



Fiscal Year 2010-2011

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Town of Fountain Hills, Arizona

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**TOWN OF FOUNTAIN HILLS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Issued By:
Administration Department
Finance Division**

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INTRODUCTORY SECTION

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Town of Fountain Hills

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

November 29, 2011

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 accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the Town of Fountain Hills for the fiscal year ended June 30, 2011.

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, 2011, 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, 2011, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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

Town of Fountain Hills Profile



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

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

Over the past twenty-one years, Fountain Hills has grown from 10,190 residents to a town of approximately 22,500 based on the 2010 census. On June 5, 2006, the Town of Fountain Hills became twenty square miles and about ten percent larger by annexing 1,300 acres of state trust land. The process to annex the state trust land occurred over a two and one-half year period and development of the land will occur over the next decade. Annexing this property into the Town ensures that its future development will be of the highest quality under such Town 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, only 3.13% of the total is zoned commercial and/or industrial, 31.6% is reserved as open space and 51.3% is residential.

The Town's Mission Statement for the Organization

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

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

To serve and respect, and provide trust and stewardship.



Fountain Hills Town Hall

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

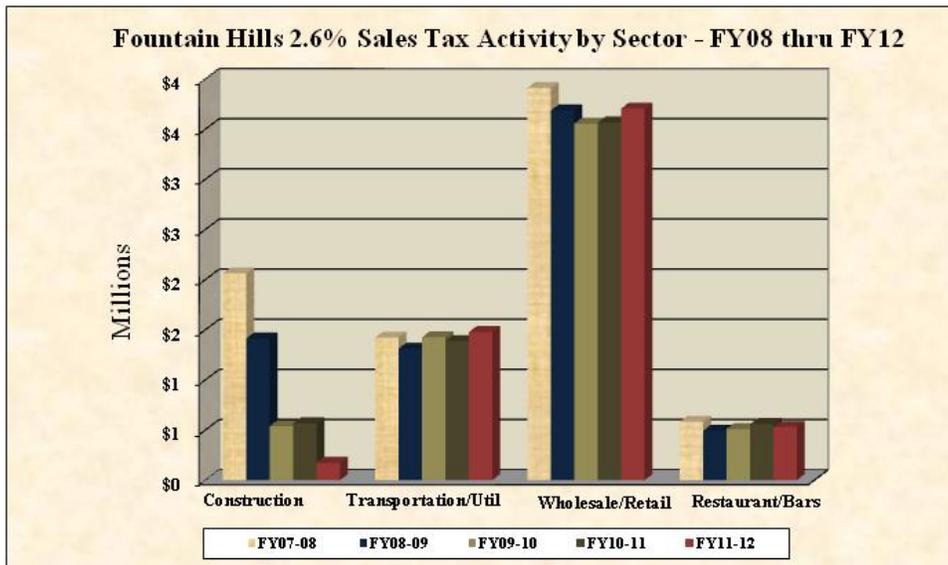
The annual budget serves as the foundation for the Town of Fountain Hills' financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund. Therefore, 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 great recession continues to have an impact on the local businesses in Fountain Hills, particularly in the construction of residential properties, local business retention and commercial leasing. Construction activity provides revenue to the Town through local sales tax, the proceeds of which are utilized for capital expenditures. Without the resources to fund capital projects, the Town must find additional funds to pay for necessary infrastructure projects. For operating costs, the Town is dependent upon state shared revenues and local sales tax as a major source of operating revenue, accounting for 89% of total General Fund revenue for fiscal year 2010-11. State shared revenues are derived as a proportionate share of state sales, income and vehicle license taxes which are distributed based on the Town’s population compared to all other incorporated cities and towns in Arizona (currently 0.045%). State shared income tax revenues decreased 12% during fiscal year 2009-10 and another 25% in fiscal year 2010-11; this revenue category is based on two years prior personal and corporate earnings, therefore, it is anticipated that the Town will experience 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 (72.5% from FY08) 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 at 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 FY2010-11: (7/1/2010 – 6/30/2011)

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

SunDevil Auto	La Montana Drive
Senor Taco	Fountain Hills Blvd

Five Special Use Permits were granted for Communication arrays:

Light Squared Antenna
(2x) T-Mobile Antennas
(2x) AT&T Antennas

Nine Temporary Use Permits were issued during the period:

(2x) Arts & Crafts Fair	(2x) Art & Farmers' Market
Fountain Hills Art League	Sofrita's Restaurant Sidewalk Dancers
Outdoor Sculpture Sales	Gem & Mineral Show
Fireworks Sales Tent	

Two new Commercial Building Permits were issued:

Industrial	16525 E. Laser Dr.
Commercial	11645 N. Desert Vista Dr.

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

General Offices	15225 N Fountain Hills Blvd
El Encanto Restaurant	11044 Saguaro Blvd
Little Caesar Pizza	16605 E Palisades Blvd
Verizon Wireless	16605 E Palisades Blvd
Spikes Treats	12645 N Saguaro Blvd Ste 13
Target	16825 E Shea Blvd
Le Edifice Offices	11010 Saguaro Blvd
Fantastic Sams	13771 N Fountain Hills Blvd Ste 112
UPS	13771 N Fountain Hills Blvd Ste 114
Meridian Bank	13404 N La Montana Dr
Senor Taco	13525 N Fountain Hills Blvd Ste 112
Checker Auto	16725 E Shea Blvd
Public Library	12901 La Montana Dr
El Dorado Animal Hospital	16765 E Parkview Dr

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

Eleven new Single-Family Residential Building Permits were issued.

Long-term Financial Planning

Fountain Hills' financial policies are balanced on sound financial reserves and conservative revenue growth forecasts for the foreseeable future. Potential for State legislative impacts to revenue-sharing or local revenues and additional demands for essential Town services remain. The Town's financial policies set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. Specifically, the Town's Rainy Day Fund policy has strict requirements that withdrawals can only be for unforeseen or emergency purposes. During the past fiscal year as the economy continued to falter there was pressure to utilize Rainy Day Funds to balance the budget, however, the economic downturn could not be classified as "unforeseen or emergency". With this policy in place the Town staff had to look for operational efficiencies and cost savings to balance the budget.

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 FY 2009-10 – 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 in place for unanticipated expenditure or loss of revenue (Rainy Day Fund), separate from the General Fund
2. An 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 portion of 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, 2011, the General Fund surplus was \$990,000; the policy also allows for the allocation of surplus funds to pay down debt. The surplus was applied towards the outstanding 2005 bonds from Town Hall that were defeased in November 2011.

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 the Investment Policy Certification from the Association of Public Treasurers of United States and Canada.

Major Initiatives

The Town of Fountain Hills' adopted fiscal year 2011-12 budget reflects the continued recession in the local economy as well as an 8% decline in population resulting from the 2010 census, which is also mirrored at the national and state levels. Due to the challenging current economic conditions, the Town has made significant reductions in staff and service levels. This reduction 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) over the last two years.

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, 2011, was less than .5%. 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 insured for all non-interest bearing accounts.

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 401(a) and 457. The 401(a) 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

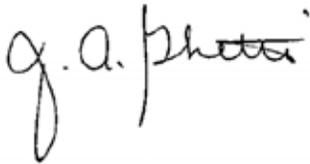
Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010. This was the fourteenth consecutive year that 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 ninth 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 Division and Administration Department. I would also like to extend my appreciation to the Mayor and Council for their leadership and support. Each member of the department has my sincere appreciation for the contributions made in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "g. a. ghetti". The signature is written in a cursive, lowercase style.

Julie A. Ghetti, MPA, CPA, CGFM
Interim Town Manager/Finance Director

**TOWN OF FOUNTAIN HILLS, ARIZONA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2011**

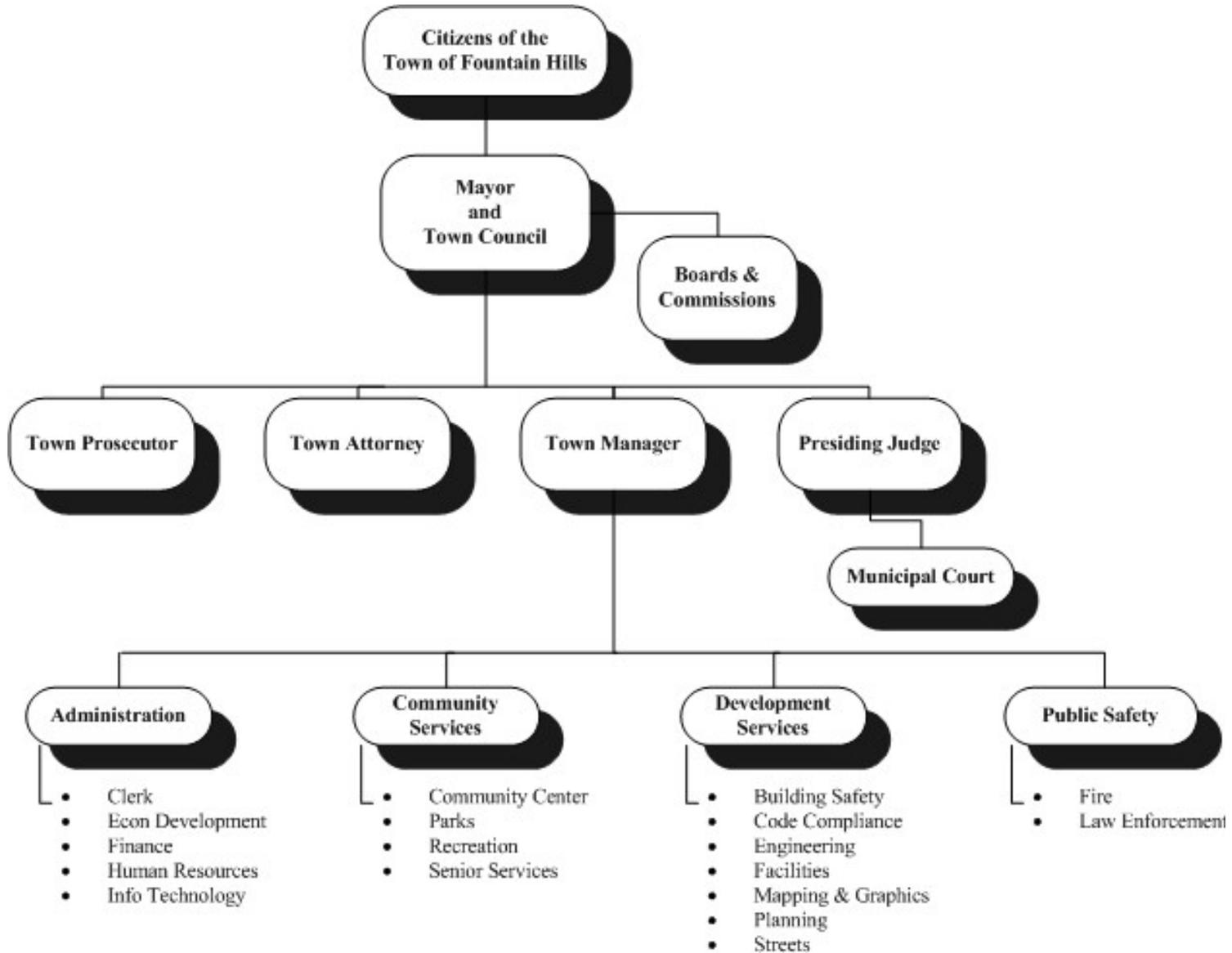
ELECTED OFFICIALS

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

DEPARTMENT DIRECTORS

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
ORGANIZATIONAL CHART
JUNE 30, 2011**



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, 2010

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, 2011, 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, 2011, and the respective changes in financial position thereof and the statement of revenues, expenditures and changes in fund balance – budget to actual for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Town implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011, which represents a change in accounting principle.

