

TOWN OF FOUNTAIN HILLS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Mr. Wallace J. Nichols
Mayor

Councilmembers

Mr. Edwin Kehe
Vice Mayor

Mr. Mike Archambault Ms. Ginny Dickey

Mr. Henry Leger Mr. Keith McMahan

Mr. Jay Schlum

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

Julie A. Ghatti, CPA
Finance Director

Prepared by:
Finance Department

TOWN OF FOUNTAIN HILLS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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INTRODUCTORY SECTION

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Town of FOUNTAIN HILLS

September 29, 2006

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, 2006, is hereby submitted. This document represents a joint effort by Town staff as well as our auditors, Cronstrom, Osuch & Company, P.C.

This report consists of management's representations concerning the finances of the Town of Fountain Hills. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To provide a reasonable basis for making these representations, management of the Town of Fountain Hills has established an internal control framework that is designed to both protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Fountain Hills' financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Fountain Hills' framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects. All disclosures necessary for the reader to understand the Town's activities have been included.

The Town of Fountain Hills' financial statements have been audited by Cronstrom, Osuch & Company, 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 for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Fountain Hills' financial statements for the fiscal year ended June 30, 2006, 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 the MD&A and should be read in conjunction with it. The Town of Fountain Hills' MD&A can be found immediately following the report of the independent auditors.

Town of Fountain Hills Profile



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

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

Over the past sixteen years Fountain Hills has grown from 10,190 residents to a town of 24,492 in 2005. The latest estimates for Fountain Hills indicate that the population will continue to grow to near 36,045 by 2025. Although the rate of growth is slowing as the Town approaches build-out, the community continues to attract residents building large custom homes to take advantage of the scenic vistas surrounding its mountain community. On June 5, 2006 the Town of Fountain Hills became two square miles and about ten percent larger by annexing 1,300 acres of State Trust Land. The process to annex the State Trust Land occurred over a two and one-half year period and development of the land will occur over the next decade. A public auction has been tentatively planned for Spring 2007 and the property will be sold to the highest bidder for development. Annexing this property into the Town ensures that its future development will be of the highest quality under such Town's standards as the cut-and-fill ordinance and strict zoning regulations. Fountain Hills will have an opportunity to demonstrate that it is truly the best place to live in the Valley.

The Town offers a range of living styles, from small community subdivisions to a number of large custom homes. Fountain Hills also offers recreational, cultural and retirement programs that address the needs and lifestyles of active families and adults. The community consists of primarily residential property; of the total 13,006 acres of land only 3% of the total is zoned commercial, 31% is reserved as open space and the remainder is residential.

The Town's Mission Statement for the Organization

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

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

To serve and respect, and provide trust and stewardship.

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

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



Fountain Hills Town Hall

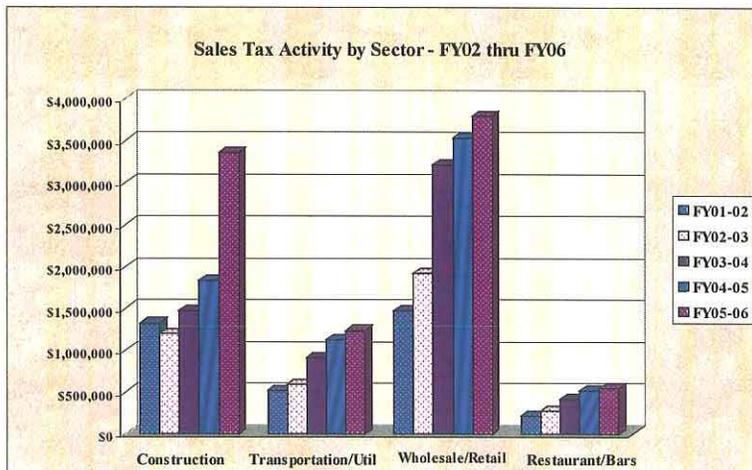
The financial reporting entity (the Town) includes all the funds of the primary government (i.e., the Town of Fountain Hills as legally defined) as well as all of its component units. The component units consist of legally separate entities for which the primary government is financially accountable.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

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

Factors Affecting Financial Condition

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

Local economy. The Town of Fountain Hills, similar to other Arizona municipalities, is overly dependent upon state revenues and local sales tax as a major source of revenue. During fiscal year 2005-06 the Town benefited from a regional economy fueled by the real estate and construction industry. State and local sales tax revenues provided 51% of the Town's General Fund budget. Locally, 31% of the Town's sales tax is from construction activity and 39% is generated from retail activity. The construction activity is primarily residential; in FY05-06 the Town issued permits for 130 single-family homes, 325 multi-family units and 10 commercial projects.



The chart to the left is a summary of local sales tax collections from FY02 through FY06 by category. The increase in the wholesale/retail activity reflects the opening of a new shopping center that was constructed in October 2002; the center is now 99% occupied. The increase in construction sales tax is due to the large number of multi-family, primarily condo, units during the past year.

The opportunity to further expand the retail tax base in Fountain Hills is limited by the lack of available commercial land – 75% of the developable lots are already developed. However, in FY05-06 the Town invested \$7.6M in improvements to the downtown area including a streetscape enhancement project along Avenue of the Fountains and a new Town Hall municipal building. The building was constructed on Avenue of the Fountains as Phase II of the Civic Center project as a permanent home to Town Government and the streetscape enhancement was designed to revitalize the downtown area. The Town completed the Avenue of the Fountains Enhancement Project Phase 1A and 1B in October 2006, which cost about \$1.6 million, and included streetlights, shade structures, sidewalk enhancements and landscape improvements along the north side of the avenue from La Montana Drive to Saguaro Boulevard and on the south side in front of the Town Hall. The enhancements were designed to enhance the main street for residents and visitors alike and to encourage everyone to shop, dine, discover downtown Fountain Hills. The goal is to create the perfect place for citizens 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. New lighting, pedestrian walkways, water features and cultural amenities are planned that will provide interest for adults and children.

A new Holiday Inn Hotel with 104 rooms opened in FY 2006 in the downtown area. The final phase of the Plaza Fountainside project, also in the downtown area, is scheduled to open by the end of FY2006. At the west gateway to Town, the Fountain Hills Conference and Resort Spa is planned. The project, which is currently under design will have a combination of condominium units, and resort hotel rooms that will expand tourism within the community and could bring additional bed tax revenue to Fountain Hills.

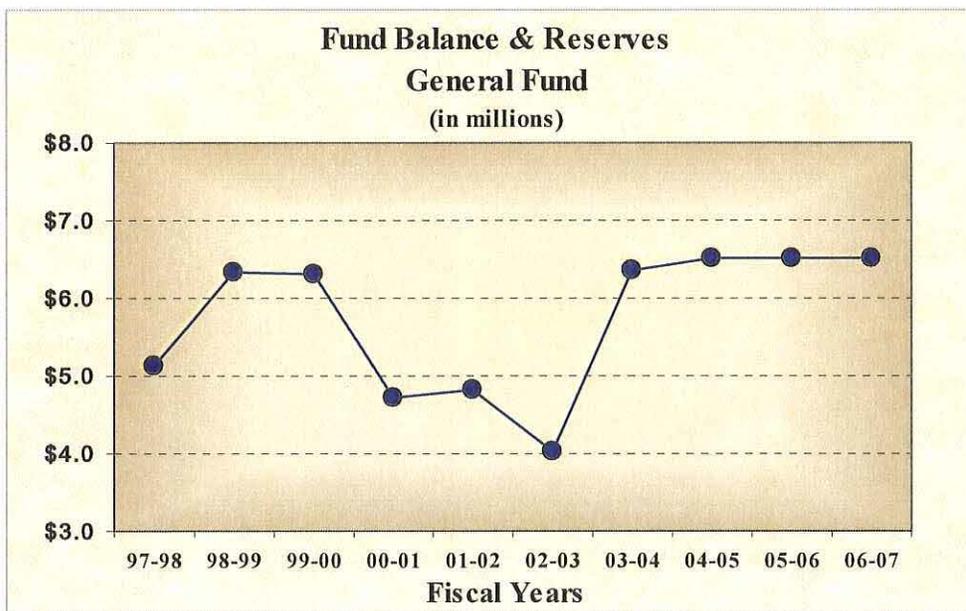
Long-term financial planning. In December 2005, through a citizen driven process, the Town initiated the “2006-2010 Strategic Plan” (visit www.fh.az.gov) where the community identified amenities and priorities that will guide Fountain Hills Town Council Members and staff as they establish budgets and priorities over the years. A strategic priority that was identified was to resolve the Town’s projected long-term revenue shortfall by December 31, 2007. The citizens recognize the need to address future revenue shortfalls that will occur when construction related revenues are constrained by availability of land or the economy.

In June 2006 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 respond to the strategic priority of resolving the future revenue shortfall and provide a blueprint for future operating and capital costs. The analysis indicated that operating expenditures will begin to outpace revenues by the fiscal year ending June 30, 2017 with the decline in construction revenues and increased operating costs. Through the Strategic Planning Advisory Committee the Town will be conducting several informed choices workshops that will provide an opportunity to inform residents about the Town’s financial options and allow for citizen input. The committee will present their findings to the Town Council in December, 2006.

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

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

These amounts will not be programmed for expenditure and are only available for use within the confines of expenditure limitations imposed by the State. A historical perspective of past General Fund balances is shown in the following chart. The decline in the General Fund balance from FY00 through FY03 resulted from an economic downturn, spending for capital projects and the creation of a municipal fire department. This trend was reversed in FY04 and the Mayor and Town Council and management are committed to maintaining the \$6.5M of reserves in the future. A Capital Improvement Special Revenue Fund has been created and funded with proceeds from excess revenues collected over budgeted and unexpended appropriations that are not needed to meet fund balance requirements or re-appropriation. In order to maintain the General Fund balance at \$6.5M approximately \$3M was 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 debt policy restricts investments to securities that are 100% backed by the full faith and credit of the U.S. government. The Town of Fountain Hills invests all idle cash in the State LGIP-GOV, which consists of government-backed securities. The year-to-date yield on investments as of June 30, 2006 was 4.5418%. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

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

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

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

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

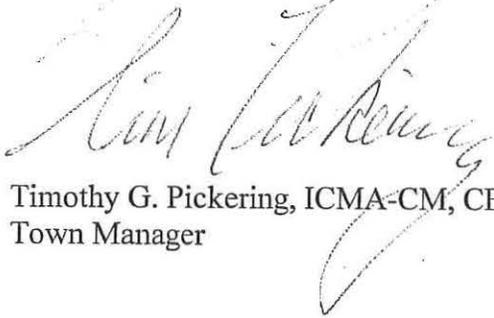
Awards and Acknowledgements. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the ninth consecutive 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, 2005. 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 third 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 team of the Finance and Administration Department. I would also like to extend my appreciation to the Mayor and Council for their leadership and support. Each member of the department has my sincere appreciation for the contributions made in the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Timothy G. Pickering". The signature is written in dark ink and is positioned above the printed name and title.

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

TOWN OF FOUNTAIN HILLS, ARIZONA

LIST OF PRINCIPAL OFFICIALS

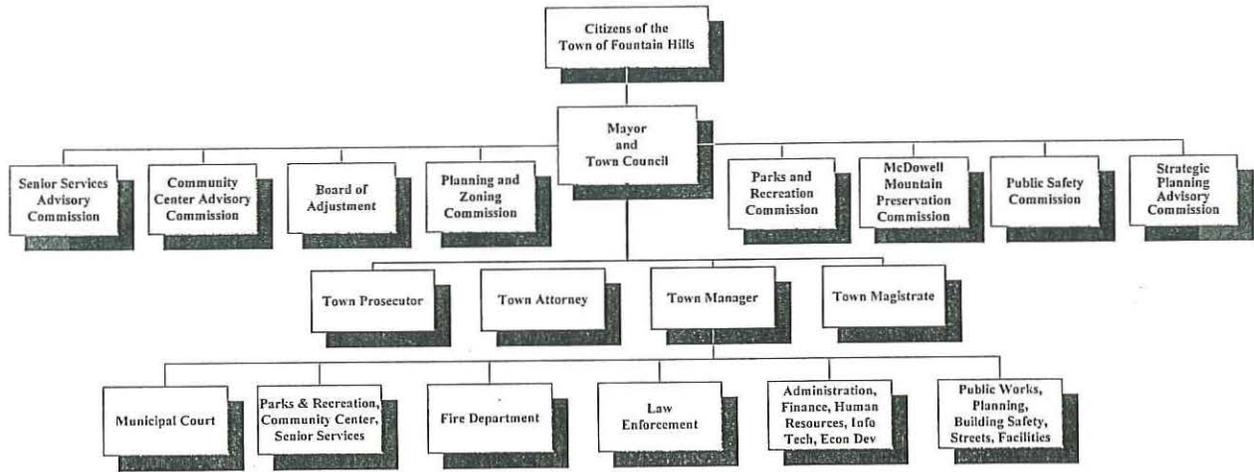
ELECTED OFFICIALS

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

APPOINTED OFFICIALS AND 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, 2006



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, 2005

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.



