

TOWN OF FOUNTAIN HILLS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Mr. Wallace J. Nichols
Mayor

Mr. Mike Archambault
Vice Mayor

Councilmembers

Dr. John Kavanagh Mr. Edwin Kehe

Mr. Keith McMahan Ms. Kathleen Nicola Mr. Jay Schlum

Timothy G. Pickering, CEcD, CM
Town Manager

Julie A. Ghatti, MPA, CPA
Accounting Supervisor

Prepared by:
Financial Services Department

TOWN OF FOUNTAIN HILLS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal	1
List of Principal Officials	8
Organizational Chart	9
GFOA Certificate of Achievement	10

FINANCIAL SECTION

Independent Auditor's Report	13
Management's Discussion and Analysis	15

Basic Financial Statements

Statement of Net Assets	28
Statement of Activities	29
Balance Sheet - Governmental Funds	30
Reconciliation of the Balance Sheet to the Statement of Net Assets - Governmental Funds	31
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	32
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities - Governmental Funds	33
General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	34
Excise Tax Fund Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	35
Notes to the Basic Financial Statements	37
Required Supplementary Information: Public Safety Personnel Retirement System Schedule of Funding Progress	55

TOWN OF FOUNTAIN HILLS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS

**Combining and Individual Fund
Statements and Schedules**

Combining Balance Sheet - Nonmajor Governmental Funds	59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	61
General Obligation Debt Service Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	63
Eagle Mountain Debt Service Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	64
HURF Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	65
Grants Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	66
Municipal Property Corporation Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	67
HURF Debt Service Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	68
Cottonwoods Special Assessment Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	69
Development Fees Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	70

TOWN OF FOUNTAIN HILLS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS

STATISTICAL SECTION

Government-wide information:	
Government-wide Expenses by Function	73
Government-wide Revenues	74
Fund Information:	
General Government Expenditures by Function	75
General Government Revenues by Source	76
General Governmental Tax Revenues by Source	77
Town Transaction Privilege (Sales) Tax Collections by Industry Classification	78
Property Tax Levies and Collections	79
Assessed and Estimated Actual Value of Property	80
Primary and Secondary Taxable Property Assessed Valuation	81
Property Tax Rates for All Direct and Overlapping Governments	82
Primary and Secondary Property Tax Rates - All Direct and Overlapping Governments	83
Assessed Valuation of Major Taxpayers	84
Computation of Legal Debt Margin	85
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	86
Ratio of Annual Debt Service Expenditures to Total General Expenditures	87
Direct and Overlapping General Obligation Bonded Debt	88
Miscellaneous Statistical Data	89

INTRODUCTORY SECTION

THIS PAGE BLANK

December 10, 2004

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, 2004, is hereby submitted. This document represents a joint effort by Town staff as well as our auditors, Cronstrom & Trbovich, 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's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects. All disclosures necessary for the reader to understand the Town's activities have been included.

The Town's financial statements have been audited by Cronstrom & Trbovich, PC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Fountain Hills, Arizona for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town's financial statements for the fiscal year ended June 30, 2004, 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 auditor.

Town of Fountain Hills Profile



The Town of Fountain Hills is a planned, family-oriented community established in 1970 by McCulloch Properties (now MCO Properties, Inc.). Prior to 1970 the area was a cattle ranch and was part of one of the largest land and cattle holdings in Arizona. It was purchased by Robert McCulloch in the late 1960s and designed by Charles Wood, Jr. (designer of Disneyland in southern California). The centerpiece of Fountain Hills is one of the world's tallest man-made fountains, a focal point that attracts thousands of visitors each year. Located on 11,340 acres

of land, and bordering northeast Scottsdale, the Town 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 thirteen years the Town has grown from 10,190 residents to a town of over 22,000 in 2004. The Maricopa Association of Governments estimates that the population of Fountain Hills will continue to grow to near 25,000 by 2010. Although the rate of growth has slowed due to the general downturn of the national economy, the Town continues to attract residents who are building large custom homes to take advantage of the scenic vistas surrounding its mountain community.

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

The Town's Mission Statement for the Organization

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

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

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

The Town of Fountain Hills is an Arizona Municipal Corporation, acting as a general law Town as prescribed in the Arizona Revised statutes. The Town was incorporated on December 5, 1989 with the governmental and administrative affairs of the Town operating under the Council-Manager form of government. The Town Council is responsible, among other things, for the adoption of local ordinances, budget adoption, the development of citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and administering the Town's operations through five department directors and approximately 77 employees. The Magistrate, Town Attorney and Town Prosecutor are under the direction of the Town Council.

The Town provides or administers a full range of services including public safety (police, fire, animal control, building inspection); community development (code enforcement, planning, zoning and engineering); the construction and maintenance of streets and infrastructure, municipal court, recreational activities, community center and cultural events. The Town does not maintain utility or other operations that require the establishment of enterprise funds. The financial reporting entity (the Town) includes all the funds 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, the Eagle Mountain Community Facilities District and Fountain Hills Municipal Property Corporation are included in the financial reports of the Town.

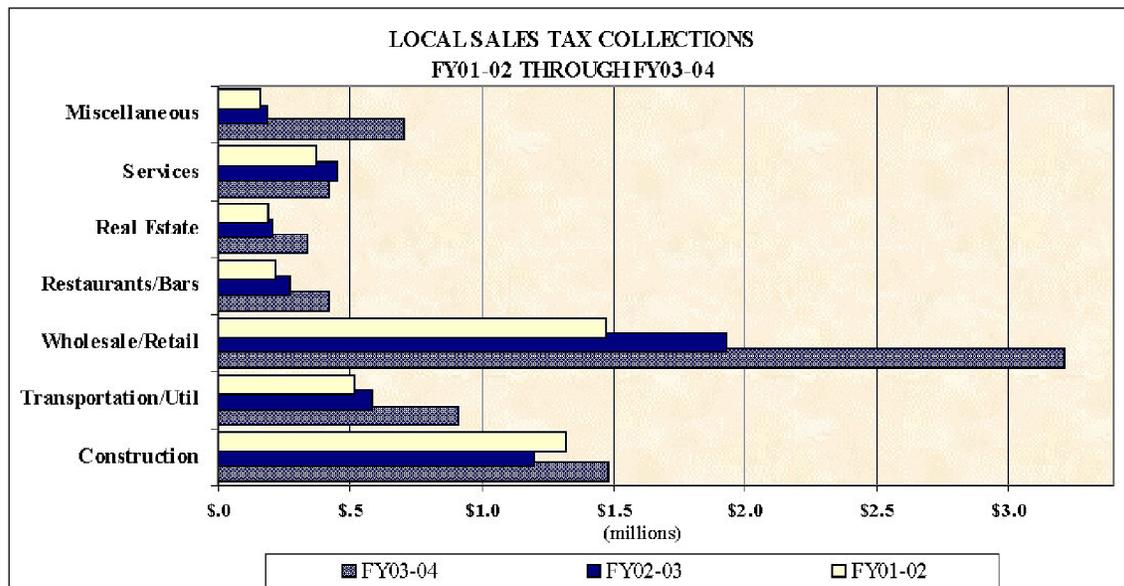
The annual budget serves as the foundation for the Town's financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Highway User Revenue Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented. On or before the second public 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's fiscal year. The budget is legally enacted through passage of an ordinance and is prepared by fund and department. The ordinance sets the limit for expenditures during the fiscal year. The Town Manager may authorize transfers from and within personnel and from operating capital to services or supplies within a department. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20. During fiscal year 2003/2004 there were no supplemental budgetary appropriations to the original budget.

Factors Affecting Financial Condition

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

Local economy. Despite the uncertain economic conditions of the nation and slower growth of the State's economy, the Town's economy remained stable. Local sales tax receipts increased 10% from FY2003 (excluding the rate increase effective 4/1/2003) and building permit activity increased 33%. Recent development along the commercial corridor includes a Target Store, PetCo, Pier One, Ross Clothing, Famous Footwear and other national retailers. Future retail additions anticipated are Discount Tire, Dollar Tree store and a 35,000 square foot office and retail complex. This increase in retail sales tax base will compensate for the decrease in construction activity that is anticipated in the next several years as the Town approaches build-out.

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



The downtown area of the community is located on Avenue of the Fountains, which will be designed to revitalize the downtown area and create connectivity to Phase II of the Civic Center project. Phase I included the construction of a Library/Museum and Community Center during FY2000 and 2001. Phase II will be completed during FY2005 and includes a new 32,000 square foot Town Hall facility that will provide a one stop shop for all municipal services. New lighting, pedestrian walkways, water features and cultural amenities will provide interest for adults and children.

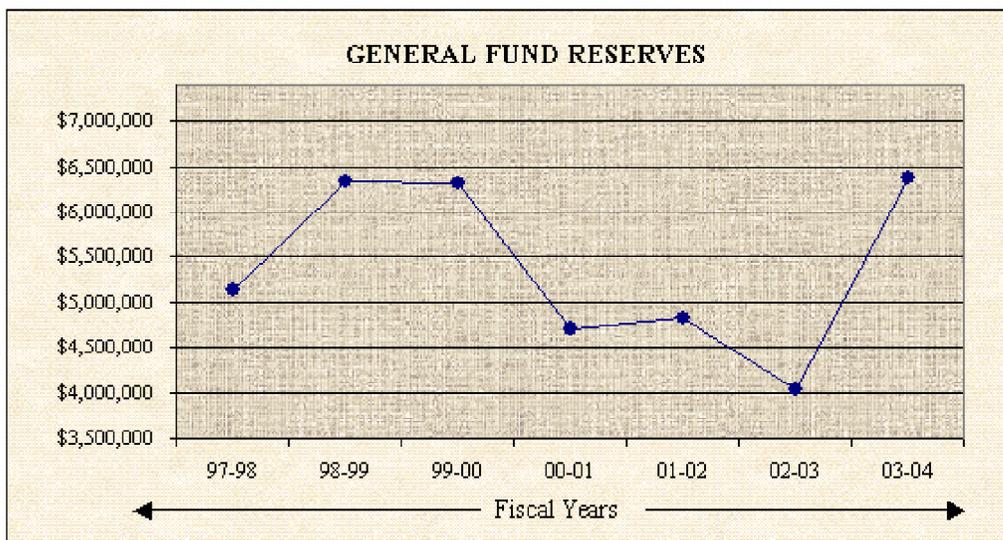
The Town has approved plans for a Holiday Inn resort with 108 rooms that is scheduled to open in FY 2005 in the downtown area. Another downtown project is the Fountain Hills Resort Villas with 71 condo units and 250 resort rooms (currently in plan review) that will expand tourism within the community and bring additional retail tax revenue to Fountain Hills.

Long-term financial planning. A five-year financial and capital improvement plan process has been initiated that will identify projects to be integrated with the annual budget including sources of funding to pay for them. Additional sources of revenue are being researched to diversify resources.

The Town recognizes the need to secure reserves for future revenue shortfalls in case of economic downturns. A large portion of General Fund operating revenue comes from construction related activity that eventually will be constrained by availability of land. The Council has adopted a fund balance policy to provide financial stability and ensure that adequate future reserves are maintained. The policy states:

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

These amounts will not be programmed for expenditure and are only available for use within the confines of expenditure limitations imposed by the State. The contingency fund can be used for unexpected emergencies and projects upon approval by the Town Council. A historical perspective of past fund reserves is shown below. The general fund reserves recovered significantly after three years of decline that is reflective of the growth of the local and national economies, capital project funding and the establishment of a new municipal fire department. Town Council and management are committed to maintaining and improving the current level of reserves in the future.