The management's discussion and analysis on pages 14-25 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 required parts 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 29, 2011

REQUIRED SUPPLEMENTARY INFORMATION

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**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

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, 2011. 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, which can be found in the introductory section of this report, and the financial statements that follow.

FINANCIAL HIGHLIGHTS

- ◆ The assets of the Town exceeded its liabilities at the close of fiscal year 2010-11 and fiscal year 2009-10 by \$119.6 million and \$119.2 million, respectively. Of these amounts, \$22.6 million and \$19.8 million, respectively, may be used to meet the government's continued efforts to reduce costs, including the reduction of staffing during the year.
- ◆ Governmental activities program revenues increased by \$1.4 million (37%) over the previous year. This increase was due to an increase in capital grants/contributions in the amount of \$1,640,797 for a major road project. Fees, fines and charges for services decreased by \$211,262 (15%) and operating grants and contributions decreased by \$52,036 (3%). The decline in fees, fines and charges for services is related to the decline in the economy and the effect on building permits and business licenses.
- ◆ At June 30, 2011, total fund balance of the governmental funds was \$24.2 million, up \$1.3 million (6%) from the previous year. Of this, \$8.3 million is unassigned in the General Fund, while the remainder is classified as nonspendable, restricted and committed.
- ◆ The General Fund reported \$13.2 million in revenues, consisting primarily of local taxes, intergovernmental taxes, charges for services and licenses and permits. Total expenditures of the General Fund were \$11.5 million and the fund balance increased from \$7.0 million to \$8.3 million, including the Rainy Day, Public Art, and Vehicle Replacement Funds. The nonmajor governmental funds revenues were \$2.1 million with the majority of the revenue from Intergovernmental Highway User Revenue Funds (HURF). Expenditures for the non-major funds was \$1.5 million with \$1.1 million from HURF Funds.
- ◆ The Town's total net assets of governmental activities increased \$379,032 (0.3%) from the prior fiscal year; revenues increased 1.9% and a reduction in expenditures was also made (5%).
- ◆ General revenues in the governmental activities accounted for \$15.0 million in revenue, or 75% of all current fiscal year revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5.1 million or 25% of total current fiscal year revenues.
- ◆ The Town had approximately \$19.7 million in expenses related to governmental activities, a decrease of 5% 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 that were State funded and Public Safety.
- ◆ Per local policy, residual unassigned General Fund revenues may be transferred to the Rainy Day Fund to supplement pay-as-you-go capital outlay expenditures or prepay existing town debt. The Council authorized the use of General Fund surplus revenues in fiscal year 2011-12 to defease bonds that were issued in 2005 for the Town Hall. The General Fund's fund balance will include the surplus, the Rainy Day, Public Art and Vehicle Replacement Funds in the amount of \$8.3 million.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is 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
FISCAL YEAR ENDED JUNE 30, 2011**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change 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 change in fund balances for the General Fund, Capital Projects Fund, General Obligation Debt Service Fund, Municipal Property Corporation Debt Service Fund, and Eagle Mountain Debt Service Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements and schedules.

Notes to Basic Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

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 \$119.6 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, 2011 and June 30, 2010.

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

	2011	2010	Percent Change
ASSETS			
Current and Other Assets	\$ 28,545,371	\$ 27,897,140	2.3%
Capital Assets:			
Non-depreciable	28,304,198	26,030,483	8.7%
Depreciable (net)	82,314,694	87,486,356	-5.9%
Total Assets	139,164,263	141,413,979	-1.6%
LIABILITIES			
Other Liabilities	3,334,185	3,873,026	-13.9%
Long-Term Liabilities:			
Due Within One Year	2,249,113	2,155,612	4.3%
Due in More Than One Year	14,017,218	16,200,626	-13.5%
Total Liabilities	19,600,516	22,229,264	-11.8%
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	92,579,483	95,467,509	-3.0%
Restricted	4,385,595	3,940,741	11.3%
Unrestricted	22,598,669	19,776,465	14.3%
Total Net Assets	\$ 119,563,747	\$ 119,184,715	0.3%

The largest portion of the Town's net assets (77%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, improvements other than buildings, vehicles, machinery and equipment, and artwork) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, a portion of the Town's net assets (4%) are for the specified purposes of debt service repayment, capital outlay investment, public safety and highways and streets.

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

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

Analysis of Changes in Net Assets

The Town's total net assets increased by \$379,032 during the fiscal year 2010-11; the increase was primarily a result of the General Fund operating budget that included higher than projected revenues and lower expenditures than the prior fiscal year. This result reflects the conservative fiscal behavior of the Town during an economic climate that is so unpredictable.

Total governmental revenues increased over the prior year with a net increase of \$364,595 (2%). The most significant increase was an increase of \$1.6 million (259%) in capital grants and contributions due to a transportation grant received from the Arizona Department of Transportation (ADOT). The Town also saw an increase in sales tax of \$369,040 (5%) due to an increase in overall sales tax collections both at the state and local level.

The Town's total revenues for the current fiscal year were \$20.0 million. The total cost of all programs and services was \$19.7 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

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

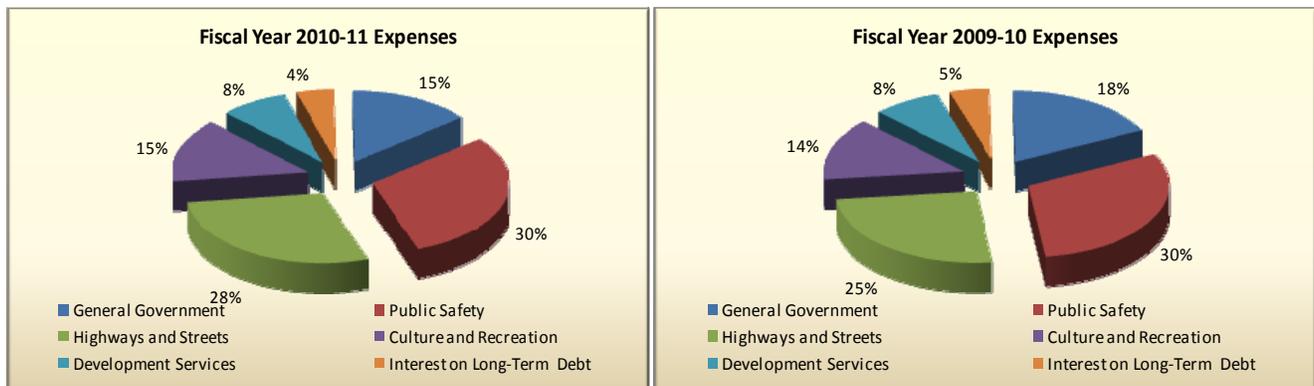
	2011	2010	Percent Change
REVENUES			
Program Revenues:			
Fees, Fines and Charges for Services	\$ 1,164,418	\$ 1,375,680	-15.4%
Operating Grants and Contributions	1,614,462	1,666,498	-3.1%
Capital Grants and Contributions	2,273,414	632,617	259.4%
General Revenues:			
Sales Taxes	8,013,480	7,644,440	4.8%
Property Taxes	1,349,079	1,928,028	-30.0%
Franchise Taxes	322,659	285,881	12.9%
State Shared Revenues	4,417,589	5,179,602	-14.7%
Auto Lieu Taxes	799,551	821,321	-2.7%
Investment Earnings	28,456	22,831	24.6%
Miscellaneous	68,125	129,740	-47.5%
Total Revenues	<u>20,051,233</u>	<u>19,686,638</u>	1.9%
EXPENSES			
General Government	2,876,848	3,720,236	-22.7%
Public Safety	5,963,067	6,293,323	-5.2%
Highways and Streets	5,567,973	5,202,285	7.0%
Culture and Recreation	2,840,154	2,927,848	-3.0%
Development Services	1,572,202	1,612,287	-2.5%
Interest on Long-Term Debt	851,957	950,484	-10.4%
Total Expenses	<u>19,672,201</u>	<u>20,706,463</u>	-5.0%
CHANGE IN NET ASSETS	379,032	(1,019,825)	137.2%
Net Assets - Beginning of Year	<u>119,184,715</u>	<u>120,204,540</u>	-0.8%
NET ASSETS - END OF YEAR	<u>\$ 119,563,747</u>	<u>\$ 119,184,715</u>	0.3%

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

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 (42%), followed by state shared revenues and auto lieu (26%), capital and operating grants and contributions (19%), property taxes (7%), and fees, fines and charges for services (6%).



The charts below compare the governmental expenses from fiscal year 2010-11 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 increased by 2% compared to last year primarily due to proceeds from grants for major infrastructure projects. While the sales tax revenues increased, income tax revenues received from the state declined. The Town does not have a primary property tax that is used for operations; the Town property tax levy is dependent upon the annual debt payment for voter approved bonds. The decreased property tax is a result of a decreased debt payment.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

- Depreciable assets declined 6% (\$5.2 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 (\$1.8 million). This amount was a federal grant that was awarded to the Arizona Department of Transportation for a project within the Town's infrastructure.
- The change in miscellaneous revenues is due to the lack of proceeds from disposal of equipment and forfeited retirement funds from the reduction in workforce; the workforce reductions were not repeated in fiscal year 2010-11.
- 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 continue 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 a lack of available developable land.
- Sales tax revenues in the Town are derived primarily from retail and telecommunications. Construction activity saw the steepest declines from \$2.1 million in fiscal year 2007-08 to less than \$600,000 in fiscal year 2010-11. Retail activity however, appears to have leveled off with a very slight increase.
- Overall expenses decreased 5% as the Town manages through the great recession by matching expenses with available resources.
- The general government and community development departments reduced expenditures in the areas of wages and benefits through the reduction of workforce.
- Public safety costs include contracts for police and fire; those contracts are multi-year with automatic increases.
- Another significant expense reduction was the 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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of major Governmental Funds reported by the Town include the General Fund, Capital Projects Fund, General Obligation Debt Service Fund, the Municipal Property Corporation Debt Service Fund, and the Eagle Mountain Debt Service Fund.