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fountain Hills, Arizona (Town), as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fountain Hills, Arizona, as of June 30, 2006, 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 17 - 27 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 opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cronstrom, Osuch & Company, P.C.

Cronstrom, Osuch & Company, P.C.

September 29, 2006

Management's Discussion and Analysis

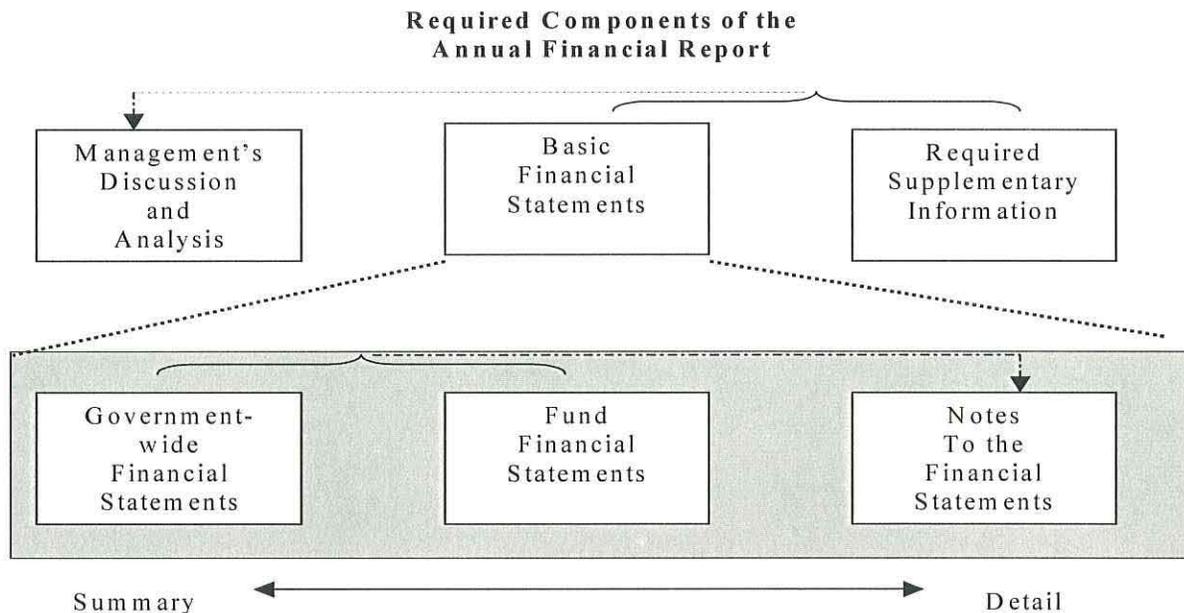
We (the Town of Fountain Hills) (Town) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2006. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an 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 exceeded its liabilities at the close of the most recent fiscal year by \$42.3 million (net assets). Of this amount \$9M (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- * As of the close of the current fiscal year, the Town of Fountain Hills' governmental funds reported combined ending fund balances of \$19.1M, an increase of \$4.7M in comparison with the prior year.
- * At the end of the current fiscal year, unreserved fund balance for the general fund was \$6.5M or 52 percent of total general fund expenditures. The fund balance policy adopted by the Council requires a minimum of \$5.1M in designated, undesignated and reserve funds. Surplus revenues from the prior fiscal year (\$2.6M) and the current fiscal year (\$2.9M) were transferred to the Capital Projects Fund for future appropriation.
- * General fund revenues (on a budgetary basis) exceeded budgeted revenues by \$1.8M for fiscal year 2006. Additionally, budgetary basis expenditures were only 87% (13% savings) of the final budget in the General Fund.
- * General Fund revenues exceeded expenditures by \$5.1, revenues had a positive variance of \$ 1.8M 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 37. Separate Financial Statements are not available for these 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 30 - 31 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 37 - 52) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

Required supplementary information other than MD&A

Governments have an option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information after the footnotes. The Town has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The Town has disclosed this information in Note 4.C. in the notes to the 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, 2006 compared to the prior year.

The combined net assets of the Town increased by 26.4% from \$33.5 million to \$42.3 million in fiscal year 2006, a difference of \$8.8 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.

Town of Fountain Hills, Arizona
Condensed Statement of Net Assets
As of June 30, 2006 and 2005

	Governmental Activities		Percent Change
	2006	2005	
Assets			
Current and other assets	\$ 24,581,682	\$ 18,958,084	29.7 %
Capital assets			
Non-depreciable	23,571,668	30,267,560	(22.1)
Depreciable (net)	<u>24,947,862</u>	<u>16,256,985</u>	53.5
Total assets	<u>73,101,212</u>	<u>65,482,629</u>	11.6
Liabilities			
Other liabilities	4,828,941	4,113,074	17.4
Non-current liabilities			
Due within one year	1,968,496	1,996,478	(1.4)
Due in more than one year	<u>23,997,510</u>	<u>25,912,107</u>	(7.4)
Total liabilities	<u>30,794,947</u>	<u>32,021,659</u>	(3.8)
Net assets			
Invested in capital assets, net of related debt	20,806,507	17,495,539	18.9
Restricted	12,446,147	5,144,127	141.9
Unrestricted	<u>9,053,611</u>	<u>10,821,304</u>	(16.3)
Total net assets	<u>\$ 42,306,265</u>	<u>\$ 33,460,970</u>	26.4 %

Net Assets consists of three components. The largest portion of the Town of Fountain Hills net assets (49%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town of Fountain Hills uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Fountain Hills' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. This category of Net Assets increased \$3.3M in FY05 primarily from the investment in the Fountain Hills downtown area, including a new Town Hall.

The second portion of the Town of Fountain Hills' net assets (29%) represents resources that are subject to external and internal restrictions on how they may be used. These assets are restricted for capital projects.

The remaining balance of unrestricted net assets (\$9.1M) may be used to meet the government's ongoing obligations to citizens and creditors. This category decreased by \$1.8M in FY06 with the transfer of surplus revenues to capital project funds.

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

Analysis of changes in net assets

The table on the next page compares the revenue and expenses for the current and previous fiscal year.

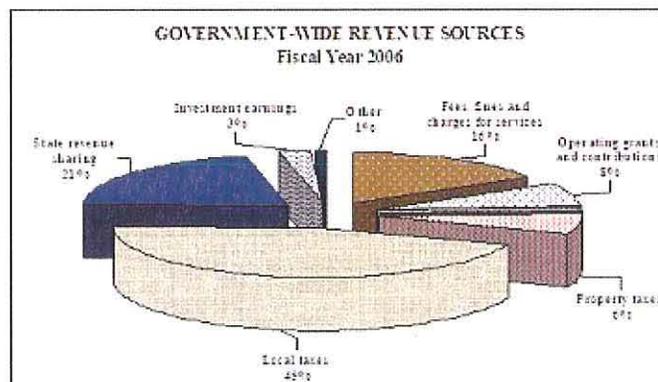
The program revenues (charges for services and grants that are clearly identifiable to an operating function) of governmental activities decreased \$264,785 (4.1%) overall from the previous year; grants and contributions, however, increased due to additional grant funding. Fees, fines and charges for service revenues decreased with a reduction of building related fees that are collected at the time of permit issuance. Local sales tax from construction is collected during the construction project, therefore, lag as an indicator of building permit activity.

Program expenses increased overall 9.9%, particularly in Community Development and Public Safety. The increase in Community Development reflects the internal transfer from Building Safety of two code enforcement officers and hiring of an additional code enforcement officer to increase compliance with Town ordinances. The increase in public safety reflects the annual increase in the contracts for fire and emergency services with Rural Metro Corporation and Maricopa County Sheriff's Office for law enforcement. Highways and streets increases are the result of the installation of new traffic signal.

Town of Fountain Hills, Arizona
Changes in Net Assets
For the Fiscal Year Ended June 30, 2006 and 2005

	Governmental Activities		Percent Change
	2006	2005	
Revenues			
Program revenues			
Fees, fines and charges for services	\$ 4,133,263	\$ 4,490,704	(8.0)%
Operating grants and contributions	2,022,675	1,692,712	19.5
Capital grants and contributions	-	237,307	N/A
General revenues:			
Property taxes	1,648,947	2,020,800	(18.4)
Local taxes	11,322,283	9,095,829	24.5
State shared revenues	5,389,551	4,756,481	13.3
Investment earnings	673,351	395,124	70.4
Other	<u>200,921</u>	<u>120,666</u>	66.5
Total revenues	<u>25,390,991</u>	<u>22,809,623</u>	11.3
Expenses			
General government	3,875,014	3,766,500	2.9
Public safety	5,403,620	5,024,686	7.5
Highways and streets	1,581,068	1,281,061	23.4
Culture and recreation	2,576,406	2,362,661	9.0
Community development	1,812,469	1,460,181	24.1
Interest on long-term debt	<u>1,297,119</u>	<u>1,162,796</u>	11.6
Total expenses	<u>16,545,696</u>	<u>15,057,885</u>	9.9
Increase in net assets	8,845,295	7,751,738	14.1
Net assets, beginning of year (as restated)	<u>33,460,970</u>	<u>25,709,232</u>	30.2
Net assets, end of year	<u>\$ 42,306,265</u>	<u>\$ 33,460,970</u>	26.4 %

Governmental activities. An analysis of governmental fund revenues and expenditures has been presented in this discussion and analysis and comparative analysis of government-wide revenues and expenditures. Governmental activities account for 100% of the total revenues and expenditures of the Town. The following graph illustrates that the largest financing source for the Town of Fountain Hills is the local sales tax (45%); state shared revenues combined 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, Excise Tax 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. The size of the Town's fund balances can affect its ability to meet special needs and withstand financial emergencies. Available fund balance can be used to fund capital purchases without having to borrow. General Fund balance represents 32 percent of total fund expenditures, while total fund balance represents 93 percent of that same amount. Funds in excess of the policy target are typically programmed in the subsequent year to support the Town's Capital Improvement Program and to fund one-time expenditures.

The fund balance of the governmental funds is \$19.1 million, an increase of \$4.7 million, or 33%, from the previous year. Of this, \$14,393 is classified as "Reserved" because it is not appropriable for expenditure or is legally segregated for a specific future use. Approximately 34% of this total amount (\$6.5 million) constitutes General Fund balance. The increase in total fund balance and restricted fund balance is largely due to increased construction related revenues (sales tax and permit fees).

An additional \$6.7 million of the governmental fund balance has been designated or committed for specific purposes by council policy; these designations include current capital projects and equipment replacement reserves.

At fiscal year-end 2005-2006 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2004-05
General Fund	\$ 6,530,248	\$ (2,552,195)
General Obligation Debt Service Fund	202,347	(163,432)
Municipal Property Corporation Debt Service Fund	736,570	458,260
Development Fees Fund	2,749,028	319,803
Capital Projects Fund	6,747,238	6,747,238
Nonmajor Governmental Funds	2,110,964	(65,122)

During FY2005-06 the Town Council adopted a policy that authorized the transfer of any unreserved, undesignated or designated fund balance to the Capital Projects Fund; subsequently, the General Fund balance declined by \$2.6M of surplus revenues from the prior fiscal year and the Capital Projects Fund increased accordingly in addition to the surplus from the current fiscal year (please refer to page 17). An additional \$1.6M was transferred from the Excise Tax Fund to complete a downtown capital project.

Development fees consist of governmental impact fees for streets and highways, parks and recreation, law enforcement, general government and open space. This is a restricted fund and may only be appropriated for capital items for which they were imposed. The fund balance as of June 30, 2006 in this fund is \$2.7 million; expenditures were made in FY2005 for traffic signals, open space/trailhead design and a recreation splash park at Fountain Park.

