



TOWN OF FOUNTAIN HILLS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Mr. Wallace J. Nichols
Mayor

Councilmembers

Mr. Jay Schlum
Vice Mayor

Mr. Mike Archambault

Dr. John Kavanagh

Mr. Edwin Kehe

Mr. Keith McMahan

Timothy G. Pickering, CEcD, ICMA-CM
Town Manager

Julie A. Ghetti, CPA
Finance Director

Prepared by:
Financial Services Department

TOWN OF FOUNTAIN HILLS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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INTRODUCTORY SECTION

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Town of FOUNTAIN HILLS

September 26, 2005

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

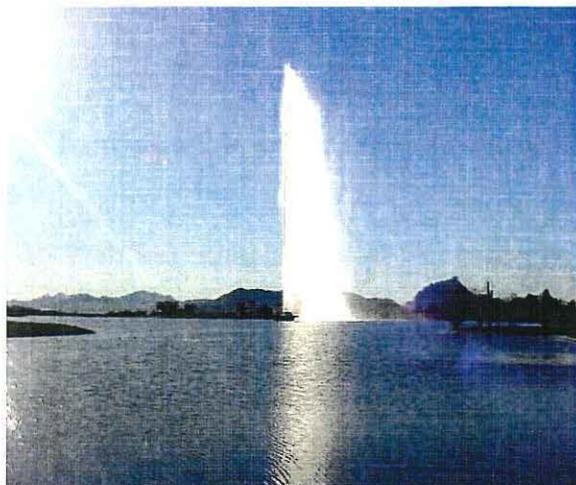
State law requires that all general-purpose local governments publish within 120 days of the close of each fiscal year a complete set of financial statements presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with Generally Accepted Auditing Standards (GAAS) by a firm of licensed certified public accountants. The Comprehensive Annual Financial Report (CAFR) of the Town of Fountain Hills, Arizona (Town) for the fiscal year ended June 30, 2005, is hereby submitted. This document represents a joint effort by Town staff as well as our auditors, Cronstrom, Trbovich & Osuch, P.C.

This report consists of management's representations concerning the finances of the Town of Fountain Hills, Arizona. 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, Arizona 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's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's 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's financial statements have been audited by Cronstrom, Trbovich & Osuch, P.C., 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, Arizona for the fiscal year ended June 30, 2005, 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's financial statements for the fiscal year ended June 30, 2005, 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 requires 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, Arizona's 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.

Over the past fifteen years Fountain Hills has grown from 10,190 residents to a town of over 23,000 in 2005. 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 and lack of production home sites the Town continues to attract residents who are building large custom homes that take advantage of the scenic vistas surrounding its mountain community.

The Town offers a range of living styles, from small community subdivisions to a number of large custom homes. Fountain Hills also offers recreational, cultural and retirement programs that address the needs and lifestyles of active families and adults. The community consists of primarily residential property; of the total 11,700 acres of land only 500 acres are zoned commercial (approximately 4%) and 3,600 acres are reserved as open space (31%).

The Town's Mission Statement for the Organization

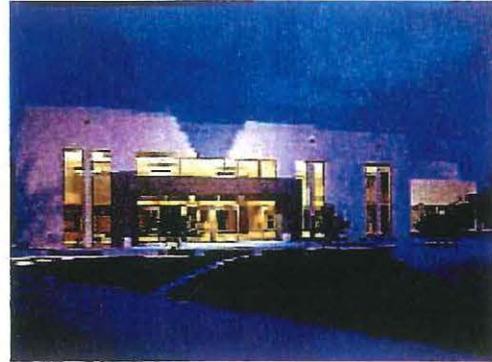
The Town of Fountain Hills' purpose is to serve the best interests of the community by:

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

In four words, serve, respect, trust, stewardship.

The Town of Fountain Hills, Arizona is an Arizona Municipal Corporation, acting as a general law Town as prescribed in the Arizona Revised statutes. The Town was incorporated on December 5, 1989 with the governmental and administrative affairs of the Town operating under the Council-Manager form of government. The Town Council is responsible, among other things, for the adoption of local ordinances, budget adoption, the development of citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and administering the Town's operations through five department directors and approximately 83 employees. The Magistrate, Town Attorney and Town Prosecutor are under the direction of the Town Council.

The Town provides or administers a full range of services including public safety (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.



The financial reporting entity (the Town) includes all the funds and account groups of the primary government (i.e., the Town of Fountain Hills, Arizona 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.

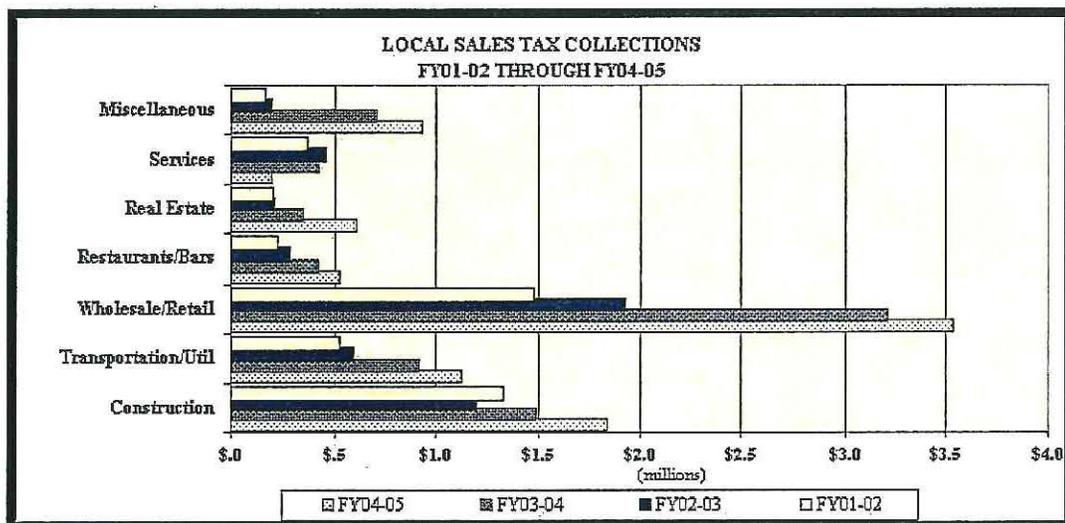
The annual budget serves as the foundation for the Town of Fountain Hills, Arizona financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects 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, Arizona 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 2004/2005 the Town Council approved an additional transfer to the Capital Projects Fund for the Civic Center Phase II project.

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, Arizona operates.

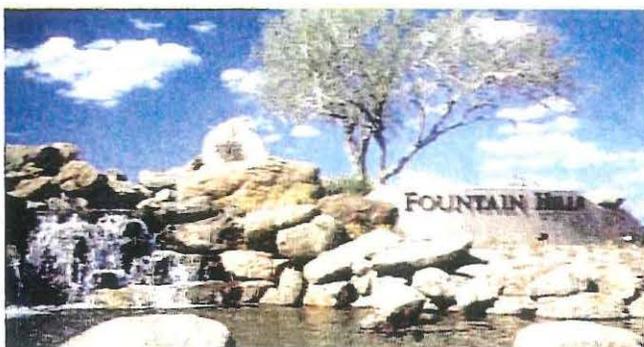
Local economy. Similar to the State of Arizona, the Town's economy continues to remain stable fueled by real estate and construction. The largest source of General Fund revenue is the local sales tax representing almost half of the total, followed by State Shared revenues. Local sales revenues increased 16% from the prior fiscal year primarily in retail and building permit activity. The increase in retail activity can be attributed to recent development along the commercial corridor including a Target Store, PetCo, Pier One, Ross Clothing, Discount Tire, Famous Footwear and other national retailers. The Town Council is focusing on expanding the retail sales tax base in order to compensate for the anticipated decrease in construction activity over the next several years as the Town approaches build-out.

The following chart provides a historical perspective of the local sales tax collections over the last four fiscal years showing the increase in retail activity.



The Town of Fountain Hills, Arizona will soon be enhancing development of the downtown area of the community on Avenue of the Fountains. The goal of this project is to create the perfect place to shop and dine while enjoying the enchanting surroundings. Once the project is complete businesses should expect more foot traffic on the Avenue creating a place where people want to be and businesses want to locate. A new Town Hall municipal building was constructed as Phase II of the Civic Center project on Avenue of the Fountains and was designed to revitalize the downtown area and create connectivity to Phase I of the project. Phase I included the construction of a Library/Museum and Community Center during FY2000 and 2001. New lighting, pedestrian walkways, water features and cultural amenities that are planned will provide interest for adults and children.

The Town has approved plans for a Holiday Inn hotel with 104 rooms that is scheduled to open in FY2006 in the downtown area. Another downtown project is the Fountain Hills Conference Resort and Spa with condo units and resort rooms (currently in plan review) that will expand tourism within the community and bring additional retail tax revenue to Fountain Hills by the year 2008.

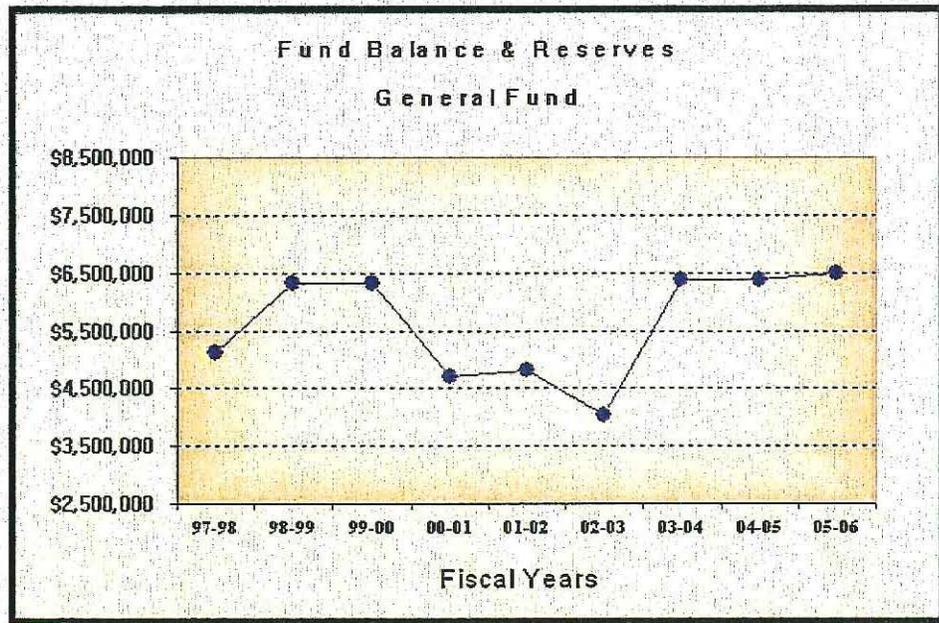


Long-term financial planning. In June 2005 the Mayor and Town Council reviewed a Twenty Year Financial Overview and Capital Projects plan that included projected operating and revenues through the year 2025. The purpose of the overview was to provide a blueprint for future capital budgeting and assist residents to understand the financial implications as part of the Town's strategic plan. The strategic planning process was initiated during FY2004 and has included many hours of public meetings and Town Halls. The final Strategic Plan will be considered by the Town Council in December 2005. The Twenty Year plan is flexible to allow the public's input and any additional recommendations for other capital priorities.

The Town 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 has adopted a fund balance policy to provide financial stability and 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. A historical perspective of past fund reserves is shown below. The general fund reserves recovered significantly after three years of decline that is reflective of the local and national economy, capital project funding and the establishment of a new municipal fire department. Town Council and management are committed to maintaining the \$6.5M of reserves in the future. In FY2005 the policies were amended for the establishment of a Capital Improvement Special Revenue Fund with proceeds from excess revenues collected over budgeted and unexpended appropriations not needed to meet fund balance requirements or re-appropriation, therefore approximately \$2.5M of the general fund balance will be transferred to the Capital Projects Fund in FY2005-06.



