

Town of Fountain Hills

Comprehensive Annual Financial Report

For the
Fiscal Year Ending
June 30, 2003



TOWN OF FOUNTAIN HILLS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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INTRODUCTORY SECTION

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Town of FOUNTAIN HILLS

September 19, 2003

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

State law requires that all general-purpose local governments publish within 120 days (240 days with an extension) 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 (GAAS) by a firm of licensed certified public accountants. The Comprehensive Annual Financial Report (CAFR) of the Town of Fountain Hills for the fiscal year ended June 30, 2003, is hereby submitted. This document represents a joint effort by Town staff as well as our auditors, Cronstrom & Trbovich.

This report consists of management's representations concerning the finances of the Town of Fountain Hills. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To provide a reasonable basis for making these representations, management of the Town of Fountain Hills has established an internal control framework that is designed to both 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' 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. All disclosures necessary for the reader to understand the Town's activities have been included.

The Town of Fountain Hills' financial statements have been audited by Cronstrom & Trbovich, PC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Fountain Hills for the fiscal year ended June 30, 2003, 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, 2003, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement 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 11,340 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.

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. Policy making and legislative authority are vested in the Town Council, which consists of a Mayor and six Councilmembers. Councilmembers are elected at large for staggered four-year terms. The Mayor, who also sits on the Town Council, is directly elected bi-annually by the voters and the Vice-Mayor is selected by the Council every eight months on a rotating basis. The Town Council is responsible, among other things, for the adoption of local ordinances, budget adoption, the development of citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and administering the Town's operations through five department directors and approximately 77 employees. The Magistrate, Town Attorney and Town Prosecutor are under the direction of the Town Council.

Over the past thirteen years Fountain Hills has grown from 10,190 residents to a town of almost 22,000 in 2003. The Maricopa Association of Governments (MAG) estimates that the population of Fountain Hills will continue to grow to near 25,000 by 2010. Although the rate of growth has slowed due to the national economy the Town continues to attract residents who are building large custom homes to take advantage of the scenic vistas surrounding our mountain community.

The Town provides or administers a full range of services including public safety (police, 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 and cultural events. The Town does not maintain utility or other operations that require the establishment of enterprise funds. On October 31, 2001 the Town Council adopted an ordinance to provide fire protection services to all Fountain Hills residents, forming a municipal fire department. Fire protection was previously provided by a separate legal entity, the Fountain Hills Fire District, which has been merged with the Town of Fountain Hills. The financial reporting entity (the Town) includes all the funds and account groups of the primary government (i.e., the Town of Fountain Hills as legally defined) as well as all of its component units. The component units consist of legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the Cottonwoods Maintenance District, Eagle Mountain Community Facilities District and Fountain Hills Municipal Property Corporation are included in the financial reports of the Town.

The annual budget serves as the foundation for the Town of Fountain Hills' financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund. Therefore, these funds have appropriated budgets, and budget to actual information is presented. On or before the second meeting in May the Town Manager submits to the Town Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. The Town Council is then required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the Town of Fountain Hills' fiscal year. The budget is legally enacted through passage of an ordinance and is prepared by fund and department. The ordinance sets the limit for expenditures during the fiscal year. The Town Manager may authorize transfers from and within personnel and from operating capital to services or supplies within a department. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20. During fiscal year 2002/2003 there were no supplemental budgetary appropriations to the original budget.

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 2002-2003 fiscal year posed several significant challenges for the Town of Fountain Hills' economic picture. Despite the uncertain economic conditions of the nation and slower growth of the State's economy, the Town's economy remained stable. The residential housing market has continued to grow although at a more moderate pace than in previous years. New commercial development along Shea Boulevard corridor brought a Target Store and major supermarket shopping center. This increase in retail sales tax base will compensate for the decrease in construction activity that is anticipated in the next several years as the Town approaches build-out.

The Town recently awarded a contract to a consultant to develop a concept plan for the downtown area of Fountain Hills. This concept plan will revitalize the downtown area and create connectivity to new businesses being constructed in the same location. New lighting, pedestrian walkways, fountains and cultural amenities will provide interest for adults and children.

The Town also approved plans for a Hilton resort that is scheduled to open in FY 2005. The resort will have 178 rooms and 71 townhomes that will expand tourism within the community.

Long-term financial planning. During the coming year the Town is faced with the challenge of maintaining the existing level of service to the citizens with reduced resources. A formal five year financial plan and capital improvement plan that will identify projects to be integrated with the annual budget and sources of funding to pay for them will be considered by the Council in the upcoming year. Additional sources of revenue are being proposed that will help to diversify the resources.

The Town administration recognizes the need to assure reserves for future revenue shortfalls in case of economic downturns. A large portion of General Fund operating revenue comes from construction related activity that eventually will be constrained by availability of land or the economy; the Council adopted a fund balance policy that will ensure that adequate future reserves are maintained. 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. The contingency fund can be used for unexpected emergencies and projects upon approval by Council.

The Council also adopted additional financial policies that include guidelines for the issuance of debt for capital expenditures, Community Facilities Districts, financing alternatives, expenditure controls and financial planning. 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 the United States and Canada.

Cash management policies and practices. 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, 2003 was 1.32%. 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, 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.

During fiscal year 2002-2003 the Town settled two of three lawsuits regarding the Town Council action to assume fire and emergency medical services to the community. The lawsuits were filed on behalf of former Fire District firefighters who were not offered positions with the Town as well as one citizen who filed on behalf of the voters right to decide fire services. The citizen lawsuit and one firefighter lawsuit were settled for immaterial amounts; the final lawsuit on behalf of the firefighters represents a claim for \$10 million for breach of contract and interference with contractual relations. The Town expects to prevail in this lawsuit but would be covered by the insurance provider if the claim is determined to be valid.

The Arizona Municipal Workers Compensation Fund is the Town's insurance provider for Workers' Compensation. The rate varies according to the functions performed by personnel.

Pension and other postemployment benefits. The Town of Fountain Hills had two venues available to employees to provide for them during retirement. The Town Marshal deputies participated in the Arizona Public Safety Retirement System until June 30, 2003 at which time the Marshal Department was eliminated. The state agency plan is offered to state and local governments statewide and funded by employee wage deductions and matching Town contributions. The rates for these contributions are determined by the retirement system in order to ensure the proper amount of funding to meet the obligations to retired employees on a timely basis. As a matter of policy, the Town of Fountain Hills fully funded each year's annual required contribution to the pension plan as determined by the actuary.

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

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

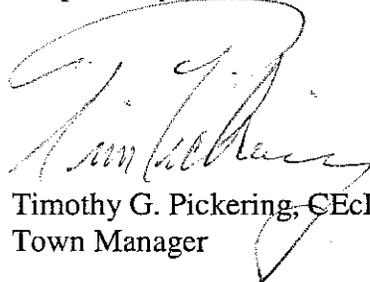
Awards and Acknowledgements. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2002. This was the seventh consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated August 1, 2002. 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.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff 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,



Timothy G. Pickering, CEcD, CM
Town Manager

TOWN OF FOUNTAIN HILLS, ARIZONA

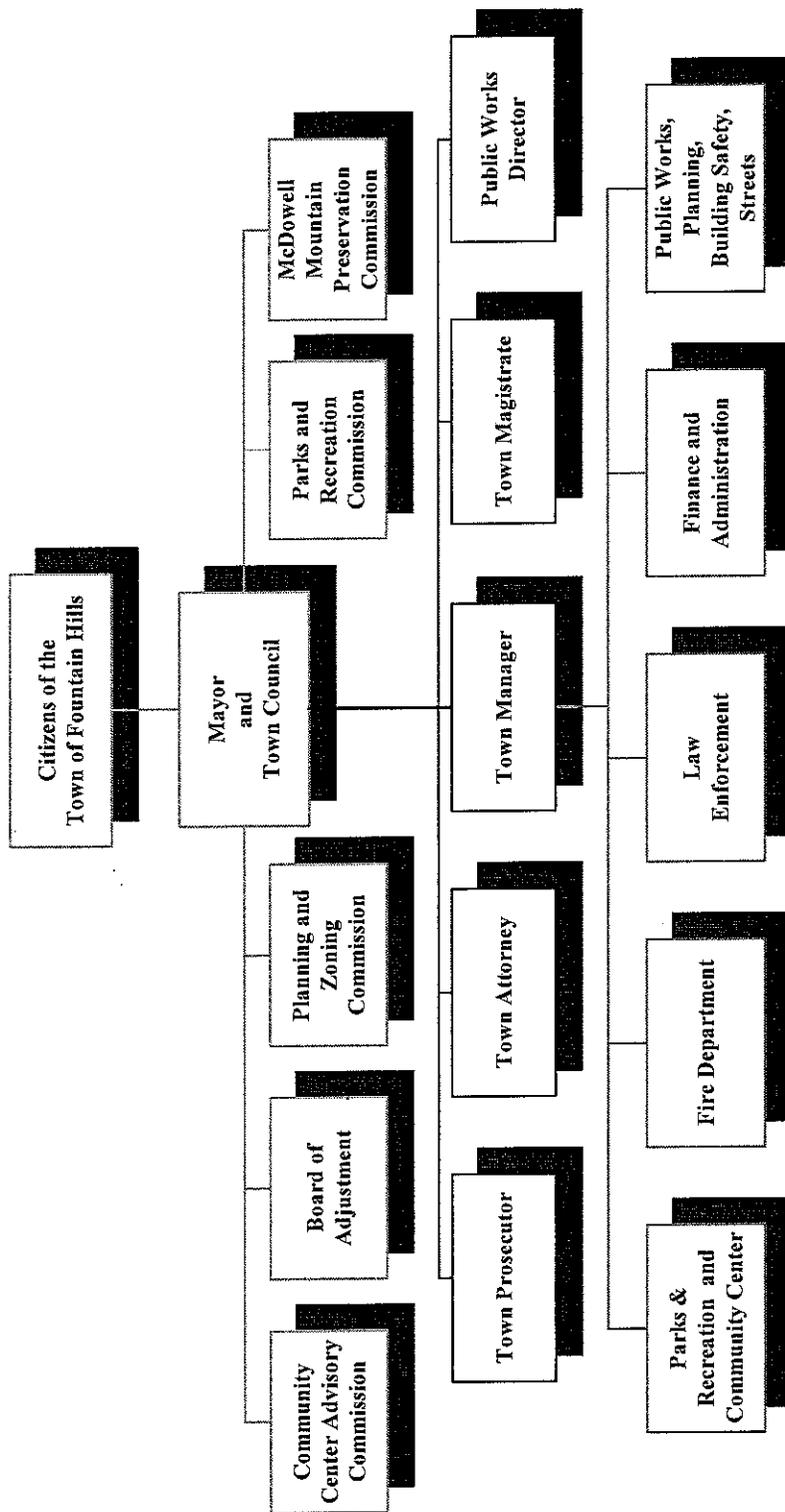
LIST OF PRINCIPAL OFFICIALS

ELECTED OFFICIALS

Mayor	Mr. W. J. Nichols
Vice-Mayor	Mr. Rick Melendez
Councilmember	Mr. Mike Archambault
Councilmember	Dr. John Kavanagh
Councilmember	Ms. Kathleen Nicola
Councilmember	Ms. Susan Ralphe
Councilmember	Ms. Leesa Stevens

DEPARTMENT DIRECTORS

Town Manager	Timothy G. Pickering
Magistrate	Ted Armbruster
Public Works Director	Tom Ward
Parks & Recreation Director	Mark Mayer
Fire Chief	Mark Zimmerman, Rural Metro Corporation
District Commander	Captain Scott Penrose, Maricopa County Sheriff's Office
Town Prosecutor	Iacovino & Kayler
Town Attorney	Andrew McGuire, Jorden Bischoff McGuire



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, 2002

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.



A handwritten signature in cursive script, appearing to read "Edward Haney".

President

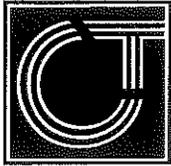
A handwritten signature in cursive script, appearing to read "Jeffrey R. Emmer".