All Nonmajor Governmental Funds of the Town are combined into one column on the governmental fund statements. The decrease in fund balance for this group of funds is attributed to the use of accumulated reserves that were applied to a restructuring debt transaction (\$1.5M) within the excise tax fund.

The four-tenths Excise Tax (Sales Tax) Fund is dedicated by the Town Council for downtown development and debt payments for the Municipal Property Corporation (transfers to debt service). Revenues in this fund increased over the prior year with the increase in construction related activity. Operating expenditures are for the coordinator for economic development in the Town's downtown core.

Nonmajor governmental funds of the Town also include the Highway User Revenue Fund that is required by state statute to track the state allocation of gasoline taxes and other state revenues shared with local governments. HURF funds are required to be used for transportation purposes. Revenue in this fund increased \$73,744 (4%) in fiscal year 2006 with an increase in state shared revenues. Special Revenue (court and grants) as well as non-general obligation debt service are also included within this group.

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 36. 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 \$17.7 million, on a budgetary basis, exceeded budgeted revenues by \$1.8 million while budgetary basis expenditures of \$12.6 million were only 87% of budgeted expenditures (savings of \$1.9 million). The excess of revenues over budgeted revenues is primarily due to better than expected construction related activity, for both building permits and local sales tax revenues, primarily from condominium construction. The expenditure savings were derived from withholding a sales tax refund claim included in the budget that is being litigated and included in the FY06-07 budget. Other savings were due to the early payoff of a development agreement with the Target shopping Center. Additionally, an appropriation was included for a claim by the old Town Hall landlord for rent and property taxes that is also carried over to the current fiscal year.

Capital asset and debt administration

The Town's capital assets for its governmental activities as of June 30, 2006 amount to \$48.5 million (net of accumulated depreciation), a net increase from 2005 of 4.3%. 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 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 2005-2006 the annual depreciation expense was \$1,127,927. The following table provides a comparison of current and prior year capital assets.

Town of Fountain Hills, Arizona
Capital Assets (Net)
June 30, 2006 and 2005

	<u>Governmental Activities</u>		
	<u>2006</u>	<u>2005</u>	Percent Change
Land	\$ 23,571,668	\$ 23,571,668	- %
Construction in progress	-	6,695,892	-
Buildings and improvements	16,448,465	9,128,812	80.2
Improvements other than buildings	6,711,069	5,814,099	15.4
Infrastructure	870,250	483,162	80.1
Furniture, machinery and equipment	690,231	460,889	49.8
Vehicles	<u>227,847</u>	<u>370,023</u>	(38.4)
	<u>\$ 48,519,530</u>	<u>\$ 46,524,545</u>	4.3 %

Long-term debt

The Town's outstanding non-current liabilities, including bonds and compensated absences, were \$26 million at June 30, 2006, all in governmental activities. The Town's outstanding debt decreased \$1.9 million in fiscal year 2006. The Town issued \$17M in refunding General Obligation and Municipal Property bonds in June and July, 2005 in order to take advantage of the more attractive interest rates. At the end of the current fiscal year, the Town of Fountain Hills had total long-term obligations outstanding of \$26 million. Of the outstanding debt, \$8.4 million is General Obligation bonds backed by the full faith and credit of the Town. All other outstanding debt is secured by pledges of specific revenue sources of the Town.

The State imposes certain debt limitations on the Town of six percent (6%) and twenty percent (20%) of the outstanding secondary net assessed valuation of the Town. The Town's available debt margin at June 30, 2006 is \$19.8 million in the 6% capacity and \$68.0 million in the 20% capacity. Additional information on the debt limitations and capacities may be found in the statistical section of this report (page 89).

The following schedule shows the outstanding debt of the Town (both current and long-term) as of June 30, 2005 and 2006. Further detail on the Town's outstanding debt may be found in Note 3.C. on pages 48 - 50.

Town of Fountain Hills, Arizona
Outstanding Debt
June 30, 2006 and 2005

	Governmental Activities		
	2006	2005	Percent Change
General Obligation Debt	\$ 8,434,328	\$ 9,607,162	(12.2)%
Highway User Revenue Bonds	455,000	540,000	(15.7)
Special Assessment Debt	9,681	12,909	(25.0)
Community Facilities District Debt	4,415,000	4,455,000	(0.9)
Municipal Property Corporation Debt	12,434,014	13,108,935	(5.1)
Compensated Absences	217,983	184,579	18.1
	<u>\$ 25,966,006</u>	<u>\$ 27,908,585</u>	(7.0)%

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 regional economy remains strong, fueled by the real estate market, strong population growth and increased personal income. Within Fountain Hills, the Town remains dependent on state shared revenues (29%) and local sales taxes for resources (44%) that are sensitive to economic downturns and legislative appropriations. Fountain Hills' economic activity is fueled primarily by the construction industry as development of custom homes continues before build-out is reached.

The budget for fiscal year 2005-2006 includes resources targeted towards economic development in the downtown area (Avenue of the Fountains). A portion of the local sales tax is segregated and intended to focus on developing the downtown 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
Finance Department
16705 E. Avenue of the Fountains
Fountain Hills, AZ 85268

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, 2006

	Governmental Activities
Assets	
Cash and equivalents	\$ 19,452,083
Cash with paying agent	2,578,729
Receivables, net	
Accounts receivable	481,320
Taxes receivable	28,754
Intergovernmental receivable	1,591,418
Special assessments receivable	4,108
Inventories	12,444
Prepaid items	1,949
Deferred charges	430,877
Capital assets	
Non-depreciable	23,571,668
Depreciable (net)	<u>24,947,862</u>
Total assets	<u>73,101,212</u>
Liabilities	
Accounts payable	1,930,243
Contracts payable	61,142
Interest payable	586,562
Deposits payable	22,000
Due to developers and CFD	263,994
Matured debt principal payable	1,965,000
Noncurrent liabilities	
Due within one year	1,968,496
Due in more than one year	<u>23,997,510</u>
Total liabilities	<u>30,794,947</u>
Net assets	
Invested in capital assets, net of related debt	20,806,507
Restricted for	
Public safety	163,082
Highways and streets	1,102,905
Debt service	1,098,447
Capital outlay	9,396,266
Other	685,447
Unrestricted	<u>9,053,611</u>
Total net assets	<u>\$ 42,306,265</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, 2006

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	Totals			
Functions/Programs				
Governmental activities				
General government	\$ 3,875,014	\$ 4,029,437	\$ -	\$ -
Public safety	5,403,620	-	336,584	-
Highways and streets	1,581,068	16,881	1,686,091	-
Culture and recreation	2,576,406	65,798	-	-
Community development	1,812,469	-	-	-
Interest on long-term debt	<u>1,297,119</u>	<u>21,147</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 16,545,696</u>	<u>\$ 4,133,263</u>	<u>\$ 2,022,675</u>	<u>\$ -</u>
General revenues				
Taxes				
Sales taxes				11,007,924
Property taxes				1,648,947
Franchise taxes				314,359
State revenue sharing - unrestricted				2,244,159
State sales tax revenue sharing - unrestricted				2,170,940
Auto lieu tax revenue sharing - unrestricted				974,452
Investment earnings				673,351
Other				<u>200,921</u>
Total general revenues				<u>19,235,053</u>
Change in net assets				8,845,295
Net assets, beginning of year				<u>33,460,970</u>
Net assets, end of year				<u>\$ 42,306,265</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, 2006

	General	General Obligation Debt Service	Municipal Property Corporation	Development Fees	Capital Projects	Nonmajor Governmental Funds	Totals
Assets							
Cash and equivalents	\$ 5,938,981	\$ 205,962	\$ 714,652	\$ 3,187,877	\$ 7,096,786	\$ 2,307,825	\$ 19,452,083
Cash with paying agent	-	1,293,429	960,566	-	-	324,734	2,578,729
Accounts receivable	313,083	-	-	-	-	168,237	481,320
Taxes receivable	11,929	8,541	-	-	-	8,284	28,754
Intergovernmental receivable	1,188,570	25,601	-	-	-	377,247	1,591,418
Special assessments receivable	-	-	-	-	-	4,108	4,108
Inventories	12,444	-	-	-	-	-	12,444
Prepaid items	1,949	-	-	-	-	-	1,949
Total assets	<u>\$ 7,466,956</u>	<u>\$ 1,533,533</u>	<u>\$ 1,675,218</u>	<u>\$ 3,187,877</u>	<u>\$ 7,096,786</u>	<u>\$ 3,190,435</u>	<u>\$ 24,150,805</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 721,778	\$ 648	\$ 5,249	\$ 278,849	\$ 288,406	\$ 635,313	\$ 1,930,243
Contracts payable	-	-	-	-	61,142	-	61,142
Interest payable	-	218,429	268,399	-	-	99,734	586,562
Deferred revenue	192,930	37,109	-	-	-	15,430	245,469
Deposits payable	22,000	-	-	-	-	-	22,000
Due to developers and CFD	-	-	-	160,000	-	103,994	263,994
Matured debt principal payable	-	1,075,000	665,000	-	-	225,000	1,965,000
Total liabilities	<u>936,708</u>	<u>1,331,186</u>	<u>938,648</u>	<u>438,849</u>	<u>349,548</u>	<u>1,079,471</u>	<u>5,074,410</u>
Fund balances							
Reserved for inventories	12,444	-	-	-	-	-	12,444
Reserved for prepaid items	1,949	-	-	-	-	-	1,949
Unreserved	6,515,855	202,347	736,570	2,749,028	6,747,238	-	16,951,038
Unreserved, reported in nonmajor							
Special revenue funds	-	-	-	-	-	1,951,434	1,951,434
Debt service funds	-	-	-	-	-	159,530	159,530
Total fund balances	<u>6,530,248</u>	<u>202,347</u>	<u>736,570</u>	<u>2,749,028</u>	<u>6,747,238</u>	<u>2,110,964</u>	<u>19,076,395</u>
Total liabilities and fund balances	<u>\$ 7,466,956</u>	<u>\$ 1,533,533</u>	<u>\$ 1,675,218</u>	<u>\$ 3,187,877</u>	<u>\$ 7,096,786</u>	<u>\$ 3,190,435</u>	<u>\$ 24,150,805</u>

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

TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2006

Fund balances - total governmental funds		\$ 19,076,395
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.		55,700
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets		55,656,739
Less accumulated depreciation		<u>(7,137,209)</u>
Capital assets used in governmental activities		<u>48,519,530</u>
Other long-term assets are not available to pay for current-period expenditures and are not susceptible to accrual.		189,769
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		(10,055,000)
Revenue bonds		(12,310,000)
Special assessment debt with government commitment		(9,681)
Community facilities district bonds payable		(4,415,000)
Deferred amount on the refunding		1,165,672
Deferred amount on the bond premium		(124,014)
Deferred issuance costs		430,877
Compensated absences		<u>(217,983)</u>
Net assets of governmental activities		<u>\$ 42,306,265</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, 2006