The Council also adopted financial policies that include guidelines for the issuance of debt for capital expenditures, Community Facility Districts, financing alternatives, expenditure controls and financial planning. The debt policy was prepared with a preference for "pay-as-you-go" financing for capital spending. An investment policy was adopted and was awarded the Investment Policy Certification from the Association of Public Treasurers of United States and Canada.

Cash management 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, Arizona's 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, Arizona 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, 2005 was 1.9776%. 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, Arizona is a member of the Arizona Municipal Risk Retention Pool. Risk coverage includes general liability, workers compensation, errors and omissions, property and automobile insurance. The policy insures up to \$2,000,000 per incident occurrence plus any excess liability of up to \$13,000,000 per occurrence per year. Coverage is provided on a claims-made basis.

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

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

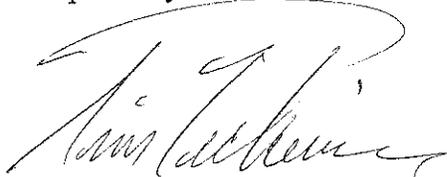
Awards and Acknowledgements. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills, Arizona for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the eighth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year ending June 30, 2004. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device. This is the second consecutive year that the Town has received the award.

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

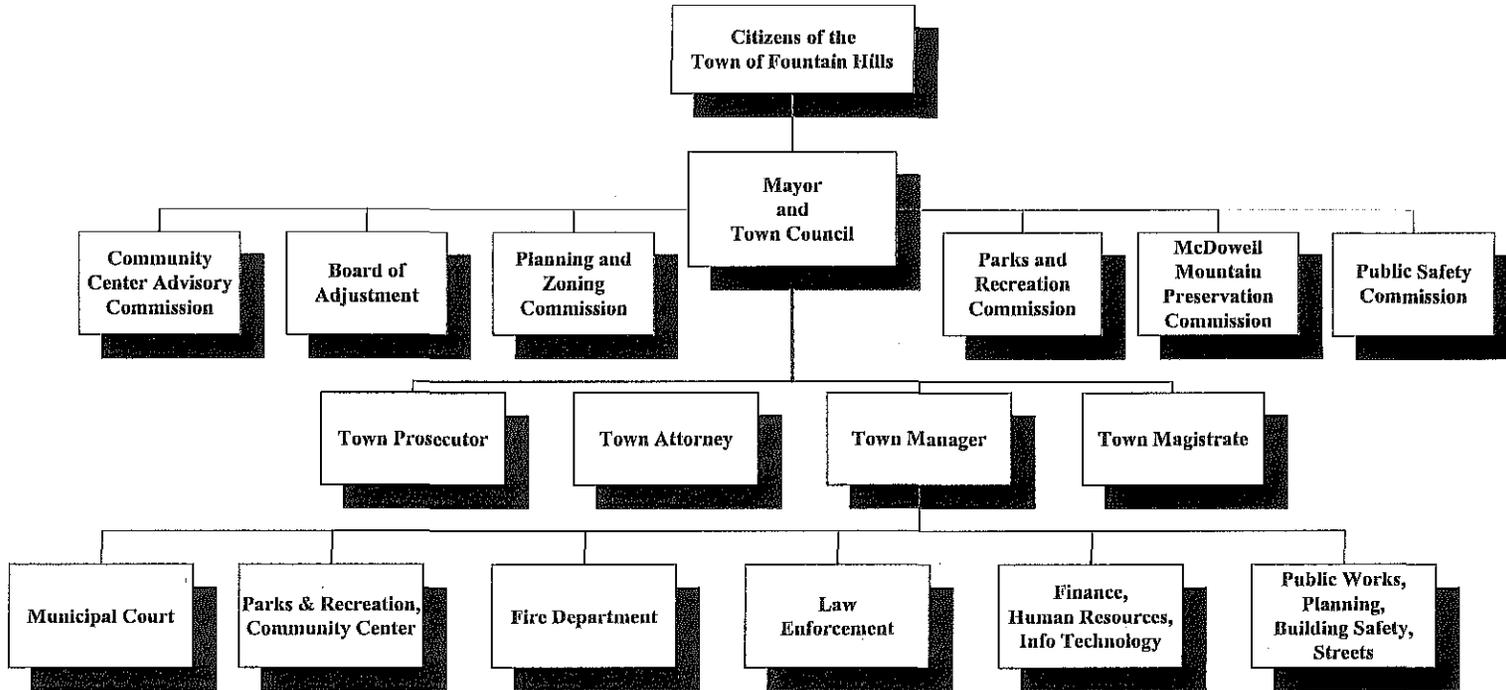
ELECTED OFFICIALS

Mayor	Mr. Wallace J. Nichols
Vice-Mayor	Mr. Jay Schlum
Councilmember	Mr. Mike Archambault
Councilmember	Dr. John Kavanagh
Councilmember	Mr. Edwin Kehe
Councilmember	Mr. Keith McMahan

DEPARTMENT DIRECTORS

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

TOWN OF FOUNTAIN HILLS, ARIZONA
 ORGANIZATIONAL CHART
 JUNE 20, 2005



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, 2004

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.



Nancy L. Zjelke

President

Jeffrey R. Emer

Executive Director

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, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic 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, 2005, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 15 - 25 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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.

Cronstrom, Trbovich & Osuch, P.C.

Cronstrom, Trbovich & Osuch, P.C.

September 26, 2005

Management's Discussion and Analysis

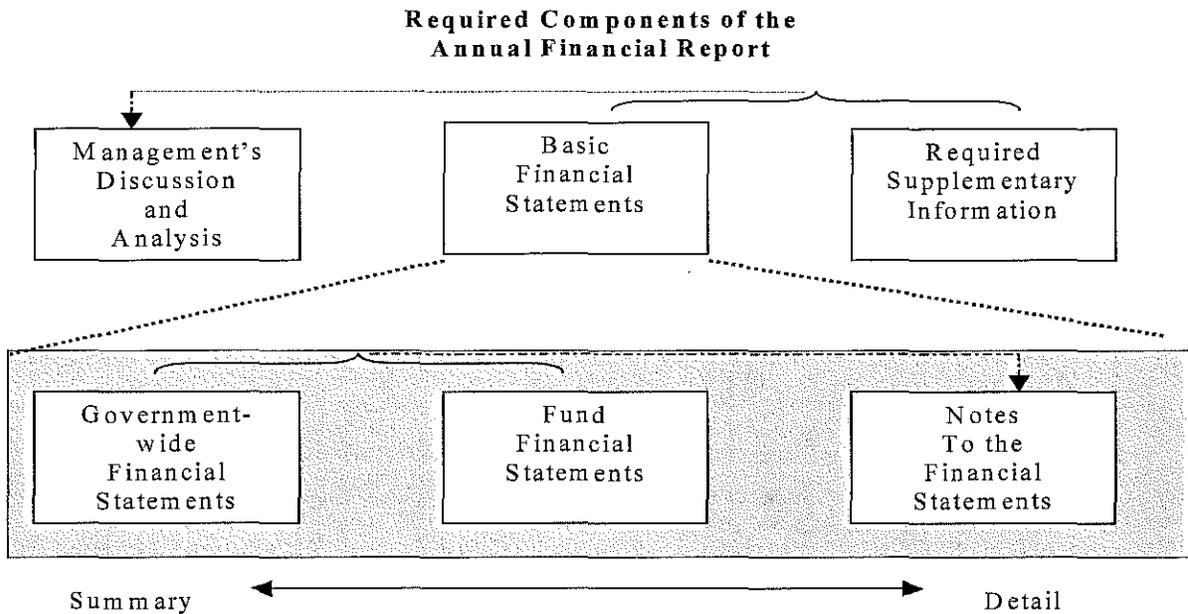
We (the Town of Fountain Hills) (Town) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2005. The intended purpose of the Management Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides 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. When referring to prior years data in this analysis we will be drawing upon information from last years' audited financial report.

Financial Highlights

- * The assets of the Town of Fountain Hills, Arizona exceeded its liabilities at the close of the most recent fiscal year by \$33.5 million (net assets). Of this amount \$10.8 million (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's governmental funds reported combined ending fund balances of \$14.3 million, an increase of \$1.5 million in comparison with the prior year.
- * At the end of the current fiscal year, unreserved fund balance for the general fund was \$9.0 million or 81 percent of total general fund expenditures. The fund balance policy adopted by the Council in May, 2003 requires a minimum of \$4.5 million in designated, undesignated and reserve funds; the general fund added \$2.7 million to fund balance in FY2005 and will transfer \$2.5 million to the Capital improvement Fund in 2005-06 based on a Town resolution passed in September 2005, leaving an unappropriated fund balance of \$6.6 million.
- * General fund revenues (on a budgetary basis) exceeded budgeted revenues by \$1.5 million for fiscal year 2005. Additionally, budgetary basis expenditures were 86% (\$1.8 million (14%) in savings) of the final budget in the General Fund. Note that the final payment for Phase II of Fountain Hills Civic Center was not made prior to the fiscal year end.
- * General fund revenues exceeded expenditures by \$4.5 million, a positive variance of \$3.3 million from the original budget.
- * The Town includes two types of separate legal entities in its report - the Fountain Hills Municipal Property Corporation and Community Facility Districts. Although legally separate, these "component units" are important because the Town is financially accountable for them. A description of these three types of component units is available in Note 1 on page 35. Separate financial statements are not available for these three entities.

Overview of the basic financial statements

This discussion and analysis is intended to serve as an introduction to the Town of Fountain Hills, Arizona's basic financial statements. The Town of Fountain Hills, Arizona's basic financial statements are comprised of three components (as illustrated below): 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required supplementary information in the form of this management discussion and analysis letter.



Government-wide financial statements

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. 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).

The government-wide financial statements distinguish functions of the Town 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 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. 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, 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 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 following the fund financial statements' balance sheet and statement of revenues, expenditures and changes in fund balances, respectively.

Notes to the basic financial statements

The notes to the basic financial statements (pages 35 - 51) 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.

Government-wide Financial Analysis

As previously mentioned, net assets may serve over time as useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Assets of the Town for June 30, 2005 compared to the prior year.

Town of Fountain Hills, Arizona
Condensed Statement of Net Assets
As of June 30, 2005 and 2004

	Governmental Activities		Percent Change
	2005	2004	
Assets			
Current and other assets	\$ 18,958,084	\$ 21,638,047	(12.4)%
Capital assets			
Non-depreciable	30,267,560	23,571,668	28.4 %
Depreciable (net)	<u>16,256,985</u>	<u>16,485,725</u>	(1.4)%
Total assets	<u>65,482,629</u>	<u>61,695,440</u>	6.1 %
Liabilities			
Other liabilities	4,113,074	8,338,841	(50.7)%
Non-current liabilities			
Due within one year	1,996,478	1,603,159	24.5 %
Due in more than one year	<u>25,912,107</u>	<u>26,044,208</u>	(0.5)%
Total liabilities	<u>32,021,659</u>	<u>35,986,208</u>	(11.0)%
Net assets			
Invested in capital assets, net of related debt	17,495,539	11,261,256	55.4 %
Restricted	5,144,127	6,471,863	(20.5)%
Unrestricted	<u>10,821,304</u>	<u>7,976,113</u>	35.7 %
Total net assets	<u>\$ 33,460,970</u>	<u>\$ 25,709,232</u>	30.2 %

The combined net assets of the Town increased by 30.2% from \$25.7 million to \$33.5 million in fiscal year 2005, a difference of \$7.8 million 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 consist of three components. The largest portion of the Town's net assets (52%) 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 uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. This category of net assets increased \$6,234,283 in fiscal year 2005 primarily as a result of several large construction projects, including the construction of the new Town Hall. The Town Hall construction was in progress at June 30, 2005 and was completed and occupied in August 2005.

