



Fiscal Year 2011-2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Town of Fountain Hills, Arizona

16705 E. Avenue of the Fountains
Fountain Hills, Arizona 85268

Phone: 480-816-5100

Fax: 480-837-3145

Website: www.fh.az.gov

**TOWN OF FOUNTAIN HILLS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Issued By:
Administration Department
Finance Division**

THIS PAGE BLANK

**TOWN OF FOUNTAIN HILLS, ARIZONA
TABLE OF CONTENTS
FISCAL YEAR ENDED JUNE 30, 2012**

INTRODUCTORY SECTION

LETTER OF TRANSMITTAL	1
LIST OF PRINCIPAL OFFICIALS	9
ORGANIZATIONAL CHART	10
GFOA CERTIFICATE OF ACHIEVEMENT	11

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	12
REQUIRED SUPPLEMENTARY INFORMATION	
MANAGEMENT'S DISCUSSION AND ANALYSIS	14
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	26
STATEMENT OF ACTIVITIES	27
BALANCE SHEET – GOVERNMENTAL FUNDS	28
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS	30
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS	31
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	33
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	34
NOTES TO BASIC FINANCIAL STATEMENTS	35
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES	
NONMAJOR GOVERNMENTAL FUNDS	
COMBINING BALANCE SHEET	54
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES	56
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – CAPITAL PROJECTS FUND	58
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL OBLIGATION DEBT SERVICE FUND	59

**TOWN OF FOUNTAIN HILLS, ARIZONA
TABLE OF CONTENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2012**

FINANCIAL SECTION (CONTINUED)

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES (CONTINUED)	
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – MUNICIPAL PROPERTY CORPORATION DEBT SERVICE	60
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – EAGLE MOUNTAIN DEBT SERVICE FUND	61
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – HURF FUND	62
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – DEVELOPMENT FEES FUND	63
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – LOCAL COURT ENHANCEMENT FUND	64
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – GRANTS FUND	65
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – EXCISE TAX FUND	66
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – COTTONWOODS SPECIAL ASSESSMENT FUND	67

STATISTICAL SECTION (UNAUDITED)

FINANCIAL TRENDS	
NET ASSETS BY COMPONENT	68
CHANGES IN NET ASSETS	70
FUND BALANCES OF GOVERNMENTAL FUNDS	74
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS	76
REVENUE CAPACITY	
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE	78
TAXABLE SALES BY CATEGORY	79
DIRECT AND OVERLAPPING SALES TAX RATES	81
ASSESSED VALUE AND ESTIMATED TOTAL VALUE OF TAXABLE PROPERTY	82
PRINCIPAL PROPERTY TAXPAYERS	83
PROPERTY TAX LEVIES AND COLLECTIONS	84

**TOWN OF FOUNTAIN HILLS, ARIZONA
TABLE OF CONTENTS (CONTINUED)
FISCAL YEAR ENDED JUNE 30, 2012**

STATISTICAL SECTION (UNAUDITED) (CONTINUED)

DEBT CAPACITY

RATIOS OF OUTSTANDING DEBT BY TYPE	85
RATIOS OF GENERAL BONDED DEBT OUTSTANDING	86
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT	87
LEGAL DEBT MARGIN INFORMATION	88
CALCULATION OF LEGAL DEBT MARGIN	90
REVENUE BOND COVERAGE	91

DEMOGRAPHIC AND ECONOMIC INFORMATION

DEMOGRAPHIC AND ECONOMIC STATISTICS	92
PRINCIPAL EMPLOYERS	94

OPERATING INFORMATION

FULL-TIME EQUIVALENT GOVERNMENT EMPLOYEES BY FUNCTION	95
OPERATING INDICATORS BY FUNCTION	96
CAPITAL ASSETS STATISTICS BY FUNCTION	98

THIS PAGE BLANK

INTRODUCTORY SECTION

THIS PAGE BLANK



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

October 18, 2012

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) in the United States of America 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, 2012.

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 Town of Fountain Hills' financial statements have been audited by CliftonLarsonAllen LLP, 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, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; 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, 2012, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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. The land 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 Pima Maricopa Indian Community 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 twenty-two years Fountain Hills has grown from 10,190 residents to a town of approximately 22,500 based on the 2010 census. On June 5, 2006 the Town of Fountain Hills became twenty 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 Town standards such 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 2.2% of the total is zoned commercial and/or industrial, 23.0% is reserved as open space and 51.3% 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 three department directors and approximately 57 FTE employees. The Judge, 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); development services (code enforcement, planning, zoning and public works); 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 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.

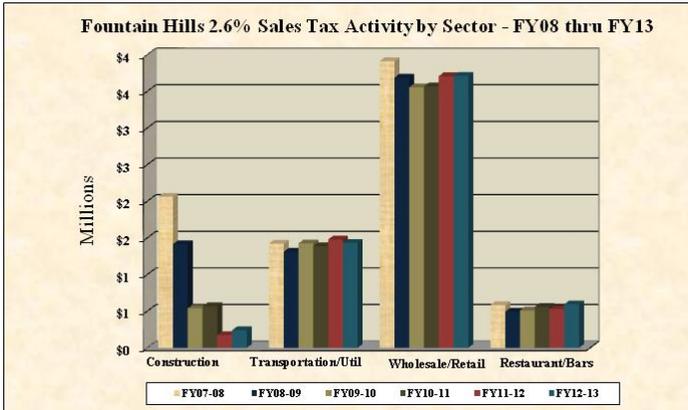
The annual budget serves as the foundation for the Town of Fountain Hills' financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund. Therefore, these funds have appropriated budgets, and budget to actual information is presented. On or before the second meeting in April, 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 great recession continues to have an impact on the local businesses in Fountain Hills, particularly in the construction of residential properties, local business retention and commercial leasing. Construction activity provides revenue to the Town through local sales tax, the proceeds of which are utilized for capital expenditures. Without the resources to fund capital projects the Town must find additional funds to pay for necessary infrastructure projects. For operating costs the Town is dependent upon state shared revenues and local sales tax as a major source of operating revenue, accounting for 91% of total General Fund revenue for fiscal year 2011-12. State shared revenues are derived as a proportionate share of state sales, income and vehicle license taxes which are distributed based on the Town’s population compared to all other incorporated cities and towns in Arizona (currently 0.045%). State shared income tax revenues decreased 12% during fiscal year 2009-10 and another 25% in fiscal year 2010-11; this revenue category is based on two years prior personal and corporate earnings, therefore, it is anticipated that the Town will experience flat revenues for the next few years reflecting the economic recession.

The Town of Fountain Hills’ local tax revenue base consists of two major tax categories, the most significant being retail sales and transportation/communication/utilities (construction was a third significant category in prior years). The chart below is a look at the past five years’ local sales tax activity by sector including a projection for the upcoming fiscal year:



As can be seen in the chart on the left sales tax collections continue to show signs of moderate growth. Retail sales experienced a 1% increase over the prior year; restaurant/bar activity increased by just less than 3%. Construction sales tax, a one-time revenue source, is driven entirely by development activity in the community and increased 6% over the prior year but still significantly less than fiscal years 2008 and 2009. Transportation/communication tax revenues increased slightly more than 1%.

Other local activity has remained fairly level during the recessionary period due to the lack of major retailers (the Town has three grocery stores and one major retailer). Fountain Hills is past the historic period of rapid growth and the long-term economic outlook for the Town must recognize this fact. The opportunity to further expand the retail tax base in Fountain Hills is limited by the lack of available commercial land – 72% of the developable lots are already developed.

Development Activity over the past year:

Development Services has been involved with the following development activities during fiscal year 2011-12 (7/1/2011 – 6/30/2012):

- Four Concept Plans were approved by the Planning & Zoning Commission during the period:
 - Sunridge Canyon Golf School
 - “The Avenue” Theatre project
 - Dunkin Donuts
 - Avenue of the Fountains Landscape Plan

Three Special Use Permits were granted:
“The Avenue” Theatre project
Verizon - Eagle Mountain Cellular Antenna
Demaret Drive Golf Net

Nine Temporary Use Permits were issued during the period:

(2x) Arts & Crafts Fair	Farmers' Market	Tour D'Artistes
Art in the Park	(2x) Art on the Avenue	Halloween Carnival
Eagles Nest Sales Office		

Two new Commercial Building Permits were issued:
13100 Sunridge Canyon Drive - Golf School
13226 La Montana Drive – Sun Devil Auto

There were sixteen commercial tenant improvement permits issued during the last fiscal year that indicate that Fountain Hills is still a desirable place to locate a business.

- 13371 Fountain Hills Blvd #114 – UPS
- 13771 Fountain Hills Blvd #114 – UPS
- 13404 La Montana Blvd – Meridian Bank
- 13733 Fountain Hills Blvd – Safeway
- 13525 Fountain Hills Blvd #106 – Sherwin Williams
- 16838 Palisades Blvd #111 – Loving Dental
- 16455 Ave of Fountains - Fountain View Village
- 13771 Fountain Hills Blvd #103 – Subway
- 16225 Fountain Hills Blvd #122 – Dunkin Donuts
- 9800 Summer Hill Blvd - Inn At Eagle Mountain
- 16730 Palisades Blvd #100 – Goodwill
- 17210 Amhurst Dr. – North Chapel Church
- 11010 Saguaro Blvd #204 – Edifice Office
- 11010 Saguaro Blvd #101 – Edifice Office
- 16605 Palisades Blvd #140 – Ace Hardware
- 13100 Sunridge Canyon – Sunridge Canyon patio

One 2-Family Residential Building Permit was issued during this period.

Three new Single-Family Residential Building Permits were issued.

Long-term Financial Planning

Fountain Hills’ financial policies are balanced on sound financial reserves and conservative revenue growth forecasts for the foreseeable future. Potential for State legislative impacts to revenue-sharing or local revenues and additional demands for essential Town services remain. The Town’s financial policies set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated.

In early 2009, the Strategic Planning Advisory Commission began the process of gathering public input to update the Strategic Plan’s vision, confirm residents’ values, and create a fresh structure for the Strategic Plan revision. Subsequently, *Strategic Plan 2010* is built upon the foundation of a clearly defined vision statement and eight key values, with specific indicators to evaluate Council and staff priorities. Based on citizen input, the Strategic Plan is designed to guide our future decisions grounded on these common values:

1. Civility
2. Civic Responsibility
3. Environmental Stewardship
4. Economic Vitality
5. Education, Learning and Culture
6. Maintain and Improve Community Infrastructure
7. Public Safety, Health and Welfare
8. Recreational Opportunities and Amenities

These values guide the Town's annual budget process.

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 was amended in FY08-09 to include the establishment of a Rainy Day Fund beginning in FY09-10. In FY10-11 the Town adopted Governmental Accounting Standards Board (GASB) Statement No. 54 which changed how governments report fund balance. The overall principal and goal of GASB No. 54 is to report governmental fund balances based on a hierarchy that shows, from the highest to the lowest, the level or form of constraints on fund balance, and accordingly, the extent to which governments are bound to honor them:

1. Nonspendable – The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories or prepaid assets. In Fountain Hills this classification would apply to our inventory and prepaid items.
2. Restricted – The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external reporting providers, or through enabling legislation. In Fountain Hills this classification would apply to Highway User Revenue Fund (HURF), Development Fees, the Grant/Special Revenue Fund and the Debt Service Fund.
3. Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. In Fountain Hills this classification would apply to the Rainy Day Fund, Excise/Downtown Development Fund, and any General Fund surplus.
4. Assigned – Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In Fountain Hills this classification would apply to the current Public Art, Designated, Unreserved Fund.
5. Unassigned – The unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted or committed. In Fountain Hills this classification would be any residual balance of monies not contained in any of the other classifications.

The fund balance 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, 2012 the General Fund balance was reduced by \$1.1M as a result of the Town's decision to pay off the balance on Municipal Property Corporation bonds issued in 2005 for Town Hall. The remaining fund balance meets the requirements of the fund balance policy.

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 2009-10 to reduce the allocation of the local construction sales tax to the Capital Projects Fund from 85% to 50%, reflecting the transition from one-time building activity to ongoing redevelopment activity. The debt policy was prepared with a preference for "pay-as-you-go" financing for capital spending, however, the policy did not anticipate the lack of funding for capital projects and bond funding may be reconsidered.

Major Initiatives

The Town of Fountain Hills' adopted FY2011-12 budget reflects the continued recession in the local economy as well as an 8% decline in population resulting from the 2010 census, which is also mirrored at the national and state levels. Due to the challenging current economic conditions, the Town has made significant reductions in staff and service levels. This was accomplished by a thorough assessment of all existing and proposed programs and workload; as a result Town staffing was reduced from 81 to 57 FTE's (full time equivalents) over the last two years.

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, 2011. This was the fifteenth 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, 2011. 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 tenth consecutive year that the Town has received the award. An investment policy was adopted and was awarded the Investment Policy Certification from the Association of Public Treasurers of United States and Canada.

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 that reads "Ken Buchanan". The signature is written in a cursive style with a long, sweeping tail on the "n".

