



Fiscal Year 2009-2010

# COMPREHENSIVE ANNUAL FINANCIAL REPORT



Town of Fountain Hills, Arizona

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

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**TOWN OF FOUNTAIN HILLS, ARIZONA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL  
YEAR ENDED JUNE 30, 2010**

**Issued By:  
Finance Department**

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## **INTRODUCTORY SECTION**

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## Town of Fountain Hills

16705 E. Avenue of the Fountains  
Fountain Hills, AZ 85268  
Phone: 480-816-5100 • Fax: 480-837-3145  
[www.fh.az.gov](http://www.fh.az.gov)

November 8, 2010

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

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Town of Fountain Hills for the fiscal year ended June 30, 2010.

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 LarsonAllen 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, 2010, 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, 2010, 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. It was purchased by Robert McCulloch in the late 1960s and designed by Charles Wood, Jr. (designer of Disneyland in southern California). The centerpiece of Fountain Hills is one of the world's tallest man-made fountains, a focal point that attracts thousands of visitors each year.

Located on 13,006 acres of land, and bordering northeast Scottsdale, Fountain

Hills is surrounded by the 3,500-foot McDowell Mountains on the west, the Fort McDowell Indian Reservation on the east, the Salt River Indian Reservation on the south and by the McDowell Mountain Regional Park on the north. Elevation is 1,520 feet at the fountain, 3,000 feet on Golden Eagle Boulevard, and is 500 feet above Phoenix.

Over the past twenty years Fountain Hills has grown from 10,190 residents to a town of approximately 26,000 in 2010. The latest estimates for Fountain Hills indicate that the population will continue to grow to near 34,324 by 2030. On June 5, 2006 the Town of Fountain Hills became two square miles and about ten percent larger by annexing 1,300 acres of State Trust Land. The process to annex the State Trust Land occurred over a two and one-half year period and development of the land will occur over the next decade. Annexing this property into the Town ensures that its future development will be of the highest quality under such Town's standards as the cut-and-fill ordinance and strict zoning regulations. Fountain Hills will have an opportunity to demonstrate that it is truly the best place to live in the Valley.

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

### **The Town's Mission Statement for the Organization**

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

providing for its safety and well-being;

respecting its special, small-town character and quality of life;

providing superior public services;

sustaining the public trust through open and responsive government;

and maintaining the stewardship and preservation of its financial and natural resources.

To serve and respect, and provide trust and stewardship.



Fountain Hills Town Hall

The Town of Fountain Hills is an Arizona Municipal Corporation, acting as a general law Town as prescribed in the Arizona Revised statutes. The Town was incorporated on December 5, 1989 with the governmental and administrative affairs of the Town operating under the Council-Manager form of government. The Town Council is responsible, among other things, for the adoption of local ordinances, budget adoption, the development of citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and administering the Town's operations through three department directors and approximately 61 FTE employees. The Magistrate, Town Attorney and Town Prosecutor are under the direction of the Town Council.



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

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

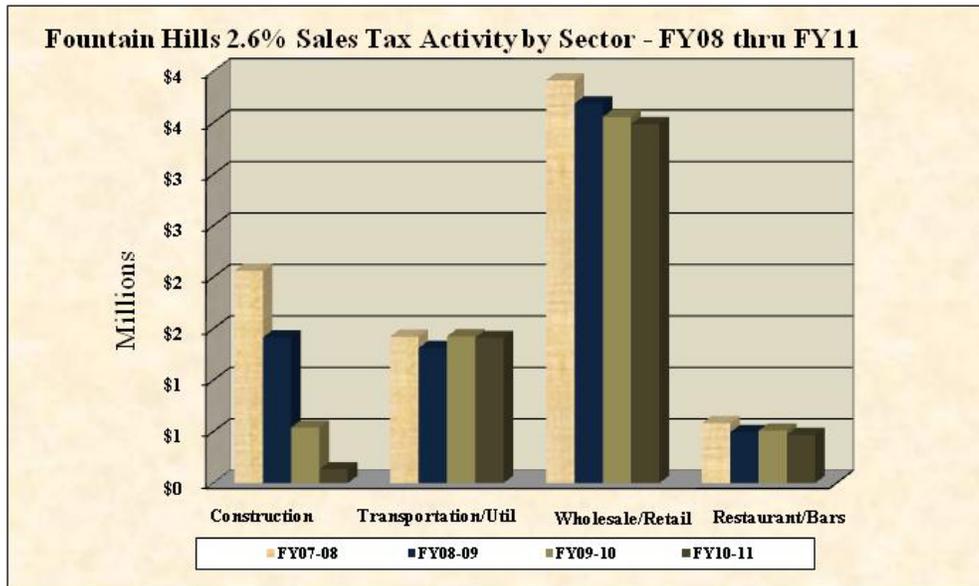
The annual budget serves as the foundation for the Town of Fountain Hills' financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund. Therefore,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

**Factors Affecting Financial Condition**

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

**Local Economy.** The decline in the global economy has impacted the Town’s local economy with a sharp decrease in building activity. As such, similar to other Arizona municipalities, the Town is dependent upon state shared revenues and local sales tax as a major source of operating revenue, accounting for 89% of total General Fund revenue for fiscal year 2009-10. 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 0.05%). State shared income tax revenues decreased 12% during fiscal year 2009-10; this revenue category is based on two years prior personal and corporate earnings, therefore, it is anticipated that the Town will experience further declines 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 three years’ local sales tax activity by sector including a projection for the upcoming fiscal year:



As can be seen in the above chart sales tax collections from construction activity have dropped significantly (80% from FY07) while transportation/utilities continues to show signs of growth. Construction sales tax is considered a one-time revenue source which is driven entirely by development activity. As the Town approaches build-out construction related sales taxes and fees are likely to dwindle; with a declining revenue base it will become a challenge for the Town to meet the increasing demands of current service levels.

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 – 75% of the developable lots are already developed.

**Development Activity over the past year:**

Development Services has been involved with the following development activities during the '09-'10 Fiscal Year:

Two Concept Plans were approved by the Planning & Zoning Commission during the period:

Cristensen Garage,	12005 Panorama Drive
Fountain Hills Fire Station #2,	15200 E. Shea Blvd

Two Special Use Permits were granted for Communication arrays:

Rooftop antennas	Eagle Mountain Village Marketplace 14835 E. Shea Blvd
Telecommunications Facility	13770 N. Fountain Hills Blvd

Seven Temporary Use Permits were issued during the period:

Avenue of the Fountains	Farmers' Market
Avenue of the Fountains	Art on the Avenue
15813 E. Teepee Drive	Day Care Facility w/over 5 children
Town Center Merchants Group	Annual Events Permit
Plaza Fountainside	Arts & Crafts Show
13733 N. Fountain Hills Blvd	Safeway mini-carnival 10-24-2009
16810 E. Avenue of the Fountains	Parking Lot usage

One new Commercial Building Permit was issued:

Cristensen Garage (650 sq feet)	12005 Panorama Drive
---------------------------------	----------------------

There were twenty commercial tenant improvements during the last fiscal year that indicate that Fountain Hills is still a desirable place to locate a business. The following were issued permits for Tennant Improvements:

El Encanto Restaurant (3,673 sq ft)	11044 Saguaro Blvd
F.H. Plaza shop (1,086 sq ft)	16605 Palisades Blvd #130
Beauty Salon (2,165 sq ft)	6715 Parkview Ave, Suites #2 & #3
Hair Salon (970 sq ft)	16719 Palisades Blvd
Fountain Hills Medical Center, Cardiovascular, (2,225 sq ft)	16838 Palisades Blvd #107
MPG Restaurant (2,850 sq ft)	15225 Fountain Hills Blvd #104
Chiropractor clinic (1,767 sq ft)	16838 Palisades Blvd
Joy Christian Community Church (5,300 sq ft)	13430 Saguaro Blvd
Hair Salon (628 sq ft)	16733 Palisades Blvd #104
Eyes on You Optical (1,720 sq ft)	16425 Palisades Blvd #102
F.H. Medical Center (4,089 sq ft)	13620 Saguaro Blvd
F.H. Medical Center, Sonoran Quest Laboratory (1,490 sq ft)	13620 Saguaro Blvd #150
Palisades Plaza, Retail shop (557 sq ft)	13733 Fountain Hills Blvd #14

F.H. Rural Metro Ambulance station (1,320 sq ft)	14825 Shea Blvd #107
Desert Foot & Ankle (2,493 sq ft)	16838 Palisades Blvd #105
Red Rock Business Center (1,800 sq ft)	9624 Monterey
Red Rock Business Center (2,410 sq ft)	17100 Shea Blvd #310 - #320
Chicago Bob's Restaurant (935 sq ft)	16948 Shea Blvd
American Institute of Interior Design (4,345 sq ft)	13014 Saguaro Blvd

No new Multi-Family Residential Building Permits were issued during this period. Nine new Single-Family Residential Building Permits were issued.

Other activity of note:

The new 2009 General Plan was adopted in December 2009.

The Downtown Area Specific Plan was adopted on December 17, 2009.

The Town approved an amended Development/Parking Agreement with Plaza Fountainside/Waterfront.

The Town hosted the Urban Land Institute (ULI) AzTAP review of the Town's Downtown development implementation strategies on September 1, 2010.

### **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 – a summary of the policy is below:

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

These amounts will not be programmed for expenditure and are only available for use within the confines of expenditure limitations imposed by the State. A Capital Projects Fund has been created and is funded with proceeds from excess revenues collected over budget and any unexpended appropriations not needed to meet fund balance requirements or re-appropriation. For the fiscal year ending June 30, 2010 \$100,000 of surplus revenues were transferred from the General Fund to the Capital Projects Fund.

The Council also adopted financial policies that include guidelines for the issuance of debt for capital expenditures, Community Facility Districts, financing alternatives, expenditure controls and financial planning. The policy was amended during fiscal year 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. An investment policy was adopted and was awarded to the Investment Policy Certification from the Association of Public Treasurers of United States and Canada.

### **Major Initiatives**

The Town of Fountain Hills’ adopted FY2010-11 budget reflects the continued recession in the local economy, which is also mirrored at the national and state levels. Due to the challenging current economic conditions, the Town had to make 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 61 FTE’s (full time equivalents).

**Cash Management.** State statutes permit municipalities in Arizona to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer’s Local Government Investment Pool (LGIP). The Town of Fountain Hills debt policy restricts investments to securities that are 100% backed by the full faith and credit of the U.S. government. The Town of Fountain Hills invests all idle cash in the State LGIP-GOV, which consists of government-backed securities. The year-to-date yield on investments as of June 30, 2010 was less than 1%. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

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

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

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

For further information on these plans please refer to Note 4.D. in the financial statements.

### **AWARDS AND ACKNOWLEDGEMENT**

**Awards.** The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2009. This was the thirteenth 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, 2010. 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 eighth consecutive year that the Town has received the award.