The Town 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's debt policy restricts investments to securities that are 100% backed by the full faith and credit of the U.S. government. The Town 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, 2004 was 1.032%. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

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

Risk management. The Town of Fountain Hills, Arizona is a member of the Arizona Municipal Risk Retention Pool. Risk coverage includes general liability, 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.

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

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

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

Awards and acknowledgements. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills, Arizona for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. This was the eighth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document dated June 19, 2003. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

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

Respectfully submitted,

Timothy G. Pickering, CEcD, CM
Town Manager

TOWN OF FOUNTAIN HILLS, ARIZONA

LIST OF PRINCIPAL OFFICIALS

ELECTED OFFICIALS

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

DEPARTMENT DIRECTORS

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

org chart

GFOA Certificate

FINANCIAL SECTION

THIS PAGE BLANK

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, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fountain Hills, Arizona, as of June 30, 2004, and the respective changes in financial position, thereof and the respective budgetary comparison for the General and Excise Tax Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A prior period adjustment is presented in Note 3.A to correct an error in the previously issued financial statements.

The management's discussion and analysis on pages 15 - 25 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 55 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Cronstrom & Trbovich, P.C.

December 10, 2004

Management's Discussion and Analysis

We (the Town of Fountain Hills, Arizona) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2004. The intended purpose of the 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 operations. When referring to prior years' data in this analysis we will be drawing upon information from last years audited financial reports.

Financial Highlights

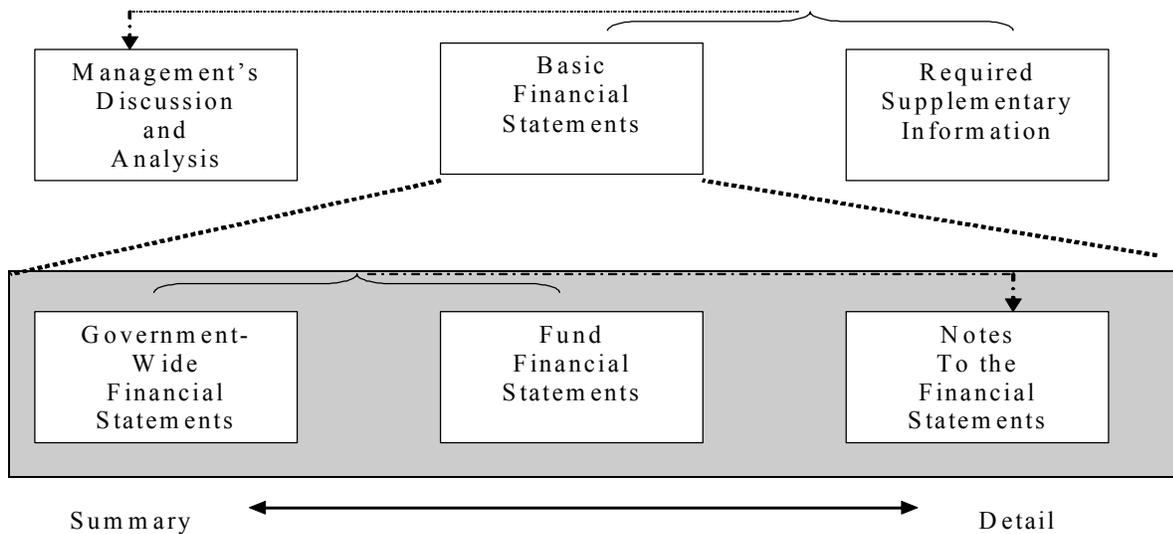
- ◆ The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$25,709,232 (net assets). Of this amount \$7,976,113 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$12,871,628, an increase of \$4,308,750 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unreserved fund balance for the general fund was \$6,293,941 or 61 percent of total general fund expenditures. The fund balance policy adopted by the Council in May, 2003 requires a minimum of \$4,469,191 in designated, undesignated and reserve funds; the general fund will contribute \$2,333,563 to the fund balance in the upcoming fiscal year.
- ◆ General fund revenues (on a budgetary basis) exceeded budgeted revenues by \$964,938 for fiscal year 2004. Additionally, budgetary basis expenditures were only 85% (\$1,763,892 (15%) in savings) of the final budget in the General Fund.
- ◆ General fund revenues exceeded expenditures by \$3,243,813; a positive variance of \$2,728,830 from the original budget.
- ◆ The Town includes two types of separate legal entities in its report - a Municipal Property Corporation and Community Facilities Districts. Although legally separate, these "component units" are important because the Town is financially accountable for them. A description of these three component units is available in Note 1 on page 37. Separate Financial Statements are not available for these entities.

Overview of the Financial Statements

The Town implemented the Governmental Accounting Standards Board (GASB) Statement 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (the new model) with the financial statements for the year ended June 30, 2003. The new model contained sweeping changes to the requirements for governmental reporting. The major changes were as follows:

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

**Required Components of the
Annual Financial Report**



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

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town'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. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

Fund financial statements

Also presented are the traditional fund financial statements for governmental funds. The fund financial statements now focus on major funds of the Town, rather than fund type used in the old model. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, 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 - 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 - 53) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

Required supplementary information other than MD&A

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

Government-Wide Financial Analysis

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, 2004 compared to the prior year.

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

	Governmental Activities		
	2004	2003	Percent Change
Assets			
Current and other assets	\$ 21,638,047	\$ 16,801,782	28.8 %
Capital assets			
Non-depreciable	23,571,668	23,571,668	- %
Depreciable (net)	<u>16,485,725</u>	<u>17,071,272</u>	<u>(3.4)%</u>
Total assets	<u>61,695,440</u>	<u>57,444,722</u>	<u>7.4 %</u>
Liabilities			
Other liabilities	8,338,841	7,307,826	14.1 %
Non-current liabilities			
Due within one year	1,603,159	1,484,604	8.0 %
Due in more than one year	<u>26,044,208</u>	<u>27,489,398</u>	<u>(5.3)%</u>
Total liabilities	<u>35,986,208</u>	<u>36,281,828</u>	<u>(0.8)%</u>
Net assets			
Invested in capital assets, net of related debt	11,261,256	11,843,575	(4.9)%
Restricted	6,471,863	6,681,170	(3.1)%
Unrestricted	<u>7,976,113</u>	<u>2,638,149</u>	<u>202.3 %</u>
Total net assets	<u>\$ 25,709,232</u>	<u>\$ 21,162,894</u>	<u>21.5 %</u>

The combined net assets of the Town increased by 21.5% from \$21.2 million to \$25.7 million in fiscal year 2004, a difference of \$4.5 million in governmental activities. The Town does not currently have any proprietary or enterprise funds that would otherwise be classified as business-type activities. All Town funds are considered governmental activities.

Net Assets consist of three components. The largest portion of the Town's net assets (44%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. This category of net assets decreased \$582,319 in fiscal year 2004 primarily as a result of depreciation of the capital assets.

The second portion of the Town's net assets (25%) represents resources that are subject to external restrictions on how they may be used.

The remaining balance of unrestricted net assets (\$7,976,113) may be used to meet the government's ongoing obligations to citizens and creditors. This category increased \$5,337,964 in fiscal year 2004 primarily due to increases to reserves.

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

Analysis of changes in net assets

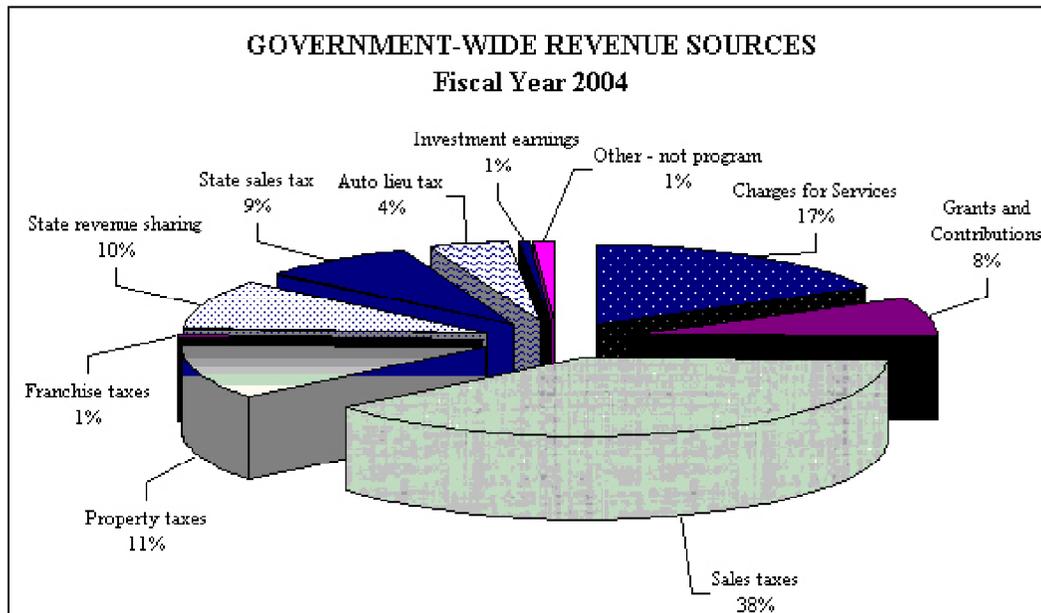
The program revenues (charges for services and grants that are clearly identifiable to an operating function) of governmental activities increased \$531,634 (12%) from the previous year, primarily due to increased building related activity. Total governmental revenues increased \$1.5 million primarily due to increased local sales tax collections derived from an increase in the local tax rate. Program expenses decreased in public safety with the reduction from a dual law enforcement system to a single contract provider.

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

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

	Governmental Activities		
	2004	2003	Percent Change
Revenues			
Program revenues			
Fees, fines and charges for services	\$ 3,421,132	\$ 2,782,385	23.0 %
Operating grants and contributions	1,590,787	1,697,900	(6.3)%
General revenues:			
Property taxes	2,195,856	1,905,770	15.2 %
Local taxes	7,860,005	5,204,414	51.0 %
State shared revenues	4,489,844	4,740,758	(5.3)%
Investment earnings	122,082	1,976,809	(93.8)%
Other	<u>195,978</u>	<u>79,706</u>	<u>145.9 %</u>
Total revenues	<u>19,875,684</u>	<u>18,387,742</u>	<u>8.1 %</u>
Expenses			
General government	3,686,452	3,479,333	6.0 %
Public safety	4,918,280	5,494,708	(10.5)%
Highways and streets	1,419,509	1,310,683	8.3 %
Culture and recreation	2,068,613	2,363,897	(12.5)%
Community development	1,144,964	1,235,985	(7.4)%
Interest on long-term debt	<u>1,499,575</u>	<u>1,576,842</u>	<u>(4.9)%</u>
Total expenses	<u>14,737,393</u>	<u>15,461,448</u>	<u>(4.7)%</u>
Increase in net assets	5,138,291	2,926,294	75.6 %
Net assets, beginning of year (as restated)	<u>20,570,941</u>	<u>18,236,600</u>	<u>12.8 %</u>
Net assets, end of year	<u>\$ 25,709,232</u>	<u>\$ 21,162,894</u>	<u>21.5 %</u>

Governmental activities. The following graph illustrates the Town's government-wide revenue resources that were previously discussed in a comparative analysis of government-wide revenues, expenses and changes in net assets. Governmental activities account for 100% of the total revenues and expenditures of the Town. The largest financing source for the Town is the local sales tax (38%) and state shared revenues account for 23% of the government-wide revenue sources.