Ken Buchanan
Town Manager

**TOWN OF FOUNTAIN HILLS, ARIZONA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2012**

ELECTED OFFICIALS

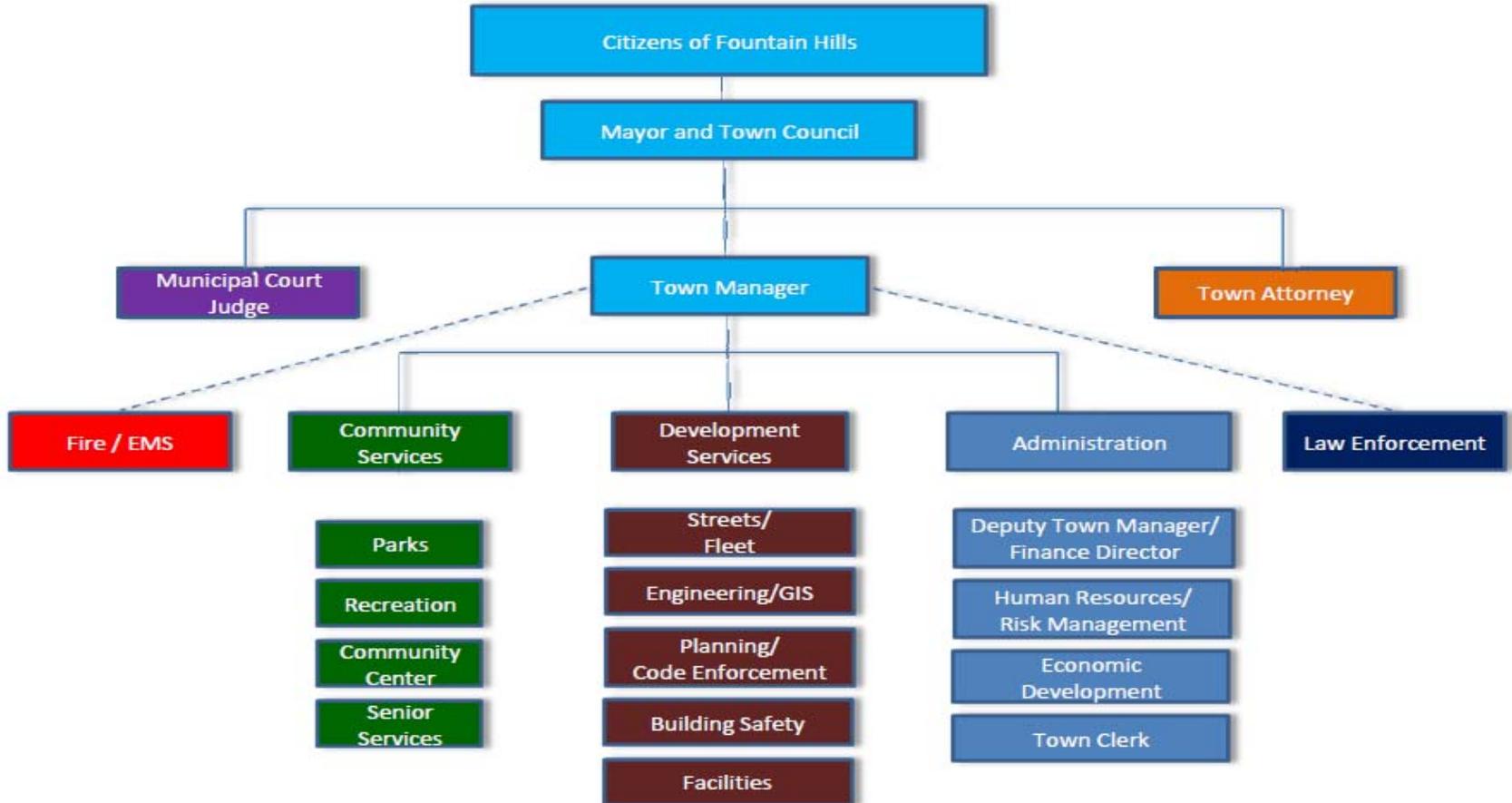
Mayor	Ms. Linda Kavanagh
Vice-Mayor	Mr. Henry Leger
Councilmember	Mr. Dennis Brown
Councilmember	Mr. Cecil Yates
Councilmember	Mr. Tait Elkie
Councilmember	Ms. Cassie Hansen
Councilmember	Ms. Ginny Dickey

DEPARTMENT DIRECTORS

Town Manager	Ken Buchanan
Deputy Town Manager/ Finance Director	Julie A. Ghetti, MPA, CPA, CGFM
Presiding Judge	Mitchell S. Eisenberg
Community Services Director	Mark Mayer
Development Services Director	Paul Mood
Fire Chief	Scott LaGreca Rural Metro Corporation
District Commander	Captain Joe Rodriguez Maricopa County Sheriff's Office
Town Prosecutor	Iacovino & Kayler
Town Attorney	Andrew McGuire, Gust Rosenfeld, P.L.C.

**TOWN OF FOUNTAIN HILLS, ARIZONA
ORGANIZATIONAL CHART
JUNE 30, 2012**

Town of Fountain Hills Organization



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, 2011

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.



Christopher P. Moynell

President

Jeffrey R. Egan

Executive Director

THIS PAGE BLANK

FINANCIAL SECTION

THIS PAGE BLANK

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major 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, 2012, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fountain Hills, Arizona as of June 30, 2012, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 14 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Fountain Hills, Arizona's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



CliftonLarsonAllen LLP

Mesa, Arizona
October 18, 2012

REQUIRED SUPPLEMENTARY INFORMATION

THIS PAGE BLANK

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

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, 2012. This discussion and analysis is intended to be an easily readable breakdown of the Town of Fountain Hills' financial activities based on currently known facts, decisions and conditions. This analysis focuses on current year activities and operations and should be read in combination with the transmittal letter and the financial statements that follow. 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 assets of the Town exceeded its liabilities at the close of fiscal year 2011-12 and fiscal year 2010-11 by \$119.0 million and \$119.6 million, respectively. Of these amounts, \$21.1 million and \$22.6 million, respectively, may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ Governmental activities program revenues decreased overall by \$1,315,844 (26%) over the previous year. The completion of a major street project funded by grants/contributions contributed to the decline of both operating and capital grants. Charges for services decreased by 9% as a result of the continued recession and lack of development permits.
- ◆ At June 30, 2012, total fund balance of the governmental funds was \$24.5 million, an increase of \$0.3 million (1.4%) from the previous year which can be attributed to the town's fiscal policy to spend within budget limits. Of this, \$3.7 million is unassigned in the General Fund, while the remainder is classified as committed, assigned and nonspendable.
- ◆ The major governmental funds which includes the General Fund, total \$15.2 million in revenues, consisting primarily of local taxes, intergovernmental taxes, charges for services and licenses and permits. The total expenditures of the General Fund were \$11.7 million and the fund balance decreased from \$8.3 million to \$7.2 million including the Rainy Day, Public Art, and Vehicle Replacement Funds. The nonmajor governmental funds revenues were \$1.7 million with the majority from Intergovernmental - Highway User Revenue Funds (HURF). Expenditures for the non-major funds were \$1.3 million with \$1.0 million from the HURF Fund.
- ◆ The Town's total net assets of governmental activities decreased \$541,961 (0.5%) from the prior fiscal year; revenues decreased 9.8% with the expiration of grant funding and a reduction in expenditures was also made (5.3%) in streets related to the major street project.
- ◆ General revenues accounted for \$14.4 million in revenue, or 79% of all current fiscal year revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3.7 million or 21% of total current fiscal year revenues.
- ◆ The Town had approximately \$18.6 million in expenses related to governmental activities, a decrease of 5.3% from the prior fiscal year. The decline caused by a protracted economic recession resulted in significant expenditure reductions in all activities with the exception of General Government which included payoff of bonds.
- ◆ Per local policy, residual unassigned General Fund revenues may be transferred to the Rainy Day fund, supplement pay-as-you-go capital outlay expenditures or prepay existing town debt. The Council authorized the use of general fund surplus revenues in FY11-12 to transfer funds to the Municipal Property Corporation Debt Service Fund to provide funds that were placed in an irrevocable trust to provide for future principal and interest payments on bonds that were issued in 2005 for the Town Hall. The general fund balance will include the surplus, the Rainy Day and vehicle replacement funds in the amount of \$7.2 million.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

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. The accrual basis of accounting is used for the government-wide financial statements.

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, development services, 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 use the modified accrual basis of accounting and 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.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

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.

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, General Obligation Debt Service Fund, Municipal Property Corporation Debt Service Fund, Eagle Mountain 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 Basic 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 basic financial statements can be found immediately following the basic financial statements.

Other Information

Governments have the option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information following the notes to the basic financial statements. The Town has chosen to present these budgetary statements as part of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

While this document contains information about the funds used by the Town to provide services to our citizens, the Statement of Net Assets and the Statement of Activities serve to provide an answer to the question of how the Town, as a whole, did financially throughout the year. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the Town's assets and the changes in those assets. The change in assets is important because it tells the reader whether the financial position of the Town as a whole has improved or diminished. However, in evaluating the overall position of the Town, non-financial information such as changes in the Town's tax base and the condition of the Town's capital assets will also need to be evaluated.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

Analysis of Net Assets

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 \$119.0 million at the current fiscal year end. The following table presents a summary of the Town's net assets for the fiscal years ended June 30, 2012 and June 30, 2011.

**Town of Fountain Hills, Arizona
Statement of Net Assets**

	2012	2011	Percent Change
ASSETS			
Current and Other Assets	\$ 28,669,946	\$ 28,545,371	0.4%
Capital Assets:			
Non-depreciable	25,934,778	28,304,198	-8.4%
Depreciable (net)	81,921,325	82,314,694	-0.5%
Total Assets	<u>136,526,049</u>	<u>139,164,263</u>	-1.9%
LIABILITIES			
Other Liabilities	3,256,053	3,334,185	-2.3%
Long-Term Liabilities:			
Due Within One Year	2,319,551	2,249,113	3.1%
Due in More Than One Year	11,928,659	14,017,218	-14.9%
Total Liabilities	<u>17,504,263</u>	<u>19,600,516</u>	-10.7%
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	92,006,103	92,579,483	-0.6%
Restricted	5,951,416	4,385,595	35.7%
Unrestricted	21,064,267	22,598,669	-6.8%
Total Net Assets	<u>\$ 119,021,786</u>	<u>\$ 119,563,747</u>	-0.5%

The largest portion of the Town's net assets (77%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, improvements other than buildings, vehicles, machinery and equipment, and artwork) 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 (5%) are for the specified purposes of debt service repayment, capital outlay investment, and highways and streets.

At the end of the current fiscal year, the Town reported positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

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.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

Analysis of Changes in Net Assets

The Town's total net assets decreased by \$541,961 during the FY11-12. Factors contributing to this decrease are presented on the following pages.

Total governmental revenues decreased over the prior year with a net decrease of \$1,958,978 (10%). The most significant decrease was the exhaustion of operating and capital grants of \$1,209,514 (31%) in capital grants as well as a decrease in revenues for programs. The Town also saw a decrease in local sales taxes of \$225,991 (3%) as well as revenues shared with cities/towns by the State (income tax, state sales tax and vehicle license taxes – down 7%).

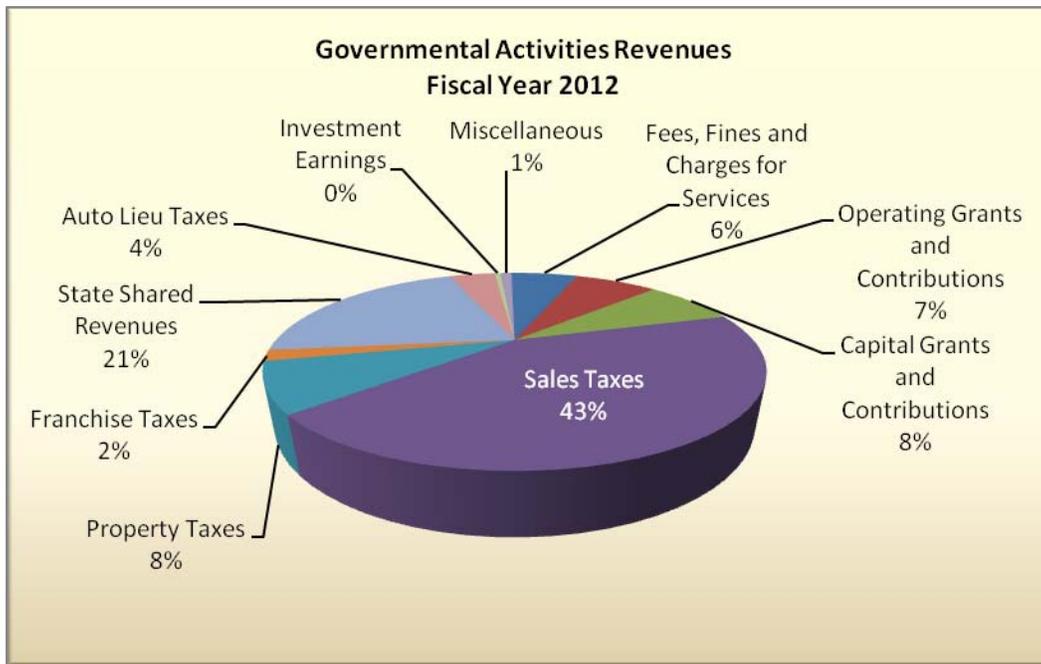
The Town's total revenues for the current fiscal year were \$18.1 million. The total cost of all programs and services was \$18.6 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2012 and June 30, 2011.

**Town of Fountain Hills, Arizona
Changes in Net Assets**

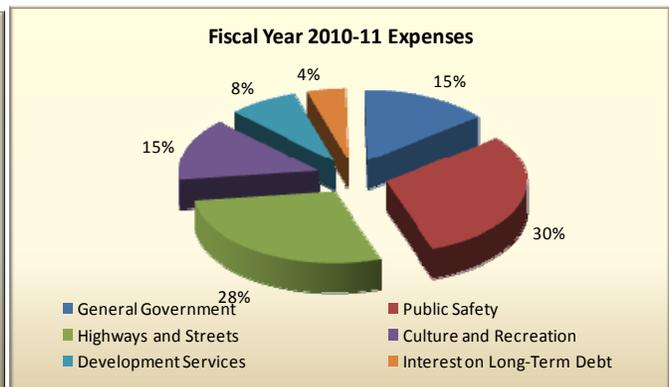
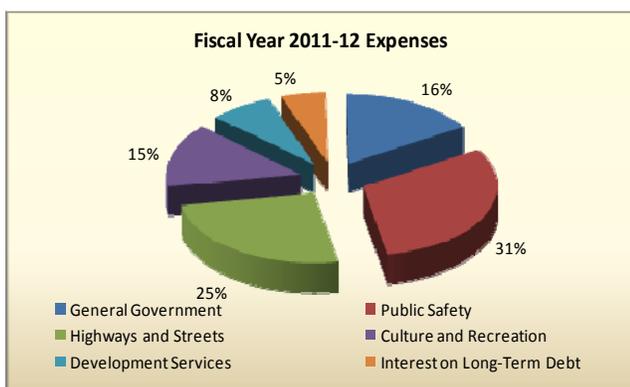
	2012	2011	Percent Change
REVENUES			
Program Revenues:			
Fees, Fines and Charges for Services	\$ 1,058,088	\$ 1,164,418	-9.1%
Operating Grants and Contributions	1,285,656	1,614,462	-20.4%
Capital Grants and Contributions	1,392,706	2,273,414	-38.7%
General Revenues:			
Sales Taxes	7,787,489	8,013,480	-2.8%
Property Taxes	1,453,405	1,349,079	7.7%
Franchise Taxes	332,130	322,659	2.9%
State Shared Revenues	3,793,385	4,417,589	-14.1%
Auto Lieu Taxes	722,126	799,551	-9.7%
Investment Earnings	88,877	28,456	212.3%
Miscellaneous	178,393	68,125	161.9%
Total Revenues	18,092,255	20,051,233	-9.8%
EXPENSES			
General Government	3,119,113	2,876,848	8.4%
Public Safety	5,820,136	5,963,067	-2.4%
Highways and Streets	4,718,047	5,567,973	-15.3%
Culture and Recreation	2,754,731	2,840,154	-3.0%
Development Services	1,442,613	1,572,202	-8.2%
Interest on Long-Term Debt	779,576	851,957	-8.5%
Total Expenses	18,634,216	19,672,201	-5.3%
CHANGE IN NET ASSETS	(541,961)	379,032	243.0%
Net Assets - Beginning of Year	119,563,747	119,184,715	0.3%
NET ASSETS - END OF YEAR	\$ 119,021,786	\$ 119,563,747	-0.5%

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

General revenues such as property, business, and privilege taxes are not shown by program, but are effectively used to support program activities town-wide. For governmental activities overall, without regard to program, business taxes which includes Sales and Use Taxes and Franchise Taxes, are the largest single source of funds (43%), followed by state shared revenues and auto lieu (21%), property taxes (8%), charges for services (6%) and grants (15%).



