

TOWN OF FOUNTAIN HILLS, ARIZONA

Comprehensive Annual Financial Report

For the Fiscal Year Ending June 30, 2007



Fountain Hills: All That is Arizona!

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Issued by:
Finance Department

TOWN OF FOUNTAIN HILLS, ARIZONA

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INTRODUCTORY SECTION

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Town of FOUNTAIN HILLS

November 28, 2007

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

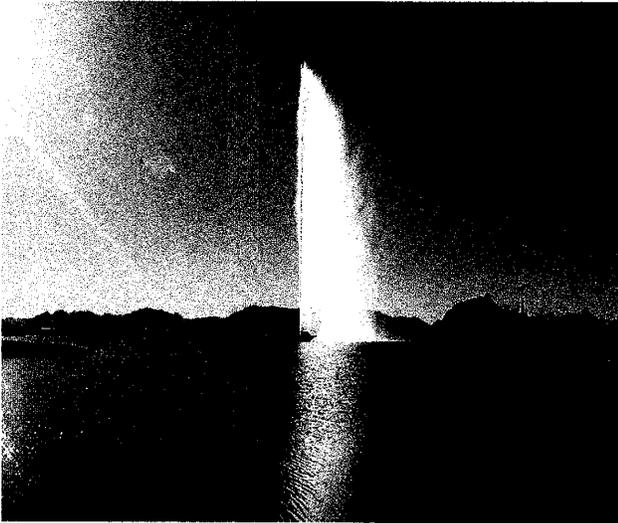
State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Town of Fountain Hills for the fiscal year ended June 30, 2007.

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 from 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 Heinfeld, Meech & Co., P.C., a certified public accounting firm. 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, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor 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, 2007, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

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

Town of Fountain Hills Profile



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

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

Over the past sixteen years Fountain Hills has grown from 10,190 residents to a town of 24,492 in 2006. The latest estimates for Fountain Hills indicate that the population will continue to grow to near 36,045 by 2025. Although the rate of growth is slowing as the Town approaches build-out, the community continues to attract residents building large custom homes to take advantage of the scenic vistas surrounding its mountain community. On June 5, 2006 the Town of Fountain Hills became two square miles and about ten percent larger by annexing 1,300 acres of State Trust Land. The process to annex the State Trust Land occurred over a two and one-half year period and development of the land will occur over the next decade. Annexing this property into the Town ensures that its future development will be of the highest quality under such Town's standards as the cut-and-fill ordinance and strict zoning regulations. Fountain Hills will have an opportunity to demonstrate that it is truly the best place to live in the Valley.

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

The Town's Mission Statement for the Organization

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

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



Fountain Hills Town Hall

The Town of Fountain Hills is an Arizona Municipal Corporation, acting as a general law Town as prescribed in the Arizona Revised statutes. The Town was incorporated on December 5, 1989 with the governmental and administrative affairs of the Town operating under the Council-Manager form of government. The Town Council is responsible, among other things, for the adoption of local ordinances, budget adoption, the development of citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and administering the Town's operations through three department directors and approximately 87 FTE employees. The Magistrate, Town Attorney and Town Prosecutor are under the direction of the Town Council.

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

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

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

Factors Affecting Financial Condition

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

Local Economy. The Town of Fountain Hills, similar to other Arizona municipalities, is primarily dependent upon state revenues and local sales tax as a major source of operating revenue, accounting for 62% of total revenue for fiscal year 2006-07. Locally, 31% of the Town's sales tax is from construction activity and 39% is generated from retail activity. The construction activity is primarily residential; fiscal year 2006-07 experienced a dramatic downturn in building permit activity, particularly multi-family units compared to the prior year, which was the "year of the condos". In fiscal year 2005-06, there were 325 applications for multi-family permits compared to only 14 in fiscal year 2006-07. As a result, the building permit revenue dropped by \$765,000 from the previous fiscal year. The repercussions from the decline in condominium and other multi-family permits will begin to be felt in fiscal year 2007-08 when the actual construction of those units tapers off. State shared revenues increased during fiscal year 2006-07 because state income tax revenues are based on two years prior personal and corporate earnings. However, as the economy continues to falter revenues from individual and corporate income tax returns are likely to decline as well.

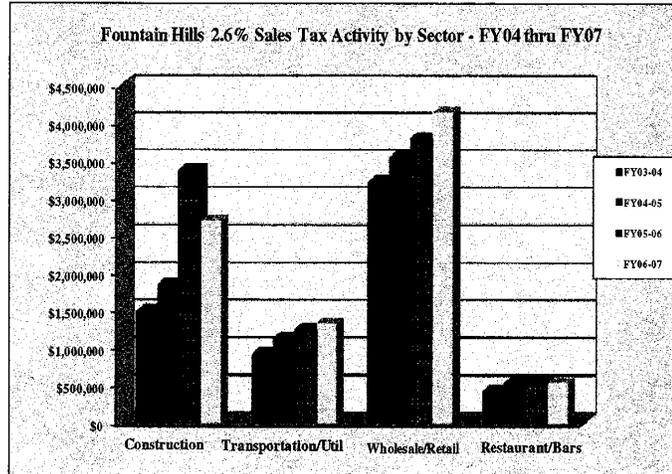
Discussions between a developer and Town staff continue regarding the potential development of the 13-acre downtown parcel on the Avenue of the Fountains. Town planners have met with the developer and his team on several occasions in an effort to create a concept that matches the Town's vision with the project.

A concept plan has been submitted for two adjacent retail/office buildings on Parkview Avenue near Bruno's Bar in Plat 208, near the downtown area - each contains 6 suites. The plans have been reviewed by staff and the concept plan will be presented at a Planning and Zoning commission meeting in the fall.

A Concept Plan and Special Use Permit application has been filed for a mixed-use project at the southeast corner of Shea Boulevard and Monterey Drive which is one of the entrance points for the Town. The project contains retail, restaurant, and office condominium uses.

Staff processed and issued a temporary use permit request for a sales office center for Four Peaks Vista Condominiums. The property owner will be converting apartments at 13700 N. Fountain Hills Boulevard to condominiums. Some remodeling has been done recently and a concept plan has been submitted to remodel balconies and patios for many of the units. It is expected that the concept plan will be presented to the Planning and Zoning commission sometime in the fall of 2007.

A 12-lot, single-family residential subdivision off Cerro Alto Drive, Vista at Fountain Hills, has submitted the preliminary plat to Town staff for review.



The chart above is a summary of local sales tax collections from fiscal year 2003-04 through fiscal year 2006-07 by category. The increase in the wholesale/retail activity reflects the opening of a new shopping center that was constructed in October 2002; the center is now 99% occupied. The decrease in construction sales tax is due to the decline of multi-family, primarily condo, units from the prior year. The opportunity to further expand the retail tax base in Fountain Hills is limited by the lack of available commercial land – 75% of the developable lots are already developed.

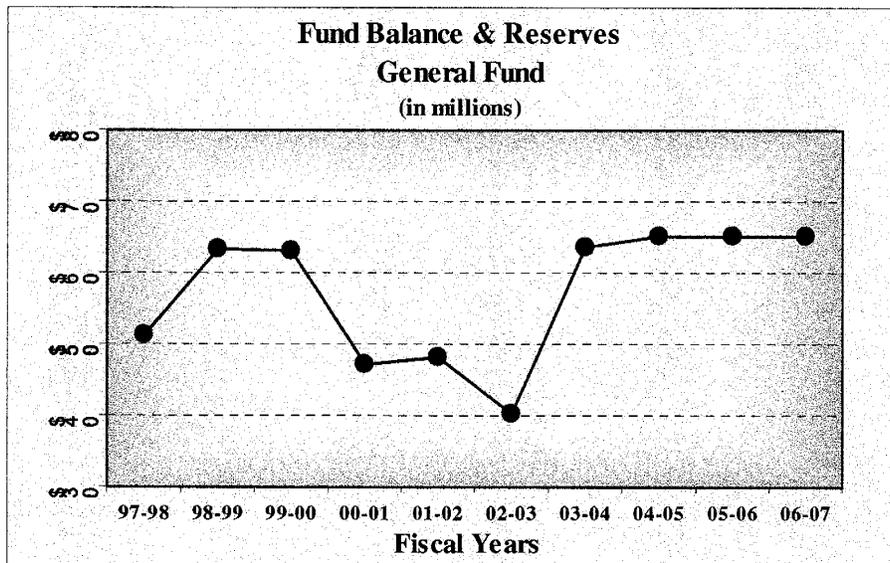
Long-term Financial Planning. Over the past decade the Town of Fountain Hills has embraced a strategic planning process that has focused on the long-term viability of the community. In late 2004, the Town initiated a comprehensive strategic planning process that involved a significant amount of citizen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

In August 2006, the Town engaged a consultant to review the financial condition of the Town and analyze potential revenue enhancement options. This report is available on the Town’s website at www.fh.az.gov as the “Hocking Report”.

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

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

These amounts will not be programmed for expenditure and are only available for use within the confines of expenditure limitations imposed by the State. A historical perspective of past general fund balances is shown in the following chart. The decline in the General Fund balance from fiscal year 2000-01 through fiscal year 2002-03 resulted from an economic downturn, spending for capital projects and the creation of a municipal fire department. This trend was reversed in fiscal year 2003-04 and the Mayor and Town Council and management are committed to maintaining the \$6.5 million of reserves in the future. A Capital Projects Fund has been created and funded with proceeds from excess revenues collected over budgeted and unexpended appropriations that are not needed to meet fund balance requirements or re-appropriation. In order to maintain the General Fund balance at \$6.5 million approximately \$1.6 million was transferred to the Capital Projects Fund in fiscal year 2006-07.



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

Cash Management. State statutes permit municipalities in Arizona to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). The Town of Fountain Hills debt policy restricts investments to securities that are 100% backed by the full faith and credit of the U.S. government. The Town of Fountain Hills invests all idle cash in the State LGIP-GOV, which consists of government-backed securities. The year-to-date yield on investments as of June 30, 2007 was 5.1960%. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

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

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

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

For further information on these plans please refer to Note 12 in the financial statements.

AWARDS AND ACKNOWLEDGMENT

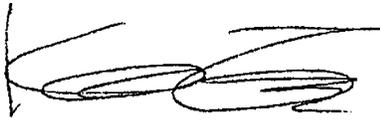
Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2006. This was the tenth consecutive year that the government has received this prestigious award. In order to be awarded this certificate, the government published an easily readable and efficiently organized CAFR. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

This certificate is valid for a period of one year only. We believe that our current CAFR continues to meet the program's requirements and we are submitting it to the GFOA to determine its eligibility for the fiscal year 2006-07 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, 2006. 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 fourth consecutive year that the Town has received the award.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Kate Zanon', with a stylized, sweeping flourish extending to the right.

Kate Zanon
Interim Town Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Fountain Hills
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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.