Executive Director

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fountain Hills, Arizona (Town), as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fountain Hills, Arizona, as of June 30, 2003, and the respective changes in financial position, where applicable, thereof and the respective budgetary comparison for the General and Excise Tax Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 15 - 25 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 56 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 an opinion on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

As described in Note 3, the Town has implemented a new financial reporting model, as required by the provisions of GASB statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2003.

Cronstrom & Trbovich, P.C.

Cronstrom & Trbovich, P.C.

September 19, 2003

Management's Discussion and Analysis

We (the Town of Fountain Hills) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2003. The intended purpose of the Management Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation. As this is our first MD&A we do not have comparative information of many parts of this analysis. When referring to prior year data in this analysis we will be drawing upon information from last years audited financial reports.

Financial Highlights

- ◆ The assets of the Town of Fountain Hills exceeded its liabilities at the close of the most recent fiscal year by \$21,162,894 (net assets). Of this amount \$2,638,149 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Town of Fountain Hills' governmental funds reported combined ending fund balances of \$9,154,831, an increase of \$2,413,947 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the general fund was \$4,037,863 or 35 percent of total general fund expenditures. The fund balance policy adopted by the Council in May, 2003 requires a minimum of \$4,469,191 in designated, undesignated and reserve funds; the general fund will contribute \$431,328 to the fund balance in the upcoming fiscal year.
- ◆ General fund revenues (on a budgetary basis) exceeded budgeted revenues by \$522,551 for fiscal year 2003. Additionally, budgetary basis expenditures were only 81% (\$2,624,712 (19%) in savings) of the final budget in the General Fund.
- ◆ General fund revenues exceeded expenditures by \$601,251; a positive variance of \$3,147,263 from the original budget.
- ◆ The Town includes two types of separate legal entities in its report - a Municipal Property Corporation and Community Facilities Districts. Although legally separate, these "component units" are important because the Town is financially accountable for them. A description of these three component units is available in Note 1 on page 37. Separate Financial Statements are not available for these three entities.

Overview of the Financial Statements

This is the first year that the Town has implemented the Governmental Accounting Standards Board (GASB) Statement 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (the new model). The new model contains sweeping changes to the requirements for governmental reporting. The major changes were as follows:

- ◆ Government-wide reporting - while governments have traditionally focused reporting on groupings of funds (i.e. General Fund, Special Revenue Funds, Capital Project Funds, etc.), the new model also contains financial statements on a government-wide basis.
- ◆ Fund financial statements - the new model maintains governmental, proprietary and fiduciary fund financial statements, but the focus is on major funds within each fund type.
- ◆ New focus for governmental activities - in the government-wide financial statements all activities, including the governmental activities, are reported using the economic resources measurement focus and accrual basis of accounting. The traditional current financial resources focus and modified accrual basis of accounting are maintained for the governmental fund financial statements in the new model.
- ◆ Infrastructure reporting - the new model requires governments to report the value of infrastructure assets of governmental activities (roads, bridges, storm drainage systems, parks, street lighting, etc.). These assets are reported in the governmental activities on the government-wide financial statements. The Town of Fountain Hills has historically capitalized assets for governmental activities that were reported in the General Fixed Assets Account Group and were not depreciated under the old reporting model.
- ◆ Changes in budgetary reporting - the new model requires the display of both the original adopted budget and the amended budget, if applicable, in the budgetary comparison schedules. These schedules are only required for the general fund and major special revenue funds, although they may be presented for other funds as additional information.
- ◆ Required narrative analysis - the new model requires that the financial statements be accompanied by narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

The financial section of the Comprehensive Annual Financial Report (CAFR) for the Town of Fountain Hills, Arizona consists of this discussion and analysis, the basic financial statements and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the general fund and major special revenue funds, and notes to the financial statements.

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

The statement of net assets presents information on all of the Town of Fountain Hills' 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 of Fountain Hills is improving or deteriorating.

The statement of activities presents information showing how the government'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 vacation leave).

Both of the government-wide financial statements distinguish functions of the Town of Fountain Hills that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town of Fountain Hills include general government, community development, public safety, highways and streets, and culture and recreation. The Town does not have any business-type activities.

The government-wide financial statements can be found on pages 28 - 29 of this report.

Fund financial statements. Also presented are the traditional fund financial statements for governmental funds. The fund financial statements now focus on major funds of the Town, rather than fund type used in the old model. 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 of Fountain Hills, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Fountain Hills 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 and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two is provided with the fund financial statements.

Notes to the financial statements. The notes to the financial statements (pages 37 - 53) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

Required supplementary information other than MD&A. Governments have an option of including the budgetary comparison statements for the general fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information after the footnotes. The Town has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The Town has disclosed this information in Note 4.C to the financial statements.

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed Statement of Net Assets of the Town for June 30, 2003 showing that assets exceeded liabilities by \$21,162,894.

Town of Fountain Hills Condensed Statement of Net Assets As of June 30, 2003		Governmental <u>Activities</u>
ASSETS		
Current and other assets		\$ 16,801,782
Capital assets		
Non-depreciable		23,571,668
Depreciable (net)		<u>17,071,272</u>
Total assets		<u>\$ 57,444,722</u>
LIABILITIES		
Other liabilities		\$ 7,307,826
Non-current liabilities		
Due within one year		1,484,604
Due in more than one year		<u>27,489,398</u>
Total liabilities		<u>\$ 36,281,828</u>
NET ASSETS		
Invested in capital assets, net of related debt		\$ 11,843,575
Restricted		6,681,170
Unrestricted		<u>2,638,149</u>
Total net assets		<u>\$ 21,162,894</u>

The net assets of the Town are \$21,162,894 in fiscal year 2003 in governmental activities. The Town does not currently have any proprietary or enterprise funds that would otherwise be classified as business-type activities. All Town funds are considered governmental activities.

Net assets consists of three components. The largest portion of the Town of Fountain Hill's net assets (56%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town of Fountain Hills uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Fountain Hills' 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. This category of net assets decreased from fiscal year 2001-2002; the decrease is attributable to the implementation of the depreciation requirements of GASB 34 in the current reporting period.

An additional portion of the Town of Fountain Hills' net assets (32%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$2,638,149) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Fountain Hills is able to report positive balances in all three categories of net assets for the government as a whole.

Governmental Activities. A comparison of the Town's government-wide revenues and expenditures is not available as this is the Town's first year to implement government-wide financial statements, therefore, prior year amounts are not available. However, an analysis of governmental fund revenues and expenditures has been presented in this discussion and analysis and comparative analysis of government-wide revenues and expenditures will be presented in the subsequent years' reports when prior year data is available.

Financial Analysis of the Town's Funds

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

As of the end of the current fiscal year the Town's governmental funds reported combined ending fund balances of \$9,154,831, an increase of \$2,413,947 in comparison with the prior year. Approximately 44% of this total amount (\$4,037,863) constitutes general fund balance, which is available for contribution to the designated, undesignated and reserved fund balance. At fiscal year-end 2002-2003 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2001-02
General Fund	\$ 4,037,863	\$ (774,507)
Excise Tax Fund	1,912,404	1,912,404
GO Debt Service Fund	64,233	125,385
Eagle Mtn. Debt Service Fund	790,713	(249,784)
Municipal Property Corporation Fund	850,284	850,284
Capital Projects Fund	-	(414,432)
Nonmajor Governmental Funds	1,499,334	964,597

The general fund is the chief operating fund of the Town of Fountain Hills. At the end of the current fiscal year, the fund balance of the general fund was \$4,037,863, while total fund balance reached \$9,154,831. As a measure of the general fund's liquidity, it may be useful to compare both general fund balance and total fund balance to total fund expenditures. General fund balance represents 35 percent of total general fund expenditures, while total fund balance represents 58 percent of that same amount.

The fund balance of the Town of Fountain Hills' general fund decreased by \$(774,507) during the current fiscal year. Key factors in this change are as follows:

- ◆ The General Fund transferred \$1,535,000 (0.4% of the total local rate) of local sales tax revenues to the Excise Tax fund to establish a dedicated fund for land preservation and downtown development. In FY2003 a separate fund was established (Excise Tax) to directly record the dedicated sales tax.
- ◆ The Council enacted an increase in the local sales tax rate of 1% on April 1, 2003 (increasing FY03 revenue by \$623,275) to primarily fund fire and emergency medical service operations. The rate increase will be repealed if a new fire district is formed or the Town is successful in adopting a primary property tax.
- ◆ Intergovernmental revenues of the general fund increased by \$207,244 as a result of a new revenue source from the Arizona Department of Insurance for fire insurance premium taxes. This source of revenue became available when the Town assumed fire operations in FY2001-2002.
- ◆ The General Fund was reimbursed by bond proceeds for the construction of a new Community Center. The bond proceeds were previously unavailable due to a lawsuit between the Town and the trustee but were recovered in August 2002 (\$1,256,178).
- ◆ The increases in fund balance were offset by an increase in annual expenditures of \$2.4 million for fire and emergency medical services that the Town assumed from the former Fire District.

- ◆ A Budget Reduction Plan was implemented in February 2003 to reduce expenditures due to the declining revenues and the addition of a fire department that results in a savings of approximately \$1.5M during FY2003. Total annual savings is \$2.8M.

The Excise Tax Fund is a dedicated portion of the local sales tax that can only be used for debt retirement of a Municipal Property Corporation bond for open space and development of the downtown area. The fund balance as of June 30, 2003 is \$1,912,404; the annual debt service payment is \$607,411.

The Highway User Revenue Fund is required by state statute to track the state allocation of gasoline taxes and other state revenues shared with local governments and required to be used for transportation purposes. Revenue in this fund increased \$51,425 (4%) in fiscal year 2003 due to the increase in state shared revenues. Expenditures decreased \$733,478 from the prior year with the absence of a transfer from the general fund and implementation of a Budget Reduction Plan in February, 2003.

Other governmental funds of the Town include the Development Impact Fees Fund which includes governmental impact (development) fees for streets and highways, parks and recreation, law enforcement, general government and open space. This is a restricted fund and may only be appropriated for the particular purpose for which they were imposed. The fund balance as of June 30, 2003 in this fund is \$1,098,851; expenditures for FY 2003 were \$30,407 and \$80,953 in FY 2002.

All nonmajor governmental funds of the Town are combined into one column on the governmental fund statements.

Budgetary Highlights

The Town's annual budget is the legally adopted expenditure control document of the Town. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 34 - 35. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

In fiscal year 2002-2003 significant reductions in expenditures were made in order to offset the cost for providing municipal fire and emergency medical services without a funding source. The annualized expenditure reductions in the departments totaled \$2,758,000 and were as follows:

\$ 1,028,695	General Government
894,950	Public Safety
546,170	Culture and Recreation
122,640	Public Works
165,545	Streets and Highways

General Fund revenues of \$11,979,151, on a budgetary basis, exceeded budgeted revenues of \$11,456,600 by \$522,551 while budgetary basis expenditures of \$11,377,900 were only 81% of budgeted expenditures (savings of \$2,624,712). The excess of revenues over budgeted revenues is primarily due to the increase in the local sales tax rate, the new revenue source of fire insurance premium tax and vehicle license taxes. The increased taxes were offset by the decrease in intergovernmental revenues. The Town anticipated a transfer from the County of residual Fire District assets which were transferred on July 7, 2002 but recorded during FY2001-2002. Reduced expenditures were a result of the Budget Reduction Plan that was adopted by the Council in December and implemented in February, 2003.

Capital Asset and Debt Administration

The Town's capital assets for its governmental activities as of June 30, 2003 amount to \$40,642,940 (net of accumulated depreciation), a decrease of 2.7%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. See Section 3.B.3 in the Notes to the Financial Statements for further information regarding capital assets.

The Town recorded its capital assets as part of the general fixed asset account group in past years and in the appropriate funds as they were acquired or constructed. Capital assets include land, buildings and improvements, machinery and equipment, roads and improvements, vehicles, office and computer equipment. With the implementation of GASB 34 the Town reduced the governmental assets by the appropriate accumulated depreciation amount of \$4,129,433. During fiscal year 2002-2003 the annual depreciation expense was \$1,145,159; decreases of \$1,031,377 were recorded for assets with a life of less than five years and a value less than \$10,000. There were only two additions to capital assets during the fiscal year for a total of \$31,857:

- ◆ The Town contributed to a Veterans Memorial in Fountain Park; the first phase consisted of the installation of three flag poles, and a concrete pad upon which a piece of military hardware will be placed.
- ◆ The Community Center and Parks and Recreation Departments were consolidated during FY03 to facilitate program registration and facility use through the Community Center. The former break room in the Community Center was converted into offices through the use of modular furniture and the Parks and Recreation Department moved into the center.