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported a combined fund balance of \$24.2 million, an increase of \$1.3 million due primarily due to a reduction in expenditures of \$1.8 million from a reduction in full time equivalent employees.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

Fund	Balance	Increase (Decrease) From FY 2009-10
General Fund *	\$ 8,305,966	\$ 1,316,039
Capital Projects Fund	9,633,788	(386,548)
General Obligation Debt Service Fund	51,333	(59,497)
Municipal Property Corporation Debt Service Fund	891,306	(150,048)
Eagle Mountain Debt Service Fund	5,332	(16,337)
Nonmajor Governmental Funds	5,285,314	619,847
	<u>\$ 24,173,039</u>	<u>\$ 1,323,456</u>

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the fund balance of the General Fund was \$8.3 million, while total fund balance of the funds reached \$24.2 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 72 percent of total General Fund expenditures, while total fund balance represents 144 percent of total expenditures. The fund balance of the Town's General Fund increased by \$1.3 million during the current fiscal year. Expenditures within the General Fund decreased 10% over the prior year – the savings were substantially realized with a decline in payroll related expenditures due to a reduction in the full-time employee workforce.

The General Fund comprises 34 percent of the total fund balance. Approximately \$8.3 million, or 99 percent of the General Fund's fund balance constitutes unassigned fund balance. The remaining fund balance is nonspendable for inventory and prepaid items.

The General Fund is the principal operating fund of the Town; overall the General Fund's performance resulted in revenues over expenditures for FY11 in an amount of \$1.7 million. The fund balance of \$8.3 million in the General Fund as of June 30, 2011, has increased in the current year substantially due to a decline in Town employees that resulted in a decrease in expenditures.

The fund balance of the Capital Project's Fund decreased \$386,548 during the current fiscal year. The decrease was primarily due to the planned use of capital project fund balance to fund pay as you go projects such as deferred street and traffic signal maintenance.

The fund balance of the General Obligation Debt Service Fund decreased \$59,497 during the current fiscal year. The decrease was largely due to the planned use of reserves to reduce the annual levy to the taxpayers.

The fund balance of the Municipal Property Corporation (MPC) Debt Service Fund decreased \$150,048 during the current fiscal year. Revenues for the MPC are derived from local sales tax collections which were consistent with the prior year. The annual debt payment committed for the MPC is fixed but there are sufficient reserves to pay annual debt service.

The fund balance of the Eagle Mountain Debt Service Fund decreased by \$16,337 during the current fiscal year. The decrease is significantly due to a decline in property tax revenue collected and an increase in the principal portion due on the related debt.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

All nonmajor governmental funds of the Town are combined into one column on the governmental fund statements. The nonmajor governmental funds reported a \$619,847 increase in fund balance mainly due to expenditures that were not completed in both the HURF Fund and the Excise Tax Fund. These expenditure savings were due to a lack of staff resources to complete the projects.

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 favorable revenue variance of \$558,393 in taxes is due to the recovery in the local economy that was not anticipated and the conservative estimates when the budget was prepared.

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

The unfavorable revenue variance of \$39,041 in licenses and permits reflects the continued economic recession, particularly in construction related activities but an increase over the prior year. Building permit revenues continue to decline as well as business license renewals and applications.

The unfavorable revenue variance of \$40,079 in fines and forfeitures reflects decreased court activity related to decreased traffic enforcement within Town borders.

The favorable expenditure variance of \$568,374 includes all departments. The staff has managed expenditures and looked for efficiencies wherever possible. The general government variance is due primarily to the appropriation of approximately \$300,000 in the event the economy worsened during the fiscal year; the contingency was not required.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2011, the Town had invested \$191.4 million in capital assets, including buildings, vehicles, computers, equipment, infrastructure and artwork. This amount represents a net increase prior to depreciation of \$1.5 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.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2011 and June 30, 2010.

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

	2011	2010	Percent Change
Land	\$ 23,571,668	\$ 23,571,668	0.0%
Artwork	1,688,500	1,578,500	7.0%
Construction in Progress	3,044,030	880,315	245.8%
Infrastructure	57,986,232	61,746,350	-6.1%
Buildings	14,911,290	15,314,231	-2.6%
Improvements other than Buildings	9,214,491	9,432,563	-2.3%
Vehicles, Machinery and Equipment	202,681	993,212	-79.6%
Total Capital Assets	<u>\$ 110,618,892</u>	<u>\$ 113,516,839</u>	-2.6%

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 \$15.9 million in bonds outstanding, \$2.2 million due within one year; this amount represents a net decrease of \$2.1 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**

	2011	2010
General Obligation Bonds	\$ 7,965,000	\$ 9,045,000
Revenue Bonds	7,885,000	8,920,000
Premium on Bonds	74,409	84,330
Total Outstanding Debt	<u>\$ 15,924,409</u>	<u>\$ 18,049,330</u>

The Town's general obligation bonds are subject to two limits; the Constitutional debt limit (total debt limit) on all general obligation bonds (up to 20% of the total secondary assessed valuation) and the statutory debt limit on general municipal purpose bonds (up to 6% of the total secondary assessed valuation). The current total debt limitation for the Town is \$112.9 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.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

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

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

The Town is heavily dependent upon state shared revenues for general fund operations (39%); state-shared income tax revenues are anticipated to decline for another year fiscal year 2011-12 due to the two year lag between actual individual and business revenues and state collections with a total general fund decline of 25% over the past six years. The Town is aggressively pursuing economic vitality and redevelopment opportunities, specifically a proposed development in the downtown center. The Town partnered with the Fountain Hills Chamber of Commerce to commission a vision for the downtown core including the world renowned Fountain Lake Area. The plan was presented to the public in the late summer of 2009 and serves as a useful tool for economic development to attract developers.

As of June 30, 2011, the Town had set aside \$9.6 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 subsequent to fiscal year 2011.

NEXT YEAR'S BUDGETS AND RATES

The protracted economic recession has forced the town to evaluate core services and, in some cases, to reduce existing service levels. Prudent long-term fiscal planning dictates that we remain conservative, focus on the highest council and citizen priorities, and fund only those enhancements we can sustain financially.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2011**

The fiscal year 2011-12 operating budget is \$14.1 million; representing a 3% decrease from fiscal year 2010-11. 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 \$17.1 million, a 267% increase over fiscal year 2010-11. It includes a question to the voters to approve \$14.9 million for a major road reconstruction as well as 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, Arizona. 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 2011-12 totaling \$17.1 million (which includes carryover funds for some large projects currently underway). In fiscal year 2011-12, the CIP places major emphasis on major road improvements and maintenance. Due to the economy, there are no recreational or non-essential projects proposed.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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

Our website: www.fh.az.gov

BASIC FINANCIAL STATEMENTS

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
ASSETS	
Cash and Investments	\$ 23,844,919
Cash with Paying Agent	2,480,039
Receivables, Net:	
Accounts Receivable	162,613
Intergovernmental Receivables	936,240
Property Taxes Receivable	61,195
Inventory, At Cost	13,183
Prepaid Items	35,451
Deferred Charges	1,011,731
Capital Assets:	
Non-Depreciable	28,304,198
Depreciable (Net)	82,314,694
Total Assets	139,164,263
LIABILITIES	
Accounts Payable	672,831
Accrued Wages and Benefits	156,815
Interest Payable	365,039
Unearned Revenue	24,500
Matured Debt Principal Payable	2,115,000
Noncurrent Liabilities:	
Due Within One Year	2,249,113
Due in More Than One Year	14,017,218
Total Liabilities	19,600,516
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	92,579,483
Restricted For:	
Highways and Streets	705,979
Public Safety	225,000
Capital Outlay	2,493,981
Debt Service	960,635
Unrestricted	22,598,669
Total Net Assets	\$ 119,563,747

See accompanying Notes to Basic Financial Statements.

**TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2011**

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	\$ 2,876,848	\$ 1,126,926	\$ -	\$ 337,501	\$ (1,412,421)
Public Safety	5,963,067	21,222	122,008	-	(5,819,837)
Highways and Streets	5,567,973	16,270	1,492,454	1,935,913	(2,123,336)
Culture and Recreation	2,840,154	-	-	-	(2,840,154)
Development Services	1,572,202	-	-	-	(1,572,202)
Interest on Long-Term Debt	851,957	-	-	-	(851,957)
Total Governmental Activities	\$ 19,672,201	\$ 1,164,418	\$ 1,614,462	\$ 2,273,414	(14,619,907)
GENERAL REVENUES					
Taxes:					
Sales Taxes					8,013,480
Property Taxes					1,349,079
Franchise Taxes					322,659
State Sales Tax Revenue Sharing - Unrestricted					4,417,589
Auto Lieu Tax Revenue Sharing - Unrestricted					799,551
Investment Earnings					28,456
Miscellaneous					68,125
Total General Revenues					14,998,939
Change in Net Assets					379,032
Net Assets - Beginning					119,184,715
Net Assets - Ending					\$ 119,563,747

See accompanying Notes to Basic Financial Statements.

**TOWN OF FOUNTAIN HILLS, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General	Capital Projects	General Obligation Debt Service	Municipal Property Corporation Debt Service
ASSETS				
Cash and Investments	\$ 7,841,265	\$ 9,926,149	\$ 24,080	\$ 846,535
Cash with Paying Agent	-	-	924,356	1,223,315
Accounts Receivable	133,250	-	-	-
Intergovernmental Receivable	728,528	33,043	-	44,771
Taxes Receivable	-	-	50,914	-
Due from Other Funds	2,194	-	-	-
Inventory, at cost	13,183	-	-	-
Prepaid Items	29,234	-	-	-
Total Assets	<u>\$ 8,747,654</u>	<u>\$ 9,959,192</u>	<u>\$ 999,350</u>	<u>\$ 2,114,621</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 278,042	\$ 325,404	\$ -	\$ -
Accrued Wages and Benefits	139,146	-	-	-
Due to Other Funds	-	-	-	-
Interest Payable	-	-	104,356	188,315
Deferred Revenue	24,500	-	23,661	-
Matured Debt Principal Payable	-	-	820,000	1,035,000
Total Liabilities	<u>441,688</u>	<u>325,404</u>	<u>948,017</u>	<u>1,223,315</u>
Fund Balances:				
Nonspendable				
Inventory	13,183	-	-	-
Prepaid Items	29,234	-	-	-
Restricted	-	-	51,333	891,306
Committed	-	9,633,788	-	-
Unassigned	8,263,549	-	-	-
Total Fund Balance	<u>8,305,966</u>	<u>9,633,788</u>	<u>51,333</u>	<u>891,306</u>
Total Liabilities and Fund Balance	<u>\$ 8,747,654</u>	<u>\$ 9,959,192</u>	<u>\$ 999,350</u>	<u>\$ 2,114,621</u>

See accompanying Notes to Basic Financial Statements.