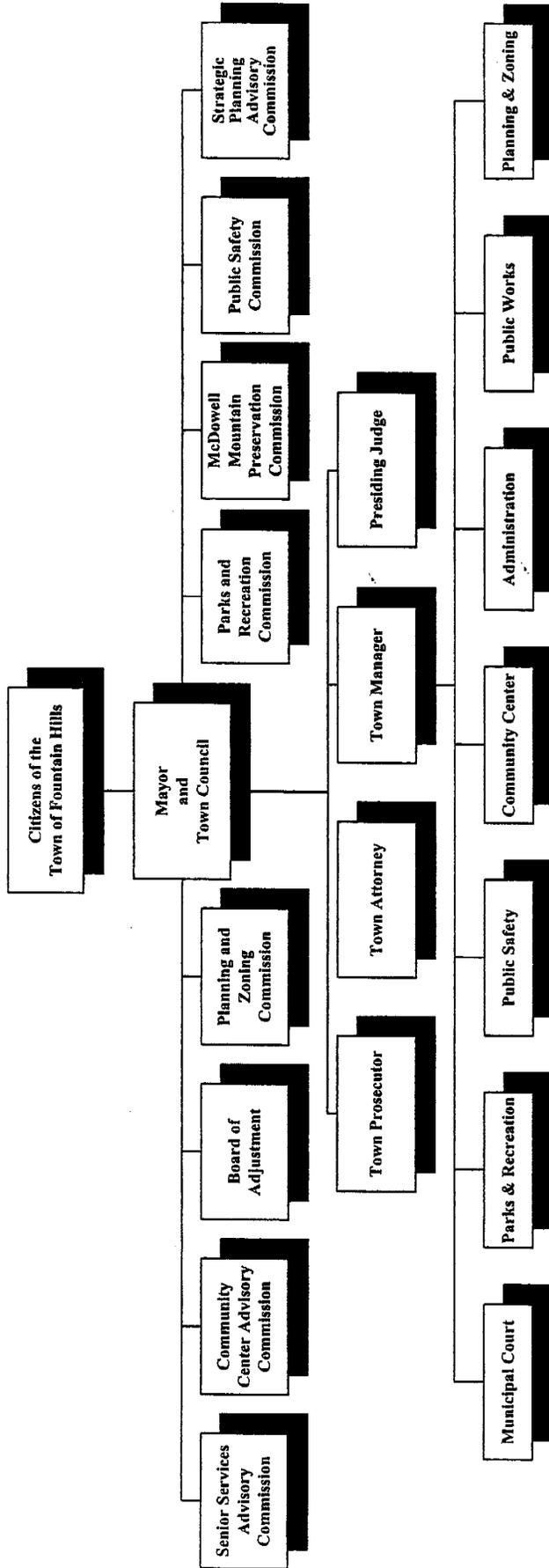


President



Executive Director

**TOWN OF FOUNTAIN HILLS, ARIZONA
 ORGANIZATIONAL CHART
 JUNE 30, 2007**



TOWN OF FOUNTAIN HILLS, ARIZONA

List of Principal Officials

ELECTED OFFICIALS

Mayor	Mr. Wally Nichols
Vice-Mayor	Ms. Ginny Dickey
Councilmember	Mr. Mike Archambault
Councilmember	Mr. Edwin Kehe
Councilmember	Mr. Henry Leger
Councilmember	Mr. Keith McMahan
Councilmember	Mr. Jay Schlum

DEPARTMENT DIRECTORS

Interim Town Manager	Kate Zanon
Magistrate	Ted Armbruster
Finance Director	Julie A. Ghetti, CPA
Public Works Director	Tom Ward
Parks & Recreation Director	Mark Mayer
Fire Chief	Scott LaGreca, Rural Metro Corporation
District Commander	Capt John Kleinheinz, Maricopa County Sheriff's Office
Town Prosecutor	Iacovino & Kayler
Town Attorney	Andrew McGuire, Gust Rosenfeld, P.L.C.

FINANCIAL SECTION

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

Gary Heinfeld, CPA, CGFM
Nancy A. Meech, CPA, CGFM
Jennifer L. Shields, CPA
Corey Arvizu, CPA

Scott W. Kies, CPA
Kimberly A. Robinson, CPA
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund (General Fund, Development Fees Fund, General Obligation Debt Service Fund, Municipal Property Corporation Debt Service Fund, Capital Projects Fund), and the aggregate remaining fund information of the Town of Fountain Hills, Arizona (the Town), as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund as listed above, and the aggregate remaining fund information of the Town of Fountain Hills, Arizona as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2007, on our consideration of the Town of Fountain Hills, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 14 and budgetary comparison information on pages 44 through 46 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Heinfeld, Meech & Co., P.C.

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

November 28, 2007

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

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**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

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, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

FINANCIAL HIGHLIGHTS

- The Town's total net assets of governmental activities increased \$3.8 million which represents a 3 percent increase from fiscal year 2005-06.
- General revenues accounted for \$22.7 million in revenue, or 87 percent of all fiscal year 2006-07 revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3.5 million or 13 percent of total fiscal year 2006-07 revenues.
- The Town had approximately \$22.4 million in expenses related to governmental activities, an increase of 35 percent from the prior fiscal year. The increase was primarily due to the additional depreciation expense incurred during the year as a result of reporting retroactive infrastructure assets in fiscal year 2006-07 in compliance with GASB Statement No. 34 reporting requirements.
- Among major funds, the General Fund had \$16.9 million in fiscal year 2006-07 revenues, which primarily consisted of taxes and intergovernmental revenues, and \$14.3 million in expenditures. The General Fund's fund balance increased from \$6.5 million as of June 30, 2006, to \$6.6 million as of June 30, 2007 after transfers to the Capital Projects Fund.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

OVERVIEW OF FINANCIAL STATEMENTS (Cont'd)

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

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

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

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

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

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

OVERVIEW OF FINANCIAL STATEMENTS (Concl'd)

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$119.0 million as of June 30, 2007.

The largest portion of the Town's net assets (78 percent) reflects its investment in capital assets (e.g., land, infrastructure, buildings, improvements other than buildings, vehicles, machinery and equipment, artwork and construction in progress), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, a portion of the Town's net assets (10 percent) are restricted by statute for the specified purposes of debt service repayment, capital outlay investment, and highways and streets.

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 (MD&A)
YEAR ENDED JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

The following table presents a summary of the Town's net assets for the fiscal years ended June 30, 2007 and June 30, 2006.

	As of June 30, 2007	As of June 30, 2006 (As Restated)	Percent Change
Current and other assets	\$ 26,894,658	\$ 24,581,682	9 %
Capital assets, net	120,783,479	121,368,490	<(1)
Total assets, net	<u>147,678,137</u>	<u>145,950,172</u>	1
Current and other liabilities	1,592,815	2,863,941	(44)
Long-term liabilities	27,089,593	27,931,006	(3)
Total liabilities	<u>28,682,408</u>	<u>30,794,947</u>	(7)
Net assets:			
Invested in capital assets, net of related debt	92,508,637	93,655,467	(1)
Restricted	12,210,966	12,446,147	(2)
Unrestricted	14,276,126	9,053,611	58
Total net assets	<u>\$ 118,995,729</u>	<u>\$ 115,155,225</u>	3 %

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

- The principal retirement of \$2.0 million of bonds.
- The addition of \$2.7 million in capital assets through the Avenue of the Fountains improvements, artwork donation, improvements other than buildings, and purchases of vehicles, machinery and equipment.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

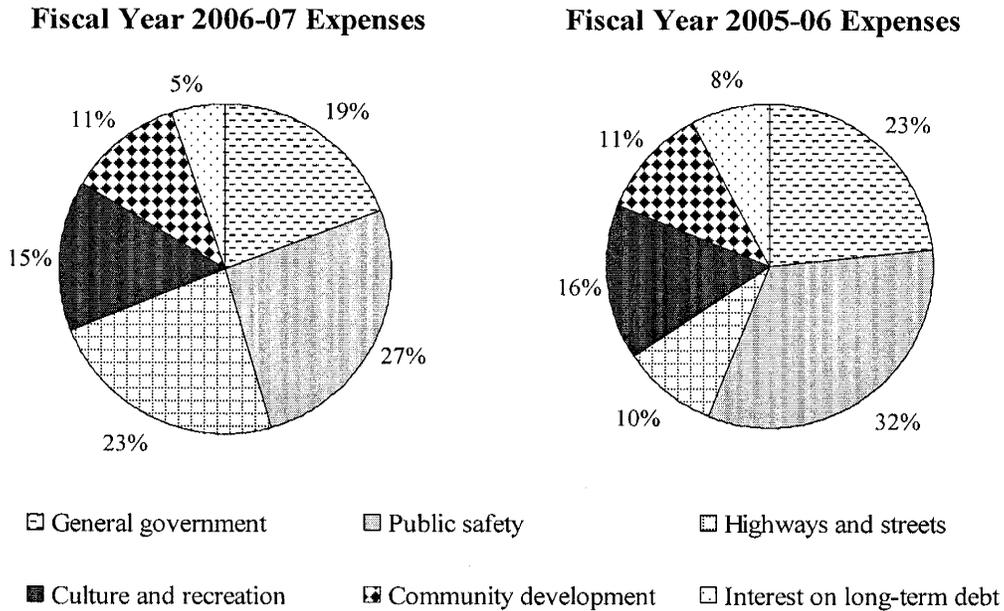
GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Changes in net assets. The Town's total revenues for the fiscal year ended June 30, 2007, were \$26.3 million. The total cost of all programs and services was \$22.4 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2007 and June 30, 2006.

	<u>Fiscal Year Ended June 30, 2007</u>	<u>Fiscal Year Ended June 30, 2006</u>	<u>Percent Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 2,520,068	\$ 4,133,263	(39) %
Operating grants and contributions		2,022,675	N/A
Capital grants and contributions	989,100		N/A
General revenues:			
Sales taxes	11,407,714	11,007,924	4
Property taxes	1,385,953	1,648,947	(16)
Franchise taxes	324,318	314,359	3
State shared revenue	8,444,731	5,389,551	57
Investment income	1,094,994	673,351	63
Miscellaneous	85,418	200,921	(57)
Total revenues	<u>26,252,296</u>	<u>25,390,991</u>	3
Expenses:			
General government	4,292,515	3,875,014	11
Public safety	5,935,742	5,403,620	10
Highways and streets	5,225,835	1,581,068	231
Culture and recreation	3,282,160	2,576,406	27
Community development	2,512,170	1,812,469	39
Interest on long-term debt	1,163,370	1,297,119	(10)
Total expenses	<u>22,411,792</u>	<u>16,545,696</u>	35
Change in net assets	<u>\$ 3,840,504</u>	<u>\$ 8,845,295</u>	(57) %

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)



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

- State shared revenue increased as a result of a higher than anticipated increase in State income tax received by the State, as well as State sales tax and vehicle license tax.
- Highways and streets expenses increased primarily due to the additional depreciation expense incurred during the year as a result of reporting retroactive infrastructure assets in fiscal year 2006-07 in compliance with GASB Statement No. 34 reporting requirements.