The following table provides a breakdown of the capital assets of the Town at June 30, 2003.

Capital Assets at June 30, 2003
(Net of depreciation)

	Governmental Activities		Percent Change
	2003	2002	
Land	\$ 23,571,668	\$ 23,571,668	- %
Buildings and improvements	9,514,951	9,720,003	(2.1)%
Improvements other than buildings	5,711,469	6,054,208	(5.7)%
Infrastructure	377,221	385,181	(2.1)%
Machinery/Equipment	607,395	694,386	(12.5)%
Office Equipment/Computers	121,105	226,490	(46.5)%
Vehicles	739,131	1,104,306	(33.1)%
	\$ 40,642,940	\$ 41,756,242	(2.7)%

Long-term Debt

At the end of the current fiscal year, the Town of Fountain Hills had total long-term obligations outstanding of \$28,974,002 with no debt issued during the year. Of the outstanding debt, \$12,585,000 is general obligation bonds backed by the full faith and credit of the Town. An additional \$4,765,000 are special assessment bonds that are backed by a guaranteed investment contract with the developer of the district property. All other outstanding debt is secured by pledges of specific revenue sources of the Town.

The State imposes certain debt limitations on the Town of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation of the Town. The Town's available debt margin at June 30, 2003 is \$16,643,114 in the 6% capacity and \$54,852,046 in the 20% capacity. Additional information on the debt limitations and capacities may be found in the statistical section of this report (page 84).

The following schedule shows the outstanding debt of the Town (both current and long-term) as of June 30, 2002 and 2003. Further detail on the Town's outstanding debt may be found in Note 3 on pages 49 - 50.

	Outstanding Debt		
	Governmental Activities		Percent Change
	2003	2002	
General Obligation Debt	\$ 11,865,000	\$ 12,600,000	(5.8)%
Highway User Revenue Bonds	720,000	810,000	(11.1)%
Special Assessment Debt	19,365	22,593	(14.3)%
Community Facilities District Debt	4,765,000	4,905,000	(2.9)%
Municipal Property Corporation Debt	11,430,000	11,855,000	(3.6)%
Compensated Absences	<u>174,637</u>	<u>275,626</u>	(36.6)%
	<u>\$ 28,974,002</u>	<u>\$ 30,468,219</u>	(4.9)%

The Town currently maintains a rating on its general obligation debt of Aa3 from Moody's Investor Services. The rating was assigned a negative outlook in April 2003 due to concerns regarding the Town's financial position and reserve levels that had been published in the FY 2002-2003 annual budget. However, with the implementation of the Budget Reduction Plan the actual general fund reserve balance as of June 30, 2003 is \$4,037,863. Additionally, in May, 2003 the Town Council adopted a fund balance policy to establish levels of reserves sufficient to ameliorate effects of future economic fluctuations and legislative actions.

Economic Factors and Next Year's Budgets and Rates

Fountain Hills, as well as all other Arizona cities, remains dependent on state shared revenues (25%) and local sales taxes for resources (50%). These revenue sources are economically sensitive taxes and subject to slowdowns in the economy and legislative appropriations. Fountain Hills' economic activity has remained fairly stable during the national recession and is expected to grow at a moderate pace over the next year. The low interest rates continue to fuel the housing market and Fountain Hills still has high-end properties that are being developed for custom homes.

The Town is committed to building cash reserves over the next few years, both for financial stability and anticipation of the capital and ongoing operational needs of the community. Fiscal year 2003-2004 budgeted general fund expenditures are \$515,000 less than revenue; the surplus will be added to the prior year fund balance, none of which was appropriated for next fiscal year. The adopted fiscal year 2003-2004 budget is \$18,658,981, up 14% from 2002 actual, which includes capital projects of \$2,089,600. The budget for fiscal year 2003-2004 also includes:

- Conservative economic forecast and limited revenue growth
- Estimated expenditures are based on zero based approach for all departments
- Level of service based on implemented budget reduction plan
- Funding of general fund reserves to restore financial stability
- Capital projects are funded with "pay-as-you-go" resources

Financial contact

This financial report is designed to provide a general overview of the Town's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

Town of Fountain Hills
Accounting Department
P.O. Box 17958
Fountain Hills, AZ 85269
(480) 837-2003

Or visit our website at:

<http://www.fh.az.gov>

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Basic Financial Statements

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2003

	<u>Governmental Activities</u>
Assets	
Cash and equivalents	\$ 13,780,485
Cash with paying agent	1,606,741
Receivables, net	
Accounts receivable	337,722
Taxes receivable	73,993
Intergovernmental receivable	917,519
Special assessments receivable	7,398
Inventories	6,364
Prepaid items	71,560
Capital assets	
Non-depreciable	23,571,668
Depreciable (net)	<u>17,071,272</u>
Total assets	<u>57,444,722</u>
Liabilities	
Accounts payable	409,108
Accrued wages and benefits	121,734
Interest payable	780,180
Intergovernmental payable	145,029
Deposits payable	26,775
Due to developers	4,435,000
Matured debt principal payable	1,390,000
Noncurrent liabilities	
Due within one year	1,484,604
Due in more than one year	<u>27,489,398</u>
Total liabilities	<u>36,281,828</u>
Net assets	
Invested in capital assets, net of related debt	11,843,575
Restricted for	
Highways and streets	306,565
Debt service	3,160,835
Capital outlay	1,098,851
Other	2,114,919
Unrestricted	<u>2,638,149</u>
Total net assets	<u>\$ 21,162,894</u>

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

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Program Revenues			Net (Expenses)
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Totals
Functions/Programs				
Governmental activities				
General government	\$ 3,479,333	\$ 2,738,898	\$ 127,200	\$ (613,235)
Public safety	5,494,708	-	144,012	(5,350,696)
Highways and streets	1,310,683	39,185	1,426,688	155,190
Culture and recreation	2,363,897	-	-	(2,363,897)
Community development	1,235,985	-	-	(1,235,985)
Interest on long-term debt	1,576,842	4,302	-	(1,572,540)
Total governmental activities	<u>15,461,448</u>	<u>2,782,385</u>	<u>1,697,900</u>	<u>(10,981,163)</u>
Totals	<u>\$ 15,461,448</u>	<u>\$ 2,782,385</u>	<u>\$ 1,697,900</u>	<u>(10,981,163)</u>

General revenues	5,051,872
Taxes	1,905,770
Sales taxes	152,542
Property taxes	2,360,879
Franchise taxes	1,582,535
State revenue sharing	797,344
State sales tax revenue sharing	1,976,809
Auto lieu tax revenue sharing	79,706
Investment earnings	<u>13,907,457</u>
Other - not program	2,926,294
Total general revenues	<u>18,236,600</u>
Change in net assets	<u>\$ 21,162,894</u>
Net assets, beginning of year	-
Net assets, end of year	-

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	General	Excise Tax	General Obligation Debt Service	Eagle Mountain Debt Service	Municipal Property Corporation	Capital Projects	Nonmajor Governmental Funds	Totals
Assets								
Cash and equivalents	\$ 3,780,249	\$ 1,806,942	\$ 50,679	\$ 5,523,577	\$ 1,116,540	\$ -	\$ 1,502,498	\$ 13,780,485
Cash with paying agent	-	-	1,058,874	-	439,956	-	107,911	1,606,741
Accounts receivable	54,052	-	-	-	-	-	-	54,052
Taxes receivable	13,571	-	50,663	9,759	-	-	-	73,993
Intergovernmental receivable	802,979	-	-	-	-	-	114,540	917,519
Special assessments receivable	-	-	-	-	-	-	7,398	7,398
Due from other funds	-	105,462	-	-	-	-	223	105,685
Inventories	6,364	-	-	-	-	-	-	6,364
Prepaid items	70,104	-	-	-	-	-	1,456	71,560
Total assets	<u>\$ 4,727,319</u>	<u>\$ 1,912,404</u>	<u>\$ 1,160,216</u>	<u>\$ 5,533,336</u>	<u>\$ 1,556,496</u>	<u>\$ -</u>	<u>\$ 1,734,026</u>	<u>\$ 16,623,797</u>
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 309,104	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,004	\$ 409,108
Accrued wages and benefits	103,086	-	-	-	-	-	18,648	121,734
Interest payable	-	-	323,874	156,675	281,212	-	18,419	780,180
Intergovernmental payable	145,029	-	-	-	-	-	-	145,029
Due to other funds	105,462	-	-	-	-	-	223	105,685
Deferred revenue	-	-	37,109	10,948	-	-	7,398	55,455
Deposits payable	26,775	-	-	-	-	-	-	26,775
Due to developers	-	-	-	4,435,000	-	-	-	4,435,000
Matured debt principal payable	-	-	735,000	140,000	425,000	-	90,000	1,390,000
Total liabilities	<u>689,456</u>	<u>-</u>	<u>1,095,983</u>	<u>4,742,623</u>	<u>706,212</u>	<u>-</u>	<u>234,692</u>	<u>7,468,966</u>
Fund balances								
Unreserved	4,037,863	1,912,404	64,233	790,713	850,284	-	-	7,655,497
Unreserved, reported in nonmajor	-	-	-	-	-	-	390,333	390,333
Special revenue funds	-	-	-	-	-	-	10,150	10,150
Debt service funds	-	-	-	-	-	-	1,098,851	1,098,851
Capital projects funds	-	-	-	-	-	-	-	-
Total fund balances	<u>4,037,863</u>	<u>1,912,404</u>	<u>64,233</u>	<u>790,713</u>	<u>850,284</u>	<u>-</u>	<u>1,499,334</u>	<u>9,154,831</u>
Total liabilities and fund balances	<u>\$ 4,727,319</u>	<u>\$ 1,912,404</u>	<u>\$ 1,160,216</u>	<u>\$ 5,533,336</u>	<u>\$ 1,556,496</u>	<u>\$ -</u>	<u>\$ 1,734,026</u>	<u>\$ 16,623,797</u>

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

TOWN OF FOUNTAIN HILLS, ARIZONA
 RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
 GOVERNMENTAL FUNDS
 JUNE 30, 2003

Fund balances - total governmental funds	\$	9,154,831
Amounts reported for governmental activities in the statement of net assets are different because:		
Property taxes not collected within 60 days subsequent to fiscal year-end are deferred in the governmental funds.		55,455
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets		44,886,155
Less accumulated depreciation		<u>(4,243,215)</u>
Capital assets used in governmental activities		<u>40,642,940</u>
Other long-term assets are not available to pay for current-period expenditures and are not susceptible to accrual.		283,670
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
General obligation bonds		(12,585,000)
Revenue bonds		(11,430,000)
Special assessment debt with government commitment		(19,365)
Community facilities district bonds payable		(4,765,000)
Compensated absences		<u>(174,637)</u>
Net assets of governmental activities	\$	<u>21,162,894</u>