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

Respectfully submitted,



Richard L. Davis, ICMA-CM  
Town Manager

**TOWN OF FOUNTAIN HILLS, ARIZONA  
LIST OF PRINCIPAL OFFICIALS  
JUNE 30, 2010**

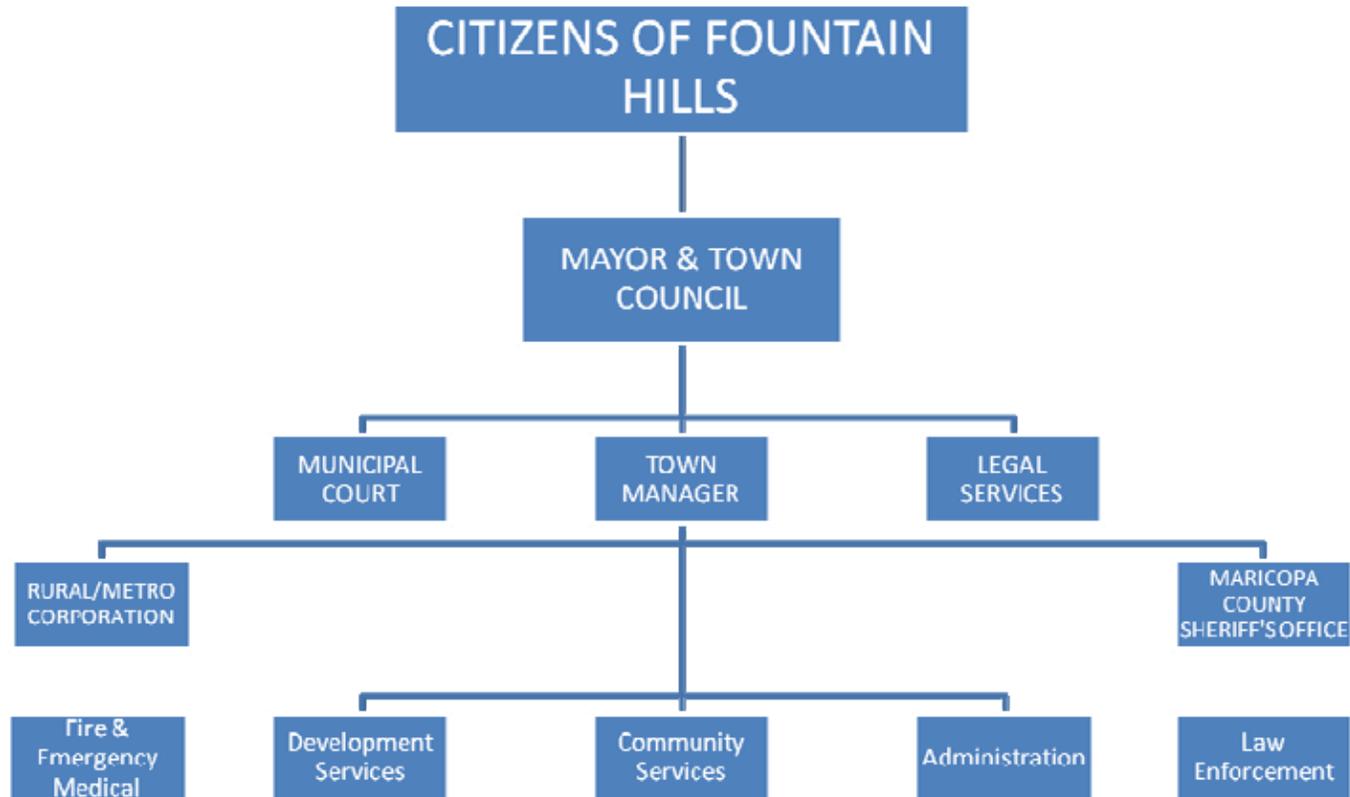
**ELECTED OFFICIALS**

Mayor	Mr. Jay Schlum
Vice-Mayor	Mr. Dennis Brown
Councilmember	Ms. Dennis Contino
Councilmember	Mr. Ginney Dickey
Councilmember	Mr. Tait Elkie
Councilmember	Ms. Cassie Hansen
Councilmember	Mr. Henry Leger

**DEPARTMENT DIRECTORS**

Town Manager	Richard L. Davis
Presiding Judge	Mitchell S. Eisenberg
Finance Director	Julie A. Ghetti, CPA
Community Center Director	Mark Mayer
Development Services Director	Paul Mood
Fire Chief	Scott LaGreca Rural Metro Corporation
District Commander	Captain Joe Rodriquez Maricopa County Sheriff's Office
Town Prosecutor	Iacovino & Kayler
Town Attorney	AndrewMcGuire, Gust Rosenfeld, P.L.C.

TOWN OF FOUNTAIN HILLS, ARIZONA  
ORGANIZATIONAL CHART  
JUNE 30, 2010



# 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, 2009

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.



President

Executive Director

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## **FINANCIAL SECTION**

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## 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, 2010, 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, 2010, and the respective changes in financial position thereof and the budgetary comparison schedule for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior period adjustments were reported in Note 4.A. to correct errors in the previously issued financial statements.

The management's discussion and analysis on pages 14-26 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*LarsonAllen LLP*

**LarsonAllen LLP**

Mesa, Arizona  
November 8, 2010

## **REQUIRED SUPPLEMENTARY INFORMATION**

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**TOWN OF FOUNTAIN HILLS, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

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, 2010. 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 2009-10 and fiscal year 2008-09 by \$119.2 million and \$120.2 million, respectively. Of these amounts, \$12.3 million and \$13.8 million, respectively, may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ Governmental activities program revenues increased by approximately \$833,342 (29%) over the previous year. This was due to an increase in operating grants/contributions for a major road project. Charges for services decreased by \$112,364 (8%) and capital grants decreased by \$720,792 (53%).
- ◆ At June 30, 2010, total fund balance of the governmental funds was \$22.8 million, up \$.4 million (1.9%) from the previous year. Of this, \$3.8 million is unreserved in the General Fund, while the remainder is reserved for specific purposes.
- ◆ The major governmental funds which includes the General Fund, totaling \$13.5M in revenues, consisting primarily of local taxes, intergovernmental taxes, charges for services and licenses and permits. The total expenditures of the General Fund were \$12.8M and the fund balance increased from \$6.7M to \$7.0M including the Rainy Day and Vehicle Replacement Funds. The non-major governmental funds revenues were \$2.8M with the majority from Intergovernmental Highway User Revenue Funds (HURF). Expenditures for the non-major funds was \$1.8M with \$1.0M from HURF
- ◆ The Town's total net assets of governmental activities decreased \$1,019,825 (0.9%) from the prior fiscal year; revenues declined 12% but reductions in expenditures were also made (11%).
- ◆ General revenues accounted for \$16.0 million in revenue, or 81% 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 19% of total current fiscal year revenues.
- ◆ The Town had approximately \$20.7 million in expenses related to governmental activities, a decrease of 11% 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 projects related to Highways and Streets projects that were State funded.
- ◆ Per local policy, residual undesignated General Fund revenues are transferred at year end to the Capital Projects Fund (\$15,193 for fiscal year 2009-10). Therefore, the General Fund balance remains unchanged at \$7.0 million (including a Rainy Day and Vehicle Replacement Fund).

**TOWN OF FOUNTAIN HILLS, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

**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, community development, and interest on long-term debt.

**Fund Financial Statements**

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

*Governmental Funds* – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements 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  
YEAR ENDED JUNE 30, 2010**

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 balances 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, 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  
YEAR ENDED JUNE 30, 2010**

**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 \$119,184,715 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, 2010 and June 30, 2009.

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

	2010	2009 (Restated)	Percent Change
<b>Assets</b>			
Current and Other Assets	\$ 27,897,140	\$ 27,432,899	1.69%
Capital Assets:			
Non-depreciable	26,030,483	25,150,168	3.50%
Depreciable (net)	87,486,356	92,230,114	-5.14%
Total Assets	141,413,979	144,813,181	-2.35%
<b>Liabilities</b>			
Other Liabilities	3,873,026	1,505,346	157.28%
Long-Term Liabilities:			
Due Within One Year	2,155,612	2,284,921	-5.66%
Due in More Than One Year	16,200,626	20,818,374	-22.18%
Total Liabilities	22,229,264	24,608,641	-9.67%
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	95,467,509	94,611,110	0.91%
Restricted	11,396,116	11,828,137	-3.65%
Unrestricted	12,321,090	13,765,293	-10.49%
Total Net Assets	\$ 119,184,715	\$ 120,204,540	-0.85%

The largest portion of the Town's net assets (80%) 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 (10%) 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  
YEAR ENDED JUNE 30, 2010**

**Analysis of Changes in Net Assets**

The Town's total net assets decreased by \$1,019,825 during the FY09-10; the decrease is primarily a result of the decline in depreciable assets as the protracted economy prevents investments in infrastructure. Future investments in capital assets will be possible as the economy recovers and funds are made available through the American Recovery and Reinvestment Act.

Total governmental revenues declined significantly over the prior year with a net decrease of \$2,732,253 (12%). The most significant decrease is a decline in state revenue sharing of \$2,387,124 (32%) and investment earnings due to the low rate of return in the Local Government Investment Pool (\$235,647 or 91%). The Town also incurred a decrease of \$1,287,934 (14%) in sales tax revenues due to a decline in sales taxes from state and local governments. The Town is going through the process of updating the investment policy to allow for more diverse options for investing idle cash.

The Town's total revenues for the current fiscal year were \$19.7 million. The total cost of all programs and services was \$20.7 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2010 and June 30, 2009.

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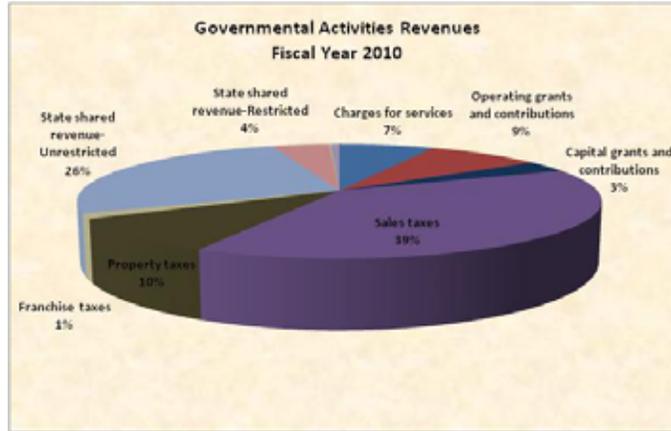
**TOWN OF FOUNTAIN HILLS, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

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

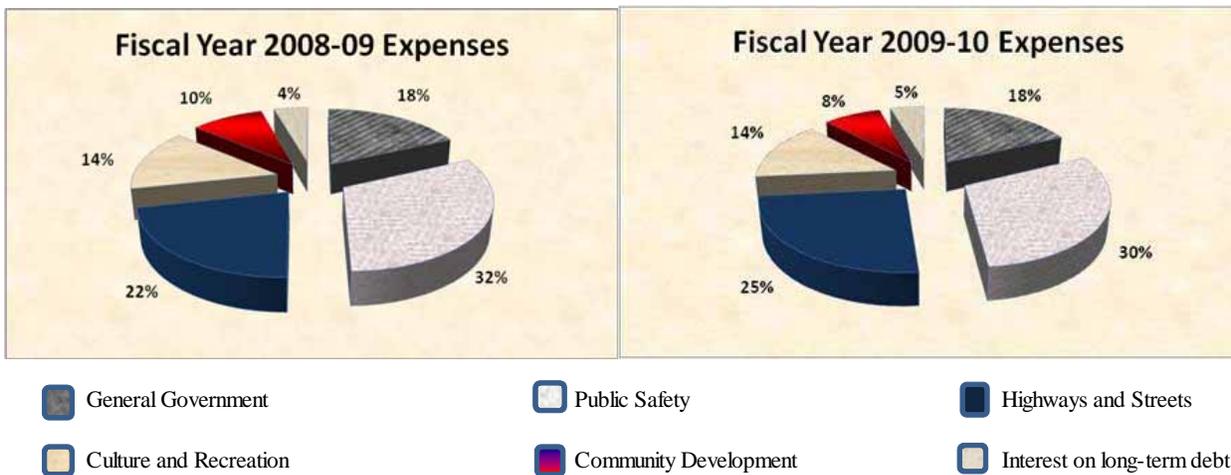
	2010	2009 (Restated)	Percent Change
<b>REVENUES</b>			
Program Revenues:			
Fees, Fines and Charges for Services	\$ 1,375,680	\$ 1,488,044	-7.55%
Operating Grants and Contributions	1,666,498	-	100.00%
Capital Grants and Contributions	632,617	1,353,409	-53.26%
General Revenues:			
Sales Taxes	7,644,440	8,932,374	-14.42%
Property Taxes	1,928,028	1,531,770	25.87%
Franchise Taxes	285,881	321,964	-11.21%
State Shared Revenues	5,179,602	7,566,726	-31.55%
Auto Lieu Taxes	821,321	889,826	-7.70%
Investment Earnings	22,831	258,478	-91.17%
Miscellaneous	129,740	76,300	70.04%
Total Revenues	<u>19,686,638</u>	<u>22,418,891</u>	-12.19%
<b>EXPENSES</b>			
General Government	3,720,236	4,231,529	-12.08%
Public Safety	6,293,323	7,312,415	-13.94%
Highways and Streets	5,202,285	5,051,294	2.99%
Culture and Recreation	2,927,848	3,336,616	-12.25%
Community Development	1,612,287	2,218,994	-27.34%
Interest on Long-Term Debt	950,484	1,033,536	-8.04%
Total Expenses	<u>20,706,463</u>	<u>23,184,384</u>	-10.69%
<b>CHANGE IN NET ASSETS</b>	(1,019,825)	(765,493)	-33.22%
Net Assets - Beginning of Year, as Restated	120,204,540	120,970,033	-0.63%
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 119,184,715</u>	<u>\$ 120,204,540</u>	-0.85%

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 (40%), followed by state shared revenues and auto lieu (30%), property taxes (10%), charges for services (7%) and grants (12%).

**TOWN OF FOUNTAIN HILLS, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**



The charts below compare the governmental expenses from fiscal year 2008-09 and fiscal year 2009-10.



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 12% compared to last year as the economic recession resulted in less construction related revenues and sales tax; interest on investments also declined with lower rates of return
- Depreciable net assets declined 5% (\$4.7 million) with the Town's deferred investment in capital infrastructure and improvements
- A major road project, Shea Boulevard climbing lane, was funded through the American Recovery and Reinvestment Act (ARRA) through Arizona Department of Transportation (\$1.5 million). This was not a federal grant to the Town.