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concl'd)

	Year Ended June 30, 2007		Year Ended June 30, 2006	
	Total	Net (Expense)/	Total	Net (Expense)/
	Expenses	Revenue	Expenses	Revenue
General government	\$ 4,292,515	\$ (3,381,537)	\$ 3,875,014	\$ 154,423
Public safety	5,935,742	(4,953,083)	5,403,620	(5,067,036)
Highways and streets	5,225,835	(5,197,650)	1,581,068	121,904
Culture and recreation	3,282,160	(2,139,842)	2,576,406	(2,510,608)
Community development	2,512,170	(2,067,142)	1,812,469	(1,812,469)
Interest on long-term debt	1,163,370	(1,163,370)	1,297,119	(1,275,972)
Total	<u>\$ 22,411,792</u>	<u>\$ (18,902,624)</u>	<u>\$ 16,545,696</u>	<u>\$ (10,389,758)</u>

- The cost of all governmental activities this year was \$22.4 million.
- State government and charges for services subsidized certain programs with grants and contributions and other local revenues of \$3.5 million.
- Net cost of governmental activities (\$18.9 million) was financed by general revenues, which are made up of primarily sales taxes (\$11.4 million) and state shared revenue (\$8.4 million). Investment earnings accounted for \$1.1 million of funding.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

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

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported a combined fund balance of \$23.2 million, an increase of \$4.1 million due primarily to unexpended revenues in the Capital Projects Fund.

The General Fund comprises 28 percent of the total fund balance. Approximately \$3.7 million, or 56 percent of the General Fund's fund balance constitutes unreserved fund balance. The remaining fund balance is reserved to indicate that it is not available for spending because it has already been committed as follows:

- \$11,753 for inventory
- \$2,922,391 for other purposes

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

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

The General Fund is the principal operating fund of the Town. The fund balance increased \$69,901 in the General Fund to \$6.6 million as of June 30, 2007. General Fund revenues decreased \$754,358. General Fund expenditures increased \$1.7 million. This was primarily due to a \$927,500 payment to settle a dispute over a lease agreement and a \$485,000 increase in contract services for law enforcement and fire and emergency medical services during the year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Town revised the General Fund annual expenditure budget in connection with the Town's payment of the judgment in the Lukenda lawsuit. The revision created a transfer within the General Fund and did not result in an increase of expenditures.

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

- The favorable variance of \$408,968 in intergovernmental revenues was a result of a higher than anticipated State income tax received by the State, as well as State sales tax and vehicle license tax.
- The unfavorable variance of \$669,606 in licenses and permits was a result of the Town experiencing a significant drop in the number of building permits issued to contractors from the prior year. During fiscal year 2005-06, the Town received 325 multi-family permits compared to 14 in fiscal year 2006-07. Similarly, 71 single family permits were received compared to 130 the prior year. This resulted in a 50 percent decline in building permit revenue.
- The favorable variance of \$547,331 in general and administrative expenditures was a result of the Town Council authorizing a budget increase in the amount of \$927,491 to the Administration Department, reducing the Parks and Recreation Department capital budget by the same amount (Resolution 2007-20, May 2007). The Administrative budget included a line item for a possible sales tax refund that was not resolved. An appropriation in the Administration budget of \$400,000 for a sales tax refund was not expended, but has been carried forward to fiscal year 2007-08.
- The favorable variance of \$814,761 in capital outlay was a result of the Town Council authorizing a budget transfer in the amount of \$927,491 to the Administration Department to settle a dispute with a previous landlord. The transfer came from a capital project appropriation in the Parks and Recreation Department that was not ready for construction until fiscal year 2007-08.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the Town had invested \$181.7 million in capital assets, including buildings, vehicles, computers, equipment, infrastructure and artwork. This amount represents a net increase prior to depreciation of \$2.5 million from last year, primarily due to the Avenue of the Fountains improvements and art donation received by the Town during the year. Total depreciation expense for the year was \$4.6 million.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2007 and June 30, 2006.

	As of June 30, 2007	As of June 30, 2006 (As Restated)
Capital assets - non-depreciable	\$ 24,623,735	\$ 23,571,668
Capital assets - depreciable net	94,795,369	97,796,822
Total	<u>\$ 119,419,104</u>	<u>\$ 121,368,490</u>

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

Debt Administration. At year-end, the Town had \$26.9 million in long-term debt outstanding, \$2.0 million due within one year. This represents a net decrease of \$2.0 million.

State statutes currently limit the amount of general obligation debt a Town may issue to 6 percent and 20 percent of its total secondary assessed valuation. The current debt limitation for the Town is \$158.8 million, which is more than the Town's outstanding general obligation debt.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Many factors were considered by the Town's administration during the process of developing the fiscal year 2007-08 budget. The fiscal year 2007-08 budget was developed based on the goals and priorities of the Town Council; appropriations include funding for:

- Conducting an economic study of the Town's financial future.
- Implementation of the second year of the Strategic Plan.
- Greater capital investment (23 percent of the budget) - major park improvements, technology upgrades, and street maintenance.
- Engineering and design for sidewalk plan for increased pedestrian safety.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES (Concl'd)

The fiscal year 2007-08 budget could not be prepared without considering the condition of the regional, state and national economies, specifically the real estate and construction industry. Construction related revenues are declining and the Town is projecting growth by only 1.3 percent over the fiscal year 2006-07 budget. Expenditures are projected to increase only 1.5 percent over the prior year, including capital. Additional concerns are the increased cost of doing business. The Town is a service organization; public safety services are provided by contract. The cost of providing those services exceeds the rate of revenue growth.

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

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

The Town Council approved a resolution that authorizes the transfer of 85 percent of the construction sales tax to the Capital Projects Fund to pay for one-time capital costs.

These indicators were considered when adopting the budget for fiscal year 2007-08. Budgeted expenditures in the General Fund increased 5 percent to \$16.8 million in fiscal year 2007-08.

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.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ 25,148,906
Taxes receivable	26,357
Special assessments receivable	5,272
Accounts receivable	237,510
Due from governmental entities	1,347,312
Inventory, at cost	11,753
Deferred charges	117,548
Total current assets	26,894,658
Noncurrent assets:	
Deferred charges	1,364,375
Land	23,571,668
Infrastructure	125,495,515
Buildings	17,754,746
Improvements other than buildings	10,169,670
Vehicles, machinery, and equipment	3,696,144
Artwork	989,100
Construction in progress	62,967
Accumulated depreciation	(62,320,706)
Total noncurrent assets	120,783,479
Total assets	147,678,137
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	836,043
Accrued payroll and employee benefits	27,417
Compensated absences payable	189,047
Accrued interest payable	543,705
Unearned revenue	185,650
Bonds payable	1,965,000
Bonds premium payable	9,921
Total current liabilities	3,756,783
Noncurrent liabilities:	
Non-current portion of long-term obligations	24,925,625
Total non-current liabilities	24,925,625
Total liabilities	28,682,408
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	92,508,637
Restricted for:	
Highways and streets	897,252
Debt service	1,397,044
Capital outlay	9,916,670
Unrestricted	14,276,126
Total net assets	\$ 118,995,729

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	Governmental Activities
Governmental activities:				
General government	\$ 4,292,515	\$ 910,978	\$	\$ (3,381,537)
Public safety	5,935,742	982,659		(4,953,083)
Highways and streets	5,225,835	28,185		(5,197,650)
Culture and recreation	3,282,160	153,218	989,100	(2,139,842)
Community development	2,512,170	445,028		(2,067,142)
Interest on long-term debt	1,163,370			(1,163,370)
Total governmental activities	<u>\$ 22,411,792</u>	<u>\$ 2,520,068</u>	<u>\$ 989,100</u>	<u>(18,902,624)</u>

General revenues:

Taxes:

Sales taxes	11,407,714
Property taxes	1,385,953
Franchise taxes	324,318
State shared revenue	8,444,731
Investment income	1,094,994
Miscellaneous	85,418
Total general revenues	<u>22,743,128</u>

Changes in net assets 3,840,504

Net assets, beginning of year, as restated 115,155,225

Net assets, end of year \$118,995,729

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

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FUND FINANCIAL STATEMENTS

**TOWN OF FOUNTAIN HILLS, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>General</u>	<u>Development Fees</u>	<u>General Obligation Debt Service</u>
<u>ASSETS</u>			
Cash and investments	\$ 6,010,357	\$ 3,770,857	\$ 1,240,147
Taxes receivable	11,929		13,947
Special assessments receivable			
Accounts receivable	237,510		
Due from governmental entities	1,035,258		20,437
Inventory, at cost	11,753		
Total assets	<u>\$ 7,306,807</u>	<u>\$ 3,770,857</u>	<u>\$ 1,274,531</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 657,284	\$ 47,423	\$
Accrued payroll and employee benefits	23,724		
Bond interest payable			192,273
Deferred revenue	25,650	160,000	5,888
Bonds payable			980,000
Total liabilities	<u>706,658</u>	<u>207,423</u>	<u>1,178,161</u>
Fund balances:			
Reserved for inventory	11,753		
Reserved for other purposes	2,922,391		
Unreserved:			
Undesignated	2,204,810	3,563,434	96,370
Designated for non-recurring items	1,461,195		
Unreserved reported in:			
Special revenue funds			
Debt service funds			
Total fund balances	<u>6,600,149</u>	<u>3,563,434</u>	<u>96,370</u>
Total liabilities and fund balances	<u>\$ 7,306,807</u>	<u>\$ 3,770,857</u>	<u>\$ 1,274,531</u>

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

Municipal Property Corporation Debt Service	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
\$ 2,232,932	\$ 10,003,996	\$ 1,890,617	\$ 25,148,906
		481	26,357
		5,272	5,272
			237,510
		291,617	1,347,312
			11,753
<u>\$ 2,232,932</u>	<u>\$ 10,003,996</u>	<u>\$ 2,187,987</u>	<u>\$ 26,777,110</u>
\$	\$ 87,326	\$ 44,010	\$ 836,043
		3,693	27,417
255,843		95,589	543,705
		4,482	196,020
715,000		270,000	1,965,000
<u>970,843</u>	<u>87,326</u>	<u>417,774</u>	<u>3,568,185</u>
			11,753
			2,922,391
1,262,089	9,916,670		17,043,373
			1,461,195
		1,741,998	1,741,998
		28,215	28,215
<u>1,262,089</u>	<u>9,916,670</u>	<u>1,770,213</u>	<u>23,208,925</u>
<u>\$ 2,232,932</u>	<u>\$ 10,003,996</u>	<u>\$ 2,187,987</u>	<u>\$ 26,777,110</u>

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**TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total governmental fund balances **\$ 23,208,925**

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

Deferred charges related to the issuance of refunding bonds are amortized over the life of the associated refunding issue in the government-wide statements but not reported in the funds. 1,481,923