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General	Excise Tax	General Obligation Debt Service	Eagle Mountain Debt Service	Municipal Property Corporation	Capital Projects	Nonmajor Governmental Funds	Totals
Revenues								
Taxes								
Sales taxes	\$ 5,051,872	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,051,872
Property taxes	68,765	-	1,383,019	458,288	-	-	-	1,910,072
Franchise taxes	152,542	-	-	-	-	-	-	152,542
Intergovernmental	4,740,758	-	-	-	-	-	1,570,700	6,311,458
Fines and forfeitures	195,091	-	-	-	-	-	-	195,091
Licenses and permits	1,308,747	-	-	-	-	-	-	1,308,747
Charges for services	175,112	-	-	-	-	-	635,300	810,412
Rents and royalties	188,745	-	-	-	-	-	-	188,745
Contributions and donations	10,000	-	-	-	-	-	117,200	127,200
Special assessments	-	-	-	-	-	-	4,302	4,302
Investment earnings (loss)	(53,214)	7,880	-	(195,647)	-	2,216,180	1,610	1,976,809
Other	140,733	-	-	-	-	-	7,410	148,143
Total Revenues	<u>11,979,151</u>	<u>7,880</u>	<u>1,383,019</u>	<u>262,641</u>	<u>-</u>	<u>2,216,180</u>	<u>2,336,522</u>	<u>18,185,393</u>
Expenditures								
Current								
General government	3,225,928	-	-	50,000	-	12,239	30,407	3,318,574
Public safety	5,145,217	-	-	-	-	-	29,275	5,174,492
Highways and streets	-	-	-	-	-	-	1,198,080	1,198,080
Culture and recreation	1,791,368	-	-	-	-	-	24,048	1,815,416
Community development	1,215,387	-	-	-	-	-	-	1,215,387
Debt Service								
Principal retirement	-	-	735,000	140,000	425,000	-	93,228	1,393,228
Interest on long-term debt	-	-	648,347	322,425	566,433	2,397	37,240	1,576,842
Capital outlay	-	-	-	-	-	-	79,427	79,427
Total Expenditures	<u>11,377,900</u>	<u>-</u>	<u>1,383,347</u>	<u>512,425</u>	<u>991,433</u>	<u>14,636</u>	<u>1,491,705</u>	<u>15,771,446</u>
Excess (deficiency) of revenues over expenditures	<u>601,251</u>	<u>7,880</u>	<u>(328)</u>	<u>(249,784)</u>	<u>(991,433)</u>	<u>2,201,544</u>	<u>844,817</u>	<u>2,413,947</u>
Other financing sources (uses)								
Transfers in	1,256,178	2,511,936	125,713	-	1,841,717	-	246,000	5,981,544
Transfers out	(2,631,936)	(607,412)	-	-	-	(2,615,976)	(126,220)	(5,981,544)
Total other financing sources (uses)	<u>(1,375,758)</u>	<u>1,904,524</u>	<u>125,713</u>	<u>-</u>	<u>1,841,717</u>	<u>(2,615,976)</u>	<u>119,780</u>	<u>-</u>
Net change in fund balances	<u>(774,507)</u>	<u>1,912,404</u>	<u>125,385</u>	<u>(249,784)</u>	<u>850,284</u>	<u>(414,432)</u>	<u>964,597</u>	<u>2,413,947</u>
Fund balances, beginning of year	<u>4,812,370</u>	<u>-</u>	<u>(61,152)</u>	<u>1,040,497</u>	<u>-</u>	<u>414,432</u>	<u>534,737</u>	<u>6,740,884</u>
Fund balances, end of year	<u>\$ 4,037,863</u>	<u>\$ 1,912,404</u>	<u>\$ 64,233</u>	<u>\$ 790,713</u>	<u>\$ 850,284</u>	<u>\$ -</u>	<u>\$ 1,499,334</u>	<u>\$ 9,154,831</u>

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

TOWN OF FOUNTAIN HILLS, ARIZONA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds \$ 2,413,947

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

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

Expenditures for capital assets	31,857
Less current year depreciation	<u>(1,145,159)</u>
Excess capital expenditures over depreciation	<u>(1,113,302)</u>

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

Court fines	202,349
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long-term debt in the statement of activities.

Principal payments on long-term debt	1,393,228
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Net increase in compensated absences	100,989
Bad debt expense	<u>(70,917)</u>

Change in net assets of governmental activities	<u>\$ 2,926,294</u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF FOUNTAIN HILLS, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Taxes	\$ 4,430,000	\$ 5,273,179	\$ 843,179
Intergovernmental	5,358,000	4,740,758	(617,242)
Fines and forfeitures	260,000	195,091	(64,909)
Licenses and permits	870,000	1,308,747	438,747
Charges for services	205,000	175,112	(29,888)
Rents and royalties	136,600	188,745	52,145
Contributions and donations	-	10,000	10,000
Investment earnings (loss)	150,000	(53,214)	(203,214)
Other	47,000	140,733	93,733
Total Revenues	<u>11,456,600</u>	<u>11,979,151</u>	<u>522,551</u>
Expenditures			
Current			
General government			
Mayor and Town Council	64,660	66,272	(1,612)
Magistrate Court	327,470	278,915	48,555
General and Administrative	3,332,955	2,851,202	481,753
Undesignated Reserves	859,793	-	859,793
Contingency	47,500	29,539	17,961
Total general government	<u>4,632,378</u>	<u>3,225,928</u>	<u>1,406,450</u>
Public safety			
Building Safety	501,700	379,880	121,820
Town Marshal	2,658,380	2,440,402	217,978
Fire Department	2,361,270	2,324,935	36,335
Total public safety	<u>5,521,350</u>	<u>5,145,217</u>	<u>376,133</u>
Culture and recreation			
Parks and Recreation	727,850	620,752	107,098
Desert Vista Park	49,800	42,143	7,657
Golden Eagle Park	310,190	278,334	31,856
Fountain Park	359,300	288,854	70,446
Four Peaks/Palisades Court	126,330	110,359	15,971
Civic Center	660,704	450,926	209,778
Total culture and recreation	<u>2,234,174</u>	<u>1,791,368</u>	<u>442,806</u>
Community development			
Community Development	409,510	272,798	136,712
Engineering Department	1,205,200	942,589	262,611
Total community development	<u>1,614,710</u>	<u>1,215,387</u>	<u>399,323</u>
Total Expenditures	<u>14,002,612</u>	<u>11,377,900</u>	<u>2,624,712</u>
Excess (deficiency) of revenues over expenditures	<u>(2,546,012)</u>	<u>601,251</u>	<u>3,147,263</u>
Other financing sources (uses)			
Transfers in	1,137,300	1,256,178	118,878
Transfers out	(1,075,000)	(2,631,936)	(1,556,936)
Total other financing sources (uses)	<u>62,300</u>	<u>(1,375,758)</u>	<u>(1,438,058)</u>
Net change in fund balances	(2,483,712)	(774,507)	1,709,205
Fund balances, beginning of year	<u>2,483,712</u>	<u>4,812,370</u>	<u>2,328,658</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 4,037,863</u>	<u>\$ 4,037,863</u>

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

TOWN OF FOUNTAIN HILLS, ARIZONA
 EXCISE TAX FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Investment earnings	\$ -	\$ 7,880	\$ 7,880
Total Revenues	<u>-</u>	<u>7,880</u>	<u>7,880</u>
Expenditures			
Current			
General government	1,822,700	-	1,822,700
Total Expenditures	<u>1,822,700</u>	<u>-</u>	<u>1,822,700</u>
Excess (deficiency) of revenues over expenditures	<u>(1,822,700)</u>	<u>7,880</u>	<u>1,830,580</u>
Other financing sources (uses)			
Transfers in	1,075,000	2,511,936	1,436,936
Transfers out	<u>(605,000)</u>	<u>(607,412)</u>	<u>(2,412)</u>
Total other financing sources (uses)	<u>470,000</u>	<u>1,904,524</u>	<u>1,434,524</u>
Net change in fund balances	(1,352,700)	1,912,404	3,265,104
Fund balances, beginning of year	<u>1,352,700</u>	<u>-</u>	<u>(1,352,700)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 1,912,404</u>	<u>\$ 1,912,404</u>

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

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TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Fountain Hills, Arizona (Town) have been prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Town's more significant accounting policies follows.

A. Reporting Entity

The Town is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying 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.

Included within the reporting entity:

The Eagle Mountain Community Facilities District and the Cottonwoods Improvement District. As special purpose districts and separate political subdivisions under the Arizona Constitution, the Districts can levy taxes and issue bonds independently of the Town. Property owners in the designated areas are assessed for District 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 Districts 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.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

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 and other items not properly 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

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 provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of general long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Funds.

Property taxes, intergovernmental grants and aid, and interest 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.

The *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.

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

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

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

The *Capital Projects Fund* accounts for the capital improvements to various projects of the Town.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

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

2. Receivables

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

Maricopa County levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. However, a lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

3. Short-term Interfund Receivables/Payables

During the course of operations, individual funds within the Town's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

4. Inventories and Prepaid Items

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

5. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year.

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

General infrastructure assets acquired prior to July 1, 2002 are not reported in the basic financial statements. Those assets will be transitioned in over the next four fiscal years in accordance with GASB Statement No. 34.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20 years
Infrastructure	50 years
Furniture, machinery and equipment	5 years
Vehicles	5 years

6. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Net Assets

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

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation 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.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

3. State law requires that, prior to April 1, the Economic Estimates commission provides the Town with a final expenditure limit for the coming fiscal year. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited general-purpose financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. By Arizona Constitution, expenditures may not legally exceed the expenditure limitation described below of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
5. Legal budgets are adopted for the General, Special Revenue, Debt Service and Capital Projects Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

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

No supplementary budgetary appropriations were necessary during the year.

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Mayor and Town Council	\$ 1,612
Municipal Property Corporation Fund	6,433
HURF Debt Service Fund	223

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

C. Deficit Fund Equity

A deficit fund balance in the amount of \$223 was reported in the HURF Debt Service Fund. The deficit was due to unexpended fiscal charges. The Town plans to transfer additional funds from the HURF Fund in the upcoming fiscal year to cover the deficit.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Change in Accounting Policy

The Town implemented GASB 34 for the fiscal year ended June 30, 2003. The following adjustments were made in order to properly state beginning net assets using the full accrual method of accounting.

Fund balances at June 30, 2002, governmental fund types	\$ 6,740,884
GASB Statement No. 34 adjustments:	
Deferred property tax revenue - prior years	59,756
Net capital assets	41,756,242
Accounts receivable - court	147,936
General obligation bonds	(13,410,000)
Revenue bonds	(11,855,000)
Special assessment debt with government commitment	(22,592)
Community facilities district bonds payable	(4,905,000)
Compensated absences	<u>(275,626)</u>
Net assets of governmental funds at July 1, 2002	<u>\$ 18,236,600</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

B. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2003 consist of the following:

Deposits	
Cash on hand	\$ 1,360
Cash in bank	439,449
Cash on deposit with paying agent	1,606,741
Investments	
Money Market Mutual Fund	90,775
U.S. Government Securities	19,365
State Treasurer's Investment Pool	6,589,915
Cash on deposit with trustee	<u>6,639,621</u>
Total cash and investments	15,387,226
Cash on deposit with paying agent	<u>(1,606,741)</u>
Total cash and equivalents	<u>\$ 13,780,485</u>

Deposits - The Town's deposits at June 30, 2003, were entirely covered by federal depository insurance or by collateral held by the Town's custodial bank in the Town's name.

Investments - The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. In addition, the money market mutual fund is not subject to custodial credit risk. All other investments of the Town are uninsured and unregistered with the securities held by the counter party's trust department or agent in the Town's name.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

2. Receivables

Court fines are recorded net of uncollectible amounts in the government-wide statements but are not recorded as a receivable in the fund statements because they do not meet the revenue recognition criteria for the modified accrual basis of accounting. The total receivable at June 30, 2003 was \$354,587, which was reduced by \$70,917 for uncollectible amounts for a net receivable balance at June 30, 2003 of \$283,670.