The second portion of the Town's net assets (15%) represents resources that are subject to external restrictions on how they may be used.

The remaining balance of unrestricted net assets (\$10.8 million) may be used to meet the government's ongoing obligations to citizens and creditors. This category increased \$2.8 million in fiscal year 2005 primarily due to increases in local sales tax revenues, fines and forfeitures building permit revenues.

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

Analysis of changes in net assets

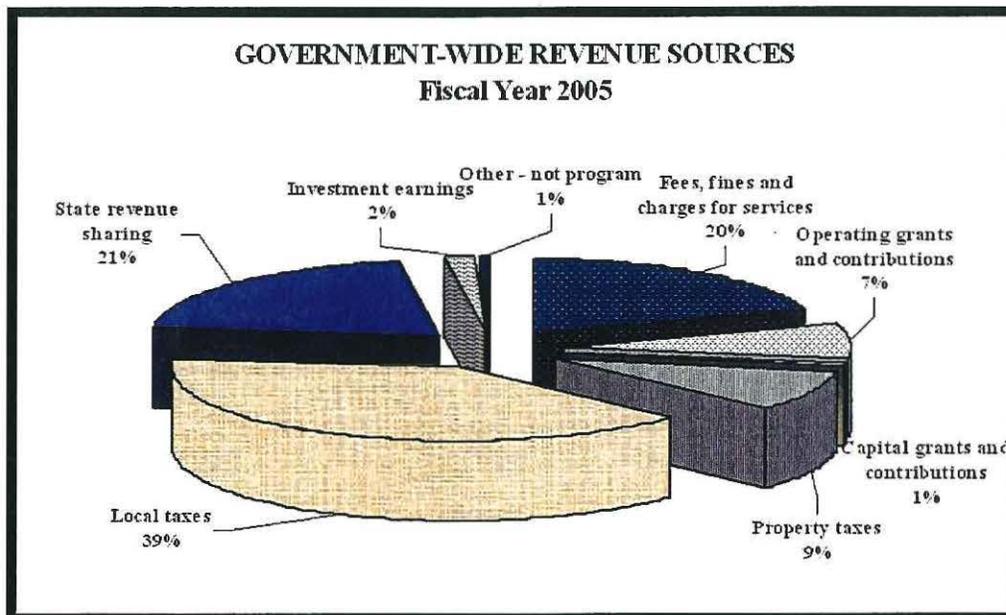
Program revenues (charges for services and grants that are clearly identifiable with an operating function) of governmental activities increased \$1,408,804 (28%) from the previous year, primarily due to increased building related activity and increased revenues from fines and forfeitures as a result of increased patrols. Total governmental revenues increased \$2.9 million. Sales tax collections increased during the fiscal year, accounting for a significant portion of the increase, along with the building permits and fines and forfeitures. Sales tax revenues increased due to more frequent sales tax audits. Program expenses increased overall 2.2% due to increased maintenance programs in both the Town parks and public rights of way.

The following table compares the revenue and expenses for the current and previous fiscal year.

Town of Fountain Hills, Arizona
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005 and 2004

	Governmental Activities		
	2005	2004	Percent Change
Revenues			
Program revenues			
Fees, fines and charges for services	\$ 4,490,704	\$ 3,421,132	31.3 %
Operating grants and contributions	1,692,712	1,590,787	6.4 %
Capital grants and contributions	237,307	-	-
General revenues:			
Property taxes	2,020,800	2,195,856	(8.0)%
Local taxes	9,095,829	7,860,005	15.7 %
State shared revenues	4,756,481	4,489,844	5.9 %
Investment earnings	395,124	122,082	223.7 %
Other	120,666	195,978	(38.4)%
Total revenues	<u>22,809,623</u>	<u>19,875,684</u>	<u>14.8 %</u>
Expenses			
General government	3,766,500	3,686,452	2.2 %
Public safety	5,024,686	4,918,280	2.2 %
Highways and streets	1,281,061	1,419,509	(9.8)%
Culture and recreation	2,362,661	2,068,613	14.2 %
Community development	1,460,181	1,144,964	27.5 %
Interest on long-term debt	1,162,796	1,499,575	(22.5)%
Total expenses	<u>15,057,885</u>	<u>14,737,393</u>	<u>2.2 %</u>
Increase in net assets	7,751,738	5,138,291	50.9 %
Net assets, beginning of year (as restated)	<u>25,709,232</u>	<u>20,570,941</u>	<u>25.0 %</u>
Net assets, end of year	<u>\$ 33,460,970</u>	<u>\$ 25,709,232</u>	<u>30.2 %</u>

Governmental activities. An analysis of governmental fund balances is presented in this discussion and analysis, in addition to the previous comparative analysis of government-wide revenues and expenses. Governmental activities account for 100% of the total revenues and expenses of the Town. The following graph illustrates that the largest financing source for the Town is the local sales tax (39%). State shared revenues account for 21% of the government-wide revenue sources.



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 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 81 percent of total general fund expenditures, while total fund balance represents 62 percent of total governmental expenditures.

The fund balance of the Town's general fund increased by \$2,711,017 during the current fiscal year. Key factors in this change are as follows:

- ◆ General Fund revenues exceeded projections by \$1,477,018 (primarily due to building-related activity and state sales tax collections); expenditures were \$1,778,119 less than projected due to unexpected appropriations that are rebudgeted in fiscal year 2006.
- ◆ An additional \$867,000 was transferred from the General Fund to the Capital Projects fund for the Town Hall construction project.

As of the end of the fiscal year 2005 the Town's governmental funds reported combined ending fund balances of \$14,331,843, an increase of \$1,460,215 over the prior year. Approximately 63% of this total amount \$9,082,443 constitutes general fund balance, which is available for contribution to the designated, undesignated and reserved fund balance with the excess transferred to the Capital Projects Fund. At fiscal year-end 2004-2005 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2003-04
General Fund	\$ 9,082,443	\$ 2,711,017
General Obligation Debt Service Fund	365,779	96,937
Municipal Property Corporation Debt Service Fund	278,310	(198,688)
Development Fees Fund	2,429,225	688,930
Capital Projects Fund	-	(642,091)
Nonmajor Governmental Funds	2,176,086	(1,195,890)

The General Obligation Debt Service Fund is used to account for property taxes collected for payment of required principal and interest due on outstanding general obligation bonds. The increase in net assets was not significant. However, the Town recorded a refunding transaction during the fiscal year on a general obligation improvement bond to obtain a future economic gain by obtaining a lower interest rate. See the long-term debt section in this management discussion and analysis for more information.

The Municipal Property Corporation Debt Service Fund accounts for revenues received to pay the service on the Municipal Property Corporation debt. The net decrease in fund balance was largely due the required principal and interest due on the outstanding bonds, as well as issuance costs related to refunding the excise tax revenue bonds. See the long-term debt section in this management discussion and analysis for further information.

The Development Fees Fund 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, 2005 in this fund is \$2,429,225, an increase of \$688,930; expenditures were made in FY 2005 for traffic signals, open space (trailhead design) and recreation (splash park). The current year increase in the Development Fees Fund was the result of increased development within the Town's limits.

All nonmajor funds of the Town are combined into one column on the governmental fund statements; the nonmajor funds are presented in the form of combining statements following the notes to the basic financial statements.

The Highway User Revenue Fund is a nonmajor fund which 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 \$105,153 (7%) in fiscal year 2005 due to the increase in state shared revenues. Expenditures increased \$158,875 from the prior year due to increased expenses for road maintenance.

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 page 34. This statement compares the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis. The Town did not amend its budget during the fiscal year.

General Fund revenues of \$15,686,925, on a budgetary basis, exceeded budgeted revenues of \$14,209,907 by \$1,477,018 while budgetary basis expenditures of \$11,168,152 were only 86% of budgeted expenditures (savings of \$1,778,119). The excess of revenues over budgeted revenues is primarily due to better than expected building permit activity and greater State Sales Tax revenues. The expenditure savings were derived from a budgeted general and administrative expenditure for a sales tax refund that has been referred for a tax hearing (\$400,000) as well as a decision to reduce the amount of space being utilized in Town Hall, thereby providing significant savings on rent.

Capital asset and debt administration

The Town's capital assets for its governmental activities as of June 30, 2005 amount to \$46,524,545 (net of accumulated depreciation), an increase from 2004 of 16.1%. 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 Note 3.A.3. in the Notes to the Basic Financial Statements for further information regarding capital assets.

Capital assets include land, buildings and improvements, machinery and equipment, roads and improvements, vehicles, office and computer equipment. During fiscal year 2004-2005 the annual depreciation expense was \$983,733. The following table provides a comparison of current and prior year capital assets.

The most significant increase in the capital assets was \$6.7 million dollars of new construction recorded as construction in progress at June 30, 2005. Construction of the new Town Hall accounted for \$5.9 million of the total construction in progress. The remaining \$800,000 was composed of various projects including street, park and downtown development projects. The Town Hall complex was completed and occupied in August 2005.

Town of Fountain Hills, Arizona
Capital Assets Net
June 30, 2005 and 2004

	Governmental Activities		
	2005	2004	Percent Change
Land	\$ 23,571,668	\$ 23,571,668	- %
Construction in progress	6,695,892	-	- %
Buildings and improvements	9,128,812	9,559,273	(4.5)%
Improvements other than buildings	5,814,099	5,397,938	7.7 %
Infrastructure	483,162	451,888	6.9 %
Furniture, machinery and equipment	460,889	582,890	(20.9)%
Vehicles	370,023	493,736	(25.1)%
	\$ 46,524,545	\$ 40,057,393	16.1 %

Long-term debt

At the end of the current fiscal year, the Town had total long-term obligations outstanding of \$27,908,585. Of the outstanding debt, \$11,215,000 is general obligation bonds backed by the full faith and credit of the Town. An additional \$4,455,000 of special assessment bonds 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.

During the fiscal year ended June 30, 2005, the Town refunded \$7.2 million in general obligation debt and \$5.3 million dollars in Municipal Property Corporation debt to obtain lower interest rates and an economic gain over the next 14 years of \$241,166 and \$297,817, respectively. See Note 3.C. for additional information on the refunding.

The State imposes certain debt limitations on the Town of six percent (6%) and twenty percent (20%) of the outstanding secondary net assessed valuation of the Town. The Town's available debt margin at June 30, 2005 is \$17,769,092 in the 6% capacity and \$69,073,641 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, 2004 and 2005. Further detail on the Town's outstanding debt may be found in Note 3.C. on pages 47 - 49.

Town of Fountain Hills, Arizona
Outstanding Debt at June 30, 2005 and 2004

	Governmental Activities		
	2005	2004	Percent Change
General Obligation Debt	\$ 9,607,162	\$ 11,110,000	(13.5)%
Highway User Revenue Bonds	540,000	630,000	(14.3)%
Special Assessment Debt	12,909	16,137	(20.0)%
Community Facilities District Debt	4,455,000	4,615,000	(3.5)%
Municipal Property Corporation Debt	13,108,935	11,005,000	19.1 %
Compensated Absences	<u>184,579</u>	<u>271,230</u>	(31.9)%
	<u>\$ 27,908,585</u>	<u>\$ 27,647,367</u>	0.9 %

The Town currently maintains a rating on its general obligation debt of Aa3 from Moody's Investor Services.

Economic factors and next year's budgets and rates

The Town of Fountain Hills, Arizona, as well as all other Arizona cities, remains dependent on state shared revenues (21%) and local sales taxes for resources (39%). These revenue sources are sensitive to economic downturns and legislative appropriations. The Town's economic activity has remained fairly stable during the national recession and is expected to continue to grow at a moderate pace over the next year, fueled primarily by the residential construction industry. The Town of Fountain Hills, Arizona has a number of high-end properties that are currently being developed for custom homes.