Financial analysis of the Town's funds

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

As a measure of the general fund's liquidity, it may be useful to compare both general fund balance and total fund balance to total fund expenditures. General fund balance represents 41 percent of total fund expenditures, while total fund balance represents 83 percent of that same amount.

The fund balance of the Town's general fund increased by \$2,333,563 during the current fiscal year. Key factors in this change are as follows:

- ◆ General Fund revenues exceeded projections by \$964,938 (primarily due to building-related activity and state sales tax); expenditures were \$1,763,892 less than projected due to expenditures delayed until next fiscal year.
- ◆ A Budget Reduction Plan was implemented in February 2003 as a result of declining revenues and the addition of a fire department; the majority of the plan remains in place.

As of the end of the fiscal year 2004 the Town's governmental funds reported combined ending fund balances of \$12,871,628, an increase of \$4,308,750 over the prior year. Approximately 49% of this total amount \$6,371,426 constitutes general fund balance, which is available for contribution to the designated, undesignated and reserved fund balance. At fiscal year-end 2003-2004 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2002-03
General Fund	\$ 6,371,426	\$ 2,333,563
Excise Tax Fund	2,432,170	519,766
General Obligation Debt Service Fund	268,842	204,609
Eagle Mountain Debt Service Fund	261,530	62,770
Nonmajor Governmental Funds	3,537,660	1,188,042

The Excise Tax Fund is a dedicated portion of the local sales tax (0.4%) that can only be used for debt retirement of Municipal Property Corporation bonds and expenses relating to development of the downtown area. Revenues have exceeded the expenditures each year; the surplus will continue to accumulate in the fund for possible future defeasance of outstanding bonds.

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

The Highway User Revenue Fund, included with the nonmajor governmental funds of the Town, is required by state statute to track the state allocation of gasoline taxes and other state revenues shared with local governments and required to be used for transportation purposes. Revenue in this fund increased \$81,913 (6%) in fiscal year 2004 due to the increase in state shared revenues. Expenditures increased \$127,993 from the prior year due to increased expenses for road maintenance.

Nonmajor governmental funds of the Town also include the Capital Projects Fund, consisting of governmental impact (development) fees for streets and highways, parks and recreation, law enforcement, general government and open space. This is a restricted fund and may only be appropriated for the particular purpose for which they were imposed. The fund balance as of June 30, 2004 in this fund is \$1,740,295; expenditures were made in FY2004 for open space (trailhead design) and recreation (Fountain Park Phase II).

Budgetary highlights

The Town's annual budget is the legally adopted expenditure control document of the Town. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 34 - 35. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis. The Town did not amend its budget during the fiscal year.

General Fund revenues of \$13,643,823, on a budgetary basis, exceeded budgeted revenues of \$12,678,885 by \$964,938 while budgetary basis expenditures of \$10,400,010 were only 85% of budgeted expenditures (savings of \$1,763,892). The excess of revenues over budgeted revenues is primarily due to better than expected building permit activity and greater State Sales Tax revenues. The expenditure savings were derived from capital project costs in Fountain Park that were not completed (\$652,468), a budgeted General and Administrative expenditure for a sales tax refund that has been referred for a tax hearing (\$400,000) as well as organizational vacancy savings (\$170,000) and landscape maintenance savings (\$55,000). The Town staff is committed to maintaining the level of service without jeopardizing future infrastructure or capital.

Capital asset and debt administration

The Town's capital assets for its governmental activities as of June 30, 2004 amount to \$40,057,393 (net of accumulated depreciation), a decrease from 2003 of 1.4%. 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.B.3 in the Notes to the Basic Financial Statements for further information regarding capital assets.

The Town recorded its capital assets as part of the general fixed asset account group in past years as they were acquired or constructed. Capital assets include land, buildings and improvements, machinery and equipment, roads and improvements, vehicles, office and computer equipment. During fiscal year 2003-2004 the annual depreciation expense was \$977,496. The following table provides a comparison of current and prior year capital assets.

Town of Fountain Hills, Arizona
Capital Assets at June 30, 2004
(Net of depreciation)

	Governmental Activities		Percent Change
	2004	2003	
Land	\$ 23,571,668	\$ 23,571,668	- %
Buildings and improvements	9,559,273	9,514,951	0.5 %
Improvements other than buildings	5,397,938	5,711,469	(5.5)%
Infrastructure	451,888	377,221	19.8 %
Furniture, machinery and equipment	582,890	728,500	(20.0)%
Vehicles	493,736	739,131	(33.2)%
	<u>\$ 40,057,393</u>	<u>\$ 40,642,940</u>	(1.4)%

Long-term debt

At the end of the current fiscal year, the Town had total long-term obligations outstanding of \$27,647,367 with no debt issued during the year. Of the outstanding debt, \$11,740,000 is general obligation bonds backed by the full faith and credit of the Town. An additional \$4,615,000 of special assessment bonds are backed by a guaranteed investment contract with the developer of the district property. All other outstanding debt is secured by pledges of specific revenue sources of the Town.

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, 2004 is \$16,988,114 in the 6% capacity and \$55,352,046 in the 20% capacity. Additional information on the debt limitations and capacities may be found in the statistical section of this report (page 85).

The following schedule shows the outstanding debt of the Town (both current and long-term) as of June 30, 2003 and 2004. Further detail on the Town's outstanding debt may be found in Note 3.E on pages 49 - 50.

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

	Governmental Activities		
	2004	2003	Percent Change
General Obligation Debt	\$ 11,110,000	\$ 11,865,000	(6.4)%
Highway User Revenue Bonds	630,000	720,000	(12.5)%
Special Assessment Debt	16,137	19,365	(16.7)%
Community Facilities District Debt	4,615,000	4,765,000	(3.1)%
Municipal Property Corporation Debt	11,005,000	11,430,000	(3.7)%
Compensated Absences	<u>271,230</u>	<u>174,637</u>	55.3 %
	<u>\$ 27,647,367</u>	<u>\$ 28,974,002</u>	(4.6)%

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

Economic factors and next year's budgets and rates

The Town of Fountain Hills, Arizona, as well as all other Arizona cities, remains dependent on state shared revenues (33%) and local sales taxes for resources (49%). These revenue sources are sensitive to economic downturns and legislative appropriations. The Town's economic activity has remained fairly stable during the national recession and is expected to continue to grow at a moderate pace over the next year, fueled primarily by the residential construction industry. The Town of Fountain Hills, Arizona has a number of high-end properties that are currently being developed for custom homes.

The budget for fiscal year 2004-2005 includes resources targeted towards economic development in the downtown area (Avenue of the Fountains). An economic development coordinator has been hired and capital funds for improvements to the area are included to focus on developing the area to promote economic development.

Financial contact

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

Town of Fountain Hills
Accounting Department
P.O. Box 17958
Fountain Hills, AZ 85269

Or visit our website at:

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

THIS PAGE BLANK

Basic Financial Statements

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>
Assets	
Cash and equivalents	\$ 17,477,529
Cash with paying agent	2,342,129
Receivables, net	
Accounts receivable	444,828
Taxes receivable	83,646
Intergovernmental receivable	1,207,303
Special assessments receivable	5,127
Inventories	10,517
Prepaid items	66,968
Capital assets	
Non-depreciable	23,571,668
Depreciable (net)	<u>16,485,725</u>
Total assets	<u>61,695,440</u>
Liabilities	
Accounts payable	903,465
Accrued wages and benefits	118,419
Interest payable	744,778
Intergovernmental payable	50,000
Deposits payable	25,000
Due to developers	5,077,179
Matured debt principal payable	1,420,000
Noncurrent liabilities	
Due within one year	1,603,159
Due in more than one year	<u>26,044,208</u>
Total liabilities	<u>35,986,208</u>
Net assets	
Invested in capital assets, net of related debt	11,261,256
Restricted for	
Public safety	168,885
Highways and streets	331,560
Debt service	1,018,867
Capital outlay	2,382,386
Other	2,570,165
Unrestricted	<u>7,976,113</u>
Total net assets	<u>\$ 25,709,232</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, 2004

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Totals
Functions/Programs				
Governmental activities				
General government	\$ 3,686,452	\$ 3,388,923	\$ -	\$ (297,529)
Public safety	4,918,280	-	75,000	(4,843,280)
Highways and streets	1,419,509	28,597	1,515,787	124,875
Culture and recreation	2,068,613	-	-	(2,068,613)
Community development	1,144,964	-	-	(1,144,964)
Interest on long-term debt	<u>1,499,575</u>	<u>3,612</u>	<u>-</u>	<u>(1,495,963)</u>
Totals	<u>\$ 14,737,393</u>	<u>\$ 3,421,132</u>	<u>\$ 1,590,787</u>	<u>(9,725,474)</u>
General revenues				
Taxes				
Sales taxes				7,733,643
Property taxes				2,195,856
Franchise taxes				126,362
State revenue sharing				1,967,973
State sales tax revenue sharing				1,702,374
Auto lieu tax revenue sharing				819,497
Investment earnings				122,082
Other - not program				<u>195,978</u>
Total general revenues				<u>14,863,765</u>
Change in net assets				5,138,291
Net assets, beginning of year (as restated)				<u>20,570,941</u>
Net assets, end of year				<u>\$ 25,709,232</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, 2004

	General	Excise Tax	General Obligation Debt Service	Eagle Mountain Debt Service	Nonmajor Governmental Funds	Totals
Assets						
Cash and equivalents	\$ 5,853,264	\$ 2,351,692	\$ 253,559	\$ 5,624,482	\$ 3,394,532	\$ 17,477,529
Cash with paying agent	-	-	1,057,064	-	1,285,065	2,342,129
Accounts receivable	434,237	-	-	-	10,591	444,828
Taxes receivable	12,748	-	52,986	17,912	-	83,646
Intergovernmental receivable	949,220	137,022	-	-	121,061	1,207,303
Special assessments receivable	-	-	-	-	5,127	5,127
Due from other funds	3,514	-	-	-	-	3,514
Inventories	10,517	-	-	-	-	10,517
Prepaid items	66,968	-	-	-	-	66,968
Total assets	<u>\$ 7,330,468</u>	<u>\$ 2,488,714</u>	<u>\$ 1,363,609</u>	<u>\$ 5,642,394</u>	<u>\$ 4,816,376</u>	<u>\$ 21,641,561</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 460,789	\$ 54,922	\$ 594	\$ -	\$ 387,160	\$ 903,465
Accrued wages and benefits	98,859	1,622	-	-	17,938	118,419
Interest payable	-	-	302,064	152,737	289,977	744,778
Intergovernmental payable	-	-	-	50,000	-	50,000
Due to other funds	-	-	-	-	3,514	3,514
Deferred revenue	374,394	-	37,109	10,948	5,127	427,578
Deposits payable	25,000	-	-	-	-	25,000
Due to developers	-	-	-	5,017,179	60,000	5,077,179
Matured debt principal payable	-	-	755,000	150,000	515,000	1,420,000
Total liabilities	<u>959,042</u>	<u>56,544</u>	<u>1,094,767</u>	<u>5,380,864</u>	<u>1,278,716</u>	<u>8,769,933</u>
Fund balances						
Reserved for inventories	10,517	-	-	-	-	10,517
Reserved for prepaid items	66,968	-	-	-	-	66,968
Unreserved	6,293,941	2,432,170	268,842	261,530	-	9,256,483
Unreserved, reported in nonmajor						
Special revenue funds	-	-	-	-	666,779	666,779
Debt service funds	-	-	-	-	488,495	488,495
Capital projects funds	-	-	-	-	2,382,386	2,382,386
Total fund balances	<u>6,371,426</u>	<u>2,432,170</u>	<u>268,842</u>	<u>261,530</u>	<u>3,537,660</u>	<u>12,871,628</u>
Total liabilities and fund balances	<u>\$ 7,330,468</u>	<u>\$ 2,488,714</u>	<u>\$ 1,363,609</u>	<u>\$ 5,642,394</u>	<u>\$ 4,816,376</u>	<u>\$ 21,641,561</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, 2004