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 and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivables (General Obligation Debt Service Fund)	\$ 37,109	\$ -
Delinquent property taxes receivables (Eagle Mountain Debt Service Fund)	10,948	-
Special assessments receivables (Nonmajor funds)	<u>7,398</u>	<u>-</u>
	<u>\$ 55,455</u>	<u>\$ -</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

3. Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ <u>23,571,668</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>23,571,668</u>
Total capital assets, not being depreciated	<u>23,571,668</u>	<u>-</u>	<u>-</u>	<u>23,571,668</u>
Capital assets being depreciated:				
Building and improvements	10,080,070	-	-	10,080,070
Improvements other than buildings	8,491,441	31,857	(1,031,377)	7,491,921
Infrastructure	397,976	-	-	397,976
Furniture, machinery and equipment	1,518,647	-	-	1,518,647
Vehicles	<u>1,825,873</u>	<u>-</u>	<u>-</u>	<u>1,825,873</u>
Total capital assets being depreciated	<u>22,314,007</u>	<u>31,857</u>	<u>(1,031,377)</u>	<u>21,314,487</u>
Less accumulated depreciation for:				
Building and improvements	(360,067)	(205,052)	-	(565,119)
Improvements other than buildings	(2,437,233)	(374,596)	1,031,377	(1,780,452)
Infrastructure	(12,795)	(7,960)	-	(20,755)
Furniture, machinery and equipment	(597,771)	(192,376)	-	(790,147)
Vehicles	<u>(721,567)</u>	<u>(365,175)</u>	<u>-</u>	<u>(1,086,742)</u>
Total accumulated depreciation	<u>(4,129,433)</u>	<u>(1,145,159)</u>	<u>1,031,377</u>	<u>(4,243,215)</u>
Total capital assets, being depreciated, net	<u>18,184,574</u>	<u>(1,113,302)</u>	<u>-</u>	<u>17,071,272</u>
Governmental activities capital assets, net	<u>\$ 41,756,242</u>	<u>\$ (1,113,302)</u>	<u>\$ -</u>	<u>\$ 40,642,940</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 118,920
Public safety	365,146
Highways and streets	116,802
Culture and recreation	<u>544,291</u>
Total depreciation expense-governmental activities	<u>\$ 1,145,159</u>

C. Interfund Receivables, Payables and Transfers

As of June 30, 2003 interfund receivable and payables were as follows:

Due To	Due From		
	General Fund	Nonmajor	Total
Excise Tax Fund	\$ 105,462	\$ -	\$ 105,462
Nonmajor Funds	<u>-</u>	<u>223</u>	<u>223</u>
	<u>\$ 105,462</u>	<u>\$ 223</u>	<u>\$ 105,685</u>

The above interfund receivables and payables are due to monthly sales tax allocations owed by the General Fund to the Excise Tax Fund and a deficit cash balance at year-end in a nonmajor fund.

Interfund transfers for the year ended June 30, 2003 consisted of the following:

Transfers To	Transfers From				
	General Fund	Excise Tax	Capital Projects	Nonmajor	Total
General Fund	\$ -	\$ -	\$ 1,255,958	\$ 220	\$ 1,256,178
Excise Tax	2,511,936	-	-	-	2,511,936
GO Debt Service	-	-	125,713	-	125,713
MPC	-	607,412	1,234,305	-	1,841,717
Nonmajor	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>126,000</u>	<u>246,000</u>
	<u>\$ 2,631,936</u>	<u>\$ 607,412</u>	<u>\$ 2,615,976</u>	<u>\$ 126,220</u>	<u>\$ 5,981,544</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

The Capital Projects Fund recovered \$2.1M from an investment made by the trustee for the Municipal Property Corporation (MPC). A portion of the recovery was transferred to reimburse the General Fund for the cost to complete the capital project that was to be constructed with bond proceeds. The remainder was transferred to the MPC for future debt payments. Residual proceeds from a general obligation bond for land preservation were transferred to debt service to retire the debt. During the 2002-03 fiscal year, local sales tax receipts were recorded in the General Fund which included a dedication portion that was transferred to the Excise Tax Fund. In future years the dedicated portion of the local sales tax will be recorded directly into the Excise Tax Fund. The General Fund recorded a donation that was restricted for furniture, fixtures and equipment for the new community center. This was transferred from the General Fund to a special revenue fund for that purpose. The nonmajor transfer of \$126,000 was a transfer from HURF to HURF Debt Service for the annual payment on HURF revenue bonds.

D. Obligations Under Leases

Operating Lease

The Town leases office space under the provisions of a long-term lease agreement classified as an operating lease. Rental expenditures under the terms of the operating lease totaled \$375,247 for the year ended June 30, 2003. The operating lease term is on a month-to-month basis.

E. Long-term Obligations

The Town has long-term bonds and loans payable issued to provide funds for the acquisition and construction of major capital facilities. The Town has also issued debt to refund earlier obligations with higher interest rates. The debt is being repaid by various debt service funds. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

Special Assessment districts are created only by petition of the Town Council by property owners within the District areas. The Cottonwoods Improvement District was created so the Town could fund the improvements. Each of the 54 homeowners within the District has been assessed taxes by the Town for repayment of the bond. In case of default, the Town has the responsibility to cover delinquencies of special assessment bonds with other sources until foreclosure proceeds are received.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

Community facilities districts (CFDs) are created only by petition to the Town Council by property owners within the District areas. As board of directors for the District, the Town Council has adopted a formal policy that CFD debt will be permitted only when the ratio of full cash value of the District property (prior to improvements being installed), when compared to proposed District debt, is a minimum of 3 to 1 prior to issuance of debt and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the District and administered by the Town. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the Town's secondary assessed valuation.

Changes in long-term obligations for the year ended June 30, 2003 are as follows:

	<u>July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2003</u>	<u>Due within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 13,410,000	\$ -	\$ (825,000)	\$ 12,585,000	\$ 845,000
Revenue bonds	11,855,000	-	(425,000)	11,430,000	425,000
Special assessment debt with government commitment	22,592	-	(3,227)	19,365	3,228
Community facilities district bonds payable	4,905,000	-	(140,000)	4,765,000	150,000
Compensated absences	<u>275,626</u>	<u>397,697</u>	<u>(498,686)</u>	<u>174,637</u>	<u>61,376</u>
	<u>\$ 30,468,218</u>	<u>\$ 397,697</u>	<u>\$ (1,891,913)</u>	<u>\$ 28,974,002</u>	<u>\$ 1,484,604</u>

Debt service requirements on long-term debt at June 30, 2003 are as follows:

Year Ending <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 1,423,228	\$ 1,489,640
2005	1,508,228	1,419,829
2006	1,583,228	1,344,319
2007	1,673,227	1,265,927
2008	1,788,227	1,182,207
2009-13	8,638,227	4,596,441
2014-18	7,735,000	2,473,668
2019-23	<u>4,450,000</u>	<u>461,006</u>
	<u>\$ 28,799,365</u>	<u>\$ 14,233,037</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

NOTE 4 - OTHER INFORMATION

A. Risk Management

The Town of Fountain Hills, Arizona, 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 Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has the authority to assess its members additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

The Town is also insured by Arizona Municipal Workers Compensation Fund for potential worker related accidents.

B. Contingent Liabilities

Accumulated Sick Leave - Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and, therefore, are not accrued. Unvested accumulated sick leave of Town employees at June 30, 2003, totaled \$293,731.

Lawsuits - The Town is a defendant in various lawsuits. In the opinion of the Town's attorney the outcome of these lawsuits is not presently determinable.

C. Retirement Plans

Defined Contribution Pension Plan

All full-time employees of the Town, except participants in the Arizona Public Safety Personnel Retirement System, 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 the year ended June 30, 2003 was \$2,922,909. The Town's total payroll was \$3,950,930.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2003

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 participant's benefits that may be allocated to such participant's account. All non-peace officer full-time Town employees must participate in the pension plan from the date they are hired. Contributions made by an employee vest immediately and contributions made by the Town vest after three years of service.

An employee that leaves the employment of the Town is entitled to his or her contributions and the vested portion of the Town's contributions, plus interest earned. Each employee must contribute 11% of his or her gross earnings. The Town must contribute 11% of covered earnings. During fiscal year 2002-03, the Town's required and actual contributions amounted to \$321,520. The employees' contributions totaled \$321,520.

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 2002-03 or as of the close of the fiscal year.

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The Town contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The Town is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 10.71 percent of annual covered payroll.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2003

Annual Pension Cost - During the year ended June 30, 2002, the Town of Fountain Hill's annual pension cost of \$61,102 for police was equal to the Town of Fountain Hill's required and actual contributions.

The required contribution was determined as part of the June 30, 2001 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 9.0% per year compounded annually, (b) projected salary increases of 6.5% per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

The actuarial value of the Town of Fountain Hill's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Town of Fountain Hill's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2002, was 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

Three-Year Trend Information

Police

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2000	\$ 28,639	100.0 %	\$ -
2001	57,277	100.0	-
2002	61,102	100.0	-

Additional historical trend information for the Town's PSPRS is disclosed on page 56.

Historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

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Required Supplementary Information

TOWN OF FOUNTAIN HILLS, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
 PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS

Fountain Hills Police

Valuation Date <u>June 30,</u>	Actuarial Value of <u>Assets</u>	Entry Age Actuarial Accrued <u>Liability (AAL)</u>	Percent <u>Funded</u>	Over(Under) funded <u>AAL</u>	Annual Covered <u>Payroll</u>	Over(Under) funded AAL as a Percentage of Covered <u>Payroll</u>
1996	\$ 17,463	\$ 16,084	108.6 %	\$ 1,379	\$ 77,574	1.8 %
1997	54,809	48,512	113.0 %	6,297	216,163	2.9 %
1998	184,135	125,791	148.7 %	58,344	394,005	14.8 %
1999	258,664	263,285	98.2 %	(4,621)	412,182	(1.1)%
2000	375,860	401,167	93.7 %	(25,307)	556,445	(4.5)%
2001	562,905	409,913	137.3 %	152,992	639,753	23.9 %
2002	591,957	557,666	106.1 %	34,291	549,166	6.2 %

* Information prior to 1996 is not available.

**Combining and Individual Fund
Statements and Schedules**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Highway User Revenue Fund (HURF) - accounts for the Town's share of motor fuel tax revenues and lottery proceeds.

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

DEBT SERVICE FUNDS

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

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

CAPITAL PROJECTS FUND

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

TOWN OF FOUNTAIN HILLS, ARIZONA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2003

