<u><u>\$ 1,733,418</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combining Balance Sheet – Enterprise Funds
June 30, 2002

	Sewer Fund	Municipal Airport Fund	Sundance Sewer Fund	Town Water Fund	Sundance Water Fund	Sonoran Water Fund	Total
ASSETS							
Cash and cash equivalents	\$ -	\$ 20,213	\$ 3,800	\$ 61,819	\$ 6,650	\$ 118,328	\$ 210,810
Restricted cash	-	-	-	58,995	-	-	58,995
Accounts receivable -- net	45,873	-	600	90,688	-	20,345	157,506
Due from other funds	-	-	-	333,430	-	-	333,430
Due from other governments	-	-	-	20,050	-	10,023	30,073
Inventory	-	-	-	14,159	-	-	14,159
Prepaid expenses	1,168	-	-	3,224	-	161	4,553
Bond issuance costs -- net	-	-	-	161,965	-	-	161,965
Fixed assets -- net	2,609,804	-	-	3,831,646	-	239,573	6,681,023
TOTAL ASSETS	\$ 2,656,845	\$ 20,213	\$ 4,400	\$ 4,575,976	\$ 6,650	\$ 388,430	\$ 7,652,514
LIABILITIES AND EQUITY							
Liabilities							
Accounts payable	\$ 8,760	\$ 7,364	\$ -	\$ 15,513	\$ -	\$ 28,713	\$ 60,350
Accrued expenses	3,256	-	-	70,743	-	483	74,482
Refundable deposits	-	-	-	31,525	-	15,011	46,536
Compensated absences payable	9,204	-	-	24,652	-	3,258	37,114
Due to other funds	333,430	-	-	-	-	-	333,430
Bonds payable	-	-	-	2,740,000	-	-	2,740,000
Leases payable	26,498	-	-	41,517	-	13,249	81,264
Total liabilities	381,148	7,364	-	2,923,950	-	60,714	3,373,176
Equity							
Contributed capital	3,554,362	-	-	1,911,943	-	-	5,466,305
Retained earnings (deficit)	(1,278,665)	12,849	4,400	(259,917)	6,650	327,716	(1,186,967)
Total equity	2,275,697	12,849	4,400	1,652,026	6,650	327,716	4,279,338
TOTAL LIABILITIES AND EQUITY	\$ 2,656,845	\$ 20,213	\$ 4,400	\$ 4,575,976	\$ 6,650	\$ 388,430	\$ 7,652,514

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combining Statement of Revenue, Expenses, and Changes in Retained Earnings
Enterprise Funds
For the Year Ended June 30, 2002

	Sewer Fund	Municipal Airport Fund	Sundance Sewer Fund	Town Water Fund	Sundance Water Fund	Sonoran Water Fund	Total
Operating Revenue							
Charges for services	\$ 283,140	\$ 27,313	\$ 4,400	\$ 717,846	\$ 6,650	\$ 162,140	\$ 1,201,489
Miscellaneous	1,680	-	-	20,857	-	4,616	27,153
Total operating revenue	<u>284,820</u>	<u>27,313</u>	<u>4,400</u>	<u>738,703</u>	<u>6,650</u>	<u>166,756</u>	<u>1,228,642</u>
Operating Expenses							
Personnel	93,391	-	-	223,053	-	14,752	331,196
Insurance	27,956	1,900	-	53,523	-	4,368	87,747
Professional/technical services	7,845	12,564	-	4,886	-	663	25,958
Utilities	46,056	-	-	51,739	-	28,191	125,986
Repairs, maintenance, and fuel	30,050	-	-	49,832	-	45,376	125,258
Materials and supplies	22,480	-	-	29,540	-	7,323	59,343
Other	14,316	-	-	31,721	-	3,295	49,332
Depreciation and amortization	80,272	-	-	114,030	-	15,410	209,712
Total operating expenses	<u>322,366</u>	<u>14,464</u>	<u>-</u>	<u>558,324</u>	<u>-</u>	<u>119,378</u>	<u>1,014,532</u>
Operating income (loss)	<u>(37,546)</u>	<u>12,849</u>	<u>4,400</u>	<u>180,379</u>	<u>6,650</u>	<u>47,378</u>	<u>214,110</u>
Nonoperating Revenue (Expenses)							
Interest revenue	-	-	-	1,853	-	-	1,853
Interest expense	(1,765)	-	-	(157,309)	-	(1,265)	(160,339)
Total nonoperating revenue (expenses)	<u>(1,765)</u>	<u>-</u>	<u>-</u>	<u>(155,456)</u>	<u>-</u>	<u>(1,265)</u>	<u>(158,486)</u>
Other Financial Sources (Uses)							
Transfers out	(160,840)	-	-	-	-	-	(160,840)
Total other financing sources (uses)	<u>(160,840)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(160,840)</u>
Net income (loss)	(200,151)	12,849	4,400	24,923	6,650	46,113	(105,216)
Retained earnings (deficit), beginning of year	(1,078,514)	-	-	(284,840)	-	281,603	(1,081,751)
RETAINED EARNINGS (DEFICIT), END OF YEAR	<u>\$ (1,278,665)</u>	<u>\$ 12,849</u>	<u>\$ 4,400</u>	<u>\$ (259,917)</u>	<u>\$ 6,650</u>	<u>\$ 327,716</u>	<u>\$ (1,186,967)</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combining Statement of Cash Flows – Enterprise Funds
For the Year Ended June 30, 2002

