



Town of Fountain Hills, Arizona

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014



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**TOWN OF FOUNTAIN HILLS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Issued By:
Administration Department
Finance Division**

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INTRODUCTORY SECTION

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Town of FOUNTAIN HILLS

October 17, 2014

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

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in accordance with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Town of Fountain Hills for the fiscal year ended June 30, 2014.

This report consists of management's representations concerning the finances of the Town of Fountain Hills. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Fountain Hills has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Fountain Hills' financial statements in accordance with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, the Town of Fountain Hills' comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free of material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Fountain Hills' financial statements have been audited by CliftonLarsonAllen LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Fountain Hills for the fiscal year ended June 30, 2014, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Town of Fountain Hills' financial statements for the fiscal year ended June 30, 2014, are fairly presented in accordance with accounting principles generally accepted in the United States of America. The independent auditors' report is presented as the first component of the financial section of this report.

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

Town of Fountain Hills Profile



The Town of Fountain Hills is a master planned 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. The land was purchased by Robert McCulloch in the late 1960s and the community designed by Charles Wood, Jr. (designer of Disneyland in southern California). The centerpiece of Fountain Hills is one of the world's tallest man-made fountains, a focal point that attracts thousands of visitors each year.

Located on 13,006 acres of land, and bordering northeast Scottsdale, Fountain

Hills is surrounded by the 3,500-foot McDowell Mountains and Scottsdale on the west, the Fort McDowell Yavapai Nation on the east, the Salt River Pima-Maricopa Indian Community on the south and by the McDowell Mountain Regional Park on the north. The elevation is 1,520 feet at the fountain, 3,000 feet on Golden Eagle Boulevard, and is 500 feet above Phoenix.

Over the past twenty years, Fountain Hills has grown from 10,190 residents to a town of 22,489 based on the 2010 census. On June 5, 2006, the Town of Fountain Hills became twenty square miles and about ten percent larger by annexing 1,300 acres of State Trust Land. The process to annex the State Trust Land occurred over a two and one-half year period and development of the land will occur over the next decade. Annexing this property into the Town ensures that its future development will be of the highest quality under such Town standards as the cut-and-fill ordinance and strict zoning regulations. Fountain Hills will have an opportunity to demonstrate that it is truly the best place to live in the Valley.

The Town offers a wide range of living accommodations, from small condominiums to large custom homes. Fountain Hills also offers recreational, cultural and retirement programs that address the needs and lifestyles of active families as well as older adults. The community consists of primarily residential property; of the total 20.32 square miles of land only 2.6% of the total is zoned commercial and/or industrial, 23.0% is preserved as open space and 51.3% is residential.

The Town's Mission Statement

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

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

To serve, respect, and provide trust and stewardship.



Fountain Hills Town Hall

The Town of Fountain Hills is an Arizona Municipal Corporation, acting as a general law town as prescribed in the Arizona Revised Statutes. The Town was incorporated on December 5, 1989, with the governmental and administrative affairs of the Town operating under the Council-Manager form of government. The Town Council is responsible, among other things, for the adoption of local ordinances, budget adoption, development of citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and administering the Town's operations through three department directors and approximately 51 FTE employees. The Presiding Judge, Town Attorney and Town Prosecutor are under the direction of the Town Council.



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

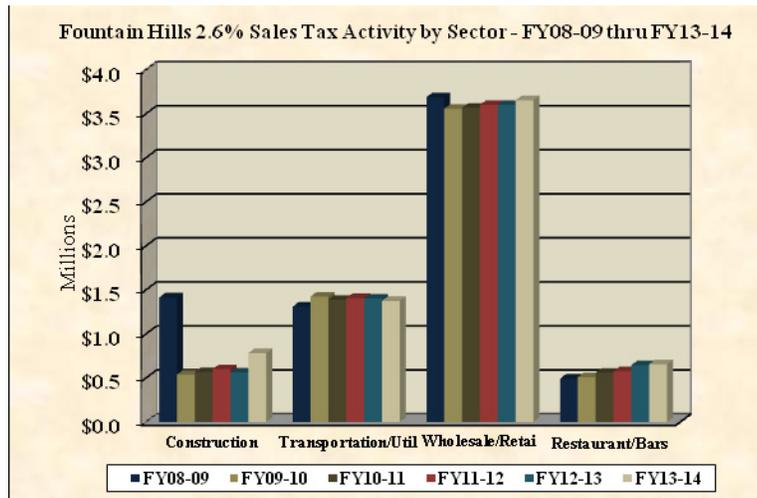
The financial reporting entity (the Town) includes all the funds of the primary government (i.e., the Town of Fountain Hills as legally defined) as well as all of its component units. The component units consist of legally separate entities for which the primary government is financially accountable. 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 the Fountain Hills Municipal Property Corporation are included in the financial reports of the Town.

