

TOWN OF FOUNTAIN HILLS, ARIZONA

FOUNTAIN HILLS, ARIZONA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Issued by:
Finance Department

TOWN OF FOUNTAIN HILLS, ARIZONA

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INTRODUCTORY SECTION

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Town of Fountain Hills

16705 E. Avenue of the Fountains

Fountain Hills, AZ 85268

Phone: 480-816-5100 • Fax: 480-837-3145

www.fh.az.gov

November 13, 2008

To the Honorable Mayor, Members of the Town Council, and Citizens of the Town of Fountain Hills:

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Town of Fountain Hills for the fiscal year ended June 30, 2008.

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

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the Town of Fountain Hills' organization chart and a list of Town of Fountain Hills elected and appointed officials. The financial section includes the financial statements and the combining and individual fund financial statements and schedules, as well as the auditors' report on the financial statements and schedules. The statistical section includes certain unaudited financial and demographic information, generally presented on a multiyear basis.

The Town of Fountain Hills' financial statements have been audited by Heinfeld, Meech & Co., P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Fountain Hills for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Fountain Hills' financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Fountain Hills was part of a broader, federally mandated Single Audit as required by the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the Town of Fountain Hills' internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in a separately issued Single Audit Reporting Package.

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

Town of Fountain Hills Profile



The Town of Fountain Hills is a planned, family-oriented community established in 1970 by McCulloch Properties (now MCO Properties, Inc.). Prior to 1970 the area was a cattle ranch and was part of one of the largest land and cattle holdings in Arizona. It was purchased by Robert McCulloch in the late 1960s and designed by Charles Wood, Jr. (designer of Disneyland in southern California). The centerpiece of Fountain Hills is one of the world's tallest man-made fountains, a focal point that attracts thousands of visitors each year.

Located on 13,006 acres of land, and bordering northeast Scottsdale, Fountain Hills is surrounded by the 3,500-foot McDowell Mountains on the west, the Fort McDowell Indian Reservation on the east, the Salt River Indian Reservation on the south and by the McDowell Mountain Regional Park on the north. Elevation is 1,520 feet at the fountain, 3,000 feet on Golden Eagle Boulevard, and is 500 feet above Phoenix.

Over the past seventeen years Fountain Hills has grown from 10,190 residents to a town of almost 25,000 in 2008. The latest estimates for Fountain Hills indicate that the population will continue to grow to near 36,045 by 2025. On June 5, 2006 the Town of Fountain Hills became two square miles and about ten percent larger by annexing 1,300 acres of State Trust Land. The process to annex the State Trust Land occurred over a two and one-half year period and development of the land will occur over the next decade. Annexing this property into the Town ensures that its future development will be of the highest quality under such Town's standards as the cut-and-fill ordinance and strict zoning regulations. Fountain Hills will have an opportunity to demonstrate that it is truly the best place to live in the Valley.

The Town offers a range of living styles, from small community subdivisions to a number of large custom homes. Fountain Hills also offers recreational, cultural and retirement programs that address the needs and lifestyles of active families and adults. The community consists of primarily residential property; of the total 20.32 square miles of land only 2.58% of the total is zoned commercial and/or industrial, 31% is reserved as open space and the remainder is residential.

The Town's Mission Statement for the Organization

The Town of Fountain Hills' purpose is to serve the best interests of the community by:

- providing for its safety and well-being;
- respecting its special, small-town character and quality of life;
- providing superior public services;
- sustaining the public trust through open and responsive government;
- and maintaining the stewardship and preservation of its financial and natural resources.

To serve and respect, and provide trust and stewardship.



Fountain Hills Town Hall

The Town of Fountain Hills is an Arizona Municipal Corporation, acting as a general law Town as prescribed in the Arizona Revised statutes. The Town was incorporated on December 5, 1989 with the governmental and administrative affairs of the Town operating under the Council-Manager form of government. The Town Council is responsible, among other things, for the adoption of local ordinances, budget adoption, the development of citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and administering the Town's operations through five department directors and approximately 89 FTE employees. The Magistrate, Town Attorney and Town Prosecutor are under the direction of the Town Council.

The Town provides or administers a full range of services including public safety (law enforcement, fire, animal control, building inspection); community development (code enforcement, planning, zoning and engineering); the construction and maintenance of streets and infrastructure, municipal court, recreational activities, community center, senior center and cultural events. The Town does not maintain utility or other operations that require the establishment of enterprise funds.

The financial reporting entity (the Town) includes all the funds and account groups of the primary government (i.e., the Town of Fountain Hills as legally defined) as well as all of its component units. The component units consist of legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the Cottonwoods Maintenance District, Eagle Mountain Community Facilities District and Fountain Hills Municipal Property Corporation are included in the financial reports of the Town.

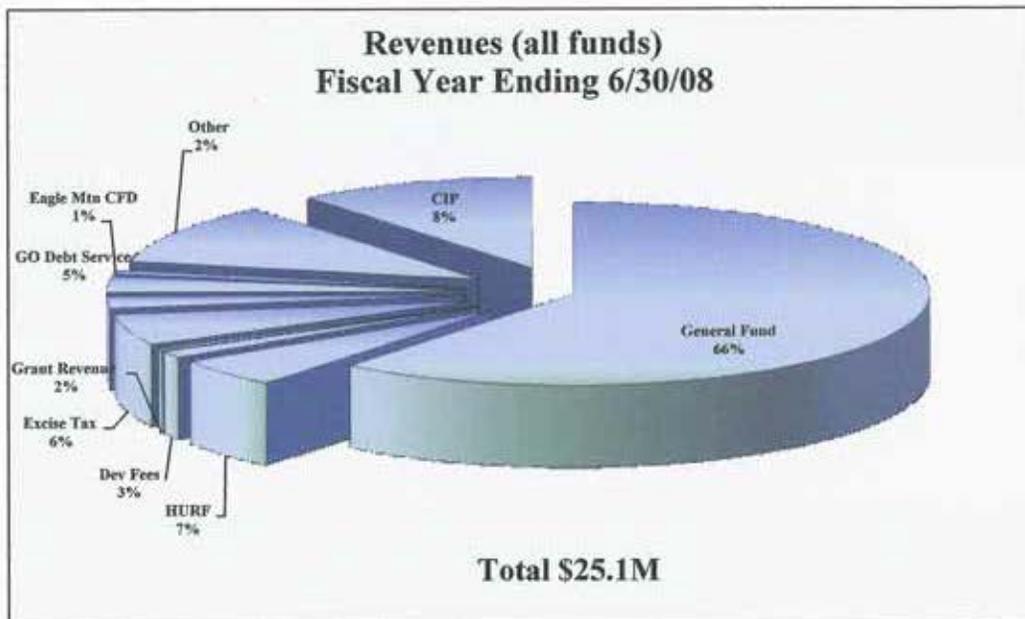
The annual budget serves as the foundation for the Town of Fountain Hills' financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund. Therefore, these funds have appropriated budgets, and budget to actual information is presented. On or before the second meeting in May the Town Manager submits to the Town Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. The Town Council is then required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the Town of Fountain Hills' fiscal year. The budget is legally enacted through passage of an ordinance and is prepared by fund and department. The ordinance sets the limit for expenditures during the fiscal year. The Town Manager may authorize transfers from and within personnel and from operating capital to services or supplies within a department. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20.

Factors Affecting Financial Condition

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

Local Economy. The Town of Fountain Hills, similar to other Arizona municipalities, is primarily dependent upon state revenues and local sales tax as a major source of operating revenue, accounting for 77% of total revenue for fiscal year 2007-08. Locally, 20% of the Town's sales tax is from construction activity (down from 31% last fiscal year) and 37% is generated from retail activity. The construction activity is primarily residential; fiscal year 2007-08 continued the dramatic downturn in building permit activity that is being experienced nationwide. State shared revenues increased during fiscal year 2007-08 because state income tax revenues are based on two years prior personal and corporate earnings; however future revenues from income tax are projected to decline for the next few years. The majority of land use in Fountain Hills is residential, therefore, there is not a significant amount of retail activity that is affected locally by the economy. Revenues from retail and non-construction related activity are projected to remain flat over the next couple of years.

The chart below is a breakdown of Town resources:



The Fountain Hills Medical Plaza will complete a substantial redevelopment project in the Fall of 2008. The three buildings totaling 50,000 square feet that used to house Town municipal operations were completely renovated including new interiors and a new exterior finish. The project has also created a shaded courtyard between the three buildings. Other improvements to the site included upgraded landscaping and covered parking areas as well as new ingress and egress to adjacent developments.

Eighteen months of discussion between Fountain Hills Town Square, LLC and the Town have resulted in a development agreement being approved for the potential development of the 13-acre downtown parcel on the Avenue of the Fountains. An aggressive development schedule has been established starting with a Phase I Concept Plan application submittal by October 20, 2008. The plans will be reviewed by staff and the Concept Plan is planned to be presented to the Planning and Zoning Commission and the Town Council for approval by the end of the year. Phase I will include 38,000 square feet of retail, 58,000 square feet of office and a 52,000 square foot movie theater.

Firerock Plaza, located on Shea Boulevard, has completed construction and has begun allowing tenants to occupy some suites. Included in the list of tenants so far are a beauty salon and an urgent care medical facility. Firerock Business Park industrial condominiums located on Technology Drive behind Target Plaza was approved for a revised Concept Plan for Phase II of the project to allow a re-configuration of building pads and a mini-storage facility.

Fountain View Retail Plaza, located on Fountain Hills Boulevard just south of Safeway Plaza, completed construction and has occupancy in a majority of their suites.

Fountain Hills Plaza (Bashas Plaza) applied for and received approvals to enlarge the Bashas and Ace Hardware building footprints as well as to do a complete façade renovation of the entire plaza. Additionally, numerous site improvements will be made including shade structures for a portion of the parking areas, more landscaping and decorative hardscape, and improved ingress and egress to the Plaza.

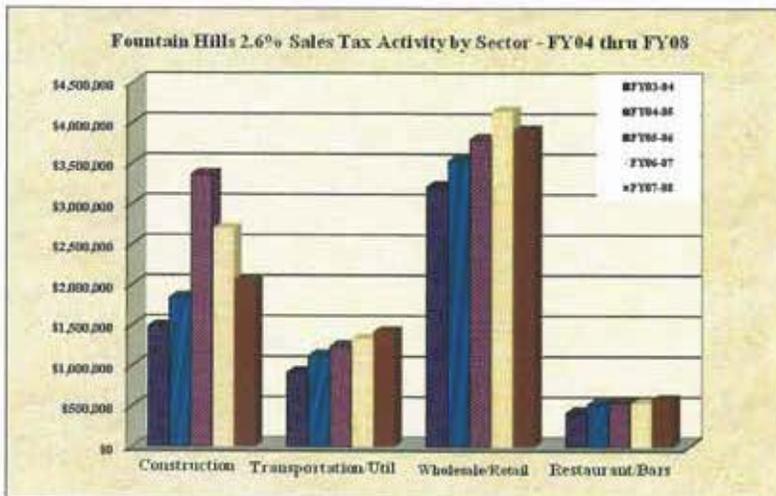
Plaza Waterfront, located adjacent to Plaza Fountainside at the corner of Saguaro Boulevard and El Lago Boulevard, has completed construction and has begun allowing tenants to occupy both their retail suites as well as the residential condominiums.

The Eagle Mountain Golf Club received approval to expand and enclose their event pavilion overlooking the 18th hole. The golf club also received permits for shade structures over their golf cart storage area.

A 9-lot, single-family residential subdivision named Serenity Estates (formerly High Nob Acres) and located at the end of Cerro Alto Drive was approved.

A 12-lot, single-family residential subdivision named The Vista at Fountain Hills (formerly Lion's Spring) and located at the intersection of Cerro Alto Drive and Sierra Madre Drive was approved.

The Ellman Company who purchased the former State Trust Land in 2007 requested an amendment to the pre-annexation agreement, a rezoning of the property and a General Plan amendment. The requested amendments proposed several design changes including additional park space, additional open space, a reduction in housing units and a realignment of McDowell Mountain Road. Even though all requested amendments were approved by Mayor and Council in May 2008, the amendments are still pending.



The chart to the left is a summary of local sales tax collections from fiscal year 2003-04 through fiscal year 2007-08 by category. Retail activity declined slightly during fiscal year 2007-08 with the slowdown in the national economy. Sales tax from construction activity has declined for three years straight; this trend will likely continue through fiscal year 2009-10. The opportunity to further expand the retail tax base in Fountain Hills is limited by the lack of available commercial land – 75% of the developable lots are already developed.

Long-term Financial Planning. Over the past decade the Town of Fountain Hills has embraced a strategic planning process that has focused on the long-term viability of the community. In late 2004, the Town initiated a comprehensive strategic planning process that involved a significant amount of citizen input. A technical Advisory Committee consisting of citizens, volunteers and Town staff met to discuss the Town’s long range vision for nearly a year. This citizen driven strategic planning process resulted in an expansive report entitled, “Town of Fountain Hills Strategic Plan 2006-2010” which was adopted on December 1, 2005. One of the major issues addressed in the report was the Town’s projected future financial health. The report described a growing concern with the current reliance on construction sales tax base. Construction sales tax is considered a one-time revenue source which is driven entirely by development activity. As the Town approaches build-out construction related sales taxes and fees are likely to dwindle; with a declining revenue base it will become a challenge for the Town to meet the increasing demands of current service levels.

The Fountain Hills Town Council maintains a fund balance policy that ensures adequate reserves that will provide financial stability in the event of an unanticipated economic downturn. The policy states:

1. A contingency fund of no less than 30 days operating expenditures for the upcoming fiscal year to be designated for unanticipated expenditure or loss of revenue (contingency)
2. A designated unreserved fund balance of a minimum of ten percent (10%) of the average actual revenues for the preceding five fiscal years designated for “pay-as-you-go” capital
3. A reserved fund balance of twenty percent (20%) of the average actual revenues for the preceding five fiscal years which is unavailable for appropriation

These amounts will not be programmed for expenditure and are only available for use within the confines of expenditure limitations imposed by the State. A Capital Projects Fund has been created and is funded with proceeds from excess revenues collected over budget and any unexpended appropriations not needed to meet fund balance requirements or re-appropriation. For the fiscal-year ending June 30, 2008 \$1M of surplus revenues were transferred from the General Fund to the Capital Projects Fund.

The Council also adopted financial policies that include guidelines for the issuance of debt for capital expenditures, Community Facility Districts, financing alternatives, expenditure controls and financial planning. The policy was amended during fiscal year 2006-07 to allocate a portion of the local construction sales tax to the Capital Projects Fund, thereby assuring that one time revenues are used for one time expenditures. The debt policy was prepared with a preference for "pay-as-you-go" financing for capital spending. An investment policy was adopted and was awarded the Investment Policy Certification from the Association of Public Treasurers of United States and Canada.

Cash Management. State statutes permit municipalities in Arizona to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The Town of Fountain Hills debt policy restricts investments to securities that are 100% backed by the full faith and credit of the U.S. government. The Town of Fountain Hills invests all idle cash in the State LGIP-GOV, which consists of government-backed securities. The year-to-date yield on investments as of June 30, 2008 was 3.4404%. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

Daily cash deposits are made with the local bank and are maintained for payroll and payables; these accounts are fully collateralized to \$1 million.

Risk Management. The Town of Fountain Hills is a member of the Arizona Municipal Risk Retention Pool. Risk coverage includes general liability, workers compensation, errors and omissions, property and automobile insurance. The policy insures up to \$2,000,000 per incident occurrence plus any excess liability of up to \$13,000,000 per occurrence per year. Coverage is provided on a claims-made basis.

Pension Plan and Other Postemployment Benefits. The Town of Fountain Hills provides two deferred compensation plans through the International City/County Management Association (ICMA) in accordance with Internal Revenue Code Sections 401A and 457. The 401A is funded by mandatory employee wage deductions and matching Town contributions. The 457 is voluntary and funded 100% through employee participation.

For further information on these plans please refer to Note 11 in the financial statements.

AWARDS AND ACKNOWLEDGEMENT

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2007. This was the eleventh consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year ending June 30, 2008. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device. This is the fifth consecutive year that the Town has received the award.

Acknowledgements. The preparation of this report would not have been possible without the efficient and dedicated services of the entire team of the Finance and Administration Department. I would also like to extend my appreciation to the Mayor and Council for their leadership and support. Each member of the department has my sincere appreciation for the contributions made in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "R. Davis". The signature is written in a cursive style with a large initial "R" and a stylized "Davis".