The charts below compare the governmental expenses from fiscal year 2011-12 and fiscal year 2010-11.



- General Government
- Public Safety
- Highways and Streets
- Culture and Recreation
- Community Development
- Interest on long-term debt

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

The following are significant current year transactions that had an impact on the Statement of Net Assets and Statement of Activities:

- Overall revenues decreased by 9.8% compared to last year primarily the consequence of expiring grant funds. Additionally, state shared revenues declined 14.1% which reflected the decreased share related to declining population. The town does not have a primary property tax that is used for operations; the town property tax levy is dependent upon the annual debt payment for voter approved bonds. The increased property tax is a result of an increase in the annual debt payment.
- Depreciable assets declined 0.5% (\$393,369) with the Town's deferred investment in capital infrastructure and improvements, specifically roads. A major road project, Shea Boulevard climbing lane, was funded through the American Recovery and Reinvestment Act (ARRA) through Arizona Department of Transportation (\$1.8 million). This project was a federal grant that was awarded to the Arizona Department of Transportation for a project within the town infrastructure. The town was not considered a sub recipient of the grant; however, the improvements were donated from the Arizona Department of Transportation.
- The increase in miscellaneous revenues is primarily attributable to refunds from the town liability insurance carrier (\$77,839) a non-profit agency for funding related to background checks (\$13,324) and a state agency for prisoner fees (\$16,456).
- State shared revenues are determined by the prior two years of income tax returns in Arizona and is shared with cities and towns based on population; the two year lag affected the current fiscal year revenues and will for at least the next year as the economy lags. Additionally, as surrounding communities grow in population the town will lose a proportionate share due to fixed borders and lack of available developable land.
- Sales tax revenues in Fountain Hills are derived primarily from retail, telecommunications, restaurant/bars and construction activity. Construction activity saw the steepest declines from \$2.4 million in FY08 to less than \$600 thousand in FY12; retail and telecommunications activity, however, have leveled off with a very slight increase, less than 1%. Restaurants and bars increased more than 2%.
- Overall expenses decreased 5.3% as the Town manages through the great recession by matching expenses with available resources.
- General Government expenditures increased over the prior year as a result of the costs for the bi-annual election for Mayor and Town Council as well as expenditures for upgraded equipment for the Town's television public access channel.
- Development Services includes Public Works, Streets, Building Safety, Planning, Code Enforcement and Facilities. Deferred maintenance on public infrastructure resulted in a decrease in Development Services expenses.
- Public Safety costs include contracts for police and fire; those contracts are multi-year with automatic increases.
- Other significant expense reductions were deferral of replacement equipment and vehicles until the economy shows signs of recovery.

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.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

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

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 \$24.5 million, an increase of \$0.3 million due primarily maintain a strong fiscal policy of spending within budget limits and not exceeding available funding.

Fund	Balance	Increase (Decrease) From FY 2010-11
General Fund	\$ 7,229,860	\$ (1,076,106)
Capital Projects Fund	9,312,168	(321,620)
General Obligation Debt Service Fund	63,317	11,984
Municipal Property Corporation Debt Service Fund	2,739,511	1,848,205
Eagle Mountain Debt Service Fund	8,944	3,612
Nonmajor Governmental Funds	5,157,583	(127,731)
	<u>\$ 24,511,383</u>	<u>\$ 338,344</u>

The General Fund is the chief operating fund of the Town of Fountain Hills, Arizona. At the end of the current fiscal year, the fund balance of the General Fund was \$7,229,860, while total fund balance of the funds reached \$24.5 million. As a measure of the General Fund's liquidity, it may be useful to compare both General Fund balance and total fund balance to total fund expenditures. General Fund balance represents 62 percent of total General Fund expenditures, while total fund balance represents 148 percent of total expenditures. The fund balance of the Town of Fountain Hills, Arizona's General Fund decreased by \$1.1M which includes a transfer of \$1.9 to the Municipal Property Corporation Debt Service Fund to place funds in an irrevocable trust with an escrow agent to provide for future principal and interest payments on a bond issued in 2005. Expenditures within the General Fund increased 1.9% over the prior year – the primary reason for the increase is the contractual obligations for public safety contracts.

The General Fund comprises 29 percent of the total fund balance. Approximately \$3.7 million, or 51 percent of the General Fund's fund balance constitutes unassigned fund balance. The remaining fund balance is committed, assigned and nonspendable for inventory and prepaid items.

The General Fund is the principal operating fund of the Town; overall the General Fund's performance resulted in revenues over expenditures for FY12 in an amount of \$0.9 million. The fund balance of \$7.2 million in the General Fund as of June 30, 2012 decreased in the current year substantially due to a transfer recorded in the General Fund to the Municipal Property Corporation (MPC) Debt Service Fund to provide for future principal and interest requirements on an MPC Revenue Bond issued in 2005 to construct Town Hall.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

The fund balance of the Capital Project's Fund decreased \$321,620 during the current fiscal year. The decrease was primarily due to the planned use of capital project fund balance to fund pay as you go projects that were committed through matching funds for grants.

The fund balance of the General Obligation Debt Service Fund increased \$11,984 during the current fiscal year. The increase was largely due to the increase in property tax collections for debt service.

The fund balance of the Municipal Property Corporation (MPC) Debt Service Fund increased \$1,848,205 during the current fiscal year. Revenues for the MPC are derived from local sales tax collections which were consistent with the prior year. The annual debt payment committed for the MPC is fixed but there are sufficient reserves to pay annual debt service. The increase in fund balance was largely due to a transfer from the General Fund to the MPC Debt Service Fund to provide for future principal and interest requirements on an MPC Revenue Bond issued in 2005 to construct Town Hall.

The fund balance of the Eagle Mountain Debt Service Fund increased by \$3,612 during the current fiscal year due to property tax revenues collected.

All nonmajor governmental funds of the Town are combined into one column on the governmental fund statements. The nonmajor governmental funds reported a \$127,731 decrease in fund balance mainly due to the transfer of funds from General Government development fees to the defeasance of Town Hall bonds.

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 part of the basic financial statements. The significant variances are summarized as follows:

The unfavorable revenue variance of \$18,090 (less than 1%) in taxes is due to timing of projected revenues versus actual receipt.

The favorable variance in intergovernmental revenues was a result of the state's projection of state sales and vehicle license taxes being less than actual collections which affects the distribution to cities and towns.

The unfavorable revenue variance of \$19,254 in licenses and permits reflects the continued economic recession, particularly in construction related activities but an increase over the prior year. Building permit revenues continue to decline as well as business license renewals and applications.

The unfavorable revenue variance of \$56,810 in fines and forfeiture reflects decreased court activity related to decreased traffic citations within town borders.

The favorable expenditure variance of \$866,158 includes all departments. The staff has managed expenditures and looked for efficiencies wherever possible. The general government variance is due primarily to the appropriation of approximately \$300,000 in the event the economy worsened during the fiscal year; this contingency was not required.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2012, the Town had invested \$192.8 million in capital assets (not including accumulated depreciation), including buildings, vehicles, computers, equipment, infrastructure and artwork. This amount represents a net increase prior to depreciation of \$1.3 million from the prior fiscal year, primarily due to a major road improvement project on Shea Boulevard that has completed construction. Total depreciation expense for the current fiscal year was \$4.9 million.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2012 and June 30, 2011.

**Town of Fountain Hills, Arizona
Capital Assets
(Net of Accumulated Depreciation)**

	2012	2011	Percent Change
Land	\$ 23,571,668	\$ 23,571,668	0.0%
Artwork	1,829,500	1,688,500	8.4%
Construction in Progress	533,610	3,044,030	-82.5%
Infrastructure	58,772,006	57,986,232	1.4%
Buildings	14,550,487	14,911,290	-2.4%
Improvements other than Buildings	8,366,079	9,214,491	-9.2%
Vehicles, Machinery and Equipment	232,753	202,681	14.8%
Total Capital Assets	<u>\$ 107,856,103</u>	<u>\$ 110,618,892</u>	-2.5%

Additional information on the Town's capital assets can be found in Note 3.A.3.

Long-Term Debt

At year-end, the Town had \$13.9 million in bonds outstanding, \$2.3 million due within one year; this represents a net decrease of \$2.0 million. The chart below is a summary of the Town's outstanding debt as of year-end:

**Town of Fountain Hills, Arizona
Outstanding Long-term Bonds**

	2012	2011
General Obligation Bonds	\$ 6,845,000	\$ 7,965,000
Revenue Bonds	7,040,000	7,885,000
Premium on Bonds	-	74,409
Total Outstanding Debt	<u>\$ 13,885,000</u>	<u>\$ 15,924,409</u>

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% of the total secondary assessed valuation) and the statutory debt limit on general municipal purpose bonds (up to 6% of the total secondary assessed valuation). The current total debt limitation for the Town is \$94.4 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 Note 3.C.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

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 Aa3 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 continue to 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 four fiscal years. With a limited inventory of available lots the town will have to adjust to the new economy, one that is less dependent upon building activity as a source of reliable revenue. There is an area of almost 1,300 acres that was annexed in 2006 that is planned to be developed but the first building permit is not scheduled to be issued until 2015.

The town's local sales tax collections, which represent the largest town revenue source is made up of primarily retail, telecommunications and restaurant bar activity. Construction related sales tax are projected to continue declining for the foreseeable future; retail collections, however, are projected to remain steady due to the fact that the existing retail base is not significantly affected by the recession (major retail activity consists of three grocery stores and one shopping center with a major retailer).

The town is heavily dependent upon state shared revenues for general fund operations (36%); state-shared income tax revenues are anticipated to increase slightly during fiscal year 2012-13 with increased individual and business revenues and state collections. The town is aggressively pursuing economic vitality and redevelopment opportunities, specifically a proposed development in the downtown center. The town partnered with the Fountain Hills Chamber of Commerce to commission a vision for the downtown core including the world renowned Fountain Lake area. The plan was presented to the public late summer of 2009 and serves as a useful tool to attract developers.

As of June 30, 2012 the town had set aside \$9.3 million in the capital improvement funds but the majority of capital projects will be deferred until the economy improves. The town has been successful in obtaining stimulus funding for a major road improvement along Shea Boulevard that was completed in FY11. The town completed a second construction project for another major road improvement on Shea Boulevard with further stimulus funding in FY12.

NEXT YEAR'S BUDGETS AND RATES

The protracted economic recession has forced the town to evaluate core services and, in some cases, to reduce existing service levels. 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 FY13 general fund operating budget is \$14.8 million representing a 6% increase from fiscal year 2011-12. 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 is set at \$11.6 million, a 27% decrease over fiscal year 2011-12. There are some projects in the five-year plan that are considered affordable within current revenue sources, others will require other sources of revenue for funding such as bonds, grants, etc. Capital budgets tend to rise and fall each year depending on the timing of projects – especially if a town, such as Fountain Hills, strives to achieve a "pay-as-you-go" program.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2012**

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 \$60.9 million; with the capital budget for fiscal year 2012-13 totaling \$4.3 million (which includes carryover funds for some large projects currently underway). In fiscal year 2012-13, the CIP places major emphasis on major road improvements and maintenance. Due to the economy there are no recreational or non essential projects proposed.

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 Division, Town of Fountain Hills, 16705 East Avenue of the Fountains, Fountain Hills, Arizona 85268.

Our website can be found at www.fh.az.gov.

BASIC FINANCIAL STATEMENTS

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
ASSETS	
Cash and Investments	\$ 21,613,515
Cash with Paying Agent	2,234,774
Receivables, Net:	
Accounts Receivable	244,868
Intergovernmental Receivables	827,063
Property Taxes Receivable	49,450
Inventory, At Cost	9,332
Prepaid Items	33,719
Deferred Charges	852,633
Restricted Assets	2,804,592
Capital Assets:	
Non-Depreciable	25,934,778
Depreciable (Net)	81,921,325
Total Assets	136,526,049
LIABILITIES	
Accounts Payable	524,650
Accrued Wages and Benefits	123,542
Interest Payable	374,987
Unearned Revenue	267,874
Matured Debt Principal Payable	1,965,000
Noncurrent Liabilities:	
Due Within One Year	2,319,551
Due in More Than One Year	11,928,659
Total Liabilities	17,504,263
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	92,006,103
Restricted For:	
Highways and Streets	867,219
Public Safety	240,525
Capital Outlay	1,993,771
Debt Service	2,833,891
Cottonwoods Maintenance District	16,010
Unrestricted	21,064,267
Total Net Assets	\$ 119,021,786

See accompanying Notes to Basic Financial Statements.

**TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2012**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General Government	\$ 3,119,113	\$ 1,025,940	\$ -	\$ 234,281	\$ (1,858,892)
Public Safety	5,820,136	20,323	119,141	-	(5,680,672)
Highways and Streets	4,718,047	11,825	1,166,515	1,158,425	(2,381,282)
Culture and Recreation	2,754,731	-	-	-	(2,754,731)
Development Services	1,442,613	-	-	-	(1,442,613)
Interest on Long-Term Debt	779,576	-	-	-	(779,576)
Total Governmental Activities	\$ 18,634,216	\$ 1,058,088	\$ 1,285,656	\$ 1,392,706	(14,897,766)
GENERAL REVENUES					
Taxes:					
Sales Taxes					7,787,489
Property Taxes					1,453,405
Franchise Taxes					332,130
State Sales Tax Revenue Sharing - Unrestricted					3,793,385
Auto Lieu Tax Revenue Sharing - Unrestricted					722,126
Investment Earnings					88,877
Miscellaneous					178,393
Total General Revenues					14,355,805
Change in Net Assets					(541,961)
Net Assets - Beginning					119,563,747
Net Assets - Ending					\$ 119,021,786

See accompanying Notes to Basic Financial Statements.

**TOWN OF FOUNTAIN HILLS, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General	Capital Projects	General Obligation Debt Service	Municipal Property Corporation Debt Service
ASSETS				
Cash and Investments	\$ 6,711,553	\$ 9,596,239	\$ 42,289	\$ 83,351
Cash with Paying Agent	-	-	928,656	958,625
Accounts Receivable	222,567	12,951	-	-
Intergovernmental Receivable	553,065	115,380	-	32,765
Taxes Receivable	-	-	40,997	-
Inventory, at cost	9,332	-	-	-
Prepaid Items	28,245	-	-	-
Restricted Assets	75,484	-	-	2,729,108
Total Assets	<u>\$ 7,600,246</u>	<u>\$ 9,724,570</u>	<u>\$ 1,011,942</u>	<u>\$ 3,803,849</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 231,569	\$ 212,402	\$ -	\$ 500
Accrued Wages and Benefits	109,171	-	-	-
Interest Payable	-	-	88,656	218,838
Deferred Revenue	29,646	200,000	19,969	-
Matured Debt Principal Payable	-	-	840,000	845,000
Total Liabilities	<u>370,386</u>	<u>412,402</u>	<u>948,625</u>	<u>1,064,338</u>
Fund Balances:				
Nonspendable				
Cash with Escrow Agent	-	-	-	2,623,895
Inventory	9,332	-	-	-
Prepaid Items	28,245	-	-	-
Restricted	-	-	63,317	115,616
Committed	1,345,200	-	-	-
Assigned	2,190,910	9,312,168	-	-
Unassigned	3,656,173	-	-	-
Total Fund Balance	<u>7,229,860</u>	<u>9,312,168</u>	<u>63,317</u>	<u>2,739,511</u>
Total Liabilities and Fund Balance	<u>\$ 7,600,246</u>	<u>\$ 9,724,570</u>	<u>\$ 1,011,942</u>	<u>\$ 3,803,849</u>

See accompanying Notes to Basic Financial Statements.