The budget for fiscal year 2005-2006 includes resources targeted towards economic development in the downtown area (Avenue of the Fountains). An economic development coordinator has been hired and capital funds for improvements to the area are included to focus on developing the area to promote economic development.

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 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

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, 2005

	<u>Governmental Activities</u>
Assets	
Cash and equivalents	\$ 15,562,895
Cash with paying agent	1,461,392
Receivables, net	
Accounts receivable	284,888
Taxes receivable	74,084
Intergovernmental receivable	1,299,065
Special assessments receivable	4,430
Inventories	5,041
Prepaid items	39,495
Deferred charges	226,794
Capital assets	
Non-depreciable	30,267,560
Depreciable (net)	<u>16,256,985</u>
Total assets	<u>65,482,629</u>
Liabilities	
Accounts payable	1,910,769
Accrued wages and benefits	57,650
Interest payable	474,832
Due to developers	100,702
Retainage due	264,121
Matured debt principal payable	1,305,000
Noncurrent liabilities	
Due within one year	1,996,478
Due in more than one year	<u>25,912,107</u>
Total liabilities	<u>32,021,659</u>
Net assets	
Invested in capital assets, net of related debt	17,495,539
Restricted for	
Public safety	193,110
Highways and streets	425,076
Debt service	916,391
Capital outlay	2,429,225
Other	1,180,325
Unrestricted	<u>10,821,304</u>
Total net assets	<u>\$ 33,460,970</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, 2005

Functions/Programs	Program Revenues				Net (Expenses)
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and
					Changes in Net Assets
					Totals
Governmental activities					
General government	\$ 3,766,500	\$ 4,431,154	\$ -	\$ 237,307	\$ 901,961
Public safety	5,024,686	-	108,006	-	(4,916,680)
Highways and streets	1,281,061	58,038	1,584,706	-	361,683
Culture and recreation	2,362,661	-	-	-	(2,362,661)
Community development	1,460,181	-	-	-	(1,460,181)
Interest on long-term debt	<u>1,162,796</u>	<u>1,512</u>	<u>-</u>	<u>-</u>	<u>(1,161,284)</u>
Totals	<u>\$ 15,057,885</u>	<u>\$ 4,490,704</u>	<u>\$ 1,692,712</u>	<u>\$ 237,307</u>	<u>(8,637,162)</u>
General revenues					
Taxes					
					8,879,798
					2,020,800
					216,031
					2,016,081
					1,874,577
					865,823
					395,124
					<u>120,666</u>
					<u>16,388,900</u>
					7,751,738
					<u>25,709,232</u>
					<u>\$ 33,460,970</u>

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

TOWN OF FOUNTAIN HILLS, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	General Obligation Debt Service	Municipal Property Corporation	Development Fees	Capital Projects	Nonmajor Governmental Funds	Totals
Assets							
Cash and equivalents	\$ 8,571,996	\$ 375,206	\$ 272,770	\$ 2,762,259	\$ 1,051,573	\$ 2,529,091	\$ 15,562,895
Cash with paying agent	-	532,221	824,995	-	-	104,176	1,461,392
Accounts receivable	283,007	-	-	-	-	1,881	284,888
Taxes receivable	11,929	43,248	-	-	-	18,907	74,084
Intergovernmental receivable	919,513	-	-	-	110,808	268,744	1,299,065
Special assessments receivable	-	-	-	-	-	4,430	4,430
Due from other funds	6,645	-	-	-	-	-	6,645
Inventories	5,041	-	-	-	-	-	5,041
Prepaid items	35,623	-	-	-	-	3,872	39,495
Total assets	<u>\$ 9,833,754</u>	<u>\$ 950,675</u>	<u>\$ 1,097,765</u>	<u>\$ 2,762,259</u>	<u>\$ 1,162,381</u>	<u>\$ 2,931,101</u>	<u>\$ 18,737,935</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 477,223	\$ -	\$ -	\$ 333,034	\$ 898,260	\$ 202,252	\$ 1,910,769
Accrued wages and benefits	40,577	-	-	-	-	17,073	57,650
Interest payable	-	112,787	199,455	-	-	162,590	474,832
Due to other funds	-	-	-	-	-	6,645	6,645
Deferred revenue	233,511	37,109	-	-	-	15,753	286,373
Due to developers	-	-	-	-	-	100,702	100,702
Retainage due	-	-	-	-	264,121	-	264,121
Matured debt principal payable	-	435,000	620,000	-	-	250,000	1,305,000
Total liabilities	<u>751,311</u>	<u>584,896</u>	<u>819,455</u>	<u>333,034</u>	<u>1,162,381</u>	<u>755,015</u>	<u>4,406,092</u>
Fund balances							
Reserved for inventories	5,041	-	-	-	-	-	5,041
Reserved for prepaid items	35,623	-	-	-	-	3,872	39,495
Unreserved	9,041,779	365,779	278,310	2,429,225	-	-	12,115,093
Unreserved, reported in nonmajor							
Special revenue funds	-	-	-	-	-	1,794,639	1,794,639
Debt service funds	-	-	-	-	-	377,575	377,575
Total fund balances	<u>9,082,443</u>	<u>365,779</u>	<u>278,310</u>	<u>2,429,225</u>	<u>-</u>	<u>2,176,086</u>	<u>14,331,843</u>
Total liabilities and fund balances	<u>\$ 9,833,754</u>	<u>\$ 950,675</u>	<u>\$ 1,097,765</u>	<u>\$ 2,762,259</u>	<u>\$ 1,162,381</u>	<u>\$ 2,931,101</u>	<u>\$ 18,737,935</u>

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

TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2005

Fund balances - total governmental funds		\$ 14,331,843
Amounts reported for governmental activities in the statement of net assets are different because:		
Property taxes and special assessments not collected within 60 days subsequent to fiscal year-end are deferred in the governmental funds.		78,346
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets		52,533,827
Less accumulated depreciation		<u>(6,009,282)</u>
Capital assets used in governmental activities		<u>46,524,545</u>
Other long-term assets are not available to pay for current-period expenditures and are not susceptible to accrual.		208,027
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		(11,215,000)
Revenue bonds		(12,975,000)
Special assessment debt with government commitment		(12,909)
Community facilities district bonds payable		(4,455,000)
Deferred amount on the refunding		1,067,838
Deferred amount on the bond premium		(133,935)
Deferred issuance costs		226,794
Compensated absences		<u>(184,579)</u>
Net assets of governmental activities		<u>\$ 33,460,970</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, 2005

	General	General Obligation Debt Service	Municipal Property Corporation	Development Fees	Capital Projects	Nonmajor Governmental Funds	Totals
Revenues							
Taxes							
Sales taxes	\$ 7,513,675	\$ -	\$ -	\$ -	\$ -	\$ 1,366,123	\$ 8,879,798
Property taxes	-	1,461,420	-	-	-	594,644	2,056,064
Franchise taxes	216,031	-	-	-	-	-	216,031
Intergovernmental	4,756,481	-	-	-	237,307	1,692,712	6,686,500
Fines and forfeitures	222,451	-	-	-	-	27,113	249,564
Licenses and permits	2,230,046	-	-	-	-	-	2,230,046
Charges for services	193,065	-	-	1,614,781	-	26,359	1,834,205
Rents and royalties	222,327	-	-	-	-	-	222,327
Special assessments	-	-	-	-	-	1,512	1,512
Investment earnings	184,871	37,426	29,055	44,514	35,384	63,874	395,124
Other	147,978	-	-	-	-	31,679	179,657
Total Revenues	<u>15,686,925</u>	<u>1,498,846</u>	<u>29,055</u>	<u>1,659,295</u>	<u>272,691</u>	<u>3,804,016</u>	<u>22,950,828</u>
Expenditures							
Current							
General government	3,223,806	-	-	-	5,958,166	365,437	9,547,409
Public safety	4,744,523	-	-	-	-	10,000	4,754,523
Highways and streets	-	-	-	243,342	-	1,439,221	1,682,563
Culture and recreation	1,739,642	-	-	374,298	809,253	81,023	3,004,216
Community development	1,460,181	-	-	-	-	-	1,460,181
Debt Service							
Principal retirement	-	435,000	620,000	-	-	253,228	1,308,228
Interest on long-term debt	-	379,076	456,892	-	2,250	326,343	1,164,561
Issuance costs	-	60,000	80,500	-	89,490	-	229,990
Total Expenditures	<u>11,168,152</u>	<u>874,076</u>	<u>1,157,392</u>	<u>617,640</u>	<u>6,859,159</u>	<u>2,475,252</u>	<u>23,151,671</u>
Excess (deficiency) of revenues over expenditures	<u>4,518,773</u>	<u>624,770</u>	<u>(1,128,337)</u>	<u>1,041,655</u>	<u>(6,586,468)</u>	<u>1,328,764</u>	<u>(200,843)</u>
Other financing sources (uses)							
Transfers in	-	-	2,524,654	-	2,160,481	120,500	4,805,635
Transfers out	(1,807,756)	-	-	(352,725)	-	(2,645,154)	(4,805,635)
Proceeds of long-term debt issuance	-	-	-	-	3,783,896	-	3,783,896
Proceeds of refunding debt issuance	-	7,225,000	5,330,000	-	-	-	12,555,000
Payment to refunded debt escrow agent	-	(7,752,833)	(6,925,005)	-	-	-	(14,677,838)
Total other financing sources (uses)	<u>(1,807,756)</u>	<u>(527,833)</u>	<u>929,649</u>	<u>(352,725)</u>	<u>5,944,377</u>	<u>(2,524,654)</u>	<u>1,661,058</u>
Net change in fund balances	2,711,017	96,937	(198,688)	688,930	(642,091)	(1,195,890)	1,460,215
Fund balances, beginning of year	<u>6,371,426</u>	<u>268,842</u>	<u>476,998</u>	<u>1,740,295</u>	<u>642,091</u>	<u>3,371,976</u>	<u>12,871,628</u>
Fund balances, end of year	<u>\$ 9,082,443</u>	<u>\$ 365,779</u>	<u>\$ 278,310</u>	<u>\$ 2,429,225</u>	<u>\$ -</u>	<u>\$ 2,176,086</u>	<u>\$ 14,331,843</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, 2005

Net change in fund balances - total governmental funds \$ 1,460,215

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	7,450,885
Less current year depreciation	<u>(983,733)</u>
Excess capital expenditures over depreciation	<u>6,467,152</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	(105,941)
Property taxes	<u>(35,264)</u>

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	1,308,228
Issuance costs	229,990
Proceeds of debt issuance	(3,783,896)
Proceeds of refunding debt issuance	(12,555,000)
Payment to refunded debt escrow agent	14,677,838
Amortization of issuance costs	(3,196)
Amortization of deferred amount on the premium and the refunding	4,961

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 decrease in compensated absences	<u>86,651</u>
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Change in net assets of governmental activities	<u>\$ 7,751,738</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, 2005