Richard L. Davis, ICMA-CM
Town Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Fountain Hills
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



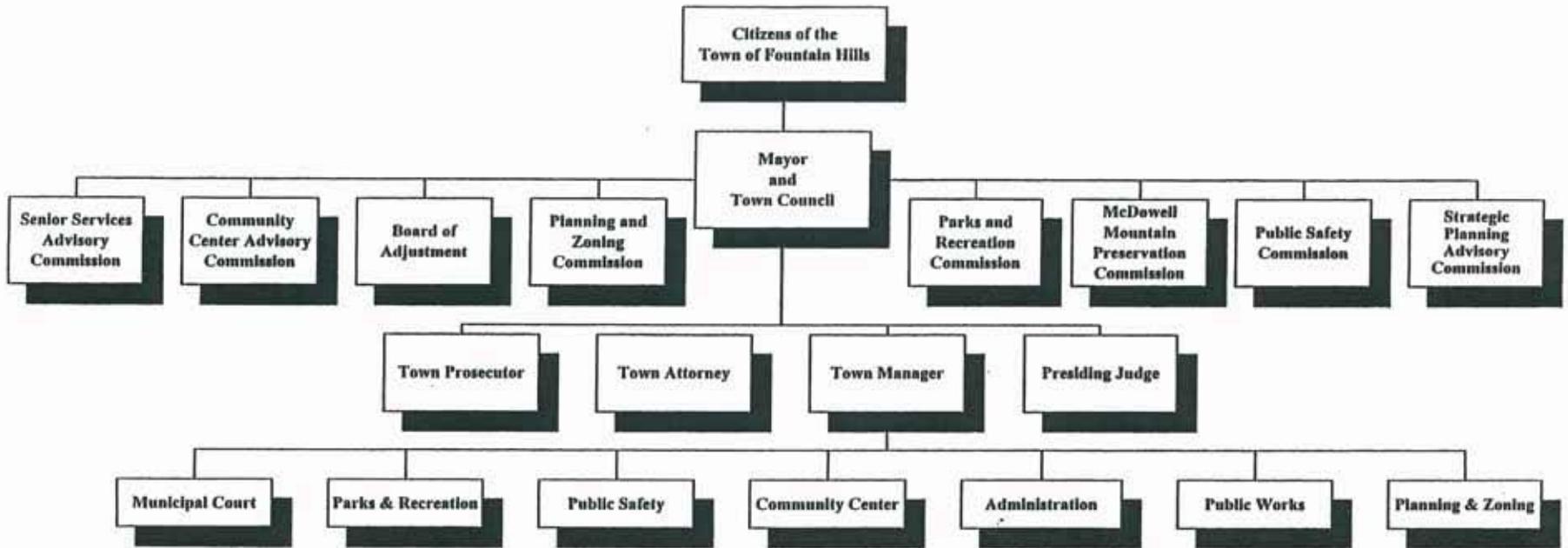
Charles S. Cox

President

Jeffrey R. Egan

Executive Director

TOWN OF FOUNTAIN HILLS, ARIZONA
ORGANIZATIONAL CHART
JUNE 30, 2008



TOWN OF FOUNTAIN HILLS, ARIZONA
List of Principal Officials
ELECTED OFFICIALS

| | |
|---------------|----------------------|
| Mayor | Mr. Jay Schlum |
| Vice-Mayor | Mr. Henry Leger |
| Councilmember | Mr. Mike Archambault |
| Councilmember | Mr. Dennis Contino |
| Councilmember | Ms. Ginny Dickey |
| Councilmember | Ms. Cassie Hansen |
| Councilmember | Mr. Keith McMahan |

DEPARTMENT DIRECTORS

| | |
|-----------------------------|---|
| Town Manager | Richard L. Davis |
| Magistrate | Ted Armbruster |
| Finance Director | Julie A. Ghetti, CPA |
| Public Works Director | Tom Ward |
| Parks & Recreation Director | Mark Mayer |
| Planning & Zoning Director | Richard Turner |
| Community Center Director | Samantha Coffman |
| Fire Chief | Scott LaGreca, Rural Metro Corporation |
| District Commander | Capt John Kleinheinz, Maricopa County Sheriff's Office |
| Town Prosecutor | Iacovino & Kayler |
| Town Attorney | Andrew McGuire, Gust Rosenfeld, P.L.C. |

FINANCIAL SECTION

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

Gary Heinfeld, CPA, CGFM
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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Town Council
Town of Fountain Hills, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund (General Fund, Development Fees Fund, General Obligation Debt Service Fund, Municipal Property Corporation Debt Service Fund, Capital Projects Fund), and the aggregate remaining fund information of the Town of Fountain Hills, Arizona (the Town), as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund as listed above, and the aggregate remaining fund information of the Town of Fountain Hills, Arizona as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2008, on our consideration of the Town of Fountain Hills, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 15 and budgetary comparison information on pages 46 through 48 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Heinfeld, Meech & Co., P.C.

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

November 13, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

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**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

As management of the Town of Fountain Hills, Arizona (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

FINANCIAL HIGHLIGHTS

- The Town's total net assets of governmental activities increased \$2.0 million which represents a 2 percent increase from fiscal year 2006-07 primarily due to the increase in investment of capital assets, specifically park development.
- General revenues accounted for \$22.3 million in revenue, or 87 percent of all fiscal year 2007-08 revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3.2 million or 13 percent of total fiscal year 2007-08 revenues.
- The Town had approximately \$23.5 million in expenses related to governmental activities, an increase of 5 percent from the prior fiscal year. The increase was primarily due to increased costs for public safety and public works projects.
- Among major funds, the General Fund had \$16.7 million in fiscal year 2007-08 revenues, which primarily consisted of local sales tax and state shared revenues, and \$15.3 million in expenditures. Per local policy residual General Fund revenues are transferred at year end to the Capital Projects Fund (\$1.0 million for fiscal year 2007-08). Therefore, the General Fund's fund balance remains at \$6.6 million.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

OVERVIEW OF FINANCIAL STATEMENTS (Cont'd)

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

The government-wide financial statements outline functions of the Town that are principally supported by taxes and intergovernmental revenues. The governmental activities of the Town include general government, public safety, highways and streets, culture and recreation, community development, and interest on long-term debt.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town are included in the governmental funds.

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

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

OVERVIEW OF FINANCIAL STATEMENTS (Concl'd)

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Development Fees Fund, General Obligation Debt Service Fund, Municipal Property Corporation Debt Service Fund, and Capital Projects Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements and schedules.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's budget process. The Town adopts an annual expenditure budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances – budget and actual has been provided for the General Fund and Development Fees Fund as required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$121.0 million as of June 30, 2008.

The largest portion of the Town's net assets (78 percent) reflects its investment in capital assets (e.g., land, infrastructure, buildings, improvements other than buildings, vehicles, machinery and equipment, artwork and construction in progress) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, a portion of the Town's net assets (11 percent) are restricted by statute for the specified purposes of debt service repayment, capital outlay investment, and highways and streets.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

The Town's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The following table presents a summary of the Town's net assets for the fiscal years ended June 30, 2008 and June 30, 2007.

| | As of June 30, 2008 | As of June 30, 2007 | Percent Change |
|---|------------------------|------------------------|-------------------|
| Current and other assets | \$27,961,526 | \$26,894,658 | 4% |
| Capital assets, net | 121,118,950 | 120,783,479 | <1 |
| Total assets, net | <u>149,080,476</u> | <u>147,678,137</u> | 1 |
| Current and other liabilities | 2,876,276 | 1,592,815 | 81 |
| Long-term liabilities | 25,234,167 | 27,089,593 | (7) |
| Total liabilities | <u>28,110,443</u> | <u>28,682,408</u> | (2) |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 94,939,805 | 92,508,637 | 3 |
| Restricted | 12,799,502 | 12,210,966 | 5 |
| Unrestricted | 13,230,726 | 14,276,126 | (7) |
| Total net assets | <u>\$120,970,033</u> | <u>\$118,995,729</u> | 2% |

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- \$2.0 million in construction in progress for park improvements.
- \$769,573 in receivables from the State for park improvement grants.
- The addition of \$1.0 million in capital assets through purchase of vehicles, a new street sweeper and pumper fire engine.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

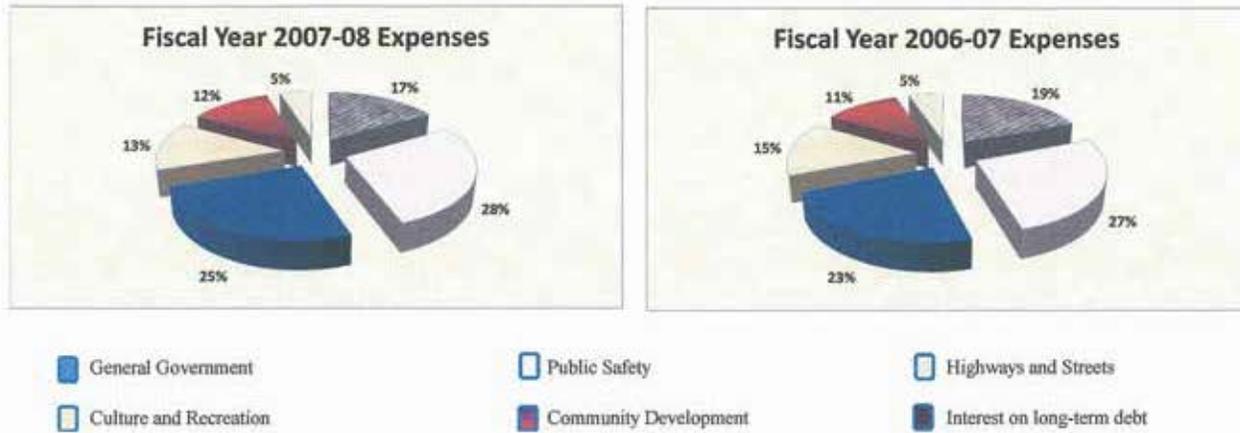
GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Changes in net assets. The Town's total revenues for the fiscal year ended June 30, 2008, were \$25.5 million. The total cost of all programs and services was \$23.5 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2008 and June 30, 2007.

| | Fiscal Year Ended <u>June 30, 2008</u> | Fiscal Year Ended <u>June 30, 2007</u> | Percent Change |
|------------------------------------|--|--|-------------------|
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for services | \$2,329,811 | \$2,520,068 | (8)% |
| Operating grants and contributions | 56,802 | | N/A |
| Capital grants and contributions | 835,659 | 989,100 | (16) |
| General Revenues: | | | |
| Sales taxes | 10,489,591 | 11,407,714 | (8) |
| Property taxes | 1,635,542 | 1,385,953 | 18 |
| Franchise taxes | 336,290 | 324,318 | 4 |
| State shared revenue | 8,848,199 | 8,444,731 | 5 |
| Investment income | 780,935 | 1,094,994 | (29) |
| Miscellaneous | <u>183,963</u> | <u>85,418</u> | 115 |
| Total Revenues | <u>25,496,792</u> | <u>26,252,296</u> | (3) |
| Expenses: | | | |
| General Government | 3,921,588 | 4,292,515 | (9) |
| Public Safety | 6,532,292 | 5,935,742 | 10 |
| Highways and streets | 5,981,347 | 5,225,835 | 14 |
| Culture and recreation | 3,092,661 | 3,282,160 | (6) |
| Community development | 2,861,653 | 2,512,170 | 14 |
| Interest on long-term debt | <u>1,132,947</u> | <u>1,163,370</u> | (3) |
| Total Expenses | <u>23,522,488</u> | <u>22,411,792</u> | 5 |
| Changes in net assets | <u>\$1,974,304</u> | <u>\$3,840,504</u> | (49)% |

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)



The following are significant current year transactions that have had an impact on the Statement of Activities.

- Overall revenues declined 3% with increases in state shared revenues and property taxes, the majority of other revenues declined due to the poor economy.
- Overall expenses increased 5% primarily due to increased public safety contract costs and public works projects.

The following table presents the cost of the six major Town functional activities: general government, public safety, highways and streets, culture and recreation, community development and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and Town's taxpayers by each of these functions.

| | Year Ended June 30, 2008 | | Year Ended June 30, 2007 | |
|----------------------------|--------------------------|------------------------|--------------------------|------------------------|
| | Total Expenses | Net (Expense)/ Revenue | Total Expenses | Net (Expense)/ Revenue |
| General Government | \$3,921,588 | (\$3,080,625) | \$4,292,515 | (\$3,381,537) |
| Public Safety | 6,532,292 | (5,739,263) | 5,935,742 | (4,953,083) |
| Highways and Streets | 5,981,347 | (5,957,647) | 5,225,835 | (5,197,650) |
| Culture and Recreation | 3,092,661 | (1,918,670) | 3,282,160 | (2,139,842) |
| Community Development | 2,861,653 | (2,471,064) | 2,512,170 | (2,067,142) |
| Interest on Long-Term Debt | 1,132,947 | (1,132,947) | 1,163,370 | (1,163,370) |
| | <u>\$23,522,488</u> | <u>(\$20,300,216)</u> | <u>\$22,411,792</u> | <u>(\$18,902,624)</u> |

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concl'd)

- The cost of all governmental activities this year was \$23.5 million.
- State government and charges for services subsidized certain programs with grants and contributions and other local revenues of \$3.2 million.
- Net cost of governmental activities (\$20.3 million) was financed by general revenues, which are made up of primarily sales taxes (\$10.5 million) and state shared revenue (\$8.8 million). Investment earnings accounted for \$780,935 of funding.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year.

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported a combined fund balance of \$22.8 million, a decrease of \$401,593 due primarily to use of reserves for planned capital projects in the Development Fees Fund.

The General Fund comprises 29 percent of the total fund balance. Approximately \$3.5 million, or 54 percent of the General Fund's fund balance constitutes unreserved fund balance. The remaining fund balance is reserved to indicate that it is not available for spending because it has already been committed as follows:

- \$17,925 for inventory
- \$3,035,145 for other purposes

The General Fund is the principal operating fund of the Town. The fund balance of \$6.6 million in the General Fund as of June 30, 2008 has remained constant over the past three years due to the annual transfer of residual revenues from the General Fund to the Capital Projects Fund (\$1.0 million for fiscal year 2007-08). Expenditures within the General Fund increased 7% over the prior year due to increased costs for public safety contracts (police and fire), public works projects and recreation programs. Revenues declined 1% overall from the prior fiscal year particularly in building related revenue categories and interest earnings.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (Concl'd)

Other fund balance variances include Development Fees Fund that expended accumulated funds for capital park projects. The fund balance in the General Obligation Debt Service Fund declined as property tax revenues declined. The fund balance in the Municipal Property Corporation Debt Service Fund increased due to local sales tax collections derived from other funds exceeding the annual debt service payment during the year.

BUDGETARY HIGHLIGHTS

A schedule showing the original and final budget amounts compared to the Town's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variances are summarized as follows:

- The unfavorable variance of \$377,486 in intergovernmental revenues was a result of the continued downturn in the state economy, affecting collections and distribution of state sales tax to cities and towns.
- The unfavorable variance of \$311,430 in licenses and permits was a result of the continued downturn in construction related activities, including building permits. Building permits are down 50% from the prior fiscal year.
- The unfavorable variance of \$83,990 in investment income was a result of decreased rate of return on Town investments on deposit with the Arizona State Treasurers Local Government Investment Pool where the Town's idle funds are maintained in a pool of government securities.
- The favorable variance of \$633,896 in culture and recreation was a result of a deferral of costs related to engineering and design fees for a joint use park with the Fountain Hills Unified School District. This project will move forward when the funds to complete the project become available.
- The favorable variance of \$584,461 in community development was due to the deferral of design costs for capital projects that are partially funded with federal grants; these costs were deferred to fiscal year 2008-09.
- The favorable variance of \$221,222 in capital outlay was due to the elimination of a capital expenditure for new communications equipment; it was determined that this equipment could be deferred to a future year.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the Town had invested \$186.8 million in capital assets, including buildings, vehicles, computers, equipment, infrastructure and artwork. This amount represents a net increase prior to depreciation of \$5.1 million from last year, primarily due to major park improvements at two Town parks (Fountain Park and Desert Vista Neighborhood Park). Total depreciation expense for the year was \$4.7 million.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2008 and June 30, 2007.

| | <u>As of June 30, 2008</u> | <u>As of June 30, 2007</u> |
|-----------------------------------|--------------------------------|--------------------------------|
| Capital assets – non-depreciable | \$ 26,971,147 | \$ 24,623,735 |
| Capital assets – depreciable, net | 92,900,976 | 94,795,369 |
| Total | <u>\$ 119,872,123</u> | <u>\$ 119,419,104</u> |

Additional information on the Town's capital assets can be found in Note 5.

Debt Administration. At year-end, the Town had \$24.9 million in long-term debt outstanding, \$2.2 million due within one year. This represents a net decrease of \$2.0 million.

The Town's general obligation bonds are subject to two limits; the Constitutional debt limit (total debt limit) on all general obligation bonds (up to 20 percent of the total secondary assessed valuation) and the statutory debt limit on general municipal purpose bonds (up to six percent of the total secondary assessed valuation). The current total debt limitation for the Town is \$178.0 million, which is more than the Town's outstanding general obligation debt.