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

Governmental capital assets	\$	181,739,810	
Less accumulated depreciation		<u>(62,320,706)</u>	119,419,104

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

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

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

Compensated absences payable		(189,047)	
Bonds payable		(24,821,453)	
Bonds premium payable		<u>(114,093)</u>	<u>(25,124,593)</u>

Net assets of governmental activities **\$ 118,995,729**

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

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Development Fees	General Obligation Debt Service
Revenues:			
Taxes	\$ 8,066,378	\$	\$ 1,232,781
Intergovernmental	6,248,222		
Fines and forfeitures	281,173		
Licenses and permits	1,239,318		
Charges for services	252,165	618,605	
Rents and royalties	267,350		
Special assessments			
Investment income	467,164	151,632	25,786
Miscellaneous	85,418		
Total revenues	16,907,188	770,237	1,258,567
Expenditures:			
Current -			
General government	3,636,066		
Public safety	5,689,020		
Highways and streets			
Culture and recreation	2,109,903		
Community development	2,462,643		
Capital outlay	373,695	475,831	
Debt service -			
Principal retirement			980,000
Interest and fiscal charges			384,544
Total expenditures	14,271,327	475,831	1,364,544
Excess (deficiency) of revenues over expenditures	2,635,861	294,406	(105,977)
Other financing sources (uses):			
Transfers in		520,000	
Transfers out	(2,565,960)		
Total other financing sources (uses)	(2,565,960)	520,000	
Changes in fund balances	69,901	814,406	(105,977)
Fund balances, beginning of year	6,530,248	2,749,028	202,347
Fund balances, end of year	\$ 6,600,149	\$ 3,563,434	\$ 96,370

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

Municipal Property Corporation Debt Service	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
\$	\$ 1,938,111	\$ 1,921,817	\$ 13,159,087
		2,196,509	8,444,731
		23,041	304,214
			1,239,318
		28,185	898,955
			267,350
		4,228	4,228
45,619	307,515	97,278	1,094,994
			85,418
<u>45,619</u>	<u>2,245,626</u>	<u>4,271,058</u>	<u>25,498,295</u>
		388,485	4,024,551
			5,689,020
		2,028,397	2,028,397
		21,471	2,131,374
			2,462,643
	1,122,054	31,307	2,002,887
715,000		273,228	1,968,228
473,349		200,772	1,058,665
<u>1,188,349</u>	<u>1,122,054</u>	<u>2,943,660</u>	<u>21,365,765</u>
(1,142,730)	1,123,572	1,327,398	4,132,530
1,668,249	2,045,860	148,960	4,383,069
		(1,817,109)	(4,383,069)
<u>1,668,249</u>	<u>2,045,860</u>	<u>(1,668,149)</u>	
525,519	3,169,432	(340,751)	4,132,530
736,570	6,747,238	2,110,964	19,076,395
<u>\$ 1,262,089</u>	<u>\$ 9,916,670</u>	<u>\$ 1,770,213</u>	<u>\$ 23,208,925</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Net changes in fund balances - total governmental funds **\$ 4,132,530**

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

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

Expenditures for capitalized assets	\$	2,684,134	
Less current year depreciation		<u>(4,625,000)</u>	(1,940,866)

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

Property taxes		(45,330)	
Intergovernmental		<u>(189,769)</u>	(235,099)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 1,978,149

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

Amortization of deferred charges		(114,626)	
Compensated absences		<u>28,936</u>	(85,690)

The disposal of capital assets resulted in a loss on the Statement of Activities. However, the loss is not an expenditure in the governmental funds. (8,520)

Change in net assets in governmental activities **\$ 3,840,504**

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) present financial information about the Town as a whole. The reported information includes all of the nonfiduciary activities of the Town. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by taxes and intergovernmental revenues.

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

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

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

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

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

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

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

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

The Town reports the following major governmental funds.

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

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

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

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

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

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

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

D. Investments

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

E. Investment Income

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

F. Receivables and Payables

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

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

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

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

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

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

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

G. Inventory

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

H. Capital Assets

Capital assets, which include land, artwork, buildings, improvements other than buildings, vehicles, machinery, and equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of \$10,000 or more and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

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

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

I. Compensated Absences

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

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

J. Long-term Obligations

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

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

K. Fund Equity

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

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

L. Interfund Activity

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

M. Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess Expenditures Over Budget – At June 30, 2007, the following individual major and non-major governmental funds had expenditures that exceeded the budget.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Major Fund:			
Capital Projects Fund	\$ 800,000	\$ 1,122,054	\$ 322,054
Non-Major Governmental Fund:			
Eagle Mountain Debt Service Fund	338,100	339,259	1,159

Capital improvements for the Downtown area were anticipated to be expended within the Excise Tax Fund; however, the project was transferred to the Capital Projects Fund, accounting for the overexpenditure.

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

NOTE 3 - CASH AND INVESTMENTS

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 3 - CASH AND INVESTMENTS (Concl'd)

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

Custodial Credit Risk - Deposits. Custodial Credit risk is the risk that in the event of bank failure the Town's deposits may not be returned to the Town. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2007, Town deposits of \$894,201 were uninsured and collateralized with securities held by the pledging financial institution. In addition, \$2,535,872 was held by the paying agent and covered by collateral held by the agent in the Town's name.

At June 30, 2007, the Town's investments consisted of the following.

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>
Town of Fountain Hills bonds	01/01/2009	\$ 5,100
State Treasurer's investment pool 5	84 days average	<u>21,712,283</u>
Total		<u>\$ 21,717,383</u>

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

Credit Risk. The Town has no investment policy that would further limit its investment choices. As of June 30, 2007, the Town's investment in the State Treasurer's investment pool did not receive a credit quality rating from a national rating agency.

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

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

Cash and investments at June 30, 2007 consisted of the following:

Carrying amount of Town's deposits	\$ 894,201
State Treasurer's Investment Pool	21,712,283
Town of Fountain Hills bonds	5,100
Petty cash on hand	1,450
Cash with paying agent	<u>2,535,872</u>
Total cash and investments	<u>\$ 25,148,906</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 4 - RECEIVABLES

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

	<u>General Fund</u>	<u>General Obligation Debt Service Fund</u>	<u>Non-Major Governmental Fund</u>
Due from governmental entities:			
Due from State government	\$ 1,035,258	\$ 20,437	\$ 291,617
Net due from governmental entities	<u>\$ 1,035,258</u>	<u>\$ 20,437</u>	<u>\$ 291,617</u>

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

	<u>Unavailable</u>	<u>Unearned</u>
Miscellaneous (General Fund)	\$	\$ 25,650
Miscellaneous (Development Fees Fund)		160,000
Property taxes (General Obligation Debt Service Fund)	5,888	
Special assessments (Non-Major Governmental Funds)	4,482	
Total deferred revenue for governmental funds	<u>\$ 10,370</u>	<u>\$ 185,650</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5 - CAPITAL ASSETS

A summary of capital asset activity for the fiscal year ended June 30, 2007 follows.

Governmental Activities	Beginning Balance (As Restated)	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 23,571,668	\$	\$	\$ 23,571,668
Artwork		989,100		989,100
Construction in progress		62,967		62,967
Total capital assets, not being depreciated	<u>23,571,668</u>	<u>1,052,067</u>		<u>24,623,735</u>
Capital assets, being depreciated:				
Infrastructure	124,453,195	1,042,320		125,495,515
Buildings	17,754,746			17,754,746
Improvements other than buildings	9,710,860	458,810		10,169,670
Vehicles, machinery and equipment	3,700,121	130,937	134,914	3,696,144
Total capital assets being depreciated	<u>155,618,922</u>	<u>1,632,067</u>	<u>134,914</u>	<u>157,116,075</u>
Less accumulated depreciation for:				
Infrastructure	(50,733,985)	(3,519,076)		(54,253,061)
Buildings	(1,306,281)	(355,725)		(1,662,006)
Improvements other than buildings	(2,999,791)	(503,699)		(3,503,490)
Vehicles, machinery and equipment	(2,782,043)	(246,500)	(126,394)	(2,902,149)
Total accumulated depreciation	<u>(57,822,100)</u>	<u>(4,625,000)</u>	<u>(126,394)</u>	<u>(62,320,706)</u>
Total capital assets, being depreciated, net	<u>97,796,822</u>	<u>(2,992,933)</u>	<u>8,520</u>	<u>94,795,369</u>
Governmental activities capital assets, net	<u>\$ 121,368,490</u>	<u>\$ (1,940,866)</u>	<u>\$ 8,520</u>	<u>\$ 119,419,104</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 214,535
Public safety	130,259
Highways and streets	3,160,373
Culture and recreation	1,119,250
Community development	583
Total depreciation expense	<u>\$ 4,625,000</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 6 - BONDS PAYABLE

Bonds payable at June 30, 2007, consisted of the following general obligation, municipal property corporation, special assessment, and community facilities district bonds. The bonds are both callable and noncallable with the interest payable semiannually. Property taxes from the General Obligation Bond Debt Service Fund and Eagle Mountain Debt Service Fund are used to pay general obligation and community facilities district bonds. Special assessments imposed on certain parcels of land within the assessment district are used to pay the Special Assessment District bonds.

Description	Original Amount Issued	Interest Rates	Maturity	Outstanding Principal June 30, 2007	Due Within One Year
Governmental activities:					
General Obligation Bonds, Series 1999	\$ 1,400,000	4.6-4.9%	7/1/07-10	\$ 400,000	\$ 100,000
General Obligation Bonds, Project of 1999, Series B (2000)	3,700,000	5.2-5.25%	7/1/07-09	800,000	250,000
General Obligation Bonds, Project of 1997, Series 2001	6,000,000	4.125-6.0%	7/1/07-11	1,400,000	250,000
General Obligation Refunding Bonds, Series 2005	7,225,000	3.25-4.0%	7/1/07-19	7,000,000	380,000
Eagle Mountain Community Facilities District, General Obligation Refunding Bonds, Series 2005	4,555,000	3.25-4.125%	7/1/07-21	4,415,000	160,000
Street and Highway User Revenue Refunding Bonds, Series 1998	1,075,000	4.5-4.625%	7/1/07-10	455,000	110,000
Municipal Facilities Revenue Bonds, Series 2000	4,680,000	5.0-5.25%	7/1/07-12	1,255,000	175,000
Municipal Facilities Revenue Bonds, Series 2001	7,750,000	3.75-4.5%	7/1/07-13	2,440,000	315,000
Municipal Facilities Revenue Bonds, Series 2004	3,645,000	3.0-4.5%	7/1/07-19	3,350,000	145,000
Unamortized premium on Municipal Facilities Revenue Bonds, Series 2004	143,856	3.0-4.5%	7/1/07-19	124,014	9,921
Municipal Facilities Revenue Refunding Bonds, Series 2005	5,330,000	3.25-4.5%	7/1/07-20	5,265,000	80,000
Cottonwoods Improvement District Improvement Bond	32,276	5.25%	1/1/08-09	6,453	3,228
Total				<u>\$ 26,910,467</u>	<u>\$ 1,978,149</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 6 - BONDS PAYABLE (Concl'd)

Annual debt service requirements to maturity on general obligation and other bonds at June 30, 2007, are summarized as follows.