	Sewer Fund	Municipal Airport Fund	Sundance Sewer Fund	Town Water Fund	Sundance Water Fund	Sonoran Water Fund	Total
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS							
Cash Flows from Operating Activities							
Cash received from customers	\$ 278,521	\$ 27,313	\$ 3,800	\$ 722,039	\$ 6,650	\$ 169,059	\$ 1,207,382
Cash payments to suppliers for goods/services	(154,550)	(7,100)	-	(218,155)	-	(65,525)	(445,330)
Cash payments to employees for services	(93,144)	-	-	(223,568)	-	(11,478)	(328,190)
Net cash provided (used) by operating activities	<u>30,827</u>	<u>20,213</u>	<u>3,800</u>	<u>280,316</u>	<u>6,650</u>	<u>92,056</u>	<u>433,862</u>
Cash Flows from Non-Capital and Related Financing Activities							
Loans from other funds	149,518	-	-	-	-	-	149,518
Payments to other funds	-	-	-	(149,518)	-	-	(149,518)
Transfer to other funds	(160,840)	-	-	-	-	-	(160,840)
Net cash provided (used) by non-capital and related financing activities	<u>(11,322)</u>	<u>-</u>	<u>-</u>	<u>(149,518)</u>	<u>-</u>	<u>-</u>	<u>(160,840)</u>
Cash Flows from Capital and Related Financing Activities							
Principal payments of capital lease payable	(17,740)	-	-	(27,794)	-	(23,207)	(68,741)
Principal payments on bonds payable	-	-	-	(75,000)	-	-	(75,000)
Purchases of property and equipment	-	-	-	(5,464)	-	(15,174)	(20,638)
Net cash provided (used) by capital and related financing activities	<u>(17,740)</u>	<u>-</u>	<u>-</u>	<u>(108,258)</u>	<u>-</u>	<u>(38,381)</u>	<u>(164,379)</u>
Cash Flows from Investing Activities							
Interest received	-	-	-	1,853	-	-	1,853
Interest paid	(1,765)	-	-	(157,309)	-	(1,265)	(160,339)
Net cash provided (used) by investing activities	<u>(1,765)</u>	<u>-</u>	<u>-</u>	<u>(155,456)</u>	<u>-</u>	<u>(1,265)</u>	<u>(158,486)</u>
Net increase (decrease) in cash and cash equivalents	-	20,213	3,800	(132,916)	6,650	52,410	(49,843)
Cash and cash equivalents, beginning of year	-	-	-	253,730	-	65,918	319,648
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ -</u>	<u>\$ 20,213</u>	<u>\$ 3,800</u>	<u>\$ 120,814</u>	<u>\$ 6,650</u>	<u>\$ 118,328</u>	<u>\$ 269,805</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Combining Statement of Cash Flows – Enterprise Funds – *Continued*
For the Year Ended June 30, 2002