**TOWN OF FOUNTAIN HILLS, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

- 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 two years as the economy lags. Additionally, as surrounding communities grow in population the Town may 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 FY10; retail activity, however, decreased slightly (less than 3%).
- Overall expenses decreased 11% as the Town cuts expenses with available resources.
- A major restructuring of the organization resulted in the elimination of 13 positions, consolidation of three departments with a fiscal year savings of \$800,000. The previous departments of Planning & Zoning, Building Safety and Public Works have been combined into one department – Development Services. The Community Center Department was consolidated into a new Community Services Department which includes parks, recreation, Community Center and Senior Services.
- 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.

**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, unreserved 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, 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 \$22.8 million, an increase of \$0.4 million due primarily due to increased sales tax collections for the government as a whole, offset by the use of reserves for planned capital projects in the Capital Projects Fund.

Fund	Balance	Increase (Decrease) From 2008-09
General Fund *	\$ 6,988,406	\$ 323,257
Capital Projects Fund	10,020,336	(226,059)
General Obligation Debt Service Fund	110,830	107,067
Municipal Property Corporation Debt Service Fund	1,041,354	(164,048)
Nonmajor Governmental Funds	4,688,657	384,449

\* Including Rainy Day and Vehicle Replacement Funds

**TOWN OF FOUNTAIN HILLS, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

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 \$6,988,406, while total fund balance of the funds reached \$22.8 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 55 percent of total General Fund expenditures, while total fund balance represents 123 percent of total expenditures. The fund balance of the Town of Fountain Hills, Arizona's General Fund increased by \$323,257 during the current fiscal year. Expenditures within the General Fund decreased 10% over the prior year – the savings were partially realized with consolidation of Town departments as well as deferral of maintenance and equipment/vehicle replacement.

The General Fund comprises 30.6 percent of the total fund balance. Approximately \$3.2 million, or 46 percent of the General Fund's fund balance constitutes unreserved fund balance. The remaining fund balance is reserved to indicate that it is not available for spending because it has already been committed as follows:

- \$9,133 for inventory
- \$3,740 for prepaids
- \$333,796 for vehicles replacement
- \$1.3M for rainy day funds
- \$1.9M reserved for other purposes

The General Fund is the principal operating fund of the Town; overall the General Fund's performance resulted in revenues over expenditures for FY10 in an amount of \$323,257. The fund balance of \$7.0 million in the General Fund as of June 30, 2010 has remained consistent over the past three years.

The fund balance of the Capital Project's Fund decreased \$(226,059) during the current fiscal year. The original budget anticipated a drawdown of capital funds by \$2.1 million however, the projects have been carried over to fiscal year 2010-11.

The fund balance of the General Obligation Debt Service Fund increased \$107,067 during the current fiscal year. The increase was largely due to property tax collections higher than anticipated; the result is a decreased levy for the upcoming year.

The fund balance of the Municipal Property Corporation (MPC) Debt Service Fund decreased \$(164,048) during the current fiscal year. Revenues for the MPC are derived from local sales tax collections which have declined over the past four years, however, the annual debt payment committed for the MPC is fixed but there are sufficient reserves to pay annual debt service.

All nonmajor governmental funds of the Town are combined into one column on the governmental fund statements. The nonmajor governmental funds reported a \$384,449 increase in fund balance mainly due to the collection of restricted revenues that were not expended during the year (specifically, downtown development and impact fees).

**TOWN OF FOUNTAIN HILLS, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

**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 \$238,097 in intergovernmental revenues was a result of the State's projection of State sales and vehicle license taxes being more than actual collections which affects the distribution to cities and towns.

The unfavorable revenue variance of \$129,246 in licenses and permits reflects the continued economic recession, particularly in construction related activities. Building permit revenues continue to decline as well as business license renewals and applications.

The unfavorable revenue variance of \$117,613 in investment income was a result of decreased rate of return on Town investments on deposit with the Arizona State Treasurers Local Government Investment Pool where the Town's idle funds are maintained in a pool of government securities.

The favorable revenue variance of \$25,071 in fines and forfeiture reflects increased court activity related to increased traffic enforcement within Town borders.

The favorable expenditure variance of \$1,111,155 includes all departments. With declining resources, all departments and divisions reduced their budgets early in the fiscal year by eliminating staff positions, decreased maintenance of parks, open space, facilities and deferred projects. Additionally, three department directors retired early due to consolidation of departments.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2010, the Town had invested \$189.9 million in capital assets, including buildings, vehicles, computers, equipment, infrastructure and artwork. This amount represents a net increase prior to depreciation of \$0.6 million from the prior fiscal year, primarily due to a major road improvement project on Shea Boulevard that is under construction. Total depreciation expense for the current fiscal year was \$5.0 million.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2010 and June 30, 2009.

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

	2010	2009	Percent Change
Land	\$ 23,571,668	\$ 23,571,668	0.00%
Artwork	1,578,500	1,578,500	0.00%
Construction in Progress	880,315	-	100.00%
Infrastructure	61,746,350	65,197,553	-5.29%
Buildings	15,314,231	15,560,953	-1.59%
Improvements other than Buildings	9,432,563	10,183,683	-7.38%
Vehicles, Machinery and Equipment	993,212	1,287,925	-22.88%
Total Capital Assets	<u>\$ 113,516,839</u>	<u>\$ 117,380,282</u>	-3.29%

**TOWN OF FOUNTAIN HILLS, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

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 \$18,049,330 million in bonds outstanding, \$2,124,921 million due within one year; this represents a net decrease of \$2,469,921 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**

	2010	2009
General Obligation Debt	\$ 9,045,000	\$ 10,390,000
Revenue Bonds	8,920,000	10,035,000
Premium on Debt Service	84,330	94,251
Total Outstanding Debt	\$ 18,049,330	\$ 20,519,251

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 \$109.9 million, which is more than the Town's outstanding general obligation debt.

Additional information on the Town's long-term debt can be found in Notes 3.C.

**ECONOMIC FACTORS**

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

The housing market has cooled significantly (both nationally and regionally), indicating that the overall economy may 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 three 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 pulled until 2015.

The Town's local sales tax collections, which represent the largest Town revenue source is made up of primarily construction, 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).

**TOWN OF FOUNTAIN HILLS, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

The Town is heavily dependent upon State Shared Revenues for General Fund operations (43%); State-shared income tax revenues are anticipated to decline for the second year in a row in fiscal year 2011-12 due to a two year lag between actual individual and business revenues and State collections with a total General Fund decline of 22% over the past four years. The Town is aggressively pursuing economic vitality and redevelopment opportunities, specifically a proposed development in the downtown center. The Town recently 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 will be a useful tool for Economic Development to attract developers.

As of June 30, 2010 the Town had set aside \$9.9 million in the capital improvement fund 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 FY10. The Town expects to begin construction on another major road improvement on Shea Boulevard with further stimulus funding in FY11.

#### **NEXT YEAR'S BUDGETS AND RATES**

Current economic conditions will force 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 FY11 operating budget is \$17.4 million representing a 12% decrease from fiscal year 2009-10. 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 \$6.4 million, a 49% decrease over fiscal year 2009-10. It includes projects that qualify for Federal stimulus funding under the American Recovery and Reinvestment Act (ARRA) of 2009; qualified projects include widening of Shea Boulevard from two to three lanes. Shea Boulevard is a major thoroughfare that connects the east valley with Fountain Hills through Scottsdale. 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.

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 \$70.3 million; with the Capital Budget for fiscal year 2010-11 totaling \$6.4 million (which includes carryover funds for some large projects currently underway). In fiscal year 2010-11, the CIP places major emphasis on major road improvements and maintenance. Due to the economy there are no recreational or non essential projects proposed.

**TOWN OF FOUNTAIN HILLS, ARIZONA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2010**

**CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

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

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## **BASIC FINANCIAL STATEMENTS**

**TOWN OF FOUNTAIN HILLS, ARIZONA**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Investments	\$ 22,607,750
Cash with Paying Agent	2,874,668
Receivables, Net:	
Accounts Receivable	223,516
Intergovernmental Receivables	958,691
Property Taxes Receivable	90,363
Prepaid Items	3,740
Deferred Charges	1,129,279
Inventory, at cost	9,133
Capital Assets:	
Non-Depreciable	26,030,483
Depreciable (Net)	87,486,356
Total Assets	<u>141,413,979</u>
<b>LIABILITIES</b>	
Accounts Payable	826,944
Accrued Wages and Benefits	134,469
Interest Payable	414,668
Matured Debt Principal Payable	2,460,000
Unearned Revenue	36,945
Noncurrent Liabilities:	
Due Within One Year	2,155,612
Due in More Than One Year	16,200,626
Total Liabilities	<u>22,229,264</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	95,467,509
Restricted for:	
Highways and Streets	318,570
Culture and Recreation	1,521
Debt Service	1,183,222
Capital Outlay	9,892,803
Unrestricted	12,321,090
Total Net Assets	<u><u>\$ 119,184,715</u></u>

See accompanying Notes to Basic Financial Statements.

**TOWN OF FOUNTAIN HILLS, ARIZONA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010**

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	\$ 3,720,236	\$ 1,340,457	\$ -	\$ 4,616	\$ (2,375,163)
Public Safety	6,293,323	32,667	127,647	-	(6,133,009)
Highways and Streets	5,202,285	2,556	1,538,851	628,001	(3,032,877)
Culture and Recreation	2,927,848	-	-	-	(2,927,848)
Community Development	1,612,287	-	-	-	(1,612,287)
Interest on Long-Term Debt	950,484	-	-	-	(950,484)
Total Governmental Activities	\$ 20,706,463	\$ 1,375,680	\$ 1,666,498	\$ 632,617	(17,031,668)
General Revenues:					
Taxes:					
Sales Taxes					7,644,440
Property Taxes					1,928,028
Franchise Taxes					285,881
State Sales Tax Revenue Sharing - Unrestricted					5,179,602
Auto Lieu Tax Revenue Sharing - Unrestricted					821,321
Investment Earnings					22,831
Miscellaneous					129,740
Total General Revenues					16,011,843
Change in Net Assets					(1,019,825)
Net Assets - Beginning, As Restated					120,204,540
Net Assets - Ending					\$ 119,184,715

See accompanying Notes to Basic Financial Statements.

**TOWN OF FOUNTAIN HILLS, ARIZONA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010**

<b>ASSETS</b>	<u>General</u>	<u>Capital Projects</u>	<u>General Obligation Debt Service</u>	<u>Municipal Property Corporation Debt Service</u>
Cash and Investments	\$ 6,358,006	\$ 10,597,233	\$ 71,791	\$ 973,920
Cash with Paying Agent	-	-	1,240,769	1,193,443
Accounts Receivable	223,516	-	-	-
Intergovernmental Receivable	740,569	-	-	67,434
Taxes Receivable	-	-	81,008	-
Due from Other Funds	388	-	-	-
Inventory, at cost	9,133	-	-	-
Prepaid Items	3,740	-	-	-
Total Assets	<u>\$ 7,335,352</u>	<u>\$ 10,597,233</u>	<u>\$ 1,393,568</u>	<u>\$ 2,234,797</u>
 <b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts Payable	\$ 193,133	\$ 576,897	\$ -	\$ -
Accrued Wages and Benefits	121,868	-	-	-
Due to Other Funds	-	-	-	-
Interest Payable	-	-	125,769	208,443
Deferred Revenue	31,945	-	41,969	-
Matured Debt Principal Payable	-	-	1,115,000	985,000
Total Liabilities	<u>346,946</u>	<u>576,897</u>	<u>1,282,738</u>	<u>1,193,443</u>
Fund Balances:				
Reserved for:				
Inventory	9,133	-	-	-
Prepaid Items	3,740	-	-	-
Other Purposes	3,222,938	-	-	-
Unreserved, Designated				
Vehicle Replacement	333,796	-	-	-
Unreserved, Undesignated	3,418,799	10,020,336	110,830	1,041,354
Unreserved, Reporting in Nonmajor:				
Special Revenue Funds	-	-	-	-
Debt Service Funds	-	-	-	-
Total Fund Balance	<u>6,988,406</u>	<u>10,020,336</u>	<u>110,830</u>	<u>1,041,354</u>
Total Liabilities and Fund Balance	<u>\$ 7,335,352</u>	<u>\$ 10,597,233</u>	<u>\$ 1,393,568</u>	<u>\$ 2,234,797</u>

See accompanying Notes to Basic Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 4,606,800	\$ 22,607,750
440,456	2,874,668
150,688	374,204
-	808,003
9,355	90,363
-	388
-	9,133
-	3,740
<u>\$ 5,207,299</u>	<u>\$ 26,768,249</u>

\$ 56,914	\$ 826,944
12,601	134,469
388	388
80,456	414,668
8,283	82,197
360,000	2,460,000
<u>518,642</u>	<u>3,918,666</u>

-	9,133
-	3,740
-	3,222,938
159,484	493,280
-	14,591,319
4,498,523	4,498,523
30,650	30,650
<u>4,688,657</u>	<u>22,849,583</u>
<u>\$ 5,207,299</u>	<u>\$ 26,768,249</u>

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**TOWN OF FOUNTAIN HILLS, ARIZONA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
JUNE 30, 2010**

Total Fund Balances for Governmental Funds \$ 22,849,583

Amounts reported for governmental activities in the statement of activities are different

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

Governmental Capital Assets	189,927,026
Less Accumulated Depreciation	(76,410,187)
Capital Assets Used in Governmental Activities	113,516,839

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

Property Taxes	45,252
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Bond issuance costs are reported as expenditures in the governmental funds and shown net of accumulated amortization in the statement of net assets.