Year ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Premium</u>	<u>Total</u>
2008	\$ 1,968,228	\$ 1,046,437	\$ 9,921	\$ 3,024,586
2009	2,153,225	961,671	9,921	3,124,817
2010	2,240,000	872,022	9,921	3,121,943
2011	2,460,000	777,276	9,921	3,247,197
2012	2,115,000	686,367	9,921	2,811,288
2013-17	10,410,000	2,099,600	49,605	12,559,205
2018-22	5,440,000	439,323	24,804	5,904,127
Total	<u>\$ 26,786,453</u>	<u>\$ 6,882,696</u>	<u>\$ 124,014</u>	<u>\$ 33,793,163</u>

In prior years, the District 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 District's financial statements. At June 30, 2007, \$11,985,000 of defeased bonds are still outstanding.

NOTE 7 - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007 was as follows.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated absences	\$ 217,983	\$ 279,675	\$ 308,611	\$ 189,047	\$ 189,047
General obligation bonds payable	24,323,935		1,834,921	22,489,014	1,814,921
Special assessment bonds payable	9,681		3,228	6,453	3,228
Community facilities district bonds payable	4,555,000		140,000	4,415,000	160,000
Governmental activities long-term liabilities	<u>\$ 29,106,599</u>	<u>\$ 279,675</u>	<u>\$2,286,760</u>	<u>\$ 27,099,514</u>	<u>\$ 2,167,196</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund transfers:

Transfers out	Transfers in					Total
	Development Fees Fund	Municipal Property Corporation Debt Service Fund	Capital Projects Fund	Non-Major Governmental Funds		
General Fund	\$ 520,000	\$ 387,000	\$ 1,645,000	\$ 13,960		\$ 2,565,960
Non-Major Governmental Funds		1,281,249	400,860	135,000		1,817,109
Total	\$ 520,000	\$ 1,668,249	\$ 2,045,860	\$ 148,960		\$ 4,383,069

Interfund transfers were made by the Town during the fiscal year to ensure that sufficient resources were available to cover expenditures in the applicable funds.

NOTE 9 - CONTINGENT LIABILITIES

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

NOTE 10 - PRIOR PERIOD ADJUSTMENT

The July 1, 2006, government-wide net assets do not agree to the prior year financial statements due to the inclusion of retroactive infrastructure assets in compliance with GASB Statement No. 34 reporting requirements.

	Statement of Activities
Net Assets, June 30, 2006, as previously reported	\$ 42,306,265
Retroactive infrastructure assets	72,848,960
Net Assets, July 1, 2006, as restated	<u>\$ 115,155,225</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 11 - RISK MANAGEMENT

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

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

NOTE 12 - 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, 2007 was \$3,433,865. The Town's total payroll was \$3,884,046.

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

An employee that leaves the employment of the Town is entitled to his or her contributions and the vested portion of the Town's contributions, plus interest earned. Each employee must contribute 11 percent of his or her gross earnings. The Town must contribute 11 percent of covered earnings. During fiscal year 2006-07, the Town's required and actual contributions amounted to \$379,473. The employees' contributions totaled \$498,136. Employees may also contribute to the ICMA Retirement Corporation 457 plan on a voluntary basis; there is no employee match for those contributions. During fiscal year 2006-07, employees contributed \$118,663 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 2006-07 or as of the close of the fiscal year.

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

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 8,070,734	\$ 8,070,734	\$ 8,066,378	\$ (4,356)
Intergovernmental	5,839,254	5,839,254	6,248,222	408,968
Fines and forfeitures	188,700	188,700	281,173	92,473
Licenses and permits	1,908,924	1,908,924	1,239,318	(669,606)
Charges for services	327,273	327,273	252,165	(75,108)
Rents and royalties	288,475	288,475	267,350	(21,125)
Investment income	250,000	250,000	467,164	217,164
Miscellaneous	75,000	75,000	85,418	10,418
Total revenues	16,948,360	16,948,360	16,907,188	(41,172)
Expenditures:				
General government				
Mayor and council	117,161	117,161	69,114	48,047
Magistrate court	363,655	363,655	359,272	4,383
General and administrative	2,827,520	3,755,011	3,207,680	547,331
Total general government	3,308,336	4,235,827	3,636,066	599,761
Public safety				
Building safety	666,992	666,992	582,160	84,832
Law enforcement	2,219,421	2,219,421	2,265,572	(46,151)
Fire department	2,840,477	2,840,477	2,841,288	(811)
Total public safety	5,726,890	5,726,890	5,689,020	37,870
Culture and recreation				
Parks and recreation	1,574,838	1,574,838	1,461,907	112,931
Civic center	528,110	528,110	469,237	58,873
Senior services	201,871	201,871	178,759	23,112
Total parks and recreation	2,304,819	2,304,819	2,109,903	194,916
Community development				
Public works	1,766,544	1,766,544	1,777,507	(10,963)
Planning and zoning	818,824	818,824	685,136	133,688
Total community development	2,585,368	2,585,368	2,462,643	122,725
Capital outlay				
Capital outlay	2,115,947	1,188,456	373,695	814,761
Total capital outlay	2,115,947	1,188,456	373,695	814,761
Total expenditures	16,041,360	16,041,360	14,271,327	1,770,033
Excess (deficiency) of revenues over expenditures	907,000	907,000	2,635,861	1,728,861
Other financing sources (uses):				
Transfers out	(907,000)	(907,000)	(2,565,960)	(1,658,960)
Total other financing sources (uses)	(907,000)	(907,000)	(2,565,960)	(1,658,960)
Change in fund balances			69,901	69,901
Fund balances, July 1, 2006			6,530,248	6,530,248
Fund balances, June 30, 2007	\$	\$	\$ 6,600,149	\$ 6,600,149

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - DEVELOPMENT FEES
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original & Final	Actual	
Revenues:			
Charges for services	\$ 1,310,630	\$ 618,605	\$ (692,025)
Investment income	31,030	151,632	120,602
Total revenues	<u>1,341,660</u>	<u>770,237</u>	<u>(571,423)</u>
Expenditures:			
Capital outlay	1,432,622	475,831	956,791
Total expenditures	<u>1,432,622</u>	<u>475,831</u>	<u>956,791</u>
Excess (deficiency) of revenues over expenditures	<u>(90,962)</u>	<u>294,406</u>	<u>385,368</u>
Other financing sources (uses):			
Transfers in		520,000	520,000
Total other financing sources (uses)		<u>520,000</u>	<u>520,000</u>
Change in fund balances	<u>(90,962)</u>	<u>814,406</u>	<u>905,368</u>
Fund balances, July 1, 2006		2,749,028	2,749,028
Fund balances (deficits), June 30, 2007	<u>\$ (90,962)</u>	<u>\$ 3,563,434</u>	<u>\$ 3,654,396</u>

See accompanying notes to this schedule.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2007

NOTE 1 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL OBLIGATION DEBT SERVICE
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Taxes	\$ 1,370,000	\$ 1,232,781	\$ (137,219)
Investment income	1,400	25,786	24,386
Total revenues	<u>1,371,400</u>	<u>1,258,567</u>	<u>(112,833)</u>
Expenditures:			
Debt service -			
Principal retirement	980,000	980,000	
Interest and fiscal charges	391,400	384,544	6,856
Total expenditures	<u>1,371,400</u>	<u>1,364,544</u>	<u>6,856</u>
Change in fund balances		<u>(105,977)</u>	<u>(105,977)</u>
Fund balances, July 1, 2006		202,347	202,347
Fund balances, June 30, 2007	<u>\$</u>	<u>\$ 96,370</u>	<u>\$ 96,370</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - MUNICIPAL PROPERTY CORPORATION DEBT SERVICE
YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Investment income	\$ 2,500	\$ 45,619	\$ 43,119
Total revenues	<u>2,500</u>	<u>45,619</u>	<u>43,119</u>
Expenditures:			
Debt service -			
Principal retirement	715,000	715,000	
Interest and fiscal charges	<u>520,000</u>	<u>473,349</u>	46,651
Total expenditures	<u>1,235,000</u>	<u>1,188,349</u>	<u>46,651</u>
Excess (deficiency) of revenues over expenditures	<u>(1,232,500)</u>	<u>(1,142,730)</u>	<u>89,770</u>
Other financing sources (uses):			
Transfers in	<u>1,450,050</u>	<u>1,668,249</u>	218,199
Total other financing sources (uses)	<u>1,450,050</u>	<u>1,668,249</u>	<u>218,199</u>
Change in fund balances	<u>217,550</u>	<u>525,519</u>	<u>307,969</u>
Fund balances, July 1, 2006		736,570	736,570
Fund balances, June 30, 2007	<u>\$ 217,550</u>	<u>\$ 1,262,089</u>	<u>\$ 1,044,539</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CAPITAL PROJECTS
YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>		Variance with Final Budget Positive (Negative)
	<u>Original & Final</u>	<u>Actual</u>	
Revenues:			
Taxes	\$ 528,225	\$ 1,938,111	\$ 1,409,886
Investment income	95,000	307,515	212,515
Total revenues	<u>623,225</u>	<u>2,245,626</u>	<u>1,622,401</u>
Expenditures:			
Capital outlay	800,000	1,122,054	(322,054)
Total expenditures	<u>800,000</u>	<u>1,122,054</u>	<u>(322,054)</u>
Excess (deficiency) of revenues over expenditures	<u>(176,775)</u>	<u>1,123,572</u>	<u>1,300,347</u>
Other financing sources (uses):			
Transfers in		2,045,860	2,045,860
Total other financing sources (uses)		<u>2,045,860</u>	<u>2,045,860</u>
Change in fund balances	<u>(176,775)</u>	<u>3,169,432</u>	<u>3,346,207</u>
Fund balances, July 1, 2006		6,747,238	6,747,238
Fund balances (deficits), June 30, 2007	<u>\$ (176,775)</u>	<u>\$ 9,916,670</u>	<u>\$ 10,093,445</u>