Eagle Mountain Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ 2,641	\$ 5,177,442	\$ 21,613,515
347,493	-	2,234,774
-	9,350	244,868
-	125,853	827,063
8,453	-	49,450
-	-	9,332
-	5,474	33,719
-	-	2,804,592
<u>\$ 358,587</u>	<u>\$ 5,318,119</u>	<u>\$ 27,817,313</u>

\$ -	\$ 80,179	\$ 524,650
-	14,371	123,542
67,493	-	374,987
2,150	65,986	317,751
280,000	-	1,965,000
<u>349,643</u>	<u>160,536</u>	<u>3,305,930</u>

-	-	2,623,895
-	-	9,332
-	5,474	33,719
8,944	3,112,549	3,300,426
-	2,039,560	3,384,760
-	-	11,503,078
-	-	3,656,173
<u>8,944</u>	<u>5,157,583</u>	<u>24,511,383</u>
<u>\$ 358,587</u>	<u>\$ 5,318,119</u>	<u>\$ 27,817,313</u>

THIS PAGE BLANK

**TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balances for Governmental Funds \$ 24,511,383

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

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

Governmental Capital Assets	192,779,992
Less Accumulated Depreciation	(84,923,889)
Capital Assets Used in Governmental Activities	107,856,103

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

Property Taxes	49,877
----------------	--------

Bond issuance costs are reported as expenditures in the governmental funds and shown net of accumulated amortization in the Statement of Net Assets as deferred charges.

852,633

Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the governmental funds.

General Obligation Bonds	(6,845,000)
Revenue Bonds Payable	(7,040,000)
Compensated Absences	(363,210)

Total Net Assets of Governmental Activities	\$ 119,021,786
---	----------------

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2012

	General	Capital Projects	General Obligation Debt Service	Municipal Property Corporation Debt Service
REVENUES				
Taxes:				
Sales Taxes	\$ 6,579,468	\$ 300,202	\$ -	\$ 605,213
Property Taxes	-	-	1,029,242	-
Franchise Taxes	332,130	-	-	-
Intergovernmental	4,496,652	204,262	-	-
Fines and Forfeitures	203,350	-	-	-
Licenses and Permits	194,976	-	-	-
Charges for Services	353,718	-	-	-
Rents and Royalties	206,018	-	-	-
Investment Earnings	38,493	30,713	305	588
Other	173,839	-	-	-
Total Revenues	<u>12,578,644</u>	<u>535,177</u>	<u>1,029,547</u>	<u>605,801</u>
EXPENDITURES				
Current:				
General Government	2,631,726	-	-	-
Public Safety	5,869,445	-	-	-
Highways and Streets	-	-	-	-
Culture and Recreation	1,794,332	-	-	-
Development Services	1,421,787	-	-	-
Debt Service:				
Principal Retirement	-	-	840,000	845,000
Interest on Long-Term Debt	-	-	177,563	327,312
Fiscal Charges	-	-	-	48,402
Capital Outlay	-	863,420	-	-
Total Expenditures	<u>11,717,290</u>	<u>863,420</u>	<u>1,017,563</u>	<u>1,220,714</u>
Excess (Deficiency) of Revenues Over Expenditures	861,354	(328,243)	11,984	(614,913)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	6,623	-	2,463,118
Transfers Out	(1,937,460)	-	-	-
Total Other Financing Sources (Uses)	<u>(1,937,460)</u>	<u>6,623</u>	<u>-</u>	<u>2,463,118</u>
Net Change in Fund Balance	(1,076,106)	(321,620)	11,984	1,848,205
FUND BALANCE				
Beginning of Year	8,305,966	9,633,788	51,333	891,306
End of Year	<u>\$ 7,229,860</u>	<u>\$ 9,312,168</u>	<u>\$ 63,317</u>	<u>\$ 2,739,511</u>

See accompanying Notes to Basic Financial Statements.

<u>Eagle Mountain Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 302,606	\$ 7,787,489
425,125	3,335	1,457,702
-	-	332,130
-	1,334,534	6,035,448
-	20,323	223,673
-	-	194,976
-	51,945	405,663
-	-	206,018
97	18,681	88,877
-	4,554	178,393
425,222	1,735,978	16,910,369
-	255,595	2,887,321
-	-	5,869,445
-	1,054,930	1,054,930
-	-	1,794,332
-	-	1,421,787
280,000	-	1,965,000
134,260	-	639,135
7,350	-	55,752
-	20,903	884,323
421,610	1,331,428	16,572,025
3,612	404,550	338,344
-	286	2,470,027
-	(532,567)	(2,470,027)
-	(532,281)	-
3,612	(127,731)	338,344
5,332	5,285,314	24,173,039
\$ 8,944	\$ 5,157,583	\$ 24,511,383

**TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances of Governmental Funds \$ 338,344

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

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

Expenditures for Capital Assets	1,333,785
Less Current Year Depreciation	(4,865,600)
Excess Depreciation Over Capital Expenditures	(3,531,815)

The Statement of Activities reports losses arising from the disposal of existing capital assets as well as capital contributions received from other governments. Conversely, governmental funds do not report any gain or loss on disposals of capital assets or capital contributions.

Loss on Disposal of Capital Assets	(389,399)
Capital Contributions	1,158,425

Some revenues reported in the Statement of Activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.

Property Taxes	23,461
----------------	--------

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the Statement of Net Assets and the repayment of principal on long-term debt reduces long-term debt on the Statement of Net Assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long term debt in the Statement of Activities.

Principal Payments on General Obligation Bonds	1,120,000
Principal Payments on Revenue Bonds	845,000
Amortization of Deferred Amount on Bond Premium	74,409
Amortization of Deferred Charges	(159,098)

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

Net Increase in Compensated Absences	(21,288)
Change in Net Assets of Governmental Activities	\$ (541,961)

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes:				
Sales Taxes	\$ 6,626,688	\$ 6,626,688	\$ 6,579,468	\$ (47,220)
Franchise Taxes	303,000	303,000	332,130	29,130
Intergovernmental	4,482,270	4,482,270	4,496,652	14,382
Fines and Forfeitures	260,160	260,160	203,350	(56,810)
Licenses and Permits	214,230	214,230	194,976	(19,254)
Charges for Services	443,407	443,407	353,718	(89,689)
Rents and Royalties	233,028	233,028	206,018	(27,010)
Investment Earnings	60,000	60,000	38,493	(21,507)
Other	22,696	22,696	173,839	151,143
Total Revenues	<u>12,645,479</u>	<u>12,645,479</u>	<u>12,578,644</u>	<u>(66,835)</u>
EXPENDITURES				
Current:				
General Government:				
Mayor and Council	75,745	75,745	68,445	7,300
Administration	2,309,411	2,395,911	2,177,349	218,562
Municipal Court	432,844	432,844	385,932	46,912
Total General Government	<u>2,818,000</u>	<u>2,904,500</u>	<u>2,631,726</u>	<u>272,774</u>
Public Safety:				
Law Enforcement	2,899,522	2,899,522	2,828,127	71,395
Fire and Emergency Medical	3,156,212	3,156,212	3,041,318	114,894
Total Public Safety	<u>6,055,734</u>	<u>6,055,734</u>	<u>5,869,445</u>	<u>186,289</u>
Community Services:				
Recreation	475,372	485,372	440,850	44,522
Parks	1,053,893	1,053,594	920,582	133,012
Senior Services	239,322	252,822	222,328	30,494
Community Center	231,685	231,685	210,572	21,113
Total Community Services	<u>2,000,272</u>	<u>2,023,473</u>	<u>1,794,332</u>	<u>229,141</u>
Development Services:				
Engineering	501,191	489,051	455,309	33,742
Facilities Maintenance	491,627	498,127	459,874	38,253
Planning	172,029	172,029	183,874	(11,845)
Building Safety	234,687	234,687	127,265	107,422
Code Compliance	125,852	125,852	123,597	2,255
Mapping and Graphics	74,355	79,995	71,868	8,127
Total Development Services	<u>1,599,741</u>	<u>1,599,741</u>	<u>1,421,787</u>	<u>177,954</u>
Total Expenditures	<u>12,473,747</u>	<u>12,583,448</u>	<u>11,717,290</u>	<u>866,158</u>
Excess (Deficiency) of Revenues Over Expenditures	171,732	62,031	861,354	799,323
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(194,250)</u>	<u>(184,550)</u>	<u>(1,937,460)</u>	<u>(1,752,910)</u>
Net Change in Fund Balance	(22,518)	(122,519)	(1,076,106)	(953,587)
FUND BALANCE				
Beginning of Year	-	-	8,305,966	8,305,966
End of Year	<u>\$ (22,518)</u>	<u>\$ (122,519)</u>	<u>\$ 7,229,860</u>	<u>\$ 7,352,379</u>

See accompanying Notes to Basic Financial Statements.

THIS PAGE BLANK

NOTES TO BASIC FINANCIAL STATEMENTS

THIS PAGE BLANK

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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 is 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.

Eagle Mountain Community Facilities District and the Cottonwoods Improvement District. 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 District has no liability for the districts' debt, the Town is responsible for the debt; the debt is therefore, not subject to the Town's debt limit; therefore, providing a financial benefit to the Town. For financial reporting purposes, transactions of the Districts are combined together and included as if they were part of the Town's operations.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

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. 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 earnings 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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

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 earnings 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. 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.

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.

The Town reports the following major governmental funds.

Major Governmental Funds

General Fund

This fund is the Town's primary operating fund. The Fund accounts for all financial resources of the Town, except those required to be accounted for in other funds.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital Projects Fund

This fund accounts for the capital improvements to various projects and equipment purchases of the Town.

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.

Eagle Mountain Debt Service Fund

This fund accounts for the property tax revenues received to pay the debt service of the Eagle Mountain Community Facilities District component unit.

D. Assets, Liabilities, and Net Assets or Fund Balance

1. Deposits and Investments

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

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

2. 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."

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Fund Balance (Continued)

2. Receivables and Payables (Continued)

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.

Pursuant to Arizona Revised Statutes (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 District, 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.

Intergovernmental receivables include amounts due from other government agencies and include Town sales tax (\$425,945), Highway User Revenue fuel tax (\$109,471), state sales tax (\$149,234), auto lieu (\$27,033) and grants receivable (\$115,380) in the governmental funds and governmental activities column of the government-wide financial statements.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Fund Balance (Continued)

3. 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.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. In the government-wide and fund financial statements prepaids are recognized as expenses/expenditures when goods and/or services are received rather than when purchased.

5. Restricted Assets

The Town reported restricted assets in the amount of \$75,484 for funds held in an escrow account. The agreement provides that if, prior to July 1, 2014, any future Council fails to ratify this agreement or fails to provide severance when required as set forth in the agreement between the Town Council and Town Manager, the Town Manager shall be permitted to withdraw all funds from the escrow, minus any interest earned, which interest shall be payable to the Town upon the Town Manager's withdrawal of the amounts in escrow. The Town also has \$2,729,108 deposited in an irrevocable trust with an escrow agent to make future principal and interest payments on the 2004 Municipal Property Corporation Revenue Bond.

6. 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 governmental activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of \$10,000 or more and an estimated useful life of more than one year. The capital assets include all infrastructure assets acquired by the Town since incorporation.

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.

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Fund Balance (Continued)

6. Capital Assets (Continued)

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	5-20

7. 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 then current rate of pay.

Effective October 7, 2004, all eligible full-time and part-time employees can accrue vacation leave. Full-time employees can accrue up to a maximum of 224 hours of vacation, while part-time employees can accrue up to 112 ours, depending upon their length of service. In the event of termination, employees will be paid for any accrued, but unused, vacation hours. Also effective October 7, 2004, full-time employees started to accrue sick leave, based on their length of service, up to a maximum of 720 hours. A portion of this balance will be paid upon a satisfactory separation of service.

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.

8. 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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Fund Balance (Continued)

8. Long-term Obligations (Continued)

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.

9. Net Assets

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

10. Fund Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories and prepaid items, or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations. Committed fund balances are self-imposed limitations approved by the Town's Council, which is the highest level of decision-making authority within the Town. Only the Town Council can remove or change the constraints placed on committed fund balances. Assigned fund balances are resources constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town Council has authorized the Deputy Town Manager/Finance Director to assign fund balances. The unassigned fund balance is the residual classification for the General Fund and includes all amounts not reported in the other classifications.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Fund Balance (Continued)

10. Fund Balance Classifications (Continued)

Also, deficits in fund balances of the other governmental funds are reported as unassigned.

It is the Town's policy to use restricted fund balance first, then committed, assigned, and lastly unassigned amounts.

11. 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.

12. 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

A. Budgetary information

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

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgetary information (Continued)

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

5. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, and Capital Projects Funds (except for the HURF Debt Service and Cottonwoods Special Assessment Funds, in which the Town did not adopt a budget) on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

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

No supplementary budgetary appropriations were necessary during the year.

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
Major Funds:	
Municipal Property Corporation Debt Service Fund	<u>\$ 141,464</u>

Cash was available to cover the over expenditures listed above.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2012, consist of the following:

Deposits:	
Cash on Hand	\$ 1,050
Cash in Bank	493,672
Cash on Deposit with Paying Agent	2,234,774
Investments	
State Treasurer's Investment Pool	6,079,307
Wells Fargo Money Market	59,906
U.S. Agency Securities	8,157,709
U.S. Treasury Notes	6,821,871
Total	<u>23,848,289</u>
Less Cash with Paying Agent	<u>(2,234,774)</u>
Total Cash and Investments	<u><u>\$ 21,613,515</u></u>

Deposits

The Town's deposits at June 30, 2012, had a carrying value of \$493,672 and a bank balance of \$560,720. The entire bank balance of the Town was deposited in non-interest bearing accounts or low-interest bearing accounts that were fully insured by federal depository insurance.