Eagle Mountain Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 5,206,890	\$ 23,844,919
332,368	-	2,480,039
-	29,363	162,613
-	129,898	936,240
10,281	-	61,195
-	-	2,194
-	-	13,183
-	6,217	35,451
<u>\$ 342,649</u>	<u>\$ 5,372,368</u>	<u>\$ 27,535,834</u>

\$ -	\$ 69,385	\$ 672,831
-	17,669	156,815
2,194	-	2,194
72,368	-	365,039
2,755	-	50,916
260,000	-	2,115,000
<u>337,317</u>	<u>87,054</u>	<u>3,362,795</u>

-	-	13,183
-	6,217	35,451
5,332	3,432,016	4,379,987
-	1,847,081	11,480,869
-	-	8,263,549
<u>5,332</u>	<u>5,285,314</u>	<u>24,173,039</u>
<u>\$ 342,649</u>	<u>\$ 5,372,368</u>	<u>\$ 27,535,834</u>

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**TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balances for Governmental Funds \$ 24,173,039

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

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

Governmental Capital Assets	191,449,621
Less Accumulated Depreciation	(80,830,729)
Capital Assets Used in Governmental Activities	110,618,892

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

Property Taxes	26,416
----------------	--------

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

1,011,731

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

General Obligation Bonds	(7,965,000)
Revenue Bonds Payable	(7,885,000)
Deferred Amount on Premium	(74,409)
Compensated Absences	(341,922)

Total Net Assets of Governmental Activities

\$ 119,563,747

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Capital Projects</u>	<u>General Obligation Debt Service</u>	<u>Municipal Property Corporation Debt Service</u>
REVENUES				
Taxes:				
Sales Taxes	\$ 6,556,254	\$ 283,567	\$ -	\$ 880,244
Property Taxes	-	-	970,276	-
Franchise Taxes	322,659	-	-	-
Intergovernmental	5,165,854	300,507	-	-
Fines and Forfeitures	214,999	-	-	-
Licenses and Permits	312,367	-	-	-
Charges for Services	318,447	-	-	-
Contributions and Donations	-	-	-	-
Rents and Royalties	227,195	-	-	-
Investment Earnings	11,608	10,357	79	1,476
Other	62,455	-	-	-
Total Revenues	<u>13,191,838</u>	<u>594,431</u>	<u>970,355</u>	<u>881,720</u>
EXPENDITURES				
Current:				
General Government	2,279,569	-	-	-
Public Safety	5,772,800	-	-	-
Highways and Streets	-	-	-	-
Culture and Recreation	1,821,472	-	-	-
Development Services	1,564,615	-	-	-
Debt Service:				
Principal Retirement	-	-	820,000	1,035,000
Interest on Long-Term Debt	-	-	209,852	383,768
Capital Outlay	64,197	951,612	-	-
Total Expenditures	<u>11,502,653</u>	<u>951,612</u>	<u>1,029,852</u>	<u>1,418,768</u>
Excess (Deficiency) of Revenues Over Expenditures	1,689,185	(357,181)	(59,497)	(537,048)
OTHER FINANCING SOURCES (USES)				
Transfers In	29,367	-	-	387,000
Transfers Out	(402,513)	(29,367)	-	-
Total Other Financing Sources (Uses)	<u>(373,146)</u>	<u>(29,367)</u>	<u>-</u>	<u>387,000</u>
Net Change in Fund Balance	1,316,039	(386,548)	(59,497)	(150,048)
FUND BALANCE				
Beginning of Year, As Restated	6,989,927	10,020,336	110,830	1,041,354
End of Year	<u>\$ 8,305,966</u>	<u>\$ 9,633,788</u>	<u>\$ 51,333</u>	<u>\$ 891,306</u>

See accompanying Notes to Basic Financial Statements.

<u>Eagle Mountain Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 293,415	\$ 8,013,480
394,346	3,293	1,367,915
-	-	322,659
-	1,698,742	7,165,103
-	21,222	236,221
-	-	312,367
-	70,188	388,635
-	4,000	4,000
-	-	227,195
27	4,909	28,456
-	5,670	68,125
394,373	2,101,439	18,134,156
-	296,406	2,575,975
-	-	5,772,800
-	1,123,230	1,123,230
-	49,974	1,871,446
-	-	1,564,615
260,000	-	2,115,000
150,710	-	744,330
-	27,495	1,043,304
410,710	1,497,105	16,810,700
(16,337)	604,334	1,323,456
-	15,513	431,880
-	-	(431,880)
-	15,513	-
(16,337)	619,847	1,323,456
21,669	4,665,467	22,849,583
\$ 5,332	\$ 5,285,314	\$ 24,173,039

**TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2011**

Net Change in Fund Balances of Governmental Funds \$ 1,323,456

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	389,082
Less Current Year Depreciation	(4,969,874)
Excess Depreciation Over Capital Expenditures	(4,580,792)

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. (253,068)

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	(18,836)
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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	1,080,000
Principal Payments on Revenue Bonds	1,035,000
Amortization of Deferred Amount on Bond Premium	9,921
Amortization of Deferred Charges	(117,548)

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	1,935,913
Net Increase in Compensated Absences	(35,014)
Change in Net Assets of Governmental Activities	\$ 379,032

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes:				
Sales Taxes	\$ 6,020,520	\$ 6,020,520	\$ 6,556,254	\$ 535,734
Franchise Taxes	300,000	300,000	322,659	22,659
Intergovernmental	5,118,735	5,118,735	5,165,854	47,119
Fines and Forfeitures	255,078	255,078	214,999	(40,079)
Licenses and Permits	351,408	351,408	312,367	(39,041)
Charges for Services	254,447	254,447	318,447	64,000
Rents and Royalties	202,792	202,792	227,195	24,403
Investment Earnings	10,800	10,800	11,608	808
Other	38,487	38,487	62,455	23,968
Total Revenues	<u>12,552,267</u>	<u>12,552,267</u>	<u>13,191,838</u>	<u>639,571</u>
EXPENDITURES				
Current:				
General Government:				
Mayor and Council	72,427	72,427	66,759	5,668
Administration	2,431,974	2,353,324	1,801,906	551,418
Municipal Court	421,291	421,291	410,904	10,387
Total General Government	<u>2,925,692</u>	<u>2,847,042</u>	<u>2,279,569</u>	<u>567,473</u>
Public Safety:				
Law Enforcement	2,759,530	2,759,530	2,712,509	47,021
Fire and Emergency Medical	2,928,816	2,948,816	3,060,291	(111,475)
Total Public Safety	<u>5,688,346</u>	<u>5,708,346</u>	<u>5,772,800</u>	<u>(64,454)</u>
Culture and Recreation:				
Community Services	1,914,587	1,941,037	1,821,472	119,565
Development Services	1,542,402	1,574,602	1,564,615	9,987
Capital Outlay	-	-	64,197	(64,197)
Total Expenditures	<u>12,071,027</u>	<u>12,071,027</u>	<u>11,502,653</u>	<u>568,374</u>
Excess (Deficiency) of Revenues Over Expenditures	481,240	481,240	1,689,185	1,207,945
OTHER FINANCING SOURCES (USES)				
Transfers In	90,000	90,000	29,367	(60,633)
Transfers Out	(571,240)	(571,240)	(402,513)	168,727
Total Other Financing Sources (Uses)	<u>(481,240)</u>	<u>(481,240)</u>	<u>(373,146)</u>	<u>108,094</u>
Net Change in Fund Balance	-	-	1,316,039	1,316,039
FUND BALANCE				
Beginning of Year, As Restated	-	-	6,989,927	6,989,927
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,305,966</u>	<u>\$ 8,305,966</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
JUNE 30, 2011

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.

For the year ended June 30, 2011, the Town implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosure requirements, fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions.

A. Reporting Entity

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

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

Eagle Mountain Community Facilities District and the Cottonwoods Improvement District. As special purpose districts and separate political subdivisions under the Arizona Constitution, the districts can levy taxes and issue bonds independently of the Town. Property owners in the designated areas are assessed for Town taxes, and thus for the costs of operating the districts. The Town Council serves as the Board of Directors; however, the District has no liability for the districts' debt, the Town is responsible for the debt; the debt is therefore, not subject to the Town's debt limit; therefore, providing a financial benefit to the Town. For financial reporting purposes, transactions of the Districts are combined together and included as if they were part of the Town's operations.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

Government-Wide Financial Statements

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Financial Statements

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

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

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

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

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

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

The Town reports the following major governmental funds.

Major Governmental Funds

General Fund

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital Projects Fund

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

General Obligation Debt Service Fund

This fund accounts for the Town's property tax revenues received to pay the debt service of the Town's general obligation bonds.

Municipal Property Corporation Debt Service Fund

This fund accounts for the revenues received to pay the debt service on MPC revenue bonds.

Eagle Mountain Debt Service Fund

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

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

1. Deposits and Investments

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

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

2. Receivables and Payables

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Receivables and Payables (Continued)

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

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

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

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

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

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.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4. Prepaid Items

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

5. 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.

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 then current rate of pay.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

6. Compensated Absences (Continued)

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

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

7. Long-term Obligations

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

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

8. Net Assets

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

9. Fund Balance Classifications

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

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

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

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

10. 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.

11. 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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

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

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. Expenditures may not legally exceed the expenditure limitation described below of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
5. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, and Capital Projects Funds (except for the HURF Debt Service and Cottonwoods Special Assessment Funds, in which the Town did not adopt a budget) on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

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

No supplementary budgetary appropriations were necessary during the year.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
Major Funds:	
General Fund	
Fire and Emergency Medical	\$ 111,475
Capital Outlay	64,197
Municipal Property Corporation Debt Service Fund	138

Cash was available to cover the over expenditures listed above.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2011, consist of the following:

Deposits:	
Cash on Hand	\$ 1,050
Cash in Bank	740,626
Cash on Deposit with Paying Agent	2,480,039
Investments	
State Treasurer's Investment Pool	<u>23,103,243</u>
Total	26,324,958
Less Cash with Paying Agent	<u>(2,480,039)</u>
Total Cash and Investments	<u>\$ 23,844,919</u>

Deposits

The Town's deposits at June 30, 2011, had a carrying value of \$740,626 and a bank balance of \$755,965. The entire bank balance of the Town was deposited in non-interest bearing accounts or low-interest bearing accounts that were fully insured by federal depository insurance.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

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 – This is the risk that the market value of securities held in the portfolio will decline due to increases in market interest rates subsequent to their purchase. In accordance with its investment policy, the Town manages its exposure to declines in fair value by:

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

Credit Risk – This is the risk of loss due to the failure of the financial institution or security issuer. The Town policy relating to the mitigation of credit risk is to limit investments in the portfolio to the asset classes designated as acceptable in Arizona Revised Statutes Section 35-323, provided, however, any investments described in paragraph 8 or 9 of such statute section shall require written consent from the Finance Director. When possible, analysis of the credit worthiness of all individual debt issuers held in the portfolio should be conducted on an annual basis in an effort to guard against investing in weak or deteriorating credit situations. The Town pre-qualifies the financial institutions, broker/dealers, and investment advisers with which the Town will do business. As of year-end, 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
JUNE 30, 2011**

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	\$ -	\$ 24,500
General Obligation Debt Service Fund		
Property Taxes	23,661	-
Nonmajor Governmental Funds		
Property taxes	2,755	-
Total Deferred Revenue for Governmental Funds	\$ 26,416	\$ 24,500

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TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets

Capital assets for the year ended June 30, 2011, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 23,571,668	\$ -	\$ -	\$ 23,571,668
Artwork	1,578,500	110,000	-	1,688,500
Construction in Progress	880,315	2,163,715	-	3,044,030
Total Capital Assets, Not Being Depreciated	26,030,483	2,273,715	-	28,304,198
Capital Assets, Being Depreciated:				
Infrastructure	126,662,976	-	(215,544)	126,447,432
Buildings	18,054,544	-	(45,800)	18,008,744
Improvements Other Than Buildings	15,022,357	-	-	15,022,357
Vehicles, Machinery and Equipment	4,156,666	51,280	(541,056)	3,666,890
Total Capital Assets, Being Depreciated	163,896,543	51,280	(802,400)	163,145,423
Accumulated Depreciation for:				
Infrastructure	(64,916,626)	(3,557,196)	12,622	(68,461,200)
Buildings	(2,740,313)	(360,805)	3,664	(3,097,454)
Improvements Other Than Buildings	(5,589,794)	(751,118)	533,046	(5,807,866)
Vehicles, Machinery and Equipment	(3,163,454)	(300,755)	-	(3,464,209)
Total Accumulated Depreciation	(76,410,187)	(4,969,874)	549,332	(80,830,729)
Total Capital Assets, Being Depreciated, Net	87,486,356	(4,918,594)	(253,068)	82,314,694
Governmental Activities Capital Assets, Net	\$ 113,516,839	\$ (2,644,879)	\$ (253,068)	\$ 110,618,892

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 267,842
Public Safety	101,121
Highways and Streets	3,681,428
Culture and Recreation	919,483
Total Depreciation Expense	\$ 4,969,874

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Construction Commitments

The Town has active construction projects at June 30, 2011. At fiscal year end, the Town's commitments with contractors were as follows:

	Governmental Activities	
Project	Spent-to-date	Remaining Commitment
Shea Boulevard Improvements	<u>\$ 3,044,030</u>	<u>\$ 1,291,725</u>

B. Interfund Receivables/Payables and Transfers

As of June 30, 2011, interfund receivable and payables were as follows:

	Due From
Due to	Eagle Mountain Debt Service Fund
General Fund	<u>\$ 2,194</u>

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 year upon receipt of property taxes.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables/Payables and Transfers (Continued)

Interfund transfers for the year ended June 30, 2011, consisted of the following:

	Transfers In			
Transfers Out	General Fund	Municipal Property Corporation Debt Service Fund	Nonmajor Governmental Fund	Total
General Fund	\$ -	\$ 387,000	\$ 15,513	\$ 402,513
Capital Projects Fund	29,367	-	-	29,367
Total	\$ 29,367	\$ 387,000	\$ 15,513	\$ 431,880

The General Fund transferred \$387,000 to pay for debt service costs on the Municipal Property Corporation's outstanding bonds. The General Fund transferred \$15,513 to the Nonmajor Governmental Fund to provide the matching portion of a transportation grant the Town received. The Capital Projects Fund transferred \$29,367 to the General Fund to set aside monies for vehicle replacement.

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TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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
Governmental Activities:				
General Obligation Bonds:				
General Obligation Refunding Bonds, Series 2005	3.75-4.00	07/01/11-19	\$ 7,225,000	\$ 4,595,000
Eagle Mountain Community Facilities District, General Obligation Refunding Bonds, Series 2005	3.75-4.125	7/1/2011-21	4,555,000	3,370,000
Total General Obligation Bonds			<u>\$ 11,780,000</u>	<u>\$ 7,965,000</u>
Revenue Bonds:				
Municipal Facilities Revenue Bonds, Series 2000	5.25	7/01/11-12	\$ 4,680,000	\$ 230,000
Municipal Facilities Revenue Bonds, Series 2001	4.40-4.50	7/01/11-13	7,750,000	775,000
Municipal Facilities Revenue Bonds, Series 2004	4.00-4.50	7/01/11-19	3,645,000	2,410,000
Municipal Facilities Revenue Refunding Bonds, Series 2005	3.75-4.50	7/01/11-20	5,330,000	4,470,000
Total Revenue Bonds			<u>\$ 21,405,000</u>	<u>\$ 7,885,000</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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 \$7,885,000 in outstanding municipal facilities revenue and refunding bonds. For fiscal year ended June 30, 2011, the net revenues available to service this debt were \$14.1 million. The debt principal and interest paid on this debt in fiscal year 2010-11 was \$1,035,000 and \$373,768, respectively (10 percent of available pledged revenues).

Changes in long-term obligations for the year ended June 30, 2011, are as follows:

	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds					
General Obligation Bonds	\$ 9,045,000	\$ -	\$ (1,080,000)	\$ 7,965,000	\$ 1,120,000
Revenue Bonds	<u>8,920,000</u>	<u>-</u>	<u>(1,035,000)</u>	<u>7,885,000</u>	<u>1,085,000</u>
	17,965,000	-	(2,115,000)	15,850,000	2,205,000
Deferred Amounts:					
Premium	<u>84,330</u>	<u>-</u>	<u>(9,921)</u>	<u>74,409</u>	<u>9,921</u>
Total Bonds	18,049,330	-	(2,124,921)	15,924,409	2,214,921
Other Liabilities:					
Compensated Absences	<u>306,908</u>	<u>225,498</u>	<u>(190,484)</u>	<u>341,922</u>	<u>34,192</u>
Governmental Activities Long-Term Liabilities	<u>\$ 18,356,238</u>	<u>\$ 225,498</u>	<u>\$ (2,315,405)</u>	<u>\$ 16,266,331</u>	<u>\$ 2,249,113</u>

Debt service requirements on long-term debt at June 30, 2011, are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
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	1,490,000	294,781
2017 - 2021	<u>5,440,000</u>	<u>585,914</u>
	<u>\$ 15,850,000</u>	<u>\$ 2,963,219</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
JUNE 30, 2011**

NOTE 4 OTHER INFORMATION

A. Change in Accounting Principle

As a result of the implementation of GASB Statement No. 54, the Town reclassified the Public Art fund from a Special Revenue Fund to inclusion in the General Fund for financial reporting purposes. The following schedule reconciles beginning fund balances as previously reported to the restated balance.

Fund	Fund Balance at July 1, 2010 as Previously Stated	Funds Reclassified Due to GASB Statement No. 54	Fund Balance July 1, 2010 as Restated
General	\$ 6,988,406	\$ 1,521	\$ 6,989,927
Capital Projects	10,020,336	-	10,020,336
General Obligation Debt Service	110,830	-	110,830
Municipal Property Corporation Debt Service	1,041,354	-	1,041,354
Eagle Mountain Debt Service	21,669	-	21,669
Nonmajor Governmental Fund	4,666,988	(1,521)	4,665,467
Total	<u>\$ 22,849,583</u>	<u>\$ -</u>	<u>\$ 22,849,583</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.

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 OTHER INFORMATION (CONTINUED)

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, 2011, was \$2,806,371. The Town's total payroll was \$3,147,945.

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 2010-11, the Town's required and actual contributions amounted to \$308,701. The employees' contributions totaled \$308,701. Employees may also contribute to the ICMA Retirement Corporation 457 plan on a voluntary basis; there is no employer match for those contributions. During fiscal year 2010-11, employees contributed \$151,763 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 2010-11 or as of the close of the fiscal year.

E. Subsequent Events

Subsequent to June 30, 2011, the Town deposited \$2,729,109 of cash into an irrevocable trust, paid issuance costs of \$37,500 and placed \$3,391 in a contingency fund to advance refund \$2,410,000 in Municipal Property Corporation Bonds, Series 2004. The bonds were refunded to obtain an economic savings over the life of the bonds.

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**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.

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.

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, 2011**

Special Revenue

ASSETS	HURF	Development Fees	Local Court Enhancement	Grants	Excise Tax	Total Special Revenue Funds
Cash and Investments	\$ 618,512	\$ 2,493,981	\$ 225,000	\$ 5,402	\$ 1,851,331	\$ 5,194,226
Accounts Receivable	29,363	-	-	-	-	29,363
Intergovernmental Receivable	114,974	-	-	-	14,924	129,898
Prepaid Items	5,608	-	-	-	609	6,217
Total Assets	<u>\$ 768,457</u>	<u>\$ 2,493,981</u>	<u>\$ 225,000</u>	<u>\$ 5,402</u>	<u>\$ 1,866,864</u>	<u>\$ 5,359,704</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 47,188	\$ -	\$ -	\$ 4,968	\$ 17,229	\$ 69,385
Accrued Wages and Benefits	15,290	-	-	434	1,945	17,669
Total Liabilities	<u>62,478</u>	<u>-</u>	<u>-</u>	<u>5,402</u>	<u>19,174</u>	<u>87,054</u>
Fund Balances:						
Nonspendable	5,608	-	-	-	609	6,217
Restricted	700,371	2,493,981	225,000	-	-	3,419,352
Committed	-	-	-	-	1,847,081	1,847,081
Total Fund Balances	<u>705,979</u>	<u>2,493,981</u>	<u>225,000</u>	<u>-</u>	<u>1,847,690</u>	<u>5,272,650</u>
Total Liabilities and Balance	<u>\$ 768,457</u>	<u>\$ 2,493,981</u>	<u>\$ 225,000</u>	<u>\$ 5,402</u>	<u>\$ 1,866,864</u>	<u>\$ 5,359,704</u>

Debt Service

HURF Debt Service	Cottonwoods Special Assessment	Total Debt Service Funds	Total Nonmajor Governmental Funds
\$ -	\$ 12,664	\$ 12,664	\$ 5,206,890
-	-	-	29,363
-	-	-	129,898
-	-	-	6,217
<u>\$ -</u>	<u>\$ 12,664</u>	<u>\$ 12,664</u>	<u>\$ 5,372,368</u>
\$ -	\$ -	\$ -	\$ 69,385
-	-	-	17,669
-	-	-	<u>87,054</u>
-	-	-	6,217
-	12,664	12,664	3,432,016
-	-	-	1,847,081
-	<u>12,664</u>	<u>12,664</u>	<u>5,285,314</u>
<u>\$ -</u>	<u>\$ 12,664</u>	<u>\$ 12,664</u>	<u>\$ 5,372,368</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 2011**

	Special Revenue					
	HURF	Development Fees	Local Court Enhancement	Grants	Excise Tax	Total Special Revenue Funds
REVENUES						
Taxes:						
Sales Taxes	\$ -	\$ -	\$ -	\$ -	\$ 293,415	\$ 293,415
Property Taxes	-	-	-	-	-	-
Intergovernmental	1,488,454	-	-	210,288	-	1,698,742
Fines and Forfeitures	-	-	21,222	-	-	21,222
Charges for Services	16,270	53,918	-	-	-	70,188
Contributions and Donations	-	-	-	4,000	-	4,000
Investment Earnings	247	2,635	461	-	1,178	4,521
Other	5,668	-	-	-	-	5,668
Total Revenues	<u>1,510,639</u>	<u>56,553</u>	<u>21,683</u>	<u>214,288</u>	<u>294,593</u>	<u>2,097,756</u>
EXPENDITURES						
Current:						
General Government	-	-	12,442	152,332	131,632	296,406
Highways and Streets	1,123,230	-	-	-	-	1,123,230
Culture and Recreation	-	-	-	49,974	-	49,974
Capital Outlay	-	-	-	27,495	-	27,495
Total Expenditures	<u>1,123,230</u>	<u>-</u>	<u>12,442</u>	<u>229,801</u>	<u>131,632</u>	<u>1,497,105</u>
Excess (Deficiency) of Revenues Over Expenditures	387,409	56,553	9,241	(15,513)	162,961	600,651
OTHER FINANCING SOURCES (USES)						
Transfers In	-	-	-	15,513	-	15,513
Net Change in Fund Balances	387,409	56,553	9,241	-	162,961	616,164
FUND BALANCES						
Beginning of Year	318,570	2,437,428	215,759	-	1,684,729	4,656,486
End of Year	<u>\$ 705,979</u>	<u>\$ 2,493,981</u>	<u>\$ 225,000</u>	<u>\$ -</u>	<u>\$ 1,847,690</u>	<u>\$ 5,272,650</u>