1,129,279

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

General Obligation Bonds	(9,045,000)
Revenue Bonds Payable	(8,920,000)
Deferred Amount on Premium	(84,330)
Compensated Absences	(306,908)
	(18,356,238)

Total Net Assets of Governmental Activities

**\$ 119,184,715**

**TOWN OF FOUNTAIN HILLS, ARIZONA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2010**

	<u>General</u>	<u>Capital Projects</u>	<u>General Obligation Debt Service</u>	<u>Municipal Property Corporation Debt Service</u>
<b>REVENUES</b>				
Taxes:				
Sales Taxes	\$ 6,044,684	\$ 457,767	\$ -	\$ 856,492
Property Taxes	-	-	1,475,213	-
Franchise Taxes	285,881	-	-	-
Intergovernmental	5,908,498	-	-	-
Fines and Forfeitures	264,363	-	-	-
Licenses and Permits	399,094	-	-	-
Charges for Services	217,949	-	-	-
Rents and Royalties	215,520	-	-	-
Investment Earnings	7,387	9,817	-	1,998
Other	110,402	-	-	-
Total Revenues	<u>13,453,778</u>	<u>467,584</u>	<u>1,475,213</u>	<u>858,490</u>
<b>EXPENDITURES</b>				
Current:				
General Government	2,893,489	-	-	-
Public Safety	6,200,227	-	-	-
Highways and Streets	-	-	-	-
Culture and Recreation	1,988,912	-	-	-
Community Development	1,669,449	-	-	-
Debt Service:				
Principal Retirement	-	-	1,115,000	985,000
Interest on Long-Term Debt	-	-	253,146	424,538
Capital Outlay	-	1,249,607	-	-
Total Expenditures	<u>12,752,077</u>	<u>1,249,607</u>	<u>1,368,146</u>	<u>1,409,538</u>
Excess (Deficiency) of Revenues Over Expenditures	701,701	(782,023)	107,067	(551,048)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	36,074	555,964	-	387,000
Transfers Out	(414,518)	-	-	-
Total Other Financing Sources (Uses)	<u>(378,444)</u>	<u>555,964</u>	<u>-</u>	<u>387,000</u>
Net Change in Fund Balance	323,257	(226,059)	107,067	(164,048)
<b>FUND BALANCE</b>				
Beginning of Year, As Restated	6,665,149	10,246,395	3,763	1,205,402
End of Year	<u>\$ 6,988,406</u>	<u>\$ 10,020,336</u>	<u>\$ 110,830</u>	<u>\$ 1,041,354</u>

See accompanying Notes to Basic Financial Statements.

<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 285,497	\$ 7,644,440
413,451	1,888,664
-	285,881
1,763,539	7,672,037
32,667	297,030
-	399,094
246,087	464,036
-	215,520
3,629	22,831
19,338	129,740
2,764,208	19,019,273
292,879	3,186,368
-	6,200,227
973,746	973,746
18,825	2,007,737
-	1,669,449
360,000	2,460,000
165,173	842,857
4,616	1,254,223
1,815,239	18,594,607
948,969	424,666
148,738	1,127,776
(713,258)	(1,127,776)
(564,520)	-
384,449	424,666
4,304,208	22,424,917
\$ 4,688,657	\$ 22,849,583

**TOWN OF FOUNTAIN HILLS, ARIZONA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGE IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010**

Net Change in Fund Balances of Governmental Funds \$ 424,666

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	532,461
Less Current Year Depreciation	<u>(5,019,359)</u>
Excess Depreciation Over Capital Expenditures	<u>(4,486,898)</u>

The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets.

(4,546)

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	39,364
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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	1,345,000
Principal Payments on Revenue Bonds	1,115,000
Amortization of Deferred Amount on Bond Premium	9,921
Amortization of Deferred Charges	<u>(117,548)</u>

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

Capital Contributions	628,001
Net Decrease in Compensated Absences	<u>27,215</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (1,019,825)</u></u>

**TOWN OF FOUNTAIN HILLS, ARIZONA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>			
Taxes:			
Sales Taxes	\$ 6,628,911	\$ 6,044,684	\$ (584,227)
Franchise Taxes	363,731	285,881	(77,850)
Intergovernmental	6,146,595	5,908,498	(238,097)
Fines and Forfeitures	239,292	264,363	25,071
Licenses and Permits	528,340	399,094	(129,246)
Charges for Services	427,048	217,949	(209,099)
Contributions and Donations	-	215,520	215,520
Investment Earnings	125,000	7,387	(117,613)
Other	128,462	110,402	(18,060)
Total Revenues	<u>14,587,379</u>	<u>13,453,778</u>	<u>(1,133,601)</u>
<b>EXPENDITURES</b>			
Current:			
General Government:			
Mayor and Council	85,640	67,821	17,819
Magistrate Court	397,528	406,769	(9,241)
General and Administrative	2,951,824	2,418,899	532,925
Total General Government	<u>3,434,992</u>	<u>2,893,489</u>	<u>541,503</u>
Public Safety:			
Building Safety	578,890	467,702	111,188
Law Enforcement	2,844,877	2,811,426	33,451
Fire Department	2,944,868	2,921,099	23,769
Total Public Safety	<u>6,368,635</u>	<u>6,200,227</u>	<u>168,408</u>
Culture and Recreation:			
Park and Recreation	310,447	296,386	14,061
Civic Center	1,651,571	1,468,495	183,076
Senior Services	260,127	224,031	36,096
Total Culture and Recreation	<u>2,222,145</u>	<u>1,988,912</u>	<u>233,233</u>
Community Development			
Public Works	1,363,021	1,218,044	144,977
Planning and Zoning	474,439	451,405	23,034
Total Community Development	<u>1,837,460</u>	<u>1,669,449</u>	<u>168,011</u>
Total Expenditures	<u>13,863,232</u>	<u>12,752,077</u>	<u>1,111,155</u>
Excess (Deficiency) of Revenues Over Expenditures	724,147	701,701	(22,446)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	108,850	36,074	(72,776)
Transfers Out	(662,422)	(414,518)	247,904
Total Other Financing Sources (Uses)	<u>(553,572)</u>	<u>(378,444)</u>	<u>175,128</u>
Net Change in Fund Balance	170,575	323,257	152,682
<b>FUND BALANCE</b>			
Beginning of Year, As Restated	-	6,665,149	6,665,149
End of Year	<u>\$ 170,575</u>	<u>\$ 6,988,406</u>	<u>\$ 6,817,831</u>

See accompanying Notes to Basic Financial Statements.

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## **NOTES TO BASIC FINANCIAL STATEMENTS**

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**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

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

*Town of Fountain Hills, Arizona 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.

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 income and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary 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.

**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.

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

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 internal service fund is presented in a single column on the face of the proprietary fund statements.

The Town reports the following major governmental funds.

*Major Governmental Funds*

General Fund

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

Capital Projects Fund

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

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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.

**D. Assets, Liabilities, and Net Assets or Equity**

**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."

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

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

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2. Receivables and Payables (Continued)**

Pursuant to A.R.S. a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise. The State Constitution and State law specify a property tax levy limitation system. The system consists of two levies, a limited levy known as the primary property tax levy and an unlimited levy referred to as the secondary levy, which may only be used to retire bonded indebtedness.

The primary tax levy is limited to an increase of 2% 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% of the market value of their homes. If the combined primary property tax (for the Town, County, School Town, etc.) exceeds 1% 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%. The State will then subsidize the school districts for the reduced revenue. This 1% 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% 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.

**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.

**5. 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 \$5,000 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.

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5. Capital Assets (Continued)**

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.

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

Assets	Years
Infrastructure	15-50
Buildings	50
Improvements other than buildings	20
Vehicles, machinery and equipment	5-15

**6. Compensated Absences**

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

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

**7. Long-term Obligations**

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

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

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**8. Fund Equity**

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

**9. 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 and after non-operating revenues/expenses in proprietary funds.

**10. 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. Excess of Expenditures Over Appropriations**

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund	
Magistrate Court	\$ 9,241
General Obligation Debt Service Fund	27,782
Municipal Property Corporation Debt Service Fund	652
Nonmajor Governmental Funds	
Grants Fund	33,998
Public Art Fund	16,325

Cash was available to cover the over expenditures listed above.

**B. Deficit Fund Balances**

A deficit fund balance in the amount of \$388 was reported in the HURF Debt Service Nonmajor Governmental Fund at June 30, 2010. The Town expects to recover the deficit through transfers in the next fiscal year.

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 3 DETAILED NOTES ON ALL FUNDS**

**A. Assets**

**1. Deposits and Investments**

Deposits and investments at June 30, 2010 consist of the following:

Deposits:	
Cash on Hand	\$ 1,000
Cash in Bank	522,602
Cash on Deposit with Paying Agent	2,874,668
Investments	
State Treasurer's Investment Pool	22,084,148
	<u>25,482,418</u>
Less Cash with Paying Agent	<u>(2,874,668)</u>
Total Cash and Investments	<u><u>\$ 22,607,750</u></u>

**Deposits**

The Town's deposits at June 30, 2010 had a carrying value of \$522,602 and a bank balance of \$618,249. Of the bank balance, \$250,000 was covered by federal depository insurance and \$368,249 was covered by collateral held by the Town's custodial bank in the Town's name. Therefore, the Town's deposits were not exposed to any custodial credit risk.

**Investments**

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultations and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk.

*Interest Rate Risk* – In accordance with its investment policy, the Town manages its exposure to declines in fair value by limiting the average maturity of its investments to six months or less.

*Credit Risk* – The Town does not have a policy relating to credit risk. As of year end, for investments in the State Treasurer's Investment Pool did not receive a quality credit rating from a national credit rating agency.

*Custodial Credit Risk* – The Town's investment policy does not address concentration of credit risk. The Town currently only invests in the State Treasurer's Investment Pool.

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**A. Assets (Continued)**

**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:

	Unavailable	Unearned
General Fund		
Miscellaneous	\$ -	\$ 31,945
General Obligation Debt Service Fund		
Property Taxes	41,969	-
Nonmajor Governmental Funds		
Miscellaneous	-	5,000
Property taxes	3,283	-
Total Deferred Revenue for Governmental Funds	\$ 45,252	\$ 36,945

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**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**A. Assets (Continued)**

**3. Capital Assets**

Capital assets for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital Assets, Not Being Depreciated:				
Land	\$ 23,571,668	\$ -	\$ -	\$ 23,571,668
Artwork	1,578,500	-	-	1,578,500
Construction in Progress	-	880,315	-	880,315
<b>Total Capital Assets, Not Being Depreciated</b>	<b>25,150,168</b>	<b>880,315</b>	<b>-</b>	<b>26,030,483</b>
Capital Assets, Being Depreciated:				
Infrastructure	126,550,472	112,504	-	126,662,976
Buildings	17,939,545	114,999	-	18,054,544
Improvements Other Than Buildings	15,022,357	-	-	15,022,357
Vehicles, Machinery and Equipment	4,700,211	52,644	(596,189)	4,156,666
<b>Total Capital Assets, Being Depreciated</b>	<b>164,212,585</b>	<b>280,147</b>	<b>(596,189)</b>	<b>163,896,543</b>
Accumulated Depreciation for:				
Infrastructure	(61,352,919)	(3,563,707)	-	(64,916,626)
Buildings	(2,378,592)	(361,721)	-	(2,740,313)
Improvements Other Than Buildings	(4,838,674)	(751,120)	-	(5,589,794)
Vehicles, Machinery and Equipment	(3,412,286)	(342,811)	591,643	(3,163,454)
<b>Total Accumulated Depreciation</b>	<b>(71,982,471)</b>	<b>(5,019,359)</b>	<b>591,643</b>	<b>(76,410,187)</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>92,230,114</b>	<b>(4,739,212)</b>	<b>(4,546)</b>	<b>87,486,356</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 117,380,282</b>	<b>\$ (3,858,897)</b>	<b>\$ (4,546)</b>	<b>\$ 113,516,839</b>

Depreciation expense was charged to functions/programs as follows:

<b>Governmental Activities:</b>	
General Government	\$ 274,250
Public Safety	101,121
Highways and Streets	3,724,505
Culture and Recreation	919,483
<b>Total Depreciation Expense</b>	<b>\$ 5,019,359</b>

**TOWN OF FOUNTAIN HILLS, ARIZONA  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2010**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**A. Assets (Continued)**

**4. Construction Commitments**

The Town has active construction projects at June 30, 2010. At fiscal year end the Town's commitments with contractors were as follows:

	Governmental Activities	
Project	Spent-to-date	Remaining Commitment
Shea Boulevard Improvements	\$ 880,315	\$ 1,066,856

**B. Interfund Receivables/Payables and Transfers**

As of June 30, 2010, interfund receivable and payables were as follows:

	Due From
Due to	Nonmajor Governmental Fund
General Fund	\$ 388

The above interfund receivable and payable is recorded to eliminate deficit cash at year-end. The deficit in the Nonmajor Governmental Funds was recovered in the subsequent fiscal upon receipt of development fees. The Town will monitor spending and rates to recover the deficit in the next fiscal year.