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	Sewer Fund	Municipal Airport Fund	Sundance Sewer Fund	Town Water Fund	Sundance Water Fund	Sonoran Water Fund	Total
Operating income (loss)	\$ (37,546)	\$ 12,849	\$ 4,400	\$ 180,379	\$ 6,650	\$ 47,378	\$ 214,110
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation and amortization	80,272	-	-	114,030	-	15,410	209,712
Changes in assets and liabilities:							
Decrease (Increase) in accounts receivable	(6,299)	-	(600)	(16,069)	-	(1,275)	(24,243)
Decrease (Increase) in prepaid expenses	(727)	-	-	(286)	-	84	(929)
Increase (Decrease) in accounts payable	(5,120)	7,364	-	986	-	23,607	26,837
Increase (Decrease) in accrued expenses	1,067	-	-	2,386	-	16	3,469
Increase (Decrease) in compensated absences payable	(820)	-	-	(515)	-	3,258	1,923
Increase (Decrease) in refundable deposits	-	-	-	(1,095)	-	3,326	2,231
Decrease (Increase) in due from other governments	-	-	-	500	-	252	752
Total adjustments	<u>68,373</u>	<u>7,364</u>	<u>(600)</u>	<u>99,937</u>	<u>-</u>	<u>44,678</u>	<u>219,752</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 30,827</u>	<u>\$ 20,213</u>	<u>\$ 3,800</u>	<u>\$ 280,316</u>	<u>\$ 6,650</u>	<u>\$ 92,056</u>	<u>\$ 433,862</u>

The accompanying notes are an integral part of these financial statements.

SINGLE AUDIT ACT REPORTS SECTION

TOWN OF BUCKEYE, ARIZONA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2002

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass through Grantor's Number	Disbursements/ Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Arizona Department of Commerce			
Community Development Block Grant	14.218	DG-9901	\$ 11,024
Community Development Block Grant	14.218	DG-0003	186,798
Community Development Block Grant	14.218	DG-0102	<u>185,000</u>
Total U.S. Department of Housing and Urban Development			<u>382,822</u>
<u>U.S. Department of Justice</u>			
COPS	16.710	2000-CM-WX-0008	26,976
COPS	16.710	950-CF-WX-1961	128,001
JAIBGP	16.710	--	9,225
LLEBG	16.592	01-125	2,337
LLEBG	16.592	02-125	5,620
Bulletproof Vests	16.607	--	<u>5,434</u>
Total U.S. Department of Justice			<u>177,593</u>
<u>U.S. Department of Health & Human Services</u>			
Passed through the Department of Economic Security			
Temporary Assistance to Needy Families	93.558	2002-07-BKY	29,666
Title III-B	93.044	2002-07-BKY	23,855
Title III-C	93.045	2002-07-BKY	49,443
Community Services Block Grant	93.569	2002-07-BKY	18,065
Social Services Block Grant	93.667	2002-07-BKY	<u>25,005</u>
Total U.S. Department of Health & Human Services			<u>146,034</u>
<u>U.S. Department of Agriculture</u>			
Passed through the Department of Economic Security			
CILC	10.570	2002-07-BKY	<u>12,460</u>
Total U.S. Department of Commerce			<u>12,460</u>
Total Federal Assistance			<u>\$ 718,909</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Notes to Schedule of Expenditures of Federal Awards
June 30, 2002

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Buckeye, Arizona, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The accompanying notes are an integral part of these financial statements.

TOWN OF BUCKEYE, ARIZONA
Summary Schedule of Prior Audit Findings
June 30, 2002

The status of audit findings from the prior year is as follows:

The Town had no audit findings for the year ended June 30, 2001.

The accompanying notes are an integral part of these financial statements.

Colby & Company

CERTIFIED PUBLIC ACCOUNTANTS

1415 East Guadalupe #104

Tempe, Arizona 85283

David M. Colby, C.P.A.

Scott T. Powell, C.P.A.

TEL (480) 897-1743

FAX (480) 820-9959

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

To the Town Council
Town of Buckeye, Arizona

We have audited the financial statements of the Town of Buckeye, Arizona, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 25, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Town of Buckeye, Arizona's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Buckeye, Arizona's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the general purpose 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.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cally & Company

October 25, 2002

Colby & Company

CERTIFIED PUBLIC ACCOUNTANTS

1415 East Guadalupe #104
Tempe, Arizona 85283

TEL (480) 897-1743
FAX (480) 820-9959

David M. Colby, C.P.A.
Scott T. Powell, C.P.A.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Town Council
Town of Buckeye, Arizona

Compliance

We have audited the compliance of the Town of Buckeye, Arizona, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The Town of Buckeye, Arizona's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Town of Buckeye, Arizona's management. Our responsibility is to express an opinion on the Town of Buckeye, Arizona's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Buckeye, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Buckeye, Arizona's compliance with those requirements.