	General	General Obligation Debt Service	Municipal Property Corporation	Development Fees	Capital Projects	Nonmajor Governmental Funds	Totals
Revenues							
Taxes							
Sales taxes	\$ 8,786,172	\$ -	\$ -	\$ -	\$ 528,225	\$ 1,693,527	\$ 11,007,924
Property taxes	-	1,325,581	-	-	-	346,012	1,671,593
Franchise taxes	314,359	-	-	-	-	-	314,359
Intergovernmental	5,389,551	-	-	-	-	2,022,675	7,412,226
Fines and forfeitures	214,008	-	-	-	-	21,042	235,050
Licenses and permits	1,918,107	-	-	-	-	-	1,918,107
Charges for services	251,538	-	-	1,424,706	-	12,802	1,689,046
Rents and royalties	255,527	-	-	-	-	-	255,527
Special assessments	-	-	-	-	-	21,147	21,147
Investment earnings	303,834	29,371	34,658	113,870	105,176	86,442	673,351
Other	228,450	1,036	-	-	-	4,079	233,565
Total Revenues	<u>17,661,546</u>	<u>1,355,988</u>	<u>34,658</u>	<u>1,538,576</u>	<u>633,401</u>	<u>4,207,726</u>	<u>25,431,895</u>
Expenditures							
Current							
General government	3,507,216	-	-	12,415	649,649	289,903	4,459,183
Public safety	5,203,208	-	-	5,562	-	-	5,208,770
Highways and streets	-	-	-	413,595	-	1,708,391	2,121,986
Culture and recreation	2,040,788	-	-	542,351	959,921	64,690	3,607,750
Community development	1,812,469	-	-	-	-	-	1,812,469
Debt Service							
Principal retirement	-	1,075,000	665,000	-	-	228,228	1,968,228
Interest on long-term debt	-	444,420	546,576	-	-	201,418	1,192,414
Issuance costs	-	-	-	-	-	232,762	232,762
Advance refunding escrow	-	-	-	-	-	300,000	300,000
Total Expenditures	<u>12,563,681</u>	<u>1,519,420</u>	<u>1,211,576</u>	<u>973,923</u>	<u>1,609,570</u>	<u>3,025,392</u>	<u>20,903,562</u>
Excess (deficiency) of revenues over expenditures	<u>5,097,865</u>	<u>(163,432)</u>	<u>(1,176,918)</u>	<u>564,653</u>	<u>(976,169)</u>	<u>1,182,334</u>	<u>4,528,333</u>
Other financing sources (uses)							
Transfers in	-	-	1,652,240	-	7,723,407	771,016	10,146,663
Transfers out	(7,650,060)	-	(17,062)	(244,850)	-	(2,234,691)	(10,146,663)
Issuance of refunding debt	-	-	-	-	-	4,555,000	4,555,000
Payment to refunded debt escrow agent	-	-	-	-	-	(4,338,781)	(4,338,781)
Total other financing sources (uses)	<u>(7,650,060)</u>	<u>-</u>	<u>1,635,178</u>	<u>(244,850)</u>	<u>7,723,407</u>	<u>(1,247,456)</u>	<u>216,219</u>
Net change in fund balances	(2,552,195)	(163,432)	458,260	319,803	6,747,238	(65,122)	4,744,552
Fund balances, beginning 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>
Fund balances, end of year	<u>\$ 6,530,248</u>	<u>\$ 202,347</u>	<u>\$ 736,570</u>	<u>\$ 2,749,028</u>	<u>\$ 6,747,238</u>	<u>\$ 2,110,964</u>	<u>\$ 19,076,395</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, 2006

Net change in fund balances - total governmental funds \$ 4,744,552

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	3,122,912
Less current year depreciation	<u>(1,127,927)</u>
Excess capital expenditures over depreciation	<u>1,994,985</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	(18,258)
Property taxes	(22,646)

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	1,968,228
Issuance costs	232,762
Proceeds of refunding debt issuance	(4,555,000)
Payment to refunded debt escrow agent	4,638,781
Amortization of issuance costs	(28,679)
Amortization of deferred amount on the premium and the refunding	(76,026)

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

Net increase in compensated absences	<u>(33,404)</u>
--------------------------------------	-----------------

Change in net assets of governmental activities \$ 8,845,295

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, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Taxes	\$ 8,092,000	\$ 9,100,531	\$ 1,008,531
Intergovernmental	4,975,159	5,389,551	414,392
Fines and forfeitures	236,240	214,008	(22,232)
Licenses and permits	1,775,165	1,918,107	142,942
Charges for services	318,450	251,538	(66,912)
Rents and royalties	227,002	255,527	28,525
Investment earnings	130,000	303,834	173,834
Other	<u>102,148</u>	<u>228,450</u>	<u>126,302</u>
Total Revenues	<u>15,856,164</u>	<u>17,661,546</u>	<u>1,805,382</u>
Expenditures			
Current			
General government			
Mayor and Town Council	110,663	79,268	31,395
Magistrate Court	362,275	340,291	21,984
General and Administrative	1,284,308	1,265,041	19,267
Information Technology	361,455	330,206	31,249
Operational Support	<u>2,701,017</u>	<u>1,492,410</u>	<u>1,208,607</u>
Total general government	<u>4,819,718</u>	<u>3,507,216</u>	<u>1,312,502</u>
Public safety			
Building Safety	652,845	583,804	69,041
Law Enforcement	1,903,894	1,907,015	(3,121)
Fire Department	<u>2,698,593</u>	<u>2,712,389</u>	<u>(13,796)</u>
Total public safety	<u>5,255,332</u>	<u>5,203,208</u>	<u>52,124</u>
Culture and recreation			
Parks and Recreation	597,714	557,235	40,479
Desert Vista Park	87,250	38,069	49,181
Golden Eagle Park	396,620	401,743	(5,123)
Fountain Park	362,700	275,442	87,258
Four Peaks/Palisades Court	225,390	193,619	31,771
Community Center	484,824	441,751	43,073
Senior Services	<u>174,400</u>	<u>132,929</u>	<u>41,471</u>
Total culture and recreation	<u>2,328,898</u>	<u>2,040,788</u>	<u>288,110</u>
Community development			
Planning and Zoning	742,240	745,675	(3,435)
Public Works	<u>1,361,804</u>	<u>1,066,794</u>	<u>295,010</u>
Total community development	<u>2,104,044</u>	<u>1,812,469</u>	<u>291,575</u>
Total Expenditures	<u>14,507,992</u>	<u>12,563,681</u>	<u>1,944,311</u>
Excess (deficiency) of revenues over expenditures	<u>1,348,172</u>	<u>5,097,865</u>	<u>3,749,693</u>
Other financing sources (uses)			
Transfers out	<u>(1,348,172)</u>	<u>(7,650,060)</u>	<u>(6,301,888)</u>
Total other financing sources (uses)	<u>(1,348,172)</u>	<u>(7,650,060)</u>	<u>(6,301,888)</u>
Net change in fund balances	-	(2,552,195)	(2,552,195)
Fund balances, beginning of year	<u>6,392,523</u>	<u>9,082,443</u>	<u>2,689,920</u>
Fund balances, end of year	<u>\$ 6,392,523</u>	<u>\$ 6,530,248</u>	<u>\$ 137,725</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, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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</u> <u>Overexpenditure</u>
General Fund:	
Law Enforcement	\$ 3,121
Fire Department	13,796
Golden Eagle Park	5,123
Planning and Zoning	3,435
General Obligations Debt Service Fund	136,420
Capital Projects Fund	312,070
Local Court Enhancement Fund	4,950
Eagle Mountain Debt Service Fund	193,105

During the fiscal year 2005-06, the Town refinanced General Obligation bonds for long-term savings; the transaction resulted in costs of issuance over and above the budget for annual debt service interest.

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

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2006 consist of the following:

Deposits	
Cash on hand	\$ 4,594
Cash in bank	147,469
Cash on deposit with paying agent	2,578,729
Investments	
Money Market Mutual Fund	396,468
U.S. Government Securities	8,751
State Treasurer's Investment Pool	18,790,807
Cash on deposit with Trustee	<u>103,994</u>
Total cash and investments	22,030,812
Cash on deposit with paying agent	<u>(2,578,729)</u>
Total cash and equivalents	<u>\$ 19,452,083</u>

Deposits - The Town's deposits at June 30, 2006, 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.

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Custodial credit risk. The U.S. Government Securities and the State Treasurer's Investment Pool are not subject to the custodial credit risk; the investment in the State Treasurer's Investment Pool and the U.S. Government securities are not given a quality credit rating by a national credit rating agency. 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.

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, 2006 was \$237,211, which was reduced by \$47,442 for uncollectible amounts resulting in a net receivable balance at June 30, 2006 of \$189,769.

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)	\$ 3,161
Deferred court revenue (General Fund)	189,769
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>4,482</u>
	<u>\$ 245,469</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

3. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 23,571,668	\$ -	\$ -	\$ 23,571,668
Construction in progress	<u>6,695,892</u>	<u>959,921</u>	<u>(7,655,813)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>30,267,560</u>	<u>959,921</u>	<u>(7,655,813)</u>	<u>23,571,668</u>
Capital assets being depreciated:				
Buildings and improvements	10,098,933	7,655,813	-	17,754,746
Improvements other than buildings	8,390,993	1,319,867	-	9,710,860
Infrastructure	521,819	397,525	-	919,344
Furniture, machinery and equipment	1,518,647	351,978	-	1,870,625
Vehicles	<u>1,735,875</u>	<u>93,621</u>	<u>-</u>	<u>1,829,496</u>
Total capital assets being depreciated	<u>22,266,267</u>	<u>9,818,804</u>	<u>-</u>	<u>32,085,071</u>
Less accumulated depreciation for:				
Buildings and improvements	(970,121)	(336,160)	-	(1,306,281)
Improvements other than buildings	(2,576,894)	(422,897)	-	(2,999,791)
Infrastructure	(38,657)	(10,437)	-	(49,094)
Furniture, machinery and equipment	(1,057,758)	(122,636)	-	(1,180,394)
Vehicles	<u>(1,365,852)</u>	<u>(235,797)</u>	<u>-</u>	<u>(1,601,649)</u>
Total accumulated depreciation	<u>(6,009,282)</u>	<u>(1,127,927)</u>	<u>-</u>	<u>(7,137,209)</u>
Total capital assets, being depreciated, net	<u>16,256,985</u>	<u>8,690,877</u>	<u>-</u>	<u>24,947,862</u>
Governmental activities capital assets, net	<u>\$ 46,524,545</u>	<u>\$ 9,650,798</u>	<u>\$ (7,655,813)</u>	<u>\$ 48,519,530</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 191,894
Public safety	251,873
Highways and streets	88,504
Culture and recreation	<u>595,656</u>
Total depreciation expense-governmental activities	<u>\$ 1,127,927</u>

B. Interfund transfers

Interfund transfers for the year ended June 30, 2006 consisted of the following:

	Transfer In			
Transfers Out	MPC Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
General Fund	\$ 387,000	\$ 6,659,192	\$ 603,868	\$ 7,650,060
MPC Debt Service Fund	-	-	17,062	17,062
Development Fees Fund	-	244,850	-	244,850
Nonmajor Governmental Funds	<u>1,265,240</u>	<u>819,365</u>	<u>150,086</u>	<u>2,234,691</u>
	<u>\$ 1,652,240</u>	<u>\$ 7,723,407</u>	<u>\$ 771,016</u>	<u>\$ 10,146,663</u>

The General Fund transfer of \$6,659,192, the Development Fees transfer of \$244,850 and the Nonmajor Governmental Funds transfer of \$819,365 to the Capital Projects Fund were recorded to subsidize the completion of Town Hall facility and to subsidize future projects. The transfers of \$603,868 from the General Fund and \$17,062 from the MPC Debt Service Fund to the Nonmajor Governmental Funds was recorded to reimburse certain expenditures and subsidize street improvements. The transfers of \$1,265,240 and \$150,086 from the Nonmajor Governmental Funds as well as the \$387,000 from the General Fund 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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

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.

Changes in long-term obligations for the year ended June 30, 2006 are as follows:

	<u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2006</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds and special assessments					
General obligation bonds	\$ 11,215,000	\$ -	\$ (1,160,000)	\$ 10,055,000	\$ 1,090,000
Municipal Property					
Corporation debt	12,975,000	-	(665,000)	12,310,000	715,000
Special assessment debt with government commitment	12,909	-	(3,228)	9,681	3,228
Community Facilities					
District bonds payable	<u>4,455,000</u>	<u>4,555,000</u>	<u>(4,595,000)</u>	<u>4,415,000</u>	<u>160,000</u>
	28,657,909	4,555,000	(6,423,228)	26,789,681	1,968,228
Deferred amount on:					
Refunding	(1,067,838)	(183,781)	85,947	(1,165,672)	(85,947)
Premium	<u>133,935</u>	<u>-</u>	<u>(9,921)</u>	<u>124,014</u>	<u>9,921</u>
Total bonds and special assessment debt	27,724,006	4,371,219	(6,347,202)	25,748,023	1,892,202
Other liabilities					
Compensated absences	<u>184,579</u>	<u>253,047</u>	<u>(219,643)</u>	<u>217,983</u>	<u>76,294</u>
	<u>\$ 27,908,585</u>	<u>\$ 4,624,266</u>	<u>\$ (6,566,845)</u>	<u>\$ 25,966,006</u>	<u>\$ 1,968,496</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Debt service requirements on long-term debt at June 30, 2006 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2007	\$ 1,968,228	\$ 1,087,408
2008	2,153,227	1,005,049
2009	2,243,226	918,286
2010	2,460,000	825,846
2011	2,115,000	728,703
2012-16	10,410,000	2,309,750
2017-21	5,440,000	551,190
	\$ 26,789,681	\$ 7,426,232

During the year ended June 30, 2006, the Town issued \$4,555,000 in general obligation bonds with an average interest rate of 3.95 percent to advance refund \$4,455,000 of outstanding general obligation bonds with an average interest rate 6.43 percent. The net proceeds of \$4,322,238 (after payment of \$232,762 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. As a result, the refunded general obligation 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 to reduce its total debt service payments over the next 15 years by \$996,895 and obtained an economic gain (i.e., difference between the present values of the debt service payments on the old and new debt) of \$790,798.