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**B. Interfund Receivables/Payables and Transfers (Continued)**

Interfund transfers for the year ended June 30, 2010 consisted of the following:

Transfers Out	Transfers In				Total
	General Fund	Capital Projects Fund	Municipal Property Corporation Debt Service Fund	Nonmajor Governmental Fund	
General Fund	\$ -	\$ 15,193	\$ 387,000	\$ 12,325	\$ 414,518
Nonmajor Governmental Funds	36,074	540,771	-	136,413	713,258
Total	<u>\$ 36,074</u>	<u>\$ 555,964</u>	<u>\$ 387,000</u>	<u>\$ 148,738</u>	<u>\$ 1,127,776</u>

The General Fund transferred \$387,000 to pay for debt service costs on the Municipal Property Corporations outstanding bonds. The General Fund transferred \$15,193 to the Capital Projects Fund to fund capital purchases. The General Fund also transferred \$12,325 to the Nonmajor Governmental Funds to supplement the Town's Public Art Fund. The Nonmajor Governmental Funds transferred \$36,074 to the General Fund to provide the matching portion of a transportation grant the Town received. The Nonmajor Governmental Funds also transferred \$540,771 to the Capital Projects Fund to subsidize street improvement projects. Additionally, the Nonmajor Governmental Funds transferred \$136,413 to other Nonmajor Governmental Funds to pay for debt service costs.

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**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**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.

Purpose	Interest Rates	Maturity Date	Original Amount	Outstanding Amount
<b>Governmental Activities:</b>				
General Obligation Bonds:				
General Obligation Bonds, Project of 1997, Series 2001	4.25-4.4	07/09/10-11	\$ 6,000,000	\$ 300,000
General Obligation Refunding Bonds, Series 2005	3.5-4.0	07/01/10-19	7,225,000	5,115,000
Eagle Mountain Community Facilities District, General Obligation Refunding Bonds, Series 2005	3.5-4.125	7/1/2010-21	4,555,000	3,630,000
Total General Obligation Bonds			<u>\$ 17,780,000</u>	<u>\$ 9,045,000</u>
Revenue Bonds:				
Municipal Facilities Revenue Bonds, Series 2000	5.0-5.25	7/01/10-12	\$ 4,680,000	\$ 455,000
Municipal Facilities Revenue Bonds, Series 2001	4.0-4.5	7/01/10-13	7,750,000	1,135,000
Municipal Facilities Revenue Bonds, Series 2004	3.5-4.5	7/01/10-19	3,645,000	2,635,000
Municipal Facilities Revenue Refunding Bonds, Series 2005	3.5-4.5	7/01/10-20	5,330,000	4,695,000
Total Revenue Bonds			<u>\$ 21,405,000</u>	<u>\$ 8,920,000</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**C. Long-Term Obligations (Continued)**

The Town has pledged future excise taxes to repay a total of \$8,920,000 in outstanding municipal facilities revenue and refunding bonds. For fiscal year ended June 30, 2010, the net revenues available to service this debt were \$7,644,440 million. The debt principal and interest paid on this debt in fiscal year 2009-10 was \$1,115,000 and \$425,000, respectively (20% of available pledged revenues).

Changes in long-term obligations for the year ended June 30, 2010 are as follows:

	<u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2010</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
<b>Bonds</b>					
General Obligation Bonds	\$ 10,390,000	\$ -	\$ (1,345,000)	\$ 9,045,000	\$ 1,080,000
Revenue Bonds	10,035,000	-	(1,115,000)	8,920,000	1,035,000
	<u>20,425,000</u>	<u>-</u>	<u>(2,460,000)</u>	<u>17,965,000</u>	<u>2,115,000</u>
<b>Deferred Amounts:</b>					
Premium	94,251	-	(9,921)	84,330	9,921
Total Bonds	20,519,251	-	(2,469,921)	18,049,330	2,124,921
<b>Other Liabilities:</b>					
Compensated Absences	334,123	292,649	(319,864)	306,908	30,691
Governmental Activities Long-Term Liabilities	<u>\$ 20,853,374</u>	<u>\$ 292,649</u>	<u>\$ (2,789,785)</u>	<u>\$ 18,356,238</u>	<u>\$ 2,155,612</u>

Debt service requirements on long-term debt at June 30, 2010 are as follows:

<u>Year Ending June 30.</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 2,115,000	\$ 739,999
2012	2,205,000	654,681
2013	2,295,000	565,506
2014	2,430,000	470,731
2015	1,990,000	375,106
2016 - 2020	6,530,000	864,195
2021	400,000	16,500
	<u>\$ 17,965,000</u>	<u>\$ 3,686,718</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, \$7,850,000 of defeased bonds are still outstanding.

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 4 OTHER INFORMATION**

**A. Prior Period Adjustments**

Prior period adjustments were necessary to correct errors in the previously issued financial statements. The corrections, summarized below, included excise tax revenues incorrectly accrued in the prior fiscal year, a missposted transfer from the General Fund to the Capital Projects Fund, an unrecorded year-end payroll accrual, cash with the trustee was overstated and an adjustment to eliminate an internal service fund that was incorrectly reported in the financial statements. The internal service fund was eliminated and the beginning balance was restated in the General Fund and HURF Fund.

	Governmental Activities	General Fund	Capital Projects Fund	General Obligation Debt Service Fund	Municipal Property Corporation Debt Service Fund	Nonmajor Governmental Funds
Fund Balances at June 30, 2009 (As Previously Reported)	\$ 120,514,765	\$ 6,657,714	\$ 10,370,395	\$ 3,763	\$ 1,252,082	\$ 4,227,652
Prior Period Adjustment						
Overstated Excise Tax Revenue	(173,448)	(147,431)	-	-	(19,512)	(6,505)
Missposted Transfer	-	124,000	(124,000)	-	-	-
Unrecorded Payroll Accrual	(109,609)	(97,050)	-	-	-	(12,559)
Overstated Cash	(27,168)	-	-	-	(27,168)	-
Elimination of Internal Service Fund	-	127,916	-	-	-	95,620
Fund Balances at June 30, 2009 (Restated)	<u>\$ 120,204,540</u>	<u>\$ 6,665,149</u>	<u>\$ 10,246,395</u>	<u>\$ 3,763</u>	<u>\$ 1,205,402</u>	<u>\$ 4,304,208</u>

**B. 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.

**C. Risk Management**

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

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2010**

**NOTE 4 OTHER INFORMATION (CONTINUED)**

**C. Risk Management (Continued)**

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

**D. 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, 2010 was \$3,208,298. The Town's total payroll was \$3,987,248.

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 2009-10, the Town's required and actual contributions amounted to \$388,554. The employees' contributions totaled \$388,554. Employees may also contribute to the ICMA Retirement Corporation 457 plan on a voluntary basis; there is no employee match for those contributions. During fiscal year 2009-10, employees contributed \$498,221 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 2009-10 or as of the close of the fiscal year.

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

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## **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 activities of grants from the Arizona Supreme Court.

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

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

*Public Art Fund* - accounts for the 1% surcharge on commercial and multi-family development dedicated to purchasing art.

### **DEBT SERVICE FUNDS**

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

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

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

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2010**

Assets	Special Revenue						Total Special Revenue Funds
	HURF	Development Fees	Local Court Enhancement	Grants	Excise Tax	Public Art	
Cash and Investments	\$ 245,700	\$ 2,437,428	\$ 218,311	\$ 13,222	\$ 1,665,656	\$ 1,521	\$ 4,581,838
Cash with Paying Agent	-	-	-	-	-	-	-
Intergovernmental Receivable	128,206	-	-	-	22,478	-	150,684
Taxes Receivable	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 373,906</b>	<b>\$ 2,437,428</b>	<b>\$ 218,311</b>	<b>\$ 13,222</b>	<b>\$ 1,688,134</b>	<b>\$ 1,521</b>	<b>\$ 4,732,522</b>
<b>Liabilities and Fund Balance</b>							
<b>Liabilities</b>							
Accounts Payable	\$ 44,052	\$ -	\$ 2,552	\$ 8,222	\$ 2,088	\$ -	\$ 56,914
Accrued Wages and Benefits	11,284	-	-	-	1,317	-	12,601
Due to Other Funds	-	-	-	-	-	-	-
Interest Payable	-	-	-	-	-	-	-
Deferred Revenue	-	-	-	5,000	-	-	5,000
Matured Debt Principal Payable	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>55,336</b>	<b>-</b>	<b>2,552</b>	<b>13,222</b>	<b>3,405</b>	<b>-</b>	<b>74,515</b>
<b>Fund Balance</b>							
Unreserved, Designated for Vehicle Replacement Unreserved, Undesignated Reported in:	159,484	-	-	-	-	-	159,484
Nonmajor							
Special Revenue Funds	159,086	2,437,428	215,759	-	1,684,729	1,521	4,498,523
Debt Service Funds	-	-	-	-	-	-	-
<b>Total Fund Balances</b>	<b>318,570</b>	<b>2,437,428</b>	<b>215,759</b>	<b>-</b>	<b>1,684,729</b>	<b>1,521</b>	<b>4,658,007</b>
<b>Total Liabilities and Balance</b>	<b>\$ 373,906</b>	<b>\$ 2,437,428</b>	<b>\$ 218,311</b>	<b>\$ 13,222</b>	<b>\$ 1,688,134</b>	<b>\$ 1,521</b>	<b>\$ 4,732,522</b>

Debt Service

HURF Debt Service	Eagle Mountain Debt Service	Cottonwoods Special Assessment	Total Debt Service Funds	Total Nonmajor Governmental Funds
\$ -	\$ 15,597	\$ 9,365	\$ 24,962	\$ 4,606,800
134,063	306,393	-	440,456	440,456
-	-	4	4	150,688
-	9,355	-	9,355	9,355
<u>\$ 134,063</u>	<u>\$ 331,345</u>	<u>\$ 9,369</u>	<u>\$ 474,777</u>	<u>\$ 5,207,299</u>
\$ -	\$ -	\$ -	\$ -	\$ 56,914
-	-	-	-	12,601
388	-	-	388	388
4,063	76,393	-	80,456	80,456
-	3,283	-	3,283	8,283
130,000	230,000	-	360,000	360,000
134,451	309,676	-	444,127	518,642
-	-	-	-	159,484
				4,498,523
(388)	21,669	9,369	30,650	30,650
<u>(388)</u>	<u>21,669</u>	<u>9,369</u>	<u>30,650</u>	<u>4,688,657</u>
<u>\$ 134,063</u>	<u>\$ 331,345</u>	<u>\$ 9,369</u>	<u>\$ 474,777</u>	<u>\$ 5,207,299</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGE IN FUND BALANCES  
YEAR ENDED JUNE 30, 2010**

Special Revenue							
	HURF	Development Fees	Local Court Enhancement	Grants	Excise Tax	Public Art	Total Special Revenue Funds
<b>Revenues</b>							
Taxes							
Excise Taxes	\$ -	\$ -	\$ -	\$ -	\$ 285,497	\$ -	\$ 285,497
Property Taxes	-	-	-	-	-	-	-
Intergovernmental Revenue	1,538,851	-	-	224,688	-	-	1,763,539
Fines and Forfeits	-	-	32,667	-	-	-	32,667
Charges for Services	2,556	243,531	-	-	-	-	246,087
Investment Earnings	173	2,274	433	-	746	-	3,626
Other	19,144	-	-	-	-	194	19,338
<b>Total Revenues</b>	<b>1,560,724</b>	<b>245,805</b>	<b>33,100</b>	<b>224,688</b>	<b>286,243</b>	<b>194</b>	<b>2,350,754</b>
<b>Expenditures</b>							
Current							
General Government	-	-	8,793	183,998	100,088	-	292,879
Highways and Streets	965,633	4,263	-	-	-	-	969,896
Culture and Recreation	-	-	-	-	-	18,825	18,825
Debt Service							
Principal Retirement	-	-	-	-	-	-	-
Interest on Long-Term Debt	-	-	-	-	-	-	-
Capital Outlay	-	-	-	4,616	-	-	4,616
<b>Total Expenditures</b>	<b>965,633</b>	<b>4,263</b>	<b>8,793</b>	<b>188,614</b>	<b>100,088</b>	<b>18,825</b>	<b>1,286,216</b>
Excess (Deficiency) of Revenues Over Expenditures	595,091	241,542	24,307	36,074	186,155	(18,631)	1,064,538
<b>Other Financing Sources (Uses)</b>							
Transfers In	-	-	-	-	-	12,325	12,325
Transfers Out	(530,203)	(129,531)	-	(36,074)	(17,450)	-	(713,258)
<b>Total Other Financing Sources (Uses)</b>	<b>(530,203)</b>	<b>(129,531)</b>	<b>-</b>	<b>(36,074)</b>	<b>(17,450)</b>	<b>12,325</b>	<b>(700,933)</b>
<b>Net Change in Fund Balances</b>	<b>64,888</b>	<b>112,011</b>	<b>24,307</b>	<b>-</b>	<b>168,705</b>	<b>(6,306)</b>	<b>363,605</b>
<b>Fund Balance</b>							
Beginning of Year, As Restated	253,682	2,325,417	191,452	-	1,516,024	7,827	4,294,402
End of Year	<u>\$ 318,570</u>	<u>\$ 2,437,428</u>	<u>\$ 215,759</u>	<u>\$ -</u>	<u>\$ 1,684,729</u>	<u>\$ 1,521</u>	<u>\$ 4,658,007</u>