Fund balances - total governmental funds	\$ 12,871,628
Amounts reported for governmental activities in the statement of net assets are different because:	
Property taxes not collected within 60 days subsequent to fiscal year-end are deferred in the governmental funds.	113,610
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Governmental capital assets	45,082,942
Less accumulated depreciation	<u>(5,025,549)</u>
Capital assets used in governmental activities	<u>40,057,393</u>
Other long-term assets are not available to pay for current-period expenditures and are not susceptible to accrual.	313,968
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	
General obligation bonds	(11,740,000)
Revenue bonds	(11,005,000)
Special assessment debt with government commitment	(16,137)
Community facilities district bonds payable	(4,615,000)
Compensated absences	<u>(271,230)</u>
Net assets of governmental activities	<u>\$ 25,709,232</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, 2004

	General	Excise Tax	General Obligation Debt Service	Eagle Mountain Debt Service	Nonmajor Governmental Funds	Totals
Revenues						
Taxes						
Sales taxes	\$ 6,543,988	\$ 1,189,655	\$ -	\$ -	\$ -	\$ 7,733,643
Property taxes	-	-	1,563,508	574,193	-	2,137,701
Franchise taxes	126,362	-	-	-	-	126,362
Intergovernmental	4,489,844	-	-	-	1,590,787	6,080,631
Fines and forfeitures	192,150	-	-	-	169,189	361,339
Licenses and permits	1,600,934	-	-	-	-	1,600,934
Charges for services	167,749	-	-	-	870,421	1,038,170
Rents and royalties	242,704	-	-	-	-	242,704
Special assessments	-	-	-	-	3,612	3,612
Investment earnings	68,823	23,473	1,415	3,391	24,980	122,082
Other	211,269	-	-	-	50,292	261,561
Total Revenues	<u>13,643,823</u>	<u>1,213,128</u>	<u>1,564,923</u>	<u>577,584</u>	<u>2,709,281</u>	<u>19,708,739</u>
Expenditures						
Current						
General government	3,125,413	96,701	-	55,000	337,344	3,614,458
Public safety	4,598,934	-	-	-	17,227	4,616,161
Highways and streets	-	-	-	-	1,402,502	1,402,502
Culture and recreation	1,530,699	-	-	-	66,451	1,597,150
Community development	1,144,964	-	-	-	-	1,144,964
Debt Service						
Principal retirement	-	-	755,000	150,000	518,228	1,423,228
Interest on long-term debt	-	-	605,314	309,814	584,447	1,499,575
Capital outlay	-	-	-	-	101,951	101,951
Total Expenditures	<u>10,400,010</u>	<u>96,701</u>	<u>1,360,314</u>	<u>514,814</u>	<u>3,028,150</u>	<u>15,399,989</u>
Excess (deficiency) of revenues over expenditures	<u>3,243,813</u>	<u>1,116,427</u>	<u>204,609</u>	<u>62,770</u>	<u>(318,869)</u>	<u>4,308,750</u>
Other financing sources (uses)						
Transfers in	-	-	-	-	1,630,907	1,630,907
Transfers out	(910,250)	(596,661)	-	-	(123,996)	(1,630,907)
Total other financing sources (uses)	<u>(910,250)</u>	<u>(596,661)</u>	<u>-</u>	<u>-</u>	<u>1,506,911</u>	<u>-</u>
Net change in fund balances	2,333,563	519,766	204,609	62,770	1,188,042	4,308,750
Fund balances, beginning of year (as restated)	<u>4,037,863</u>	<u>1,912,404</u>	<u>64,233</u>	<u>198,760</u>	<u>2,349,618</u>	<u>8,562,878</u>
Fund balances, end of year	<u>\$ 6,371,426</u>	<u>\$ 2,432,170</u>	<u>\$ 268,842</u>	<u>\$ 261,530</u>	<u>\$ 3,537,660</u>	<u>\$ 12,871,628</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, 2004

Net change in fund balances - total governmental funds \$ 4,308,750

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	391,949
Less current year depreciation	<u>(977,496)</u>
Excess capital expenditures over depreciation	<u>(585,547)</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	108,790
Property taxes	58,155

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	1,423,228
--------------------------------------	-----------

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	(96,593)
Bad debt expense on court fines receivable	<u>(78,492)</u>

Change in net assets of governmental activities \$ 5,138,291

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, 2004

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Taxes	\$ 6,609,293	\$ 6,670,350	\$ 61,057
Intergovernmental	4,250,137	4,489,844	239,707
Fines and forfeitures	213,500	192,150	(21,350)
Licenses and permits	969,005	1,600,934	631,929
Charges for services	203,950	167,749	(36,201)
Rents and royalties	258,000	242,704	(15,296)
Investment earnings	85,000	68,823	(16,177)
Other	<u>90,000</u>	<u>211,269</u>	<u>121,269</u>
Total Revenues	<u>12,678,885</u>	<u>13,643,823</u>	<u>964,938</u>
Expenditures			
Current			
General government			
Mayor and Town Council	85,360	77,106	8,254
Magistrate Court	299,870	296,272	3,598
General and Administrative	3,507,940	2,741,331	766,609
Contingency	<u>50,000</u>	<u>10,704</u>	<u>39,296</u>
Total general government	<u>3,943,170</u>	<u>3,125,413</u>	<u>817,757</u>
Public safety			
Building Safety	587,900	548,471	39,429
Law Enforcement	1,743,538	1,708,052	35,486
Fire Department	<u>2,335,830</u>	<u>2,342,411</u>	<u>(6,581)</u>
Total public safety	<u>4,667,268</u>	<u>4,598,934</u>	<u>68,334</u>
Culture and recreation			
Parks and Recreation	1,748,910	1,096,442	652,468
Civic Center	<u>469,994</u>	<u>434,257</u>	<u>35,737</u>
Total culture and recreation	<u>2,218,904</u>	<u>1,530,699</u>	<u>688,205</u>
Community development			
Community Development	252,000	212,541	39,459
Public Works Dept	<u>1,082,560</u>	<u>932,423</u>	<u>150,137</u>
Total community development	<u>1,334,560</u>	<u>1,144,964</u>	<u>189,596</u>
Total Expenditures	<u>12,163,902</u>	<u>10,400,010</u>	<u>1,763,892</u>
Excess (deficiency) of revenues over expenditures	<u>514,983</u>	<u>3,243,813</u>	<u>2,728,830</u>
Other financing sources (uses)			
Transfers out	<u>-</u>	<u>(910,250)</u>	<u>(910,250)</u>
Total other financing sources (uses)	<u>-</u>	<u>(910,250)</u>	<u>(910,250)</u>
Net change in fund balances	514,983	2,333,563	1,818,580
Fund balances, beginning of year	<u>3,380,677</u>	<u>4,037,863</u>	<u>657,186</u>
Fund balances, end of year	<u>\$ 3,895,660</u>	<u>\$ 6,371,426</u>	<u>\$ 2,475,766</u>

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

TOWN OF FOUNTAIN HILLS, ARIZONA
 EXCISE TAX FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes	\$ 1,174,413	\$ 1,189,655	\$ 15,242
Investment earnings	<u>-</u>	<u>23,473</u>	<u>23,473</u>
Total Revenues	<u>1,174,413</u>	<u>1,213,128</u>	<u>38,715</u>
Expenditures			
Current			
General government	<u>958,065</u>	<u>96,701</u>	<u>861,364</u>
Total Expenditures	<u>958,065</u>	<u>96,701</u>	<u>861,364</u>
Excess (deficiency) of revenues over expenditures	<u>216,348</u>	<u>1,116,427</u>	<u>900,079</u>
Other financing sources (uses)			
Transfers out	<u>-</u>	<u>(596,661)</u>	<u>(596,661)</u>
Total other financing sources (uses)	<u>-</u>	<u>(596,661)</u>	<u>(596,661)</u>
Net change in fund balances	216,348	519,766	303,418
Fund balances, beginning of year	<u>-</u>	<u>1,912,404</u>	<u>1,912,404</u>
Fund balances, end of year	<u>\$ 216,348</u>	<u>\$ 2,432,170</u>	<u>\$ 2,215,822</u>

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

THIS PAGE BLANK

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

The Town is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations.

Included within the reporting entity:

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

B. Government-wide and fund financial statements

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

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

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

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

The Town reports the following major governmental funds:

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

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

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

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

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

Amounts reported as program revenues include 1) 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.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

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

2. Receivables

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

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

3. Short-term interfund receivables/payables

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

4. Inventories and prepaid items

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

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

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

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.

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

8. Net assets

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

9. Fund equity

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

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

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

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 in 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.

No supplementary budgetary appropriations were necessary during the year.

B. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Fire Department	\$ 6,581
Eagle Mountain Debt Service Fund	314

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Prior period adjustment

The Town made a prior period adjustment in the Eagle Mountain Debt Service Fund in the amount of \$591,953 to correct an error in the previously issued financial statements. Interest earned on \$4,435,000 of developer contributions the Town holds until the debt service is repaid was recorded as revenue. However, the Town was contractually liable to the developers for any amount of interest earned in excess of the interest revenue used to make the required principal and interest payments. Therefore, the beginning net assets in the government-wide financial statements and the beginning fund balance of the Eagle Mountain Debt Service Fund in the fund financial statements were restated to reflect the interest due to the developers. The following summary is necessary to reconcile beginning net assets and beginning fund balance to the government-wide and fund financial statements, respectively.

	Statement of Activities	Statement of Revenues, Expenditures, and Changes in Fund Balances
Net assets / fund balance, July 1, 2003 (as previously stated)	\$ 21,162,894	\$ 790,713
Prior period adjustment	(591,953)	(591,953)
Net assets / fund balance July 1, 2003 (as restated)	\$ 20,570,941	\$ 198,760

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

B. Assets

1. Deposits and investments

Deposits and investments at June 30, 2004 consist of the following:

Deposits	
Cash on hand	\$ 1,360
Cash in bank	513,944
Cash on deposit with paying agent	2,342,129
Investments	
Money Market Mutual Fund	338,015
U.S. Government Securities	16,138
State Treasurer's Investment Pool	10,983,590
Cash on deposit with trustee	<u>5,624,482</u>
Total cash and investments	19,819,658
Cash on deposit with paying agent	<u>(2,342,129)</u>
Total cash and equivalents	<u>\$ 17,477,529</u>

Deposits - The Town's deposits at June 30, 2004, were entirely covered by federal depository insurance or by collateral held by the Town's custodial bank in the Town's name.

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

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, 2004 was \$392,460, which was reduced by \$78,492 for uncollectible amounts for a net receivable balance at June 30, 2004 of \$313,968.