<u>Debt Service</u>			
<u>HURF Debt Service</u>	<u>Cottonwoods Special Assessment</u>	<u>Total Debt Service Funds</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 293,415
-	3,293	3,293	3,293
-	-	-	1,698,742
-	-	-	21,222
-	-	-	70,188
-	-	-	4,000
388	-	388	4,909
-	2	2	5,670
<u>388</u>	<u>3,295</u>	<u>3,683</u>	<u>2,101,439</u>
-	-	-	296,406
-	-	-	1,123,230
-	-	-	49,974
-	-	-	27,495
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,497,105</u>
388	3,295	3,683	604,334
<u>-</u>	<u>-</u>	<u>-</u>	<u>15,513</u>
388	3,295	3,683	619,847
(388)	9,369	8,981	4,665,467
<u>\$ -</u>	<u>\$ 12,664</u>	<u>\$ 12,664</u>	<u>\$ 5,285,314</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes:			
Sales Taxes	\$ 66,678	\$ 283,567	\$ 216,889
Intergovernmental	1,081,614	300,507	(781,107)
Investment Earnings	300	10,357	10,057
Total Revenues	<u>1,148,592</u>	<u>594,431</u>	<u>(554,161)</u>
EXPENDITURES			
Capital Outlay	<u>6,446,116</u>	<u>951,612</u>	<u>5,494,504</u>
Excess (Deficiency) of Revenues Over Expenditures	(5,297,524)	(357,181)	4,940,343
OTHER FINANCING SOURCES (USES)			
Transfers In	3,365,837	-	(3,365,837)
Transfers Out	-	(29,367)	(29,367)
Total Other Financing Sources (Uses)	<u>3,365,837</u>	<u>(29,367)</u>	<u>(3,395,204)</u>
Net Change in Fund Balance	(1,931,687)	(386,548)	1,545,139
FUND BALANCE			
Beginning of Year	-	10,020,336	10,020,336
End of Year	<u>\$ (1,931,687)</u>	<u>\$ 9,633,788</u>	<u>\$ 11,565,475</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL OBLIGATION DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2011

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Property Taxes	\$ 1,040,484	\$ 970,276	\$ (70,208)
Investment Earnings	300	79	(221)
Total Revenues	1,040,784	970,355	(70,429)
EXPENDITURES			
Debt Service:			
Principal Retirement	820,000	820,000	-
Interest on Long-Term Debt	208,713	209,852	(1,139)
Fiscal Charges	2,100	-	2,100
Total Expenditures	1,030,813	1,029,852	961
Excess (Deficiency) of Revenues Over Expenditures	9,971	(59,497)	(69,468)
FUND BALANCE			
Beginning of Year	-	110,830	110,830
End of Year	\$ 9,971	\$ 51,333	\$ 41,362

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MUNICIPAL PROPERTY CORPORATION DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2011

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Sales Taxes	\$ 827,500	\$ 880,244	\$ 52,744
Investment Earnings	1,200	1,476	276
Total Revenues	828,700	881,720	53,020
EXPENDITURES			
Debt Service:			
Principal Retirement	1,035,000	1,035,000	-
Interest on Long-Term Debt	376,630	383,768	(7,138)
Fiscal Charges	7,000	-	7,000
Total Expenditures	1,418,630	1,418,768	(138)
Excess (Deficiency) of Revenues Over Expenditures	(589,930)	(537,048)	52,882
OTHER FINANCING SOURCES (USES)			
Transfers In	387,000	387,000	-
Net Change in Fund Balance	(202,930)	(150,048)	52,882
FUND BALANCE			
Beginning of Year	-	1,041,354	1,041,354
End of Year	\$ (202,930)	\$ 891,306	\$ 1,094,236

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
EAGLE MOUNTAIN DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2011

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes:			
Property Taxes	\$ 420,000	\$ 394,346	\$ (25,654)
Investment Earnings	84	27	(57)
Total Revenues	<u>420,084</u>	<u>394,373</u>	<u>(25,711)</u>
EXPENDITURES			
Debt Service:			
Principal Retirement	260,000	260,000	-
Interest on Long-Term Debt	143,360	143,360	-
Fiscal Charges	7,350	7,350	-
Total Expenditures	<u>410,710</u>	<u>410,710</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	9,374	(16,337)	(25,711)
FUND BALANCE			
Beginning of Year	-	21,669	21,669
End of Year	<u>\$ 9,374</u>	<u>\$ 5,332</u>	<u>\$ (4,042)</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HURF FUND
FISCAL YEAR ENDED JUNE 30, 2011

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Intergovernmental	\$ 1,315,800	\$ 1,488,454	\$ 172,654
Charges for Services	15,068	16,270	1,202
Investment Earnings	120	247	127
Other	7,602	5,668	(1,934)
Total Revenues	<u>1,338,590</u>	<u>1,510,639</u>	<u>172,049</u>
EXPENDITURES			
Current:			
Highways and Streets	<u>1,207,836</u>	<u>1,123,230</u>	<u>84,606</u>
Excess (Deficiency) of Revenues Over Expenditures	130,754	387,409	256,655
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>(79,875)</u>	<u>-</u>	<u>79,875</u>
Net Change in Fund Balance	50,879	387,409	336,530
FUND BALANCE			
Beginning of Year	-	318,570	318,570
End of Year	<u>\$ 50,879</u>	<u>\$ 705,979</u>	<u>\$ 655,100</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
DEVELOPMENT FEES FUND
FISCAL YEAR ENDED JUNE 30, 2011

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Charges for Services	\$ 87,610	\$ 53,918	\$ (33,692)
Investment Earnings	955	2,635	1,680
Total Revenues	<u>88,565</u>	<u>56,553</u>	<u>(32,012)</u>
EXPENDITURES			
Current			
Highways and Streets	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	88,565	56,553	(32,012)
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>30</u>	<u>-</u>	<u>(30)</u>
Net Change in Fund Balance	88,595	56,553	(32,042)
FUND BALANCE			
Beginning of Year	-	2,437,428	2,437,428
End of Year	<u>\$ 88,595</u>	<u>\$ 2,493,981</u>	<u>\$ 2,405,386</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL COURT ENHANCEMENT FUND
FISCAL YEAR ENDED JUNE 30, 2011

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes:			
Fines and Forfeitures	\$ 19,000	\$ 21,222	\$ 2,222
Investment Earnings	250	461	211
Total Revenues	<u>19,250</u>	<u>21,683</u>	<u>2,433</u>
EXPENDITURES			
Current:			
General Government	<u>40,350</u>	<u>12,442</u>	<u>27,908</u>
Excess (Deficiency) of Revenues Over Expenditures	(21,100)	9,241	30,341
FUND BALANCE			
Beginning of Year	-	215,759	215,759
End of Year	<u>\$ (21,100)</u>	<u>\$ 225,000</u>	<u>\$ 246,100</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GRANTS FUND
FISCAL YEAR ENDED JUNE 30, 2011

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Intergovernmental	\$ 7,490,225	\$ 210,288	\$ (7,279,937)
Contributions and Donations	-	4,000	4,000
Total Revenues	<u>7,490,225</u>	<u>214,288</u>	<u>(7,275,937)</u>
EXPENDITURES			
Current:			
General Government	1,318,423	152,332	1,166,091
Culture and Recreation	-	49,974	(49,974)
Capital Outlay	-	27,495	(27,495)
Total Expenditures	<u>1,318,423</u>	<u>229,801</u>	<u>1,088,622</u>
Excess (Deficiency) of Revenues Over Expenditures	6,171,802	(15,513)	(6,187,315)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	15,513	15,513
Transfers Out	(6,171,802)	-	6,171,802
Total Other Finance Sources (Uses)	<u>(6,171,802)</u>	<u>15,513</u>	<u>6,187,315</u>
Net Change in Fund Balance	-	-	-
FUND BALANCE			
Beginning of Year	-	-	-
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
FISCAL YEAR ENDED JUNE 30, 2011

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes:			
Sales Taxes	\$ 270,629	\$ 293,415	\$ 22,786
Investment Earnings	-	1,178	1,178
Total Revenues	<u>270,629</u>	<u>294,593</u>	<u>23,964</u>
EXPENDITURES			
Current:			
General Government	202,877	131,632	71,245
Capital Outlay	11,300	-	11,300
Total Expenditures	<u>214,177</u>	<u>131,632</u>	<u>82,545</u>
Excess (Deficiency) of Revenues Over Expenditures	56,452	162,961	106,509
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>(370,100)</u>	<u>-</u>	<u>370,100</u>
Net Change in Fund Balance	(313,648)	162,961	476,609
FUND BALANCE			
Beginning of Year	-	1,684,729	1,684,729
End of Year	<u>\$ (313,648)</u>	<u>\$ 1,847,690</u>	<u>\$ 2,161,338</u>

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 NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

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

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

Note: The provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003. Therefore, ten years of data are not available, but will be accumulated over time.

Fiscal Year

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

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

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

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

Note: The provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003. Therefore, ten years of data are not available, but will be accumulated over time.

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

(Continued)

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

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

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

Note: The provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34 were adopted in fiscal year 2003. Therefore, ten years of data are not available, but will be accumulated over time.