	Special Revenue			Debt Service			Capital Projects	Nonmajor Governmental Funds
	HURF	Grants	Total	HURF Debt Service	Cottonwoods Special Assessment	Total	Development Fees	
Assets								
Cash and equivalents	\$ 185,119	\$ 204,296	\$ 389,415	\$ -	\$ 10,881	\$ 10,881	\$ 1,102,202	\$ 1,502,498
Cash with paying agent	-	-	-	107,911	-	107,911	-	107,911
Receivables, net								
Intergovernmental receivable	114,540	-	114,540	-	-	-	-	114,540
Special assessments receivable	-	-	-	-	7,398	7,398	-	7,398
Due from other funds	223	-	223	-	-	-	-	223
Prepaid items	1,456	-	1,456	-	-	-	-	1,456
Total assets	<u>\$ 301,338</u>	<u>\$ 204,296</u>	<u>\$ 505,634</u>	<u>\$ 107,911</u>	<u>\$ 18,279</u>	<u>\$ 126,190</u>	<u>\$ 1,102,202</u>	<u>\$ 1,734,026</u>
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 94,872	\$ 1,781	\$ 96,653	\$ -	\$ -	\$ -	\$ 3,351	\$ 100,004
Accrued wages and benefits	18,648	-	18,648	-	-	-	-	18,648
Interest payable	-	-	-	17,911	508	18,419	-	18,419
Due to other funds	-	-	-	223	-	223	-	223
Deferred revenue	-	-	-	-	7,398	7,398	-	7,398
Matured debt principal payable	-	-	-	90,000	-	90,000	-	90,000
Total liabilities	<u>113,520</u>	<u>1,781</u>	<u>115,301</u>	<u>108,134</u>	<u>7,906</u>	<u>116,040</u>	<u>3,351</u>	<u>234,692</u>
Fund balances								
Unreserved	187,818	202,515	390,333	(223)	10,373	10,150	1,098,851	1,499,334
Total fund balances	<u>187,818</u>	<u>202,515</u>	<u>390,333</u>	<u>(223)</u>	<u>10,373</u>	<u>10,150</u>	<u>1,098,851</u>	<u>1,499,334</u>
Total liabilities and fund balances	<u>\$ 301,338</u>	<u>\$ 204,296</u>	<u>\$ 505,634</u>	<u>\$ 107,911</u>	<u>\$ 18,279</u>	<u>\$ 126,190</u>	<u>\$ 1,102,202</u>	<u>\$ 1,734,026</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Special Revenue			Debt Service			Capital Projects	Nonmajor Governmental Funds
	HURF	Grants	Total	HURF Debt Service	Cottonwoods Special Assessment	Total	Development Fees	
Revenues								
Intergovernmental	\$ 1,426,688	\$ 144,012	\$ 1,570,700	\$ -	\$ -	\$ -	\$ -	\$ 1,570,700
Charges for services	31,775	-	31,775	-	-	-	603,525	635,300
Contributions and donations	-	117,200	117,200	-	-	-	-	117,200
Special assessments	-	-	-	-	4,302	4,302	-	4,302
Investment earnings	298	-	298	-	179	179	1,133	1,610
Other	7,410	-	7,410	-	-	-	-	7,410
Total revenues	<u>1,466,171</u>	<u>261,212</u>	<u>1,727,383</u>	<u>-</u>	<u>4,481</u>	<u>4,481</u>	<u>604,658</u>	<u>2,336,522</u>
Expenditures								
Current								
General government	-	-	-	-	-	-	30,407	30,407
Public safety	-	29,275	29,275	-	-	-	-	29,275
Highways and streets	1,152,353	45,727	1,198,080	-	-	-	-	1,198,080
Culture and recreation	-	24,048	24,048	-	-	-	-	24,048
Debt Service								
Principal retirement	-	-	-	90,000	3,228	93,228	-	93,228
Interest on long-term debt	-	-	-	36,223	1,017	37,240	-	37,240
Capital outlay	-	79,427	79,427	-	-	-	-	79,427
Total expenditures	<u>1,152,353</u>	<u>178,477</u>	<u>1,330,830</u>	<u>126,223</u>	<u>4,245</u>	<u>130,468</u>	<u>30,407</u>	<u>1,491,705</u>
Excess (deficiency) of revenues over expenditures	<u>313,818</u>	<u>82,735</u>	<u>396,553</u>	<u>(126,223)</u>	<u>236</u>	<u>(125,987)</u>	<u>574,251</u>	<u>844,817</u>
Other financing sources (uses)								
Transfers in	-	120,000	120,000	126,000	-	126,000	-	246,000
Transfers out	(126,000)	(220)	(126,220)	-	-	-	-	(126,220)
Total other financing sources (uses)	<u>(126,000)</u>	<u>119,780</u>	<u>(6,220)</u>	<u>126,000</u>	<u>-</u>	<u>126,000</u>	<u>-</u>	<u>119,780</u>
Net change in fund balances	187,818	202,515	390,333	(223)	236	13	574,251	964,597
Fund balances, beginning of year	-	-	-	-	10,137	10,137	524,600	534,737
Fund balances, end of year	<u>\$ 187,818</u>	<u>\$ 202,515</u>	<u>\$ 390,333</u>	<u>\$ (223)</u>	<u>\$ 10,373</u>	<u>\$ 10,150</u>	<u>\$ 1,098,851</u>	<u>\$ 1,499,334</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
GENERAL OBLIGATION DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes			
Property taxes	\$ 1,250,000	\$ 1,383,019	\$ 133,019
Investment earnings	<u>2,650</u>	<u>-</u>	<u>(2,650)</u>
Total Revenues	<u>1,252,650</u>	<u>1,383,019</u>	<u>130,369</u>
Expenditures			
Current			
General government	101,250	-	101,250
Debt Service			
Principal retirement	735,000	735,000	-
Interest on long-term debt	<u>655,000</u>	<u>648,347</u>	<u>6,653</u>
Total Expenditures	<u>1,491,250</u>	<u>1,383,347</u>	<u>107,903</u>
Excess (deficiency) of revenues over expenditures	<u>(238,600)</u>	<u>(328)</u>	<u>238,272</u>
Other financing sources (uses)			
Transfers in	-	<u>125,713</u>	<u>125,713</u>
Total other financing sources (uses)	<u>-</u>	<u>125,713</u>	<u>125,713</u>
Net change in fund balances	(238,600)	125,385	363,985
Fund balances, beginning of year	<u>238,600</u>	<u>(61,152)</u>	<u>(299,752)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 64,233</u>	<u>\$ 64,233</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
 EAGLE MOUNTAIN DEBT SERVICE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes			
Property taxes	\$ 490,000	\$ 458,288	\$ (31,712)
Investment earnings (loss)	<u>-</u>	<u>(195,647)</u>	<u>(195,647)</u>
Total Revenues	<u>490,000</u>	<u>262,641</u>	<u>(227,359)</u>
Expenditures			
Current			
General government	-	50,000	(50,000)
Debt Service			
Principal retirement	140,000	140,000	-
Interest on long-term debt	<u>1,168,179</u>	<u>322,425</u>	<u>845,754</u>
Total Expenditures	<u>1,308,179</u>	<u>512,425</u>	<u>795,754</u>
Excess (deficiency) of revenues over expenditures	<u>(818,179)</u>	<u>(249,784)</u>	<u>568,395</u>
Net change in fund balances	(818,179)	(249,784)	568,395
Fund balances, beginning of year	<u>818,179</u>	<u>1,040,497</u>	<u>222,318</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 790,713</u>	<u>\$ 790,713</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
MUNICIPAL PROPERTY CORPORATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Expenditures			
Debt Service			
Principal retirement	\$ 425,000	\$ 425,000	\$ -
Interest on long-term debt	<u>560,000</u>	<u>566,433</u>	<u>(6,433)</u>
Total Expenditures	<u>985,000</u>	<u>991,433</u>	<u>(6,433)</u>
Excess (deficiency) of revenues over expenditures	<u>(985,000)</u>	<u>(991,433)</u>	<u>(6,433)</u>
Other financing sources (uses)			
Transfers in	<u>985,000</u>	<u>1,841,717</u>	<u>856,717</u>
Total other financing sources (uses)	<u>985,000</u>	<u>1,841,717</u>	<u>856,717</u>
Net change in fund balances	-	850,284	850,284
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 850,284</u>	<u>\$ 850,284</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
 CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Investment earnings	\$ 2,100,000	\$ 2,216,180	\$ 116,180
Total Revenues	<u>2,100,000</u>	<u>2,216,180</u>	<u>116,180</u>
Expenditures			
Current			
General government	-	12,239	(12,239)
Debt Service			
Interest on long-term debt	-	2,397	(2,397)
Capital outlay	<u>720,000</u>	<u>-</u>	<u>720,000</u>
Total Expenditures	<u>720,000</u>	<u>14,636</u>	<u>705,364</u>
Excess (deficiency) of revenues over expenditures	<u>1,380,000</u>	<u>2,201,544</u>	<u>821,544</u>
Other financing sources (uses)			
Transfers out	<u>(1,380,000)</u>	<u>(2,615,976)</u>	<u>(1,235,976)</u>
Total other financing sources (uses)	<u>(1,380,000)</u>	<u>(2,615,976)</u>	<u>(1,235,976)</u>
Net change in fund balances	-	(414,432)	(414,432)
Fund balances, beginning of year	<u>-</u>	<u>414,432</u>	<u>414,432</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
HURF FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental	\$ 1,420,000	\$ 1,426,688	\$ 6,688
Charges for services	20,000	31,775	11,775
Investment earnings	2,000	298	(1,702)
Other	-	7,410	7,410
Total Revenues	<u>1,442,000</u>	<u>1,466,171</u>	<u>24,171</u>
Expenditures			
Current			
Highways and streets	<u>1,565,006</u>	<u>1,152,353</u>	<u>412,653</u>
Total Expenditures	<u>1,565,006</u>	<u>1,152,353</u>	<u>412,653</u>
Excess (deficiency) of revenues over expenditures	<u>(123,006)</u>	<u>313,818</u>	<u>436,824</u>
Other financing sources (uses)			
Transfers in	249,000	-	(249,000)
Transfers out	<u>(126,000)</u>	<u>(126,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>123,000</u>	<u>(126,000)</u>	<u>(249,000)</u>
Net change in fund balances	(6)	187,818	187,824
Fund balances, beginning of year	<u>6</u>	<u>-</u>	<u>(6)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 187,818</u>	<u>\$ 187,818</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
 GRANTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental	\$ 940,900	\$ 144,012	\$ (796,888)
Contributions and donations	-	117,200	117,200
Total Revenues	<u>940,900</u>	<u>261,212</u>	<u>(679,688)</u>
Expenditures			
Current			
General government	750,000	-	750,000
Public safety	111,900	29,275	82,625
Highways and streets	75,000	45,727	29,273
Culture and recreation	124,000	24,048	99,952
Capital outlay	-	79,427	(79,427)
Total Expenditures	<u>1,060,900</u>	<u>178,477</u>	<u>882,423</u>
Excess (deficiency) of revenues over expenditures	<u>(120,000)</u>	<u>82,735</u>	<u>202,735</u>
Other financing sources (uses)			
Transfers in	120,000	120,000	-
Transfers out	-	(220)	(220)
Total other financing sources (uses)	<u>120,000</u>	<u>119,780</u>	<u>(220)</u>
Net change in fund balances	-	202,515	202,515
Fund balances, beginning of year	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ 202,515</u>	<u>\$ 202,515</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
HURF DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Expenditures			
Debt Service			
Principal retirement	\$ 90,000	\$ 90,000	\$ -
Interest on long-term debt	<u>36,000</u>	<u>36,223</u>	<u>(223)</u>
Total Expenditures	<u>126,000</u>	<u>126,223</u>	<u>(223)</u>
Excess (deficiency) of revenues over expenditures	<u>(126,000)</u>	<u>(126,223)</u>	<u>(223)</u>
Other financing sources (uses)			
Transfers in	<u>126,000</u>	<u>126,000</u>	<u>-</u>
Total other financing sources (uses)	<u>126,000</u>	<u>126,000</u>	<u>-</u>
Net change in fund balances	-	(223)	(223)
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ (223)</u>	<u>\$ (223)</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
 COTTONWOODS SPECIAL ASSESSMENT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Special assessments	\$ 4,500	\$ 4,302	\$ (198)
Investment earnings	<u>-</u>	<u>179</u>	<u>179</u>
Total Revenues	<u>4,500</u>	<u>4,481</u>	<u>(19)</u>
Expenditures			
Debt Service			
Principal retirement	3,228	3,228	-
Interest on long-term debt	<u>1,272</u>	<u>1,017</u>	<u>255</u>
Total Expenditures	<u>4,500</u>	<u>4,245</u>	<u>255</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>236</u>	<u>236</u>
Net change in fund balances	-	236	236
Fund balances, beginning of year	<u>-</u>	<u>10,137</u>	<u>10,137</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 10,373</u>	<u>\$ 10,373</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
DEVELOPMENT FEES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Charges for services	\$ 816,765	\$ 603,525	\$ (213,240)
Investment earnings	<u>59,450</u>	<u>1,133</u>	<u>(58,317)</u>
Total Revenues	<u>876,215</u>	<u>604,658</u>	<u>(271,557)</u>
Expenditures			
Current			
General government	<u>1,104,787</u>	<u>30,407</u>	<u>1,074,380</u>
Total Expenditures	<u>1,104,787</u>	<u>30,407</u>	<u>1,074,380</u>
Excess (deficiency) of revenues over expenditures	<u>(228,572)</u>	<u>574,251</u>	<u>802,823</u>
Other financing sources (uses)			
Transfers out	<u>(383,100)</u>	<u>-</u>	<u>383,100</u>
Total other financing sources (uses)	<u>(383,100)</u>	<u>-</u>	<u>383,100</u>
Net change in fund balances	(611,672)	574,251	1,185,923
Fund balances, beginning of year	<u>611,672</u>	<u>524,600</u>	<u>(87,072)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 1,098,851</u>	<u>\$ 1,098,851</u>

STATISTICAL SECTION

TOWN OF FOUNTAIN HILLS, ARIZONA
 GOVERNMENT-WIDE EXPENSES BY FUNCTION
 LAST TEN FISCAL YEARS
 (UNAUDITED)

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Highways and Streets</u>	<u>Culture and Recreation</u>	<u>Community Development</u>	<u>Interest on Long-term Debt</u>	<u>Totals</u>
2003	\$ 3,479,333	\$ 5,494,708	\$ 1,310,683	\$ 2,363,897	\$ 1,235,985	\$ 1,576,842	\$ 15,461,448

Note: 2002-03 was the Town's first year to prepare government-wide financial statements.

TOWN OF FOUNTAIN HILLS, ARIZONA
 GOVERNMENT-WIDE REVENUES
 LAST TEN FISCAL YEARS
 (UNAUDITED)

Fiscal Year	Program Revenues			General Revenues				Totals
	Fees, Fines and Charges for Services	Operating Grants and Contributions		Taxes	Revenue Sharing	Investment Earnings	Other	
2003	\$ 2,782,385	\$ 1,697,900		\$ 7,110,184	\$ 4,740,758	\$ 1,976,809	\$ 79,706	\$ 18,387,742

Note: 2002-03 was the Town's first year to prepare government-wide financial statements.