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Taxes	\$ 7,399,767	\$ 7,729,706	\$ 329,939
Intergovernmental	4,522,700	4,756,481	233,781
Fines and forfeitures	234,250	222,451	(11,799)
Licenses and permits	1,408,390	2,230,046	821,656
Charges for services	196,800	193,065	(3,735)
Rents and royalties	242,300	222,327	(19,973)
Investment earnings	100,000	184,871	84,871
Other	<u>105,700</u>	<u>147,978</u>	<u>42,278</u>
Total Revenues	<u>14,209,907</u>	<u>15,686,925</u>	<u>1,477,018</u>
Expenditures			
Current			
General government			
Mayor and Town Council	60,010	55,925	4,085
Magistrate Court	340,850	328,489	12,361
General and Administrative	4,150,777	2,673,035	1,477,742
Information Technology	166,231	166,357	(126)
Contingency	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Total general government	<u>4,767,868</u>	<u>3,223,806</u>	<u>1,544,062</u>
Public safety			
Building Safety	494,930	480,561	14,369
Law Enforcement	1,796,670	1,792,782	3,888
Fire Department	<u>2,481,751</u>	<u>2,471,180</u>	<u>10,571</u>
Total public safety	<u>4,773,351</u>	<u>4,744,523</u>	<u>28,828</u>
Culture and recreation			
Parks and Recreation	534,745	503,581	31,164
Desert Vista Park	53,150	39,964	13,186
Golden Eagle Park	313,835	333,295	(19,460)
Fountain Park	320,210	279,948	40,262
Four Peaks/Palisades Court	79,900	82,060	(2,160)
Civic Center	<u>511,497</u>	<u>500,794</u>	<u>10,703</u>
Total culture and recreation	<u>1,813,337</u>	<u>1,739,642</u>	<u>73,695</u>
Community development			
Community Development	398,480	395,874	2,606
Public Works	<u>1,193,235</u>	<u>1,064,307</u>	<u>128,928</u>
Total community development	<u>1,591,715</u>	<u>1,460,181</u>	<u>131,534</u>
Total Expenditures	<u>12,946,271</u>	<u>11,168,152</u>	<u>1,778,119</u>
Excess (deficiency) of revenues over expenditures	<u>1,263,636</u>	<u>4,518,773</u>	<u>3,255,137</u>
Other financing sources (uses)			
Transfers out	<u>(940,752)</u>	<u>(1,807,756)</u>	<u>(867,004)</u>
Total other financing sources (uses)	<u>(940,752)</u>	<u>(1,807,756)</u>	<u>(867,004)</u>
Net change in fund balances	322,884	2,711,017	2,388,133
Fund balances, beginning of year	<u>5,375,399</u>	<u>6,371,426</u>	<u>996,027</u>
Fund balances, end of year	<u>\$ 5,698,283</u>	<u>\$ 9,082,443</u>	<u>\$ 3,384,160</u>

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic 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. A separately issued annual financial report was issued for the Eagle Mountain Community Facilities District and is available at Town Hall.

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) 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.

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 basic 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 long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

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.

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

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

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. However, services provided and used are not eliminated in the process of consolidation.

Amounts reported as program revenues include 1) fees, fines and 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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

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

2. Receivables

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

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.

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 two 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 and improvements	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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

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. The Town did not have any premiums, discounts or issuance costs related to any outstanding bonds.

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

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

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. 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 basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. 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 departments. 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, with the exception of the Criminal Enhancement Justice Fund and Capital Projects Fund for which a budget was not prepared.

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2005

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:	
Information Technology	\$ 126
Golden Eagle Park	19,460
Four Peaks/Palisades Court	2,160
Capital Projects Fund	347,989

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2005 consist of the following:

Deposits	
Cash on hand	\$ 1,400
Cash in bank	374,889
Cash on deposit with paying agent	1,461,392
Investments	
Money Market Mutual Fund	748,218
U.S. Government Securities	11,979
State Treasurer's Investment Pool	13,650,821
Cash on deposit with Trustee	<u>775,588</u>
Total cash and investments	17,024,287
Cash on deposit with paying agent	<u>(1,461,392)</u>
Total cash and equivalents	<u>\$ 15,562,895</u>

Deposits - The Town's deposits at June 30, 2005, were entirely covered by federal depository insurance or by collateral held by the Town's custodial bank in the Town's name. The Town's deposits are not subject to custodial credit risk.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

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 counterparty's trust department or agent in the Town's name.

Interest rate risk. In accordance with its investment policy, the government manages its exposure to declines in fair value by limiting the average maturity of its investments to less than one year.

Custodial credit risk. The U.S. Government Securities and the State Treasurer's Investment Pool are not subject to the custodial credit risk. The money market mutual funds are invested in Fannie Mae Securities and have a AAA Standard and Poor's rating. The amount deposited with the trustee represents the July 1 principal and interest payments due on outstanding bonds. The investment does not pose any custodial credit risk as the funds are invested for less than one day to make the required principal and interest payments.

Concentrations of credit risk. The Town's investment policy does not allow the Town to invest in securities that are not insured, unregistered or backed by U.S. government securities.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2005

2. Receivables

Court fines are recorded net of uncollectible amounts in the government-wide statements and are recorded as a receivable and a deferred revenue in the fund financial statements because the court fines did not meet the revenue recognition criteria under the modified accrual basis of accounting. The total receivable at June 30, 2005 was \$260,034, which was reduced by \$52,007 for uncollectible amounts resulting in a net receivable balance at June 30, 2005 of \$208,027.

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

	<u>Unavailable</u>
Delinquent property taxes receivable (General Fund)	\$ 25,484
Deferred court revenue (General Fund)	208,027
Delinquent property taxes receivable (General Obligation Debt Service Fund)	37,109
Delinquent property taxes receivable (Nonmajor Governmental Funds)	10,948
Special assessments receivable (Nonmajor Governmental Funds)	<u>4,805</u>
	<u>\$ 286,373</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2005

3. Capital assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustment</u>	<u>Ending Balances</u>
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$23,571,668	\$ -	\$ -	\$ -	\$ 23,571,668
Construction in progress	<u>-</u>	<u>6,385,425</u>	<u>-</u>	<u>310,467</u>	<u>6,695,892</u>
Total capital assets, not being depreciated	<u>23,571,668</u>	<u>6,385,425</u>	<u>-</u>	<u>310,467</u>	<u>30,267,560</u>
Capital assets being depreciated:					
Buildings and improvements	10,326,312	-	-	(227,379)	10,098,933
Improvements other than buildings	7,554,540	836,453	-	-	8,390,993
Infrastructure	481,064	123,843	-	(83,088)	521,819
Furniture, machinery and equipment	1,518,647	-	-	-	1,518,647
Vehicles	<u>1,630,711</u>	<u>105,164</u>	<u>-</u>	<u>-</u>	<u>1,735,875</u>
Total capital assets being depreciated	<u>21,511,274</u>	<u>1,065,460</u>	<u>-</u>	<u>(310,467)</u>	<u>22,266,267</u>
Less accumulated depreciation for:					
Buildings and improvements	(767,039)	(203,082)	-	-	(970,121)
Improvements other than buildings	(2,156,602)	(420,292)	-	-	(2,576,894)
Infrastructure	(29,176)	(9,481)	-	-	(38,657)
Furniture, machinery and equipment	(935,757)	(122,001)	-	-	(1,057,758)
Vehicles	<u>(1,136,975)</u>	<u>(228,877)</u>	<u>-</u>	<u>-</u>	<u>(1,365,852)</u>
Total accumulated depreciation	<u>(5,025,549)</u>	<u>(983,733)</u>	<u>-</u>	<u>-</u>	<u>(6,009,282)</u>
Total capital assets, being depreciated, net	<u>16,485,725</u>	<u>81,727</u>	<u>-</u>	<u>(310,467)</u>	<u>16,256,985</u>
Governmental activities capital assets, net	<u>\$40,057,393</u>	<u>\$ 6,467,152</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,524,545</u>

An adjustment was recorded to reclassify assets as construction in progress that were presented as buildings and improvements and infrastructure in the prior year.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2005

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 86,712
Public safety	274,088
Highways and streets	55,233
Culture and recreation	<u>567,700</u>
Total depreciation expense-governmental activities	<u>\$ 983,733</u>

B. Interfund receivables/payables and transfers

As of June 30, 2005 interfund receivable and payables were as follows:

	Due From
Due To	Nonmajor Governmental Funds
General Fund	\$ <u>6,645</u>

The above interfund receivables and payables are due to short-term borrowings between the General Fund and the Nonmajor Eagle Mountain Debt Service Fund.

Interfund transfers for the year ended June 30, 2005 consisted of the following:

	Transfers In			
Transfers Out	MPC Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
General Fund	\$ -	\$ 1,807,756	\$ -	\$ 1,807,756
Development Fees Fund	-	352,725	-	352,725
Nonmajor Governmental Funds	<u>2,524,654</u>	<u>-</u>	<u>120,500</u>	<u>2,645,154</u>
	<u>\$ 2,524,654</u>	<u>\$ 2,160,481</u>	<u>\$ 120,500</u>	<u>\$ 4,805,635</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

The General Fund transfer of \$1,807,756 and the Development Fees transfer of \$352,725 to the Capital Projects Fund were recorded to subsidize the construction of the new Town Hall facility that was included in construction in progress at June 30, 2005. The transfers of \$2,524,654 and \$120,500 from the Nonmajor Governmental Funds to the MPC Debt Service Fund and the Nonmajor Governmental Funds were recorded to make the debt service payments during the year on outstanding bonded indebtedness.

C. Long-term obligations

The Town has long-term bonds and special assessments 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 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 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.

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2005

Changes in long-term obligations for the year ended June 30, 2005 are as follows:

	<u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2005</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds and special assessments					
General obligation bonds	\$ 11,740,000	\$ 7,225,000	\$ (7,750,000)	\$ 11,215,000	\$ 1,160,000
Municipal Property Corporation debt	11,005,000	8,975,000	(7,005,000)	12,975,000	665,000
Special assessment debt with government commitment	16,137	-	(3,228)	12,909	3,228
Community Facilities District bonds payable	<u>4,615,000</u>	<u>-</u>	<u>(160,000)</u>	<u>4,455,000</u>	<u>170,000</u>
	27,376,137	16,200,000	(14,918,228)	28,657,909	1,998,228
Deferred amount on:					
Refunding	-	(1,067,838)	-	(1,067,838)	(76,274)
Premium	<u>-</u>	<u>138,896</u>	<u>(4,961)</u>	<u>133,935</u>	<u>9,921</u>
Total bonds and special assessment debt	27,376,137	15,271,058	(14,923,189)	27,724,006	1,931,875
Other liabilities					
Compensated absences	<u>271,230</u>	<u>201,881</u>	<u>(288,532)</u>	<u>184,579</u>	<u>64,603</u>
	<u>\$ 27,647,367</u>	<u>\$ 15,472,939</u>	<u>\$(15,211,721)</u>	<u>\$ 27,908,585</u>	<u>\$ 1,996,478</u>

Debt service requirements on long-term debt at June 30, 2005 are as follows:

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 1,998,228	\$ 1,325,881
2007	1,983,227	1,194,566
2008	2,153,227	1,106,297
2009	2,238,227	1,014,551
2010	2,445,000	916,634
2011-15	10,885,000	3,124,455
2016-20	6,525,000	1,020,995
2021	<u>430,000</u>	<u>28,288</u>
	<u>\$ 28,657,909</u>	<u>\$ 9,731,667</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

During the year ended June 30, 2005, the Town issued \$7,225,000 in general obligation bonds and \$5,330,000 in excise tax revenue bonds, with an average interest rate of 3.69 and 3.87 percent, respectively, to advance refund \$7,225,000 of outstanding general obligation bonds and \$6,385,000 of MPC bonds with an average interest rate 5.06 and 5.15 percent. The net proceeds of \$7,165,000 and \$5,249,500 (after payment of \$60,000 and \$80,500 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded general obligation bonds and MPC bonds. As a result, the refunded general obligation bonds and the MPC bonds are considered to be defeased, and the liability for those bonds has been removed from the statement of net assets.

The Town advance refunded the general obligation bonds and MPC bonds to reduce its total debt service payments over the next 14 years by almost \$492,826 and \$1,604,155 and obtained an economic gain (i.e., difference between the present values of the debt service payments on the old and new debt) of \$241,166 and \$297,817, respectively.

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

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, 2005, totaled \$273,194.