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

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

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

B. Contingent liabilities

Accumulated sick leave - Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and; therefore, are not accrued. Unvested accumulated sick leave of Town employees at June 30, 2006, totaled \$317,338.

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

C. Retirement plans

Defined Contribution Pension Plan

All full-time employees of the Town 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, 2006 was \$3,240,448. The Town's total payroll was \$3,613,982.

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

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 2005-06, the Town's required and actual contributions amounted to \$356,076. The employees' contributions totaled \$356,449.

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 2005-06 or as of the close of the fiscal year.

**Combining and Individual Fund
Statements and Schedules**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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, 2006

	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	\$ 1,363,690	\$ 501,571	\$ 2,473	\$ 178,880	\$ 2,046,614	\$ -	\$ 257,094	\$ 4,117
Cash with paying agent	-	-	-	-	-	97,241	227,493	-
Receivables, net								
Accounts receivable	-	-	168,237	-	168,237	-	-	-
Taxes receivable	-	-	-	-	-	-	7,206	1,078
Intergovernmental receivable	233,224	138,672	-	-	371,896	-	5,351	-
Special assessments receivable	-	-	-	-	-	-	-	4,108
Total assets	<u>\$ 1,596,914</u>	<u>\$ 640,243</u>	<u>\$ 170,710</u>	<u>\$ 178,880</u>	<u>\$ 2,586,747</u>	<u>\$ 97,241</u>	<u>\$ 497,144</u>	<u>\$ 9,303</u>
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 494,009	\$ 509	\$ 124,997	\$ 15,798	\$ 635,313	\$ -	\$ -	\$ -
Interest payable	-	-	-	-	-	12,241	87,493	-
Deferred revenue	-	-	-	-	-	-	10,948	4,482
Matured debt principal payable	-	-	-	-	-	85,000	140,000	-
Due to developers and CFD	-	-	-	-	-	-	103,994	-
Total liabilities	<u>494,009</u>	<u>509</u>	<u>124,997</u>	<u>15,798</u>	<u>635,313</u>	<u>97,241</u>	<u>342,435</u>	<u>4,482</u>
Fund balances								
Unreserved	<u>1,102,905</u>	<u>639,734</u>	<u>45,713</u>	<u>163,082</u>	<u>1,951,434</u>	<u>-</u>	<u>154,709</u>	<u>4,821</u>
Total fund balances	<u>1,102,905</u>	<u>639,734</u>	<u>45,713</u>	<u>163,082</u>	<u>1,951,434</u>	<u>-</u>	<u>154,709</u>	<u>4,821</u>
Total liabilities and fund balances	<u>\$ 1,596,914</u>	<u>\$ 640,243</u>	<u>\$ 170,710</u>	<u>\$ 178,880</u>	<u>\$ 2,586,747</u>	<u>\$ 97,241</u>	<u>\$ 497,144</u>	<u>\$ 9,303</u>

Debt Service

<u>Total</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 261,211	\$ 2,307,825
324,734	324,734
-	168,237
8,284	8,284
5,351	377,247
4,108	4,108
<u>\$ 603,688</u>	<u>\$ 3,190,435</u>

\$ -	\$ 635,313
99,734	99,734
15,430	15,430
225,000	225,000
103,994	103,994
<u>444,158</u>	<u>1,079,471</u>

<u>159,530</u>	<u>2,110,964</u>
<u>159,530</u>	<u>2,110,964</u>

<u>\$ 603,688</u>	<u>\$ 3,190,435</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, 2006

	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	\$ -	\$ 1,693,527	\$ -	\$ -	\$ 1,693,527	\$ -	\$ -	\$ -
Property taxes	-	-	-	-	-	-	346,012	-
Intergovernmental	1,686,091	-	336,584	-	2,022,675	-	-	-
Fines and forfeitures	-	-	-	21,042	21,042	-	-	-
Charges for services	12,802	-	-	-	12,802	-	-	-
Special assessments	-	-	-	-	-	-	-	21,147
Investment earnings	24,009	34,807	-	3,245	62,061	-	24,380	1
Other	4,079	-	-	-	4,079	-	-	-
Total revenues	<u>1,726,981</u>	<u>1,728,334</u>	<u>336,584</u>	<u>24,287</u>	<u>3,816,186</u>	<u>-</u>	<u>370,392</u>	<u>21,148</u>
Expenditures								
Current								
General government	-	107,025	147,928	34,950	289,903	-	-	-
Highways and streets	1,438,804	-	269,587	-	1,708,391	-	-	-
Culture and recreation	-	-	64,690	-	64,690	-	-	-
Debt Service								
Principal retirement	-	-	-	-	-	85,000	140,000	3,228
Interest on long-term debt	-	-	-	-	-	24,882	175,943	593
Issuance costs	-	-	-	-	-	-	232,762	-
Advance refunding escrow	-	-	-	-	-	-	300,000	-
Total expenditures	<u>1,438,804</u>	<u>107,025</u>	<u>482,205</u>	<u>34,950</u>	<u>2,062,984</u>	<u>109,882</u>	<u>848,705</u>	<u>3,821</u>
Excess (deficiency) of revenues over expenditures	<u>288,177</u>	<u>1,621,309</u>	<u>(145,621)</u>	<u>(10,663)</u>	<u>1,753,202</u>	<u>(109,882)</u>	<u>(478,313)</u>	<u>17,327</u>
Other financing sources (uses)								
Transfers in	519,869	17,062	77,612	-	614,543	106,473	50,000	-
Transfers out	(130,217)	(2,065,240)	-	(19,365)	(2,214,822)	-	-	(19,869)
Issuance of refunding debt	-	-	-	-	-	-	4,555,000	-
Payment to refunded debt escrow agent	-	-	-	-	-	-	(4,338,781)	-
Total other financing sources (uses)	<u>389,652</u>	<u>(2,048,178)</u>	<u>77,612</u>	<u>(19,365)</u>	<u>(1,600,279)</u>	<u>106,473</u>	<u>266,219</u>	<u>(19,869)</u>
Net change in fund balances	677,829	(426,869)	(68,009)	(30,028)	152,923	(3,409)	(212,094)	(2,542)
Fund balances, beginning 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>
Fund balances, end of year	<u>\$ 1,102,905</u>	<u>\$ 639,734</u>	<u>\$ 45,713</u>	<u>\$ 163,082</u>	<u>\$ 1,951,434</u>	<u>\$ -</u>	<u>\$ 154,709</u>	<u>\$ 4,821</u>

<u>Debt Service</u>	
<u>Total</u>	Total Nonmajor Governmental Funds
\$ -	\$ 1,693,527
346,012	346,012
-	2,022,675
-	21,042
-	12,802
21,147	21,147
24,381	86,442
-	4,079
<u>391,540</u>	<u>4,207,726</u>

-	289,903
-	1,708,391
-	64,690

228,228	228,228
201,418	201,418
232,762	232,762
<u>300,000</u>	<u>300,000</u>
<u>962,408</u>	<u>3,025,392</u>

<u>(570,868)</u>	<u>1,182,334</u>
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156,473	771,016
(19,869)	(2,234,691)
4,555,000	4,555,000

<u>(4,338,781)</u>	<u>(4,338,781)</u>
<u>352,823</u>	<u>(1,247,456)</u>

(218,045)	(65,122)
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<u>377,575</u>	<u>2,176,086</u>
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<u>\$ 159,530</u>	<u>\$ 2,110,964</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, 2006

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes			
Property taxes	\$ 1,150,000	\$ 1,325,581	\$ 175,581
Investment earnings	1,400	29,371	27,971
Other	-	1,036	1,036
Total Revenues	<u>1,151,400</u>	<u>1,355,988</u>	<u>204,588</u>
 Expenditures			
Debt Service			
Principal retirement	1,075,000	1,075,000	-
Interest on long-term debt	<u>308,000</u>	<u>444,420</u>	<u>(136,420)</u>
Total Expenditures	<u>1,383,000</u>	<u>1,519,420</u>	<u>(136,420)</u>
 Excess (deficiency) of revenues over expenditures	(231,600)	(163,432)	68,168
 Fund balances, beginning of year	<u>592,020</u>	<u>365,779</u>	<u>(226,241)</u>
 Fund balances, end of year	<u>\$ 360,420</u>	<u>\$ 202,347</u>	<u>\$ (158,073)</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, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Investment earnings	\$ -	\$ 34,658	\$ 34,658
Total Revenues	<u>-</u>	<u>34,658</u>	<u>34,658</u>
Expenditures			
Debt Service			
Principal retirement	665,000	665,000	-
Interest on long-term debt	598,500	546,576	51,924
Total Expenditures	<u>1,263,500</u>	<u>1,211,576</u>	<u>51,924</u>
Excess (deficiency) of revenues over expenditures	<u>(1,263,500)</u>	<u>(1,176,918)</u>	<u>86,582</u>
Other financing sources (uses)			
Transfers in	1,263,500	1,652,240	388,740
Transfers out	-	(17,062)	(17,062)
Total other financing sources (uses)	<u>1,263,500</u>	<u>1,635,178</u>	<u>371,678</u>
Net change in fund balances	-	458,260	458,260
Fund balances, beginning of year	-	278,310	278,310
Fund balances, end of year	<u>\$ -</u>	<u>\$ 736,570</u>	<u>\$ 736,570</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, 2006

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Charges for services	\$ 1,345,376	\$ 1,424,706	\$ 79,330
Investment earnings	<u>11,500</u>	<u>113,870</u>	<u>102,370</u>
Total Revenues	<u>1,356,876</u>	<u>1,538,576</u>	<u>181,700</u>
Expenditures			
Current			
General government	-	12,415	(12,415)
Public safety	-	5,562	(5,562)
Highways and streets	295,000	413,595	(118,595)
Culture and recreation	<u>733,500</u>	<u>542,351</u>	<u>191,149</u>
Total Expenditures	<u>1,028,500</u>	<u>973,923</u>	<u>54,577</u>
Excess (deficiency) of revenues over expenditures	<u>328,376</u>	<u>564,653</u>	<u>236,277</u>
Other financing sources (uses)			
Transfers out	<u>(261,535)</u>	<u>(244,850)</u>	<u>16,685</u>
Total other financing sources (uses)	<u>(261,535)</u>	<u>(244,850)</u>	<u>16,685</u>
Net change in fund balances	66,841	319,803	252,962
Fund balances, beginning of year	<u>1,965,676</u>	<u>2,429,225</u>	<u>463,549</u>
Fund balances, end of year	<u>\$ 2,032,517</u>	<u>\$ 2,749,028</u>	<u>\$ 716,511</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, 2006