Additional information on the Town's long-term debt can be found in Notes 6 and 7.

ECONOMIC FACTORS

The Town continues to maintain strong reserves for unforeseen circumstances, whether of a financial nature or a natural (or other) disaster. The Town's reserves, in combination with our consistent adherence to adopted financial policies and management practices, proved big factors in the credit rating awarded to Fountain Hills by the major credit rating companies.

The housing market has cooled significantly (both nationally and regionally), indicating that the overall economy may experience slow growth in the year ahead. The Town's local housing economy provides building permit and construction sales tax revenue, which have declined over the past two fiscal years. It is not anticipated to recover until a recently annexed parcel begins development (currently projected for fiscal year 2010-11).

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

ECONOMIC FACTORS (Concl'd)

The Town's local sales tax collections, which represent the largest Town revenue source, are projected to decrease by 5% in fiscal year 2008-09. The Town's share of the state-shared revenue is expected to see a 3% reduction, largely based upon the State's declining sales tax collections. However, our financial forecasting is based upon the assumption that the economy will continue to lag for the foreseeable future.

Rapidly rising costs in health care, maintenance contracts and fuel, have increased departmental expenses.

The Town is aggressively pursuing economic vitality and redevelopment opportunities, specifically a proposed development in the downtown center including a movie theater, residential and retail stores. The Town has made significant quality of life investments including the major improvements to both Fountain Park and Desert Vista Neighborhood Park.

As of June 30, 2008 the Town had set aside \$10.0 million in the Capital Projects fund. The majority of these funds have been earmarked for future projects within the Capital Improvement Plan.

NEXT YEAR'S BUDGETS AND RATES

Current economic conditions allow the Town to maintain core services and, in some cases, to provide enhancements to existing service levels. However, prudent long-term fiscal planning dictates that we remain conservative, focus on the highest Council and citizen priorities, and fund only those enhancements we can sustain financially.

The operating budget for fiscal year 2008-09 is \$23.9 million representing a 3% decrease from fiscal year 2007-08. The operating budget is comprised of the costs to continue operations from year to year without any capital expenditures. It encompasses all the basic services provided to Fountain Hills' residents: police and fire protection; parks, recreation, streets maintenance; planning and zoning; building inspection; economic development and administrative services. The capital budget for fiscal year 2008-09 is set at \$4.4 million, a 25% decrease over fiscal year 2007-08. It includes projects and new programs that are included in the five-year plan and considered affordable within current revenue sources. Capital budgets tend to rise and fall each year depending on the timing of projects – especially if a Town, such as Fountain Hills, is primarily on a “pay-as-you-go” program.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2008**

NEXT YEAR'S BUDGETS AND RATES (Concl'd)

The Capital Improvement Program (CIP) is the Town's financial plan for supporting large capital projects. The five-year CIP addresses the growing needs of the community and enhances the quality of life through major public investment, and is an essential ingredient in the Town's service delivery plan. The CIP is closely aligned with the General Plan, and integrates a number of specialized facility and infrastructure master plans. Looking ahead, the five-year CIP totals \$53.0 million; with the Capital Budget for fiscal year 2008-09 totaling \$4.4 million (which includes carryover funds for some large projects currently underway). In fiscal year 2008-09, the CIP places major emphasis on street maintenance and park improvement projects.

Many factors were considered by the Town's administration during the process of developing the fiscal year 2008-09 budget. The fiscal year 2008-09 budget could not be prepared without considering the condition of the regional, state and national economies, specifically the real estate and construction industry. Construction related revenues are declining and the Town is projecting growth by only 1 percent over the fiscal year 2007-08 budget. Expenditures are projected to decrease by 10 percent over the prior year, including capital. Additional concerns are the increased cost of doing business. The Town is a service organization; public safety services are provided by contract. The cost of providing those services exceeds the rate of revenue growth.

The Town's overall authorized full-time equivalent positions have not increased over the prior year.

The Town has maintained a General Fund reserve balance of 30 percent of revenues; the budgeted expenditures do not include any use of fund balance.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Finance Department, Town of Fountain Hills, 16705 East Avenue of the Fountains, Fountain Hills, Arizona 85268.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2008

| | Governmental Activities |
|---|----------------------------|
| <u>ASSETS</u> | |
| Current assets: | |
| Cash and investments | \$ 25,474,675 |
| Taxes receivable | 38,285 |
| Special assessments receivable | 4,710 |
| Accounts receivable | 696,789 |
| Due from governmental entities | 1,611,594 |
| Inventory, at cost | 17,925 |
| Deferred charges | 117,548 |
| Total current assets | 27,961,526 |
| Noncurrent assets: | |
| Deferred charges | 1,246,827 |
| Land | 23,571,668 |
| Infrastructure | 125,508,736 |
| Buildings | 17,896,595 |
| Improvements other than buildings | 11,805,869 |
| Vehicles, machinery, and equipment | 4,651,525 |
| Artwork | 1,376,500 |
| Construction in progress | 2,022,979 |
| Accumulated depreciation | (66,961,749) |
| Total noncurrent assets | 121,118,950 |
| Total assets | 149,080,476 |
| <u>LIABILITIES</u> | |
| Current liabilities: | |
| Accounts payable | 1,396,966 |
| Accrued payroll and employee benefits | 25,338 |
| Compensated absences payable | 35,000 |
| Accrued interest payable | 502,399 |
| Unearned revenue | 951,573 |
| Bonds payable | 2,150,000 |
| Bonds premium payable | 9,921 |
| Total current liabilities | 5,071,197 |
| Noncurrent liabilities: | |
| Non-current portion of long-term obligations | 23,039,246 |
| Total non-current liabilities | 23,039,246 |
| Total liabilities | 28,110,443 |
| <u>NET ASSETS</u> | |
| Invested in capital assets, net of related debt | 94,939,805 |
| Restricted for: | |
| Highways and streets | 438,535 |
| Debt service | 1,596,110 |
| Capital outlay | 10,764,857 |
| Unrestricted | 13,230,726 |
| Total net assets | \$ 120,970,033 |

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

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FUND FINANCIAL STATEMENTS

**TOWN OF FOUNTAIN HILLS, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008**

| | General | Development Fees | General Obligation Debt Service |
|---|---------------------|---------------------|---------------------------------------|
| <u>ASSETS</u> | | | |
| Cash and investments | \$ 6,135,076 | \$ 2,540,062 | \$ 1,222,267 |
| Taxes receivable | 23,858 | | 13,947 |
| Special assessments receivable | | | |
| Accounts receivable | 173,070 | 517,573 | |
| Due from governmental entities | 956,617 | 252,000 | 32,656 |
| Due from other funds | 141,917 | | |
| Inventory, at cost | 17,925 | | |
| Total assets | <u>\$ 7,448,463</u> | <u>\$ 3,309,635</u> | <u>\$ 1,268,870</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ 823,185 | \$ 121,837 | \$ |
| Due to other funds | | | 37,860 |
| Accrued payroll and employee benefits | 23,470 | | |
| Bond interest payable | | | 169,798 |
| Deferred revenue | 22,000 | 929,573 | 5,888 |
| Bonds payable | | | 1,050,000 |
| Total liabilities | <u>868,655</u> | <u>1,051,410</u> | <u>1,263,546</u> |
| Fund balances: | | | |
| Reserved for inventory | 17,925 | | |
| Reserved for other purposes | 3,035,145 | | |
| Unreserved: | | | |
| Undesignated | 2,009,165 | 2,258,225 | 5,324 |
| Designated for non-recurring items | 1,517,573 | | |
| Unreserved reported in: | | | |
| Special revenue funds | | | |
| Debt service funds | | | |
| Total fund balances | <u>6,579,808</u> | <u>2,258,225</u> | <u>5,324</u> |
| Total liabilities and fund balances | <u>\$ 7,448,463</u> | <u>\$ 3,309,635</u> | <u>\$ 1,268,870</u> |

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

| Municipal Property Corporation Debt Service | Capital Projects | Non-Major Governmental Funds | Total Governmental Funds |
|--|----------------------|------------------------------------|--------------------------------|
| \$ 2,525,357 | \$ 11,015,638 | \$ 2,036,275 | \$ 25,474,675 |
| | | 480 | 38,285 |
| | | 4,710 | 4,710 |
| | | 6,146 | 696,789 |
| 95,992 | | 274,329 | 1,611,594 |
| | | | 141,917 |
| | | | 17,925 |
| <u>\$ 2,621,349</u> | <u>\$ 11,015,638</u> | <u>\$ 2,321,940</u> | <u>\$ 27,985,895</u> |

| | | | |
|------------------|----------------|----------------|------------------|
| \$ | \$ 250,781 | \$ 201,163 | \$ 1,396,966 |
| | | 104,057 | 141,917 |
| | | 1,868 | 25,338 |
| 242,087 | | 90,514 | 502,399 |
| | | 4,482 | 961,943 |
| 805,000 | | 295,000 | 2,150,000 |
| <u>1,047,087</u> | <u>250,781</u> | <u>697,084</u> | <u>5,178,563</u> |

| | | | |
|---------------------|----------------------|---------------------|----------------------|
| | | | 17,925 |
| | | | 3,035,145 |
| 1,574,262 | 10,764,857 | | 16,611,833 |
| | | | 1,517,573 |
| | | 1,618,702 | 1,618,702 |
| | | 6,154 | 6,154 |
| <u>1,574,262</u> | <u>10,764,857</u> | <u>1,624,856</u> | <u>22,807,332</u> |
| <u>\$ 2,621,349</u> | <u>\$ 11,015,638</u> | <u>\$ 2,321,940</u> | <u>\$ 27,985,895</u> |

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**TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Total governmental fund balances **\$ 22,807,332**

Amounts reported for *governmental activities* in the Statement of Net Assets are different because:

Deferred charges related to the issuance of refunding bonds are amortized over the life of the associated refunding issue in the government-wide statements but not reported in the funds. 1,364,375

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | | | |
|-------------------------------|----|---------------------|-------------|
| Governmental capital assets | \$ | 186,833,872 | |
| Less accumulated depreciation | | <u>(66,961,749)</u> | 119,872,123 |

Some revenues are not available to pay for current period expenditures and, therefore, are deferred in the funds.

| | | | |
|---------------------|--|--------------|--------|
| Special assessments | | 4,482 | |
| Property taxes | | <u>5,888</u> | 10,370 |

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

| | | | |
|------------------------------|--|------------------|---------------------|
| Compensated absences payable | | (311,770) | |
| Bonds payable | | (22,668,225) | |
| Bonds premium payable | | <u>(104,172)</u> | <u>(23,084,167)</u> |

Net assets of governmental activities **\$ 120,970,033**

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

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

| | General | Development Fees | General Obligation Debt Service |
|--|---------------------|---------------------|---------------------------------------|
| Revenues: | | | |
| Taxes | \$ 7,502,526 | \$ | \$ 1,302,724 |
| Intergovernmental | 6,831,804 | 257,347 | |
| Fines and forfeitures | 260,044 | | |
| Licenses and permits | 1,124,405 | | |
| Charges for services | 210,560 | 359,735 | |
| Rents and royalties | 296,434 | | |
| Special assessments | | | |
| Investment income | 266,010 | 99,139 | 31 |
| Miscellaneous | 182,196 | | 43 |
| Total revenues | <u>16,673,979</u> | <u>716,221</u> | <u>1,302,798</u> |
| Expenditures: | | | |
| Current - | | | |
| General government | 3,303,201 | | |
| Public safety | 6,320,030 | | |
| Highways and streets | | 2,606 | |
| Culture and recreation | 2,200,484 | | |
| Community development | 2,741,740 | | |
| Capital outlay | 689,241 | 2,018,824 | |
| Debt service - | | | |
| Principal retirement | | | 1,050,000 |
| Interest and fiscal charges | | | 343,844 |
| Total expenditures | <u>15,254,696</u> | <u>2,021,430</u> | <u>1,393,844</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,419,283</u> | <u>(1,305,209)</u> | <u>(91,046)</u> |
| Other financing sources (uses): | | | |
| Transfers in | 426 | | |
| Transfers out | (1,440,050) | | |
| Total other financing sources (uses) | <u>(1,439,624)</u> | | |
| Changes in fund balances | <u>(20,341)</u> | <u>(1,305,209)</u> | <u>(91,046)</u> |
| Fund balances, beginning of year | 6,600,149 | 3,563,434 | 96,370 |
| Fund balances, end of year | <u>\$ 6,579,808</u> | <u>\$ 2,258,225</u> | <u>\$ 5,324</u> |

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

| Municipal Property Corporation Debt Service | Capital Projects | Non-Major Governmental Funds | Total Governmental Funds |
|--|----------------------|------------------------------------|--------------------------------|
| \$ | \$ 1,752,724 | \$ 1,899,112 | \$ 12,457,086 |
| | 27,217 | 2,236,892 | 9,353,260 |
| | | 27,076 | 287,120 |
| | | 1,552 | 1,125,957 |
| | | 50,005 | 620,300 |
| | | | 296,434 |
| | | 4,337 | 4,337 |
| 51,078 | 287,324 | 77,353 | 780,935 |
| | | 1,724 | 183,963 |
| <u>51,078</u> | <u>2,067,265</u> | <u>4,298,051</u> | <u>25,109,392</u> |
| | | 245,094 | 3,548,295 |
| | | 1,639 | 6,321,669 |
| | | 2,211,951 | 2,214,557 |
| | | 56,523 | 2,257,007 |
| | | 10,000 | 2,751,740 |
| | 2,219,078 | 312,026 | 5,239,169 |
| 805,000 | | 298,228 | 2,153,228 |
| 498,878 | | 182,598 | 1,025,320 |
| <u>1,303,878</u> | <u>2,219,078</u> | <u>3,318,059</u> | <u>25,510,985</u> |
| (1,252,800) | (151,813) | 979,992 | (401,593) |
| 1,564,973 | 1,000,000 | 191,589 | 2,756,988 |
| | | (1,316,938) | (2,756,988) |
| <u>1,564,973</u> | <u>1,000,000</u> | <u>(1,125,349)</u> | |
| 312,173 | 848,187 | (145,357) | (401,593) |
| 1,262,089 | 9,916,670 | 1,770,213 | 23,208,925 |
| <u>\$ 1,574,262</u> | <u>\$ 10,764,857</u> | <u>\$ 1,624,856</u> | <u>\$ 22,807,332</u> |

**TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Net changes in fund balances - total governmental funds **\$ (401,593)**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.

| | | | |
|-------------------------------------|----|--------------------|---------|
| Expenditures for capitalized assets | \$ | 5,171,511 | |
| Less current year depreciation | | <u>(4,718,492)</u> | 453,019 |

| | |
|--|-----------|
| Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. | 2,163,149 |
|--|-----------|

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | | | |
|----------------------------------|--|------------------|------------------|
| Amortization of deferred charges | | (117,548) | |
| Compensated absences | | <u>(122,723)</u> | <u>(240,271)</u> |

Change in net assets in governmental activities **\$ 1,974,304**

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Fountain Hills, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Town's accounting policies are described below.

A. Reporting Entity

The Town is a municipal entity governed by an elected Mayor and council. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations and so data from these units are combined with data of the Town, the primary government.

The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The Town is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, component units combined with the Town for financial statement presentation purposes and the Town are not included in any other governmental reporting entity. Consequently, the Town's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable.

The Eagle Mountain Community Facilities Town and the Cottonwoods Improvement Town. As special purpose districts and separate political subdivisions under the Arizona Constitution, the districts can levy taxes and issue bonds independently of the Town. Property owners in the designated areas are assessed for Town taxes, and thus for the costs of operating the districts. The Town Council serves as the Board of Directors; however, the Town has no liability for the districts' debt. For financial reporting purposes, transactions of the Towns are combined together and included as if they were part of the Town's operations.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Town of Fountain Hills, Arizona Municipal Property Corporation. The Town of Fountain Hills, Arizona Municipal Property Corporation's (MPC) Board of Directors consists of three members which are appointed by the Fountain Hills Town Council. The MPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the Town in obtaining financing for various projects of the Town. The Town has a "moral obligation" for the repayment of the MPC's bonds. For financial reporting purposes, transactions of the MPC are combined together and included as if they were part of the Town's operations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) present financial information about the Town as a whole. The reported information includes all of the nonfiduciary activities of the Town. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by taxes and intergovernmental revenues. The Town does not have any business-type activities.

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service resources are provided during the current year for payment of long-term debt principal and interest due early in the following year (not to exceed one month) and therefore the expenditures and related liabilities have been recognized. Compensated absences are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses and permits, charges for services, special assessments and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise when resources are received by the Town before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

Delinquent property taxes have been recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue on the governmental fund financial statements.

The Town reports the following major governmental funds.

General Fund – This fund accounts for all financial resources of the Town, except those required to be accounted for in other funds.

Development Fees Fund – This fund accounts for development fees collected from developers restricted for projects approved by the Town Council.