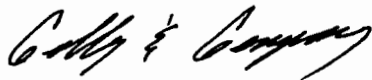
In our opinion, the Town of Buckeye, Arizona, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the Town of Buckeye, Arizona, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Buckeye, Arizona's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee management, others within the organization, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 25, 2002

TOWN OF BUCKEYE, ARIZONA
Schedule of Findings and Questioned Costs
June 30, 2002

Section 1	Summary Of Auditors' Results
<i>Financial Statements</i>	
1. Type of auditor's report issued	Unqualified
2. Internal control over financial reporting:	
a. Material weaknesses?	None
b. Reportable conditions identified not considered to be material weaknesses?	None
c. Noncompliance material to the financial statements noted?	None
<i>Federal Awards</i>	
1. Internal control over major program:	
a. Material weaknesses identified?	None
b. Reportable conditions identified not considered to be material weaknesses?	None
2. Type of auditor's report issued on compliance for major program:	Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510 (a)?	No
4. Identification of major program:	
<u>Name of Federal Program</u>	<u>CFDA Number</u>
CDBG	14.218
5. Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530?	Yes

Section 2

Financial Statement Findings

None

Section 3

Federal Award Findings and Questioned Costs

None

Appendix E

Letters of No Objection



RECEIVED

Water Services Department
12425 West Bell Road
Suite D-100
Surprise, Arizona 85374
623-875-4290

JUL 16 2003

COE & VAN LOO
PHOENIX, AZ

July 15, 2003

Mr. Joseph A. Blanton
Town of Buckeye
100 North Apache
Buckeye, Arizona 85326

Re: Clean Water Act Section 208 Amendment

Dear Mr. Blanton:

We recently received a copy of the subject Section 208 Amendment for the Town of Buckeye Planning Area for the Festival Ranch Water Reclamation Facility (WRF). Following review of the planned facility we wish to indicate that the City of Surprise has no objection to the approval of the requested 208 Amendment.

Sincerely,

James Swanson
Acting Water Services Director

JS/cm

cc: Ken Knickerbocker, Coe & Van Loo
Hans Koppenhoefer, Pulte Homes
Sam Colgan, Pulte Homes



ENVIRONMENTAL SERVICES
DEPARTMENT

Albert F. Brown, RS, MPA, Director

1001 N. Central Avenue, Suite 150
Phoenix, Arizona 85004

WATER AND WASTE MANAGEMENT
DIVISION

John A. Power, PE, Division Manager

(802) 506-6666
FAX (802) 506-6925
TT (802) 506-6704

August 7, 2003

Maricopa Association of Governments
302 North 1st Avenue, Suite 300
Phoenix, Arizona 85003

Attention: Ms. Lindy Bauer, Environmental Program Coordinator
Re: Town of Buckeye Proposed 208 Amendment for Festival Ranch WRF

Dear Ms. Bauer:

Coe and Van Loo Consultants, Inc. (CVL) has submitted a proposed 208 Amendment to the Maricopa County Environmental Services Department (MCESD) for the Town of Buckeye wastewater treatment facilities for the Festival Ranch Development, a master planned community to be developed by Pulte Homes. The development will be constructed in an area within the Town of Buckeye, generally between 295th Avenue and 259th Avenue, north of Union Hills Drive alignment, and south of the CAP Canal.

In accordance with the MAG 208 Water Quality Management Plan, the proposed 208 Amendment for the facility was submitted to this Department for comment, since the facility is located within three miles of the unincorporated area of Maricopa County.

The proposed 208 Amendment was dated June 12, 2003. Based on a review of the document, the Maricopa County Environmental Services Department, Water and Waste Management Division acknowledges that the proposed Festival Ranch WRF is not in conflict with Maricopa County plans for the area.

MCESD provides this letter of support, conditioned on final execution of the Agreement with the Town of Buckeye, whereby the Town of Buckeye will be the permanent owner of the proposed wastewater collection, treatment, and disposal facilities upon completion of construction of the first phase of the facilities and prior to startup. As such, the Town will be the responsible party for the MCESD Annual Operating Permit, as well as appropriate Federal, State, and County discharge / recharge / reuse permits.

Should the Town of Buckeye not be the owner of the wastewater facilities, this Department will withdraw its support for the project.