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes			
Sales taxes	\$ 528,225	\$ 528,225	\$ -
Investment earnings	<u>25,000</u>	<u>105,176</u>	<u>80,176</u>
Total Revenues	<u>553,225</u>	<u>633,401</u>	<u>80,176</u>
Expenditures			
Current			
General government	956,500	649,649	306,851
Highways and streets	135,000	-	135,000
Culture and recreation	<u>206,000</u>	<u>959,921</u>	<u>(753,921)</u>
Total Expenditures	<u>1,297,500</u>	<u>1,609,570</u>	<u>(312,070)</u>
Excess (deficiency) of revenues over expenditures	<u>(744,275)</u>	<u>(976,169)</u>	<u>(231,894)</u>
Other financing sources (uses)			
Transfers in	<u>3,214,827</u>	<u>7,723,407</u>	<u>4,508,580</u>
Total other financing sources (uses)	<u>3,214,827</u>	<u>7,723,407</u>	<u>4,508,580</u>
Net change in Fund balances	2,470,552	6,747,238	4,276,686
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ 2,470,552</u>	<u>\$ 6,747,238</u>	<u>\$ 4,276,686</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, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental	\$ 1,712,550	\$ 1,686,091	\$ (26,459)
Charges for services	4,500	12,802	8,302
Investment earnings	8,000	24,009	16,009
Other	<u>1,000</u>	<u>4,079</u>	<u>3,079</u>
Total Revenues	<u>1,726,050</u>	<u>1,726,981</u>	<u>931</u>
Expenditures			
Current			
Highways and streets	<u>2,226,903</u>	<u>1,438,804</u>	<u>788,099</u>
Total Expenditures	<u>2,226,903</u>	<u>1,438,804</u>	<u>788,099</u>
Excess (deficiency) of revenues over expenditures	<u>(500,853)</u>	<u>288,177</u>	<u>789,030</u>
Other financing sources (uses)			
Transfers in	500,000	519,869	19,869
Transfers out	<u>(160,500)</u>	<u>(130,217)</u>	<u>30,283</u>
Total other financing sources (uses)	<u>339,500</u>	<u>389,652</u>	<u>50,152</u>
Net change in fund balances	(161,353)	677,829	839,182
Fund balances, beginning of year	<u>-</u>	<u>425,076</u>	<u>425,076</u>
Fund balances, end of year	<u>\$ (161,353)</u>	<u>\$ 1,102,905</u>	<u>\$ 1,264,258</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, 2006

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes			
Sales taxes	\$ 1,442,179	\$ 1,693,527	\$ 251,348
Investment earnings	24,000	34,807	10,807
Total Revenues	<u>1,466,179</u>	<u>1,728,334</u>	<u>262,155</u>
Expenditures			
Current			
General government	<u>139,283</u>	<u>107,025</u>	<u>32,258</u>
Total Expenditures	<u>139,283</u>	<u>107,025</u>	<u>32,258</u>
Excess (deficiency) of revenues over expenditures	<u>1,326,896</u>	<u>1,621,309</u>	<u>294,413</u>
Other financing sources (uses)			
Transfers in	-	17,062	17,062
Transfers out	<u>(1,676,500)</u>	<u>(2,065,240)</u>	<u>(388,740)</u>
Total other financing sources (uses)	<u>(1,676,500)</u>	<u>(2,048,178)</u>	<u>(371,678)</u>
Net change in fund balances	(349,604)	(426,869)	(77,265)
Fund balances, beginning of year	<u>2,658,448</u>	<u>1,066,603</u>	<u>(1,591,845)</u>
Fund balances, end of year	<u>\$ 2,308,844</u>	<u>\$ 639,734</u>	<u>\$ (1,669,110)</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, 2006

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Intergovernmental	\$ <u>1,730,125</u>	\$ <u>336,584</u>	\$ <u>(1,393,541)</u>
Total Revenues	<u>1,730,125</u>	<u>336,584</u>	<u>(1,393,541)</u>
Expenditures			
Current			
General government	1,437,000	147,928	1,289,072
Public safety	50,000	-	50,000
Highways and streets	293,125	269,587	23,538
Culture and recreation	<u>40,000</u>	<u>64,690</u>	<u>(24,690)</u>
Total Expenditures	<u>1,820,125</u>	<u>482,205</u>	<u>1,337,920</u>
Excess (deficiency) of revenues over expenditures	<u>(90,000)</u>	<u>(145,621)</u>	<u>(55,621)</u>
Other financing sources (uses)			
Transfers in	<u>50,000</u>	<u>77,612</u>	<u>27,612</u>
Total other financing sources (uses)	<u>50,000</u>	<u>77,612</u>	<u>27,612</u>
Net change in fund balances	(40,000)	(68,009)	(28,009)
Fund balances, beginning of year	<u>143,937</u>	<u>113,722</u>	<u>(30,215)</u>
Fund balances, end of year	<u>\$ 103,937</u>	<u>\$ 45,713</u>	<u>\$ (58,224)</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, 2006

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Fines and forfeitures	\$ 22,300	\$ 21,042	\$ (1,258)
Investment earnings	<u>1,000</u>	<u>3,245</u>	<u>2,245</u>
Total Revenues	<u>23,300</u>	<u>24,287</u>	<u>987</u>
Expenditures			
Current			
General government	<u>30,000</u>	<u>34,950</u>	<u>(4,950)</u>
Total Expenditures	<u>30,000</u>	<u>34,950</u>	<u>(4,950)</u>
Excess (deficiency) of revenues over expenditures	<u>(6,700)</u>	<u>(10,663)</u>	<u>(3,963)</u>
Other financing sources (uses)			
Transfers out	<u>-</u>	<u>(19,365)</u>	<u>(19,365)</u>
Total other financing sources (uses)	<u>-</u>	<u>(19,365)</u>	<u>(19,365)</u>
Net change in fund balances	(6,700)	(30,028)	(23,328)
Fund balances, beginning of year	<u>193,110</u>	<u>193,110</u>	<u>-</u>
Fund balances, end of year	<u>\$ 186,410</u>	<u>\$ 163,082</u>	<u>\$ (23,328)</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, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Expenditures			
Debt Service			
Principal retirement	\$ 85,000	\$ 85,000	\$ -
Interest on long-term debt	<u>25,500</u>	<u>24,882</u>	<u>618</u>
Total Expenditures	<u>110,500</u>	<u>109,882</u>	<u>618</u>
Excess (deficiency) of revenues over expenditures	<u>(110,500)</u>	<u>(109,882)</u>	<u>618</u>
Other financing sources (uses)			
Transfers in	<u>110,500</u>	<u>106,473</u>	<u>(4,027)</u>
Total other financing sources (uses)	<u>110,500</u>	<u>106,473</u>	<u>(4,027)</u>
Net change in fund balances	-	(3,409)	(3,409)
Fund balances, beginning of year	<u>-</u>	<u>3,409</u>	<u>3,409</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Taxes			
Property taxes	\$ 353,600	\$ 346,012	\$ (7,588)
Investment earnings	2,000	24,380	22,380
Other	<u>50,000</u>	<u>-</u>	<u>(50,000)</u>
Total Revenues	<u>405,600</u>	<u>370,392</u>	<u>(35,208)</u>
Expenditures			
Debt Service			
Principal retirement	140,000	140,000	-
Interest on long-term debt	215,600	175,943	39,657
Issuance costs	-	232,762	(232,762)
Advance refunding escrow	<u>-</u>	<u>300,000</u>	<u>(300,000)</u>
Total Expenditures	<u>355,600</u>	<u>848,705</u>	<u>(493,105)</u>
Excess (deficiency) of revenues over expenditures	<u>50,000</u>	<u>(478,313)</u>	<u>(528,313)</u>
Other financing sources (uses)			
Transfers in	-	50,000	50,000
Issuance of refunding debt	-	4,555,000	4,555,000
Payment to refunded debt escrow agent	<u>-</u>	<u>(4,338,781)</u>	<u>(4,338,781)</u>
Total other financing sources (uses)	<u>-</u>	<u>266,219</u>	<u>266,219</u>
Net change in fund balances	50,000	(212,094)	(262,094)
Fund balances, beginning of year	<u>306,100</u>	<u>366,803</u>	<u>60,703</u>
Fund balances, end of year	<u>\$ 356,100</u>	<u>\$ 154,709</u>	<u>\$ (201,391)</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, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Special assessments	\$ 3,850	\$ 21,147	\$ 17,297
Investment earnings	-	1	1
Total Revenues	<u>3,850</u>	<u>21,148</u>	<u>17,298</u>
Expenditures			
Debt Service			
Principal retirement	3,228	3,228	-
Interest on long-term debt	622	593	29
Total Expenditures	<u>3,850</u>	<u>3,821</u>	<u>29</u>
Excess (deficiency) of revenues over expenditures	-	17,327	17,327
Other financing sources (uses)			
Transfers out	-	(19,869)	(19,869)
Total other financing sources (uses)	<u>-</u>	<u>(19,869)</u>	<u>(19,869)</u>
Fund balances, beginning of year	-	7,363	7,363
Fund balances, end of year	<u>\$ -</u>	<u>\$ 4,821</u>	<u>\$ 4,821</u>

STATISTICAL SECTION

This section of the Town of Fountain Hills, Arizona's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

See the table of contents for page numbers of the schedules that encompass the above sections.

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

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

Source: Town of Fountain Hills, Arizona's Finance Department.

Note 1: 2002-03 was the Town of Fountain Hills, Arizona's first year to prepare government-wide financial statements.

Note 2: The Town of Fountain Hills, Arizona does not have any business-type activities.

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

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
General government	\$ 3,479,333	\$ 3,686,452	\$ 3,766,500	\$ 3,875,014
Public safety	5,494,708	4,918,280	5,024,686	5,403,620
Highways and streets	1,310,683	1,419,509	1,281,061	1,581,068
Culture and recreation	2,363,897	2,068,613	2,362,661	2,576,406
Community development	1,235,985	1,144,964	1,460,181	1,812,469
Interest on long-term debt	1,576,842	1,499,575	1,162,796	1,297,119
Total governmental activities	<u>15,461,448</u>	<u>14,737,393</u>	<u>15,057,885</u>	<u>16,545,696</u>
Program Revenues				
Governmental activities:				
Fines, fees and charges for services:				
General government	2,738,898	3,388,923	4,431,154	4,029,437
Highways and streets	39,185	28,597	58,038	16,881
Culture and recreation	-	-	-	65,798
Interest on long-term debt	4,302	3,612	1,512	21,147
Operating grants and contributions	1,697,900	1,590,787	1,692,712	2,022,675
Capital grants and contributions	-	-	237,307	-
Total governmental activities program revenues	<u>4,480,285</u>	<u>5,011,919</u>	<u>6,420,723</u>	<u>6,155,938</u>
Net (expense)/revenue				
Governmental activities	<u>(10,981,163)</u>	<u>(9,725,474)</u>	<u>(8,637,162)</u>	<u>(10,389,758)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Sales taxes	5,051,872	7,733,643	8,879,798	11,007,924
Property taxes	1,905,770	2,195,856	2,020,800	1,648,947
Franchise taxes	152,542	126,362	216,031	314,359
State revenue sharing	2,360,879	1,967,973	2,016,081	2,244,159
State sales tax revenue sharing	1,582,535	1,702,374	1,874,577	2,170,940
Auto lieu tax revenue sharing	797,344	819,497	865,823	974,452
Investment earnings	1,976,809	122,082	395,124	673,351
Other	79,706	195,978	120,666	200,921
Total governmental activities	<u>13,907,457</u>	<u>14,863,765</u>	<u>16,388,900</u>	<u>19,235,053</u>
Change in Net Assets				
Governmental activities	<u>\$ 2,926,294</u>	<u>\$ 5,138,291</u>	<u>\$ 7,751,738</u>	<u>\$ 8,845,295</u>

Source: Town of Fountain Hills, Arizona's Finance Department.

Note 1: 2002-03 was the Town of Fountain Hills, Arizona's first year to prepare government-wide financial statements.

Note 2: The Town of Fountain Hills, Arizona does not have any business-type activities.

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 77,485	\$ 40,664	\$ 14,393
Unreserved	<u>2,494,333</u>	<u>5,126,713</u>	<u>6,331,622</u>	<u>6,314,461</u>	<u>4,710,061</u>	<u>4,812,370</u>	<u>4,037,863</u>	<u>6,293,941</u>	<u>9,041,779</u>	<u>6,515,855</u>
Total General Fund	<u>\$ 2,494,333</u>	<u>\$ 5,126,713</u>	<u>\$ 6,331,622</u>	<u>\$ 6,314,461</u>	<u>\$ 4,710,061</u>	<u>\$ 4,812,370</u>	<u>\$ 4,037,863</u>	<u>\$ 6,371,426</u>	<u>\$ 9,082,443</u>	<u>\$ 6,530,248</u>
All other governmental funds										
Unreserved, reported in:										
Special revenue funds	\$ 286,794	\$ 2,059	\$ 221,861	\$ 221,861	\$ 9,167	\$ -	\$ 3,411,738	\$ 5,969,830	\$ 2,176,086	\$ 1,951,434
Debt service funds	87,644	213,225	241,259	609,351	532,248	1,051,311	1,705,230	530,372	644,089	159,530
Capital projects funds	-	-	-	-	1,571,117	414,432	-	-	2,429,225	9,496,266
Total all other governmental funds	<u>\$ 374,438</u>	<u>\$ 215,284</u>	<u>\$ 463,120</u>	<u>\$ 831,212</u>	<u>\$ 2,112,532</u>	<u>\$ 1,465,743</u>	<u>\$ 5,116,968</u>	<u>\$ 6,500,202</u>	<u>\$ 5,249,400</u>	<u>\$ 11,607,230</u>

Source: Town of Fountain Hills, Arizona's Finance Department.