Investments

The Town's investments at June 30, 2012 were as follows:

<u>Investment Type</u>	<u>Amount</u>
Local Government Investment Pool	\$ 6,079,307
Wells Fargo Money Market	59,906
U.S. Agency Securities	8,157,709
U.S. Treasury Notes	6,821,871
	<u><u>\$ 21,118,793</u></u>

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Town will limit credit risk by limiting investments in the Town's portfolio to the asset classes designated as acceptable in A.R.S 835-323. When possible, analysis of the credit worthiness of all individual debt issuers held in the portfolio should be conducted on an annual basis in an effort to guard against investing in weak or deteriorating credit situation. Additionally, the Town will pre-qualify financial institutions, brokers/dealers, and investment advisors with which the Town will do business.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

At June 30, 2012, credit risk for the Town's investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Agency</u>	<u>Amount</u>
Local Government Investment Pool	N/A	N/A	\$ 6,079,307
Wells Fargo Money Market	N/A	N/A	59,906
U.S. Agency Securities	AA+	S&P	8,157,709
U.S. Treasury Notes	N/A	N/A	6,821,871
			<u>\$ 21,118,793</u>

Custodial credit risk – Concentration credit risk is the risk of loss associated with the significant of investments in a single issuer. The Town of Fountain Hills will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 25% of the Town's total investment portfolio will be invested in a single security type or with a single financial institution.

At June 30, 2012, the Town had the following diversification of Town investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Percent of Town Investments</u>
Local Government Investment Pool	\$ 6,079,307	28.79%
Wells Fargo Money Market	59,906	0.28%
U.S. Agency Securities	8,157,709	38.63%
U.S. Treasury Notes	6,821,871	32.30%
	<u>\$ 21,118,793</u>	

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The Town will look to mitigate interest rate risk by performing the following:

- Structuring the investment portfolio so that securities mature concurrent with the anticipated cash requirements for ongoing operations, thereby avoiding, as much as possible, the need to sell securities into an adverse market environment prior to maturity.
- Investing funds primarily in shorter-term securities or similar investment pools and limiting the average maturity of the portfolio in accordance with the needs of the Town.
- With respect to any firm or individual given responsibility for investments utilizing external research and advice regarding the current interest rate outlook and global economic condition to optimize portfolio duration strategy.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

The following is a table of the Town's investment maturities:

<u>Investment</u>	<u>Maturity</u>			<u>Total</u>
	<u>0-6 Months</u>	<u>6-12 Months</u>	<u>12+ Months</u>	
Local Government Investment Pool	\$ 6,079,307	\$ -	\$ -	\$ 6,079,307
Wells Fargo Advantage Money Market	59,906	-	-	59,906
Federal Farm Credit Bank Notes	-	655,661	-	655,661
Federal Home Loan Bank Global Notes	-	-	1,772,022	1,772,022
Federal Home Loan Mortgage Corp. Notes	-	-	2,723,139	2,723,139
Federal National Mortgage Association Notes	-	-	3,006,887	3,006,887
U.S. Treasury Notes	-	-	6,821,871	6,821,871
Total	<u>\$ 6,139,213</u>	<u>\$ 655,661</u>	<u>\$ 14,323,919</u>	<u>\$ 21,118,793</u>

2. Receivables

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:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund		
Miscellaneous	\$ 27,758	\$ 1,888
Capital Projects Fund		
Miscellaneous	-	200,000
General Obligation Debt Service Fund		
Property Taxes	19,969	-
Eagle Mountain Debt Service Fund		
Property Taxes	2,150	-
Nonmajor Governmental Funds		
Grants	-	65,986
Total Deferred Revenue for Governmental Funds	<u>\$ 49,877</u>	<u>\$ 267,874</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets

Capital assets for the year ended June 30, 2012, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 23,571,668	\$ -	\$ -	\$ 23,571,668
Artwork	1,688,500	141,000	-	1,829,500
Construction in Progress	3,044,030	1,943,110	(4,453,530)	533,610
Total Capital Assets, Not Being Depreciated	28,304,198	2,084,110	(4,453,530)	25,934,778
Capital Assets, Being Depreciated:				
Infrastructure	126,447,432	4,341,081	-	130,788,513
Buildings	18,008,744	-	-	18,008,744
Improvements Other Than Buildings	15,022,357	264,128	(647,221)	14,639,264
Vehicles, Machinery and Equipment	3,666,890	256,421	(514,618)	3,408,693
Total Capital Assets, Being Depreciated	163,145,423	4,861,630	(1,161,839)	166,845,214
Accumulated Depreciation for:				
Infrastructure	(68,461,200)	(3,555,307)	-	(72,016,507)
Buildings	(3,097,454)	(360,803)	-	(3,458,257)
Improvements Other Than Buildings	(5,807,866)	(731,963)	266,644	(6,273,185)
Vehicles, Machinery and Equipment	(3,464,209)	(217,527)	505,796	(3,175,940)
Total Accumulated Depreciation	(80,830,729)	(4,865,600)	772,440	(84,923,889)
Total Capital Assets, Being Depreciated, Net	82,314,694	(3,970)	(389,399)	81,921,325
Governmental Activities Capital Assets, Net	\$ 110,618,892	\$ 2,080,140	\$ (4,842,929)	\$ 107,856,103

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 211,426
Public Safety	74,873
Highways and Streets	3,676,530
Culture and Recreation	902,771
Total Depreciation Expense	\$ 4,865,600

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

	Transfers In			
Transfers Out	Capital Projects Fund	Municipal Property Corporation Debt Service Fund	Nonmajor Governmental Fund	Total
General Fund	\$ -	\$ 1,937,174	\$ 286	\$ 1,937,460
Nonmajor Governmental Funds	6,623	525,944	-	532,567
Total	\$ 6,623	\$ 2,463,118	\$ 286	\$ 2,470,027

The General Fund transferred \$1,937,174 to pay for debt service costs on the Municipal Property Corporation's outstanding bonds. The General Fund transferred \$286 to the Nonmajor Governmental Fund to provide the matching portion of a transportation grant the Town received. The Nonmajor Governmental Funds transferred \$6,623 to the Capital Projects Fund to pay for a portion of a capital acquisition. The Nonmajor Governmental Funds also transferred \$525,944 to the Municipal Property Corporation Debt Service Fund to pay for debt service costs on the outstanding bonds.

C. Long-Term Obligations

Bonds payable at year end consisted of the following general obligation, municipal property corporation 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.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Long-Term Obligations (Continued)

Bonds outstanding at June 30, 2012 were as follows:

Purpose	Interest Rates	Maturity Date	Original Amount	Outstanding Amount
Governmental Activities:				
General Obligation Bonds:				
General Obligation Refunding Bonds, Series 2005	3.75-4.00	07/01/12-19	\$ 7,225,000	\$ 3,755,000
Eagle Mountain Community Facilities District, General Obligation Refunding Bonds, Series 2005	3.75-4.125	7/1/2012-21	4,555,000	3,090,000
Total General Obligation Bonds			<u>\$ 11,780,000</u>	<u>\$ 6,845,000</u>
Revenue Bonds:				
Municipal Facilities Revenue Bonds, Series 2001	4.40-4.50	7/01/12-13	7,750,000	400,000
Municipal Facilities Revenue Bonds, Series 2004	4.00-4.50	7/01/12-15	3,645,000	2,410,000
Municipal Facilities Revenue Refunding Bonds, Series 2005	3.75-4.50	7/01/12-20	5,330,000	4,230,000
Total Revenue Bonds			<u>\$ 21,405,000</u>	<u>\$ 7,040,000</u>

The Town has pledged future excise taxes to repay a total of \$7,040,000 in outstanding municipal facilities revenue and refunding bonds. For fiscal year ended June 30, 2012, the net revenues available to service this debt were \$13.1 million. The debt principal and interest paid on this debt in fiscal year 2011-12 was \$845,000 and \$332,463, respectively (11 percent of available pledged revenues).

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2012, are as follows:

	<u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 29, 2012</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds					
General Obligation Bonds	\$ 7,965,000	\$ -	\$ (1,120,000)	\$ 6,845,000	\$ 1,350,000
Revenue Bonds	7,885,000	-	(845,000)	7,040,000	930,000
	<u>15,850,000</u>	<u>-</u>	<u>(1,965,000)</u>	<u>13,885,000</u>	<u>2,280,000</u>
Deferred Amounts:					
Premium	74,409	-	(74,409)	-	-
Total Bonds	<u>15,924,409</u>	<u>-</u>	<u>(2,039,409)</u>	<u>13,885,000</u>	<u>2,280,000</u>
Other Liabilities:					
Compensated Absences	341,922	284,065	(262,777)	363,210	39,551
Governmental Activities Long-Term Liabilities	<u>\$ 16,266,331</u>	<u>\$ 284,065</u>	<u>\$ (2,302,186)</u>	<u>\$ 14,248,210</u>	<u>\$ 2,319,551</u>

Debt service requirements on long-term debt at June 30, 2012, are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 2,280,000	\$ 565,506
2014	2,415,000	470,431
2015	1,970,000	375,106
2016	2,830,000	233,806
2017	1,120,000	186,406
2018 - 2021	<u>3,270,000</u>	<u>302,758</u>
	<u>\$ 13,885,000</u>	<u>\$ 2,150,513</u>

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 year end, \$6,385,000 of defeased bonds are still outstanding.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Fund Balances

Fund Balances at June 30, 2012 were as follows:

	General	Capital Projects	General Obligation Debt Service	Municipal Property Corporation Debt Service	Eagle Mountain Debt Service	Nonmajor Governmental Funds	Total
Nonspendable:							
Cash with Escrow Agent	\$ -	\$ -	\$ -	\$ 2,623,895	\$ -	\$ -	\$ 2,623,895
Inventory	9,332	-	-	-	-	-	9,332
Prepays	28,245	-	-	-	-	5,474	33,719
Restricted:							
Debt Service	-	-	63,317	115,616	8,944	-	187,877
Highways and Streets	-	-	-	-	-	862,243	862,243
Local Court Enhancement	-	-	-	-	-	240,525	240,525
New Development	-	-	-	-	-	1,993,771	1,993,771
Cottonwoods Maintenance District	-	-	-	-	-	16,010	16,010
Committed							
Rainy Day Funds	1,345,200	-	-	-	-	-	1,345,200
Excise Tax	-	-	-	-	-	2,039,560	2,039,560
Assigned							
Public Art	1,051	-	-	-	-	-	1,051
Vehicle Replacement	689,199	-	-	-	-	-	689,199
Capital Projects	600,264	9,312,168	-	-	-	-	9,912,432
Equipment Replacement	900,396	-	-	-	-	-	900,396
Unassigned	3,656,173	-	-	-	-	-	3,656,173
Total Fund Balance	\$ 7,229,860	\$ 9,312,168	\$ 63,317	\$ 2,739,511	\$ 8,944	\$ 5,157,583	\$ 24,511,383

NOTE 4 OTHER INFORMATION

A. 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.

B. 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 \$8,000,000 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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 OTHER INFORMATION (COTINUED)

B. Risk Management (Continued)

The Town was unable to obtain workers' 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 workers' 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.

C. 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, 2012, was \$2,549,322. The Town's total payroll was \$2,871,172.

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% of his or her gross earnings. The Town must match the employee contribution of 11%. During fiscal year 2011-12, the Town's required and actual contributions amounted to \$280,425. The employees' contributions totaled \$280,425. Employees may also contribute to the ICMA Retirement Corporation 457 plan on a voluntary basis; there is no employer match for those contributions. During fiscal year 2011-12, employees contributed \$158,829 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 2011-12 or as of the close of the fiscal year.

THIS PAGE BLANK

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

THIS PAGE BLANK

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

Local Court Enhancement Fund - accounts for a local court surcharge.

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.

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

Special Revenue Funds

	HURF	Development Fees	Local Court Enhancement	Grants	Excise Tax
ASSETS					
Cash and Investments	\$ 831,245	\$ 1,994,359	\$ 240,525	\$ 65,986	\$ 2,029,317
Accounts Receivable	1,062	4,144	-	-	4,144
Intergovernmental Receivable	109,471	-	-	-	16,382
Prepaid Items	4,976	-	-	-	498
Total Assets	<u>\$ 946,754</u>	<u>\$ 1,998,503</u>	<u>\$ 240,525</u>	<u>\$ 65,986</u>	<u>\$ 2,050,341</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 66,801	\$ 4,732	\$ -	\$ -	\$ 8,646
Accrued Wages and Benefits	12,734	-	-	-	1,637
Deferred Revenue	-	-	-	65,986	-
Total Liabilities	<u>79,535</u>	<u>4,732</u>	<u>-</u>	<u>65,986</u>	<u>10,283</u>
Fund Balances:					
Nonspendable	4,976	-	-	-	498
Restricted	862,243	1,993,771	240,525	-	-
Committed	-	-	-	-	2,039,560
Total Fund Balances	<u>867,219</u>	<u>1,993,771</u>	<u>240,525</u>	<u>-</u>	<u>2,040,058</u>
Total Liabilities and Balance	<u>\$ 946,754</u>	<u>\$ 1,998,503</u>	<u>\$ 240,525</u>	<u>\$ 65,986</u>	<u>\$ 2,050,341</u>

<u>Special Revenue Funds</u>	
<u>Cottonwoods Special Assessment</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 16,010	\$ 5,177,442
-	9,350
-	125,853
-	5,474
<u>\$ 16,010</u>	<u>\$ 5,318,119</u>

\$ -	\$ 80,179
-	14,371
-	65,986
<u>-</u>	<u>160,536</u>

-	5,474
16,010	3,112,549
-	2,039,560
<u>16,010</u>	<u>5,157,583</u>
<u>\$ 16,010</u>	<u>\$ 5,318,119</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 2012**

Special Revenue Funds

	HURF	Development Fees	Local Court Enhancement	Grants	Excise Tax
REVENUES					
Taxes:					
Sales Taxes	\$ -	\$ -	\$ -	\$ -	\$ 302,606
Property Taxes	-	-	-	-	-
Intergovernmental	1,166,515	-	-	168,019	-
Fines and Forfeitures	-	-	20,323	-	-
Charges for Services	11,825	40,120	-	-	-
Investment Earnings	450	9,038	300	-	8,882
Other	4,554	-	-	-	-
Total Revenues	<u>1,183,344</u>	<u>49,158</u>	<u>20,623</u>	<u>168,019</u>	<u>311,488</u>
EXPENDITURES					
Current:					
General Government	-	-	5,098	138,000	112,497
Highways and Streets	1,022,104	23,424	-	9,402	-
Capital Outlay	-	-	-	20,903	-
Total Expenditures	<u>1,022,104</u>	<u>23,424</u>	<u>5,098</u>	<u>168,305</u>	<u>112,497</u>
Excess (Deficiency) of Revenues Over Expenditures	161,240	25,734	15,525	(286)	198,991
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	-	286	-
Transfers Out	-	(525,944)	-	-	(6,623)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(525,944)</u>	<u>-</u>	<u>286</u>	<u>(6,623)</u>
Net Change in Fund Balances	161,240	(500,210)	15,525	-	192,368
FUND BALANCES					
Beginning of Year	705,979	2,493,981	225,000	-	1,847,690
End of Year	<u>\$ 867,219</u>	<u>\$ 1,993,771</u>	<u>\$ 240,525</u>	<u>\$ -</u>	<u>\$ 2,040,058</u>