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

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

	Fiscal Year				
	2002	2003	2004	2005	2006
General Fund:					
Reserved	\$ -	\$ -	\$ 77,485	\$ 40,664	\$ 14,393
Unreserved, Designated for:					
Vehicle Replacement	-	-	-	-	-
Unreserved, Undesignated	4,812,370	4,037,863	6,293,941	9,041,779	6,515,855
Total General Fund	<u>\$ 4,812,370</u>	<u>\$ 4,037,863</u>	<u>\$ 6,371,426</u>	<u>\$ 9,082,443</u>	<u>\$ 6,530,248</u>
All Other Governmental Funds:					
Unreserved, Designated for					
Vehicle Replacement	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, Undesignated Reported in:					
Special Revenue Funds	-	3,411,738	5,969,830	2,176,086	1,951,434
Capital Projects Funds	414,432	-	-	2,429,225	9,496,266
Debt Service Funds	1,051,311	1,705,230	530,372	644,089	159,530
Total All Other Governmental Funds	<u>\$ 1,465,743</u>	<u>\$ 5,116,968</u>	<u>\$ 6,500,202</u>	<u>\$ 5,249,400</u>	<u>\$ 11,607,230</u>

	Fiscal Year
	2011
General Fund:	
Nonspendable	
Inventory	\$ 13,183
Prepaid Items	29,234
Unassigned	8,263,549
Total General Fund	<u>\$ 8,305,966</u>
All Other Governmental Funds:	
Nonspendable	
Prepaid Items	\$ 6,217
Restricted	4,379,987
Committed	11,480,869
Total All Other Governmental Funds	<u>\$ 15,867,073</u>

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

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

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

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

	Fiscal Year				
	2002	2003	2004	2005	2006
REVENUES					
Taxes	\$ 7,595,748	\$ 7,114,486	\$ 9,997,706	\$ 11,151,893	\$ 12,993,876
Intergovernmental	5,895,676	6,311,458	6,080,631	6,686,500	7,412,226
Fines and Forfeitures	265,605	195,091	361,339	249,564	235,050
Licenses and Permits	1,351,209	1,308,747	1,600,934	2,230,046	1,918,107
Charges for Services	1,067,814	810,412	1,038,170	1,834,205	1,689,046
Rents and Royalties	107,613	188,745	242,704	222,327	255,527
Special Assessments	4,520	4,302	3,612	1,512	21,147
Investment Income (Loss)	726,441	1,976,809	122,082	395,124	673,351
Other	1,783,851	275,343	261,561	179,657	233,565
Total Revenues	<u>18,798,477</u>	<u>18,185,393</u>	<u>19,708,739</u>	<u>22,950,828</u>	<u>25,431,895</u>
EXPENDITURES					
General Government	3,859,633	3,318,574	3,614,458	9,547,409	4,459,183
Public Safety	5,084,532	5,174,492	4,616,161	4,754,523	5,208,770
Highways and Streets	1,877,790	1,198,080	1,402,502	1,682,563	2,121,986
Culture and Recreation	3,069,695	1,815,416	1,597,150	3,004,216	3,607,750
Development Services	1,064,913	1,215,387	1,144,964	1,460,181	1,812,469
Capital Outlay	14,770,507	79,427	101,951	-	-
Debt Service					
Principal Retirement	1,229,215	1,393,228	1,423,228	1,308,228	1,968,228
Interest on Long-Term Debt	1,673,901	1,576,842	1,499,575	1,164,561	1,192,414
Other Debt Service	-	-	-	229,990	532,762
Total Expenditures	<u>32,630,186</u>	<u>15,771,446</u>	<u>15,399,989</u>	<u>23,151,671</u>	<u>20,903,562</u>
Excess of Revenues Over (Under) Expenditures	(13,831,709)	2,413,947	4,308,750	(200,843)	4,528,333
OTHER FINANCING SOURCES (USES)					
Transfers In	1,585,674	5,981,544	1,630,907	4,805,635	10,146,663
Transfers Out	(1,585,674)	(5,981,544)	(1,630,907)	(4,805,635)	(10,146,663)
Issuance of Refunding Debt	-	-	-	12,555,000	4,555,000
Issuance of Long-Term Debt	13,750,000	-	-	3,783,896	-
Payment to Refunded Debt Escrow Agent	-	-	-	(14,677,838)	(4,338,781)
Total Other Financing Sources (Uses)	<u>13,750,000</u>	<u>-</u>	<u>-</u>	<u>1,661,058</u>	<u>216,219</u>
Net Change in Fund Balance	<u>\$ (81,709)</u>	<u>\$ 2,413,947</u>	<u>\$ 4,308,750</u>	<u>\$ 1,460,215</u>	<u>\$ 4,744,552</u>
Debt Service as a Percentage of Noncapital Expenditures	19.41%	23.35%	23.62%	13.22%	21.46%

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

Fiscal Year				
2007	2008	2009	2010	2011
\$ 13,159,087	\$ 12,457,086	\$ 10,960,001	\$ 9,818,985	\$ 9,704,054
8,444,731	9,353,260	9,607,961	7,672,037	7,165,103
304,214	287,120	339,658	297,030	236,221
1,239,318	1,125,957	541,627	399,094	312,367
898,955	620,300	316,676	464,036	388,635
267,350	296,434	290,083	215,520	227,195
4,228	4,337	4,037	-	-
1,094,994	780,935	258,478	22,831	28,456
85,418	183,963	43,683	129,740	72,125
<u>25,498,295</u>	<u>25,109,392</u>	<u>22,362,204</u>	<u>19,019,273</u>	<u>18,134,156</u>
4,024,551	3,548,295	3,514,249	3,186,368	2,575,975
5,689,020	6,321,669	6,624,141	6,200,227	5,772,800
2,028,397	2,214,557	1,199,850	973,746	1,123,230
2,131,374	2,257,007	2,215,065	2,007,737	1,871,446
2,462,643	2,751,740	2,036,295	1,669,449	1,564,615
2,002,887	5,239,169	3,708,277	1,254,223	1,043,304
1,968,228	2,153,228	2,240,000	2,460,000	2,115,000
1,058,665	1,025,320	929,134	842,857	744,330
-	-	-	-	-
<u>21,365,765</u>	<u>25,510,985</u>	<u>22,467,011</u>	<u>18,594,607</u>	<u>16,810,700</u>
4,132,530	(401,593)	(104,807)	424,666	1,323,456
4,383,069	2,756,988	3,759,735	1,127,776	431,880
(4,383,069)	(2,756,988)	(3,950,654)	(1,127,776)	(431,880)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	(190,919)	-	-
<u>\$ 4,132,530</u>	<u>\$ (401,593)</u>	<u>\$ (295,726)</u>	<u>\$ 424,666</u>	<u>\$ 1,323,456</u>
18.53%	18.60%	20.33%	18.29%	17.41%

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

Fiscal Year	Sales Taxes	Property Taxes	Franchise Taxes	Total
2002	\$ 5,019,735	\$ 489,358	\$ 297,149	\$ 5,806,242
2003	5,051,872	1,905,770	152,542	7,110,184
2004	7,733,643	2,195,856	126,362	10,055,861
2005	8,879,798	2,020,800	216,031	11,116,629
2006	11,007,924	1,648,947	314,359	12,971,230
2007	11,407,714	1,385,953	324,318	13,117,985
2008	10,489,591	1,635,542	336,290	12,461,423
2009	8,932,374	1,531,770	321,964	10,786,108
2010	7,644,440	1,928,028	285,881	9,858,349
2011	8,013,480	1,349,079	322,659	9,685,218

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				
	2002	2003	2004	2005	2006
Sales Category:					
Construction	\$ 1,325,749	\$ 1,203,706	\$ 1,482,981	\$ 1,837,317	\$ 3,362,079
Restaurants and Bars	219,921	276,664	419,107	524,368	547,276
Transportation and Utilities	523,237	590,446	916,498	1,124,677	1,240,120
Services	370,806	455,324	423,433	185,868	263,239
Real estate, Rental and Leasing	192,339	205,849	341,951	604,356	626,364
Wholesale/Retail	1,477,424	1,930,175	3,212,062	3,536,045	3,796,192
Other	157,818	188,654	706,816	933,366	1,030,966
Total	<u>\$ 4,267,294</u>	<u>\$ 4,850,818</u>	<u>\$ 7,502,848</u>	<u>\$ 8,745,997</u>	<u>\$ 10,866,236</u>

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

Fiscal Year				
2007	2008	2009	2010	2011
\$ 2,694,700	\$ 2,062,028	\$ 1,414,240	\$ 538,551	\$ 567,136
537,596	582,226	493,242	509,624	559,930
1,330,052	1,422,158	1,311,735	1,424,827	1,388,074
280,290	327,411	258,138	241,686	276,566
792,358	982,198	664,999	650,071	731,615
4,144,263	3,912,512	3,687,409	3,555,974	3,567,615
1,296,171	1,182,349	910,561	691,972	733,454
<u>\$ 11,075,430</u>	<u>\$ 10,470,882</u>	<u>\$ 8,740,324</u>	<u>\$ 7,612,705</u>	<u>\$ 7,824,390</u>

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

Fiscal Year	Town Rate	Maricopa County	State Rate	Total Tax Rate
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
2011	2.60	0.70	6.60	9.90

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

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

Fiscal Year	Net Assessed Value (in thousands)	Total Direct Tax Rate	Total Value (in thousands)	Assessed Value as a Percentage of Total Value
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
2011	451,860	0.18	4,370,950	10.34

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2011 AND 2002
(UNAUDITED)**

Taxpayer	2011			2002		
	Net Secondary Assessed Value	Rank	Percentage of Total Net Secondary Assessed Value	Net Secondary Assessed Value	Rank	Percentage of Total Net Secondary Assessed Value
Inland Western Fountain Hills Four Peaks, LLC	\$ 4,423,956	1	0.98 %	\$ -	N/A	N/A %
EN, LLC	4,145,795	2	0.92	-	N/A	N/A
WSL Fountain View Investors V, LLC	3,196,512	3	0.71	-	N/A	N/A
Chaparral City Water Company	3,173,730	4	0.70	3,645,656	1	1.53
Pacific FH Resort, LLC	2,680,400	5	0.59	-	N/A	N/A
J&R Holdings XX, LLC	2,563,874	6	0.57	-	N/A	N/A
Target Corporation	2,442,337	7	0.54	-	N/A	N/A
Adero Canyon, LLC	2,373,520	8	0.53	-	N/A	N/A
Sun Tech Development, LLC	2,299,593	9	0.51	656,275	11	0.27
Qwest Corporation	1,799,828	10	0.40	-	N/A	N/A
Firerock, LLC				3,165,390	2	1.33
U.S. West Communications, Inc.				2,133,781	3	0.89
MCO Properties, LP				1,995,388	4	0.84
Four Peaks Limited Partnership				1,381,851	5	0.58
Safeway, Inc.				881,935	6	0.37
Ridge View Apartments, LP				856,530	7	0.36
Fountain Hills-Old Vine Limited Partnership				846,083	8	0.35
Summit Estates, LLC				822,160	9	0.34
Sunridge Canyon, LLC				672,536	10	0.28
	<u>\$ 29,099,545</u>		<u>6.45</u>	<u>\$ 17,057,585</u>		<u>7.14</u>

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

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

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
2002	\$ 1,752,373	\$ 1,689,533	96.4%	\$ 57,258	\$ 1,746,791	99.7%
2003	1,842,009	1,777,619	96.5%	51,558	1,829,177	99.3%
2004	2,125,505	2,053,055	96.6%	57,506	2,110,561	99.3%
2005	2,041,230	1,992,532	97.6%	22,283	2,014,815	98.7%
2006	1,673,519	1,618,877	96.7%	34,011	1,652,888	98.8%
2007	1,391,521	1,359,035	97.7%	27,203	1,386,238	99.6%
2008	1,630,534	1,578,583	96.8%	48,013	1,626,596	99.8%
2009	1,719,105	1,660,820	96.6%	53,548	1,714,368	99.7%
2010	1,895,552	1,838,909	97.0%	52,478	1,891,387	99.8%
2011	1,340,544	1,307,092	97.5%	-	1,307,092	97.5%