TOWN OF FOUNTAIN HILLS, ARIZONA
GENERAL GOVERNMENT EXPENDITURES BY FUNCTION (1)
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	General Government	Public Safety	Highways and Streets	Culture and Recreation	Community Development	Capital Outlay	Debt Service	Total
1994	\$ 1,007,100	\$ 745,141	\$ 509,943	\$ 288,784	\$ 308,905	\$ 743,302	\$ 509,952	\$ 4,113,127
1995	1,131,817	979,482	610,858	382,026	560,325	843,650	491,219	4,999,377
1996	1,617,365	1,241,694	1,687,403	1,196,115	821,796	578,099	524,553	7,667,025
1997	1,757,431	1,499,538	1,627,952	625,928	864,022	5,343,433	1,132,399	12,850,703
1998	1,964,427	2,074,441	2,020,450	1,471,559	947,251	1,352,936	799,941	10,631,005
1999	2,631,245	2,205,600	1,984,879	2,334,901	955,451	557,374	795,088	11,464,538
2000	2,528,953	3,059,020	2,468,498	3,359,509	1,276,951	1,787,469	924,014	15,404,414
2001	3,646,500	3,354,037	2,212,432	3,866,245	1,175,649	5,261,585	1,851,602	21,368,050
2002	3,859,633	5,084,532	1,877,790	3,069,695	1,064,913	14,770,507	2,903,116	32,630,186
2003	3,318,574	5,174,492	1,198,080	1,815,416	1,215,387	79,427	2,970,070	15,771,446

(1) Includes all governmental fund types.

TOWN OF FOUNTAIN HILLS, ARIZONA
GENERAL GOVERNMENT REVENUES BY SOURCE (1)
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Taxes	Inter-Governmental	Fines and Forfeitures	Licenses and Permits	Charges for Services	Rents and Royalties	Contributions and Donations	Special Assessment	Net Investment Income (Loss)	Other	Total
1994	\$ 488,434	\$ 2,542,928	\$ 163,886	\$ 829,046	\$ 109,461	\$ 24,723	\$ 24,410	\$ -	\$ 96,831	\$ 14,836	\$ 4,294,555
1995	468,503	2,896,271	171,675	1,346,134	358,657	21,228	20,000	-	150,357	10,263	5,443,088
1996	2,024,461	2,762,906	211,289	1,653,561	204,541	14,462	-	-	163,457	18,800	7,053,477
1997	3,101,787	3,988,424	209,485	1,770,347	419,976	14,170	1,500	-	464,633	19,477	9,989,799
1998	3,326,207	4,364,859	208,930	1,961,687	795,700	13,591	100,000	-	582,757	17,487	11,371,218
1999	3,861,337	4,929,062	259,484	2,472,215	624,744	18,140	-	14,524	620,639	25,657	12,825,802
2000	4,876,466	4,771,792	293,970	2,569,472	454,366	27,208	10,598	9,241	743,259	21,055	13,777,427
2001	6,088,047	5,281,156	310,359	2,177,614	431,316	35,781	400	7,958	(1,063,339)	10,957	13,280,249
2002	7,595,748	5,895,676	265,605	1,351,209	1,067,814	107,613	12,760	4,520	726,441	1,771,091	18,798,477
2003	7,114,486	6,311,458	195,091	1,308,747	810,412	188,745	127,200	4,302	1,976,809	148,143	18,185,393

(1) Includes all governmental fund types.

TOWN OF FOUNTAIN HILLS, ARIZONA
 GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE
 LAST TEN FISCAL YEARS
 (UNAUDITED)

<u>Fiscal Year</u>	<u>Sales Tax</u>	<u>Property Tax</u>	<u>Franchise Tax</u>	<u>Total</u>
1994	\$ -	\$ 393,654	\$ 94,780	\$ 488,434
1995	16,622	357,033	94,848	468,503
1996	1,610,116	336,000	78,345	2,024,461
1997	2,664,923	350,024	86,840	3,101,787
1998	2,920,084	302,375	103,748	3,326,207
1999	3,394,152	348,778	118,407	3,861,337
2000	4,087,514	657,026	131,926	4,876,466
2001	4,923,174	1,038,891	125,982	6,088,047
2002	4,355,701	3,109,353	130,694	7,595,748
2003	5,051,872	1,910,072	152,542	7,114,486

TOWN OF FOUNTAIN HILLS, ARIZONA
TOWN TRANSACTION PRIVILEGE (SALES) TAX COLLECTIONS
BY INDUSTRY CLASSIFICATION
FISCAL YEAR BASIS
(UNAUDITED)

Business Activity Category	2003 Excise Tax Collections	Percent of Total
Construction	\$ 1,203,706	24.8 %
Transportation/Utilities/Communication	590,446	12.2 %
Wholesale/Retail	1,930,175	39.8 %
Restaurants/Bars	276,664	5.7 %
Fire, Insurance and Real Estate	205,849	4.2 %
Services	455,324	9.4 %
All Other Services Not Specified	<u>188,654</u>	<u>3.9 %</u>
	<u>\$ 4,850,818</u>	<u>100.0 %</u>

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

Fiscal Year	(1) Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Tax Levy
1994	\$ 379,779	\$ 379,537	99.9 %	\$ 11	\$ 379,548	99.9 %	231	0.06 %
1995	339,832	339,605	99.9 %	4	339,609	99.9 %	223	0.07 %
1996	323,517	323,511	100.0 %	3	323,514	100.0 %	3	- %
1997	312,638	312,489	100.0 %	122	312,611	100.0 %	27	0.01 %
1998	268,917	261,704	97.3 %	7,213	268,917	100.0 %	-	- %
1999	248,607	235,953	94.9 %	12,653	248,606	100.0 %	1	- %
2000	444,138	432,965	97.5 %	11,170	444,135	100.0 %	3	- %
2001	699,006	676,682	96.8 %	22,242	698,924	100.0 %	82	0.01 %
2002	1,335,787	1,282,844	96.0 %	51,348	1,334,192	99.9 %	1,595	0.12 %
2003	1,378,862	1,329,929	96.5 %	-	1,329,929	96.5 %	48,933	3.55 %

(1) The amount levied and collected is net of resolutions and does not include component units.

Note 1: Amounts collected are on a cash basis rather than modified accrual basis as in the financial statements.

Note 2: Unsecured personal property taxes are not included in this schedule.

Source: The Maricopa County Treasurer's Office.

TOWN OF FOUNTAIN HILLS, ARIZONA
 ASSESSED AND ESTIMATED ACTUAL VALUE OF PROPERTY (1)
 LAST TEN FISCAL YEARS
 (UNAUDITED)

PRIMARY

Tax Year	Total Assessed Value	Exempt Amount	Total Full Cash Value	Estimated Actual Value	Net Assessed Value	Ratio of Total Assessed Value to Total Estimated Actual Value
1994	\$ 92,301,694	\$ 4,918,347	\$ 753,145,358	\$ 903,774,430	\$ 87,383,347	10.21 %
1995	99,271,154	5,082,517	826,917,659	992,301,191	94,288,637	10.00 %
1996	105,912,474	5,262,641	884,979,322	1,061,975,186	100,649,833	9.97 %
1997	118,888,547	6,602,978	1,002,546,459	1,203,055,751	112,285,569	9.88 %
1998	141,077,170	7,355,989	1,208,968,752	1,450,762,502	133,721,181	9.72 %
1999	170,258,614	9,255,978	1,467,193,748	1,760,632,498	161,002,636	9.67 %
2000	198,224,776	8,578,615	1,713,029,238	2,055,635,086	189,646,161	9.64 %
2001	232,442,986	12,213,849	1,997,525,319	2,397,030,383	220,229,137	9.70 %
2002	260,635,914	13,484,185	2,240,702,344	2,688,842,813	247,151,729	9.69 %
2003	299,743,562	16,942,705	2,565,522,177	3,078,626,612	282,800,857	9.74 %

SECONDARY

Tax Year	Total Assessed Value	Exempt Amount	Total Full Cash Value	Estimated Actual Value	Net Assessed Value	Ratio of Total Assessed Value to Total Estimated Actual Value
1994	\$ 94,047,575	\$ 5,250,741	\$ 764,582,686	\$ 917,499,223	\$ 88,796,834	10.25 %
1995	105,660,296	5,498,728	866,122,390	1,039,346,868	100,161,568	10.17 %
1996	109,463,361	5,519,310	906,495,406	1,087,794,487	103,944,051	10.06 %
1997	123,097,961	6,764,555	1,034,892,731	1,241,871,277	116,333,406	9.91 %
1998	155,729,430	8,785,700	1,317,946,863	1,581,536,236	146,943,730	9.85 %
1999	185,540,741	10,575,923	1,583,072,952	1,899,687,542	174,964,818	9.77 %
2000	221,922,165	9,894,702	1,889,016,352	2,266,819,622	212,027,463	9.79 %
2001	253,269,562	14,555,025	2,154,928,885	2,585,914,662	238,714,537	9.79 %
2002	287,891,481	17,288,615	2,418,235,666	2,901,882,799	270,602,866	9.92 %
2003	344,047,844	20,662,614	2,842,849,050	3,411,418,860	323,385,230	10.09 %

(1) Arizona uses two types of property values for taxing purposes. Primary values are used to calculate primary property taxes which are collected to fund the maintenance and operation of school districts, community college districts, counties, cities, and state government. Secondary values are used to pay off secondary property taxes which are collected for such things as debt service (bonds), budget overrides and special districts. Source: Arizona Department of Revenue.

TOWN OF FOUNTAIN HILLS, ARIZONA
 PRIMARY AND SECONDARY TAXABLE PROPERTY ASSESSED VALUATION
 LAST TEN FISCAL YEARS
 (UNAUDITED)

<u>Tax Year</u>		<u>Assessed Valuation Town of Fountain Hills</u>	<u>Assessed Valuation Fountain Hills School District</u>	<u>Assessed Valuation Maricopa County</u>	<u>Assessed Valuation State of Arizona</u>
1994	P	\$ 87,383,347	\$ 87,353,865	\$ 13,296,003,025	\$ 21,349,754,194
	S	88,796,834	89,208,873	13,504,107,816	21,748,040,198
1995	P	94,188,637	88,978,760	13,302,326,609	21,688,438,645
	S	100,161,568	90,394,390	13,521,174,915	22,179,317,949
1996	P	100,649,833	95,155,307	13,493,736,826	22,109,868,588
	S	103,944,051	101,137,745	14,119,434,946	23,022,330,962
1997	P	112,285,569	101,573,954	13,975,668,204	22,811,158,500
	S	116,333,406	104,881,097	14,343,156,861	23,333,678,475
1998	P	133,721,181	113,072,537	15,006,270,531	21,001,064,273
	S	146,943,730	117,144,929	15,723,498,194	22,333,861,362
1999	P	190,102,361	134,650,036	17,463,875,533	21,670,300,013
	S	212,415,476	147,884,952	18,676,830,848	22,533,348,150
2000	P	189,646,161	191,579,669	19,362,298,255	22,645,463,514
	S	212,027,463	214,037,354	20,877,715,546	23,547,348,817
2001	P	220,229,137	192,200,924	19,603,718,629	30,144,285,019
	S	238,714,537	214,726,796	21,138,917,389	32,071,738,214
2002	P	247,151,729	223,185,771	21,355,326,477	32,518,431,991
	S	270,602,866	242,086,985	22,913,134,480	34,468,574,240
2003	P	282,800,857	288,969,887	25,447,850,971	34,868,596,227
	S	323,385,230	331,458,411	27,477,987,528	36,825,660,973

P = Primary assessed valuation
 S = Secondary assessed valuation

Source: Maricopa County and Arizona Tax Research Foundation.