General Obligation Debt Service Fund – This fund accounts for the Town's property tax revenues received to pay the debt service of the Town's general obligation bonds.

Municipal Property Corporation Debt Service Fund – This fund accounts for the revenues received to pay the debt service on MPC revenue bonds.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Capital Projects Fund – This fund accounts for the capital improvements to various projects of the Town.

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

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

D. Investments

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

E. Investment Income

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

F. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

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

Property taxes are levied by the Town and collected by the Maricopa County Treasurer. Property taxes are levied no later than the third Monday in August and are payable in two installments due October 1 of the current year and March 1 of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquency date.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Pursuant to A.R.S. a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise.

The State Constitution and State law specify a property tax levy limitation system. The system consists of two levies, a limited levy known as the primary property tax levy and an unlimited levy referred to as the secondary levy, which may only be used to retire bonded indebtedness.

The primary tax levy is limited to an increase of 2 percent over the previous year's maximum allowable primary levy, plus an increased dollar amount because of a net gain in property not taxed the previous year. Also, the primary property tax from all taxing jurisdictions for homeowners may not exceed 1 percent of the market value of their homes. If the combined primary property tax (for the Town, County, School Town, etc.) exceeds 1 percent of the market value of the homes, the school districts will reduce their rate until the homeowners' aggregate rate is equal to or less than the allowable 1 percent. The State will then subsidize the school districts for the reduced revenue. This 1 percent limitation applies to primary property taxes only and does not affect the secondary property tax levy.

There is also a control on the assessed value of property for primary tax purposes. The base year for the new tax system is fiscal year 1978-79. From this base year, two assessed values evolve. The primary assessed values are allowed to increase by no more than 10 percent a year. The dollar amount of the secondary property tax levy is "unlimited" and the actual full cash value of property is used in determining the tax rate.

G. Inventory

Inventories are stated at average cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. Inventories are recorded as expenses when consumed in the government-wide financial statements, and as expenditures when consumed on the fund financial statements.

H. Capital Assets

Capital assets, which include land, artwork, buildings, improvements other than buildings, vehicles, machinery, and equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of \$5,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Infrastructure | 15-50 |
| Buildings | 50 |
| Improvements other than buildings | 20 |
| Vehicles, machinery and equipment | 5-15 |

I. Compensated Absences

The Town's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. Sick leave and vacation benefits vest after 30 days at the employee's current rate of pay.

The current and long-term liabilities, including related benefits, for accumulated vacation and sick leave are reported on the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to pay for compensated absences.

J. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts of debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

K. Fund Equity

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

L. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund statements are reported as other financing sources/uses in governmental funds.

M. Estimates

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess Expenditures Over Budget – At June 30, 2008, the following individual major governmental funds had expenditures that exceeded the budget.

| | <u>Budget</u> | <u>Expenditures</u> | <u>Excess</u> |
|---|---------------|---------------------|---------------|
| Major Funds: | | | |
| General Obligation Debt Service | \$ 1,392,350 | \$ 1,393,844 | \$ 1,494 |
| Municipal Property Corporation Debt Service | 1,296,350 | 1,303,878 | 7,528 |

Cash was available to cover all of the overexpenditures listed above.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 – CASH AND INVESTMENTS

A.R.S. authorize the Town to invest public monies in the State Treasurer’s local government investment pools, obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the Town’s investments.

The State Treasurer’s pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. The fair value of each participant’s position in the State Treasurer investment pools approximates the value of the participant’s shares in the pool.

Custodial Credit Risk – Deposits. Custodial Credit risk is the risk that in the event of bank failure the Town’s deposits may not be returned to the Town. The Town does not have a deposit policy for custodial credit risk. At June 30, 2008, the carrying amount of the Town’s deposits was \$364,224 and the bank balance was \$419,445. At June 30, 2008, the Town’s deposits were entirely covered by Federal depository insurance.

At June 30, 2008, the Town’s investments consisted of the following.

| <u>Investment Type</u> | <u>Maturities</u> | <u>Fair Value</u> |
|-------------------------------------|-------------------|----------------------|
| Town of Fountain Hills bonds | 01/01/2009 | \$ 2,752 |
| State Treasurer’s investment pool 5 | 45 days average | <u>22,426,682</u> |
| Total | | <u>\$ 22,429,434</u> |

Interest Rate Risk. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Town has no investment policy that would further limit its investment choices. As of June 30, 2008, for investments in the State Treasurer’s investment pool 5, 77% of the securities were rated AAA, A+, or A1; all of the remaining securities were rated A- or better by Standard and Poor’s.

Custodial Credit Risk – Investments. The Town’s investment in the State Treasurer’s investment pool represents a proportionate interest in the pool’s portfolio; however the Town’s portion is not identified with specific investments and is not subject to custodial credit risk.

Concentration of Credit Risk. The Town places no limit on the amount the Town may invest in any one issuer.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 – CASH AND INVESTMENTS (Concl'd)

Cash and investments at June 30, 2008 consisted of the following:

| | |
|------------------------------------|----------------------|
| Carrying amount of Town's deposits | \$ 364,224 |
| State Treasurer's Investment Pool | 22,426,682 |
| Town of Fountain Hills bonds | 2,752 |
| Petty cash on hand | 1,451 |
| Cash with paying agent | 2,679,566 |
| Total cash and investments | <u>\$ 25,474,675</u> |

NOTE 4 – RECEIVABLES

Receivable balances, net of allowance for uncollectibles, have been disaggregated by type and presented separately in the financial statements with the exception of due from governmental entities. Due from governmental entities, net of allowance for uncollectibles, as of year end for the Town's individual major funds and non-major governmental funds in the aggregate, were as follows.

| | General Fund | Development Fees Fund | General Obligation Debt Service Fund | Municipal Property Corporation Debt Service Fund | Non-Major Governmental Funds |
|------------------------------------|-------------------|-----------------------------|--|--|------------------------------------|
| Due from governmental entities: | | | | | |
| Due from State government | \$ 956,617 | \$ 252,000 | \$ 32,656 | \$ 95,992 | \$ 274,329 |
| Net due from governmental entities | <u>\$ 956,617</u> | <u>\$ 252,000</u> | <u>\$ 32,656</u> | <u>\$ 95,992</u> | <u>\$ 274,329</u> |

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

| | Unavailable | Unearned |
|---|------------------|-------------------|
| Miscellaneous (General Fund) | \$ | \$ 22,000 |
| Miscellaneous (Development Fees Fund) | | 929,573 |
| Property taxes (General Obligation Debt Service Fund) | 5,888 | |
| Special assessments (Non-Major Governmental Funds) | 4,482 | |
| Total deferred revenue for governmental funds | <u>\$ 10,370</u> | <u>\$ 951,573</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5 – CAPITAL ASSETS

A summary of capital asset activity for the fiscal year ended June 30, 2008 follows.

| Governmental Activities | Beginning Balance | Increase | Decrease | Ending Balance |
|--|-----------------------|---------------------|---------------------|-----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 23,571,668 | \$ | \$ | \$ 23,571,668 |
| Artwork | 989,100 | 387,400 | | 1,376,500 |
| Construction in progress | 62,967 | 3,381,632 | 1,421,620 | 2,022,979 |
| Total capital assets, not being depreciated | <u>24,623,735</u> | <u>3,769,032</u> | <u>1,421,620</u> | <u>26,971,147</u> |
| Capital assets, being depreciated: | | | | |
| Infrastructure | 125,495,515 | 13,221 | | 125,508,736 |
| Buildings | 17,754,746 | 141,849 | | 17,896,595 |
| Improvements other than buildings | 10,169,670 | 1,636,199 | | 11,805,869 |
| Vehicles, machinery and equipment | 3,696,144 | 1,032,830 | 77,449 | 4,651,525 |
| Total capital assets being depreciated | <u>157,116,075</u> | <u>2,824,099</u> | <u>77,449</u> | <u>159,862,725</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (54,253,061) | (3,536,693) | | (57,789,754) |
| Buildings | (1,662,006) | (357,165) | | (2,019,171) |
| Improvements other than buildings | (3,503,490) | (584,066) | | (4,087,556) |
| Vehicles, machinery and equipment | (2,902,149) | (240,568) | (77,449) | (3,065,268) |
| Total accumulated depreciation | <u>(62,320,706)</u> | <u>(4,718,492)</u> | <u>(77,449)</u> | <u>(66,961,749)</u> |
| Total capital assets, being depreciated, net | <u>94,795,369</u> | <u>(1,894,393)</u> | | <u>92,900,976</u> |
| Governmental activities capital assets, net | <u>\$ 119,419,104</u> | <u>\$ 1,874,639</u> | <u>\$ 1,421,620</u> | <u>\$ 119,872,123</u> |

Depreciation expense was charged to functions/programs as follows:

| | |
|----------------------------|---------------------|
| Governmental activities: | |
| General government | \$ 231,125 |
| Public safety | 38,917 |
| Highways and streets | 3,693,219 |
| Culture and recreation | 755,231 |
| Total depreciation expense | <u>\$ 4,718,492</u> |

Construction Commitments – As of June 30, 2008, the Town was involved in several construction projects. The estimated cost to complete the construction projects is \$198,628.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6 – BONDS PAYABLE

Bonds payable at June 30, 2008, consisted of the following general obligation, municipal property corporation, special assessment, and community facilities district bonds. The bonds are both callable and noncallable with the interest payable semiannually. Property taxes from the General Obligation Bond Debt Service Fund and Eagle Mountain Debt Service Fund are used to pay general obligation and community facilities district bonds. State shared revenues from the HURF Fund are used to pay street and highway user bonds. Tax revenues from the General Fund and Excise Tax Fund are used to pay municipal facilities bonds. Special assessments imposed on certain parcels of land within the Cottonwoods Improvement District are used to pay the Special Assessment District bonds.

| Description | Original Amount Issued | Interest Rates | Maturity | Outstanding Principal June 30, 2008 | Due Within One Year |
|---|------------------------------|-------------------|-----------|---|------------------------|
| Governmental activities: | | | | | |
| General Obligation Bonds, Series 1999 | \$ 1,400,000 | 4.7-4.9% | 7/1/08-10 | \$ 300,000 | \$ 100,000 |
| General Obligation Bonds, Project of 1999, Series B (2000) | 3,700,000 | 5.25% | 7/1/08-09 | 550,000 | 275,000 |
| General Obligation Bonds, Project of 1997, Series 2001 | 6,000,000 | 4.125-4.4% | 7/1/08-11 | 1,150,000 | 275,000 |
| General Obligation Refunding Bonds, Series 2005 | 7,225,000 | 3.25-4.0% | 7/1/08-19 | 6,620,000 | 400,000 |
| Eagle Mountain Community Facilities District, General Obligation Refunding Bonds, Series 2005 | 4,555,000 | 3.5-4.125% | 7/1/08-21 | 4,255,000 | 185,000 |
| Street and Highway User Revenue Refunding Bonds, Series 1998 | 1,075,000 | 4.5-4.625% | 7/1/08-10 | 345,000 | 110,000 |
| Municipal Facilities Revenue Bonds, Series 2000 | 4,680,000 | 5.0-5.25% | 7/1/08-12 | 1,080,000 | 200,000 |
| Municipal Facilities Revenue Bonds, Series 2001 | 7,750,000 | 4.0-4.5% | 7/1/08-13 | 2,125,000 | 325,000 |
| Municipal Facilities Revenue Bonds, Series 2004 | 3,645,000 | 3.0-4.5% | 7/1/08-19 | 3,205,000 | 165,000 |
| Unamortized premium on Municipal Facilities Revenue Bonds, Series 2004 | 143,856 | 3.0-4.5% | 7/1/08-19 | 114,093 | 9,921 |
| Municipal Facilities Revenue Refunding Bonds, Series 2005 | 5,330,000 | 3.25-4.5% | 7/1/08-20 | 5,185,000 | 115,000 |
| Cottonwoods Improvement District Improvement Bond | 32,276 | 5.25% | 1/1/08-09 | 3,225 | 3,225 |
| Total | | | | <u>\$ 24,932,318</u> | <u>\$ 2,163,146</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6 – BONDS PAYABLE (Concl'd)

Annual debt service requirements to maturity on general obligation and other bonds at June 30, 2008, are summarized as follows.

| Year ending June 30: | Principal | Interest | Premium | Total |
|----------------------|----------------------|---------------------|------------------|----------------------|
| 2009 | \$ 2,153,225 | \$ 961,671 | \$ 9,921 | \$ 3,124,817 |
| 2010 | 2,240,000 | 872,022 | 9,921 | 3,121,943 |
| 2011 | 2,460,000 | 777,276 | 9,921 | 3,247,197 |
| 2012 | 2,115,000 | 686,367 | 9,921 | 2,811,288 |
| 2013 | 2,205,000 | 599,449 | 9,921 | 2,814,370 |
| 2014-18 | 9,650,000 | 1,694,173 | 49,605 | 11,393,778 |
| 2019-22 | 3,995,000 | 245,301 | 14,883 | 4,255,184 |
| Total | \$ 24,818,225 | \$ 5,836,259 | \$114,093 | \$ 30,768,577 |

In prior years, the Town defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. At June 30, 2008, \$11,958,000 of defeased bonds are still outstanding.

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008 was as follows.

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|-------------------|--------------------|----------------------|------------------------|
| Governmental activities: | | | | | |
| Compensated absences | \$ 189,047 | \$ 361,413 | \$ 238,690 | \$ 311,770 | \$ 35,000 |
| General obligation bonds payable | 22,489,014 | | 1,814,921 | 20,674,093 | 1,974,921 |
| Special assessment bonds payable | 6,453 | | 3,228 | 3,225 | 3,225 |
| Community facilities district bonds payable | 4,415,000 | | 160,000 | 4,255,000 | 185,000 |
| Governmental activities long-term liabilities | <u>\$ 27,099,514</u> | <u>\$ 361,413</u> | <u>\$2,216,839</u> | <u>\$ 25,244,088</u> | <u>\$ 2,198,146</u> |

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At June 30, 2008, interfund balances were as follows.

Due to/from other funds:

| Due to | Due from | |
|--------------------------------------|-------------------|-------------------|
| | General Fund | Total |
| General Obligation Debt Service Fund | \$ 37,860 | \$ 37,860 |
| Non-Major Governmental Funds | 104,057 | 104,057 |
| Total | \$ 141,917 | \$ 141,917 |

At June 30, 2008, several funds had negative cash balances. Negative cash was reduced by interfund borrowing with the General Fund. All interfund balances are expected to be paid within one year.

Interfund transfers:

| | Transfers in | | | | |
|------------------------------|---------------|--|-----------------------|------------------------------|--------------------|
| | General Fund | Municipal Property Corporation Debt Service Fund | Capital Projects Fund | Non-Major Governmental Funds | Total |
| General Fund | \$ | \$ 387,000 | \$ 1,000,000 | \$ 53,050 | \$1,440,050 |
| Non-Major Governmental Funds | 426 | 1,177,973 | | 138,539 | 1,316,938 |
| Total | \$ 426 | \$ 1,564,973 | \$ 1,000,000 | \$ 191,589 | \$2,756,988 |

Per local policy, residual General Fund revenues are transferred at year end to the Capital Projects Fund (\$1.0 million for fiscal year 2007-08). Transfers between other funds were made by the Town during the fiscal year to ensure that sufficient resources were available to cover expenditures in the applicable funds.

NOTE 9 – CONTINGENT LIABILITIES

Lawsuits – The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town’s legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 10 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$13,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year, and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Town was unable to obtain worker's compensation insurance at a cost considered to be economically justifiable. Therefore the Town joined the Arizona Municipal Workers' Compensation Pool (AMWCP). AMWCP is a public entity risk pool currently operating as a common worker's compensation insurance program for 67 member cities and towns. The Town is responsible for paying a premium, based on an experience rating formula, that allocates pool expenditures and liabilities among members.

NOTE 11 – RETIREMENT PLANS

Defined Contribution Pension Plan – All full-time employees of the Town participate in a defined contribution pension plan administered by the ICMA Retirement Corporation as a 401(a) plan. The payroll for the Town employees covered by this plan for the year ended June 30, 2008 was \$3,694,466. The Town's total payroll was \$4,152,103.

A defined contribution pension plan provides benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined, instead of specifying the amount of benefit the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investment of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. All non-peace officer full-time Town employees must participate in the pension plan from the date they are hired. Contributions made by an employee vest immediately and contributions made by the Town vest after three years of service.

An employee that leaves the employment of the Town is entitled to his or her contributions and the vested portion of the Town's contributions, plus interest earned. Each employee must contribute 11 percent of his or her gross earnings. The Town must contribute 11 percent of covered earnings. During fiscal year 2007-08, the Town's required and actual contributions amounted to \$406,227. The employees' contributions totaled \$542,958. Employees may also contribute to the ICMA Retirement Corporation 457 plan on a voluntary basis; there is no employee match for those contributions. During fiscal year 2007-08, employees contributed \$136,731 to that plan.