Page 2 of 2

August 7, 2003

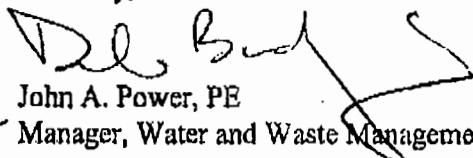
Ms. Lindy Bauer

Town of Buckeye for Festival Ranch WRF

Please note that MCESD has not reviewed, nor approved, the design of the facilities as part of the 208 Amendment Review. Any technical issues that remain will need to be resolved during the design phase of the project. Approval to Construct and Approval of Construction must be obtained from this Department prior to start of construction and startup, respectively.

If you have any questions or comments, please feel free to contact Mr. Dale Bodiya, PE, or myself, at 506-6666.

Sincerely,



John A. Power, PE

Manager, Water and Waste Management Division

cc:

Mr. Albert F. Brown, RS, MPA, Director, MC Environmental Services Department

Mr. Dale Bodiya, PE, Manager, Water / Wastewater Treatment Section, MCESD

ADEQ, Manager, Water Permits and Plan Review Section

Mr. Ken Knickerbocker, PE, Coe and Van Loo Consultants, Inc.

Mr. Sam Colgan, Pulte Homes

Mr. Joe Blanton, Town Manager, Town of Buckeye

File

THE ARIZONA REPUBLIC

PUBLIC HEARING ON THE DRAFT MAG 208 WATER QUALITY MANAGEMENT PLAN AMENDMENT FOR THE TOWN OF BUCKEYE FESTIVAL RANCH WATER RECLAMATION FACILITY

Thursday, October 16, 2003 at 4:00 p.m. MAG Office, Suite 200 Cholla Room, 302 North 1st Avenue, Phoenix, Arizona 85003

The Maricopa Association of Governments (MAG) will conduct a public hearing on Thursday, October 16, 2003 on the Draft MAG 208 Plan Amendment for the Town of Buckeye Festival Ranch Water Reclamation Facility. The purpose of the hearing is to receive public comments on the draft amendment. The proposed plant would have an ultimate capacity of 4.0 million gallons per day and would be located north-west of the White Tanks Mountains. Reclaimed water would be disposed of through reuse, recharge and an Arizona Pollutant Discharge Elimination System Permit discharge to Wagnon Wash.

Following consideration of comments at the hearing, it is anticipated that the MAG Water Quality Advisory Committee will make a recommendation to the MAG Management Committee. On November 5, 2003, the MAG Management Committee is anticipated to make a recommendation to the MAG Regional Council. It is anticipated that the MAG Regional Council will take action on the draft plan amendment on December 3, 2003.

Written and verbal comments are welcome at the hearing. A copy of the draft document will be available for public review at the MAG Office from 8:30 a.m. to 5:30 p.m. Monday through Friday beginning Friday, September 5, 2003. Copies will also be available for review at the Glendale Public Library, 5559 West Brown Street, Mesa Public Library, 64 East First Street, and Phoenix Central Public Library, 1221 North Central Avenue. For further information, or to submit written comments on the draft prior to the hearing, contact Brenda Geisen, MAG, at (602) 254-6300.

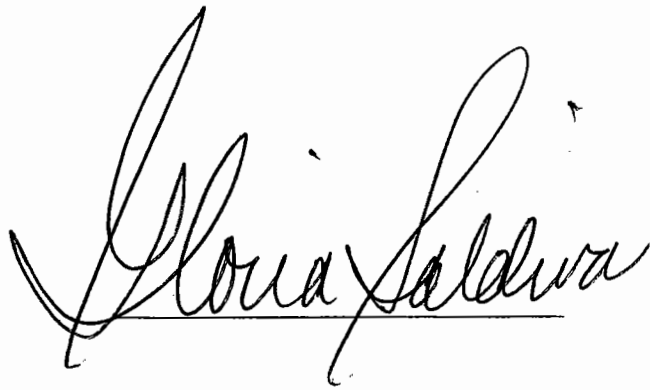
03547-September 1, 2003

STATE OF ARIZONA }
 COUNTY OF MARICOPA } SS.

Gloria Saldivar, being first duly sworn, upon oath deposes and says: That she is a legal advertising representative of the Arizona Business Gazette, a newspaper of general circulation in the county of Maricopa, State of Arizona, published at Phoenix, Arizona, by Phoenix Newspapers Inc., which also publishes The Arizona Republic, and that the copy hereto attached is a true copy of the advertisement published in the said paper on the dates as indicated.