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 receivables (General Fund)	\$ 60,426
Deferred court revenue (General Fund)	313,968
Delinquent property taxes receivables (General Obligation Debt Service Fund)	37,109
Delinquent property taxes receivables (Eagle Mountain Debt Service Fund)	10,948
Special assessments receivables (Nonmajor funds)	<u>5,127</u>
	<u>\$ 427,578</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

3. Capital assets

Capital asset activity for the year ended June 30, 2004 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	\$ <u>23,571,668</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>23,571,668</u>
Total capital assets, not being depreciated	<u>23,571,668</u>	<u>-</u>	<u>-</u>	<u>23,571,668</u>
Capital assets being depreciated:				
Buildings and improvements	10,080,070	246,242	-	10,326,312
Improvements other than buildings	7,491,921	62,619	-	7,554,540
Infrastructure	397,976	83,088	-	481,064
Furniture, machinery and equipment	1,518,647	-	-	1,518,647
Vehicles	<u>1,825,873</u>	<u>-</u>	<u>(195,162)</u>	<u>1,630,711</u>
Total capital assets being depreciated	<u>21,314,487</u>	<u>391,949</u>	<u>(195,162)</u>	<u>21,511,274</u>
Less accumulated depreciation for:				
Buildings and improvements	(565,119)	(201,920)	-	(767,039)
Improvements other than buildings	(1,780,452)	(376,150)	-	(2,156,602)
Infrastructure	(20,755)	(8,421)	-	(29,176)
Furniture, machinery and equipment	(790,147)	(145,610)	-	(935,757)
Vehicles	<u>(1,086,742)</u>	<u>(245,395)</u>	<u>195,162</u>	<u>(1,136,975)</u>
Total accumulated depreciation	<u>(4,243,215)</u>	<u>(977,496)</u>	<u>195,162</u>	<u>(5,025,549)</u>
Total capital assets, being depreciated, net	<u>17,071,272</u>	<u>(585,547)</u>	<u>-</u>	<u>16,485,725</u>
Governmental activities capital assets, net	\$ <u>40,642,940</u>	\$ <u>(585,547)</u>	\$ <u>-</u>	\$ <u>40,057,393</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 96,997
Public safety	295,769
Highways and streets	48,376
Culture and recreation	<u>536,354</u>
Total depreciation expense-governmental activities	<u>\$ 977,496</u>

C. Interfund receivables, payables and transfers

As of June 30, 2004 interfund receivable and payables were as follows:

	Due From
Due To	Nonmajor
General Fund	\$ <u>3,514</u>

The above interfund receivables and payables are due to a deficit cash balance in the nonmajor Municipal Property Corporation Debt Service Fund at the end of the fiscal year. Property tax revenues were received subsequent to June 30, 2004 to cover the deficit.

Interfund transfers for the year ended June 30, 2004 consisted of the following:

	Transfers From			
Transfers To	General Fund	Excise Tax	Nonmajor	Total
Nonmajor	\$ <u>910,250</u>	\$ <u>596,661</u>	\$ <u>123,996</u>	<u>\$1,630,907</u>

The General Fund transfer of \$910,250 to the Nonmajor Capital Projects Fund was to fund future construction projects. The transfer of \$596,661 from the Excise Tax Fund to the Nonmajor funds was for the debt service requirements on the Municipal Property Corporation bonds. The nonmajor transfer of \$123,996 was a transfer from Highway User Revenue Fund to the Highway User Debt Service Fund for the annual debt service payments on outstanding revenue bonds.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

D. Obligations under operating leases

The Town leases office space under the provisions of a long-term lease agreement classified as an operating lease. Rental expenditures under the terms of the operating lease totaled \$385,421 for the year ended June 30, 2004. The lease expires June 30, 2005. Future rental expenditures under the terms of the lease are \$401,520 due monthly through June 30, 2005.

E. 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 being repaid by various debt service funds. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

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

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

Changes in long-term obligations for the year ended June 30, 2004 are as follows:

	<u>July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2004</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds and special assessments					
General obligation bonds	\$ 12,585,000	\$ -	\$ (845,000)	\$ 11,740,000	\$ 895,000
Municipal Property Corporation debt	11,430,000	-	(425,000)	11,005,000	450,000
Special assessment debt with government commitment	19,365	-	(3,228)	16,137	3,228
Community facilities district bonds payable	<u>4,765,000</u>	<u>-</u>	<u>(150,000)</u>	<u>4,615,000</u>	<u>160,000</u>
Total bonds and special assessment debt	28,799,365	-	(1,423,228)	27,376,137	1,508,228
Other liabilities					
Compensated absences	<u>174,637</u>	<u>280,064</u>	<u>(183,471)</u>	<u>271,230</u>	<u>94,931</u>
	<u>\$ 28,974,002</u>	<u>\$ 280,064</u>	<u>\$ (1,606,699)</u>	<u>\$ 27,647,367</u>	<u>\$ 1,603,159</u>

Debt service requirements on long-term debt at June 30, 2004 are as follows:

Year Ending <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,508,228	\$ 1,419,829
2006	1,583,228	1,344,319
2007	1,673,227	1,265,927
2008	1,788,227	1,182,207
2009	1,798,227	1,095,684
2010-14	8,650,000	4,161,264
2015-19	7,595,000	2,060,488
2020-24	<u>2,780,000</u>	<u>213,594</u>
	<u>\$ 27,376,137</u>	<u>\$ 12,743,312</u>

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, 2004

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, 2004, totaled \$206,952.

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

C. Subsequent events

Subsequent to June 30, 2004, the Town approved the issuance of \$3,685,000 of Municipal Property Corporation Municipal Facilities Revenue Bonds, Series 2004 to pay a portion of the costs in connection with the second phase of construction of the Town's Civic Center, fund a debt services reserve fund or pay a reserve fund surety policy and pay costs in connection with the issuance of the bond. The term of the loan is fifteen years and the rate has not yet been determined. The bond is secured by general revenues of the Town.

D. Retirement plans

Defined Contribution Pension Plan

All full-time employees of the Town, except participants in the Arizona Public Safety Personnel Retirement System, participate in a defined contribution pension plan administered by the ICMA Retirement Corporation as a 401(a) plan. The payroll for the Town employees covered by this plan the year ended June 30, 2004 was \$2,425,022. The Town's total payroll was \$2,843,829.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004

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

An employee that leaves the employment of the Town is entitled to his or her contributions and the vested portion of the Town's contributions, plus interest earned. Each employee must contribute 11% of his or her gross earnings. The Town must contribute 11% of covered earnings. During fiscal year 2003-04, the Town's required and actual contributions amounted to \$266,752. The employees' contributions totaled \$266,752.

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 2003-04 or as of the close of the fiscal year.

Public Safety Personnel Retirement System (PSPRS)

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

Funding policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The Town is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 10.90 percent of annual covered payroll.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2004

Annual pension cost - During the year ended June 30, 2003 (the date of the latest available information), the Town's annual pension cost of \$38,522 for police was equal to the Town of Fountain Hill's required and actual contributions.

The required contribution was determined as part of the June 30, 2003 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 9.0% per year compounded annually, (b) projected salary increases of 6.5% per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

The actuarial value of the Town's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2003, was 20 years.

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

Three-Year Trend Information

Police

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2001	\$ 57,277	100.0 %	\$ -
2002	61,102	100.0	-
2003	38,522	100.0	-

Additional historical trend information for the Town's PSPRS is disclosed on page 55.

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

Required Supplementary Information

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

Fountain Hills Police

Valuation Date <u>June 30,</u>	Actuarial Value of <u>Assets</u>	Entry Age Actuarial Accrued <u>Liability (AAL)</u>	Percent <u>Funded</u>	Over(Under) funded <u>AAL</u>	Annual Covered <u>Payroll</u>	Over(Under) funded AAL as a Percentage of Covered <u>Payroll</u>
1996	\$ 17,463	\$ 16,084	108.6 %	\$ 1,379	\$ 77,574	1.8 %
1997	54,809	48,512	113.0 %	6,297	216,163	2.9 %
1998	184,135	125,791	148.7 %	58,344	394,005	14.8 %
1999	258,664	263,285	98.2 %	(4,621)	412,182	(1.1)%
2000	375,860	401,167	93.7 %	(25,307)	556,445	(4.5)%
2001	562,905	409,913	137.3 %	152,992	639,753	23.9 %
2002	591,957	557,666	106.1 %	34,291	549,166	6.2 %
2003	158,079	225,917	70.0 %	(67,838)	172,698	(39.3)%

* Information prior to 1996 is not available.

**Combining and Individual Fund
Statements and Schedules**

THIS PAGE BLANK

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

DEBT SERVICE FUNDS

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

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

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

CAPITAL PROJECTS FUND

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

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

TOWN OF FOUNTAIN HILLS, ARIZONA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue				Debt Service			
	HURF	Grants	Local Court Enhancement	Totals	Municipal Property Corporation	HURF Debt Service	Cottonwoods Special Assessment	Totals
Assets								
Cash and equivalents	\$ 400,801	\$ 186,452	\$ 168,885	\$ 756,138	\$ -	\$ 1,662	\$ 10,259	\$ 11,921
Cash with paying agent	-	-	-	-	1,178,999	106,066	-	1,285,065
Receivables, net								
Accounts receivable	10,591	-	-	10,591	-	-	-	-
Intergovernmental receivable	121,061	-	-	121,061	-	-	-	-
Special assessments receivable	-	-	-	-	-	-	5,127	5,127
Total assets	<u>\$ 532,453</u>	<u>\$ 186,452</u>	<u>\$ 168,885</u>	<u>\$ 887,790</u>	<u>\$ 1,178,999</u>	<u>\$ 107,728</u>	<u>\$ 15,386</u>	<u>\$ 1,302,113</u>
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 182,955	\$ 20,118	\$ -	\$ 203,073	\$ -	\$ -	\$ -	\$ -
Accrued wages and benefits	17,938	-	-	17,938	-	-	-	-
Interest payable	-	-	-	-	273,487	16,066	424	289,977
Due to other funds	-	-	-	-	3,514	-	-	3,514
Deferred revenue	-	-	-	-	-	-	5,127	5,127
Matured debt principal payable	-	-	-	-	425,000	90,000	-	515,000
Due to developers	-	-	-	-	-	-	-	-
Total liabilities	<u>200,893</u>	<u>20,118</u>	<u>-</u>	<u>221,011</u>	<u>702,001</u>	<u>106,066</u>	<u>5,551</u>	<u>813,618</u>
Fund balances								
Unreserved	<u>331,560</u>	<u>166,334</u>	<u>168,885</u>	<u>666,779</u>	<u>476,998</u>	<u>1,662</u>	<u>9,835</u>	<u>488,495</u>
Total fund balances	<u>331,560</u>	<u>166,334</u>	<u>168,885</u>	<u>666,779</u>	<u>476,998</u>	<u>1,662</u>	<u>9,835</u>	<u>488,495</u>
Total liabilities and fund balances	<u>\$ 532,453</u>	<u>\$ 186,452</u>	<u>\$ 168,885</u>	<u>\$ 887,790</u>	<u>\$ 1,178,999</u>	<u>\$ 107,728</u>	<u>\$ 15,386</u>	<u>\$ 1,302,113</u>

Capital Projects

Development Fees	Capital Projects	Totals	Total Nonmajor Governmental Funds
\$ 1,832,021	\$ 794,452	\$ 2,626,473	\$ 3,394,532
-	-	-	1,285,065
-	-	-	10,591
-	-	-	121,061
-	-	-	5,127
<u>\$ 1,832,021</u>	<u>\$ 794,452</u>	<u>\$ 2,626,473</u>	<u>\$ 4,816,376</u>