NON-MAJOR GOVERNMENTAL FUNDS

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING BALANCE SHEET - ALL NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
JUNE 30, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Non-Major Governmental Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 1,501,100	\$ 389,517	\$ 1,890,617
Taxes receivable		481	481
Special assessments receivable		5,272	5,272
Due from governmental entities	288,181	3,436	291,617
Total assets	<u>\$ 1,789,281</u>	<u>\$ 398,706</u>	<u>\$ 2,187,987</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 43,590	\$ 420	\$ 44,010
Accrued payroll and employee benefits	3,693		3,693
Bond interest payable		95,589	95,589
Deferred revenue		4,482	4,482
Bonds payable		270,000	270,000
Total liabilities	<u>47,283</u>	<u>370,491</u>	<u>417,774</u>
Fund balances:			
Unreserved:			
Undesignated	1,741,998	28,215	1,770,213
Total fund balances	<u>1,741,998</u>	<u>28,215</u>	<u>1,770,213</u>
 Total liabilities and fund balances	 <u>\$ 1,789,281</u>	 <u>\$ 398,706</u>	 <u>\$ 2,187,987</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
YEAR ENDED JUNE 30, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Non-Major Governmental Funds</u>
Revenues:			
Taxes	\$ 1,727,543	\$ 194,274	\$ 1,921,817
Intergovernmental	2,196,509		2,196,509
Fines and forfeitures	23,041		23,041
Charges for services	28,185		28,185
Special assessments		4,228	4,228
Investment income	88,095	9,183	97,278
Total revenues	<u>4,063,373</u>	<u>207,685</u>	<u>4,271,058</u>
Expenditures:			
Current -			
General government	388,485		388,485
Highways and streets	2,028,397		2,028,397
Culture and recreation	21,471		21,471
Capital outlay	31,307		31,307
Debt service -			
Principal retirement		273,228	273,228
Interest and fiscal charges		200,772	200,772
Total expenditures	<u>2,469,660</u>	<u>474,000</u>	<u>2,943,660</u>
Excess (deficiency) of revenues over expenditures	<u>1,593,713</u>	<u>(266,315)</u>	<u>1,327,398</u>
Other financing sources (uses):			
Transfers in	13,960	135,000	148,960
Transfers out	(1,817,109)		(1,817,109)
Total other financing sources (uses)	<u>(1,803,149)</u>	<u>135,000</u>	<u>(1,668,149)</u>
Change in fund balances	<u>(209,436)</u>	<u>(131,315)</u>	<u>(340,751)</u>
Fund balances, beginning of year	1,951,434	159,530	2,110,964
Fund balances, end of year	<u>\$ 1,741,998</u>	<u>\$ 28,215</u>	<u>\$ 1,770,213</u>

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NON-MAJOR SPECIAL REVENUE FUNDS

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

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

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

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

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

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2007

	<u>HURF</u>	<u>Local Court Enhancement</u>	<u>Grants</u>	<u>Excise Tax</u>
<u>ASSETS</u>				
Cash and investments	\$ 774,115	\$ 186,669	\$ 68,578	\$ 471,738
Due from governmental entities	157,669			130,512
Total assets	<u>\$ 931,784</u>	<u>\$ 186,669</u>	<u>\$ 68,578</u>	<u>\$ 602,250</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 31,237	\$	\$ 12,055	\$ 298
Accrued payroll and employee benefits	3,295			398
Total liabilities	<u>34,532</u>		<u>12,055</u>	<u>696</u>
Fund balances:				
Unreserved:				
Undesignated	<u>897,252</u>	<u>186,669</u>	<u>56,523</u>	<u>601,554</u>
Total fund balances	<u>897,252</u>	<u>186,669</u>	<u>56,523</u>	<u>601,554</u>
Total liabilities and fund balances	<u>\$ 931,784</u>	<u>\$ 186,669</u>	<u>\$ 68,578</u>	<u>\$ 602,250</u>

Totals

\$ 1,501,100
288,181
\$ 1,789,281

\$ 43,590
3,693
47,283

1,741,998
1,741,998
\$ 1,789,281

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2007

	<u>HURF</u>	<u>Local Court Enhancement</u>	<u>Grants</u>
Revenues:			
Taxes	\$	\$	\$
Intergovernmental	1,860,885		335,624
Fines and forfeitures		23,041	
Charges for services	28,185		
Investment income	42,678	4,834	
Total revenues	<u>1,931,748</u>	<u>27,875</u>	<u>335,624</u>
Expenditures:			
Current -			
General government		4,288	260,000
Highways and streets	1,972,557		55,840
Culture and recreation			21,471
Capital outlay	29,844		1,463
Total expenditures	<u>2,002,401</u>	<u>4,288</u>	<u>338,774</u>
Excess (deficiency) of revenues over expenditures	<u>(70,653)</u>	<u>23,587</u>	<u>(3,150)</u>
Other financing sources (uses):			
Transfers in			13,960
Transfers out	(135,000)		
Total other financing sources (uses)	<u>(135,000)</u>		<u>13,960</u>
Change in fund balances	<u>(205,653)</u>	<u>23,587</u>	<u>10,810</u>
Fund balances, beginning of year	1,102,905	163,082	45,713
Fund balances, end of year	<u>\$ 897,252</u>	<u>\$ 186,669</u>	<u>\$ 56,523</u>

<u>Excise Tax</u>	<u>Totals</u>
\$ 1,727,543	\$ 1,727,543
	2,196,509
	23,041
	28,185
40,583	88,095
<u>1,768,126</u>	<u>4,063,373</u>
124,197	388,485
	2,028,397
	21,471
	31,307
<u>124,197</u>	<u>2,469,660</u>
<u>1,643,929</u>	<u>1,593,713</u>
	13,960
<u>(1,682,109)</u>	<u>(1,817,109)</u>
<u>(1,682,109)</u>	<u>(1,803,149)</u>
<u>(38,180)</u>	<u>(209,436)</u>
639,734	1,951,434
<u>\$ 601,554</u>	<u>\$ 1,741,998</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2007**

	HURF		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Taxes	\$	\$	\$
Intergovernmental	1,725,640	1,860,885	135,245
Fines and forfeitures			
Charges for services	8,000	28,185	20,185
Investment income	7,000	42,678	35,678
Miscellaneous	1,000		(1,000)
Total revenues	1,741,640	1,931,748	190,108
Expenditures:			
Current -			
General government			
Highways and streets	2,564,815	1,972,557	592,258
Culture and recreation			
Capital outlay	80,000	29,844	50,156
Total expenditures	2,644,815	2,002,401	642,414
Excess (deficiency) of revenues over expenditures	(903,175)	(70,653)	832,522
Other financing sources (uses):			
Transfers in			
Transfers out	(135,000)	(135,000)	
Total other financing sources (uses)	(135,000)	(135,000)	
Change in fund balances	(1,038,175)	(205,653)	832,522
Fund balances, July 1, 2006		1,102,905	1,102,905
Fund balances (deficits), June 30, 2007	\$ (1,038,175)	\$ 897,252	\$ 1,935,427

Local Court Enhancement			Grants		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 23,300	\$ 23,041	\$ (259)	\$ 1,500,000	\$ 335,624	\$ (1,164,376)
	4,834	4,834			
<u>23,300</u>	<u>27,875</u>	<u>4,575</u>	<u>1,500,000</u>	<u>335,624</u>	<u>(1,164,376)</u>
15,000	4,288	10,712	1,181,909	260,000	921,909
			253,838	55,840	197,998
			97,603	21,471	76,132
			6,650	1,463	5,187
<u>15,000</u>	<u>4,288</u>	<u>10,712</u>	<u>1,540,000</u>	<u>338,774</u>	<u>1,201,226</u>
<u>8,300</u>	<u>23,587</u>	<u>15,287</u>	<u>(40,000)</u>	<u>(3,150)</u>	<u>36,850</u>
				13,960	13,960
				<u>13,960</u>	<u>13,960</u>
<u>8,300</u>	<u>23,587</u>	<u>15,287</u>	<u>(40,000)</u>	<u>10,810</u>	<u>50,810</u>
	163,082	163,082		45,713	45,713
<u>\$ 8,300</u>	<u>\$ 186,669</u>	<u>\$ 178,369</u>	<u>\$ (40,000)</u>	<u>\$ 56,523</u>	<u>\$ 96,523</u>

(Continued)

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2007
(Concluded)

	Excise Tax		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Taxes	\$ 1,417,402	\$ 1,727,543	\$ 310,141
Intergovernmental			
Fines and forfeitures			
Charges for services			
Investment income	2,500	40,583	38,083
Miscellaneous			
Total revenues	<u>1,419,902</u>	<u>1,768,126</u>	<u>348,224</u>
Expenditures:			
Current -			
General government	140,502	124,197	16,305
Highways and streets			
Culture and recreation			
Capital outlay			
Total expenditures	<u>140,502</u>	<u>124,197</u>	<u>16,305</u>
Excess (deficiency) of revenues over expenditures	<u>1,279,400</u>	<u>1,643,929</u>	<u>364,529</u>
Other financing sources (uses):			
Transfers in			
Transfers out	(848,000)	(1,682,109)	(834,109)
Total other financing sources (uses)	<u>(848,000)</u>	<u>(1,682,109)</u>	<u>(834,109)</u>
Change in fund balances	<u>431,400</u>	<u>(38,180)</u>	<u>(469,580)</u>
Fund balances, July 1, 2006		639,734	639,734
Fund balances (deficits), June 30, 2007	<u>\$ 431,400</u>	<u>\$ 601,554</u>	<u>\$ 170,154</u>

Totals

Budget	Actual	Variance - Positive (Negative)
\$ 1,417,402	\$ 1,727,543	\$ 310,141
3,225,640	2,196,509	(1,029,131)
23,300	23,041	(259)
8,000	28,185	20,185
9,500	88,095	78,595
1,000		(1,000)
<u>4,684,842</u>	<u>4,063,373</u>	<u>(621,469)</u>
1,337,411	388,485	948,926
2,818,653	2,028,397	790,256
97,603	21,471	76,132
86,650	31,307	55,343
<u>4,340,317</u>	<u>2,469,660</u>	<u>1,870,657</u>
<u>344,525</u>	<u>1,593,713</u>	<u>1,249,188</u>
	13,960	13,960
<u>(983,000)</u>	<u>(1,817,109)</u>	<u>(834,109)</u>
<u>(983,000)</u>	<u>(1,803,149)</u>	<u>(820,149)</u>
<u>(638,475)</u>	<u>(209,436)</u>	<u>429,039</u>
	1,951,434	1,951,434
<u>\$ (638,475)</u>	<u>\$ 1,741,998</u>	<u>\$ 2,380,473</u>

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NON-MAJOR DEBT SERVICE FUNDS

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

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

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

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TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2007

	HURF Debt Service	Eagle Mountain Debt Service	Cottonwoods Special Assessment	Totals
<u>ASSETS</u>				
Cash and investments	\$ 124,282	\$ 260,628	\$ 4,607	\$ 389,517
Taxes receivable		481		481
Special assessments receivable			5,272	5,272
Due from governmental entities		3,436		3,436
Total assets	\$ 124,282	\$ 264,545	\$ 9,879	\$ 398,706
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$	\$ 420	\$	\$ 420
Bond interest payable	10,371	85,218		95,589
Deferred revenue			4,482	4,482
Bonds payable	110,000	160,000		270,000
Total liabilities	120,371	245,638	4,482	370,491
Fund balances:				
Unreserved:				
Undesignated	3,911	18,907	5,397	28,215
Total fund balances	3,911	18,907	5,397	28,215
Total liabilities and fund balances	\$ 124,282	\$ 264,545	\$ 9,879	\$ 398,706