The Arizona Republic

September 1, 2003.



Sworn to before me this
 2ND day of
 September A.D. 2003



Melissa Daams
 Notary Public



302 North 1st Avenue, Suite 300 ▲ Phoenix, Arizona 85003
Phone (602) 254-6300 ▲ FAX (602) 254-6490
Email: mag@mag.maricopa.gov ▲ Website: www.mag.maricopa.gov

September 19, 2001

TO: Interested Parties for Water Quality

FROM: Brenda Day, Environmental Planner

SUBJECT: NOTIFICATION OF A PUBLIC HEARING ON THE DRAFT MAG 208 WATER QUALITY MANAGEMENT PLAN AMENDMENT FOR THE TOWN OF BUCKEYE FESTIVAL RANCH WATER RECLAMATION FACILITY

Public Hearing

Thursday, October 16, 2003 at 4:00 p.m.
MAG Office, Suite 200 - Cholla Room
302 North 1st Avenue
Phoenix, Arizona 85003

The Maricopa Association of Governments (MAG) would like to invite you to attend a public hearing on the Draft MAG 208 Water Quality Management Plan Amendment for the Town of Buckeye Festival Ranch Water Reclamation Facility on October 16, 2003 at 4:00 p.m. The Draft 208 Plan Amendment for the Town of Buckeye includes the proposed Festival Ranch Water Reclamation Facility with an ultimate capacity of 4.0 million gallons per day.

The facility would be located in the southwest corner of the Festival Ranch Development, northwest of the White Tank Mountains. Reclaimed water from the facility would be disposed of through reuse, recharge and an Arizona Pollutant Discharge Elimination System Permit discharge to Wagner Wash. The Draft MAG 208 Plan Amendment for the Town of Buckeye Festival Ranch Facility includes a description of the facility; a summary of the treatment process; the proposed effluent disposal plan; and the implementation schedule for the facility. Written and verbal comments are welcome at the public hearing.

A copy of the draft 208 amendment will be available for public review at the MAG Office Building from 8:30 a.m. to 5:30 p.m. Monday through Friday beginning on Monday, September 8, 2003. Copies will also be available for review at the City of Glendale Public Library, 5959 West Brown Street; City of Mesa Public Library, 64 East First Street; and City of Phoenix Central Public Library, 1221 North Central Avenue. For further information or to submit written comments on the draft prior to the hearing, contact me at (602) 254-6300.

A Voluntary Association of Local Governments In Maricopa County

City of Apache Junction ▲ City of Avondale ▲ Town of Buckeye ▲ Town of Carefree ▲ Town of Cave Creek ▲ City of Chandler ▲ City of El Mirage ▲ Town of Fountain Hills ▲ Town of Gila Bend ▲ Gila River Indian Community
Town of Gilbert ▲ City of Glendale ▲ City of Goodyear ▲ Town of Guadalupe ▲ City of Litchfield Park ▲ Maricopa County ▲ City of Mesa ▲ Town of Paradise Valley ▲ City of Peoria ▲ City of Phoenix ▲ Town of Queen Creek
Salt River Pima-Maricopa Indian Community ▲ City of Scottsdale ▲ City of Surprise ▲ City of Tempe ▲ City of Tolleson ▲ Town of Wickenburg ▲ Town of Youngtown ▲ Arizona Department of Transportation

MARICOPA ASSOCIATION OF GOVERNMENTS
WATER QUALITY ADVISORY COMMITTEE MEETING AND
PUBLIC HEARING ON THE DRAFT MAG 208 PLAN AMENDMENT
FOR THE TOWN OF BUCKEYE FESTIVAL RANCH WRF

Phoenix, Arizona
October 16, 2003
4:00 p.m.

Glennie
Reporting Services

2211 East Highland Avenue
Suite 205
Phoenix, Arizona 85016

(602) 266-6535 Phone
(602) 266-9661 Fax

Prepared by:
Janet Hauck, RPR
Arizona Certified Court
Reporter Number 50522

Prepared for:
Maricopa Association
of Governments

(Original)

1 The Public Hearing was taken on
2 October 16, 2003, commencing at 4:00 p.m., at the
3 offices of the Maricopa Association of Governments,
4 302 North 1st Avenue, Suite 300, Phoenix, Arizona,
5 before JANET HAUCK, RPR, a Certified Court Reporter,
6 Certificate No. 50522, for the State of Arizona.