Debt Service

HURF Debt Service	Eagle Mountain Debt Service	Cottonwoods Special Assessment	Total Debt Service Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 285,497
-	410,128	3,323	413,451	413,451
-	-	-	-	1,763,539
-	-	-	-	32,667
-	-	-	-	246,087
3	-	-	3	3,629
-	-	-	-	19,338
<u>3</u>	<u>410,128</u>	<u>3,323</u>	<u>413,454</u>	<u>2,764,208</u>
-	-	-	-	292,879
-	-	3,850	3,850	973,746
-	-	-	-	18,825
-	-	-	-	-
130,000	230,000	-	360,000	360,000
6,413	158,760	-	165,173	165,173
-	-	-	-	4,616
<u>136,413</u>	<u>388,760</u>	<u>3,850</u>	<u>529,023</u>	<u>1,815,239</u>
(136,410)	21,368	(527)	(115,569)	948,969
136,413	-	-	136,413	148,738
-	-	-	-	(713,258)
<u>136,413</u>	<u>-</u>	<u>-</u>	<u>136,413</u>	<u>(564,520)</u>
3	21,368	(527)	20,844	384,449
(391)	301	9,896	9,806	4,304,208
<u>\$ (388)</u>	<u>\$ 21,669</u>	<u>\$ 9,369</u>	<u>\$ 30,650</u>	<u>\$ 4,688,657</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**CAPITAL PROJECTS FUND**  
**YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>			
Taxes:			
Sales Taxes	\$ 510,000	\$ 457,767	\$ (52,233)
Intergovernmental	2,537,717	-	(2,537,717)
Investment Earnings	-	9,817	9,817
Total Revenues	<u>3,047,717</u>	<u>467,584</u>	<u>(2,580,133)</u>
<b>EXPENDITURES</b>			
Capital Outlay	<u>12,725,434</u>	<u>1,249,607</u>	<u>11,475,827</u>
Excess (Deficiency) of Revenues Over Expenditures	(9,677,717)	(782,023)	8,895,694
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	2,981,190	555,964	(2,425,226)
Issuance of Long-Term Debt	4,500,000	-	(4,500,000)
Total Other Financing Sources (Uses)	<u>7,481,190</u>	<u>555,964</u>	<u>(6,925,226)</u>
Net Change in Fund Balance	(2,196,527)	(226,059)	1,970,468
<b>FUND BALANCE</b>			
Beginning of Year, As Restated	-	10,246,395	10,246,395
End of Year	<u>\$ (2,196,527)</u>	<u>\$ 10,020,336</u>	<u>\$ 12,216,863</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL OBLIGATION DEBT SERVICE FUND**  
**YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>			
Taxes:			
Property Taxes	\$ 1,400,000	\$ 1,475,213	\$ 75,213
Investment Earnings	1,500	-	(1,500)
Total Revenues	<u>1,401,500</u>	<u>1,475,213</u>	<u>73,713</u>
<b>EXPENDITURES</b>			
Debt Service:			
Principal Retirement	1,188,057	1,115,000	73,057
Interest on Long-Term Debt	152,307	253,146	(100,839)
Total Expenditures	<u>1,340,364</u>	<u>1,368,146</u>	<u>(27,782)</u>
Excess (Deficiency) of Revenues Over Expenditures	61,136	107,067	45,931
<b>FUND BALANCE</b>			
Beginning of Year	-	3,763	3,763
End of Year	<u>\$ 61,136</u>	<u>\$ 110,830</u>	<u>\$ 49,694</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MUNICIPAL PROPERTY CORPORATION DEBT SERVICE FUND**  
**YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>			
Taxes:			
Sales Taxes	\$ 891,720	\$ 856,492	\$ (35,228)
Investment Earnings	4,458	1,998	(2,460)
Total Revenues	<u>896,178</u>	<u>858,490</u>	<u>(37,688)</u>
<b>EXPENDITURES</b>			
Debt Service:			
Principal Retirement	985,000	985,000	-
Interest on Long-Term Debt	423,886	424,538	(652)
Total Expenditures	<u>1,408,886</u>	<u>1,409,538</u>	<u>(652)</u>
Excess (Deficiency) of Revenues Over Expenditures	(512,708)	(551,048)	(38,340)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	<u>387,000</u>	<u>387,000</u>	<u>-</u>
Net Change in Fund Balance	(125,708)	(164,048)	(38,340)
<b>FUND BALANCE</b>			
Beginning of Year, As Restated	-	1,205,402	1,205,402
End of Year	<u>\$ (125,708)</u>	<u>\$ 1,041,354</u>	<u>\$ 1,167,062</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**HURF FUND**  
**YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Intergovernmental	\$ 1,593,552	\$ 1,538,851	\$ (54,701)
Charges for Services	2,000	2,556	556
Investment Earnings	4,993	173	(4,820)
Other	-	19,144	19,144
Total Revenues	<u>1,600,545</u>	<u>1,560,724</u>	<u>(39,821)</u>
Expenditures:			
Current:			
Highways and Streets	<u>1,232,746</u>	<u>965,633</u>	<u>267,113</u>
Excess (Deficiency) of Revenues Over Expenditures	367,799	595,091	227,292
Other Financing Sources (Uses):			
Transfers Out	<u>(367,799)</u>	<u>(530,203)</u>	<u>(162,404)</u>
Net Change in Fund Balance	-	64,888	64,888
Fund Balance:			
Beginning of Year, As Restated	-	253,682	253,682
End of Year	<u>\$ -</u>	<u>\$ 318,570</u>	<u>\$ 318,570</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
DEVELOPMENT FEES FUND  
YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue			
Charges for Services	\$ 145,470	\$ 243,531	\$ 98,061
Investment Earnings	-	2,274	2,274
Total Revenue	<u>145,470</u>	<u>245,805</u>	<u>100,335</u>
Expenditures			
Current			
Highways and Streets	<u>142,400</u>	<u>4,263</u>	<u>138,137</u>
Excess (Deficiency) of Revenues Over Expenditures	3,070	241,542	238,472
Other Financing Sources (Uses)			
Transfers Out	<u>-</u>	<u>(129,531)</u>	<u>(129,531)</u>
Net Change in Fund Balance	3,070	112,011	108,941
Fund Balance			
Beginning of Year	-	2,325,417	2,325,417
End of Year	<u>\$ 3,070</u>	<u>\$ 2,437,428</u>	<u>\$ 2,434,358</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
LOCAL COURT ENHANCEMENT FUND  
YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Taxes:			
Fines and Forfeitures	\$ 15,500	\$ 32,667	\$ 17,167
Investment Earnings	1,500	433	(1,067)
Total Revenues	<u>17,000</u>	<u>33,100</u>	<u>16,100</u>
Expenditures:			
Current:			
General Government	8,100	8,793	(693)
Capital Outlay	41,900	-	41,900
Total Expenditures	<u>50,000</u>	<u>8,793</u>	<u>41,207</u>
Excess (Deficiency) of Revenues Over Expenditures	(33,000)	24,307	57,307
Fund Balance:			
Beginning of Year	-	191,452	191,452
End of Year	<u>\$ (33,000)</u>	<u>\$ 215,759</u>	<u>\$ 248,759</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GRANTS FUND**  
**YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Intergovernmental	\$ 2,576,850	\$ 224,688	\$ (2,352,162)
Expenditures:			
Current:			
General Government	150,000	183,998	(33,998)
Capital Outlay	-	4,616	(4,616)
Total Expenditures	<u>150,000</u>	<u>188,614</u>	<u>(38,614)</u>
Excess (Deficiency) of Revenues Over Expenditures	2,426,850	36,074	(2,390,776)
Other Financing Sources (Uses):			
Transfers Out	<u>(2,426,850)</u>	<u>(36,074)</u>	<u>2,390,776</u>
Net Change in Fund Balance	-	-	-
Fund Balance:			
Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
EXCISE TAX FUND  
YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Taxes:			
Sales Taxes	\$ 295,859	\$ 285,497	\$ (10,362)
Investment Earnings	-	746	746
Total Revenues	<u>295,859</u>	<u>286,243</u>	<u>(9,616)</u>
Expenditures:			
Current:			
General Government	<u>132,675</u>	<u>100,088</u>	<u>32,587</u>
Excess (Deficiency) of Revenues Over Expenditures	163,184	186,155	22,971
Other Financing Sources (Uses):			
Transfers Out	<u>(250,000)</u>	<u>(17,450)</u>	<u>232,550</u>
Net Change in Fund Balance	(86,816)	168,705	255,521
Fund Balance:			
Beginning of Year, As Restated	-	1,516,024	1,516,024
End of Year	<u>\$ (86,816)</u>	<u>\$ 1,684,729</u>	<u>\$ 1,771,545</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
PUBLIC ART FUND  
YEAR ENDED JUNE 30, 2010**

	Original and Final Budget	Actual	Variance with Final Budget
Revenues:			
Other	\$ 2,000	\$ 194	\$ (1,806)
Expenditures:			
Current:			
Culture and Recreation	2,500	18,825	(16,325)
Excess (Deficiency) of Revenues Over Expenditures	(500)	(18,631)	(18,131)
Other Financing Sources (Uses)			
Transfers In	-	12,325	12,325
Net Change in Fund Balance	(500)	(6,306)	(5,806)
Fund Balance:			
Beginning of Year	-	7,827	7,827
End of Year	\$ (500)	\$ 1,521	\$ 2,021

**TOWN OF FOUNTAIN HILLS, ARIZONA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
HURF DEBT SERVICE FUND  
YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues:			
Investment Earnings	\$ -	\$ 3	\$ 3
Expenditures:			
Debt Service:			
Principal Retirement	130,000	130,000	-
Interest on Long-Term Debt	6,413	6,413	-
Total Expenditures	<u>136,413</u>	<u>136,413</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	(136,413)	(136,410)	3
Other Financing Sources (Uses)			
Transfers In	<u>-</u>	<u>136,413</u>	<u>136,413</u>
Net Change in Fund Balance	(136,413)	3	136,416
Fund Balance:			
Beginning of Year	-	(391)	(391)
End of Year	<u>\$ (136,413)</u>	<u>\$ (388)</u>	<u>\$ 136,025</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
EAGLE MOUNTAIN DEBT SERVICE FUND  
YEAR ENDED JUNE 30, 2010**

	Original and Final Budget	Actual	Variance with Final Budget
Revenues:			
Taxes:			
Property Taxes	\$ 388,500	\$ 410,128	\$ 21,628
Investment Earnings	600	-	(600)
Total Revenues	389,100	410,128	21,028
Expenditures:			
Debt Service:			
Principal Retirement	381,410	230,000	151,410
Interest on Long-Term Debt	7,690	158,760	(151,070)
Total Expenditures	389,100	388,760	340
Excess (Deficiency) of Revenues Over Expenditures	-	21,368	21,368
Fund Balance:			
Beginning of Year	-	301	301
End of Year	\$ -	\$ 21,669	\$ 21,669

**TOWN OF FOUNTAIN HILLS, ARIZONA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
COTTONWOODS SPECIAL ASSESSMENT FUND  
YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue:			
Taxes:			
Property Taxes	\$ -	\$ 3,323	\$ 3,323
Expenditures:			
Current:			
Highways and Streets	<u>3,850</u>	<u>3,850</u>	<u>-</u>
Excess (Deficiency) of Revenue Over Expenditures	(3,850)	(527)	3,323
Fund Balance:			
Beginning of Year	-	9,896	9,896
End of Year	<u>\$ (3,850)</u>	<u>\$ 9,369</u>	<u>\$ 13,219</u>

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## **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.*

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

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

	Fiscal Year			
	2003	2004	2005	2006
<b>Governmental Activities:</b>				
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	<u>\$ 21,162,894</u>	<u>\$ 25,709,232</u>	<u>\$ 33,460,970</u>	<u>\$ 42,306,265</u>