\$ 31,726	\$ 152,361	\$ 184,087	\$ 387,160
-	-	-	17,938
-	-	-	289,977
-	-	-	3,514
-	-	-	5,127
-	-	-	515,000
<u>60,000</u>	<u>-</u>	<u>60,000</u>	<u>60,000</u>
<u>91,726</u>	<u>152,361</u>	<u>244,087</u>	<u>1,278,716</u>

<u>1,740,295</u>	<u>642,091</u>	<u>2,382,386</u>	<u>3,537,660</u>
<u>1,740,295</u>	<u>642,091</u>	<u>2,382,386</u>	<u>3,537,660</u>

<u>\$ 1,832,021</u>	<u>\$ 794,452</u>	<u>\$ 2,626,473</u>	<u>\$ 4,816,376</u>
---------------------	-------------------	---------------------	---------------------

TOWN OF FOUNTAIN HILLS, ARIZONA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Special Revenue				Debt Service			
	HURF	Grants	Local Court Enhancement	Totals	Municipal Property Corporation	HURF Debt Service	Cottonwoods Special Assessment	Totals
Revenues								
Intergovernmental	\$ 1,515,787	\$ 75,000	\$ -	\$ 1,590,787	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	-	-	169,189	169,189	-	-	-	-
Charges for services	28,597	-	-	28,597	-	-	-	-
Special assessments	-	-	-	-	-	-	3,612	3,612
Investment earnings	3,700	-	846	4,546	6,036	421	10	6,467
Other	-	28,601	-	28,601	-	-	-	-
Total revenues	<u>1,548,084</u>	<u>103,601</u>	<u>170,035</u>	<u>1,821,720</u>	<u>6,036</u>	<u>421</u>	<u>3,622</u>	<u>10,079</u>
Expenditures								
Current								
General government	-	33,147	1,150	34,297	-	-	-	-
Public safety	-	17,227	-	17,227	-	-	-	-
Highways and streets	1,280,346	4,094	-	1,284,440	-	-	-	-
Culture and recreation	-	66,451	-	66,451	-	-	-	-
Debt Service								
Principal retirement	-	-	-	-	425,000	90,000	3,228	518,228
Interest on long-term debt	-	-	-	-	550,983	32,532	932	584,447
Capital outlay	-	18,863	-	18,863	-	-	-	-
Total expenditures	<u>1,280,346</u>	<u>139,782</u>	<u>1,150</u>	<u>1,421,278</u>	<u>975,983</u>	<u>122,532</u>	<u>4,160</u>	<u>1,102,675</u>
Excess (deficiency) of revenues over expenditures	<u>267,738</u>	<u>(36,181)</u>	<u>168,885</u>	<u>400,442</u>	<u>(969,947)</u>	<u>(122,111)</u>	<u>(538)</u>	<u>(1,092,596)</u>
Other financing sources (uses)								
Transfers in	-	-	-	-	596,661	123,996	-	720,657
Transfers out	(123,996)	-	-	(123,996)	-	-	-	-
Total other financing sources (uses)	<u>(123,996)</u>	<u>-</u>	<u>-</u>	<u>(123,996)</u>	<u>596,661</u>	<u>123,996</u>	<u>-</u>	<u>720,657</u>
Net change in fund balances	143,742	(36,181)	168,885	276,446	(373,286)	1,885	(538)	(371,939)
Fund balances, beginning of year	<u>187,818</u>	<u>202,515</u>	<u>-</u>	<u>390,333</u>	<u>850,284</u>	<u>(223)</u>	<u>10,373</u>	<u>860,434</u>
Fund balances, end of year	<u>\$ 331,560</u>	<u>\$ 166,334</u>	<u>\$ 168,885</u>	<u>\$ 666,779</u>	<u>\$ 476,998</u>	<u>\$ 1,662</u>	<u>\$ 9,835</u>	<u>\$ 488,495</u>

<u>Capital Projects</u>			Total Nonmajor Governmental Funds
<u>Development Fees</u>	<u>Capital Projects</u>	<u>Totals</u>	
\$ -	\$ -	\$ -	\$ 1,590,787
-	-	-	169,189
841,824	-	841,824	870,421
-	-	-	3,612
13,819	148	13,967	24,980
-	<u>21,691</u>	<u>21,691</u>	<u>50,292</u>
<u>855,643</u>	<u>21,839</u>	<u>877,482</u>	<u>2,709,281</u>
13,049	289,998	303,047	337,344
-	-	-	17,227
118,062	-	118,062	1,402,502
-	-	-	66,451
-	-	-	518,228
-	-	-	584,447
<u>83,088</u>	-	<u>83,088</u>	<u>101,951</u>
<u>214,199</u>	<u>289,998</u>	<u>504,197</u>	<u>3,028,150</u>
<u>641,444</u>	<u>(268,159)</u>	<u>373,285</u>	<u>(318,869)</u>
-	910,250	910,250	1,630,907
-	-	-	(123,996)
-	<u>910,250</u>	<u>910,250</u>	<u>1,506,911</u>
641,444	642,091	1,283,535	1,188,042
<u>1,098,851</u>	-	<u>1,098,851</u>	<u>2,349,618</u>
<u>\$ 1,740,295</u>	<u>\$ 642,091</u>	<u>\$ 2,382,386</u>	<u>\$ 3,537,660</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
GENERAL OBLIGATION DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes			
Property taxes	\$ 1,540,000	\$ 1,563,508	\$ 23,508
Investment earnings	<u>1,000</u>	<u>1,415</u>	<u>415</u>
Total Revenues	<u>1,541,000</u>	<u>1,564,923</u>	<u>23,923</u>
 Expenditures			
Debt Service			
Principal retirement	755,000	755,000	-
Interest on long-term debt	<u>615,000</u>	<u>605,314</u>	<u>9,686</u>
Total Expenditures	<u>1,370,000</u>	<u>1,360,314</u>	<u>9,686</u>
 Excess (deficiency) of revenues over expenditures	171,000	204,609	33,609
 Fund balances, beginning of year	<u>-</u>	<u>64,233</u>	<u>64,233</u>
 Fund balances, end of year	<u>\$ 171,000</u>	<u>\$ 268,842</u>	<u>\$ 97,842</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, 2004

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes			
Property taxes	\$ 561,500	\$ 574,193	\$ 12,693
Investment earnings	<u>-</u>	<u>3,391</u>	<u>3,391</u>
Total Revenues	<u>561,500</u>	<u>577,584</u>	<u>16,084</u>
Expenditures			
Current			
General government	54,000	55,000	(1,000)
Debt Service			
Principal retirement	150,000	150,000	-
Interest on long-term debt	<u>310,500</u>	<u>309,814</u>	<u>686</u>
Total Expenditures	<u>514,500</u>	<u>514,814</u>	<u>(314)</u>
Excess (deficiency) of revenues over expenditures	47,000	62,770	15,770
Fund balances, beginning of year (as restated)	<u>-</u>	<u>198,760</u>	<u>198,760</u>
Fund balances, end of year	<u>\$ 47,000</u>	<u>\$ 261,530</u>	<u>\$ 214,530</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, 2004

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Intergovernmental	\$ 1,516,400	\$ 1,515,787	\$ (613)
Charges for services	6,000	28,597	22,597
Investment earnings	500	3,700	3,200
Other	1,000	-	(1,000)
Total Revenues	<u>1,523,900</u>	<u>1,548,084</u>	<u>24,184</u>
Expenditures			
Current			
Highways and streets	<u>1,523,900</u>	<u>1,280,346</u>	<u>243,554</u>
Total Expenditures	<u>1,523,900</u>	<u>1,280,346</u>	<u>243,554</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>267,738</u>	<u>267,738</u>
Other financing sources (uses)			
Transfers out	<u>-</u>	<u>(123,996)</u>	<u>(123,996)</u>
Total other financing sources (uses)	<u>-</u>	<u>(123,996)</u>	<u>(123,996)</u>
Net change in fund balances	-	143,742	143,742
Fund balances, beginning of year	<u>-</u>	<u>187,818</u>	<u>187,818</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 331,560</u>	<u>\$ 331,560</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, 2004

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Intergovernmental	\$ 861,600	\$ 75,000	\$ (786,600)
Other	-	28,601	28,601
Total Revenues	<u>861,600</u>	<u>103,601</u>	<u>(757,999)</u>
Expenditures			
Current			
General government	680,000	33,147	646,853
Public safety	24,150	17,227	6,923
Highways and streets	-	4,094	(4,094)
Culture and recreation	320,000	66,451	253,549
Capital outlay	-	18,863	(18,863)
Total Expenditures	<u>1,024,150</u>	<u>139,782</u>	<u>884,368</u>
Excess (deficiency) of revenues over expenditures	(162,550)	(36,181)	126,369
Fund balances, beginning of year	-	202,515	202,515
Fund balances, end of year	<u>\$ (162,550)</u>	<u>\$ 166,334</u>	<u>\$ 328,884</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, 2004

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Investment earnings	\$ -	\$ 6,036	\$ 6,036
Total Revenues	<u>-</u>	<u>6,036</u>	<u>6,036</u>
Expenditures			
Debt Service			
Principal retirement	425,000	425,000	-
Interest on long-term debt	<u>555,500</u>	<u>550,983</u>	<u>4,517</u>
Total Expenditures	<u>980,500</u>	<u>975,983</u>	<u>4,517</u>
Excess (deficiency) of revenues over expenditures	<u>(980,500)</u>	<u>(969,947)</u>	<u>10,553</u>
Other financing sources (uses)			
Transfers in	<u>980,500</u>	<u>596,661</u>	<u>(383,839)</u>
Total other financing sources (uses)	<u>980,500</u>	<u>596,661</u>	<u>(383,839)</u>
Net change in fund balances	-	(373,286)	(373,286)
Fund balances, beginning of year	<u>-</u>	<u>850,284</u>	<u>850,284</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 476,998</u>	<u>\$ 476,998</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, 2004

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Investment earnings	\$ 1,000	\$ 421	\$ (579)
Total Revenues	<u>1,000</u>	<u>421</u>	<u>(579)</u>
Expenditures			
Debt Service			
Principal retirement	90,000	90,000	-
Interest on long-term debt	<u>34,000</u>	<u>32,532</u>	<u>1,468</u>
Total Expenditures	<u>124,000</u>	<u>122,532</u>	<u>1,468</u>
Excess (deficiency) of revenues over expenditures	<u>(123,000)</u>	<u>(122,111)</u>	<u>889</u>
Other financing sources (uses)			
Transfers in	124,000	123,996	(4)
Proceeds of long-term debt issuance	<u>1,540,000</u>	<u>-</u>	<u>(1,540,000)</u>
Total other financing sources (uses)	<u>1,664,000</u>	<u>123,996</u>	<u>(1,540,004)</u>
Net change in fund balances	1,541,000	1,885	(1,539,115)
Fund balances, beginning of year	<u>-</u>	<u>(223)</u>	<u>(223)</u>
Fund balances, end of year	<u>\$ 1,541,000</u>	<u>\$ 1,662</u>	<u>\$ (1,539,338)</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, 2004