TOWN OF FOUNTAIN HILLS, ARIZONA
PROPERTY TAX RATES FOR ALL
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Arizona	Community College	Fountain Hills School District	East Valley Inst. of Tech District	Fire District Royalties	Sanitary District	Road District	Flood Control District	Library District	Volunteer Fire District	Central Arizona Project	Town of Fountain Hills
1994	0.4700	0.8532	6.7878	0.0705	0.9040	2.1183	0.7350	0.3632	0.0417	0.0104	0.1400	0.4337
1995	0.4700	0.8934	7.1976	0.0554	0.9781	1.9097	0.5624	0.3632	0.0417	0.0107	0.1400	0.3852
1996	0.4700	1.1130	7.6367	0.0693	0.9397	1.8590	0.2626	0.3332	0.0099	0.0108	0.1400	0.3192
1997	-	1.0476	7.1501	0.1616	0.9826	1.8983	0.3186	0.3425	0.0421	0.0109	0.1400	0.3036
1998	-	1.1346	7.2466	0.1216	1.0407	1.6619	0.1806	0.3425	0.0421	0.0105	0.1400	0.2330
1999	-	1.1125	7.2134	0.1320	0.9482	1.9394	0.0370	0.3270	0.0421	0.0103	0.1400	0.1699
2000	-	1.1285	6.2969	0.1217	0.8933	1.8315	-	0.2858	0.0421	0.0096	0.1400	0.2578
2001	-	1.4557	6.3373	0.1120	0.9739	2.0515	-	0.2319	0.0421	0.0091	0.1300	0.5605
2002	-	1.6016	6.3373	0.1117	-	1.2948	-	0.2119	0.0421	0.0076	0.1300	1.5344
2003	-	1.0785	5.7025	0.0976	-	1.1527	-	0.2119	0.0521	0.0070	0.1200	0.4762

TOWN OF FOUNTAIN HILLS, ARIZONA
 PRIMARY AND SECONDARY PROPERTY TAX RATES -
 ALL OVERLAPPING GOVERNMENTS
 LAST TEN FISCAL YEARS
 (UNAUDITED)

<u>Fiscal Year</u>		<u>Rate Town</u>	<u>Rate School District</u>	<u>Rate County</u>	<u>Rate State</u>	<u>Rate Total</u>
1994	P	-	5.03	1.58	0.47	7.08
	S	0.43	1.76	0.19	-	2.38
1995	P	-	5.50	1.77	0.47	7.74
	S	0.39	1.69	-	-	2.08
1996	P	-	4.96	1.69	0.47	7.12
	S	0.32	2.67	0.15	-	3.14
1997	P	-	4.98	1.64	-	6.62
	S	0.30	2.17	0.16	-	2.63
1998	P	-	4.89	1.68	-	6.57
	S	0.23	2.32	0.13	-	2.68
1999	P	-	3.89	1.19	-	5.08
	S	0.17	1.96	0.11	-	2.24
2000	P	-	3.91	1.16	-	5.07
	S	0.26	2.38	0.12	-	2.76
2001	P	-	4.09	1.18	-	5.27
	S	0.56	2.25	0.09	-	2.90
2002	P	0.97 *	4.33	1.68	-	6.98
	S	0.56	2.00	0.09	-	2.65
2003	P	-	3.56	1.21	-	4.77
	S	0.48	2.14	0.07	-	2.69

P = Primary assessed valuation
 S = Secondary assessed valuation

Source: Maricopa County and Arizona Tax Research Foundation.

* The primary tax rate represents the Fountain Hills Fire District and is included with the Town because the Town took over operations in November 2001.

TOWN OF FOUNTAIN HILLS, ARIZONA
 ASSESSED VALUATION OF MAJOR TAXPAYERS
 JUNE 30, 2003
 (UNAUDITED)

Taxpayer	Land Description	2002/03 Assessed Valuation	As % of Town's Total Secondary Assessed Valuation
Firerock LLC	Vacant Land	\$ 4,045,273	1.25 %
Qwest Corporation	TV Systems	3,385,045	1.05 %
MCO Properties	Vacant Land	3,079,071	0.95 %
Chaparral Town Water Company	Water Utility	2,931,751	0.91 %
Fountain Hills Village LLC	Nursing Home	1,947,937	0.60 %
Target Corporation	Shopping Center	1,481,678	0.46 %
Cox Communications	TV Systems	1,404,400	0.43 %
Four Peaks Limited Partnership	Condominiums	1,353,366	0.42 %
Fountain Hills-Old Vine LP	Shopping Center	928,888	0.29 %
Sun Tech Development	Condominiums	895,446	0.28 %
Kimco Barclay Fountain Hills	Shopping Center	859,491	0.27 %
Safeway Inc. #1291	Shopping Center	857,444	0.27 %
Inn at Eagle Mountain LLC	Hotel	853,886	0.26 %
Southwest Gas	Gas & Electric	<u>840,795</u>	<u>0.26 %</u>
		<u>\$ 24,864,471</u>	<u>7.70 %</u>

Source: Treasurer of Maricopa County.

TOWN OF FOUNTAIN HILLS, ARIZONA
 COMPUTATION OF LEGAL DEBT MARGIN
 JUNE 30, 2003
 (UNAUDITED)

Net secondary assessed valuation	\$ <u>323,385,230</u>
<u>Water, Sewer, Light, Parks, Open Space and Recreational Facility Boards</u>	
Debt limit - 20% of secondary net assessed valuation	\$ 64,677,046
Bonds outstanding	<u>9,825,000</u>
Net 20% General Obligation Bonding Capacity	<u>54,852,046</u>
<u>All Other General Obligation Bonds</u>	
Debt limit - 6% of secondary net assessed valuation	19,403,114
Bonds outstanding subject to debt limit	<u>2,760,000</u>
Net 6% General Obligation Bonding Capacity	<u>16,643,114</u>
Total 20% and 6% Bonding Capacity	\$ <u>71,495,160</u>

Source: Maricopa County Assessor's Office.

TOWN OF FOUNTAIN HILLS, ARIZONA
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE
AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Population</u>	<u>Net Secondary Assessed Valuation</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
1993-94	12,005	\$ 88,796,834	\$ 4,292,389	4.83 %	\$ 358
1994-95	13,100	100,161,566	4,144,881	4.14 %	316
1995-96	14,146	103,944,051	4,277,315	4.12 %	302
1996-97	15,220	116,333,406	4,056,473	3.49 %	267
1997-98	16,275	146,943,730	3,883,018	2.64 %	239
1998-99	18,015	212,415,476	3,913,952	1.84 %	217
1999-00	18,595	212,027,463	8,677,053	4.09 %	467
2000-01	20,235 *	238,714,537	8,209,873	3.44 %	406
2001-02	20,235	270,602,866	13,410,000	4.96 %	663
2002-03	21,740	323,385,230	12,585,000	3.89 %	579

* Year 2000 U.S. Census

TOWN OF FOUNTAIN HILLS, ARIZONA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES
TO TOTAL GENERAL EXPENDITURES
LAST TEN FISCAL YEARS
(UNAUDITED)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest and Fiscal Charges</u>	<u>Bond Issuance Cost</u>	<u>Total Debt Service</u>	<u>Total Expenditures (*)</u>	<u>Ratio of Debt Service to Total Expenditures</u>
1993-94	\$ 125,000	\$ 340,493	\$ -	\$ 465,493	\$ 4,113,127	11.32 %
1994-95	125,000	327,463	-	452,463	4,999,377	9.05 %
1995-96	209,193	208,477	-	417,670	7,667,025	5.45 %
1996-97	222,321	247,311	-	469,632	12,850,703	3.65 %
1997-98	245,210	554,731	-	799,941	10,631,005	7.52 %
1998-99	223,024	517,696	54,368	795,088	11,464,538	6.94 %
1999-00	339,013	585,001	-	924,014	15,404,414	6.00 %
2000-01	620,408	1,086,208	144,986	1,851,602	21,368,050	8.67 %
2001-02	1,229,215	1,372,965	300,936	2,903,116	32,630,186	8.90 %
2002-03	1,393,228	1,576,842	-	2,970,070	15,771,446	18.83 %

(*) Includes all Governmental Fund Types.

TOWN OF FOUNTAIN HILLS, ARIZONA
 DIRECT AND OVERLAPPING GENERAL OBLIGATION BONDED DEBT
 JUNE 30, 2003
 (UNAUDITED)

Overlapping Jurisdiction	2001-02 Net Secondary Assessed Valuation (1)	Net Outstanding General Obligation Bonded Debt	Proportion Applicable to Town of Fountain Hills	
			Approximate Percent	Net Debt Amount
State of Arizona	\$ 34,468,574,240	\$ -	0.69 %	\$ -
Maricopa County	22,913,134,480	58,205,000	0.98 %	570,409
Maricopa County Community College District	22,913,134,480	305,750,000	0.98 %	2,996,350
Fountain Hills Unified School District No. 98	242,086,985	35,305,000	85.94 %	30,341,117
East Valley Institute of Technology District No. 401	11,006,145,846	22,805,000	2.17 %	494,869
Fountain Hills Sanitary District	261,895,487	5,220,000	100.00 %	5,220,000
Fountain Hills Fire District	-	-	100.00 %	-
Fountain Hills Road District	-	-	100.00 %	-
Town of Fountain Hills	270,602,866	13,410,000	100.00 %	<u>13,410,000</u>
Total Direct and Overlapping General Obligation Bonded Debt				\$ <u>53,032,745</u>

(1) 2001-02 is the most recent information available.

Source: Maricopa County Treasurer's Office.

TOWN OF FOUNTAIN HILLS, ARIZONA
 MARICOPA COUNTY ECONOMIC INDICATORS
 LAST TEN CALENDAR YEARS
 (UNAUDITED)

<u>Year</u>	<u>Housing Starts</u>	<u>Value of Building Permits (in Thousands)</u>			
		<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Other</u>
1993	24,147	\$ 2,432,682	\$ 547,667	\$ 50,139	\$ 499,052
1994	33,862	3,203,144	959,539	145,310	584,029
1995	37,091	3,199,942	1,043,978	413,835	782,609
1996	39,630	3,508,538	1,422,483	788,083	1,079,458
1997	43,013	3,943,544	1,840,334	233,598	1,133,069
1998	47,801	4,778,571	2,230,445	378,141	1,101,269
1999	47,106	5,142,869	1,878,629	210,676	1,092,337
2000	42,205	4,774,188	2,144,767	253,472	1,493,186
2001	43,732	5,088,241	2,256,850	345,985	1,641,521
2002	45,783	5,750,850	1,620,722	86,044	1,231,003

Source: Arizona Real Estate Center, College of Business, Arizona State University.

TOWN OF FOUNTAIN HILLS, ARIZONA
 MISCELLANEOUS STATISTICAL DATA
 JUNE 30, 2003
 (UNAUDITED)

DATE OF INCORPORATION	December 5, 1989
FORM OF GOVERNMENT	Council - Manager
NUMBER OF EMPLOYEES (no police and fire)	
Classified - Full time	59
Classified - Part time	18
Exempt	21
AREA	18.27 sq. miles
TOWN OF FOUNTAIN HILLS FACILITIES AND SERVICES	
Miles of Street	
Surfaced	178.5
Unsurfaced	2
Population (estimated)	20,235
Housing Units	11,601
Building Permits Issued	897
Culture and Recreation	
Community Centers	1
Parks	4
Park acreage	121
Tennis courts	6
Senior center	1
FACILITIES AND SERVICES NOT INCLUDED IN PRIMARY GOVERNMENT	
Fire Protection:	
Number of stations	2
Number of fire personnel and officers	26
Number of calls answered	2,670
Number of inspections conducted	3,177
Police Protection:	Contracted
Number of stations	1
Number of police personnel and officers	29
Number of patrol units	9
Number of law violations	
Physical arrests	601
Traffic/Parking violations	3,186
Sewerage System:	Special District
Miles of sanitary sewers	200
Number of treatment plants	1
Number of service connections	10,916
Daily average treatment in gallons	1.7mgd
Maximum daily capacity of treatment plant in gallons	2.6mgd
Water System:	Private
Miles of water mains	178
Number of service connections	11,448
Number of hydrants	1,217
Daily average consumption in gallons	4.4mgd
Maximum daily capacity of plant in gallons	11,570,000
Education:	
Number of elementary schools	3
Number of secondary schools	1
Number of students - Primary	1,658
Number of Students - Secondary	833

Source: Town government offices and related districts.

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