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

Factors Affecting Financial Condition

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

Local Economy. The Great Recession appears to be recovering modestly in Fountain Hills; this recovery is indicated by the local sales tax receipts in the construction category. The construction activity has jumped 39% over the prior year which we interpret as a leading indicator of a rebounding economy. The Town of Fountain Hills’ local tax revenue base consists of two major tax categories, the most significant being retail sales and transportation/communication/utilities (construction had been a third significant category in prior years). The chart below is a look at the past six years’ significant local sales tax activity by sector:



As can be seen in the chart on the left, sales tax collections continue to show signs of moderate growth. Retail sales experienced less than 2% increase over the prior year; restaurant/bar revenues have exceeded any prior year and an increase of 1.6% from FY12-13. Construction sales tax, a one-time revenue source, is driven entirely by development activity in the community and increased 39% over the prior year; recent building permit activity indicates that construction sales tax is likely to increase over the next years. Transportation /communication tax revenues posted a slight decrease of 2%.

Construction activity provides revenue to the Town through local sales tax, the proceeds of which are utilized for general operations and capital expenditures. Without the resources to fund capital projects, the Town must find additional funds to pay for necessary infrastructure projects. For operating costs, the Town is dependent upon state shared revenues and local sales tax as a major source of operating revenue, accounting for 89% of total General Fund revenue for fiscal year 2013-14.

State shared revenues are derived as a proportionate share of state sales, income and vehicle license taxes which are distributed based on the Town’s population compared to all other incorporated cities and towns in Arizona (currently 0.45%). State shared income tax revenue category is based on two years prior personal and corporate earnings; from FY09-10 through FY11-12 the Town lost 53% of this revenue source (\$1.7M or 13% of the General Fund operating budget). However, the revenue from the State income tax increased by 9% in FY13-14 and is anticipated to increase another 8.5% for FY14-15. After a 16% decrease in State sales tax from FY08-09 through FY11-12, this revenue has recovered with a 6% increase in FY13-14 and anticipated to increase another 4.6% in FY14-15.

Other local activity has remained fairly level during the recessionary period due to the lack of major retailers (the Town has three grocery stores and one major retailer). Fountain Hills is past the historic period of rapid growth and the long-term economic outlook for the Town must recognize this fact. The opportunity to further expand the retail tax base in Fountain Hills is limited by the lack of available commercial land – over 70% of the currently available commercial lots are already developed.

Development Activity over the past year:

Development Services has been involved with the following development activities during fiscal year 2013-14 (7/1/2013 – 6/30/2014):

Three Concept Plans were approved by the Planning & Zoning Commission during the period:

- Prevco Subsea Housings
- Tractor Supply Company
- Mods for Rods, Inc.

Three Special Use Permits were granted:

- Tractor Supply Company – outdoor storage & display
- Verizon Cell Tower – Eagle Mountain
- Propane Tank Installation – 17251 E Shea Blvd.

Two Temporary Use Permits were issued during the period:

- Eagles Nest Ranch House
- Group Home – Jacklin Drive

Thirty-two new Single-Family Residential Building Permits were issued.

There were no new Commercial Building Permits issued.

There were nineteen commercial tenant improvement permits issued during the last fiscal year.