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2007

	HURF Debt Service	Eagle Mountain Debt Service	Cottonwoods Special Assessment
Revenues:			
Taxes	\$	\$ 194,274	\$
Special assessments			4,228
Investment income		9,183	
Total revenues		<u>203,457</u>	<u>4,228</u>
Expenditures:			
Debt service -			
Principal retirement	110,000	160,000	3,228
Interest and fiscal charges	21,089	179,259	424
Total expenditures	<u>131,089</u>	<u>339,259</u>	<u>3,652</u>
Excess (deficiency) of revenues over expenditures	<u>(131,089)</u>	<u>(135,802)</u>	<u>576</u>
Other financing sources (uses):			
Transfers in	135,000		
Total other financing sources (uses)	<u>135,000</u>		
Change in fund balances	<u>3,911</u>	<u>(135,802)</u>	<u>576</u>
Fund balances, beginning of year		154,709	4,821
Fund balances, end of year	<u>\$ 3,911</u>	<u>\$ 18,907</u>	<u>\$ 5,397</u>

Totals

\$ 194,274
4,228
9,183
207,685

273,228

200,772

474,000

(266,315)

135,000

135,000

(131,315)

159,530

\$ 28,215

**TOWN OF FOUNTAIN HILLS, ARIZONA
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR DEBT SERVICE FUNDS
 YEAR ENDED JUNE 30, 2007**

	HURF Debt Service		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Taxes	\$	\$	\$
Special assessments			
Investment income			
Total revenues			
Expenditures:			
Debt service -			
Principal retirement	110,000	110,000	
Interest and fiscal charges	25,000	21,089	3,911
Total expenditures	135,000	131,089	3,911
Excess (deficiency) of revenues over expenditures	(135,000)	(131,089)	3,911
Other financing sources (uses):			
Transfers in	135,000	135,000	
Total other financing sources (uses)	135,000	135,000	
Change in fund balances		3,911	3,911
Fund balances, July 1, 2006			
Fund balances (deficits), June 30, 2007	\$	\$ 3,911	\$ 3,911

Eagle Mountain Debt Service

Budget	Actual	Variance - Positive (Negative)
\$ 195,250	\$ 194,274	\$ (976)
18,500	9,183	(9,317)
213,750	203,457	(10,293)
160,000	160,000	
178,100	179,259	(1,159)
338,100	339,259	(1,159)
(124,350)	(135,802)	(11,452)
(124,350)	(135,802)	(11,452)
	154,709	154,709
\$ (124,350)	\$ 18,907	\$ 143,257

Cottonwoods Special Assessment

Budget	Actual	Variance - Positive (Negative)
\$ 3,850	\$ 4,228	\$ 378
3,850	4,228	378
3,228	3,228	
622	424	198
3,850	3,652	198
	576	576
	576	576
	4,821	4,821
\$	\$ 5,397	\$ 5,397

(Continued)

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - NON-MAJOR DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2007
(Concluded)

	Totals		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Taxes	\$ 195,250	\$ 194,274	\$ (976)
Special assessments	3,850	4,228	378
Investment income	18,500	9,183	(9,317)
Total revenues	217,600	207,685	(9,915)
Expenditures:			
Debt service -			
Principal retirement	273,228	273,228	
Interest and fiscal charges	203,722	200,772	2,950
Total expenditures	476,950	474,000	2,950
Excess (deficiency) of revenues over expenditures	(259,350)	(266,315)	(6,965)
Other financing sources (uses):			
Transfers in	135,000	135,000	
Total other financing sources (uses)	135,000	135,000	
Change in fund balances	(124,350)	(131,315)	(6,965)
Fund balances, July 1, 2006		159,530	159,530
Fund balances (deficits), June 30, 2007	\$ (124,350)	\$ 28,215	\$ 152,565

STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

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

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

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

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

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

	Fiscal Year Ended June 30				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Expenses					
Governmental activities:					
General government	4,292,515	3,875,014	3,766,500	3,686,452	3,479,333
Public safety	5,935,742	5,403,620	5,024,686	4,918,280	5,494,708
Highways and streets	5,225,835	1,581,068	1,281,061	1,419,509	1,310,683
Culture and recreation	3,282,160	2,576,406	2,362,661	2,068,613	2,363,897
Community development	2,512,170	1,812,469	1,460,181	1,144,964	1,235,985
Interest on long-term debt	1,163,370	1,297,119	1,162,796	1,499,575	1,576,842
Total governmental activities	22,411,792	16,545,696	15,057,885	14,737,393	15,461,448
Total expenses	\$ 22,411,792	\$ 16,545,696	\$ 15,057,885	\$ 14,737,393	\$ 15,461,448
Program Revenues					
Governmental activities:					
Charges for services	2,520,068	4,133,263	4,490,704	3,421,132	2,782,385
Operating grants and contributions		2,022,675	1,692,712	1,590,787	1,697,900
Capital grants and contributions	989,100		237,307		
Total governmental activities	3,509,168	6,155,938	6,420,723	5,011,919	4,480,285
Total program revenues	\$ 3,509,168	\$ 6,155,938	\$ 6,420,723	\$ 5,011,919	\$ 4,480,285
Net (Expense)/Revenue	\$ (18,902,624)	\$ (10,389,758)	\$ (8,637,162)	\$ (9,725,474)	\$ (10,981,163)

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

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

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

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

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

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

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

	Fiscal Year Ended June 30				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
General Fund:					
Reserved	\$ 2,934,144	\$ 14,393	\$ 40,664	\$ 77,485	\$
Unreserved	3,666,005	6,515,855	9,041,779	6,293,941	4,037,863
Total General Fund	<u>\$ 6,600,149</u>	<u>\$ 6,530,248</u>	<u>\$ 9,082,443</u>	<u>\$ 6,371,426</u>	<u>\$ 4,037,863</u>
All Other Governmental Funds:					
Unreserved, reported in:					
Special revenue funds	5,305,432	1,951,434	2,176,086	5,969,830	3,411,738
Capital projects funds	9,916,670	9,496,266	2,429,225		
Debt service funds	1,386,674	159,530	644,089	530,372	1,705,230
Total all other governmental funds	<u>\$ 16,608,776</u>	<u>\$ 11,607,230</u>	<u>\$ 5,249,400</u>	<u>\$ 6,500,202</u>	<u>\$ 5,116,968</u>

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
General Fund:					
Reserved	\$ 4,812,370	\$ 4,710,061	\$ 6,314,461	\$ 6,331,622	\$ 5,126,713
Unreserved	4,812,370	4,710,061	6,314,461	6,331,622	5,126,713
Total General Fund	<u>\$ 4,812,370</u>	<u>\$ 4,710,061</u>	<u>\$ 6,314,461</u>	<u>\$ 6,331,622</u>	<u>\$ 5,126,713</u>
All Other Governmental Funds:					
Reserved					
Unreserved, reported in:					
Special revenue funds		9,167	221,861	221,861	2,059
Capital projects funds	414,432	1,571,117			
Debt service funds	1,051,311	532,248	609,351	241,259	213,225
Total all other governmental funds	<u>\$ 1,465,743</u>	<u>\$ 2,112,532</u>	<u>\$ 831,212</u>	<u>\$ 463,120</u>	<u>\$ 215,284</u>

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

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

	Fiscal Year Ended June 30									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Taxes	\$ 13,159,087	\$ 12,993,876	\$ 11,151,893	\$ 9,997,706	\$ 7,114,486					
Intergovernmental	8,444,731	7,412,226	6,686,500	6,080,631	6,311,458					
Fines and forfeitures	304,214	235,050	249,564	361,339	195,091					
Licenses and Permits	1,239,318	1,918,107	2,230,046	1,600,934	1,308,747					
Charges for services	898,955	1,689,046	1,834,205	1,038,170	810,412					
Rents and royalties	267,350	255,527	222,327	242,704	188,745					
Special assessments	4,228	21,147	1,512	3,612	4,302					
Investment income (loss)	1,094,994	673,351	395,124	122,082	1,976,809					
Miscellaneous	85,418	233,565	179,657	261,561	275,343					
Total revenues	<u>25,498,295</u>	<u>25,431,895</u>	<u>22,950,828</u>	<u>19,708,739</u>	<u>18,185,393</u>					
Taxes	\$ 7,595,748	\$ 6,088,047	\$ 4,876,466	\$ 3,861,337	\$ 3,326,207					
Intergovernmental	5,895,676	5,281,156	4,771,792	4,929,062	4,364,859					
Fines and forfeitures	265,605	310,359	293,970	259,484	208,930					
Licenses and Permits	1,351,209	2,177,614	2,569,472	2,472,215	1,961,687					
Charges for services	1,067,814	431,316	454,366	624,744	795,700					
Rents and royalties	107,613	35,781	27,208	18,140	13,591					
Special assessments	4,520	7,958	9,241	14,524						
Investment income (loss)	726,441	(1,063,339)	743,259	620,639	582,757					
Miscellaneous	1,783,851	11,357	31,653	25,657	117,487					
Total revenues	<u>18,798,477</u>	<u>13,280,249</u>	<u>13,777,427</u>	<u>12,825,802</u>	<u>11,371,218</u>					

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

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

	Fiscal Year Ended June 30				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Expenditures:					
Current -					
General government	\$ 4,024,551	\$ 4,459,183	\$ 9,547,409	\$ 3,614,458	\$ 3,318,574
Public safety	5,689,020	5,208,770	4,754,523	4,616,161	5,174,492
Highways and streets	2,028,397	2,121,986	1,682,563	1,402,502	1,198,080
Culture and recreation	2,131,374	3,607,750	3,004,216	1,597,150	1,815,416
Community development	2,462,643	1,812,469	1,460,181	1,144,964	1,215,387
Capital outlay	2,002,887			101,951	79,427
Debt service -					
Principal retirement	1,968,228	1,968,228	1,308,228	1,423,228	1,393,228
Interest on long-term debt	1,058,665	1,192,414	1,164,561	1,499,575	1,576,842
Issuance costs		232,762	229,990		
Advance refunding escrow		300,000			
Total expenditures	<u>\$ 21,365,765</u>	<u>\$ 20,903,562</u>	<u>\$ 23,151,671</u>	<u>\$ 15,399,989</u>	<u>\$ 15,771,446</u>
Expenditures for capitalized assets	\$ 2,684,134	\$ 3,122,912	\$ 7,450,885	\$ 391,949	\$ 31,857
Debt service as a percentage of noncapital expenditures	16%	21%	17%	19%	19%

(Continued)