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

The ICMA Retirement Corporation held no securities of the Town or other related parties during the fiscal year 2007-08 or as of the close of the fiscal year.

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL
(Required Supplementary Information)**

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2008

| | Budgeted Amounts | | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---|
| | Original & Final | Actual | |
| Revenues: | | | |
| Taxes | \$ 7,234,185 | \$ 7,502,526 | \$ 268,341 |
| Intergovernmental | 7,209,290 | 6,831,804 | (377,486) |
| Fines and forfeitures | 209,705 | 260,044 | 50,339 |
| Licenses and permits | 1,435,835 | 1,124,405 | (311,430) |
| Charges for services | 323,571 | 210,560 | (113,011) |
| Rents and royalties | 294,775 | 296,434 | 1,659 |
| Investment income | 350,000 | 266,010 | (83,990) |
| Miscellaneous | 100,000 | 182,196 | 82,196 |
| Total revenues | 17,157,361 | 16,673,979 | (483,382) |
| Expenditures: | | | |
| General government | | | |
| Mayor and council | 212,146 | 200,081 | 12,065 |
| Magistrate court | 379,320 | 383,438 | (4,118) |
| General and administrative | 2,694,526 | 2,719,682 | (25,156) |
| Total general government | 3,285,992 | 3,303,201 | (17,209) |
| Public safety | | | |
| Building safety | 576,700 | 527,920 | 48,780 |
| Law enforcement | 2,790,900 | 2,829,736 | (38,836) |
| Fire department | 3,045,826 | 2,962,374 | 83,452 |
| Total public safety | 6,413,426 | 6,320,030 | 93,396 |
| Culture and recreation | | | |
| Parks and recreation | 2,134,746 | 1,566,326 | 568,420 |
| Civic center | 475,786 | 450,871 | 24,915 |
| Senior services | 223,848 | 183,287 | 40,561 |
| Total culture and recreation | 2,834,380 | 2,200,484 | 633,896 |
| Community development | | | |
| Public works | 2,462,462 | 2,021,587 | 440,875 |
| Planning and zoning | 863,739 | 720,153 | 143,586 |
| Total community development | 3,326,201 | 2,741,740 | 584,461 |
| Capital outlay | | | |
| Capital outlay | 910,463 | 689,241 | 221,222 |
| Total capital outlay | 910,463 | 689,241 | 221,222 |
| Total expenditures | 16,770,462 | 15,254,696 | 1,515,766 |
| Excess (deficiency) of revenues over expenditures | 386,899 | 1,419,283 | 1,032,384 |
| Other financing sources (uses): | | | |
| Transfers in | | 426 | 426 |
| Transfers out | (387,000) | (1,440,050) | (1,053,050) |
| Total other financing sources (uses) | (387,000) | (1,439,624) | (1,052,624) |
| Change in fund balances | (101) | (20,341) | (20,240) |
| Fund balances, July 1, 2007 | | 6,600,149 | 6,600,149 |
| Fund balances (deficits), June 30, 2008 | \$ (101) | \$ 6,579,808 | \$ 6,579,909 |

See accompanying notes to this schedule.

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - DEVELOPMENT FEES
YEAR ENDED JUNE 30, 2008**

| | Budgeted Amounts | | Variance with Final Budget Positive (Negative) |
|--|-----------------------|---------------------|---|
| | Original & Final | Actual | |
| Revenues: | | | |
| Intergovernmental | \$ 774,920 | \$ 257,347 | \$ (517,573) |
| Charges for services | 586,490 | 359,735 | (226,755) |
| Investment income | 15,285 | 99,139 | 83,854 |
| Total revenues | <u>1,376,695</u> | <u>716,221</u> | <u>(660,474)</u> |
| Expenditures: | | | |
| Current - | | | |
| Highways and streets | | 2,606 | (2,606) |
| Capital outlay | 2,412,514 | 2,018,824 | 393,690 |
| Total expenditures | <u>2,412,514</u> | <u>2,021,430</u> | <u>391,084</u> |
| Change in fund balances | <u>(1,035,819)</u> | <u>(1,305,209)</u> | <u>(269,390)</u> |
| Fund balances, July 1, 2007 | | 3,563,434 | 3,563,434 |
| Fund balances (deficits), June 30, 2008 | <u>\$ (1,035,819)</u> | <u>\$ 2,258,225</u> | <u>\$ 3,294,044</u> |

See accompanying notes to this schedule.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2008**

NOTE 1 - BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the Town is prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America.

**COMBINING AND INDIVIDUAL
FUND FINANCIAL STATEMENTS
AND SCHEDULES**

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**OTHER MAJOR GOVERNMENTAL FUNDS
SCHEDULES OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL**

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL OBLIGATION DEBT SERVICE
YEAR ENDED JUNE 30, 2008

| | Budgeted Amounts | | Variance with Final Budget Positive (Negative) |
|-------------------------------------|---------------------|------------------|---|
| | Original & Final | Actual | |
| Revenues: | | | |
| Taxes | \$ 1,400,000 | \$ 1,302,724 | \$ (97,276) |
| Investment income | 1,400 | 31 | (1,369) |
| Miscellaneous | | 43 | 43 |
| Total revenues | <u>1,401,400</u> | <u>1,302,798</u> | <u>(98,602)</u> |
| Expenditures: | | | |
| Debt service - | | | |
| Principal retirement | 1,050,000 | 1,050,000 | |
| Interest and fiscal charges | 342,350 | 343,844 | (1,494) |
| Total expenditures | <u>1,392,350</u> | <u>1,393,844</u> | <u>(1,494)</u> |
| Change in fund balances | <u>9,050</u> | <u>(91,046)</u> | <u>(100,096)</u> |
| Fund balances, July 1, 2007 | | 96,370 | 96,370 |
| Fund balances, June 30, 2008 | <u>\$ 9,050</u> | <u>\$ 5,324</u> | <u>\$ (3,726)</u> |

**TOWN OF FOUNTAIN HILLS, ARIZONA
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - MUNICIPAL PROPERTY CORPORATION DEBT SERVICE
 YEAR ENDED JUNE 30, 2008**

| | <u>Budgeted Amounts</u> | | Variance with Final Budget Positive (Negative) |
|--|-----------------------------|---------------------|---|
| | <u>Original & Final</u> | <u>Actual</u> | |
| Revenues: | | | |
| Investment income | \$ 40,000 | \$ 51,078 | \$ 11,078 |
| Total revenues | <u>40,000</u> | <u>51,078</u> | <u>11,078</u> |
| Expenditures: | | | |
| Debt service - | | | |
| Principal retirement | 805,000 | 805,000 | |
| Interest and fiscal charges | 491,350 | 498,878 | (7,528) |
| Total expenditures | <u>1,296,350</u> | <u>1,303,878</u> | <u>(7,528)</u> |
| Excess (deficiency) of revenues over expenditures | <u>(1,256,350)</u> | <u>(1,252,800)</u> | <u>3,550</u> |
| Other financing sources (uses): | | | |
| Transfers in | 1,329,843 | 1,564,973 | 235,130 |
| Total other financing sources (uses) | <u>1,329,843</u> | <u>1,564,973</u> | <u>235,130</u> |
| Change in fund balances | <u>73,493</u> | <u>312,173</u> | <u>238,680</u> |
| Fund balances, July 1, 2007 | | 1,262,089 | 1,262,089 |
| Fund balances, June 30, 2008 | <u>\$ 73,493</u> | <u>\$ 1,574,262</u> | <u>\$ 1,500,769</u> |

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CAPITAL PROJECTS
YEAR ENDED JUNE 30, 2008**

| | <u>Budgeted Amounts</u> | | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-----------------------------|----------------------|---|
| | <u>Original & Final</u> | <u>Actual</u> | <u>(Negative)</u> |
| Revenues: | | | |
| Taxes | \$ 907,434 | \$ 1,752,724 | \$ 845,290 |
| Intergovernmental | | 27,217 | 27,217 |
| Investment income | 250,000 | 287,324 | 37,324 |
| Total revenues | <u>1,157,434</u> | <u>2,067,265</u> | <u>909,831</u> |
| Expenditures: | | | |
| Capital outlay | 3,069,059 | 2,219,078 | 849,981 |
| Total expenditures | <u>3,069,059</u> | <u>2,219,078</u> | <u>849,981</u> |
| Excess (deficiency) of revenues over expenditures | <u>(1,911,625)</u> | <u>(151,813)</u> | <u>1,759,812</u> |
| Other financing sources (uses): | | | |
| Transfers in | | 1,000,000 | 1,000,000 |
| Total other financing sources (uses) | | <u>1,000,000</u> | <u>1,000,000</u> |
| Change in fund balances | <u>(1,911,625)</u> | <u>848,187</u> | <u>2,759,812</u> |
| Fund balances, July 1, 2007 | | 9,916,670 | 9,916,670 |
| Fund balances (deficits), June 30, 2008 | <u>\$ (1,911,625)</u> | <u>\$ 10,764,857</u> | <u>\$ 12,676,482</u> |

NON-MAJOR GOVERNMENTAL FUNDS

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING BALANCE SHEET - ALL NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
JUNE 30, 2008

| | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Total Non-Major Governmental Funds</u> |
|---|------------------------|---------------------|---|
| <u>ASSETS</u> | | | |
| Cash and investments | \$ 1,644,748 | \$ 391,527 | \$ 2,036,275 |
| Taxes receivable | | 480 | 480 |
| Special assessments receivable | | 4,710 | 4,710 |
| Accounts receivable | 6,146 | | 6,146 |
| Due from governmental entities | 266,831 | 7,498 | 274,329 |
| Total assets | <u>\$ 1,917,725</u> | <u>\$ 404,215</u> | <u>\$ 2,321,940</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ 201,163 | \$ | \$ 201,163 |
| Due to other funds | 95,992 | 8,065 | 104,057 |
| Accrued payroll and employee benefits | 1,868 | | 1,868 |
| Bond interest payable | | 90,514 | 90,514 |
| Deferred revenue | | 4,482 | 4,482 |
| Bonds payable | | 295,000 | 295,000 |
| Total liabilities | <u>299,023</u> | <u>398,061</u> | <u>697,084</u> |
| Fund balances: | | | |
| Unreserved: | | | |
| Undesignated | 1,618,702 | 6,154 | 1,624,856 |
| Total fund balances | <u>1,618,702</u> | <u>6,154</u> | <u>1,624,856</u> |
| Total liabilities and fund balances | <u>\$ 1,917,725</u> | <u>\$ 404,215</u> | <u>\$ 2,321,940</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
YEAR ENDED JUNE 30, 2008

| | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Total Non-Major Governmental Funds</u> |
|--|------------------------|---------------------|---|
| Revenues: | | | |
| Taxes | \$ 1,570,631 | \$ 328,481 | \$ 1,899,112 |
| Intergovernmental | 2,236,892 | | 2,236,892 |
| Fines and forfeitures | 27,076 | | 27,076 |
| Licenses and permits | 1,552 | | 1,552 |
| Charges for services | 50,005 | | 50,005 |
| Special assessments | | 4,337 | 4,337 |
| Investment income | 77,353 | | 77,353 |
| Miscellaneous | 1,724 | | 1,724 |
| Total revenues | <u>3,965,233</u> | <u>332,818</u> | <u>4,298,051</u> |
| Expenditures: | | | |
| Current - | | | |
| General government | 245,094 | | 245,094 |
| Public safety | 1,639 | | 1,639 |
| Highways and streets | 2,211,951 | | 2,211,951 |
| Culture and recreation | 56,523 | | 56,523 |
| Community development | 10,000 | | 10,000 |
| Capital outlay | 312,026 | | 312,026 |
| Debt service - | | | |
| Principal retirement | | 298,228 | 298,228 |
| Interest and fiscal charges | | 182,598 | 182,598 |
| Total expenditures | <u>2,837,233</u> | <u>480,826</u> | <u>3,318,059</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,128,000</u> | <u>(148,008)</u> | <u>979,992</u> |
| Other financing sources (uses): | | | |
| Transfers in | 65,642 | 125,947 | 191,589 |
| Transfers out | (1,316,938) | | (1,316,938) |
| Total other financing sources (uses) | <u>(1,251,296)</u> | <u>125,947</u> | <u>(1,125,349)</u> |
| Change in fund balances | <u>(123,296)</u> | <u>(22,061)</u> | <u>(145,357)</u> |
| Fund balances, beginning of year | 1,741,998 | 28,215 | 1,770,213 |
| Fund balances, end of year | <u>\$ 1,618,702</u> | <u>\$ 6,154</u> | <u>\$ 1,624,856</u> |

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NON-MAJOR SPECIAL REVENUE FUNDS

Special Revenue funds are used to account for proceeds of specific revenues sources that are legally restricted to expenditures for specific purposes (other than major capital projects). The funds are usually required by statute, ordinance, or federal grant regulation to finance specified activities of the Town. The Town maintains the following non-major Special Revenue funds.

HURF Fund - accounts for the Town's share of motor fuel tax revenues and lottery proceeds.

Local Court Enhancement Fund - accounts for activities of grants from the Arizona Supreme Court.

Grants Fund - accounts for the activities of various grants and contributions received by the Town.

Excise Tax Fund - accounts for the portion of Town sales tax reserved by the Town Council for special projects including Town beautification and economic development.

Public Art Fund - accounts for the one percent surcharge on commercial and multi-family development dedicated to purchasing art.

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2008

| | <u>HURF</u> | <u>Local Court Enhancement</u> | <u>Grants</u> | <u>Excise Tax</u> |
|---|-------------------|------------------------------------|------------------|---------------------|
| <u>ASSETS</u> | | | | |
| Cash and investments | \$ 458,557 | \$ 193,148 | \$ 36,674 | \$ 930,064 |
| Accounts receivable | 6,146 | | | |
| Due from governmental entities | 138,842 | | | 127,989 |
| Total assets | <u>\$ 603,545</u> | <u>\$ 193,148</u> | <u>\$ 36,674</u> | <u>\$ 1,058,053</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 164,233 | \$ | \$ 36,674 | \$ 256 |
| Due to other funds | | | | 95,992 |
| Accrued payroll and employee benefits | 777 | | | 1,091 |
| Total liabilities | <u>165,010</u> | | <u>36,674</u> | <u>97,339</u> |
| Fund balances: | | | | |
| Unreserved: | | | | |
| Undesignated | 438,535 | 193,148 | | 960,714 |
| Total fund balances | <u>438,535</u> | <u>193,148</u> | | <u>960,714</u> |
| Total liabilities and fund balances | <u>\$ 603,545</u> | <u>\$ 193,148</u> | <u>\$ 36,674</u> | <u>\$ 1,058,053</u> |

| Public Art | Totals |
|------------------|---------------------|
| \$ 26,305 | \$ 1,644,748 |
| | 6,146 |
| | 266,831 |
| <u>\$ 26,305</u> | <u>\$ 1,917,725</u> |

| | |
|----|----------------|
| \$ | \$ 201,163 |
| | 95,992 |
| | 1,868 |
| | <u>299,023</u> |

| | |
|------------------|---------------------|
| <u>26,305</u> | <u>1,618,702</u> |
| <u>26,305</u> | <u>1,618,702</u> |
| <u>\$ 26,305</u> | <u>\$ 1,917,725</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2008

| | HURF | Local Court Enhancement | Grants |
|--|------------|----------------------------|-----------|
| Revenues: | | | |
| Taxes | \$ | \$ | \$ |
| Intergovernmental | 1,801,365 | | 435,527 |
| Fines and forfeitures | | 27,076 | |
| Licenses and permits | 1,552 | | |
| Charges for services | 23,700 | | |
| Investment income | 39,006 | 3,552 | |
| Miscellaneous | 1,724 | | |
| Total revenues | 1,867,347 | 30,628 | 435,527 |
| Expenditures: | | | |
| Current - | | | |
| General government | | 2,274 | 174,574 |
| Public safety | | | 1,639 |
| Highways and streets | 2,129,389 | | 82,562 |
| Culture and recreation | | | 56,523 |
| Community development | | | 10,000 |
| Capital outlay | 58,136 | 21,875 | 232,015 |
| Total expenditures | 2,187,525 | 24,149 | 557,313 |
| Excess (deficiency) of revenues over expenditures | (320,178) | 6,479 | (121,786) |
| Other financing sources (uses): | | | |
| Transfers in | | | 65,642 |
| Transfers out | (138,539) | | (426) |
| Total other financing sources (uses) | (138,539) | | 65,216 |
| Change in fund balances | (458,717) | 6,479 | (56,570) |
| Fund balances, beginning of year | 897,252 | 186,669 | 56,570 |
| Fund balances, end of year | \$ 438,535 | \$ 193,148 | \$ |