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Taxes	\$ -	\$ 3,326,207	\$ 3,861,337	\$ 4,876,466	\$ 6,088,047	\$ 7,595,748	\$ 7,114,486	\$ 9,997,706	\$ 11,151,893	\$ 12,993,876
Intergovernmental	-	4,364,859	4,929,062	4,771,792	5,281,156	5,895,676	6,311,458	6,080,631	6,686,500	7,412,226
Fines and forfeitures	-	208,930	259,484	293,970	310,359	265,605	195,091	361,339	249,564	235,050
Licenses and permits	-	1,961,687	2,472,215	2,569,472	2,177,614	1,351,209	1,308,747	1,600,934	2,230,046	1,918,107
Charges for services	-	795,700	624,744	454,366	431,316	1,067,814	810,412	1,038,170	1,834,205	1,689,046
Rents and royalties	-	13,591	18,140	27,208	35,781	107,613	188,745	242,704	222,327	255,527
Special assessments	-	-	14,524	9,241	7,958	4,520	4,302	3,612	1,512	21,147
Investment earnings	-	582,757	620,639	743,259	(1,063,339)	726,441	1,976,809	122,082	395,124	673,351
Other	-	117,487	25,657	31,653	11,357	1,783,851	275,343	261,561	179,657	233,565
Total revenues	<u>-</u>	<u>11,371,218</u>	<u>12,825,802</u>	<u>13,777,427</u>	<u>13,280,249</u>	<u>18,798,477</u>	<u>18,185,393</u>	<u>19,708,739</u>	<u>22,950,828</u>	<u>25,431,895</u>
Expenditures										
General government	-	1,964,427	2,631,245	2,528,953	3,646,500	3,859,633	3,318,574	3,614,458	9,547,409	4,459,183
Public safety	-	2,074,441	2,205,600	3,059,020	3,354,037	5,084,532	5,174,492	4,616,161	4,754,523	5,208,770
Highways and streets	-	2,020,450	1,984,879	2,468,498	2,212,432	1,877,790	1,198,080	1,402,502	1,682,563	2,121,986
Culture and recreation	-	1,471,559	2,334,901	3,359,509	3,866,245	3,069,695	1,815,416	1,597,150	3,004,216	3,607,750
Community development	-	947,251	955,451	1,276,951	1,175,649	1,064,913	1,215,387	1,144,964	1,460,181	1,812,469
Capital outlay	-	1,352,936	557,374	1,787,469	5,261,585	14,770,507	79,427	101,951	-	-
Debt service										
Principal retirement	-	245,210	223,024	339,013	620,408	1,229,215	1,393,228	1,423,228	1,308,228	1,968,228
Interest on long-term debt	-	554,731	572,064	585,001	1,231,194	1,673,901	1,576,842	1,499,575	1,164,561	1,192,414
Issuance costs	-	-	-	-	-	-	-	-	229,990	232,762
Advance refunding escrow	-	-	-	-	-	-	-	-	-	300,000
Total expenditures	<u>-</u>	<u>10,631,005</u>	<u>11,464,538</u>	<u>15,404,414</u>	<u>21,368,050</u>	<u>32,630,186</u>	<u>15,771,446</u>	<u>15,399,989</u>	<u>23,151,671</u>	<u>20,903,562</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>740,213</u>	<u>1,361,264</u>	<u>(1,626,987)</u>	<u>(8,087,801)</u>	<u>(13,831,709)</u>	<u>2,413,947</u>	<u>4,308,750</u>	<u>(200,843)</u>	<u>4,528,333</u>

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Other financing sources (uses)										
Transfers in	-	1,213,129	1,170,732	1,386,793	1,833,192	1,585,674	5,981,544	1,630,907	4,805,635	10,146,663
Transfers out	-	(1,213,129)	(1,170,732)	(1,386,793)	(1,833,192)	(1,585,674)	(5,981,544)	(1,630,907)	(4,805,635)	(10,146,663)
Issuance of refunding debt	-	-	-	-	-	-	-	-	12,555,000	4,555,000
Issuance of long-term debt	-	-	1,102,629	5,100,000	4,641,980	13,750,000	-	-	3,783,896	-
Payment to refunded debt escrow agent	-	-	(1,010,489)	-	-	-	-	-	(14,677,838)	(4,338,781)
Total other financing sources (uses)	-	-	92,140	5,100,000	4,641,980	13,750,000	-	-	1,661,058	216,219
Net change in fund balance	\$ -	\$ 740,213	\$ 1,453,404	\$ 3,473,013	\$ (3,445,821)	\$ (81,709)	\$ 2,413,947	\$ 4,308,750	\$ 1,460,215	\$ 4,744,552
Debt service as a percentage of noncapital expenditures	N/A	8.6 %	7.3 %	6.8 %	11.5 %	16.3 %	18.9 %	19.1 %	11.7 %	16.2 %

Source: Town of Fountain Hills, Arizona's Finance Department.

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

Fiscal Year	Sales taxes	Property taxes	Franchise taxes	Total
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
2006	11,007,924	1,671,593	314,359	12,993,876

Source: The Town of Fountain Hills, Arizona's Finance Department.

TOWN OF FOUNTAIN HILLS, ARIZONA
SALES TAX COLLECTIONS BY CATEGORY
LAST TEN FISCAL YEARS
(UNAUDITED)

Sales Category	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Construction	\$ 1,004,125	\$ 1,227,312	\$ 1,526,063	\$ 1,852,068	\$ 1,915,206	\$ 1,325,749	\$ 1,203,706	\$ 1,482,981	\$ 1,837,317	\$ 3,362,079
Transportation and utilities	210,836	271,577	303,507	350,634	453,217	523,237	590,446	916,498	1,124,677	1,240,120
Wholesale/Retail	695,575	785,563	793,367	1,087,819	1,405,560	1,477,424	1,930,175	3,212,062	3,536,045	3,796,192
Restaurants and bars	106,149	108,770	128,330	148,668	187,000	219,921	276,664	419,107	524,368	547,276
Real estate	161,715	105,851	133,666	99,155	245,064	192,339	205,849	341,951	604,356	626,364
Services	276,611	304,482	322,428	357,253	398,157	370,806	455,324	423,433	185,868	263,239
Miscellaneous	43,823	60,794	102,153	136,814	195,313	157,818	188,654	706,816	933,366	1,030,966
Total	\$ 2,498,834	\$ 2,864,349	\$ 3,309,514	\$ 4,032,411	\$ 4,799,517	\$ 4,267,294	\$ 4,850,818	\$ 7,502,848	\$ 8,745,997	\$ 10,866,236
City sales tax rate	1.20 %	1.20 %	1.20 %	1.20 %	1.60 %	1.60 %	1.60 %	2.60 %	2.60 %	2.60 %

Source: Arizona Department of Revenue.

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

Fiscal Year	City Direct Rate (a)	Maricopa County	State of Arizona
1997	1.20 %	0.75 %	5.00 %
1998	1.20	0.50	5.00
1999	1.20	0.70	5.00
2000	1.20	0.70	5.00
2001	1.60	0.70	5.60
2002	1.60	0.70	5.60
2003	1.60	0.70	5.60
2004	2.60	0.70	5.60
2005	2.60	0.70	5.60
2006	2.60	0.70	5.60

Source: Arizona Department of Revenue, Transaction Privilege (Sales) Tax Rate Tables.

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

Fiscal Year	Residential Property	Commercial and Industrial Property	Agricultural and Vacant Property	Less: Tax Exempt Real Property	Total Taxable Secondary Assessed Value	Total Direct Tax Rate *	Estimated Full Cash Value	Secondary Assessed Value as a Percentage of Full Cash Value
1997	\$ 69,781	\$ 16,983	\$ 22,700	\$ (5,519)	\$ 103,945	\$ 0.30	\$ 906,495	11.467 %
1998	83,164	19,661	20,273	(6,765)	116,333	0.23	1,034,893	11.241
1999	105,890	22,843	26,996	(8,786)	146,943	0.17	1,317,947	11.149
2000	129,425	27,500	28,616	(10,780)	174,761	0.26	1,583,073	11.039
2001	151,060	29,968	40,895	(9,507)	212,416	0.33	1,889,016	11.245
2002	173,968	37,443	41,859	(14,555)	238,715	0.56	2,154,929	11.078
2003	189,664	37,866	57,192	(14,119)	270,603	0.51	2,418,236	11.190
2004	241,412	49,318	53,317	(20,663)	323,384	0.48	2,942,849	10.989
2005	249,982	58,132	69,477	(28,192)	349,399	0.42	3,162,855	11.047
2006	273,093	59,876	70,005	(27,791)	375,183	0.35	3,411,461	10.998

Source: The Maricopa County Treasurer.

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

Fiscal Year	Direct Rates		Total Direct Rate	Overlapping Rates			Total Overlapping Rate
	Primary Rate	General Obligation Debt Service		School Districts (a)	Local Special Districts	County	
1997	-	0.30	0.30	7.31	6.20	3.38	16.89
1998	-	0.23	0.23	7.37	5.88	2.49	15.74
1999	-	0.17	0.17	7.35	5.92	2.45	15.72
2000	-	0.26	0.26	5.98	5.72	3.43	15.13
2001	-	0.33	0.33	6.41	6.83	3.35	16.59
2002	-	0.56	0.56	6.45	6.03	3.29	15.77
2003	-	0.51	0.51	6.23	4.29	3.28	13.80
2004	-	0.48	0.48	5.80	4.15	3.22	13.17
2005	-	0.42	0.42	5.67	3.72	3.09	12.48
2006	-	0.35	0.35	5.27	2.49	3.18	10.94

Source: Arizona Department of Revenue and Maricopa County Department of Finance.

(a) Includes tax rates for Fountain Hills Unified School District No. 98 and East Valley Institute of Technology No. 401.

TOWN OF FOUNTAIN HILLS, ARIZONA
 PRINCIPAL PROPERTY TAXPAYERS
 JUNE 30, 2006
 (UNAUDITED)

Taxpayer	2006		Taxpayer	1997	
	Taxable Assessed Value	Percentage of Total Net Secondary Assessed Value		Taxable Assessed Value	Percentage of Total Net Secondary Assessed Value
Qwest Corporation	\$ 3,261,128	0.87 %	Chaparral City Water Company	\$ 2,112,467	2.03 %
Chaparral City Water Company	3,180,452	0.85	U S West Communications	2,103,803	2.02
Inland Western Fountain Hills Four Peaks	2,946,653	0.79	MCO Properties Inc.	1,769,358	1.70
WSL Fountain View Investors V LLC	2,251,544	0.60	Eagle Mountain Investors LLC	715,908	0.69
Target Corporation	2,030,676	0.54	Safeway Inc. #1291	631,287	0.61
MCO Properties LP	1,873,070	0.50	Basha's	589,465	0.57
Cox Communications Inc.	1,754,079	0.47	Fourway Properties Limited Partnership	486,961	0.47
En LLC	1,695,043	0.45	City of Scottsdale	478,720	0.46
Four Peaks Limited Partnership	1,593,577	0.42	Fountain Hills Old Vine LP	371,149	0.36
Adero Canyon LLC	<u>1,585,520</u>	0.42	Golf International Inc.	<u>316,115</u>	0.30
	<u>\$ 22,171,742</u>	5.91 %		<u>\$ 9,575,233</u>	9.21 %

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

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date		Ratio of Total Tax Collections to Total Tax Levy	Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Tax Levy
		Amount	Percent of Levy		Total Tax Collections				
1997	\$ 313,963	\$ 303,580	96.69 %	\$ 8,854	\$ 312,434	99.51 %	\$ 1,529	0.49 %	
1998	269,569	261,704	97.08	6,556	268,260	99.51	1,309	0.49	
1999	248,422	242,254	97.52	5,384	247,638	99.68	784	0.32	
2000	448,242	432,965	96.59	9,581	442,546	98.73	5,696	1.27	
2001	701,275	675,710	96.35	21,422	697,132	99.41	4,143	0.59	
2002	1,335,787	1,282,844	96.04	43,927	1,326,771	99.33	9,016	0.67	
2003	1,384,478	1,329,929	96.06	43,900	1,373,829	99.23	10,649	0.77	
2004	1,545,051	1,492,143	96.58	44,041	1,536,184	99.43	8,867	0.57	
2005	1,449,287	1,408,289	97.17	31,632	1,439,921	99.35	9,366	0.65	
2006	1,319,373	1,275,049	96.64	-	1,275,049	96.64	44,324	3.36	

Source: The Maricopa County Treasurer's Office.