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

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

Fiscal Year

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 92,508,637	\$ 94,939,805	\$ 94,611,110	\$ 95,467,509
12,210,966	12,799,502	11,828,137	11,396,116
14,276,126	13,230,726	13,765,293	12,321,090
<u>\$ 118,995,729</u>	<u>\$ 120,970,033</u>	<u>\$ 120,204,540</u>	<u>\$ 119,184,715</u>

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

	Fiscal Year			
	2003	2004	2005	2006
<b>Expenses</b>				
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
Community Development	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 Expenses	<u>15,461,448</u>	<u>14,737,393</u>	<u>15,057,885</u>	<u>16,545,696</u>
<b>Program Revenues</b>				
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	-	-	-	-
Culture and Recreation	-	-	-	-
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			237,307	
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>
Excess of Revenues				
Over (Under) Expenditures	(10,981,163)	(9,725,474)	(8,637,162)	(10,389,758)

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

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

Fiscal Year

	2007	2008	2009	2010
\$	4,292,515	\$ 3,921,588	\$ 4,231,529	\$ 3,720,236
	5,935,742	6,532,292	7,312,415	6,293,323
	5,225,835	5,981,347	5,051,294	5,202,285
	3,282,160	3,092,661	3,336,616	2,927,848
	2,512,170	2,861,653	2,218,994	1,612,287
	1,163,370	1,132,947	1,033,536	950,484
	<u>22,411,792</u>	<u>23,522,488</u>	<u>23,184,384</u>	<u>20,706,463</u>
	910,978	830,963	544,753	1,340,457
	982,659	746,227	55,042	32,667
	-	-	-	2,556
	-	-	-	-
	626,431	752,621	888,249	-
	-	56,802	-	1,666,498
	989,100	835,659	1,353,409	632,617
	<u>3,509,168</u>	<u>3,222,272</u>	<u>2,841,453</u>	<u>3,674,795</u>
	(18,902,624)	(20,300,216)	(20,342,931)	(17,031,668)

(Continued)

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

	Fiscal Year			
	2003	2004	2005	2006
(Concluded)				
<b>General Revenues and Other Changes in Net Assets</b>				
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>
<b>Change in Net Assets</b>				
Governmental Activities	2,926,294	5,138,291	7,751,738	8,845,295
Total Primary Government	<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.

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

Fiscal Year

2007	2008	2009	2010
\$ 11,407,714	\$ 10,489,591	\$ 8,932,374	\$ 7,644,440
1,385,953	1,635,542	1,531,770	1,928,028
324,318	336,290	321,964	285,881
8,444,731	8,848,199	8,456,552	6,000,923
1,094,994	780,935	258,478	22,831
85,418	183,963	76,300	129,740
<u>22,743,128</u>	<u>22,274,520</u>	<u>19,577,438</u>	<u>16,011,843</u>
3,840,504	1,974,304	(765,493)	(1,019,825)
<u>\$ 3,840,504</u>	<u>\$ 1,974,304</u>	<u>\$ (765,493)</u>	<u>\$ (1,019,825)</u>

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

	Fiscal Year				
	2001	2002	2003	2004	2005
General Fund:					
Reserved	\$ -	\$ -	\$ -	\$ 77,485	\$ 40,664
Unreserved, Designated for:					
Vehicle Replacement	-	-	-	-	-
Unreserved, Undesignated	4,710,061	4,812,370	4,037,863	6,293,941	9,041,779
Total General Fund	<u>\$ 4,710,061</u>	<u>\$ 4,812,370</u>	<u>\$ 4,037,863</u>	<u>\$ 6,371,426</u>	<u>\$ 9,082,443</u>
All Other Governmental Funds:					
Unreserved, Designated for					
Vehicle Replacement	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, Undesignated Reported in:					
Special Revenue Funds	9,167	-	3,411,738	5,969,830	2,176,086
Capital Projects Funds	1,571,117	414,432	-	-	2,429,225
Debt Service Funds	532,248	1,051,311	1,705,230	530,372	644,089
Total All Other Governmental Funds	<u>\$ 2,112,532</u>	<u>\$ 1,465,743</u>	<u>\$ 5,116,968</u>	<u>\$ 6,500,202</u>	<u>\$ 5,249,400</u>

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

Fiscal Year				
2006	2007	2008	2009	2010
\$ 14,393	\$ 2,934,144	\$ 3,053,070	\$ 3,234,860	\$ 3,235,811
-	-	-	127,916	333,796
6,515,855	3,666,005	3,526,738	3,302,373	3,418,799
<u>\$ 6,530,248</u>	<u>\$ 6,600,149</u>	<u>\$ 6,579,808</u>	<u>\$ 6,665,149</u>	<u>\$ 6,988,406</u>
\$ -	\$ -	\$ -	\$ 95,620	\$ 159,484
1,951,434	5,305,432	3,876,927	4,198,782	4,498,523
9,496,266	9,916,670	10,764,857	10,246,395	10,020,336
159,530	1,386,674	1,585,740	1,218,971	1,182,834
<u>\$ 11,607,230</u>	<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**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST TEN FISCAL YEARS**  
**(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**  
**(UNAUDITED)**

	Fiscal Year				
	2001	2002	2003	2004	2005
<b>Revenues</b>					
Taxes	\$ 6,088,047	\$ 7,595,748	\$ 7,114,486	\$ 9,997,706	\$ 11,151,893
Intergovernmental	5,281,156	5,895,676	6,311,458	6,080,631	6,686,500
Fines and Forfeitures	310,359	265,605	195,091	361,339	249,564
Licenses and Permits	2,177,614	1,351,209	1,308,747	1,600,934	2,230,046
Charges for Services	431,316	1,067,814	810,412	1,038,170	1,834,205
Rents and Royalties	35,781	107,613	188,745	242,704	222,327
Special Assessments	7,958	4,520	4,302	3,612	1,512
Investment Income (Loss)	(1,063,339)	726,441	1,976,809	122,082	395,124
Other	11,357	1,783,851	275,343	261,561	179,657
Total Revenues	<u>13,280,249</u>	<u>18,798,477</u>	<u>18,185,393</u>	<u>19,708,739</u>	<u>22,950,828</u>
<b>Expenditures</b>					
General Government	3,646,500	3,859,633	3,318,574	3,614,458	9,547,409
Public Safety	3,354,037	5,084,532	5,174,492	4,616,161	4,754,523
Highways and Streets	2,212,432	1,877,790	1,198,080	1,402,502	1,682,563
Culture and Recreation	3,866,245	3,069,695	1,815,416	1,597,150	3,004,216
Community Development	1,175,649	1,064,913	1,215,387	1,144,964	1,460,181
Capital Outlay	5,261,585	14,770,507	79,427	101,951	-
Debt Service					
Principal Retirement	620,408	1,229,215	1,393,228	1,423,228	1,308,228
Interest on Long-Term Debt	1,231,194	1,673,901	1,576,842	1,499,575	1,164,561
Other Debt Service	-	-	-	-	229,990
Total Expenditures	<u>21,368,050</u>	<u>32,630,186</u>	<u>15,771,446</u>	<u>15,399,989</u>	<u>23,151,671</u>
Excess of Revenues Over (Under) Expenditures	(8,087,801)	(13,831,709)	2,413,947	4,308,750	(200,843)
<b>Other Financing</b>					
<b>Sources (Uses)</b>					
Transfers In	1,833,192	1,585,674	5,981,544	1,630,907	4,805,635
Transfers Out	(1,833,192)	(1,585,674)	(5,981,544)	(1,630,907)	(4,805,635)
Issuance of Refunding Debt	-	-	-	-	12,555,000
Issuance of Long-Term Debt	4,641,980	13,750,000	-	-	3,783,896
Payment to Refunded Debt					
Escrow Agent	-	-	-	-	(14,677,838)
Total Other Financing Sources (Uses)	<u>4,641,980</u>	<u>13,750,000</u>	<u>-</u>	<u>-</u>	<u>1,661,058</u>
Net Change in Fund Balance	<u>\$ (3,445,821)</u>	<u>\$ (81,709)</u>	<u>\$ 2,413,947</u>	<u>\$ 4,308,750</u>	<u>\$ 1,460,215</u>
Debt Service as a Percentage of Noncapital Expenditures	12.99%	19.41%	23.35%	23.62%	13.22%

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

Fiscal Year				
2006	2007	2008	2009	2010
\$ 12,993,876	\$ 13,159,087	\$ 12,457,086	\$ 10,960,001	\$ 9,818,985
7,412,226	8,444,731	9,353,260	9,607,961	7,672,037
235,050	304,214	287,120	339,658	297,030
1,918,107	1,239,318	1,125,957	541,627	399,094
1,689,046	898,955	620,300	316,676	464,036
255,527	267,350	296,434	290,083	215,520
21,147	4,228	4,337	4,037	-
673,351	1,094,994	780,935	258,478	22,831
233,565	85,418	183,963	43,683	129,740
<u>25,431,895</u>	<u>25,498,295</u>	<u>25,109,392</u>	<u>22,362,204</u>	<u>19,019,273</u>
4,459,183	4,024,551	3,548,295	3,514,249	3,186,368
5,208,770	5,689,020	6,321,669	6,624,141	6,200,227
2,121,986	2,028,397	2,214,557	1,199,850	973,746
3,607,750	2,131,374	2,257,007	2,215,065	2,007,737
1,812,469	2,462,643	2,751,740	2,036,295	1,669,449
-	2,002,887	5,239,169	3,708,277	1,254,223
1,968,228	1,968,228	2,153,228	2,240,000	2,460,000
1,192,414	1,058,665	1,025,320	929,134	842,857
532,762	-	-	-	-
<u>20,903,562</u>	<u>21,365,765</u>	<u>25,510,985</u>	<u>22,467,011</u>	<u>18,594,607</u>
4,528,333	4,132,530	(401,593)	(104,807)	424,666
10,146,663	4,383,069	2,756,988	3,759,735	1,127,776
(10,146,663)	(4,383,069)	(2,756,988)	(3,950,654)	(1,127,776)
4,555,000	-	-	-	-
-	-	-	-	-
(4,338,781)	-	-	-	-
216,219	-	-	(190,919)	-
<u>\$ 4,744,552</u>	<u>\$ 4,132,530</u>	<u>\$ (401,593)</u>	<u>\$ (295,726)</u>	<u>\$ 424,666</u>
21.46%	18.53%	18.60%	20.33%	23.53%

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

Fiscal Year	Sales Taxes	Property Taxes	Franchise Taxes	Total
2001	\$ 4,979,159	\$ 435,769	\$ 291,615	\$ 5,706,543
2002	5,019,735	489,358	297,149	5,806,242
2003	5,035,165	468,588	300,495	5,804,248
2004	5,310,375	490,156	304,226	6,104,757
2005	5,602,478	727,678	336,881	6,667,037
2006	7,102,970	593,694	336,399	8,033,063
2007	7,298,346	634,241	348,166	8,280,753
2008	7,214,023	695,245	349,043	8,258,311
2009	8,932,374	1,531,770	321,964	10,786,108
2010	7,644,440	1,888,664	285,881	9,818,985

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					
	2001	2002	2003	2004	2005	2006
Sales Category:						
Construction	\$ 1,915,206	\$ 1,325,749	\$ 1,203,706	\$ 1,482,981	\$ 1,837,317	\$ 3,362,079
Restaurants and Bars	187,000	219,921	276,664	419,107	524,368	547,276
Transportation & Utilities	453,217	523,237	590,446	916,498	1,124,677	1,240,120
Services	398,157	370,806	455,324	423,433	185,868	263,239
Real estate, Rental & Leasing	245,064	192,339	205,849	341,951	604,356	626,364
Wholesale/Retail	1,405,560	1,477,424	1,930,175	3,212,062	3,536,045	3,796,192
Other	195,313	157,818	188,654	706,816	933,366	1,030,966
Total	<u>\$ 5,088,789</u>	<u>\$ 5,130,207</u>	<u>\$ 5,275,297</u>	<u>\$ 5,428,531</u>	<u>\$ 6,109,903</u>	<u>\$ 7,335,679</u>

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

Fiscal Year

2007	2008	2009	2010
\$ 2,694,700	\$ 2,062,028	\$ 1,414,240	\$ 538,551
537,596	582,226	493,242	509,624
1,330,052	1,422,158	1,311,735	1,424,827
280,290	327,411	258,138	241,686
792,358	982,198	664,999	650,071
4,144,263	3,912,512	3,687,409	3,555,974
1,296,171	1,182,349	910,561	691,972
<u>\$ 7,503,852</u>	<u>\$ 7,302,294</u>	<u>\$ 8,740,324</u>	<u>\$ 7,612,705</u>

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

Fiscal Year	Town Direct Rate	Maricopa County	Arizona State	Total Tax Rate
2001	1.60 %	0.70 %	5.00 %	7.30 %
2002	1.60	0.70	5.60	7.90
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

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

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

<u>Fiscal Year</u>	<u>Total Taxable Assessed Value (in thousands)</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>	<u>Assessed Value as a Percentage of Actual Value</u>
2001	\$ 212,416	0.33	\$ 1,889,016	16.71 %
2002	238,715	0.56	2,154,929	11.08
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

Source: The Maricopa County Treasurer.