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

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

Fiscal Year	<u>Governmental Activities</u>		Total	Percentage of Personal Income	Per Capita
	General Obligation Bonds and Other Bonds	Less: Amounts Restricted for Principal			
2002	\$ 25,265,000	\$ 1,229,215	\$ 24,035,785	23.84 %	\$ 1,095
2003	24,015,000	1,393,228	22,621,772	21.26	1,017
2004	25,335,000	1,423,228	23,911,772	20.68	1,061
2005	24,190,000	1,308,228	22,881,772	18.20	986
2006	22,365,000	1,968,228	20,396,772	15.40	833
2007	26,910,467	1,978,149	24,932,318	17.85	976
2008	24,932,318	2,163,146	22,769,172	N/A	855
2009	22,769,172	2,249,921	20,519,251	N/A	808
2010	17,965,000	2,115,000	15,850,000	N/A	705
2011	15,850,000	2,205,000	13,645,000	N/A	608

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

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

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

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Taxable Assessed Value of Property</u>	<u>Percentage of Taxable Assessed Value of Property</u>	<u>Population</u>	<u>Net General Obligation Bonded Debt Per Capita</u>
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%	25,540	338
2008	7,570,000	684,742,347	1.11%	26,633	284
2009	6,530,000	651,218,464	1.00%	25,388	257
2010	9,045,000	576,535,714	1.57%	22,489	402
2011	7,965,000	451,860,136	1.70%	22,444	356

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

TOWN OF FOUNTAIN HILLS, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2011
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Overlapping:			
Maricopa County	\$ 145,035,000	1.17%	\$ 1,696,910
Maricopa County Community College District	601,930,000	1.17%	7,042,581
Fountain Hills Unified School District	16,205,000	94.85%	15,370,443
Eagle Mountain Community Facilities District	3,370,000	100.00%	3,370,000
Subtotal, Overlapping Debt			<u>27,479,933</u>
Direct:			
Town of Fountain Hills, Arizona			<u>12,480,000</u>
Total Direct and Overlapping Debt			<u><u>\$ 39,959,933</u></u>

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

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

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

6% Debt Limit

	Fiscal Year				
	2002	2003	2004	2005	2006
Debt Limit	\$ 14,322,872	\$ 16,236,172	\$ 19,403,114	\$ 20,963,900	\$ 22,510,991
Total Applicable to Limit	<u>6,005,000</u>	<u>5,625,000</u>	<u>5,190,000</u>	<u>3,595,000</u>	<u>3,410,000</u>
Legal Debt Margin	<u>\$ 8,317,872</u>	<u>\$ 10,611,172</u>	<u>\$ 14,213,114</u>	<u>\$ 17,368,900</u>	<u>\$ 19,100,991</u>
 Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	 42%	 35%	 27%	 17%	 15%

20% Debt Limit

	Fiscal Year				
	2002	2003	2004	2005	2006
Debt Limit	\$ 47,742,907	\$ 54,120,573	\$ 64,677,046	\$ 69,879,667	\$ 75,036,636
Total Applicable to Limit	<u>7,275,000</u>	<u>6,975,000</u>	<u>6,675,000</u>	<u>7,515,000</u>	<u>7,265,000</u>
Legal Debt Margin	<u>\$ 40,467,907</u>	<u>\$ 47,145,573</u>	<u>\$ 58,002,046</u>	<u>\$ 62,364,667</u>	<u>\$ 67,771,636</u>
 Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	 15%	 13%	 10%	 11%	 10%

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

Fiscal Year

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

5% 0% 1% 0% 0%

Fiscal Year

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

5% 5% 5% 5% 5%

**TOWN OF FOUNTAIN HILLS, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
AS OF JUNE 30, 2011
(UNAUDITED)**

Net Secondary Assessed Valuation	\$ 451,860,136
<div style="text-align: center;">Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds</div>	
Debt Limit - 20% of Net Secondary Assessed Valuation	\$ 90,372,027
Net Debt Applicable to Limit	4,595,000
20% Legal Debt Margin	85,777,027
<div style="text-align: center;">All other general obligation bonds</div>	
Debt Limit - 6% of Net Secondary Assessed Valuation	27,111,608
Net Debt Applicable to Limit	-
6% Legal Debt Margin	27,111,608
Total legal debt margin	\$ 112,888,635

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

TOWN OF FOUNTAIN HILLS, ARIZONA
REVENUE BOND COVERAGE
AS OF JUNE 30, 2011
(UNAUDITED)

Fiscal Year	Municipal Facilities Revenue Bonds				
	Principal	Interest	Total	Pledged Revenues	Coverage
2002	\$ 425,000	\$ 436,734	\$ 861,734	\$ 9,301,654	10.8
2003	425,000	566,433	991,433	11,449,010	11.5
2004	425,000	550,983	975,983	14,142,933	14.5
2005	620,000	456,892	1,076,892	16,331,920	15.2
2006	665,000	546,576	1,211,576	18,864,991	15.6
2007	715,000	473,349	1,188,349	21,720,295	18.3
2008	805,000	498,878	1,303,878	21,087,157	16.2
2009	885,000	460,379	1,345,379	18,592,175	13.8
2010	985,000	424,538	1,409,538	14,627,368	10.4
2011	1,035,000	373,768	1,408,768	14,101,867	10.0

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 AS OF JUNE 30, 2011
 (UNAUDITED)**

	Calendar Year			
	2001	2002	2003	2004
Population	21,383	21,954	22,243	22,541
Personal income	\$ 97,138,599	\$ 100,805,099	\$ 106,385,325	\$ 115,604,165
Per capital personal income	\$ 28,717	\$ 28,900	\$ 29,607	\$ 31,133
Median age	N/A	N/A	N/A	N/A
School enrollment	N/A	2,447	2,450	2,453
Town of Fountain Hills unemployment rate	2.0%	2.7%	2.6%	2.1%
Land use				
Total acres	N/A	N/A	N/A	N/A
Total square miles	N/A	N/A	N/A	N/A
Vacant lots	N/A	N/A	N/A	N/A
Number of units				
Housing	N/A	N/A	N/A	N/A
Lodging	N/A	N/A	N/A	N/A
Restaurants	N/A	N/A	N/A	N/A
Shopping centers	N/A	N/A	N/A	N/A
Schools				
Public	N/A	N/A	N/A	N/A
Preschool	N/A	N/A	N/A	N/A
Charter	N/A	N/A	N/A	N/A

Source: The source of the "Personal Income" and "Per Capita" information is the Bureau of Economic Analysis. The source of the "Population" and "Unemployment Rate" information is State of Arizona, Department of Administration, Office of Employment and Population Statistics. The source of School Enrollment is the Fountain Hills Unified School District No. 98. Other information is from the Town's records.

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

* Information obtained is based on calendar years; therefore, the latest information obtained was from 2010.

Calendar Year					
2005	2006	2007	2008	2009	2010
23,217	24,452	25,540	26,633	25,388	22,489
\$ 125,718,070	\$ 132,423,154	\$ 139,665,253	N/A	N/A	N/A
\$ 32,414	\$ 35,046	\$ 36,135	\$ 32,230	\$ 38,439	\$ 38,918
N/A	N/A	46.4	46.4	49.7	49.7
2,373	2,425	2,307	2,233	2,203	2,103
2.0%	1.8%	1.6%	2.5%	4.4%	4.5%
N/A	12,296.0	13,005.7	13,005.7	13,005.7	13,005.7
N/A	20.31	20.32	20.32	20.32	20.32
N/A	N/A	3,355	1,295	1,253	1,226
N/A	12,681	12,850	12,832	12,927	13,167
N/A	4	4	4	4	4
N/A	50	53	47	52	53
N/A	14	14	19	19	20
N/A	4	4	4	4	4
N/A	5	4	4	4	4
N/A	2	1	1	1	1

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

Employer	2010			2001	
	Employees	Rank	Percentage of Total Town Employment	Employees	Rank
Fountain Hills Unified School District No. 98	278	1	5.1%	250	1
Target	125	2	2.3%	-	
Monks Construction	110	3	2.0%	150	2
MCO Properties, Inc.	103	4	1.9%	85	5
Safeway Food Stores	91	5	1.7%	95	4
Fry's	76	6	1.4%	-	
Eagle Mountain Golf Course	69	7	1.3%	40	9
Basha's	64	9	1.2%	70	6
Town of Fountain Hills	61	8	1.1%	115	3
Sun Ridge Canyon Golf Course	58	10	1.1%	70	7
Golf International	N/A	11	N/A	50	8
Total	<u>1,035</u>		<u>19.1%</u>	<u>925</u>	
Total Town employment	<u>5,486</u>				

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

* Data for 2011 and 2002 are not available.

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

Function	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011
Municipal Court	6.00	6.00	5.00	5.00	5.50	5.00	5.00	5.00	5.00	5.00
Administration	18.00	14.50	10.00	11.00	12.50	13.00	13.50	13.50	13.25	11.25
Public Safety	26.00	20.00	1.00	-	-	-	-	-	-	-
Development Services	42.50	43.00	40.00	39.50	41.00	41.00	40.50	40.00	35.75	23.25
Community Services	<u>22.50</u>	<u>22.50</u>	<u>20.00</u>	<u>21.50</u>	<u>23.50</u>	<u>28.00</u>	<u>29.25</u>	<u>29.75</u>	<u>27.10</u>	<u>21.63</u>
Total	<u>115.00</u>	<u>106.00</u>	<u>76.00</u>	<u>77.00</u>	<u>82.50</u>	<u>87.00</u>	<u>88.25</u>	<u>88.25</u>	<u>81.10</u>	<u>61.13</u>

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

* During 2010, the Town reorganized its operations into new operating units. Therefore, prior years' figures are not comparable.

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

Function/Program	Fiscal Years					
	2002	2003	2004	2005	2006	2007
Building Permits:						
Building Permits Issued*	260	168	228	430	468	759
Building Inspections Conducted	8,491	6,389	6,985	8,446	9,377	7,975
Police (Contracted):						
Physical Arrests	503	601	601	644	N/A	993
Traffic Violations	3,186	3,186	3,186	2,432	N/A	2,315
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 financial records.

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

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

Fiscal Years

2008	2009	2010	2011
716	391	409	354
5,692	3,189	1,936	1,546
524	825	679	645
2,504	4,900	2,959	1,909
121	121	121	122
1	1	1	1

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

Function/Program	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Public Safety:						
Number of Fire stations	2	2	2	2	2	2
Other Public Works:						
Streets (Miles)	178.5	178.5	178.5	178.5	178.5	178.5
Streetlights	N/A	N/A	N/A	N/A	34	34
Traffic Signals	10	10	11	11	12	13
Parks and Recreation:						
Acreage	121	121	121	121	121	121
Playgrounds	3	3	3	3	3	3
Baseball/Softball Diamonds	6	6	6	6	6	6
Soccer/Football Fields	4	4	4	4	3	3
Community Centers	1	1	1	1	1	1

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

Fiscal Year			
2008	2009	2010	2011
2	2	2	2
178.5	178.5	178.5	178.5
34	34	34	34
12	12	12	13
121	121	121	122
3	3	3	4
6	6	6	6
3	3	3	5
1	1	1	1

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