7 Roger Klingler for the City of
8 Scottsdale acted as the Chairman.

9 Members attending were Rich Williams,
10 City of Surprise; Patrick Clay, U of A Cooperative
11 Extension; Eugene Jensen, Citizen Representative;
12 Stephen Bontrager, City of Peoria; Lonnie Frost, Town
13 of Gilbert (telephonic); Robert Hollander, City of
14 Phoenix Water Services Department; Doug Toy
15 (telephonic), City of Chandler; Joel Wade
16 (videoconference), City of Goodyear; Dale Bodiya,
17 MCESD; Larry Brotman, City of Glendale; Carroll
18 Reynolds, Town of Buckeye; Hans Koppenhoefer, Pulte
19 Homes; and Ken Knickerbocker, Coe & Van Loo.

20 Also present was Brenda Geisen.

21

22

23

The following proceedings were had:

24

25

1 MR. KLINGLER: I would like to now open
2 the public hearing overview presentation by Coe &
3 Van Loo on the Draft Buckeye Festival Ranch Amendment.
4 Following the presentation, hearing participants can
5 make comments for the record. We do have a court
6 reporter here to provide an official record of the
7 hearing. Written comments are also welcome.

8 Why don't we go ahead with the
9 presentation from Coe & Van Loo to start off.

10 MR. KNICKERBOCKER: Thank you. I'm Ken
11 Knickerbocker with Coe & Van Loo Consultants, and we
12 represent Pulte Homes in the Town of Buckeye and are
13 here today to request that you approve an amendment to
14 the 208 Water Quality Management Plan for the Buckeye
15 planning area to construct the Festival Ranch Water
16 Reclamation Facility.

17 This following presentation pretty much
18 follows the CWA 208 Amendment checklist. This is an
19 abbreviated version of the presentation we made on
20 August 27th, and this presentation also has questions
21 and responses from the August meeting.

22 As I said, this amendment is for the
23 construction of the Festival Ranch Water Reclamation
24 Facility. It will be located in the Festival Ranch
25 Master Planned Community in the north portion of the

1 Buckeye planning area which is in the east valley --
2 I'm sorry, the west valley. I've only done this a
3 dozen times.

4 There are no existing wastewater
5 treatment plants within the Festival Ranch service
6 area. The wastewater treatment facilities that exist
7 in the Buckeye planning area include the Buckeye
8 wastewater treatment plant which was recently expanded
9 to 5 mgd. It serves lower Town of Buckeye.

10 The Sundance Wastewater Treatment Plant
11 serves about 3,000 acres and has a plant capacity and
12 ultimate capacity of 3.2 mgd and uses SBR technology.

13 The Verrado water reclamation facility
14 will service about 5,000 acres and have an ultimate
15 capacity of somewhere around 3½ mgd. It also uses SBR
16 technology. And this, of course, is our project at
17 Festival Ranch and it serves about 4,200 acres. The
18 ultimate capacity of around 4 mgd will serve about
19 4,200 acres.

20 The service area for this facility is
21 defined by the CAP canal to the north, the Surprise
22 planning area to the east, the Sun Valley master
23 planned community to the west and the south.

24 The water reclamation facility is
25 located at the hydraulic lower end of the project. It

1 serves the entire Festival Ranch community including
2 several out-parcels.

3 MR. KLINGLER: Ken, could you give us
4 the street, approximately, alignment there?

5 MR. KNICKERBOCKER: Yes. This is
6 Sun Valley Parkway. And the middle of the project is
7 about 271st Avenue. Festival Ranch is a residential
8 community for active adult and single family homes.

9 Rated flow estimates are 1 mgd in
10 Phase 1 up to 4 mgd at final build-out by year 2015.
11 Estimated population is approximately 34,000. As I
12 said, it's 1 mgd, Phase 1, and 4 mgd, ultimate.

13 Treatment will be according to BADCT and
14 will include influent pumping followed by fine
15 screening. Secondary treatment with SBR technology for
16 nitrification/denitrification, filtration, UV
17 disinfection and then sludge treatment and disposal in
18 the landfill.

19 Effluent will be Class A+. Total
20 nitrogen will be less than 10 milligrams per liter.
21 Fecal coliform will be nondetectable, and turbidity
22 less than 10 NTU.