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. Subsequent events

Subsequent to June 30, 2005, the Town issued \$4,455,000 of General Obligation Refunding Bonds to refund \$4,455,000 of Eagle Mountain Community Facility District General Obligation bonds. The Town refunded the bonds to reduce its debt service requirements over the next sixteen years by \$996,894 and obtained an economic gain of \$790,798. Annual principal and semi-annual interest payments are due through the fiscal year ended June 30, 2021 at a 3.25 to 4.125% interest rate.

In addition, in September 2005, the Town Council approved a resolution to fund a Capital Improvements Fund. The resolution calls for a transfer of General Fund fund balance each year for any excess revenues collected over budget and unexpended appropriations necessary to meet fund balance requirements or reappropriation. The accumulation of funds was approved for purchases of land and buildings, improvements to Town-owned properties, grant matching requirements associated with capital improvements, public safety projects and equipment purchases, economic development projects, and such other capital projects as determined by the Town Council. Expenditures from the Capital Improvements Fund must be appropriated as part of the Town's annual budget or by motion and affirmative vote at a time the expenditures are awarded. The resolution does not affect the fiscal year ended June 30, 2005; however, funds expected to be transferred with passage of the resolution in the fiscal year 2005-06 are \$2,570,848.

D. Retirement plans

Defined Contribution Pension Plan

All full-time employees of the Town participate in a defined contribution pension plan administered by the ICMA Retirement Corporation as a 401(a) plan. The payroll for the Town employees covered by this plan the year ended June 30, 2005 was \$2,833,127. The Town's total payroll was \$3,147,673.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005

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 2004-05, the Town's required and actual contributions amounted to \$311,644. The employees' contributions totaled \$311,644.

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 2004-05 or as of the close of the fiscal year.

Public Safety Personnel Retirement System (PSPRS)

At the end of the fiscal year June 30, 2004, the Marshall's department was disbanded and during the fiscal year ended June 30, 2005 the retirement funds were transferred to the Arizona Department of Public Safety. The Town is no longer responsible for administering the plan or for future post retirement benefits.

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**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.

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.

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

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

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.

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

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

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	Special Revenue				Debt Service			
	HURF	Excise Tax	Grants	Local Court Enhancement	Total	HURF Debt Service	Eagle Mountain Debt Service	Cottonwoods Special Assessment
Assets								
Cash and equivalents	\$ 423,371	\$ 1,013,442	\$ 115,297	\$ 191,229	\$ 1,743,339	\$ 3,409	\$ 775,588	\$ 6,755
Cash with paying agent	-	-	-	-	-	104,176	-	-
Receivables, net								
Accounts receivable	-	-	-	1,881	1,881	-	-	-
Taxes receivable	-	-	-	-	-	-	17,924	983
Intergovernmental receivable	149,230	119,514	-	-	268,744	-	-	-
Special assessments receivable	-	-	-	-	-	-	-	4,430
Prepaid items	3,872	-	-	-	3,872	-	-	-
Total assets	<u>\$ 576,473</u>	<u>\$ 1,132,956</u>	<u>\$ 115,297</u>	<u>\$ 193,110</u>	<u>\$ 2,017,836</u>	<u>\$ 107,585</u>	<u>\$ 793,512</u>	<u>\$ 12,168</u>
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 135,948	\$ 64,729	\$ 1,575	\$ -	\$ 202,252	\$ -	\$ -	\$ -
Accrued wages and benefits	15,449	1,624	-	-	17,073	-	-	-
Interest payable	-	-	-	-	-	14,176	148,414	-
Due to other funds	-	-	-	-	-	-	6,645	-
Deferred revenue	-	-	-	-	-	-	10,948	4,805
Matured debt principal payable	-	-	-	-	-	90,000	160,000	-
Due to developers	-	-	-	-	-	-	100,702	-
Total liabilities	<u>151,397</u>	<u>66,353</u>	<u>1,575</u>	<u>-</u>	<u>219,325</u>	<u>104,176</u>	<u>426,709</u>	<u>4,805</u>
Fund balances								
Reserved for prepaid items	3,872	-	-	-	3,872	-	-	-
Unreserved	421,204	1,066,603	113,722	193,110	1,794,639	3,409	366,803	7,363
Total fund balances	<u>425,076</u>	<u>1,066,603</u>	<u>113,722</u>	<u>193,110</u>	<u>1,798,511</u>	<u>3,409</u>	<u>366,803</u>	<u>7,363</u>
Total liabilities and fund balances	<u>\$ 576,473</u>	<u>\$ 1,132,956</u>	<u>\$ 115,297</u>	<u>\$ 193,110</u>	<u>\$ 2,017,836</u>	<u>\$ 107,585</u>	<u>\$ 793,512</u>	<u>\$ 12,168</u>

Debt Service

<u>Total</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 785,752	\$ 2,529,091
104,176	104,176
-	1,881
18,907	18,907
-	268,744
4,430	4,430
-	3,872
<u>\$ 913,265</u>	<u>\$ 2,931,101</u>

\$ -	\$ 202,252
-	17,073
162,590	162,590
6,645	6,645
15,753	15,753
250,000	250,000
<u>100,702</u>	<u>100,702</u>
<u>535,690</u>	<u>755,015</u>

-	3,872
<u>377,575</u>	<u>2,172,214</u>
<u>377,575</u>	<u>2,176,086</u>

<u>\$ 913,265</u>	<u>\$ 2,931,101</u>
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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, 2005

	Special Revenue				Debt Service			
	HURF	Excise Tax	Grants	Local Court Enhancement	Total	HURF Debt Service	Eagle Mountain Debt Service	Cottonwoods Special Assessment
Revenues								
Taxes								
Sales taxes	\$ -	\$ 1,366,123	\$ -	\$ -	\$ 1,366,123	\$ -	\$ -	\$ -
Property taxes	-	-	-	-	-	-	594,644	-
Intergovernmental	1,584,706	-	108,006	-	1,692,712	-	-	-
Fines and forfeitures	-	-	-	27,113	27,113	-	-	-
Charges for services	26,359	-	-	-	26,359	-	-	-
Special assessments	-	-	-	-	-	-	-	1,512
Investment earnings	10,493	45,579	-	2,179	58,251	-	5,616	7
Other	31,679	-	-	-	31,679	-	-	-
Total revenues	<u>1,653,237</u>	<u>1,411,702</u>	<u>108,006</u>	<u>29,292</u>	<u>3,202,237</u>	<u>-</u>	<u>600,260</u>	<u>1,519</u>
Expenditures								
Current								
General government	-	252,615	69,595	5,067	327,277	-	38,160	-
Public safety	-	-	10,000	-	10,000	-	-	-
Highways and streets	1,439,221	-	-	-	1,439,221	-	-	-
Culture and recreation	-	-	81,023	-	81,023	-	-	-
Debt Service								
Principal retirement	-	-	-	-	-	90,000	160,000	3,228
Interest on long-term debt	-	-	-	-	-	28,753	296,827	763
Total expenditures	<u>1,439,221</u>	<u>252,615</u>	<u>160,618</u>	<u>5,067</u>	<u>1,857,521</u>	<u>118,753</u>	<u>494,987</u>	<u>3,991</u>
Excess (deficiency) of revenues over expenditures	<u>214,016</u>	<u>1,159,087</u>	<u>(52,612)</u>	<u>24,225</u>	<u>1,344,716</u>	<u>(118,753)</u>	<u>105,273</u>	<u>(2,472)</u>
Other financing sources (uses)								
Transfers in	-	-	-	-	-	120,500	-	-
Transfers out	(120,500)	(2,524,654)	-	-	(2,645,154)	-	-	-
Total other financing sources (uses)	<u>(120,500)</u>	<u>(2,524,654)</u>	<u>-</u>	<u>-</u>	<u>(2,645,154)</u>	<u>120,500</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>93,516</u>	<u>(1,365,567)</u>	<u>(52,612)</u>	<u>24,225</u>	<u>(1,300,438)</u>	<u>1,747</u>	<u>105,273</u>	<u>(2,472)</u>
Fund balances, beginning of year	<u>331,560</u>	<u>2,432,170</u>	<u>166,334</u>	<u>168,885</u>	<u>3,098,949</u>	<u>1,662</u>	<u>261,530</u>	<u>9,835</u>
Fund balances, end of year	<u>\$ 425,076</u>	<u>\$ 1,066,603</u>	<u>\$ 113,722</u>	<u>\$ 193,110</u>	<u>\$ 1,798,511</u>	<u>\$ 3,409</u>	<u>\$ 366,803</u>	<u>\$ 7,363</u>

Debt Service

<u>Total</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 1,366,123
594,644	594,644
-	1,692,712
-	27,113
-	26,359
1,512	1,512
5,623	63,874
-	31,679
<u>601.779</u>	<u>3,804.016</u>

38,160	365,437
-	10,000
-	1,439,221
-	81,023

253,228	253,228
<u>326,343</u>	<u>326,343</u>
<u>617.731</u>	<u>2,475.252</u>

<u>(15,952)</u>	<u>1,328.764</u>
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120,500	120,500
-	(2,645,154)
<u>120,500</u>	<u>(2,524,654)</u>

104,548	(1,195,890)
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<u>273,027</u>	<u>3,371.976</u>
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<u>\$ 377,575</u>	<u>\$ 2,176,086</u>
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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, 2005

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Taxes			
Property taxes	\$ 1,450,000	\$ 1,461,420	\$ 11,420
Investment earnings	1,000	37,426	36,426
Total Revenues	<u>1,451,000</u>	<u>1,498,846</u>	<u>47,846</u>
Expenditures			
Debt Service			
Principal retirement	805,000	435,000	370,000
Interest on long-term debt	592,500	379,076	213,424
Issuance costs	-	60,000	(60,000)
Total Expenditures	<u>1,397,500</u>	<u>874,076</u>	<u>523,424</u>
Excess (deficiency) of revenues over expenditures	<u>53,500</u>	<u>624,770</u>	<u>571,270</u>
Other financing sources (uses)			
Proceeds of refunding debt issuance	-	7,225,000	7,225,000
Payment to refunded debt escrow agent	-	(7,752,833)	(7,752,833)
Total other financing sources (uses)	<u>-</u>	<u>(527,833)</u>	<u>(527,833)</u>
Excess (deficiency) of revenues over expenditures	53,500	96,937	43,437
Fund balances, beginning of year	<u>105,415</u>	<u>268,842</u>	<u>163,427</u>
Fund balances, end of year	<u>\$ 158,915</u>	<u>\$ 365,779</u>	<u>\$ 206,864</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, 2005

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Investment earnings	\$ -	\$ 29,055	\$ 29,055
Total Revenues	<u>-</u>	<u>29,055</u>	<u>29,055</u>
Expenditures			
Debt Service			
Principal retirement	570,000	620,000	(50,000)
Interest on long-term debt	750,500	456,892	293,608
Issuance costs	-	80,500	(80,500)
Total Expenditures	<u>1,320,500</u>	<u>1,157,392</u>	<u>163,108</u>
Excess (deficiency) of revenues over expenditures	<u>(1,320,500)</u>	<u>(1,128,337)</u>	<u>192,163</u>
Other financing sources (uses)			
Transfers in	1,320,500	2,524,654	1,204,154
Proceeds of refunding debt issuance	-	5,330,000	5,330,000
Payment to refunded debt escrow agent	-	(6,925,005)	(6,925,005)
Total other financing sources (uses)	<u>1,320,500</u>	<u>929,649</u>	<u>(390,851)</u>
Net change in fund balances	-	(198,688)	(198,688)
Fund balances, beginning of year	-	476,998	476,998
Fund balances, end of year	<u>\$ -</u>	<u>\$ 278,310</u>	<u>\$ 278,310</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, 2005