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Special assessments	\$ 4,500	\$ 3,612	\$ (888)
Investment earnings	<u>-</u>	<u>10</u>	<u>10</u>
Total Revenues	<u>4,500</u>	<u>3,622</u>	<u>(878)</u>
Expenditures			
Debt Service			
Principal retirement	3,228	3,228	-
Interest on long-term debt	<u>1,272</u>	<u>932</u>	<u>340</u>
Total Expenditures	<u>4,500</u>	<u>4,160</u>	<u>340</u>
Excess (deficiency) of revenues over expenditures	-	(538)	(538)
Fund balances, beginning of year	<u>-</u>	<u>10,373</u>	<u>10,373</u>
Fund balances, end of year	<u><u>-</u></u>	<u><u>9,835</u></u>	<u><u>9,835</u></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, 2004

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Charges for services	\$ 1,021,725	\$ 841,824	\$ (179,901)
Investment earnings	<u>-</u>	<u>13,819</u>	<u>13,819</u>
Total Revenues	<u>1,021,725</u>	<u>855,643</u>	<u>(166,082)</u>
Expenditures			
Current			
General government	413,170	13,049	400,121
Highways and streets	-	118,062	(118,062)
Capital outlay	<u>-</u>	<u>83,088</u>	<u>(83,088)</u>
Total Expenditures	<u>413,170</u>	<u>214,199</u>	<u>198,971</u>
Excess (deficiency) of revenues over expenditures	608,555	641,444	32,889
Fund balances, beginning of year	<u>-</u>	<u>1,098,851</u>	<u>1,098,851</u>
Fund balances, end of year	<u>\$ 608,555</u>	<u>\$ 1,740,295</u>	<u>\$ 1,131,740</u>

THIS PAGE BLANK

STATISTICAL SECTION

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

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

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

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

Fiscal Year	Program Revenues		General Revenues				Totals
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Taxes	Revenue Sharing	Investment Earnings	Other	
2003	\$ 2,782,385	\$ 1,697,900	\$ 7,100,184	\$ 4,740,758	\$ 1,976,809	\$ 79,706	\$ 18,377,742
2004	3,421,132	1,590,787	10,055,861	4,489,844	122,082	195,978	19,875,684

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

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

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Highways and Streets</u>	<u>Culture and Recreation</u>	<u>Community Development</u>	<u>Capital Outlay</u>	<u>Debt Service</u>	<u>Total</u>
1995	\$ 1,131,817	\$ 979,482	\$ 610,858	\$ 382,026	\$ 560,325	\$ 843,650	\$ 491,219	\$ 4,999,377
1996	1,617,365	1,241,694	1,687,403	1,196,115	821,796	578,099	524,553	7,667,025
1997	1,757,431	1,499,538	1,627,952	625,928	864,022	5,343,433	1,132,399	12,850,703
1998	1,964,427	2,074,441	2,020,450	1,471,559	947,251	1,352,936	799,941	10,631,005
1999	2,631,245	2,205,600	1,984,879	2,334,901	955,451	557,374	795,088	11,464,538
2000	2,528,953	3,059,020	2,468,498	3,359,509	1,276,951	1,787,469	924,014	15,404,414
2001	3,646,500	3,354,037	2,212,432	3,866,245	1,175,649	5,261,585	1,851,602	21,368,050
2002	3,859,633	5,084,532	1,877,790	3,069,695	1,064,913	14,770,507	2,903,116	32,630,186
2003	3,318,574	5,174,492	1,198,080	1,815,416	1,215,387	79,427	2,970,070	15,771,446
2004	3,614,458	4,616,161	1,402,502	1,597,150	1,144,964	101,951	2,922,803	15,399,989

(1) Includes all governmental fund types.

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

Fiscal Year	Taxes	Inter-Governmental	Fines and Forfeitures	Licenses and Permits	Charges for Services	Rents and Royalties	Contributions and Donations	Special Assessments	Net Investment Income (Loss)	Other	Total
1995	\$ 468,503	\$ 2,896,271	\$ 171,675	\$ 1,346,134	\$ 358,657	\$ 21,228	\$ 20,000	\$ -	\$ 150,357	\$ 10,263	\$ 5,443,088
1996	2,024,461	2,762,906	211,289	1,653,561	204,541	14,462	-	-	163,457	18,800	7,053,477
1997	3,101,787	3,988,424	209,485	1,770,347	419,976	14,170	1,500	-	464,633	19,477	9,989,799
1998	3,326,207	4,364,859	208,930	1,961,687	795,700	13,591	100,000	-	582,757	17,487	11,371,218
1999	3,861,337	4,929,062	259,484	2,472,215	624,744	18,140	-	14,524	620,639	25,657	12,825,802
2000	4,876,466	4,771,792	293,970	2,569,472	454,366	27,208	10,598	9,241	743,259	21,055	13,777,427
2001	6,088,047	5,281,156	310,359	2,177,614	431,316	35,781	400	7,958	(1,063,339)	10,957	13,280,249
2002	7,595,748	5,895,676	265,605	1,351,209	1,067,814	107,613	12,760	4,520	726,441	1,771,091	18,798,477
2003	7,114,486	6,311,458	195,091	1,308,747	810,412	188,745	127,200	4,302	1,976,809	148,143	18,185,393
2004	9,997,706	6,080,631	361,339	1,600,934	1,038,170	242,704	-	3,612	122,082	261,561	19,708,739

(1) Includes all governmental fund types.

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

Fiscal Year	Sales Tax	Property Tax	Franchise Tax	Total
1995	\$ 16,622	\$ 357,033	\$ 94,848	\$ 468,503
1996	1,610,116	336,000	78,345	2,024,461
1997	2,664,923	350,024	86,840	3,101,787
1998	2,920,084	302,375	103,748	3,326,207
1999	3,394,152	348,778	118,407	3,861,337
2000	4,087,514	657,026	131,926	4,876,466
2001	4,923,174	1,038,891	125,982	6,088,047
2002	4,355,701	3,109,353	130,694	7,595,748
2003	5,051,872	1,910,072	152,542	7,114,486
2004	7,733,643	2,137,701	126,362	9,997,706

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

Business Activity Category	2004 Excise Tax Collections	Percent of Total
Construction	\$ 1,482,981	19.8 %
Transportation/Utilities/Communication	916,498	12.2 %
Wholesale/Retail	3,212,062	42.8 %
Restaurants/Bars	419,107	5.6 %
Fire, Insurance and Real Estate	341,951	4.6 %
Services	423,433	5.6 %
Advertising	101,590	1.3 %
All Other Services Not Specified	<u>605,226</u>	<u>8.1 %</u>
	<u>\$ 7,502,848</u>	<u>100.0 %</u>

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

<u>Fiscal Year</u>	<u>(1) Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Current Taxes Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Ratio of Total Tax Collections to Total Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Ratio of Delinquent Taxes to Tax Levy</u>
1995	\$ 339,832	\$ 339,605	99.9 %	\$ 9	\$ 339,614	99.9 %	\$ 218	0.06 %
1996	323,517	323,511	100.0 %	6	323,517	100.0 %	-	- %
1997	312,638	312,489	100.0 %	143	312,632	100.0 %	6	- %
1998	268,917	261,704	97.3 %	7,213	268,917	100.0 %	-	- %
1999	248,607	235,953	94.9 %	12,653	248,606	100.0 %	1	- %
2000	444,138	432,965	97.5 %	11,171	444,136	100.0 %	2	- %
2001	699,006	676,682	96.8 %	22,321	699,003	100.0 %	3	- %
2002	1,335,787	1,282,844	96.0 %	51,532	1,334,376	99.9 %	1,411	0.11 %
2003	1,378,862	1,329,929	96.5 %	46,186	1,376,115	99.8 %	2,747	0.20 %
2004	1,545,051	1,496,005	96.8 %	-	1,496,005	96.8 %	49,046	3.17 %

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

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

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

Source: The Maricopa County Treasurer's Office.

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

PRIMARY

Tax Year	Total Assessed Value	Exempt Amount	Total Full Cash Value	Estimated Actual Value	Net Assessed Value	Ratio of Total Assessed Value to Total Estimated Actual Value
1995	\$ 99,271,154	\$ 5,082,517	\$ 826,917,659	\$ 992,301,191	\$ 94,288,637	10.00 %
1996	105,912,474	5,262,641	884,979,322	1,061,975,186	100,649,833	9.97 %
1997	118,888,547	6,602,978	1,002,546,459	1,203,055,751	112,285,569	9.88 %
1998	141,077,170	7,355,989	1,208,968,752	1,450,762,502	133,721,181	9.72 %
1999	170,258,614	9,255,978	1,467,193,748	1,760,632,498	161,002,636	9.67 %
2000	198,224,776	8,578,615	1,713,029,238	2,055,635,086	189,646,161	9.64 %
2001	232,442,986	12,213,849	1,997,525,319	2,397,030,383	220,229,137	9.70 %
2002	260,635,914	13,484,185	2,240,702,344	2,688,842,813	247,151,729	9.69 %
2003	299,743,562	16,942,705	2,565,522,177	3,078,626,612	282,800,857	9.74 %
2004	340,673,759	21,460,295	2,899,977,948	3,479,973,538	319,213,464	9.79 %

SECONDARY

Tax Year	Total Assessed Value	Exempt Amount	Total Full Cash Value	Estimated Actual Value	Net Assessed Value	Ratio of Total Assessed Value to Total Estimated Actual Value
1995	\$ 105,660,296	\$ 5,498,728	\$ 866,122,390	\$ 1,039,346,868	\$ 100,161,568	10.17 %
1996	109,463,361	5,519,310	906,495,406	1,087,794,487	103,944,051	10.06 %
1997	123,097,961	6,764,555	1,034,892,731	1,241,871,277	116,333,406	9.91 %
1998	155,729,430	8,785,700	1,317,946,863	1,581,536,236	146,943,730	9.85 %
1999	185,540,741	10,575,923	1,583,072,952	1,899,687,542	174,964,818	9.77 %
2000	221,922,165	9,894,702	1,889,016,352	2,266,819,622	212,027,463	9.79 %
2001	253,269,562	14,555,025	2,154,928,885	2,585,914,662	238,714,537	9.79 %
2002	287,891,481	17,288,615	2,418,235,666	2,901,882,799	270,602,866	9.92 %
2003	344,047,844	20,662,614	2,842,849,050	3,411,418,860	323,385,230	10.09 %
2004	377,590,037	28,191,703	3,162,854,959	3,795,425,951	349,398,334	9.95 %

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

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

Tax Year		Assessed Valuation Town of Fountain Hills	Assessed Valuation Fountain Hills School District	Assessed Valuation Maricopa County	Assessed Valuation State of Arizona
1995	P	\$ 94,188,637	\$ 88,978,760	\$ 13,302,326,609	\$ 21,688,438,645
	S	100,161,568	90,394,390	13,521,174,915	22,179,317,949
1996	P	100,649,833	95,155,307	13,493,736,826	22,109,868,588
	S	103,944,051	101,137,745	14,119,434,946	23,022,330,962
1997	P	112,285,569	101,573,954	13,975,668,204	22,811,158,500
	S	116,333,406	104,881,097	14,343,156,861	23,333,678,475
1998	P	133,721,181	113,072,537	15,006,270,531	21,001,064,273
	S	146,943,730	117,144,929	15,723,498,194	22,333,861,362
1999	P	190,102,361	134,650,036	17,463,875,533	21,670,300,013
	S	212,415,476	147,884,952	18,676,830,848	22,533,348,150
2000	P	189,646,161	191,579,669	19,362,298,255	22,645,463,514
	S	212,027,463	214,037,354	20,877,715,546	23,547,348,817
2001	P	220,229,137	192,200,924	19,603,718,629	30,144,285,019
	S	238,714,537	214,726,796	21,138,917,389	32,071,738,214
2002	P	247,151,729	223,185,771	21,355,326,477	32,518,431,991
	S	270,602,866	242,086,985	22,913,134,480	34,468,574,240
2003	P	282,800,857	288,969,887	25,447,850,971	34,868,596,227
	S	323,385,230	331,458,411	27,477,987,528	36,825,660,973
2004	P	319,213,464	326,230,578	28,070,870,413	41,886,818,760
	S	349,398,334	358,634,532	30,066,986,670	44,480,893,202

P = Primary assessed valuation
 S = Secondary assessed valuation

Source: Maricopa County and Arizona Tax Research Foundation.