23 Effluent disposal and reuse, in order of
24 preference, will be open access irrigation followed by
25 recharge and recovery. And if irrigation recharge is

1 not available for any reason, we're going to get a
2 AzPDES permit for discharge through adjacent Wagner
3 Wash.

4 Potential ultimate reuse sites include
5 up to three golf courses, rec center sites, and
6 possibly a park, a school, and maybe miscellaneous
7 green belt areas, et cetera. The water reclamation
8 facility will be located adjacent to Wagner Wash.

9 Time frame for Phase 1 capacity should
10 be operational by January 2005. Phasing will keep pace
11 with the expansion of the development. The ultimate
12 plant capacity of 4 mgd should be operational by 2015.

13 Communication with regulatory agencies.
14 We've already had our preapplication meeting with ADEQ
15 where we discussed the reclaimed water reuse permit,
16 the APP and ADEQ's input on the underground storage
17 facility permit that we'll get from ADWR. We met with
18 ADEQ to discuss the AzPDES permitting process.

19 The plant will be constructed through a
20 Community Facilities District. The Town of Buckeye
21 will own and operate the facility. Initially, the
22 operation will be subcontracted to a private operations
23 firm. Pulte Homes will administer the plan until
24 Phase 1 construction is complete and the town accepts
25 the facility.

1 As I said, the Town of Buckeye will
2 create a Communities Facilities District through which
3 the community improvements will be financed. Pulte
4 Homes will initially fund the CFD, and fees collected
5 from the users will fund the operation and maintenance
6 of the facility.

7 There are no impacts on existing
8 wastewater facilities, communities or businesses in the
9 area, and there are no existing packaged plants in the
10 area.

11 At our August 27th meeting there were
12 several questions, and I documented these. I'll just
13 go through them real quickly.

14 How will the initial O&M be funded prior
15 to arrival of the first customers? Pulte will
16 initially fund the O&M.

17 What is the setback and where are the
18 recharge basins located? The setback meets the AAC,
19 the 350-foot setback. The recharge basins are planned
20 right now to be constructed in that setback area.

21 Is Wagner Wash tributary to the
22 Hassayampa River? Yes, it is. The confluence is about
23 six miles to the southwest.

24 Has a beneficial sludge use been
25 considered? Class B biosolids will be disposed of at a

1 permitted landfill. Land application will remain an
2 option in the future phases.

3 How will the initial wastewater flows be
4 handled? Low flows will be vault and hauled to a
5 permitted facility until the facility has enough flow
6 to operate and produce Class A+ effluent.

7 The Draft 208 states build-out occurs in
8 2018 but 2015 was identified in the presentation.
9 Please clarify. The water reclamation facility, the
10 final phase will be online about 2015, and build-out is
11 expected to be at full build-out by 2018.

12 What percentage of the effluent will be
13 reused? In the summer months, 100 percent of the
14 reclaimed water is expected to be reused. For the
15 remainder of the year, excess reclaimed water will be
16 recharged.

17 MR. KLINGLER: Thank you,
18 Mr. Knickerbocker. At this point, we'll have the
19 public comments, and then if the committee has any
20 questions, we'll call you back, so hang around there a
21 little bit.

22 At this time, public comment is invited.
23 And again, if you would like to speak, fill out a card
24 and hand it to Brenda. Did we get any cards?

25 Okay, and we also have informed people

1 we would consider any written comments if we have
2 those, right? We don't have any of those at this time.

3 Okay, then, I would like to close the
4 public hearing and request the court reporter to please
5 end the transcript.

6 (The public hearing portion of the
7 proceedings adjourned at 4:06 p.m.)

8 * * *

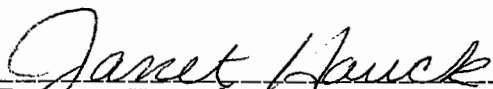
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STATE OF ARIZONA)
)
COUNTY OF MARICOPA)

I, JANET HAUCK, a Certified Court Reporter, Certificate No. 50522, in the State of Arizona, do hereby certify that the foregoing pages constitute a full, true, and accurate transcript of all proceedings had in the foregoing matter, all done to the best of my skill and ability.

I FURTHER CERTIFY that I am not related to nor employed by any of the parties hereto, and have no interest in the outcome hereof.

WITNESS my hand this 10th day of November, 2003.



Janet Hauck, RPR
Arizona Certified Court
Reporter No. 50522