| <u>Excise Tax</u> | <u>Public Art</u> | <u>Totals</u> |
|--------------------|-------------------|---------------------|
| \$ 1,570,631 | \$ | \$ 1,570,631 |
| | | 2,236,892 |
| | | 27,076 |
| | | 1,552 |
| | 26,305 | 50,005 |
| 34,795 | | 77,353 |
| | | 1,724 |
| <u>1,605,426</u> | <u>26,305</u> | <u>3,965,233</u> |
| 68,246 | | 245,094 |
| | | 1,639 |
| | | 2,211,951 |
| | | 56,523 |
| | | 10,000 |
| | | 312,026 |
| <u>68,246</u> | <u></u> | <u>2,837,233</u> |
| <u>1,537,180</u> | <u>26,305</u> | <u>1,128,000</u> |
| | | 65,642 |
| <u>(1,177,973)</u> | <u></u> | <u>(1,316,938)</u> |
| <u>(1,177,973)</u> | <u></u> | <u>(1,251,296)</u> |
| <u>359,207</u> | <u>26,305</u> | <u>(123,296)</u> |
| 601,507 | | 1,741,998 |
| <u>\$ 960,714</u> | <u>\$ 26,305</u> | <u>\$ 1,618,702</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2008

| | HURF | | Variance - Positive (Negative) |
|--|---------------------|-------------------|--------------------------------------|
| | Budget | Actual | |
| Revenues: | | | |
| Taxes | \$ | \$ | \$ |
| Intergovernmental | 1,851,633 | 1,801,365 | (50,268) |
| Fines and forfeitures | | | |
| Licenses and permits | | 1,552 | 1,552 |
| Charges for services | 8,000 | 23,700 | 15,700 |
| Investment income | 40,000 | 39,006 | (994) |
| Miscellaneous | 1,000 | 1,724 | 724 |
| Total revenues | <u>1,900,633</u> | <u>1,867,347</u> | <u>(33,286)</u> |
| Expenditures: | | | |
| Current - | | | |
| General government | | | |
| Public safety | | | |
| Highways and streets | 2,289,485 | 2,129,389 | 160,096 |
| Culture and recreation | | | |
| Community development | | | |
| Capital outlay | 74,000 | 58,136 | 15,864 |
| Total expenditures | <u>2,363,485</u> | <u>2,187,525</u> | <u>175,960</u> |
| Excess (deficiency) of revenues over expenditures | <u>(462,852)</u> | <u>(320,178)</u> | <u>142,674</u> |
| Other financing sources (uses): | | | |
| Transfers in | | | |
| Transfers out | (126,300) | (138,539) | (12,239) |
| Total other financing sources (uses) | <u>(126,300)</u> | <u>(138,539)</u> | <u>(12,239)</u> |
| Change in fund balances | <u>(589,152)</u> | <u>(458,717)</u> | <u>130,435</u> |
| Fund balances, July 1, 2007 | | 897,252 | 897,252 |
| Fund balances (deficits), June 30, 2008 | <u>\$ (589,152)</u> | <u>\$ 438,535</u> | <u>\$ 1,027,687</u> |

| Local Court Enhancement | | |
|-------------------------|-------------------|--------------------------------|
| Budget | Actual | Variance - Positive (Negative) |
| \$ | \$ | \$ |
| 23,300 | 27,076 | 3,776 |
| | 3,552 | 3,552 |
| <u>23,300</u> | <u>30,628</u> | <u>7,328</u> |
| | 2,274 | (2,274) |
| <u>28,000</u> | <u>21,875</u> | <u>6,125</u> |
| <u>28,000</u> | <u>24,149</u> | <u>3,851</u> |
| <u>(4,700)</u> | <u>6,479</u> | <u>11,179</u> |
| | | |
| | | |
| <u>(4,700)</u> | <u>6,479</u> | <u>11,179</u> |
| | 186,669 | 186,669 |
| <u>\$ (4,700)</u> | <u>\$ 193,148</u> | <u>\$ 197,848</u> |

| Grants | | |
|--------------------|------------------|--------------------------------|
| Budget | Actual | Variance - Positive (Negative) |
| \$ | \$ | \$ |
| 1,807,500 | 435,527 | (1,371,973) |
| | | |
| <u>1,807,500</u> | <u>435,527</u> | <u>(1,371,973)</u> |
| | 90,000 | 174,574 |
| | | 1,639 |
| | | 82,562 |
| | | 56,523 |
| | | 10,000 |
| <u>1,835,000</u> | <u>232,015</u> | <u>1,602,985</u> |
| <u>1,925,000</u> | <u>557,313</u> | <u>1,367,687</u> |
| <u>(117,500)</u> | <u>(121,786)</u> | <u>(4,286)</u> |
| | 42,500 | 65,642 |
| | | (426) |
| <u>42,500</u> | <u>65,216</u> | <u>22,716</u> |
| | | |
| <u>(75,000)</u> | <u>(56,570)</u> | <u>18,430</u> |
| | 56,570 | 56,570 |
| <u>\$ (75,000)</u> | <u>\$</u> | <u>\$ 75,000</u> |

(Continued)

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2008
(Concluded)

| | Excise Tax | | Variance - Positive (Negative) |
|--|-------------------|--------------------|--------------------------------------|
| | Budget | Actual | |
| Revenues: | | | |
| Taxes | \$ 1,297,124 | \$ 1,570,631 | \$ 273,507 |
| Intergovernmental | | | |
| Fines and forfeitures | | | |
| Licenses and permits | | | |
| Charges for services | | | |
| Investment income | | 34,795 | 34,795 |
| Miscellaneous | | | |
| Total revenues | <u>1,297,124</u> | <u>1,605,426</u> | <u>308,302</u> |
| Expenditures: | | | |
| Current - | | | |
| General government | 183,120 | 68,246 | 114,874 |
| Public safety | | | |
| Highways and streets | | | |
| Culture and recreation | | | |
| Community development | | | |
| Capital outlay | | | |
| Total expenditures | <u>183,120</u> | <u>68,246</u> | <u>114,874</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,114,004</u> | <u>1,537,180</u> | <u>423,176</u> |
| Other financing sources (uses): | | | |
| Transfers in | | | |
| Transfers out | (924,350) | (1,177,973) | (253,623) |
| Total other financing sources (uses) | <u>(924,350)</u> | <u>(1,177,973)</u> | <u>(253,623)</u> |
| Change in fund balances | <u>189,654</u> | <u>359,207</u> | <u>169,553</u> |
| Fund balances, July 1, 2007 | | 601,507 | 601,507 |
| Fund balances (deficits), June 30, 2008 | <u>\$ 189,654</u> | <u>\$ 960,714</u> | <u>\$ 771,060</u> |

*The Public Art Fund was included in the Town's budget, however, the budget was -0-.

| Public Art | | | Totals | | |
|------------|-----------|--------------------------------|--------------|--------------|--------------------------------|
| Budget* | Actual | Variance - Positive (Negative) | Budget | Actual | Variance - Positive (Negative) |
| \$ | \$ | \$ | \$ 1,297,124 | \$ 1,570,631 | \$ 273,507 |
| | | | 3,659,133 | 2,236,892 | (1,422,241) |
| | | | 23,300 | 27,076 | 3,776 |
| | | | | 1,552 | 1,552 |
| | 26,305 | 26,305 | 8,000 | 50,005 | 42,005 |
| | | | 40,000 | 77,353 | 37,353 |
| | | | 1,000 | 1,724 | 724 |
| | 26,305 | 26,305 | 5,028,557 | 3,965,233 | (1,063,324) |
| | | | 273,120 | 245,094 | 28,026 |
| | | | | 1,639 | (1,639) |
| | | | 2,289,485 | 2,211,951 | 77,534 |
| | | | | 56,523 | (56,523) |
| | | | | 10,000 | (10,000) |
| | | | 1,937,000 | 312,026 | 1,624,974 |
| | | | 4,499,605 | 2,837,233 | 1,662,372 |
| | 26,305 | 26,305 | 528,952 | 1,128,000 | 599,048 |
| | | | 42,500 | 65,642 | 23,142 |
| | | | (1,050,650) | (1,316,938) | (266,288) |
| | | | (1,008,150) | (1,251,296) | (243,146) |
| | 26,305 | 26,305 | (479,198) | (123,296) | 355,902 |
| | | | | 1,741,998 | 1,741,998 |
| \$ | \$ 26,305 | \$ 26,305 | \$ (479,198) | \$ 1,618,702 | \$ 2,097,900 |

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NON-MAJOR DEBT SERVICE FUNDS

HURF Debt Service Fund - accounts for operating transfers received from the HURF special revenue fund to pay the debt service of the Street and Highway User Revenue Bonds.

Eagle Mountain Debt Service Fund - accounts for the property tax revenues received to pay the debt service of the Eagle Mountain Community Facilities District component unit.

Cottonwoods Special Assessment Fund - accounts for all special assessments received to pay the debt service of the Cottonwoods Special Assessment District.

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TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2008

| | HURF Debt Service | Eagle Mountain Debt Service | Cottonwoods Special Assessment | Totals |
|---|--------------------------|--------------------------------|--------------------------------------|--------------------------|
| <u>ASSETS</u> | | | | |
| Cash and investments | \$ 117,896 | \$ 267,138 | \$ 6,493 | \$ 391,527 |
| Taxes receivable | | 480 | | 480 |
| Special assessments receivable | | | 4,710 | 4,710 |
| Due from governmental entities | | 7,498 | | 7,498 |
| Total assets | <u>\$ 117,896</u> | <u>\$ 275,116</u> | <u>\$ 11,203</u> | <u>\$ 404,215</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | |
| Liabilities: | | | | |
| Due to other funds | \$ | \$ 7,498 | \$ 567 | \$ 8,065 |
| Bond interest payable | 7,896 | 82,618 | | 90,514 |
| Deferred revenue | | | 4,482 | 4,482 |
| Bonds payable | 110,000 | 185,000 | | 295,000 |
| Total liabilities | <u>117,896</u> | <u>275,116</u> | <u>5,049</u> | <u>398,061</u> |
| Fund balances: | | | | |
| Unreserved: | | | | |
| Undesignated | | | 6,154 | 6,154 |
| Total fund balances | | | <u>6,154</u> | <u>6,154</u> |
| Total liabilities and fund balances | <u>\$ 117,896</u> | <u>\$ 275,116</u> | <u>\$ 11,203</u> | <u>\$ 404,215</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2008

| | HURF Debt Service | Eagle Mountain Debt Service | Cottonwoods Special Assessment |
|--|----------------------|--------------------------------|--------------------------------------|
| Revenues: | | | |
| Taxes | \$ | \$ 328,481 | \$ |
| Special assessments | | | 4,337 |
| Total revenues | | <u>328,481</u> | <u>4,337</u> |
| Expenditures: | | | |
| Debt service - | | | |
| Principal retirement | 110,000 | 185,000 | 3,228 |
| Interest and fiscal charges | 16,192 | 166,054 | 352 |
| Total expenditures | <u>126,192</u> | <u>351,054</u> | <u>3,580</u> |
| Excess (deficiency) of revenues over expenditures | <u>(126,192)</u> | <u>(22,573)</u> | <u>757</u> |
| Other financing sources (uses): | | | |
| Transfers in | 122,281 | 3,666 | |
| Total other financing sources (uses) | <u>122,281</u> | <u>3,666</u> | |
| Change in fund balances | <u>(3,911)</u> | <u>(18,907)</u> | <u>757</u> |
| Fund balances, beginning of year | 3,911 | 18,907 | 5,397 |
| Fund balances, end of year | <u>\$</u> | <u>\$</u> | <u>\$ 6,154</u> |

| | |
|---------------|------------------|
| <u>Totals</u> | |
| \$ | 328,481 |
| | <u>4,337</u> |
| | <u>332,818</u> |
| | 298,228 |
| | <u>182,598</u> |
| | <u>480,826</u> |
| | <u>(148,008)</u> |
| | <u>125,947</u> |
| | <u>125,947</u> |
| | <u>(22,061)</u> |
| | 28,215 |
| <u>\$</u> | <u>6,154</u> |

**TOWN OF FOUNTAIN HILLS, ARIZONA
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR DEBT SERVICE FUNDS
 YEAR ENDED JUNE 30, 2008**

| | HURF Debt Service | | Variance - Positive (Negative) |
|--|-------------------|-----------|--------------------------------------|
| | Budget | Actual | |
| Revenues: | | | |
| Taxes | \$ | \$ | \$ |
| Special assessments | | | |
| Total revenues | | | |
| Expenditures: | | | |
| Debt service - | | | |
| Principal retirement | 110,000 | 110,000 | |
| Interest and fiscal charges | 16,300 | 16,192 | 108 |
| Total expenditures | 126,300 | 126,192 | 108 |
| Excess (deficiency) of revenues over expenditures | (126,300) | (126,192) | 108 |
| Other financing sources (uses): | | | |
| Transfers in | 126,300 | 122,281 | (4,019) |
| Total other financing sources (uses) | 126,300 | 122,281 | (4,019) |
| Change in fund balances | | (3,911) | (3,911) |
| Fund balances, July 1, 2007 | | 3,911 | 3,911 |
| Fund balances, June 30, 2008 | \$ | \$ | \$ |

Eagle Mountain Debt Service

| Budget | Actual | Variance - Positive (Negative) |
|-----------------|------------|--------------------------------|
| \$ 360,000 | \$ 328,481 | \$ (31,519) |
| 360,000 | 328,481 | (31,519) |
| 185,000 | 185,000 | |
| 172,835 | 166,054 | 6,781 |
| 357,835 | 351,054 | 6,781 |
| 2,165 | (22,573) | (24,738) |
| | 3,666 | 3,666 |
| | 3,666 | 3,666 |
| 2,165 | (18,907) | (21,072) |
| | 18,907 | 18,907 |
| <u>\$ 2,165</u> | <u>\$</u> | <u>\$ (2,165)</u> |

Cottonwoods Special Assessment

| Budget | Actual | Variance - Positive (Negative) |
|-----------------|-----------------|--------------------------------|
| \$ 7,150 | \$ 4,337 | \$ (2,813) |
| 7,150 | 4,337 | (2,813) |
| 3,228 | 3,228 | |
| 352 | 352 | |
| 3,580 | 3,580 | |
| 3,570 | 757 | (2,813) |
| | | |
| | | |
| 3,570 | 757 | (2,813) |
| | 5,397 | 5,397 |
| <u>\$ 3,570</u> | <u>\$ 6,154</u> | <u>\$ 2,584</u> |

(Continued)

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2008
(Concluded)

| | Totals | | |
|--|------------------|------------------|--------------------------------------|
| | Budget | Actual | Variance - Positive (Negative) |
| Revenues: | | | |
| Taxes | \$ 360,000 | \$ 328,481 | \$ (31,519) |
| Special assessments | 7,150 | 4,337 | (2,813) |
| Total revenues | <u>367,150</u> | <u>332,818</u> | <u>(34,332)</u> |
| Expenditures: | | | |
| Debt service - | | | |
| Principal retirement | 298,228 | 298,228 | |
| Interest and fiscal charges | 189,487 | 182,598 | 6,889 |
| Total expenditures | <u>487,715</u> | <u>480,826</u> | <u>6,889</u> |
| Excess (deficiency) of revenues over expenditures | <u>(120,565)</u> | <u>(148,008)</u> | <u>(27,443)</u> |
| Other financing sources (uses): | | | |
| Transfers in | 126,300 | 125,947 | (353) |
| Total other financing sources (uses) | <u>126,300</u> | <u>125,947</u> | <u>(353)</u> |
| Change in fund balances | <u>5,735</u> | <u>(22,061)</u> | <u>(27,796)</u> |
| Fund balances, July 1, 2007 | | 28,215 | 28,215 |
| Fund balances, June 30, 2008 | <u>\$ 5,735</u> | <u>\$ 6,154</u> | <u>\$ 419</u> |

STATISTICAL SECTION

The statistical section presents financial statement trends as well as detailed financial and operational information not available elsewhere in the report. The statistical section is intended to enhance the reader's understanding of the information presented in the financial statements, notes to the financial statements, and other supplementary information presented in this report. The statistical section is comprised of the five categories of statistical information presented below.

Financial Trends

These schedules contain information on financial trends to help the reader understand how the Town's financial position and financial activities have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the Town's ability to generate revenue.

Debt Capacity

These schedules present information to help the reader evaluate the Town's current levels of outstanding debt as well as assess the Town's ability to make debt payments and/or issue additional debt in the future.

Demographic and Economic Information

These schedules present various demographic and economic indicators to help the reader understand the environment in which the Town's financial activities take place and to help make comparisons with other cities.

Operating Information

These schedules contain information about the Town's operations and various resources to help the reader draw conclusions as to how the Town's financial information relates to the services provided by the Town.

Due to cost considerations for the accumulation of data, the Town has elected to present less than ten years of data, or data from less than nine years prior, for certain statistical schedules. This information will be accumulated and reported each year until the complete ten years of data is presented.