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

<u>Fiscal Year</u>	<u>Arizona</u>	<u>Community College</u>	<u>County</u>	<u>Fountain Hills School District</u>	<u>East Valley Inst. of Tech District</u>	<u>Fire District Royalties</u>	<u>Sanitary District</u>	<u>Road District</u>	<u>Flood Control District</u>	<u>Library District</u>	<u>Volunteer Fire District</u>	<u>Central Arizona Project</u>	<u>Town of Fountain Hills</u>	<u>Total</u>
1995	0.4700	0.8934	1.7726	7.1976	0.0554	0.9781	1.9097	0.5624	0.3632	0.0417	0.0107	0.1400	0.3852	4.7800
1996	0.4700	1.1130	1.8344	7.6367	0.0693	0.9397	1.8590	0.2626	0.3332	0.0099	0.0108	0.1400	0.3192	4.9978
1997	-	1.0476	1.7929	7.1501	0.1616	0.9826	1.8983	0.3186	0.3425	0.0421	0.0109	0.1400	0.3036	4.1908
1998	-	1.1346	1.7929	7.2466	0.1216	1.0407	1.6619	0.1806	0.3425	0.0421	0.0105	0.1400	0.2330	3.9470
1999	-	1.1125	1.8084	7.2134	0.1320	0.9482	1.9394	0.0370	0.3270	0.0421	0.0103	0.1400	0.1699	3.8802
2000	-	1.1285	1.2816	6.2969	0.1217	0.8933	1.8315	-	0.2858	0.0421	0.0096	0.1400	0.2578	2.2888
2001	-	1.4557	1.2732	6.3373	0.1120	0.9739	2.0515	-	0.2319	0.0421	0.0091	0.1300	0.5605	3.1772
2002	-	1.6016	1.7682	6.3373	0.1117	-	1.2948	-	0.2119	0.0421	0.0076	0.1300	1.5344	3.0396
2003	-	1.0785	1.2808	5.7025	0.0976	-	1.1527	-	0.2119	0.0521	0.0070	0.1200	0.4762	0.1793
2004	-	1.0372	1.2108	5.5710	0.1032	-	1.1307	-	0.2119	0.0521	0.0069	0.1200	0.4250	9.8688

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

<u>Fiscal Year</u>		<u>Rate Town</u>	<u>Rate School District</u>	<u>Rate County</u>	<u>Rate State</u>	<u>Rate Total</u>
1995	P	-	5.50	1.77	0.47	7.74
	S	0.39	1.69	-	-	2.08
1996	P	-	4.96	1.69	0.47	7.12
	S	0.32	2.67	0.15	-	3.14
1997	P	-	4.98	1.64	-	6.62
	S	0.30	2.17	0.16	-	2.63
1998	P	-	4.89	1.68	-	6.57
	S	0.23	2.32	0.13	-	2.68
1999	P	-	3.89	1.19	-	5.08
	S	0.17	1.96	0.11	-	2.24
2000	P	-	3.91	1.16	-	5.07
	S	0.26	2.38	0.12	-	2.76
2001	P	-	4.09	1.18	-	5.27
	S	0.56	2.25	0.09	-	2.90
2002	P	0.97 *	4.33	1.68	-	6.98
	S	0.56	2.00	0.09	-	2.65
2003	P	-	3.56	1.21	-	4.77
	S	0.48	2.14	0.07	-	2.69
2004	P	-	3.50	1.21	-	4.71
	S	0.43	2.07	-	-	2.50

P = Primary assessed valuation
 S = Secondary assessed valuation

Source: Maricopa County and Arizona Tax Research Foundation.

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

TOWN OF FOUNTAIN HILLS, ARIZONA
 ASSESSED VALUATION OF MAJOR TAXPAYERS
 JUNE 30, 2002*
 (UNAUDITED)

Taxpayer	Land Description	2003/04 Assessed Valuation	As % of Town's Total Secondary Assessed Valuation
Firerock LLC	Vacant Land	\$ 4,045,273	1.25 %
Qwest Corporation	TV Systems	3,385,045	1.05 %
MCO Properties	Vacant Land	3,079,071	0.95 %
Chaparral Town Water Company	Water Utility	2,931,751	0.91 %
Fountain Hills Village LLC	Nursing Home	1,947,937	0.60 %
Target Corporation	Shopping Center	1,481,678	0.46 %
Cox Communications	TV Systems	1,404,400	0.43 %
Four Peaks Limited Partnership	Condominiums	1,353,366	0.42 %
Fountain Hills-Old Vine LP	Shopping Center	928,888	0.29 %
Sun Tech Development	Condominiums	895,446	0.28 %
Kimco Barclay Fountain Hills	Shopping Center	859,491	0.27 %
Safeway Inc. #1291	Shopping Center	857,444	0.27 %
Inn at Eagle Mountain LLC	Hotel	853,886	0.26 %
Southwest Gas	Gas & Electric	<u>840,795</u>	<u>0.26 %</u>
		<u>\$ 24,864,471</u>	<u>7.70 %</u>

Source: Treasurer of Maricopa County.

* Most recent data available.

TOWN OF FOUNTAIN HILLS, ARIZONA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2004
(UNAUDITED)

Net secondary assessed valuation	\$ <u>323,385,230</u>
<u>Water, Sewer, Light, Parks, Open Space and Recreational Facility Boards</u>	
Debt limit - 20% of secondary net assessed valuation	\$ 64,677,046
Bonds outstanding	<u>9,325,000</u>
Net 20% General Obligation Bonding Capacity	<u>55,352,046</u>
<u>All Other General Obligation Bonds</u>	
Debt limit - 6% of secondary net assessed valuation	19,403,114
Bonds outstanding subject to debt limit	<u>2,415,000</u>
Net 6% General Obligation Bonding Capacity	<u>16,988,114</u>
Total 20% and 6% Bonding Capacity	\$ <u>72,340,160</u>

Source: Maricopa County Assessor's Office.

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

Fiscal Year	Population	Net Secondary Assessed Valuation	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1994-95	13,100	\$ 88,796,834	\$ 4,144,881	4.67 %	\$ 316
1995-96	14,160	100,161,566	4,277,315	4.27 %	302
1996-97	15,220	103,944,051	4,056,473	3.90 %	267
1997-98	16,275	116,333,406	3,883,018	3.34 %	239
1998-99	18,015	146,943,730	3,913,952	2.66 %	217
1999-00	18,595	212,415,476	8,677,053	4.08 %	467
2000-01	20,235	212,027,463	8,209,873	3.87 %	406
2001-02	20,235	238,714,537	13,410,000	5.62 %	663
2002-03	21,740	270,602,866	12,585,000	4.65 %	579
2003-04	22,105 *	323,385,230	11,740,000	3.63 %	531

* League of Arizona Cities and Towns.

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

Fiscal Year	Principal	Interest and Fiscal Charges	Bond Issuance Cost	Total Debt Service	Total Expenditures (*)	Ratio of Debt Service to Total Expenditures
1994-95	\$ 125,000	\$ 327,463	\$ -	\$ 452,463	\$ 4,999,377	9.05 %
1995-96	209,193	208,477	-	417,670	7,667,025	5.45 %
1996-97	222,321	247,311	-	469,632	12,850,703	3.65 %
1997-98	245,210	554,731	-	799,941	10,631,005	7.52 %
1998-99	223,024	517,696	54,368	795,088	11,464,538	6.94 %
1999-00	339,013	585,001	-	924,014	15,404,414	6.00 %
2000-01	620,408	1,086,208	144,986	1,851,602	21,368,050	8.67 %
2001-02	1,229,215	1,372,965	300,936	2,903,116	32,630,186	8.90 %
2002-03	1,393,228	1,576,842	-	2,970,070	15,771,446	18.83 %
2003-04	1,423,228	1,499,575	-	2,922,803	15,399,989	18.98 %

(*) Includes all Governmental Fund Types.

TOWN OF FOUNTAIN HILLS, ARIZONA
DIRECT AND OVERLAPPING GENERAL OBLIGATION BONDED DEBT
JUNE 30, 2004
(UNAUDITED)

Overlapping Jurisdiction	2003-04 Net Secondary Assessed Valuation	Net Outstanding General Obligation Bonded Debt	Proportion Applicable to Town of Fountain Hills	
			Approximate Percent	Net Debt Amount
State of Arizona	\$44,480,893,202	\$ -	0.79 %	\$ -
Maricopa County	30,066,986,670	-	1.16 %	-
Maricopa County Community College District	28,070,870,413	234,440,000	1.24 %	2,907,056
Eagle Mountain Community Facilities District	22,726,874	4,615,000	100.00 %	4,615,000
Fountain Hills Unified School District No. 98	358,634,532	27,990,000	97.24 %	27,217,476
East Valley Institute of Technology District	13,339,130,459	6,235,000	2.62 %	163,357
Fountain Hills Sanitary District	344,262,269	1,320,000	100.00 %	1,320,000
Town of Fountain Hills	323,385,230	11,740,000	100.00 %	<u>11,740,000</u>
Total Direct and Overlapping General Obligation Bonded Debt				<u>\$ 47,962,889</u>

Source: Maricopa County Treasurer's Office.

TOWN OF FOUNTAIN HILLS, ARIZONA
 MISCELLANEOUS STATISTICAL DATA
 JUNE 30, 2004
 (UNAUDITED)

DATE OF INCORPORATION	December 5, 1989
FORM OF GOVERNMENT	Council - Manager
NUMBER OF EMPLOYEES (no police and fire)	
Classified - Full time	59
Classified - Part time	18
Exempt	21
AREA	18.27 sq. miles
TOWN OF FOUNTAIN HILLS FACILITIES AND SERVICES	
Miles of Street	
Surfaced	178.5
Unsurfaced	2
Population	
1990 census	10,190
1995 census	14,160
2000 census	20,235
Housing Units	11,601
Building Permits Issued	918
Culture and Recreation	
Community Centers	1
Parks	4
Park acreage	121
Tennis courts	6
Senior center	1
FACILITIES AND SERVICES NOT INCLUDED IN PRIMARY GOVERNMENT	
Fire Protection:	
Number of stations	2
The Town of Fountain Hills has no fire employees, but contracts with Rural/Metro Corporation to provide fire services to all residents. The Town does, however, own the fire station and equipment.	
Police Protection:	
Number of stations	1
Number of police personnel and officers	29
Number of patrol units	9
Number of law violations	
Physical arrests	601
Traffic/Parking violations	3,186
Sewerage System:	Special District
Miles of sanitary sewers	200
Number of treatment plants	1
Maximum daily capacity of treatment plant in gallons	2.6mgd
Water System:	Private
Miles of water mains	178
Number of hydrants	1,217
Maximum daily capacity of plant in gallons	11,570,000
Education:	
Number of elementary schools	3
Number of secondary schools	1

Source: Town government offices and related districts.