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.

Note 3: The amount levied and collected is net of resolutions.

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

Fiscal Year	Governmental Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Sales Tax Bonds (a)	HURF Bonds (b)			
1997	\$ 2,930,000	\$ -	\$ 1,000,000	\$ 3,930,000	5.53 %	\$ 241
1998	2,780,000	-	1,075,000	3,855,000	4.92	223
1999	7,730,000	-	1,045,000	8,775,000	10.46	472
2000	7,505,000	4,680,000	975,000	13,160,000	14.15	650
2001	13,280,000	12,280,000	905,000	26,465,000	27.24	1,238
2002	12,600,000	11,855,000	810,000	25,265,000	26.00	1,151
2003	11,865,000	11,430,000	720,000	24,015,000	22.51	1,080
2004	11,110,000	13,595,000	630,000	25,335,000	21.92	1,124
2005	10,675,000	12,975,000	540,000	24,190,000	N/A	1,042
2006	9,600,000	12,310,000	455,000	22,365,000	N/A	913

Source: The Town of Fountain Hills, Arizona's Finance Department.

(a) Represents outstanding principal amount of bonds of the Town of Fountain Hills Municipal Property Corporation (MPC) for which the Town is obligated through a lease-leaseback arrangement with the MPC to make the bond payments which are secured in part by Sales Taxes of the Town.

(b) Represents outstanding principal amount of bonds secured by street and highway user revenues collected by the State and shared with the Town.

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

Fiscal Year	General Obligation Bonds	Net General Obligation Bonded Debt	Taxable Assessed Value of Property OR Taxable Sales	Percentage of Actual Assessed Value of Property	Population	Net General Obligation Bonded Debt Per Capita
1997	\$ 2,930,000	\$ 2,930,000	\$ 103,944,000	2.82 %	16,275	\$ 180
1998	2,780,000	2,780,000	116,333,000	2.39	17,280	161
1999	7,730,000	7,730,000	146,944,000	5.26	18,595	416
2000	7,505,000	7,505,000	174,761,000	4.29	20,235	371
2001	13,280,000	13,280,000	212,415,000	6.25	21,383	621
2002	12,600,000	12,600,000	238,715,000	5.28	21,954	574
2003	11,865,000	11,865,000	270,603,000	4.38	22,243	533
2004	11,110,000	11,110,000	323,385,000	3.44	22,541	493
2005	10,675,000	10,675,000	349,398,000	3.06	23,217	460
2006	9,600,000	9,600,000	375,183,000	2.56	24,492	392

Source: The Town of Fountain Hills, Arizona's Finance Department.

Note: Detail regarding the Town's outstanding debt can be found in the notes to the financial statements.

TOWN OF FOUNTAIN HILLS, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2006
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Maricopa County	\$ -	0.001 %	\$ -
Maricopa County Community College District	399,805,000	0.001 %	4,518
Fountain Hills Sanitary District	-	97.620 %	-
East Valley Institute of Technology	-	0.003 %	-
Fountain Hills Unified School District	25,090,000	97.030 %	24,344,827
Eagle Mountain Community Facilities District	4,555,000	100.000 %	4,555,000
Other debt			
Maricopa County (a)	139,075,000	0.001 %	1,572
Maricopa County Community College District (b)	23,360,000	0.001 %	<u>264</u>
Subtotal, overlapping debt			28,906,181
Town of Fountain Hills, Arizona direct debt			<u>26,789,681</u>
Total direct and overlapping debt			<u>\$ 55,695,862</u>

Source: Official statements for public offerings of the indicated entities.

(a) Includes lease revenue bonds, certificates of participation and revenue bonds of the Maricopa County Stadium District.

(b) Includes revenue bonds.

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit (20% and 6% bonding limit)	\$ 27,025,453	\$ 30,246,686	\$ 38,205,370	\$ 45,437,792	\$ 55,228,024	\$ 62,065,780	\$ 70,356,745	\$ 84,080,160	\$ 90,843,567	\$ 97,547,627
Total applicable to limit	<u>3,055,000</u>	<u>2,930,000</u>	<u>2,780,000</u>	<u>6,330,000</u>	<u>6,155,000</u>	<u>6,005,000</u>	<u>12,585,000</u>	<u>11,740,000</u>	<u>10,225,000</u>	<u>9,600,000</u>
Legal debt margin	<u>\$ 23,970,453</u>	<u>\$ 27,316,686</u>	<u>\$ 35,425,370</u>	<u>\$ 39,107,792</u>	<u>\$ 49,073,024</u>	<u>\$ 56,060,780</u>	<u>\$ 57,771,745</u>	<u>\$ 72,340,160</u>	<u>\$ 80,618,567</u>	<u>\$ 87,947,627</u>
Total net debt applicable to the limit as a percentage of the debt limit	11.30 %	9.69 %	7.28 %	13.93 %	11.14 %	9.68 %	17.89 %	13.96 %	11.26 %	9.84 %

TOWN OF FOUNTAIN HILLS, ARIZONA
 CALCULATION OF LEGAL DEBT MARGIN
 JUNE 30, 2006
 (UNAUDITED)

Net secondary assessed valuation		\$ <u>375,183,181</u>
Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds		
Debt limit - 20% of secondary net assessed valuation		\$ 75,036,636
Debt applicable to limit		
General obligation bonds outstanding	\$ 7,265,000	
Less amount set aside for repayment of debt	<u>(325,000)</u>	
Net debt applicable to limit		<u>6,940,000</u>
20% legal debt margin		<u>68,096,636</u>
All other general obligation bonds		
Debt limit - 6% of secondary net assessed valuation		22,510,991
Debt applicable to limit		
General obligation bonds outstanding	\$ 3,410,000	
Less amount set aside for repayment of debt	<u>(750,000)</u>	
Net debt applicable to limit		<u>2,660,000</u>
All other general obligation bonds debt margin		<u>19,850,991</u>
Total legal debt margin		\$ <u>87,947,627</u>

Source: Maricopa County Assessor's Office.

TOWN OF FOUNTAIN HILLS, ARIZONA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS
 (UNAUDITED)

<u>Fiscal Year</u>	<u>Population (1)(2)</u>	<u>Personal Income (3)</u>	<u>Per Capita Personal Income (3)</u>	<u>Median Age (2)</u>	<u>School Enrollment (4)</u>	<u>Unemployment Rate (5)</u>
1997	16,275	\$ 71,078,707	\$ 23,983	N/A	2,139	1.6 %
1998	17,280	78,310,846	25,471	N/A	2,192	1.5
1999	18,595	83,860,233	26,385	N/A	2,224	1.6
2000	20,235	92,975,771	28,363	46.4	2,344	1.6
2001	21,383	97,138,599	28,717	N/A	2,411	2.0
2002	21,954	100,805,099	28,900	N/A	2,446	2.7
2003	22,243	106,385,325	26,609	N/A	2,456	2.6
2004	22,541	115,604,165	31,133	N/A	2,452	2.1
2005	23,217	N/A	N/A	N/A	2,372	2.0
2006	24,492	N/A	N/A	N/A	2,335	1.8

Sources:

- (1) Arizona Department of Economic Security, Research Administration, Population Statistics Unit for 1997 - 1999 and 2001 - 2005.
- (2) U.S. Census Bureau for 2000.
- (3) Dollars in thousands. U.S. Department of Commerce, Bureau of Economic Statistics. Information for Metropolitan Statistical Area.
- (4) Represents average daily membership for Fountain Hills Unified School , which includes a portion of students residing outside the Town.
- (5) Arizona Department of Economic Security, Research Administration, CES/LAUS UNIT.

TOWN OF FOUNTAIN HILLS, ARIZONA
 PRINCIPAL EMPLOYERS
 JUNE 30, 2006
 (UNAUDITED)

Employer	Type	2006		1997	
		Employees	Percentage of Total Town Employment*	Employees	Percentage of Total Town Employment*
Fountain Hills Unified School District No. 98	Education	285	2.26 %	235	3.39 %
Monks Construction	Construction	190	1.51	-	-
Target	Retail	130	1.03	-	-
MCO Properties, Inc.	Property Management	125	0.99	85	1.22
Safeway Food Stores	Grocery Store	110	0.87	95	1.37
Town of Fountain Hills	Government	87	0.67	85	1.22
Fry's	Grocery Store	80	0.63	-	-
Basha's	Grocery Store	70	0.56	70	1.01
Sun Ridge Canyon Golf Course	Golf Course	70	0.56	70	1.01
Eagle Mountain Golf Course	Golf Course	70	0.56	40	0.58
Golf International	Golf Course	65	0.52	50	0.72
		<u>1,282</u>	<u>10.16 %</u>	<u>730</u>	<u>10.52 %</u>

Source: The 1998 and 2006 Arizona Industrial Directory; Greater Phoenix Chamber of Commerce; Community Profiles Arizona Department of Commerce; and an individual employer survey.

* Employment information for 2006 as of May 2006. Arizona Unemployment Statistics Program, Special Unemployment Report, Arizona Department of Economic Security, Research Administration, CES/LAUS UNIT.

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

Function	Full-Time Equivalent Employees				
	2002	2003	2004	2005	2006
General government					
Municipal Court	6.0	6.0	5.0	5.0	5.5
Administration	18.0	14.5	10.0	11.0	12.5
Planning & Zoning	5.5	8.0	9.0	8.0	9.5
Public safety					
Building Safety	9.0	8.0	7.0	9.0	9.0
Law Enforcement	26.0	20.0	1.0	-	-
Public Works					
Engineering	13.0	13.0	10.5	11.5	11.5
Streets	15.0	14.0	13.0	11.0	11.0
Parks and recreation	17.5	16.0	13.0	15.0	16.5
Community Center	<u>5.0</u>	<u>6.5</u>	<u>6.5</u>	<u>6.5</u>	<u>7.0</u>
Total	<u>115.0</u>	<u>106.0</u>	<u>75.0</u>	<u>77.0</u>	<u>82.5</u>

Source: The Town of Fountain Hills, Arizona's Finance Department.

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

Function	Fiscal Years									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government										
Building permits issued	953	936	929	584	351	260	168	228	430	468
Building inspections conducted	N/A	N/A	N/A	N/A	N/A	8,491	6,389	6,985	8,446	9,377
Police (contracted)										
Physical arrests	N/A	886	895	890	981	503	601	601	644	N/A
Traffic violations	N/A	4,988	5,641	7,907	4,767	3,186	3,186	3,186	2,432	N/A
Fire (contracted)										
Inspections	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,815
Parks and recreation										
Park acreage	121	121	121	121	121	121	121	121	121	121
Community/Senior Centers	1	1	1	1	1	1	1	1	1	1

Source: The Town of Fountain Hills, Arizona's Finance Department.

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

Function	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public safety										
Fire Stations	N/A	N/A	N/A	N/A	N/A	3	3	3	3	3
Other public works										
Streets (miles)	178.5	178.5	178.5	178.5	178.5	178.5	178.5	178.5	178.5	178.5
Streetlights	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	34
Traffic signals	5	6	6	6	10	10	10	11	11	12
Parks and recreation										
Acreage	121	121	121	121	121	121	121	121	121	121
Playgrounds	2	2	2	2	2	3	3	3	3	3
Baseball/ softball diamonds	6	6	6	6	6	6	6	6	6	6
Soccer/football fields	4	4	4	4	4	4	4	4	4	3
Community centers	1	1	1	1	1	1	1	1	1	1

Source: The Town of Fountain Hills, Arizona's Finance Department.