<u>Special Revenue Funds</u>	
<u>Cottonwoods Special Assessment</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 302,606
3,335	3,335
-	1,334,534
-	20,323
-	51,945
11	18,681
-	4,554
<u>3,346</u>	<u>1,735,978</u>
-	255,595
-	1,054,930
-	20,903
<u>-</u>	<u>1,331,428</u>
3,346	404,550
-	286
<u>-</u>	<u>(532,567)</u>
<u>-</u>	<u>(532,281)</u>
3,346	(127,731)
12,664	5,285,314
<u>\$ 16,010</u>	<u>\$ 5,157,583</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
FISCAL YEAR ENDED JUNE 30, 2012**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Sales Taxes	\$ 104,580	\$ 300,202	\$ 195,622
Intergovernmental	4,351,600	204,262	(4,147,338)
Investment Earnings	-	30,713	30,713
Total Revenues	4,456,180	535,177	(3,921,003)
EXPENDITURES			
Capital Outlay	17,040,039	863,420	16,176,619
Excess (Deficiency) of Revenues Over Expenditures	(12,583,859)	(328,243)	12,255,616
OTHER FINANCING SOURCES (USES)			
Transfers In	9,615,911	6,623	(9,609,288)
Transfers Out	(10,000)	-	10,000
Total Other Financing Sources (Uses)	9,605,911	6,623	(9,599,288)
Net Change in Fund Balance	(2,977,948)	(321,620)	2,656,328
FUND BALANCE			
Beginning of Year	-	9,633,788	9,633,788
End of Year	\$ (2,977,948)	\$ 9,312,168	\$ 12,290,116

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL OBLIGATION DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2012

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Property Taxes	\$ 1,020,000	\$ 1,029,242	\$ 9,242
Investment Earnings	100	305	205
Total Revenues	1,020,100	1,029,547	9,447
EXPENDITURES			
Debt Service:			
Principal Retirement	840,000	840,000	-
Interest on Long-Term Debt	177,313	177,563	(250)
Fiscal Charges	2,100	-	2,100
Total Expenditures	1,019,413	1,017,563	1,850
Excess (Deficiency) of Revenues Over Expenditures	687	11,984	11,297
FUND BALANCE			
Beginning of Year	-	51,333	51,333
End of Year	\$ 687	\$ 63,317	\$ 62,630

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MUNICIPAL PROPERTY CORPORATION DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2012**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Sales Taxes	\$ 631,200	\$ 605,213	\$ (25,987)
Investment Earnings	500	588	88
Total Revenues	631,700	605,801	(25,899)
EXPENDITURES			
Debt Service:			
Principal Retirement	958,625	845,000	113,625
Interest on Long-Term Debt	113,625	327,312	(213,687)
Fiscal Charges	7,000	48,402	(41,402)
Total Expenditures	1,079,250	1,220,714	(141,464)
Excess (Deficiency) of Revenues Over Expenditures	(447,550)	(614,913)	(167,363)
OTHER FINANCING SOURCES (USES)			
Transfers In	193,500	2,463,118	2,269,618
Payment to Refunded Escrow Agent	(2,932,697)	-	2,932,697
Total Other Finance Sources (Uses)	(2,739,197)	2,463,118	5,202,315
Net Change in Fund Balance	(3,186,747)	1,848,205	5,034,952
FUND BALANCE			
Beginning of Year	-	891,306	891,306
End of Year	\$ (3,186,747)	\$ 2,739,511	\$ 5,926,258

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
EAGLE MOUNTAIN DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2012

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Property Taxes	\$ 420,000	\$ 425,125	\$ 5,125
Investment Earnings	84	97	13
Total Revenues	420,084	425,222	5,138
EXPENDITURES			
Debt Service:			
Principal Retirement	280,000	280,000	-
Interest on Long-Term Debt	134,260	134,260	-
Fiscal Charges	7,350	7,350	-
Total Expenditures	421,610	421,610	-
Excess (Deficiency) of Revenues Over Expenditures	(1,526)	3,612	5,138
FUND BALANCE			
Beginning of Year	-	5,332	5,332
End of Year	\$ (1,526)	\$ 8,944	\$ 10,470

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HURF FUND
FISCAL YEAR ENDED JUNE 30, 2012

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Intergovernmental	\$ 1,132,332	\$ 1,166,515	\$ 34,183
Charges for Services	25,200	11,825	(13,375)
Investment Earnings	120	450	330
Other	4,800	4,554	(246)
Total Revenues	<u>1,162,452</u>	<u>1,183,344</u>	<u>20,892</u>
EXPENDITURES			
Current:			
Highways and Streets	<u>1,278,299</u>	<u>1,022,104</u>	<u>256,195</u>
Excess (Deficiency) of Revenues Over Expenditures	(115,847)	161,240	277,087
FUND BALANCE			
Beginning of Year	-	705,979	705,979
End of Year	<u>\$ (115,847)</u>	<u>\$ 867,219</u>	<u>\$ 983,066</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
DEVELOPMENT FEES FUND
FISCAL YEAR ENDED JUNE 30, 2012

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Charges for Services	\$ 92,268	\$ 40,120	\$ (52,148)
Investment Earnings	420	9,038	8,618
Total Revenues	<u>92,688</u>	<u>49,158</u>	<u>(43,530)</u>
EXPENDITURES			
Current			
Highways and Streets	<u>70,000</u>	<u>23,424</u>	<u>46,576</u>
Excess (Deficiency) of Revenues Over Expenditures	22,688	25,734	3,046
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>-</u>	<u>(525,944)</u>	<u>(525,944)</u>
Net Change in Fund Balance	22,688	(500,210)	(522,898)
FUND BALANCE			
Beginning of Year	-	2,493,981	2,493,981
End of Year	<u>\$ 22,688</u>	<u>\$ 1,993,771</u>	<u>\$ 1,971,083</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL COURT ENHANCEMENT FUND
FISCAL YEAR ENDED JUNE 30, 2012**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Fines and Forfeitures	\$ 14,520	\$ 20,323	\$ 5,803
Investment Earnings	300	300	-
Total Revenues	14,820	20,623	5,803
EXPENDITURES			
Current:			
General Government	33,250	5,098	28,152
Excess (Deficiency) of Revenues Over Expenditures	(18,430)	15,525	33,955
FUND BALANCE			
Beginning of Year	-	225,000	225,000
End of Year	\$ (18,430)	\$ 240,525	\$ 258,955

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GRANTS FUND
FISCAL YEAR ENDED JUNE 30, 2012

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,500,000	\$ 1,500,000	\$ 168,019	\$ (1,331,981)
EXPENDITURES				
Current:				
General Government	1,500,000	1,438,435	138,000	1,300,435
Highways and Streets	-	-	9,402	(9,402)
Capital Outlay	-	-	20,903	(20,903)
Total Expenditures	<u>1,500,000</u>	<u>1,438,435</u>	<u>168,305</u>	<u>1,270,130</u>
Excess (Deficiency) of Revenues Over Expenditures	-	61,565	(286)	(61,851)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	286	286
Net Change in Fund Balance	-	61,565	-	(61,565)
FUND BALANCE				
Beginning of Year	-	-	-	-
End of Year	<u>\$ -</u>	<u>\$ 61,565</u>	<u>\$ -</u>	<u>\$ (61,565)</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
EXCISE TAX FUND
FISCAL YEAR ENDED JUNE 30, 2012

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Sales Taxes	\$ 272,136	\$ 302,606	\$ 30,470
Investment Earnings	-	8,882	8,882
Total Revenues	272,136	311,488	39,352
EXPENDITURES			
Current:			
General Government	211,364	112,497	98,867
Excess (Deficiency) of Revenues Over Expenditures	60,772	198,991	138,219
OTHER FINANCING SOURCES (USES)			
Transfers Out	-	(6,623)	(6,623)
Net Change in Fund Balance	60,772	192,368	131,596
FUND BALANCE			
Beginning of Year	-	1,847,690	1,847,690
End of Year	\$ 60,772	\$ 2,040,058	\$ 1,979,286

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
COTTONWOODS SPECIAL ASSESSMENT FUND
FISCAL YEAR ENDED JUNE 30, 2012

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes:			
Property Taxes	\$ 3,315	\$ 3,335	\$ 20
Investment Earnings	-	11	11
Total Revenue	<u>3,315</u>	<u>3,346</u>	<u>31</u>
EXPENDITURES			
Current:			
General Government	<u>3,315</u>	<u>-</u>	<u>3,315</u>
Excess (Deficiency) of Revenue Over Expenditures	(3,315)	3,346	6,661
FUND BALANCE			
Beginning of Year	-	12,664	12,664
End of Year	<u>\$ (3,315)</u>	<u>\$ 16,010</u>	<u>\$ 19,325</u>

THIS PAGE BLANK

STATISTICAL SECTION (UNAUDITED)

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.

See the table of contents for page numbers of the schedules that encompass the above sections.

TOWN OF FOUNTAIN HILLS, ARIZONA
NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year			
	2003	2004	2005	2006
Governmental Activities:				
Invested in Capital Assets, Net of Related Debt	\$ 11,843,575	\$ 11,261,256	\$ 17,495,539	\$ 20,806,507
Restricted	6,681,170	6,471,863	5,144,127	12,446,147
Unrestricted	2,638,149	7,976,113	10,821,304	9,053,611
Total Governmental Activities Net Assets	\$ 21,162,894	\$ 25,709,232	\$ 33,460,970	\$ 42,306,265

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

Fiscal Year

2007	2008	2009	2010	2011	2012
\$ 92,508,637	\$ 94,939,805	\$ 94,611,110	\$ 95,467,509	\$ 92,579,483	\$ 92,006,103
12,210,966	12,799,502	11,828,137	11,396,116	4,385,595	5,951,416
14,276,126	13,230,726	13,765,293	12,321,090	22,598,669	21,064,267
<u>\$ 118,995,729</u>	<u>\$ 120,970,033</u>	<u>\$ 120,204,540</u>	<u>\$ 119,184,715</u>	<u>\$ 119,563,747</u>	<u>\$ 119,021,786</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year			
	2003	2004	2005	2006
EXPENSES				
Governmental Activities:				
General Government	\$ 3,479,333	\$ 3,686,452	\$ 3,766,500	\$ 3,875,014
Public Safety	5,494,708	4,918,280	5,024,686	5,403,620
Highways and Streets	1,310,683	1,419,509	1,281,061	1,581,068
Culture and Recreation	2,363,897	2,068,613	2,362,661	2,576,406
Development Services	1,235,985	1,144,964	1,460,181	1,812,469
Interest on Long-Term Debt	1,576,842	1,499,575	1,162,796	1,297,119
Total Government Activities Expenses	<u>15,461,448</u>	<u>14,737,393</u>	<u>15,057,885</u>	<u>16,545,696</u>
PROGRAM REVENUES				
Governmental activities:				
Fees, Fines, and Charges for Services				
General Government	2,738,898	3,388,923	4,431,154	4,029,437
Public Safety	-	-	-	-
Highways and Streets	-	-	-	-
Other Activities	43,487	32,209	59,550	103,826
Operating Grants and Contributions	1,697,900	1,590,787	1,692,712	2,022,675
Capital Grants and Contributions			<u>237,307</u>	
Total Governmental Activities Program Revenues	<u>4,480,285</u>	<u>5,011,919</u>	<u>6,420,723</u>	<u>6,155,938</u>
Net (Expenses)/Revenues	\$ (10,981,163)	\$ (9,725,474)	\$ (8,637,162)	\$ (10,389,758)

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

Fiscal Year

	2007	2008	2009	2010	2011	2012
\$	4,292,515	\$ 3,921,588	\$ 4,231,529	\$ 3,720,236	\$ 2,876,848	\$ 3,119,113
	5,935,742	6,532,292	7,312,415	6,293,323	5,963,067	5,820,136
	5,225,835	5,981,347	5,051,294	5,202,285	5,567,973	4,718,047
	3,282,160	3,092,661	3,336,616	2,927,848	2,840,154	2,754,731
	2,512,170	2,861,653	2,218,994	1,612,287	1,572,202	1,442,613
	1,163,370	1,132,947	1,033,536	950,484	851,957	779,576
	<u>22,411,792</u>	<u>23,522,488</u>	<u>23,184,384</u>	<u>20,706,463</u>	<u>19,672,201</u>	<u>18,634,216</u>
	910,978	830,963	544,753	1,340,457	1,126,926	1,025,940
	982,659	746,227	55,042	32,667	21,222	20,323
	-	-	-	2,556	16,270	11,825
	626,431	752,621	888,249	-	-	-
	-	56,802	-	1,666,498	1,614,462	1,285,656
	<u>989,100</u>	<u>835,659</u>	<u>1,353,409</u>	<u>632,617</u>	<u>2,273,414</u>	<u>1,392,706</u>
	<u>3,509,168</u>	<u>3,222,272</u>	<u>2,841,453</u>	<u>3,674,795</u>	<u>5,052,294</u>	<u>3,736,450</u>
\$	(18,902,624)	\$ (20,300,216)	\$ (20,342,931)	\$ (17,031,668)	\$ (14,619,907)	\$ (14,897,766)

(Continued)

**TOWN OF FOUNTAIN HILLS, ARIZONA
 CHANGES IN NET ASSETS (CONTINUED)
 LAST TEN FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)**

	Fiscal Year			
	2003	2004	2005	2006
(Concluded)				
GENERAL REVENUES AND OTHER NET ASSETS				
Governmental Activities:				
Taxes:				
Sales Taxes	\$ 5,051,872	\$ 7,733,643	\$ 8,879,798	\$ 11,007,924
Property Taxes	1,905,770	2,195,856	2,020,800	1,648,947
Franchise Taxes	152,542	126,362	216,031	314,359
State Shared Revenues	4,740,758	4,489,844	4,756,481	5,389,551
Investment Earnings	1,976,809	122,082	395,124	673,351
Miscellaneous	79,706	195,978	120,666	200,921
Total Governmental Activities	<u>13,907,457</u>	<u>14,863,765</u>	<u>16,388,900</u>	<u>19,235,053</u>
CHANGE IN NET ASSETS				
Governmental Activities	<u>\$ 2,926,294</u>	<u>\$ 5,138,291</u>	<u>\$ 7,751,738</u>	<u>\$ 8,845,295</u>

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

Fiscal Year

2007	2008	2009	2010	2011	2012
\$ 11,407,714	\$ 10,489,591	\$ 8,932,374	\$ 7,644,440	\$ 8,013,480	\$ 7,787,489
1,385,953	1,635,542	1,531,770	1,928,028	1,349,079	1,453,405
324,318	336,290	321,964	285,881	322,659	332,130
8,444,731	8,848,199	8,456,552	6,000,923	5,217,140	4,515,511
1,094,994	780,935	258,478	22,831	28,456	88,877
85,418	183,963	76,300	129,740	68,125	178,393
<u>22,743,128</u>	<u>22,274,520</u>	<u>19,577,438</u>	<u>16,011,843</u>	<u>14,998,939</u>	<u>14,355,805</u>
<u>\$ 3,840,504</u>	<u>\$ 1,974,304</u>	<u>\$ (765,493)</u>	<u>\$ (1,019,825)</u>	<u>\$ 379,032</u>	<u>\$ (541,961)</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year			
	2003	2004	2005	2006
General Fund:				
Reserved	\$ -	\$ 77,485	\$ 40,664	\$ 14,393
Unreserved, Designated for:				
Vehicle Replacement	-	-	-	-
Unreserved, Undesignated	4,037,863	6,293,941	9,041,779	6,515,855
Total General Fund	<u>\$ 4,037,863</u>	<u>\$ 6,371,426</u>	<u>\$ 9,082,443</u>	<u>\$ 6,530,248</u>
All Other Governmental Funds:				
Unreserved, Designated for				
Vehicle Replacement	\$ -	\$ -	\$ -	\$ -
Unreserved, Undesignated Reported in:				
Special Revenue Funds	3,411,738	5,969,830	2,176,086	1,951,434
Capital Projects Funds	-	-	2,429,225	9,496,266
Debt Service Funds	1,705,230	530,372	644,089	159,530
Total All Other Governmental Funds	<u>\$ 5,116,968</u>	<u>\$ 6,500,202</u>	<u>\$ 5,249,400</u>	<u>\$ 11,607,230</u>

	Fiscal Year	
	2011	2012
General Fund:		
Nonspendable		
Inventory	\$ 13,183	\$ 9,332
Prepaid Items	29,234	28,245
Restricted	-	-
Committed	-	1,345,200
Assigned	-	2,190,910
Unassigned	8,263,549	3,656,173
Total General Fund	<u>\$ 8,305,966</u>	<u>\$ 7,229,860</u>
All Other Governmental Funds:		
Nonspendable		
Cash with Escrow Agent	\$ -	\$ 2,623,895
Prepaid Items	6,217	5,474
Restricted	4,379,987	3,300,426
Committed	11,480,869	2,039,560
Assigned	-	9,312,168
Total All Other Governmental Funds	<u>\$ 15,867,073</u>	<u>\$ 17,281,523</u>

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

Note: During fiscal year 2011, the Town implemented GASB Statement No. 54. Therefore, starting in the fiscal year ended June 30, 2011, governmental fund balances will be presented based on the GASB Statement No. 54 hierarchy.