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TOWN OF FOUNTAIN HILLS, ARIZONA
NET ASSETS BY COMPONENT
LAST SIX FISCAL YEARS
(Accrual basis of accounting)

| | Fiscal Year Ended June 30 | | | | |
|---|----------------------------------|-----------------------|----------------------|----------------------|----------------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Governmental activities: | | | | | |
| Invested in capital assets, net of related debt | \$ 94,939,805 | \$ 92,508,637 | \$ 20,806,507 | \$ 17,495,539 | \$ 11,261,256 |
| Restricted | 12,799,502 | 12,210,966 | 12,446,147 | 5,144,127 | 6,471,863 |
| Unrestricted | 13,230,726 | 14,276,126 | 9,053,611 | 10,821,304 | 7,976,113 |
| Total governmental activities net assets | <u>\$ 120,970,033</u> | <u>\$ 118,995,729</u> | <u>\$ 42,306,265</u> | <u>\$ 33,460,970</u> | <u>\$ 25,709,232</u> |
| | <u>2003</u> | | | | |
| Governmental activities: | | | | | |
| Invested in capital assets, net of related debt | \$ 11,843,575 | | | | |
| Restricted | 6,681,170 | | | | |
| Unrestricted | 2,638,149 | | | | |
| Total governmental activities net assets | <u>\$ 21,162,894</u> | | | | |

Source: The source of this information is the Town's financial records.

Note: The provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2002-03 therefore only six years are shown.

TOWN OF FOUNTAIN HILLS, ARIZONA
EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE
LAST SIX FISCAL YEARS
(Accrual basis of accounting)

| | Fiscal Year Ended June 30 | | | | | |
|------------------------------------|---------------------------|------------------------|------------------------|-----------------------|-----------------------|------------------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Expenses | | | | | | |
| Governmental activities: | | | | | | |
| General government | 3,921,588 | 4,292,515 | 3,875,014 | 3,766,500 | 3,686,452 | 3,479,333 |
| Public safety | 6,532,292 | 5,935,742 | 5,403,620 | 5,024,686 | 4,918,280 | 5,494,708 |
| Highways and streets | 5,981,347 | 5,225,835 | 1,581,068 | 1,281,061 | 1,419,509 | 1,310,683 |
| Culture and recreation | 3,092,661 | 3,282,160 | 2,576,406 | 2,362,661 | 2,068,613 | 2,363,897 |
| Community development | 2,861,653 | 2,512,170 | 1,812,469 | 1,460,181 | 1,144,964 | 1,235,985 |
| Interest on long-term debt | 1,132,947 | 1,163,370 | 1,297,119 | 1,162,796 | 1,499,575 | 1,576,842 |
| Total governmental activities | <u>23,522,488</u> | <u>22,411,792</u> | <u>16,545,696</u> | <u>15,057,885</u> | <u>14,737,393</u> | <u>15,461,448</u> |
| Total expenses | <u>\$ 23,522,488</u> | <u>\$ 22,411,792</u> | <u>\$ 16,545,696</u> | <u>\$ 15,057,885</u> | <u>\$ 14,737,393</u> | <u>\$ 15,461,448</u> |
| Program Revenues | | | | | | |
| Governmental activities: | | | | | | |
| Charges for services | | | | | | |
| General government | 830,963 | 910,978 | 4,029,437 | 4,431,154 | 3,388,923 | 2,738,898 |
| Public safety | 746,227 | 982,659 | | | | |
| Other activities | 752,621 | 626,431 | 103,826 | 59,550 | 32,209 | 43,487 |
| Operating grants and contributions | 56,802 | | 2,022,675 | 1,692,712 | 1,590,787 | 1,697,900 |
| Capital grants and contributions | 835,659 | 989,100 | | 237,307 | | |
| Total governmental activities | <u>3,222,272</u> | <u>3,509,168</u> | <u>6,155,938</u> | <u>6,420,723</u> | <u>5,011,919</u> | <u>4,480,285</u> |
| Total program revenues | <u>\$ 3,222,272</u> | <u>\$ 3,509,168</u> | <u>\$ 6,155,938</u> | <u>\$ 6,420,723</u> | <u>\$ 5,011,919</u> | <u>\$ 4,480,285</u> |
| Net (Expense)/Revenue | <u>\$ (20,300,216)</u> | <u>\$ (18,902,624)</u> | <u>\$ (10,389,758)</u> | <u>\$ (8,637,162)</u> | <u>\$ (9,725,474)</u> | <u>\$ (10,981,163)</u> |

Source: The source of this information is the Town's financial records.

Note: The provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2002-03 therefore only six years are shown.

TOWN OF FOUNTAIN HILLS, ARIZONA
GENERAL REVENUES AND TOTAL CHANGES IN NET ASSETS
LAST SIX FISCAL YEARS
(Accrual basis of accounting)

| | Fiscal Year Ended June 30 | | | | | |
|-------------------------------|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Net (Expense)/Revenue | \$ (20,300,216) | \$ (18,902,624) | \$ (10,389,758) | \$ (8,637,162) | \$ (9,725,474) | \$ (10,981,163) |
| General Revenues: | | | | | | |
| Governmental activities: | | | | | | |
| Taxes: | | | | | | |
| Sales taxes | 10,489,591 | 11,407,714 | 11,007,924 | 8,879,798 | 7,733,643 | 5,051,872 |
| Property taxes | 1,635,542 | 1,385,953 | 1,648,947 | 2,020,800 | 2,195,856 | 1,905,770 |
| Franchise taxes | 336,290 | 324,318 | 314,359 | 216,031 | 126,362 | 152,542 |
| State shared revenue | 8,848,199 | 8,444,731 | 5,389,551 | 4,756,481 | 4,489,844 | 4,740,758 |
| Investment income | 780,935 | 1,094,994 | 673,351 | 395,124 | 122,082 | 1,976,809 |
| Miscellaneous | 183,963 | 85,418 | 200,921 | 120,666 | 195,978 | 79,706 |
| Total governmental activities | <u>22,274,520</u> | <u>22,743,128</u> | <u>19,235,053</u> | <u>16,388,900</u> | <u>14,863,765</u> | <u>13,907,457</u> |
| Changes in Net Assets | <u>\$ 1,974,304</u> | <u>\$ 3,840,504</u> | <u>\$ 8,845,295</u> | <u>\$ 7,751,738</u> | <u>\$ 5,138,291</u> | <u>\$ 2,926,294</u> |

Source: The source of this information is the Town's financial records.

Note: The provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2002-03 therefore only six years are shown.

**TOWN OF FOUNTAIN HILLS, ARIZONA
FUND BALANCES - GOVERNMENTAL FUNDS
LAST 10 FISCAL YEARS
(Modified accrual basis of accounting)**

| | Fiscal Year Ended June 30 | | | | |
|------------------------------------|---------------------------|----------------------|----------------------|---------------------|---------------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| General Fund: | | | | | |
| Reserved | \$ 3,053,070 | \$ 2,934,144 | \$ 14,393 | \$ 40,664 | \$ 77,485 |
| Unreserved | 3,526,738 | 3,666,005 | 6,515,855 | 9,041,779 | 6,293,941 |
| Total General Fund | <u>\$ 6,579,808</u> | <u>\$ 6,600,149</u> | <u>\$ 6,530,248</u> | <u>\$ 9,082,443</u> | <u>\$ 6,371,426</u> |
| All Other Governmental Funds: | | | | | |
| Unreserved, reported in: | | | | | |
| Special revenue funds | 3,876,927 | 5,305,432 | 1,951,434 | 2,176,086 | 5,969,830 |
| Capital projects funds | 10,764,857 | 9,916,670 | 9,496,266 | 2,429,225 | |
| Debt service funds | 1,585,740 | 1,386,674 | 159,530 | 644,089 | 530,372 |
| Total all other governmental funds | <u>\$ 16,227,524</u> | <u>\$ 16,608,776</u> | <u>\$ 11,607,230</u> | <u>\$ 5,249,400</u> | <u>\$ 6,500,202</u> |
| | | | | | |
| | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| General Fund: | | | | | |
| Reserved | \$ | \$ | \$ | \$ | \$ |
| Unreserved | 4,037,863 | 4,812,370 | 4,710,061 | 6,314,461 | 6,331,622 |
| Total General Fund | <u>\$ 4,037,863</u> | <u>\$ 4,812,370</u> | <u>\$ 4,710,061</u> | <u>\$ 6,314,461</u> | <u>\$ 6,331,622</u> |
| All Other Governmental Funds: | | | | | |
| Reserved | | | | | |
| Unreserved, reported in: | | | | | |
| Special revenue funds | 3,411,738 | | 9,167 | 221,861 | 221,861 |
| Capital projects funds | | 414,432 | 1,571,117 | | |
| Debt service funds | 1,705,230 | 1,051,311 | 532,248 | 609,351 | 241,259 |
| Total all other governmental funds | <u>\$ 5,116,968</u> | <u>\$ 1,465,743</u> | <u>\$ 2,112,532</u> | <u>\$ 831,212</u> | <u>\$ 463,120</u> |

Source: The source of this information is the Town's financial records.

TOWN OF FOUNTAIN HILLS, ARIZONA
GOVERNMENTAL FUNDS REVENUES
LAST 10 FISCAL YEARS
(Modified accrual basis of accounting)

| | Fiscal Year Ended June 30 | | | | |
|--------------------------|----------------------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Taxes | \$ 12,457,086 | \$ 13,159,087 | \$ 12,993,876 | \$ 11,151,893 | \$ 9,997,706 |
| Intergovernmental | 9,353,260 | 8,444,731 | 7,412,226 | 6,686,500 | 6,080,631 |
| Fines and forfeitures | 287,120 | 304,214 | 235,050 | 249,564 | 361,339 |
| Licenses and Permits | 1,125,957 | 1,239,318 | 1,918,107 | 2,230,046 | 1,600,934 |
| Charges for services | 620,300 | 898,955 | 1,689,046 | 1,834,205 | 1,038,170 |
| Rents and royalties | 296,434 | 267,350 | 255,527 | 222,327 | 242,704 |
| Special assessments | 4,337 | 4,228 | 21,147 | 1,512 | 3,612 |
| Investment income (loss) | 780,935 | 1,094,994 | 673,351 | 395,124 | 122,082 |
| Miscellaneous | 183,963 | 85,418 | 233,565 | 179,657 | 261,561 |
| Total revenues | \$ 25,109,392 | \$ 25,498,295 | \$ 25,431,895 | \$ 22,950,828 | \$ 19,708,739 |
| | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| Taxes | \$ 7,114,486 | \$ 7,595,748 | \$ 6,088,047 | \$ 4,876,466 | \$ 3,861,337 |
| Intergovernmental | 6,311,458 | 5,895,676 | 5,281,156 | 4,771,792 | 4,929,062 |
| Fines and forfeitures | 195,091 | 265,605 | 310,359 | 293,970 | 259,484 |
| Licenses and Permits | 1,308,747 | 1,351,209 | 2,177,614 | 2,569,472 | 2,472,215 |
| Charges for services | 810,412 | 1,067,814 | 431,316 | 454,366 | 624,744 |
| Rents and royalties | 188,745 | 107,613 | 35,781 | 27,208 | 18,140 |
| Special assessments | 4,302 | 4,520 | 7,958 | 9,241 | 14,524 |
| Investment income (loss) | 1,976,809 | 726,441 | (1,063,339) | 743,259 | 620,639 |
| Miscellaneous | 275,343 | 1,783,851 | 11,357 | 31,653 | 25,657 |
| Total revenues | \$ 18,185,393 | \$ 18,798,477 | \$ 13,280,249 | \$ 13,777,427 | \$ 12,825,802 |

Source: The source of this information is the Town's financial records.

TOWN OF FOUNTAIN HILLS, ARIZONA
GOVERNMENTAL FUNDS EXPENDITURES AND DEBT SERVICE RATIO
LAST 10 FISCAL YEARS
(Modified accrual basis of accounting)

| | Fiscal Year Ended June 30 | | | | |
|---|---------------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Expenditures: | | | | | |
| Current - | | | | | |
| General government | \$ 3,548,295 | \$ 4,024,551 | \$ 4,459,183 | \$ 9,547,409 | \$ 3,614,458 |
| Public safety | 6,321,669 | 5,689,020 | 5,208,770 | 4,754,523 | 4,616,161 |
| Highways and streets | 2,214,557 | 2,028,397 | 2,121,986 | 1,682,563 | 1,402,502 |
| Culture and recreation | 2,257,007 | 2,131,374 | 3,607,750 | 3,004,216 | 1,597,150 |
| Community development | 2,751,740 | 2,462,643 | 1,812,469 | 1,460,181 | 1,144,964 |
| Capital outlay | 5,239,169 | 2,002,887 | | | 101,951 |
| Debt service - | | | | | |
| Principal retirement | 2,153,228 | 1,968,228 | 1,968,228 | 1,308,228 | 1,423,228 |
| Interest on long-term debt | 1,025,320 | 1,058,665 | 1,192,414 | 1,164,561 | 1,499,575 |
| Issuance costs | | | 232,762 | 229,990 | |
| Advance refunding escrow | | | 300,000 | | |
| Total expenditures | <u>\$ 25,510,985</u> | <u>\$ 21,365,765</u> | <u>\$ 20,903,562</u> | <u>\$ 23,151,671</u> | <u>\$ 15,399,989</u> |
| Expenditures for capitalized assets | \$ 5,171,511 | \$ 2,684,134 | \$ 3,122,912 | \$ 7,450,885 | \$ 391,949 |
| Debt service as a percentage of noncapital expenditures | 16% | 16% | 21% | 17% | 19% |

(Continued)

TOWN OF FOUNTAIN HILLS, ARIZONA
GOVERNMENTAL FUNDS EXPENDITURES AND DEBT SERVICE RATIO
LAST 10 FISCAL YEARS
(Modified accrual basis of accounting)

| | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Expenditures: | | | | | |
| Current - | | | | | |
| General government | \$ 3,318,574 | \$ 3,859,633 | \$ 3,646,500 | \$ 2,528,953 | \$ 2,631,245 |
| Public safety | 5,174,492 | 5,084,532 | 3,354,037 | 3,059,020 | 2,205,600 |
| Highways and streets | 1,198,080 | 1,877,790 | 2,212,432 | 2,468,498 | 1,984,879 |
| Culture and recreation | 1,815,416 | 3,069,695 | 3,866,245 | 3,359,509 | 2,334,901 |
| Community development | 1,215,387 | 1,064,913 | 1,175,649 | 1,276,951 | 955,451 |
| Capital outlay | 79,427 | 14,770,507 | 5,261,585 | 1,787,469 | 557,374 |
| Debt service - | | | | | |
| Principal retirement | 1,393,228 | 1,229,215 | 620,408 | 339,013 | 223,024 |
| Interest on long-term debt | 1,576,842 | 1,673,901 | 1,231,194 | 585,001 | 572,064 |
| Issuance costs | | | | | |
| Advance refunding escrow | | | | | |
| Total expenditures | <u>\$ 15,771,446</u> | <u>\$ 32,630,186</u> | <u>\$ 21,368,050</u> | <u>\$ 15,404,414</u> | <u>\$ 11,464,538</u> |
| Expenditures for capitalized assets | \$ 31,857 | N/A | N/A | N/A | N/A |
| Debt service as a percentage of noncapital expenditures | 19% | 16% | 12% | 7% | 7% |

Source: The source of this information is the Town's financial records.

(Concluded)

TOWN OF FOUNTAIN HILLS, ARIZONA
OTHER FINANCING SOURCES AND USES AND NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST 10 FISCAL YEARS
(Modified accrual basis of accounting)

| | Fiscal Year Ended June 30 | | | | |
|--|---------------------------|---------------------|-----------------------|---------------------|---------------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Excess (deficiency) of revenues over expenditures | \$ (401,593) | \$ 4,132,530 | \$ 4,528,333 | \$ (200,843) | \$ 4,308,750 |
| Other financing sources (uses): | | | | | |
| Transfers in | 2,756,988 | 4,383,069 | 10,146,663 | 4,805,635 | 1,630,907 |
| Transfers out | (2,756,988) | (4,383,069) | (10,146,663) | (4,805,635) | (1,630,907) |
| Issuance of refunding debt | | | 4,555,000 | 12,555,000 | |
| Issuance of long-term debt | | | | 3,783,896 | |
| Payment to refund escrow agent | | | (4,338,781) | (14,677,838) | |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>216,219</u> | <u>1,661,058</u> | <u>-</u> |
| Changes in fund balances | <u>\$ (401,593)</u> | <u>\$ 4,132,530</u> | <u>\$ 4,744,552</u> | <u>\$ 1,460,215</u> | <u>\$ 4,308,750</u> |
| | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| Excess (deficiency) of revenues over expenditures | \$ 2,413,947 | \$ (13,831,709) | \$ (8,087,801) | \$ (1,626,987) | \$ 1,361,264 |
| Other financing sources (uses): | | | | | |
| Transfers in | 5,981,544 | 1,585,674 | 1,833,192 | 1,386,793 | 1,170,732 |
| Transfers out | (5,981,544) | (1,585,674) | (1,833,192) | (1,386,793) | (1,170,732) |
| Issuance of long-term debt | | 13,750,000 | 4,641,980 | 5,100,000 | 1,102,629 |
| Payment to refund escrow agent | | | | | (1,010,489) |
| Total other financing sources (uses) | <u>-</u> | <u>13,750,000</u> | <u>4,641,980</u> | <u>5,100,000</u> | <u>92,140</u> |
| Changes in fund balances | <u>\$ 2,413,947</u> | <u>\$ (81,709)</u> | <u>\$ (3,445,821)</u> | <u>\$ 3,473,013</u> | <u>\$ 1,453,404</u> |

Source: The source of this information is the Town's financial records.