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Charges for services	\$ 1,176,891	\$ 1,614,781	\$ 437,890
Investment earnings	<u>22,750</u>	<u>44,514</u>	<u>21,764</u>
Total Revenues	<u>1,199,641</u>	<u>1,659,295</u>	<u>459,654</u>
Expenditures			
Current			
Highways and streets	365,000	243,342	121,658
Culture and recreation	<u>485,100</u>	<u>374,298</u>	<u>110,802</u>
Total Expenditures	<u>850,100</u>	<u>617,640</u>	<u>232,460</u>
Excess (deficiency) of revenues over expenditures	<u>349,541</u>	<u>1,041,655</u>	<u>692,114</u>
Other financing sources (uses)			
Transfers out	<u>(431,023)</u>	<u>(352,725)</u>	<u>78,298</u>
Total other financing sources (uses)	<u>(431,023)</u>	<u>(352,725)</u>	<u>78,298</u>
Net change in fund balances	(81,482)	688,930	770,412
Fund balances, beginning of year	<u>1,876,646</u>	<u>1,740,295</u>	<u>(136,351)</u>
Fund balances, end of year	<u>\$ 1,795,164</u>	<u>\$ 2,429,225</u>	<u>\$ 634,061</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, 2005

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental	\$ 474,600	\$ 237,307	\$ (237,293)
Charges for services	317,500	-	(317,500)
Investment earnings	-	35,384	35,384
Total Revenues	<u>792,100</u>	<u>272,691</u>	<u>(519,409)</u>
Expenditures			
Current			
General government	5,739,200	5,958,166	(218,966)
Culture and recreation	771,970	809,253	(37,283)
Debt Service			
Interest on long-term debt	-	2,250	(2,250)
Issuance costs	-	89,490	(89,490)
Total Expenditures	<u>6,511,170</u>	<u>6,859,159</u>	<u>(347,989)</u>
Excess (deficiency) of revenues over expenditures	<u>(5,719,070)</u>	<u>(6,586,468)</u>	<u>(867,398)</u>
Other financing sources (uses)			
Transfers in	1,662,700	2,160,481	497,781
Proceeds of long-term debt issuance	<u>3,500,000</u>	<u>3,783,896</u>	<u>283,896</u>
Total other financing sources (uses)	<u>5,162,700</u>	<u>5,944,377</u>	<u>781,677</u>
Net change in Fund balances	(556,370)	(642,091)	(85,721)
Fund balances, beginning of year	<u>556,370</u>	<u>642,091</u>	<u>85,721</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, 2005

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental	\$ 1,504,600	\$ 1,584,706	\$ 80,106
Charges for services	19,000	26,359	7,359
Investment earnings	1,500	10,493	8,993
Other	<u>1,000</u>	<u>31,679</u>	<u>30,679</u>
Total Revenues	<u>1,526,100</u>	<u>1,653,237</u>	<u>127,137</u>
Expenditures			
Current			
Highways and streets	<u>1,580,961</u>	<u>1,439,221</u>	<u>141,740</u>
Total Expenditures	<u>1,580,961</u>	<u>1,439,221</u>	<u>141,740</u>
Excess (deficiency) of revenues over expenditures	<u>(54,861)</u>	<u>214,016</u>	<u>268,877</u>
Other financing sources (uses)			
Transfers out	<u>(120,000)</u>	<u>(120,500)</u>	<u>(500)</u>
Total other financing sources (uses)	<u>(120,000)</u>	<u>(120,500)</u>	<u>(500)</u>
Net change in fund balances	(174,861)	93,516	268,377
Fund balances, beginning of year	<u>-</u>	<u>331,560</u>	<u>331,560</u>
Fund balances, end of year	<u>\$ (174,861)</u>	<u>\$ 425,076</u>	<u>\$ 599,937</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
 EXCISE TAX FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes			
Sales taxes	\$ 1,338,605	\$ 1,366,123	\$ 27,518
Investment earnings	7,500	45,579	38,079
Total Revenues	<u>1,346,105</u>	<u>1,411,702</u>	<u>65,597</u>
Expenditures			
Current			
General government	558,274	252,615	305,659
Total Expenditures	<u>558,274</u>	<u>252,615</u>	<u>305,659</u>
Excess (deficiency) of revenues over expenditures	<u>787,831</u>	<u>1,159,087</u>	<u>371,256</u>
Other financing sources (uses)			
Transfers out	(945,000)	(2,524,654)	(1,579,654)
Total other financing sources (uses)	<u>(945,000)</u>	<u>(2,524,654)</u>	<u>(1,579,654)</u>
Net change in fund balances	(157,169)	(1,365,567)	(1,208,398)
Fund balances, beginning of year	<u>2,753,183</u>	<u>2,432,170</u>	<u>(321,013)</u>
Fund balances, end of year	<u>\$ 2,596,014</u>	<u>\$ 1,066,603</u>	<u>\$ (1,529,411)</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, 2005

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental	\$ 1,492,500	\$ 108,006	\$ (1,384,494)
Total Revenues	<u>1,492,500</u>	<u>108,006</u>	<u>(1,384,494)</u>
Expenditures			
Current			
General government	1,375,000	69,595	1,305,405
Public safety	75,000	10,000	65,000
Culture and recreation	230,770	81,023	149,747
Total Expenditures	<u>1,680,770</u>	<u>160,618</u>	<u>1,520,152</u>
Excess (deficiency) of revenues over expenditures	<u>(188,270)</u>	<u>(52,612)</u>	<u>135,658</u>
Other financing sources (uses)			
Transfers in	7,500	-	(7,500)
Total other financing sources (uses)	<u>7,500</u>	<u>-</u>	<u>(7,500)</u>
Net change in fund balances	(180,770)	(52,612)	128,158
Fund balances, beginning of year	<u>180,770</u>	<u>166,334</u>	<u>(14,436)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 113,722</u>	<u>\$ 113,722</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
 LOCAL COURT ENHANCEMENT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Fines and forfeitures	\$ 68,500	\$ 27,113	\$ (41,387)
Investment earnings	<u>1,500</u>	<u>2,179</u>	<u>679</u>
Total Revenues	<u>70,000</u>	<u>29,292</u>	<u>(40,708)</u>
Expenditures			
Current			
General government	<u>100,000</u>	<u>5,067</u>	<u>94,933</u>
Total Expenditures	<u>100,000</u>	<u>5,067</u>	<u>94,933</u>
Excess (deficiency) of revenues over expenditures	(30,000)	24,225	54,225
Fund balances, beginning of year	<u>-</u>	<u>168,885</u>	<u>168,885</u>
Fund balances, end of year	<u>\$ (30,000)</u>	<u>\$ 193,110</u>	<u>\$ 223,110</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, 2005

	<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>34,000</u>	<u>28,753</u>	<u>5,247</u>
Total Expenditures	<u>124,000</u>	<u>118,753</u>	<u>5,247</u>
Excess (deficiency) of revenues over expenditures	<u>(124,000)</u>	<u>(118,753)</u>	<u>5,247</u>
Other financing sources (uses)			
Transfers in	<u>124,000</u>	<u>120,500</u>	<u>(3,500)</u>
Total other financing sources (uses)	<u>124,000</u>	<u>120,500</u>	<u>(3,500)</u>
Net change in fund balances	-	1,747	1,747
Fund balances, beginning of year	<u>-</u>	<u>1,662</u>	<u>1,662</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 3,409</u>	<u>\$ 3,409</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, 2005

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes			
Property taxes	\$ 513,000	\$ 594,644	\$ 81,644
Investment earnings	-	5,616	5,616
Total Revenues	<u>513,000</u>	<u>600,260</u>	<u>87,260</u>
Expenditures			
Current			
General government	-	38,160	(38,160)
Debt Service			
Principal retirement	160,000	160,000	-
Interest on long-term debt	<u>353,000</u>	<u>296,827</u>	<u>56,173</u>
Total Expenditures	<u>513,000</u>	<u>494,987</u>	<u>18,013</u>
Excess (deficiency) of revenues over expenditures	-	105,273	105,273
Fund balances, beginning of year	<u>546,236</u>	<u>261,530</u>	<u>(284,706)</u>
Fund balances, end of year	<u>\$ 546,236</u>	<u>\$ 366,803</u>	<u>\$ (179,433)</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, 2005

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Special assessments	\$ 4,500	\$ 1,512	\$ (2,988)
Investment earnings	-	7	7
Total Revenues	<u>4,500</u>	<u>1,519</u>	<u>(2,981)</u>
Expenditures			
Debt Service			
Principal retirement	3,228	3,228	-
Interest on long-term debt	<u>1,272</u>	<u>763</u>	<u>509</u>
Total Expenditures	<u>4,500</u>	<u>3,991</u>	<u>509</u>
Excess (deficiency) of revenues over expenditures	-	(2,472)	(2,472)
Fund balances, beginning of year	<u>-</u>	<u>9,835</u>	<u>9,835</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 7,363</u>	<u>\$ 7,363</u>

STATISTICAL SECTION

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

Fiscal Year	General Government	Public Safety	Highways and Streets	Culture and Recreation	Community Development	Interest on Long-term Debt	Totals
2003	\$ 3,479,333	\$ 5,494,708	\$ 1,310,683	\$ 2,363,897	\$ 1,235,985	\$ 1,576,842	\$ 15,461,448
2004	3,686,452	4,918,280	1,419,509	2,068,613	1,144,964	1,499,575	14,737,393
2005	3,766,500	5,024,686	1,281,061	2,362,661	1,460,181	1,162,796	15,057,885

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				
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Revenue Sharing	Investment Earnings	Other	Totals
2003	\$ 2,782,385	\$ 1,697,900	\$ -	\$ 7,100,184	\$ 4,740,758	\$ 1,976,809	\$ 79,706	\$ 18,377,742
2004	3,421,132	1,590,787	-	10,055,861	4,489,844	122,082	195,978	19,875,684
2005	4,490,704	1,692,712	237,307	11,116,629	4,756,481	395,124	120,666	22,809,623

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
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
2004	3,614,458	4,616,161	1,402,502	1,597,150	1,144,964	101,951	2,922,803	15,399,989
2005	9,547,409	4,754,523	1,682,563	3,004,216	1,460,181	-	2,702,779	23,151,671

(1) Includes all governmental fund types.

*In the fiscal year 2003 GASB Statement No. 34 was implemented; subsequently, capital outlay was charged directly to departments rather than having its own line item.

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 Assessments	Net Investment Income (Loss)	Other	Total
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
2004	9,997,706	6,080,631	361,339	1,600,934	1,038,170	242,704	-	3,612	122,082	261,561	19,708,739
2005	11,151,893	6,686,500	249,564	2,230,046	1,834,205	222,327	-	1,512	395,124	179,657	22,950,828

(1) Includes all governmental fund types.