Fiscal Year			
2007	2008	2009	2010
\$ 2,934,144	\$ 3,053,070	\$ 3,234,860	\$ 3,235,811
-	-	127,916	333,796
3,666,005	3,526,738	3,302,373	3,418,799
<u>\$ 6,600,149</u>	<u>\$ 6,579,808</u>	<u>\$ 6,665,149</u>	<u>\$ 6,988,406</u>
\$ -	\$ -	\$ 95,620	\$ 159,484
5,305,432	3,876,927	4,198,782	4,498,523
9,916,670	10,764,857	10,246,395	10,020,336
1,386,674	1,585,740	1,218,971	1,182,834
<u>\$ 16,608,776</u>	<u>\$ 16,227,524</u>	<u>\$ 15,759,768</u>	<u>\$ 15,861,177</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year				
	2003	2004	2005	2006	2007
REVENUES					
Taxes	\$ 7,114,486	\$ 9,997,706	\$ 11,151,893	\$ 12,993,876	\$ 13,159,087
Intergovernmental	6,311,458	6,080,631	6,686,500	7,412,226	8,444,731
Fines and Forfeitures	195,091	361,339	249,564	235,050	304,214
Licenses and Permits	1,308,747	1,600,934	2,230,046	1,918,107	1,239,318
Charges for Services	810,412	1,038,170	1,834,205	1,689,046	898,955
Rents and Royalties	188,745	242,704	222,327	255,527	267,350
Special Assessments	4,302	3,612	1,512	21,147	4,228
Investment Income (Loss)	1,976,809	122,082	395,124	673,351	1,094,994
Other	275,343	261,561	179,657	233,565	85,418
Total Revenues	<u>18,185,393</u>	<u>19,708,739</u>	<u>22,950,828</u>	<u>25,431,895</u>	<u>25,498,295</u>
EXPENDITURES					
General Government	3,318,574	3,614,458	9,547,409	4,459,183	4,024,551
Public Safety	5,174,492	4,616,161	4,754,523	5,208,770	5,689,020
Highways and Streets	1,198,080	1,402,502	1,682,563	2,121,986	2,028,397
Culture and Recreation	1,815,416	1,597,150	3,004,216	3,607,750	2,131,374
Development Services	1,215,387	1,144,964	1,460,181	1,812,469	2,462,643
Capital Outlay	79,427	101,951	-	-	2,002,887
Debt Service					
Principal Retirement	1,393,228	1,423,228	1,308,228	1,968,228	1,968,228
Interest on Long-Term Debt	1,576,842	1,499,575	1,164,561	1,192,414	1,058,665
Other Debt Service	-	-	229,990	532,762	-
Total Expenditures	<u>15,771,446</u>	<u>15,399,989</u>	<u>23,151,671</u>	<u>20,903,562</u>	<u>21,365,765</u>
Excess of Revenues Over (Under) Expenditures	2,413,947	4,308,750	(200,843)	4,528,333	4,132,530
OTHER FINANCING SOURCES (USES)					
Transfers In	5,981,544	1,630,907	4,805,635	10,146,663	4,383,069
Transfers Out	(5,981,544)	(1,630,907)	(4,805,635)	(10,146,663)	(4,383,069)
Issuance of Refunding Debt	-	-	12,555,000	4,555,000	-
Issuance of Long-Term Debt	-	-	3,783,896	-	-
Payment to Refunded Debt Escrow Agent	-	-	(14,677,838)	(4,338,781)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>1,661,058</u>	<u>216,219</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ 2,413,947</u>	<u>\$ 4,308,750</u>	<u>\$ 1,460,215</u>	<u>\$ 4,744,552</u>	<u>\$ 4,132,530</u>
Debt Service as a Percentage of Noncapital Expenditures	23.35%	23.62%	13.22%	21.46%	18.53%

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

Fiscal Year				
2008	2009	2010	2011	2012
\$ 12,457,086	\$ 10,960,001	\$ 9,818,985	\$ 9,704,054	\$ 9,577,321
9,353,260	9,607,961	7,672,037	7,165,103	6,035,448
287,120	339,658	297,030	236,221	223,673
1,125,957	541,627	399,094	312,367	194,976
620,300	316,676	464,036	388,635	405,663
296,434	290,083	215,520	227,195	206,018
4,337	4,037	-	-	-
780,935	258,478	22,831	28,456	88,877
183,963	43,683	129,740	72,125	178,393
<u>25,109,392</u>	<u>22,362,204</u>	<u>19,019,273</u>	<u>18,134,156</u>	<u>16,910,369</u>
3,548,295	3,514,249	3,186,368	2,575,975	2,887,321
6,321,669	6,624,141	6,200,227	5,772,800	5,869,445
2,214,557	1,199,850	973,746	1,123,230	1,054,930
2,257,007	2,215,065	2,007,737	1,871,446	1,794,332
2,751,740	2,036,295	1,669,449	1,564,615	1,421,787
5,239,169	3,708,277	1,254,223	1,043,304	884,323
2,153,228	2,240,000	2,460,000	2,115,000	1,965,000
1,025,320	929,134	842,857	744,330	639,135
-	-	-	-	55,752
<u>25,510,985</u>	<u>22,467,011</u>	<u>18,594,607</u>	<u>16,810,700</u>	<u>16,572,025</u>
(401,593)	(104,807)	424,666	1,323,456	338,344
2,756,988	3,759,735	1,127,776	431,880	2,470,027
(2,756,988)	(3,950,654)	(1,127,776)	(431,880)	(2,470,027)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	(190,919)	-	-	-
<u>\$ (401,593)</u>	<u>\$ (295,726)</u>	<u>\$ 424,666</u>	<u>\$ 1,323,456</u>	<u>\$ 338,344</u>
18.60%	20.33%	18.29%	17.41%	17.09%

THIS PAGE BLANK

**TOWN OF FOUNTAIN HILLS, ARIZONA
 GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
 LAST TEN FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)**

Fiscal Year	Sales Taxes	Property Taxes	Franchise Taxes	Total
2003	\$ 5,051,872	\$ 1,905,770	\$ 152,542	\$ 7,110,184
2004	7,733,643	2,195,856	126,362	10,055,861
2005	8,879,798	2,020,800	216,031	11,116,629
2006	11,007,924	1,648,947	314,359	12,971,230
2007	11,407,714	1,385,953	324,318	13,117,985
2008	10,489,591	1,635,542	336,290	12,461,423
2009	8,932,374	1,531,770	321,964	10,786,108
2010	7,644,440	1,928,028	285,881	9,858,349
2011	8,013,480	1,349,079	322,659	9,685,218
2012	7,787,489	1,453,405	332,130	9,573,024

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
TAXABLE SALES BY CATEGORY
LAST TEN FISCAL YEARS
(UNAUDITED)**

	Fiscal Year				
	2003	2004	2005	2006	2007
Sales Category:					
Construction	\$ 1,203,706	\$ 1,482,981	\$ 1,837,317	\$ 3,362,079	\$ 2,694,700
Restaurants and Bars	276,664	419,107	524,368	547,276	537,596
Transportation and Utilities	590,446	916,498	1,124,677	1,240,120	1,330,052
Services	455,324	423,433	185,868	263,239	280,290
Real estate, Rental and Leasing	205,849	341,951	604,356	626,364	792,358
Wholesale/Retail	1,930,175	3,212,062	3,536,045	3,796,192	4,144,263
Other	188,654	706,816	933,366	1,030,966	1,296,171
Total	<u>\$ 4,850,818</u>	<u>\$ 7,502,848</u>	<u>\$ 8,745,997</u>	<u>\$ 10,866,236</u>	<u>\$ 11,075,430</u>

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

Fiscal Year				
2008	2009	2010	2011	2012
\$ 2,062,028	\$ 1,414,240	\$ 538,551	\$ 567,136	\$ 600,402
582,226	493,242	509,624	559,930	575,705
1,422,158	1,311,735	1,424,827	1,388,074	1,407,331
327,411	258,138	241,686	276,566	274,481
982,198	664,999	650,071	731,615	678,267
3,912,512	3,687,409	3,555,974	3,567,615	3,600,619
1,182,349	910,561	691,972	733,454	730,956
<u>\$ 10,470,882</u>	<u>\$ 8,740,324</u>	<u>\$ 7,612,705</u>	<u>\$ 7,824,390</u>	<u>\$ 7,867,761</u>

THIS PAGE BLANK

**TOWN OF FOUNTAIN HILLS, ARIZONA
 DIRECT AND OVERLAPPING SALES TAX RATES
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Fiscal Year	Town Rate	Maricopa County	State Rate	Total Tax Rate
2003	1.60 %	0.70 %	5.60 %	7.90 %
2004	2.60	0.70	5.60	8.90
2005	2.60	0.70	5.60	8.90
2006	2.60	0.70	5.60	8.90
2007	2.60	0.70	5.60	8.90
2008	2.60	0.70	5.60	8.90
2009	2.60	0.70	5.60	8.90
2010	2.60	0.70	6.60	9.90
2011	2.60	0.70	6.60	9.90
2012	2.60	0.70	6.60	9.90

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

TOWN OF FOUNTAIN HILLS, ARIZONA
ASSESSED VALUE AND ESTIMATED TOTAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Net Assessed Value (in thousands)	Total Direct Tax Rate	Total Value (in thousands)	Assessed Value as a Percentage of Total Value
2003	\$ 270,603	\$ 0.51	\$ 2,418,236	11.19 %
2004	323,384	0.48	2,942,849	10.99
2005	349,399	0.42	3,162,855	11.05
2006	375,183	0.35	3,411,461	11.00
2007	610,738	0.30	5,840,185	10.46
2008	684,742	0.22	6,847,423	10.00
2009	651,218	0.20	6,648,954	9.79
2010	576,535	0.22	6,255,310	9.22
2011	451,860	0.18	4,370,950	10.34
2012	377,522	0.22	3,668,374	10.29

Source: The source of this information is the Arizona Department of Revenue's Abstract of the Assessment Roll and the Town's financial records.

**TOWN OF FOUNTAIN HILLS, ARIZONA
PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2012 AND 2003
(UNAUDITED)**

Taxpayer	2012			2003		
	Net Secondary Assessed Value	Rank	Percentage of Total Net Secondary Assessed Value	Net Secondary Assessed Value	Rank	Percentage of Total Net Secondary Assessed Value
Inland Western Fountain Hills Four Peaks, LLC	\$ 3,497,492	1	0.93 %	\$ -	N/A	N/A %
Chaparral City Water Company	3,025,000	2	0.80	3,645,656		1.35
EN II, LLC	2,299,280	3	0.61	-	N/A	N/A
WSL Fountain View Investors V, LLC	2,209,139	4	0.59	-	N/A	N/A
Pacific FH Resort, LLC	13,756,875	5	3.64	-	N/A	N/A
J & R Holdings XX, LLC	2,089,587	6	0.55	-	N/A	N/A
Target Corporation	2,058,652	7	0.55	-	N/A	N/A
Qwest Corporation	1,649,928	8	0.44	-	N/A	N/A
Firerock, LLC	1,608,357	9	0.43	6,654,687	1	2.46
Fountain Hills AZ Development LLLP	1,504,850	10	0.40	-	N/A	N/A
MCO Properties, LP				2,132,248	2	0.79
Fountain Hills Village LLC				1,570,000	3	
Four Peaks Limited Partnership				1,136,626	4	0.42
MCO Properties, Inc.				1,027,240	5	0.38
Fountain Hills-Old Vine Limited Partnership				890,522	6	0.33
Summit Estates, LLC				862,111	7	0.32
Safeway, Inc.				841,884	8	0.31
562502 Ontario Inc.				838,648	9	0.31
Sun Tech Development, LLC				809,435	10	0.3
	<u>\$ 33,699,160</u>		<u>8.94</u>	<u>\$ 20,409,057</u>		<u>6.97</u>

Source: The source of this information is the Maricopa County Assessor's Office.

**TOWN OF FOUNTAIN HILLS, ARIZONA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
2003	\$ 1,842,009	\$ 1,777,619	96.5%	\$ 51,558	\$ 1,829,177	99.3%
2004	2,125,505	2,053,055	96.6%	57,506	2,110,561	99.3%
2005	2,041,230	1,992,532	97.6%	22,283	2,014,815	98.7%
2006	1,673,519	1,618,877	96.7%	34,011	1,652,888	98.8%
2007	1,391,521	1,359,035	97.7%	27,203	1,386,238	99.6%
2008	1,630,534	1,578,583	96.8%	48,013	1,626,596	99.8%
2009	1,719,105	1,660,820	96.6%	53,548	1,714,368	99.7%
2010	1,895,552	1,838,909	97.0%	52,478	1,891,387	99.8%
2011	1,340,544	1,307,092	97.5%	27,530	1,334,622	99.6%
2012	1,446,076	1,414,482	97.8%	-	1,414,482	97.8%

Source: The source of this information is the Maricopa County Treasurer's Office.