**TOWN OF FOUNTAIN HILLS, ARIZONA  
PRINCIPAL PROPERTY TAXPAYERS  
JUNE 30, 2010 AND 2000  
(UNAUDITED)**

Taxpayer	2010			2000		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Qwest Corporation	\$ 3,365,809	1	0.57 %	\$ -	N/A	N/A %
Chaparral City Water Company	3,066,000	2	0.52	2,367,472	1	2.05
Fountain View Village, LLC	1,822,567	3	0.31	-	N/A	N/A
Kimco Barclay Fountain Hills	1,724,863	4	0.29	-	N/A	N/A
MCO Properties	1,655,056	5	0.29	1,808,102	3	1.56
Cox Communications	1,507,740	6	0.25	-	N/A	N/A
Target Corporation	1,441,438	7	0.24	-	N/A	N/A
EN, LLC	1,347,042	8	0.23	-	N/A	N/A
Fountain Hills Investment, LLC	1,000,000	9	0.17	-	N/A	N/A
Fountain Vista Properties, LLC	986,365	10	0.17	-	N/A	N/A
	<u>\$ 17,916,880</u>		<u>3.04</u>	<u>\$ 4,175,574</u>		<u>3.41</u>

Source: The Maricopa County Treasurer.

Note: Information for 2001 was not available.

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

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Current Taxes Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>
2001	\$ 701,275	\$ 675,710	96.35 %	\$ 21,422	\$ 697,132
2002	1,335,787	1,282,844	96.04	43,927	1,326,771
2003	1,384,478	1,329,929	96.06	43,900	1,373,829
2004	1,545,051	1,492,143	96.58	44,041	1,536,184
2005	1,449,287	1,408,289	97.17	31,632	1,439,921
2006	1,319,373	1,275,049	96.64	16,181	1,291,230
2007	1,775,000	1,410,873	79.49	29,886	1,440,759
2008	1,775,000	1,599,127	90.09	40,120	1,639,247
2009	1,775,000	1,686,484	95.01	6,111	1,692,595
2010	1,892,237	1,806,882	95.49	8,324	1,815,206

Source: The Maricopa County Treasurer's Office.

Ratio of Total  
Tax Collections  
to Total Tax Levy

99.41 %  
99.33  
99.23  
99.43  
99.35  
97.87  
81.17  
92.35  
95.36  
95.93

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

<u>Fiscal Year</u>	<u>Governmental Activities</u>		<u>Total Primary Government</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
	<u>General Obligation Bond and Other Bonds</u>	<u>Less: Amounts Restricted for Principal</u>			
2001	\$ 26,465,000	\$ 620,408	\$ 25,844,592	27.80 %	\$ 1,209
2002	25,265,000	1,229,215	24,035,785	24.74	1,095
2003	24,015,000	1,393,228	22,621,772	22.44	1,017
2004	25,335,000	1,423,228	23,911,772	22.48	1,061
2005	24,190,000	1,308,228	22,881,772	19.79	986
2006	22,365,000	1,968,228	20,396,772	16.22	833
2007	26,910,467	1,978,149	24,932,318	18.83	1,018
2008	24,932,318	2,163,146	22,769,172	16.30	892
2009	22,769,172	2,249,921	20,519,251	N/A	770
2010	17,965,000	2,115,000	15,850,000	N/A	624

Source: The source of this information is the Town's financial records and Maricopa Association of Governments.

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 Estimated Actual Value of Property</u>	<u>Population</u>	<u>Net General Obligation Bonded Debt Per Capita</u>
2001	\$ 13,280,000	\$ 212,415,000	6.25%	21,383	\$ 621
2002	12,600,000	238,715,000	5.28%	21,954	574
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%	24,990	345
2008	7,570,000	684,742,347	1.11%	25,540	296
2009	6,530,000	651,218,464	1.00%	25,388	257
2010	9,045,000	576,535,714	1.57%	25,388	356

Source: Maricopa County Treasurer's Office and the Town's Finance Department.

**TOWN OF FOUNTAIN HILLS, ARIZONA**  
**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**  
**JUNE 30, 2010**  
**(UNAUDITED)**

<u>Governmental Unit</u>	<u>Outstanding Debt</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Maricopa County	\$ 156,670,000	0.15%	\$ 235,005
Maricopa County Community College District	668,945,000	0.15%	1,003,418
Fountain Hills Unified School District	20,165,000	97.03%	19,566,100
Eagle Mountain Community Facilities District	3,630,000	100.00%	3,630,000
Subtotal, Overlapping Debt			<u>24,434,522</u>
Direct:			
Town of Fountain Hills, Arizona			<u>17,965,000</u>
Total Direct and Overlapping Debt			<u><u>\$ 42,399,522</u></u>

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

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

**6% Debt Limit**

	Fiscal Year				
	2001	2002	2003	2004	2005
Debt Limit	\$ 12,744,929	\$ 14,322,872	\$ 16,236,172	\$ 19,403,114	\$ 20,963,900
Total Applicable to Limit	<u>6,155,000</u>	<u>6,005,000</u>	<u>5,625,000</u>	<u>5,190,000</u>	<u>3,595,000</u>
Legal Debt Margin	<u>\$ 6,589,929</u>	<u>\$ 8,317,872</u>	<u>\$ 10,611,172</u>	<u>\$ 14,213,114</u>	<u>\$ 17,368,900</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	93%	72%	53%	37%	21%

**20% Debt Limit**

	Fiscal Year				
	2001	2002	2003	2004	2005
Debt Limit	\$ 42,483,095	\$ 47,742,907	\$ 54,120,573	\$ 64,677,046	\$ 69,879,667
Total Applicable to Limit	<u>1,350,000</u>	<u>7,275,000</u>	<u>6,975,000</u>	<u>6,675,000</u>	<u>7,515,000</u>
Legal Debt Margin	<u>\$ 41,133,095</u>	<u>\$ 40,467,907</u>	<u>\$ 47,145,573</u>	<u>\$ 58,002,046</u>	<u>\$ 62,364,667</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	3%	18%	15%	12%	12%

Source: The Town's Finance Department and the Maricopa County Assessor's Office.

Fiscal Year

2006	2007	2008	2009	2010
\$ 22,510,991	\$ 34,592,143	\$ 41,084,541	\$ 39,073,108	\$ 34,592,143
3,410,000	1,660,000	-	320,000	-
<u>\$ 19,100,991</u>	<u>\$ 32,932,143</u>	<u>\$ 41,084,541</u>	<u>\$ 38,753,108</u>	<u>\$ 34,592,143</u>
18%	5%	0%	1%	0%

Fiscal Year

2006	2007	2008	2009	2010
\$ 75,036,636	\$ 115,307,143	\$ 136,948,469	\$ 130,243,693	\$ 115,307,143
7,265,000	5,415,000	6,510,000	6,210,000	5,415,000
<u>\$ 67,771,636</u>	<u>\$ 109,892,143</u>	<u>\$ 130,438,469</u>	<u>\$ 124,033,693</u>	<u>\$ 109,892,143</u>
11%	5%	5%	5%	5%

**TOWN OF FOUNTAIN HILLS, ARIZONA  
CALCULATION OF LEGAL DEBT MARGIN  
JUNE 30, 2010  
(UNAUDITED)**

Net Secondary Assessed Valuation	\$ 576,535,714
<div style="text-align: center;">Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds</div>	
Debt Limit - 20% of Secondary Net Assessed Valuation	\$ 115,307,143
Net Debt Applicable to Limit	5,415,000
20% Legal Debt Margin	109,892,143
<div style="text-align: center;">All other general obligation bonds</div>	
Debt Limit - 6% of Secondary Net Assessed Valuation	34,592,143
Net Debt Applicable to Limit	-
6% Legal Debt Margin	34,592,143
Total legal debt margin	144,484,286

Source: Maricopa County Assessor's Office.

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

Fiscal Year	Population	Personal Income	Median Personal Income	Median Age	School Enrollment	Town of Fountain Hills Unemployment Rate
2001	21,383	\$ 97,138,599	\$ 28,717	N/A	N/A	2.0%
2002	21,954	100,805,099	28,900	N/A	N/A	2.7
2003	22,243	106,385,325	26,607	N/A	N/A	2.6
2004	22,541	115,604,165	31,133	N/A	N/A	2.1
2005	23,217	125,718,070	32,414	N/A	N/A	2.0
2006	24,492	132,423,154	35,046	N/A	N/A	1.8
2007	25,540	139,665,253	36,135	N/A	N/A	1.6
2008	26,633	N/A	N/A	N/A	N/A	2.4
2009	25,388	N/A	N/A	49.7	N/A	N/A
2010	25,388	N/A	N/A	49.7	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 Economic Security.

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

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

Employer	2010			2001		
	Employees	Rank	Percentage of Total Town Employment	Employees	Rank	Percentage of Total Town Employment
Fountain Hills Unified School District No. 98	278	1	26.86%	250	1	27.00%
Monk Construction	110	2	10.63%	150	2	16%
Target	125	3	12.08%	-	-	-
MCO Properties, Inc.	103	4	9.95%	85	5	9%
Safeway Food Stores	91	5	8.79%	95	4	10%
Town of Fountain Hills	61	6	5.89%	115	3	12%
Fry's	76	7	7.34%	-	-	-
Basha's	64	8	6.18%	70	6	8%
Sun Ridge Canyon Gold Course	58	9	5.60%	70	7	8%
Eagle Mountain Golf Course	69	10	6.67%	40	9	4%
Golf International	N/A	11	N/A	50	8	5%
Total	<u>1035</u>		<u>100%</u>	<u>925</u>		<u>100%</u>

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

**TOWN OF FOUNTAIN HILLS, ARIZONA**  
**FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION**  
**LAST NINE FISCAL YEARS\***  
**(UNAUDITED)**

Function	Full-time Equivalent Employees								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>General Government:</b>									
Municipal Court	6	6	5	5	6	5	5	5	5
City Administration	18	15	10	11	13	12	13	14	11.1
Planning and Zoning	6	8	9	8	10	10	10	8	0
Total General Government	30	29	24	24	29	27	28	27	16.1
<b>Public Safety:</b>									
Building Safety	9	8	7	9	9	8	8	6	0
Law Enforcement	26	20	1	0	0	0	0	0	0
Total Public Safety	35	28	8	9	9	8	8	6	0
<b>Public Works:</b>									
Engineering	13	13	11	12	12	12	12	12	15
Streets	15	14	13	11	11	10	10	10	8.5
Total Public Works	28	27	24	23	23	22	22	22	23.5
Community Development	5	7	7	7	7	11	11	10	19
Parks and Recreation	18	16	13	15	17	20	20	17	2.5
Total	116	107	76	78	85	88	89	82	61.1

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

\* Information prior to 2002 is not available.

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

Function/Program	Fiscal Years					
	2001	2002	2003	2004	2005	2006
Building Permits:						
Building Permits Issued	351	260	168	228	430	468
Building Inspections Conducted	N/A	8,491	6,389	6,985	8,446	9,377
Police (Contracted):						
Physical Arrests	981	503	601	601	644	N/A
Traffic Violations	4,767	3,186	3,186	3,186	2,432	N/A
Fire (Contracted):						
Inspections	N/A	N/A	N/A	N/A	N/A	1,815
Public Works:						
Potholes Repaired	N/A	N/A	N/A	N/A	N/A	N/A
Parks and Recreation:						
Park Acreage	121	121	121	121	121	121
Community Centers	1	1	1	1	1	1

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

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

Fiscal Years			
2007	2008	2009	2010
759	716	391	14
7,975	5,692	3,189	1,932
993	524	825	679
2,315	2,504	4,900	2,959
2,570	N/A	N/A	N/A
N/A	N/A	N/A	N/A
121	121	121	121
1	1	1	1

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

Function/Program	Fiscal Year					
	2001	2002	2003	2004	2005	2006
Public Safety:						
Number of Fire stations	N/A	3	3	3	3	3
Other Public Works:						
Streets (Miles)	179	179	179	179	179	179
Streetlights	N/A	N/A	N/A	N/A	N/A	34
Traffic Signals	10	10	10	11	11	12
Parks and Recreation:						
Acreage	121	121	121	121	121	121
Playgrounds	2	3	3	3	3	3
Baseball/Softball Diamonds	6	6	6	6	6	6
Soccer/Football Fields	4	4	4	4	4	3
Community Centers	1	1	1	1	1	1

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

Fiscal Year			
2007	2008	2009	2010
3	3	3	3
179	179	179	178.5
34	34	34	34
12	12	12	12
121	121	121	121
3	3	3	3
6	6	6	6
3	3	3	3
1	1	1	1

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