TOWN OF FOUNTAIN HILLS, ARIZONA
TAXABLE SALES BY CATEGORY
LAST 10 FISCAL YEARS
(Modified accrual basis of accounting)

| | Fiscal Year Ended June 30 | | | | |
|------------------------------|----------------------------------|----------------------|----------------------|---------------------|---------------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Construction | \$ 2,062,028 | \$ 2,694,700 | \$ 3,362,079 | \$ 1,837,317 | \$ 1,482,981 |
| Transportation and utilities | 1,422,158 | 1,330,052 | 1,240,120 | 1,124,677 | 916,498 |
| Wholesale/Retail | 3,912,512 | 4,144,263 | 3,796,192 | 3,536,045 | 3,212,062 |
| Restaurants and Bars | 582,226 | 537,596 | 547,276 | 524,368 | 419,107 |
| Real Estate | 982,198 | 792,358 | 626,364 | 604,356 | 341,951 |
| Services | 327,411 | 280,290 | 263,239 | 185,868 | 423,433 |
| Miscellaneous | 1,182,349 | 1,296,171 | 1,030,966 | 933,366 | 706,816 |
| Total | <u>\$ 10,470,882</u> | <u>\$ 11,075,430</u> | <u>\$ 10,866,236</u> | <u>\$ 8,745,997</u> | <u>\$ 7,502,848</u> |

| | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Construction | \$ 1,203,706 | \$ 1,325,749 | \$ 1,915,206 | \$ 1,852,068 | \$ 1,526,063 |
| Transportation and utilities | 590,446 | 523,237 | 453,217 | 350,634 | 303,507 |
| Wholesale/Retail | 1,930,175 | 1,477,424 | 1,405,560 | 1,087,819 | 793,367 |
| Restaurants and Bars | 276,664 | 219,921 | 187,000 | 148,668 | 128,330 |
| Real Estate | 205,849 | 192,339 | 245,064 | 99,155 | 133,666 |
| Services | 455,324 | 370,806 | 398,157 | 357,253 | 322,428 |
| Miscellaneous | 188,654 | 157,818 | 195,313 | 136,814 | 102,153 |
| Total | <u>\$ 4,850,818</u> | <u>\$ 4,267,294</u> | <u>\$ 4,799,517</u> | <u>\$ 4,032,411</u> | <u>\$ 3,309,514</u> |

Source: The source of this information is the Town's financial records.

**TOWN OF FOUNTAIN HILLS, ARIZONA
DIRECT AND OVERLAPPING SALES TAX RATES
LAST 10 FISCAL YEARS**

| Fiscal Year Ended June 30 | <u>Overlapping Rates</u> | | |
|------------------------------------|------------------------------|--------------------|------------------|
| | Town of Fountain Hills | Maricopa County | Arizona State |
| 2008 | 2.60 | 0.70 | 5.60 |
| 2007 | 2.60 | 0.70 | 5.60 |
| 2006 | 2.60 | 0.70 | 5.60 |
| 2005 | 2.60 | 0.70 | 5.60 |
| 2004 | 2.60 | 0.70 | 5.60 |
| 2003 | 1.60 | 0.70 | 5.60 |
| 2002 | 1.60 | 0.70 | 5.60 |
| 2001 | 1.60 | 0.70 | 5.60 |
| 2000 | 1.20 | 0.70 | 5.00 |
| 1999 | 1.20 | 0.70 | 5.00 |

Source: The source of this information is the Arizona Department of Revenue.

**TOWN OF FOUNTAIN HILLS, ARIZONA
OUTSTANDING DEBT BY TYPE
LAST 10 FISCAL YEARS**

| Fiscal Year Ended June 30 | Governmental Activities | | Total Outstanding Debt | | |
|------------------------------------|--|---|------------------------|--|---------------|
| | General Obligation and Other Bonds | Less: Amounts Restricted for Principal | Total | Percentage of Estimated Actual Value | Per Capita |
| 2008 | \$ 24,932,318 | \$ 2,163,146 | \$22,769,172 | 0.39 % | \$ 892 |
| 2007 | 26,910,467 | 1,978,149 | 24,932,318 | 0.43 | 1,018 |
| 2006 | 22,365,000 | 1,968,228 | 20,396,772 | 0.60 | 833 |
| 2005 | 24,190,000 | 1,308,228 | 22,881,772 | 0.72 | 986 |
| 2004 | 25,335,000 | 1,423,228 | 23,911,772 | 0.81 | 1,061 |
| 2003 | 24,015,000 | 1,393,228 | 22,621,772 | 0.94 | 1,017 |
| 2002 | 25,265,000 | 1,229,215 | 24,035,785 | 1.12 | 1,095 |
| 2001 | 26,465,000 | 620,408 | 25,844,592 | 1.37 | 1,209 |
| 2000 | 13,160,000 | 339,013 | 12,820,987 | 0.81 | 634 |
| 1999 | 8,775,000 | 223,024 | 8,551,976 | 0.65 | 460 |

Source: The source of this information is the Town's financial records.

TOWN OF FOUNTAIN HILLS, ARIZONA
 DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
 JUNE 30, 2008

| <u>Governmental Unit</u> | <u>Debt Outstanding</u> | <u>Estimated Percentage Applicable</u> | <u>Estimated Amount Overlapping Debt</u> |
|--|-----------------------------|--|--|
| Maricopa County | \$ 185,960,043 | 0.001 % | \$ 1,860 |
| Maricopa County Community College District | 609,320,000 | 0.001 % | 6,093 |
| Fountain Hills Unified School District | 16,085,000 | 97.03 % | 15,607,276 |
| Eagle Mountain Community Facilities District | 4,255,000 | 100.00 % | 4,255,000 |
| Subtotal, Overlapping Debt | | | <u>19,870,229</u> |
| Direct: | | | |
| Town of Fountain Hills, Arizona | | | <u>18,514,172</u> |
| Total Direct and Overlapping Debt | | | <u>\$ 38,384,401</u> |

Source: The source of this information is the Town's records and the State and County Abstract of the Assessment Arizona Department of Revenue and the applicable governmental unit.

**TOWN OF FOUNTAIN HILLS, ARIZONA
LEGAL DEBT MARGIN INFORMATION
LAST 10 FISCAL YEARS**

Legal Debt Margin Calculation for Fiscal Year 2008:

| | |
|---|------------------------------|
| Secondary assessed valuation | \$ 684,742,347 |
| Debt limit (20% and 6% of assessed value) | 178,033,010 |
| Debt applicable to limit | <u>8,620,000</u> |
| Legal debt margin | <u><u>\$ 169,413,010</u></u> |

| | Fiscal Year Ended June 30 | | | | |
|---|----------------------------------|------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Debt limit equal to 26% of assessed valuation | \$ 178,033,010 | \$ 158,791,912 | \$ 97,547,627 | \$ 90,843,567 | \$ 84,080,160 |
| Total net debt applicable to limit | <u>8,620,000</u> | <u>9,600,000</u> | <u>9,600,000</u> | <u>10,225,000</u> | <u>11,740,000</u> |
| Legal debt margin | <u><u>\$ 169,413,010</u></u> | <u><u>\$ 149,191,912</u></u> | <u><u>\$ 87,947,627</u></u> | <u><u>\$ 80,618,567</u></u> | <u><u>\$ 72,340,160</u></u> |
| Total net debt applicable to the limit as a percentage of debt limit | 5% | 6% | 10% | 11% | 14% |
| | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| Debt limit | \$ 70,356,745 | \$ 62,065,780 | \$ 55,228,024 | \$ 45,437,792 | \$ 38,205,370 |
| Total net debt applicable to limit | <u>12,585,000</u> | <u>6,005,000</u> | <u>6,155,000</u> | <u>6,330,000</u> | <u>2,780,000</u> |
| Legal debt margin | <u><u>\$ 57,771,745</u></u> | <u><u>\$ 56,060,780</u></u> | <u><u>\$ 49,073,024</u></u> | <u><u>\$ 39,107,792</u></u> | <u><u>\$ 35,425,370</u></u> |
| Total net debt applicable to the limit as a percentage of debt limit | 18% | 10% | 11% | 14% | 7% |

Source: The source of this information is the Town's financial records.

**TOWN OF FOUNTAIN HILLS, ARIZONA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST 10 CALENDAR YEARS**

| <u>Year</u> | <u>Population</u> | <u>Personal Income</u> | <u>Per Capita Income</u> | <u>Unemployment Rate</u> |
|-------------|-------------------|----------------------------|------------------------------|------------------------------|
| 2007 | 25,540 | N/A | N/A | 1.6 % |
| 2006 | 24,492 | \$ 132,423,154 | \$ 35,046 | 1.8 |
| 2005 | 23,217 | 125,718,070 | 32,414 | 2.0 |
| 2004 | 22,541 | 115,604,165 | 31,133 | 2.1 |
| 2003 | 22,243 | 106,385,325 | 26,609 | 2.6 |
| 2002 | 21,954 | 100,805,099 | 28,900 | 2.7 |
| 2001 | 21,383 | 97,138,599 | 28,717 | 2.0 |
| 2000 | 20,235 | 92,975,771 | 28,363 | 1.6 |
| 1999 | 18,595 | 83,860,233 | 26,385 | 1.6 |

Sources: The source of the "Personal Income" and "Per Capita" information is the Bureau of Economic Analysis. The source of the "Population" and "Unemployment Rate" information is State of Arizona, Department of Economic Security.

Note: N/A indicates that the information is not available.

**TOWN OF FOUNTAIN HILLS, ARIZONA
PRINCIPAL EMPLOYERS
CURRENT FISCAL YEAR AND SEVEN YEARS AGO**

| <u>Employer</u> | <u>2008</u> | | <u>2002*</u> | |
|---|------------------|---|------------------|---|
| | <u>Employees</u> | <u>Percentage of Total Employment</u> | <u>Employees</u> | <u>Percentage of Total Employment</u> |
| Fountain Hills Unified School District No. 98 | 285 | 22.2 % | 250 | 27.0 % |
| Monk Construction | 190 | 14.8 | 150 | 16.2 |
| Target | 130 | 10.1 | - | - |
| MCO Properties, Inc. | 125 | 9.8 | 85 | 9.2 |
| Safeway Food Stores | 110 | 8.6 | 95 | 10.3 |
| Town of Fountain Hills | 87 | 6.8 | 115 | 12.4 |
| Fry's | 80 | 6.2 | - | - |
| Basha's | 70 | 5.5 | 70 | 7.6 |
| Sun Ridge Canyon Golf Course | 70 | 5.5 | 70 | 7.6 |
| Eagle Mountain Golf Course | 70 | 5.5 | 40 | 4.3 |
| Golf International | 65 | 5.1 | 50 | 5.4 |
| Total | <u>1,282</u> | <u>100.00 %</u> | <u>925</u> | <u>100.00 %</u> |
| Total employment | <u>1,282</u> | | <u>925</u> | |

Source: The source of this information is the Town's records.

* Information prior to 2002 is not available.

TOWN OF FOUNTAIN HILLS, ARIZONA
FULL-TIME-EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST SEVEN FISCAL YEARS*

| | Full-time Equivalent Employees as of June 30 | | | | |
|------------------------------|--|------------------|------------------|------------------|------------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| General Government | | | | | |
| Municipal Court | 5 | 5 | 6 | 5 | 5 |
| City Administration | 13 | 12 | 13 | 11 | 10 |
| Planning & Zoning | 10 | 10 | 10 | 8 | 9 |
| Total general government | <u>28</u> | <u>27</u> | <u>29</u> | <u>24</u> | <u>24</u> |
| Public Safety | | | | | |
| Building Safety | 8 | 8 | 9 | 9 | 7 |
| Law Enforcement | | | | | 1 |
| Total public safety | <u>8</u> | <u>8</u> | <u>9</u> | <u>9</u> | <u>8</u> |
| Public Works | | | | | |
| Engineering | 12 | 12 | 12 | 12 | 11 |
| Streets | 10 | 10 | 11 | 11 | 13 |
| Total public works | <u>22</u> | <u>22</u> | <u>23</u> | <u>23</u> | <u>24</u> |
| Parks and Recreation | 20 | 20 | 17 | 15 | 13 |
| Community Development | 11 | 11 | 7 | 7 | 7 |
| | <u>31</u> | <u>31</u> | <u>24</u> | <u>22</u> | <u>20</u> |
| Total | <u><u>89</u></u> | <u><u>88</u></u> | <u><u>85</u></u> | <u><u>78</u></u> | <u><u>76</u></u> |

(Continued)

**TOWN OF FOUNTAIN HILLS, ARIZONA
 FULL-TIME-EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
 LAST SEVEN FISCAL YEARS***

| | <u>2003</u> | <u>2002</u> |
|----------------------------------|-------------------|-------------------|
| General Government | | |
| Municipal Court | 6 | 6 |
| City Administration | 15 | 18 |
| Planning & Zoning | 8 | 6 |
| Total general government | <u>29</u> | <u>30</u> |
| Public Safety | | |
| Building Safety | 8 | 9 |
| Law Enforcement | 20 | 26 |
| Total public safety | <u>28</u> | <u>35</u> |
| Public Works | | |
| Engineering | 13 | 13 |
| Streets | 14 | 15 |
| Total public works | <u>27</u> | <u>28</u> |
| Parks and Recreation | 16 | 18 |
| Community Development | 7 | 5 |
| Total support and administration | <u>23</u> | <u>23</u> |
| Total | <u><u>107</u></u> | <u><u>116</u></u> |

Source: The source of this information is the Town's Annual Budget.

* Information prior to 2002 is not available.

(Concluded)

**TOWN OF FOUNTAIN HILLS, ARIZONA
OPERATING INDICATORS BY FUNCTION
LAST 10 FISCAL YEARS**

| <u>Function</u> | <u>Fiscal Year Ended June 30</u> | | | | | | | | | |
|--------------------------------|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| General government | | | | | | | | | | |
| Building permits issued | 716 | 759 | 468 | 430 | 228 | 168 | 260 | 351 | 584 | 929 |
| Building inspections conducted | 5,692 | 7,975 | 9,377 | 8,446 | 6,985 | 6,389 | 8,491 | N/A | N/A | N/A |
| Police (contracted) | | | | | | | | | | |
| Physical arrests | 524 | 993 | N/A | 644 | 601 | 601 | 503 | 981 | 890 | 895 |
| Traffic violations | 2,504 | 2,315 | N/A | 2,432 | 3,186 | 3,186 | 3,186 | 4,767 | 7,907 | 5,641 |
| Fire (contracted) | | | | | | | | | | |
| Inspections | N/A | 2,570 | 1,815 | N/A |
| Public works | | | | | | | | | | |
| Potholes repaired | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Parks and Recreation | | | | | | | | | | |
| Park acreage | 121 | 121 | 121 | 121 | 121 | 121 | 121 | 121 | 121 | 121 |
| Community centers | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |

Source: The source of this information is the Town's records.

Note: N/A indicates that the information is not available.

**TOWN OF FOUNTAIN HILLS, ARIZONA
CAPITAL ASSETS STATISTICS BY FUNCTION
LAST 10 FISCAL YEARS**

| <u>Function</u> | <u>Fiscal Year Ended June 30</u> | | | | | | | | | |
|-----------------------------|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| Public Safety | | | | | | | | | | |
| Fire stations | 3 | 3 | 3 | 3 | 3 | 3 | 3 | N/A | N/A | N/A |
| Other public works | | | | | | | | | | |
| Streets (miles) | 179 | 179 | 179 | 179 | 179 | 179 | 179 | 179 | 179 | 179 |
| Streetlights | 34 | 34 | 34 | N/A |
| Traffic signals | 12 | 12 | 12 | 11 | 11 | 10 | 10 | 10 | 6 | 6 |
| Parks and Recreation | | | | | | | | | | |
| Acreage | 121 | 121 | 121 | 121 | 121 | 121 | 121 | 121 | 121 | 121 |
| Playgrounds | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 2 | 2 | 2 |
| Baseball/softball diamonds | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Soccer/football fields | 3 | 3 | 3 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Community centers | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |

Source: The source of this information is the Town's facilities records.

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