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

Fiscal Year	Sales Taxes	Property Taxes	Franchise Taxes	Total
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
2004	7,733,643	2,137,701	126,362	9,997,706
2005	8,879,798	2,056,064	216,031	11,151,893

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

Business Activity Category	2005 Excise Tax Collections	Percent of Total
Construction	\$ 1,837,318	21.0 %
Transportation/Utilities/Communication	1,124,676	12.9
Wholesale/Retail	3,536,024	40.4
Restaurants/Bars	524,368	6.0
Fire, Insurance and Real Estate	626,813	7.2
Services	185,868	2.1
Advertising	101,590	1.1
All Other Services Not Specified	<u>809,340</u>	<u>9.3</u>
	<u>\$ 8,745,997</u>	<u>100.0 %</u>

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

<u>Fiscal Year</u>	<u>(1) Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Current Taxes Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Ratio of Total Tax Collections to Total Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Ratio of Delinquent Taxes to Tax Levy</u>
1996	\$ 323,517	\$ 323,511	100.0 %	\$ 6	\$ 323,517	100.0 %	\$ -	- %
1997	312,638	312,489	100.0	143	312,632	100.0	6	-
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	11,171	444,136	100.0	2	-
2001	699,006	676,682	96.8	22,321	699,003	100.0	3	-
2002	1,335,787	1,282,844	96.0	51,532	1,334,376	99.9	1,411	0.11
2003	1,378,862	1,329,929	96.5	46,186	1,376,115	99.8	2,747	0.20
2004	1,545,051	1,496,005	96.8	-	1,496,005	96.8	49,046	3.17
2005	1,449,287	1,408,289	97.2	-	1,408,289	97.2	40,998	2.83

(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
1996	\$ 105,912,474	\$ 5,262,641	\$ 884,979,322	\$ 1,061,975,186	\$ 94,188,635	9.97 %
1997	118,888,547	6,602,978	1,002,546,459	1,203,055,751	100,649,833	9.88
1998	141,077,170	7,355,989	1,208,968,752	1,450,762,502	112,285,569	9.72
1999	170,258,614	9,255,978	1,467,193,748	1,760,632,498	133,721,181	9.67
2000	198,224,776	8,578,615	1,713,029,238	2,055,635,086	190,102,361	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
2004	340,673,759	21,460,295	2,899,977,948	3,479,973,538	319,213,464	9.79
2005	373,144,037	22,709,568	3,191,431,714	3,829,718,057	350,434,469	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
1996	\$ 109,463,361	\$ 5,519,310	\$ 906,495,406	\$ 1,087,794,487	\$ 100,161,566	10.06 %
1997	123,097,961	6,764,555	1,034,892,731	1,241,871,277	103,944,051	9.91
1998	155,729,430	8,785,700	1,317,946,863	1,581,536,236	116,333,406	9.85
1999	185,540,741	10,575,923	1,583,072,952	1,899,687,542	146,943,730	9.77
2000	221,922,165	9,894,702	1,889,016,352	2,266,819,622	212,415,476	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
2004	377,590,037	28,191,703	3,162,854,959	3,795,425,951	349,398,334	9.95
2005	402,974,523	27,906,320	3,411,460,877	4,093,753,052	375,068,203	9.84

(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)

Tax Year		Assessed Valuation Town of Fountain Hills	Assessed Valuation Fountain Hills School District	Assessed Valuation Maricopa County	Assessed Valuation State of Arizona
1996	P	\$ 94,188,635	\$ 95,155,307	\$ 13,493,736,826	\$ 22,109,868,588
	S	100,161,566	101,137,745	14,119,434,946	23,022,330,962
1997	P	100,649,833	101,573,954	13,975,668,204	22,811,158,500
	S	103,944,051	104,881,097	14,343,156,861	23,333,678,475
1998	P	112,285,569	113,072,537	15,006,270,531	21,001,064,273
	S	116,333,406	117,144,929	15,723,498,194	22,333,861,362
1999	P	133,721,181	134,650,036	17,463,875,533	21,670,300,013
	S	146,943,730	147,884,952	18,676,830,848	22,533,348,150
2000	P	190,102,361	191,579,669	19,362,298,255	29,944,135,240
	S	212,415,476	214,037,354	20,877,715,546	31,837,391,782
2001	P	220,229,137	223,185,771	21,355,326,477	32,518,431,391
	S	238,714,537	242,086,985	22,913,134,480	34,468,574,240
2002	P	247,151,729	251,514,211	22,955,864,882	34,868,596,227
	S	270,602,866	277,768,188	24,457,047,282	36,825,660,973
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
2004	P	319,213,464	326,230,578	28,070,870,413	41,886,818,760
	S	349,398,334	358,634,532	30,066,986,670	44,480,893,202
2005	P	350,434,469	360,276,219	31,000,571,899	46,046,096,197
	S	375,068,203	386,548,349	33,188,609,340	48,938,261,134

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)

<u>Fiscal Year</u>	<u>Arizona</u>	<u>Community College</u>	<u>County</u>	<u>Fountain Hills School District</u>	<u>East Valley Inst. of Tech District</u>	<u>Fire District Royalties</u>	<u>Sanitary District</u>	<u>Road District</u>	<u>Flood Control District</u>	<u>Library District</u>	<u>Volunteer Fire District</u>	<u>Central Arizona Project</u>	<u>Town of Fountain Hills</u>	<u>Total</u>
1996	-	1.0476	1.7929	7.1501	0.1616	0.9826	1.8983	0.3186	0.3425	0.0421	0.0109	0.1400	0.3036	14.1908
1997	-	1.1346	1.7929	7.2466	0.1216	1.0407	1.6619	0.1806	0.3425	0.0421	0.0105	0.1400	0.2330	13.9470
1998	-	1.1125	1.8084	7.2134	0.1320	0.9482	1.9394	0.0370	0.3270	0.0421	0.0103	0.1400	0.1699	13.8802
1999	-	1.1285	1.8186	5.8569	0.1217	0.8933	1.8315	-	0.2858	0.0421	0.0100	0.1400	0.2578	12.3862
2000	-	1.1194	1.2793	6.2903	0.1186	1.0239	2.8027	-	0.2534	0.0421	0.0096	0.1300	0.3331	13.4024
2001	-	1.4557	1.1832	6.3373	0.1120	0.9739	2.0515	-	0.2319	0.0421	0.0091	0.1300	0.5605	13.0872
2002	-	1.6016	1.2908	6.1186	0.1117	-	1.2948	-	0.2119	0.0421	0.0076	0.1300	0.5137	11.3228
2003	-	1.0785	1.2808	5.7025	0.0976	-	1.1527	-	0.2119	0.0521	0.0070	0.1200	0.4762	10.1793
2004	-	1.0372	1.2108	5.5710	0.1032	-	1.1307	-	0.2119	0.0521	0.0069	0.1200	0.4150	9.8588
2005	-	1.0315	1.3177	5.2146	0.0573	-	1.0547	-	0.2119	0.0521	0.0069	0.1200	0.3510	9.4177

TOWN OF FOUNTAIN HILLS, ARIZONA
 PRIMARY AND SECONDARY PROPERTY TAX RATES -
 ALL DIRECT AND 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>
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
2004	P	-	3.50	1.21	-	4.71
	S	0.43	2.07	-	-	2.50
2005	P	-	3.17	1.20	-	4.37
	S	0.35	2.05	-	-	2.40

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, 2005
 (UNAUDITED)

Taxpayer	Land Description	2004/05 Assessed Valuation	As % of Town's Net Secondary Assessed Valuation
Qwest Corporations	Telecommunications	\$ 3,365,809	0.90 %
Chapparal City Water Company	Water Utility	3,066,000	0.82
Fountain Hills Village LLC	Assisted Living Facility	1,822,567	0.49
KIMCO Barclay Fountain Hills	Shopping Center	1,724,863	0.46
MCO Properties	Industrial	1,655,056	0.44
Cox Communications	Communications	1,507,740	0.40
Target Corporation	Shopping Center	1,441,438	0.38
EN LLC	Residential	1,347,042	0.36
Fountain Hills Vista Properties LLC	Commercial	986,365	0.26
Adero Canyon LLC	Residential	<u>834,777</u>	<u>0.22</u>
		<u>\$ 17,751,657</u>	<u>4.73 %</u>

Source: Treasurer of Maricopa County.

TOWN OF FOUNTAIN HILLS, ARIZONA
 COMPUTATION OF LEGAL DEBT MARGIN
 JUNE 30, 2005
 (UNAUDITED)

Net secondary assessed valuation	\$ <u>375,068.203</u>
<u>Water, Sewer, Light, Parks, Open Space and Recreational Facility Boards</u>	
Debt limit - 20% of secondary net assessed valuation	\$ 75,013,641
Bonds outstanding	<u>5,940,000</u>
Net 20% General Obligation Bonding Capacity	<u>69,073,641</u>
<u>All Other General Obligation Bonds</u>	
Debt limit - 6% of secondary net assessed valuation	22,504,092
Bonds outstanding subject to debt limit	<u>4,735,000</u>
Net 6% General Obligation Bonding Capacity	<u>17,769,092</u>
Total 20% and 6% Bonding Capacity	\$ <u>86,842,733</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)

Fiscal Year	Population	Net Secondary Assessed Valuation	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1995-96	14,160	\$100,161,566	\$ 4,277,315	4.27 %	302
1996-97	15,220	103,944,051	4,056,473	3.90	267
1997-98	16,275	116,333,406	3,883,018	3.34	239
1998-99	18,015	146,943,730	3,913,952	2.66	217
1999-00	18,595	212,415,476	8,677,053	4.08	467
2000-01	20,235	212,027,463	8,209,873	3.87	406
2001-02	20,235	238,714,537	13,410,000	5.62	663
2002-03	21,740	270,602,866	12,585,000	4.65	579
2003-04	22,105 *	323,385,230	11,740,000	3.63	531
2004-05	23,700 *	375,068,203	11,215,000	2.99	473

* League of Arizona Cities and Towns.

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

Fiscal Year	Principal	Interest and Fiscal Charges	Bond Issuance Cost	Total Debt Service	Total Expenditures (*)	Ratio of Debt Service to Total Expenditures
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
2003-04	1,423,228	1,499,575	-	2,922,803	15,399,989	18.98
2004-05	1,308,228	1,164,561	229,990	2,702,779	23,151,671	11.67

(*) Includes all Governmental Fund Types.

TOWN OF FOUNTAIN HILLS, ARIZONA
 DIRECT AND OVERLAPPING GENERAL OBLIGATION BONDED DEBT
 JUNE 30, 2005
 (UNAUDITED)

<u>Overlapping Jurisdiction</u>	2004-05 Net Secondary Assessed Valuation	Net Outstanding General Obligation Bonded Debt	<u>Proportion Applicable to Town of Fountain Hills</u>	
			Approximate Percent	Net Debt Amount
State of Arizona	\$48,938,261,134	\$ -	0.77 %	\$ -
Maricopa County	33,188,609,340	-	1.13 %	-
Maricopa County Community College District	33,188,609,340	234,440,000	1.13 %	2,649,172
Eagle Mountain Community Facilities District	24,195,157	4,455,000	100.00 %	4,455,000
Fountain Hills Unified School District No. 98	386,548,389	27,990,000	97.03 %	27,158,697
East Valley Institute of Technology District	14,048,333,333	6,235,000	2.67 %	166,475
Fountain Hills Sanitary District	373,290,604	1,320,000	100.00 %	1,320,000
Town of Fountain Hills	375,068,203	10,675,000	100.00 %	<u>10,675,000</u>
Total Direct and Overlapping General Obligation Bonded Debt				<u>\$ 46,424,344</u>

Source: Maricopa County Treasurer's Office.

TOWN OF FOUNTAIN HILLS, ARIZONA
 MISCELLANEOUS STATISTICAL DATA
 JUNE 30, 2005
 (UNAUDITED)

DATE OF INCORPORATION	December 5, 1989
FORM OF GOVERNMENT	Council - Manager
NUMBER OF EMPLOYEES (no police and fire)	
Classified - Full time	64
Classified - Part time	20
Exempt	25
AREA	18.27 sq. miles
TOWN OF FOUNTAIN HILLS FACILITIES AND SERVICES	
Miles of Street	
Surfaced	178.5
Unsurfaced	2
Population	
1990 census	10,190
1995 census	14,160
2000 census	20,235
Housing Units	12,385
Building Permits Issued	950
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
The Town of Fountain Hills has no fire employees, but contracts with Rural/Metro Corporation to provide fire services to all residents. The Town does, however, own the fire station and equipment.	
Police Protection:	
Number of stations	1
Number of police personnel and officers	22
Number of patrol units	9
Number of law violations	
Physical arrests	644
Traffic/Parking violations	2,432
Sewerage System:	Special District
Miles of sanitary sewers	210
Number of treatment plants	1
Maximum daily capacity of treatment plant in gallons	2.6mgd
Water System:	Private
Miles of water mains	178
Number of hydrants	1,217
Maximum daily capacity of plant in gallons	18,800,000
Education:	
Number of elementary schools	3
Number of secondary schools	1

Source: Town government offices and related districts.