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

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Expenditures:					
Current -					
General government	\$ 3,859,633	\$ 3,646,500	\$ 2,528,953	\$ 2,631,245	\$ 1,964,427
Public safety	5,084,532	3,354,037	3,059,020	2,205,600	2,074,441
Highways and streets	1,877,790	2,212,432	2,468,498	1,984,879	2,020,450
Culture and recreation	3,069,695	3,866,245	3,359,509	2,334,901	1,471,559
Community development	1,064,913	1,175,649	1,276,951	955,451	947,251
Capital outlay	14,770,507	5,261,585	1,787,469	557,374	1,352,936
Debt service -					
Principal retirement	1,229,215	620,408	339,013	223,024	245,210
Interest on long-term debt	1,673,901	1,231,194	585,001	572,064	554,731
Issuance costs					
Advance refunding escrow					
Total expenditures	<u>\$ 32,630,186</u>	<u>\$ 21,368,050</u>	<u>\$ 15,404,414</u>	<u>\$ 11,464,538</u>	<u>\$ 10,631,005</u>

Expenditures for capitalized assets

Debt service as a percentage of noncapital expenditures

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

N/A

N/A

N/A

N/A

N/A

N/A

N/A

N/A

9%

7%

7%

12%

16%

(Concluded)

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

	Fiscal Year Ended June 30				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Excess (deficiency) of revenues over expenditures	\$ 4,132,530	\$ 4,528,333	\$ (200,843)	\$ 4,308,750	\$ 2,413,947
Other financing sources (uses):					
Transfers in	4,383,069	10,146,663	4,805,635	1,630,907	5,981,544
Transfers out	(4,383,069)	(10,146,663)	(4,805,635)	(1,630,907)	(5,981,544)
Issuance of refunding debt		4,555,000	12,555,000		
Issuance of long-term debt			3,783,896		
Payment to refund escrow agent		(4,338,781)	(14,677,838)		
Total other financing sources (uses)	-	216,219	1,661,058	-	-
Changes in fund balances	\$ 4,132,530	\$ 4,744,552	\$ 1,460,215	\$ 4,308,750	\$ 2,413,947
Excess (deficiency) of revenues over expenditures	\$ (13,831,709)	\$ (8,087,801)	\$ (1,626,987)	\$ 1,361,264	\$ 740,213
Other financing sources (uses):					
Transfers in	1,585,674	1,833,192	1,386,793	1,170,732	1,213,129
Transfers out	(1,585,674)	(1,833,192)	(1,386,793)	(1,170,732)	(1,213,129)
Issuance of long-term debt	13,750,000	4,641,980	5,100,000	1,102,629	
Payment to refund escrow agent				(1,010,489)	
Total other financing sources (uses)	13,750,000	4,641,980	5,100,000	92,140	-
Changes in fund balances	\$ (81,709)	\$ (3,445,821)	\$ 3,473,013	\$ 1,453,404	\$ 740,213

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

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

	Fiscal Year Ended June 30									
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>					
Construction	\$ 2,694,700	\$ 3,362,079	\$ 1,837,317	\$ 1,482,981	\$ 1,203,706					
Transportation and utilities	1,330,052	1,240,120	1,124,677	916,498	590,446					
Wholesale/Retail	4,144,263	3,796,192	3,536,045	3,212,062	1,930,175					
Restaurants and Bars	537,596	547,276	524,368	419,107	276,664					
Real Estate	792,358	626,364	604,356	341,951	205,849					
Services	280,290	263,239	185,868	423,433	455,324					
Miscellaneous	1,296,171	1,030,966	933,366	706,816	188,654					
Total	\$ 11,075,430	\$ 10,866,236	\$ 8,745,997	\$ 7,502,848	\$ 4,850,818					

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Construction	\$ 1,325,749	\$ 1,915,206	\$ 1,852,068	\$ 1,526,063	\$ 1,227,312
Transportation and utilities	523,237	453,217	350,634	303,507	271,577
Wholesale/Retail	1,477,424	1,405,560	1,087,819	793,367	785,563
Restaurants and Bars	219,921	187,000	148,668	128,330	108,770
Real Estate	192,339	245,064	99,155	133,666	105,851
Services	370,806	398,157	357,253	322,428	304,482
Miscellaneous	157,818	195,313	136,814	102,153	60,794
Total	\$ 4,267,294	\$ 4,799,517	\$ 4,032,411	\$ 3,309,514	\$ 2,864,349

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

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

Fiscal Year Ended June 30	Overlapping Rates		
	Town of Fountain Hills	Maricopa County	Arizona State
2007	2.60	0.70	5.60
2006	2.60	0.70	5.60
2005	2.60	0.70	5.60
2004	2.60	0.70	5.60
2003	1.60	0.70	5.60
2002	1.60	0.70	5.60
2001	1.60	0.70	5.60
2000	1.20	0.70	5.00
1999	1.20	0.70	5.00
1998	1.20	0.50	5.00

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

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

Fiscal Year Ended June 30	Governmental Activities		Total Outstanding Debt		
	General Obligation and Other Bonds	Less: Amounts Restricted for Principal	Total	Percentage of Estimated Actual Value	Per Capita
2007	\$ 26,910,467	\$ 1,978,149	\$24,932,318	0.43 %	\$ 1,018
2006	22,365,000	1,968,228	20,396,772	0.60	833
2005	24,190,000	1,308,228	22,881,772	0.72	986
2004	25,335,000	1,423,228	23,911,772	0.81	1,061
2003	24,015,000	1,393,228	22,621,772	0.94	1,017
2002	25,265,000	1,229,215	24,035,785	1.12	1,095
2001	26,465,000	620,408	25,844,592	1.37	1,209
2000	13,160,000	339,013	12,820,987	0.81	634
1999	8,775,000	223,024	8,551,976	0.65	460
1998	3,855,000	245,210	3,609,790	0.35	209

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2007**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Amount Overlapping Debt</u>
Maricopa County	\$ 86,303,067	0.001 %	\$ 863
Maricopa County Community College District	389,925,000	0.001 %	3,899
Fountain Hills Unified School District	20,885,000	97.03 %	20,264,716
Eagle Mountain Community Facilities District	4,415,000	100.00 %	<u>4,415,000</u>
Subtotal, Overlapping Debt			<u>24,684,478</u>
Direct:			
Town of Fountain Hills, Arizona			<u>24,932,318</u>
 Total Direct and Overlapping Debt			 <u><u>\$ 49,616,796</u></u>

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

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

Legal Debt Margin Calculation for Fiscal Year 2007:

Secondary assessed valuation	\$ 610,738,122
Debt limit (20% and 6% of assessed value)	158,791,912
Debt applicable to limit	9,600,000
Legal debt margin	<u>\$ 149,191,912</u>

	Fiscal Year Ended June 30				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Debt limit equal to 26% of assessed valuation	\$ 158,791,912	\$ 97,547,627	\$ 90,843,567	\$ 84,080,160	\$ 70,356,745
Total net debt applicable to limit	<u>9,600,000</u>	<u>9,600,000</u>	<u>10,225,000</u>	<u>11,740,000</u>	<u>12,585,000</u>
Legal debt margin	<u>\$ 149,191,912</u>	<u>\$ 87,947,627</u>	<u>\$ 80,618,567</u>	<u>\$ 72,340,160</u>	<u>\$ 57,771,745</u>
Total net debt applicable to the limit as a percentage of debt limit	6%	10%	11%	14%	18%
Debt limit	<u>\$ 62,065,780</u>	<u>\$ 55,228,024</u>	<u>\$ 45,437,792</u>	<u>\$ 38,205,370</u>	<u>\$ 30,246,686</u>
Total net debt applicable to limit	<u>6,005,000</u>	<u>6,155,000</u>	<u>6,330,000</u>	<u>2,780,000</u>	<u>2,930,000</u>
Legal debt margin	<u>\$ 56,060,780</u>	<u>\$ 49,073,024</u>	<u>\$ 39,107,792</u>	<u>\$ 35,425,370</u>	<u>\$ 27,316,686</u>
Total net debt applicable to the limit as a percentage of debt limit	10%	11%	14%	7%	10%

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

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

<u>Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Income</u>	<u>Unemployment Rate</u>
2006	24,492	N/A	N/A	1.8 %
2005	23,217	\$ 125,718,070	\$ 32,414	2.0
2004	22,541	115,604,165	31,133	2.1
2003	22,243	106,385,325	26,609	2.6
2002	21,954	100,805,099	28,900	2.7
2001	21,383	97,138,599	28,717	2.0
2000	20,235	92,975,771	28,363	1.6
1999	18,595	83,860,233	26,385	1.6
1998	17,280	78,310,846	25,471	1.5

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

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

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

<u>Employer</u>	<u>2007</u>		<u>2002*</u>	
	<u>Employees</u>	<u>Percentage of Total Employment</u>	<u>Employees</u>	<u>Percentage of Total Employment</u>
Fountain Hills Unified School District No. 98	250	28.5 %	250	27.0 %
Monk Construction	150	17.1	150	16.2
MCO Properties, Inc.	85	9.7	85	9.2
Safeway Food Stores	95	10.8	95	10.3
Town of Fountain Hills	68	7.7	115	12.4
Basha's	70	8.0	70	7.6
Sun Ridge Canyon Golf Course	70	8.0	70	7.6
Eagle Mountain Golf Course	40	4.6	40	4.3
Golf International	50	5.7	50	5.4
Total	<u>878</u>	<u>100.00 %</u>	<u>925</u>	<u>100.00 %</u>
 Total employment	 <u>878</u>		 <u>925</u>	

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

* Information prior to 2002 is not available.

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

	Full-time Equivalent Employees as of June 30				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
General Government					
Municipal Court	5	6	5	5	6
City Administration	12	13	11	10	15
Planning & Zoning	10	10	8	9	8
Total general government	<u>27</u>	<u>29</u>	<u>24</u>	<u>24</u>	<u>29</u>
Public Safety					
Building Safety	8	9	9	7	8
Law Enforcement				1	20
Total public safety	<u>8</u>	<u>9</u>	<u>9</u>	<u>8</u>	<u>28</u>
Public Works					
Engineering	12	12	12	11	13
Streets	10	11	11	13	14
Total public works	<u>22</u>	<u>23</u>	<u>23</u>	<u>24</u>	<u>27</u>
Parks and Recreation	20	17	15	13	16
Community Development	11	7	7	7	7
	<u>31</u>	<u>24</u>	<u>22</u>	<u>20</u>	<u>23</u>
Total	<u>88</u>	<u>85</u>	<u>78</u>	<u>76</u>	<u>107</u>

(Continued)

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

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

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

* Information prior to 2002 is not available.

(Concluded)

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

<u>Function</u>	<u>Fiscal Year Ended June 30</u>									
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Public Safety										
Fire stations	3	3	3	3	3	3	N/A	N/A	N/A	N/A
Other public works										
Streets (miles)	179	179	179	179	179	179	179	179	179	179
Streetlights	34	34	N/A							
Traffic signals	12	12	11	11	10	10	10	6	6	6
Parks and Recreation										
Acreage	121	121	121	121	121	121	121	121	121	121
Playgrounds	3	3	3	3	3	3	2	2	2	2
Baseball/softball diamonds	6	6	6	6	6	6	6	6	6	6
Soccer/football fields	3	3	4	4	4	4	4	4	4	4
Community centers	1	1	1	1	1	1	1	1	1	1

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