TOWN OF FOUNTAIN HILLS, ARIZONA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Governmental Activities		Total	Percentage of Personal Income	Per Capita
	General Obligation Bonds and Other Bonds	Less: Amounts Restricted for Principal			
2003	\$ 24,015,000	\$ 1,393,228	\$ 22,621,772	21.26 %	\$ 1,017
2004	25,335,000	1,423,228	23,911,772	20.68	1,061
2005	24,190,000	1,308,228	22,881,772	18.20	986
2006	22,365,000	1,968,228	20,396,772	15.40	833
2007	26,910,467	1,978,149	24,932,318	17.85	976
2008	24,932,318	2,163,146	22,769,172	N/A	855
2009	22,769,172	2,249,921	20,519,251	N/A	808
2010	17,965,000	2,115,000	15,850,000	N/A	705
2011	15,850,000	2,205,000	13,645,000	N/A	608
2012	13,885,000	2,280,000	11,605,000	N/A	515

Source: The source of this information is the Town's financial records and the Bureau of Economic Analysis.

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

TOWN OF FOUNTAIN HILLS, ARIZONA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Taxable Assessed Value of Property</u>	<u>Percentage of Taxable Assessed Value of Property</u>	<u>Population</u>	<u>Net General Obligation Bonded Debt Per Capita</u>
2003	\$ 11,865,000	\$ 270,603,000	4.38%	22,243	\$ 533
2004	11,110,000	323,385,000	3.44%	22,541	493
2005	10,675,000	349,398,000	3.06%	23,217	460
2006	9,600,000	375,183,000	2.56%	24,492	392
2007	8,620,000	576,535,714	1.50%	25,540	338
2008	7,570,000	684,742,347	1.11%	26,633	284
2009	6,530,000	651,218,464	1.00%	25,388	257
2010	9,045,000	576,535,714	1.57%	22,489	402
2011	7,965,000	451,860,136	1.76%	22,444	355
2011	6,845,000	377,521,718	1.81%	22,554	303

Source: The source of this information is the Maricopa County Assessor's Office and the Town's financial records.

TOWN OF FOUNTAIN HILLS, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2012
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Overlapping:			
Maricopa County	\$ 133,930,000	1.10%	\$ 1,473,230
Maricopa County Community College District	683,835,000	1.10%	7,522,185
Fountain Hills Unified School District	12,595,000	96.30%	12,128,985
Eagle Mountain Community Facilities District	3,090,000	100.00%	3,090,000
Subtotal, Overlapping Debt			<u>24,214,400</u>
Direct:			
Town of Fountain Hills, Arizona			<u>10,795,000</u>
Total Direct and Overlapping Debt			<u><u>\$ 35,009,400</u></u>

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

Note: The estimated percentage of debt outstanding applicable to the Town is calculated based on the Town's secondary assessed valuation (full cash value) as a percentage of the secondary assessed valuation of the overlapping jurisdiction. Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the Town of Fountain Hills. This schedule further estimates the portion of outstanding debt of those overlapping governments that is borne by residents and businesses of the Town. This process recognizes that, when considering a town's ability to issue and repay long-term debt, the entire debt burden borne by residents should be taken into account. However, this fact does not imply that every taxpayer is a resident, and therefore, responsible for repaying the debt of each overlapping government.

**TOWN OF FOUNTAIN HILLS, ARIZONA
 LEGAL DEBT MARGIN INFORMATION
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

	Fiscal Year			
	2003	2004	2005	2006
Debt Limit	\$ 16,236,172	\$ 19,403,114	\$ 20,963,900	\$ 22,510,991
Total Applicable to Limit	<u>5,625,000</u>	<u>5,190,000</u>	<u>3,595,000</u>	<u>3,410,000</u>
Legal Debt Margin	<u>\$ 10,611,172</u>	<u>\$ 14,213,114</u>	<u>\$ 17,368,900</u>	<u>\$ 19,100,991</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	35%	27%	17%	15%

20% Debt Limit

	Fiscal Year			
	2003	2004	2005	2006
Debt Limit	\$ 54,120,573	\$ 64,677,046	\$ 69,879,667	\$ 75,036,636
Total Applicable to Limit	<u>6,975,000</u>	<u>6,675,000</u>	<u>7,515,000</u>	<u>7,265,000</u>
Legal Debt Margin	<u>\$ 47,145,573</u>	<u>\$ 58,002,046</u>	<u>\$ 62,364,667</u>	<u>\$ 67,771,636</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	13%	10%	11%	10%

Source: The source of this information is the Maricopa County Assessor's Office and the Town's financial records.

Fiscal Year

2007	2008	2009	2010	2011	2012
\$ 34,592,143	\$ 41,084,541	\$ 39,073,108	\$ 34,592,143	\$ 27,111,608	\$ 22,651,303
1,660,000	-	320,000	-	-	-
<u>\$ 32,932,143</u>	<u>\$ 41,084,541</u>	<u>\$ 38,753,108</u>	<u>\$ 34,592,143</u>	<u>\$ 27,111,608</u>	<u>\$ 22,651,303</u>
5%	0%	1%	0%	0%	0%

Fiscal Year

2007	2008	2009	2010	2011	2011
\$ 115,307,143	\$ 136,948,469	\$ 130,243,693	\$ 115,307,143	\$ 90,372,027	\$ 75,504,344
5,415,000	6,510,000	6,210,000	5,415,000	4,595,000	3,755,000
<u>\$ 109,892,143</u>	<u>\$ 130,438,469</u>	<u>\$ 124,033,693</u>	<u>\$ 109,892,143</u>	<u>\$ 85,777,027</u>	<u>\$ 71,749,344</u>
5%	5%	5%	5%	5%	5%

**TOWN OF FOUNTAIN HILLS, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
AS OF JUNE 30, 2012
(UNAUDITED)**

Net Secondary Assessed Valuation	<u>\$ 377,521,718</u>
<hr style="border: 0.5px solid black;"/>	
Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds	
Debt Limit - 20% of Net Secondary Assessed Valuation	\$ 75,504,344
Net Debt Applicable to Limit	<u>3,755,000</u>
20% Legal Debt Margin	<u>71,749,344</u>
<hr style="border: 0.5px solid black;"/>	
All other general obligation bonds	
Debt Limit - 6% of Net Secondary Assessed Valuation	22,651,303
Net Debt Applicable to Limit	<u>-</u>
6% Legal Debt Margin	<u>22,651,303</u>
Total legal debt margin	<u>\$ 94,400,647</u>

Source: The source of this information is the Maricopa County Assessor's Office and the Town's financial records.

**TOWN OF FOUNTAIN HILLS, ARIZONA
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	Municipal Facilities Revenue Bonds				
	Principal	Interest	Total	Pledged Revenues	Coverage
2003	\$ 425,000	\$ 566,433	\$ 991,433	\$ 11,270,153	11.4
2004	425,000	550,983	975,983	14,044,597	14.4
2005	620,000	456,892	1,076,892	16,171,235	15.0
2006	665,000	546,576	1,211,576	18,746,928	15.5
2007	715,000	473,349	1,188,349	19,379,717	16.3
2008	805,000	498,878	1,303,878	18,890,944	14.5
2009	885,000	460,379	1,345,379	16,440,872	12.2
2010	985,000	424,538	1,409,538	14,380,648	10.2
2011	1,035,000	373,768	1,408,768	14,001,045	9.9
2012	845,000	332,463	1,177,463	13,075,001	11.1

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN CALENDAR YEARS
 (UNAUDITED)**

	Calendar Year			
	2002	2003	2004	2005
Population	21,954	22,243	22,541	23,217
Personal income	\$ 100,805,099	\$ 106,385,325	\$ 115,604,165	\$ 125,718,070
Per capital personal income	\$ 28,900	\$ 29,607	\$ 31,133	\$ 32,414
Median age	N/A	N/A	N/A	N/A
School enrollment	2,447	2,450	2,453	2,373
Town of Fountain Hills unemployment rate	2.7%	2.6%	2.1%	2.0%
Land use				
Total acres	N/A	N/A	N/A	N/A
Total square miles	N/A	N/A	N/A	N/A
Vacant lots	N/A	N/A	N/A	N/A
Number of units				
Housing	N/A	N/A	N/A	N/A
Lodging	N/A	N/A	N/A	N/A
Restaurants	N/A	N/A	N/A	N/A
Shopping centers	N/A	N/A	N/A	N/A
Schools				
Public	N/A	N/A	N/A	N/A
Preschool	N/A	N/A	N/A	N/A
Charter	N/A	N/A	N/A	N/A

Source: 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 Administration, Office of Employment and Population Statistics. The source of School Enrollment is the Fountain Hills Unified School District No. 98. Other information is from the Town’s records.

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

* Information obtained is based on calendar years; therefore, the latest information obtained was from 2011.

Calendar Year					
2006	2007	2008	2009	2010	2011
24,452	25,540	26,633	25,388	22,489	22,554
\$ 132,423,154	\$ 139,665,253	N/A	N/A	N/A	N/A
\$ 35,046	\$ 36,135	\$ 32,230	\$ 38,439	\$ 38,918	N/A
N/A	46.4	46.4	49.7	49.7	N/A
2,425	2,307	2,233	2,203	2,103	1,981
1.8%	1.6%	2.5%	4.4%	4.5%	6.8%
12,296.0	13,005.7	13,005.7	13,005.7	13,005.7	13,005.7
20.31	20.32	20.32	20.32	20.32	20.32
N/A	3,355	1,295	1,253	1,226	1,218
12,681	12,850	12,832	12,927	13,167	13,167
4	4	4	4	4	4
50	53	47	52	53	56
14	14	19	19	20	20
4	4	4	4	4	4
5	4	4	4	4	4
2	1	1	1	1	1

**TOWN OF FOUNTAIN HILLS, ARIZONA
PRINCIPAL EMPLOYERS
PRIOR FISCAL YEAR AND NINE YEARS AGO*
(UNAUDITED)**

Employer	2011			2002	
	Employees	Rank	Percentage of Total Town Employment	Employees	Rank
Fountain Hills Unified School District No. 98	336	1	9.1%	250	1
Fountain View Village	136	2	3.7%	-	
Target	102	3	2.8%	-	
Firerock County Club	100	4	2.7%	-	
Fry's	91	5	2.5%	-	
Safeway Food Stores	90	6	2.4%	95	4
Eagle Mountain Golf Course	70	7	1.9%	40	9
Town of Fountain Hills	66	9	1.8%	115	3
Basha's	62	8	1.7%	70	6
TT Construction, Inc.	60	10	1.6%	-	
Sunridge Canyon Golf Course	59	11	1.6%	70	7
Desert Canyon Golf Club	58	12	1.6%	50	8
MCO Properties, Inc.	-		0.0%	85	5
Monks Construction	-		0.0%	150	2
Total	<u>1,230</u>		<u>33.5%</u>	<u>925</u>	
Total Town employment	<u>3,675</u>				

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

* Data for 2012 and 2003 are not available.

TOWN OF FOUNTAIN HILLS, ARIZONA
FULL-TIME EQUIVALENT GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Municipal Court	6.00	5.00	5.00	5.50	5.00	5.00	5.00	5.00	5.00	5.00
Administration	14.50	10.00	11.00	12.50	13.00	13.50	13.50	13.25	11.25	11.58
Public Safety	20.00	1.00	-	-	-	-	-	-	-	-
Development Services	43.00	40.00	39.50	41.00	41.00	40.50	40.00	35.75	23.25	20.25
Community Services	22.50	20.00	21.50	23.50	28.00	29.25	29.75	27.10	21.63	21.53
Total	106.00	76.00	77.00	82.50	87.00	88.25	88.25	81.10	61.13	58.36

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)**

Function/Program	Fiscal Year				
	2003	2004	2005	2006	2007
Municipal Court:					
Cases filed	N/A	N/A	N/A	N/A	N/A
Hearings/Trials held	N/A	N/A	N/A	N/A	N/A
Administration:					
FTEs per 1,000 residents	4.8	3.4	3.4	3.6	3.6
Registered voters - general election	12,594	13,349	none	13,669	none
Voter turnout - general election	43%	23%	none	21%	none
Development Services:					
Building permits issued	168	228	430	468	759
Building inspections conducted	6,389	6,985	8,446	9,377	7,975
Number of code violation cases	N/A	N/A	N/A	N/A	N/A
Number of zoning cases	N/A	N/A	N/A	N/A	N/A
Community Services:					
Number of Community Center bookings	N/A	N/A	N/A	N/A	N/A
Number of participants in recreational programs	N/A	N/A	N/A	N/A	N/A
Number of Senior Services members	N/A	N/A	N/A	N/A	N/A
Number of home delivered meals	N/A	N/A	N/A	N/A	N/A
Law Enforcement (contracted):					
Physical arrests	601	601	644	N/A	993
Traffic violations	3,186	3,186	2,432	N/A	2,315
Fire & Emergency Medical (contracted):					
Total incident responses	N/A	N/A	N/A	3,056	3,069
Average response time (in minutes)	N/A	N/A	N/A	3:47	3:49

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

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

* Includes permits issued for all types of activities requiring permits.

Fiscal Year				
2008	2009	2010	2011	2012
N/A	N/A	3,520	2,584	2,173
N/A	N/A	1,089	738	731
3.5	3.3	3.2	2.7	2.6
14,335	none	15,511	none	16,074
39%	none	50%	none	34%
716	391	409	354	352
5,692	3,189	1,936	1,546	1,257
N/A	N/A	1,024	843	804
N/A	N/A	7	14	7
N/A	N/A	3,396	3,315	3,236
N/A	N/A	1,960	1,759	1596*
N/A	N/A	1,105	1,205	1208*
N/A	N/A	10,169	9,742	8000*
524	825	679	645	522
2,504	4,900	2,959	1,909	1,366
2,694	2,787	2,875	3,179	3,082
3:37	3:44	4:32	3:46	3:50

**TOWN OF FOUNTAIN HILLS, ARIZONA
 CAPITAL ASSETS STATISTICS BY FUNCTION
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Function/Program	Fiscal Year				
	2003	2004	2005	2006	2007
Public Safety:					
Number of Fire stations	2	2	2	2	2
Other Public Works:					
Streets (Miles)	178.5	178.5	178.5	178.5	178.5
Streets (Lane Miles)	395	395	395	395	395
Streetlights	N/A	N/A	N/A	34	34
Traffic Signals	10	11	11	12	13
Parks and Recreation:					
Acreage	116	116	116	116	116
Playgrounds	3	3	3	3	3
Baseball/Softball Diamonds	6	6	6	6	6
Soccer/Football Fields	4	4	4	3	3
Community Centers	1	1	1	1	1
Preserve Acreage	N/A	N/A	N/A	N/A	N/A
Miles of Trails	N/A	N/A	N/A	N/A	N/A

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

Fiscal Year				
2008	2009	2010	2011	2012
2	2	2	2	2
178.5	178.5	178.5	178.5	178.5
395	395	395	395	395
34	34	34	34	34
12	12	12	13	13
116	116	116	116	116
3	3	3	4	4
6	6	6	6	6
3	3	3	5	5
1	1	1	1	1
N/A	N/A	N/A	N/A	740
N/A	N/A	N/A	N/A	4.3

THIS PAGE BLANK