Fiscal year	SFR	DUP		MULTI		Dwelling Units	T.I. & Comm	Pools & Fences	Add Ons (Not Garages)	Garages & Carports	Other	MONTH TOTAL
		Bldgs.	Total Units	Bldgs.	Total Units							
JULY	5	0	0	0	0	0	0	2	5	0	21	33
AUGUST	3	0	0	0	0	0	1	6	5	0	31	46
SEPTEMBER	1	0	0	0	0	0	2	7	1	0	13	24
OCTOBER	3	0	0	0	3	0	3	11	4	1	15	40
NOVEMBER	1	0	0	0	0	0	1	3	3	0	18	26
DECEMBER	2	0	0	0	3	0	0	5	3	0	16	29
JANUARY	0	0	0	0	0	0	2	9	1	1	27	40
FEBRUARY	3	0	0	0	0	0	3	6	1	1	20	34
MARCH	3	0	0	0	0	8	0	9	2	2	27	51
APRIL	2	0	0	0	0	0	3	8	2	1	21	37
MAY	8	0	0	0	0	0	2	7	4	0	23	44
JUNE	1	1	2	0	0	0	2	11	6	0	22	45
YEARLY TOTAL	32	1	2	0	6	8	19	84	37	6	254	449

Long-term Financial Planning

Fountain Hills' financial policies are balanced on sound financial reserves and conservative revenue growth forecasts for the foreseeable future. Potential for State legislative impacts to revenue-sharing or local revenues and additional demands for essential Town services remain. The Town's financial policies set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated.

In early 2009, the Strategic Planning Advisory Commission began the process of gathering public input to update the Strategic Plan's vision, confirm residents' values, and create a fresh structure for the Strategic Plan revision. Subsequently, *Strategic Plan 2010* is built upon the foundation of a clearly defined vision statement and eight key values, with specific indicators to evaluate Council and staff priorities. Based on citizen input, the Strategic Plan is designed to guide our future decisions grounded on these common values:

1. Civility
2. Civic Responsibility
3. Environmental Stewardship
4. Economic Vitality
5. Education, Learning and Culture
6. Maintain and Improve Community Infrastructure
7. Public Safety, Health and Welfare
8. Recreational Opportunities and Amenities

These values guide the Town's annual budget process.

The Fountain Hills Town Council maintains a fund balance policy that ensures adequate reserves that will provide financial stability in the event of an unanticipated economic downturn. The policy was amended in FY08-09 to include the establishment of a Rainy Day Fund beginning in FY09-10. In FY11-12 the Town adopted Governmental Accounting Standards Board (GASB) Statement No. 54 which changed how governments report fund balance. The overall principal and goal of GASB No. 54 was to report governmental fund balances based on a hierarchy that shows, from the highest to the lowest, the level or form of constraints on fund balance, and accordingly, the extent to which governments are bound to honor them:

1. Nonspendable – The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories or capital assets. In Fountain Hills this classification would apply to our fuel inventory, capital assets, and prepaid items.
2. Restricted – The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external reporting providers, or through enabling legislation. In Fountain Hills this classification would apply to Highway User Revenue Fund (HURF), Development Fees, the Grant/Special Revenue Fund and the Debt Service Fund.
3. Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. In Fountain Hills this classification would apply to the Rainy Day Fund, Downtown Strategy Fund, and Economic Development Fund.

4. Assigned – Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In Fountain Hills this classification would apply to the current Public Art Fund as well as a portion of the General Fund.

5. Unassigned – The unassigned fund balance is the residual classification for the government's General Fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. In Fountain Hills, this classification would be any residual balance of monies not contained in any of the other classifications.

The fund balance amounts will not be programmed for expenditure and are only available for use within the confines of expenditure limitations imposed by the State. A Capital Projects Fund has been created and is funded with a portion of the construction sales tax, proceeds from excess revenues collected over budget, and any unexpended appropriations not needed to meet fund balance requirements or re-appropriation.

The Council also adopted financial policies that include guidelines for the issuance of debt for capital expenditures, community facility districts, financing alternatives, expenditure controls and financial planning. The policy was amended during FY 09-10 to reduce the allocation of the local construction sales tax to the Capital Projects Fund from 85% to 50%, reflecting the transition from one-time building activity to ongoing redevelopment activity. The debt policy was prepared with a preference for "pay-as-you-go" financing for capital spending, however, the policy did not anticipate the lack of funding for capital projects and bond funding is being reconsidered.

Major Initiatives

The Town of Fountain Hills' adopted FY13-14 budget reflected the continued recession in the local economy, which is also somewhat mirrored at the national and state levels. Due to the challenging current economic conditions, the Town has made significant reductions in staff and service levels. This reduction was accomplished by a thorough assessment of all existing and proposed programs and workload; as a result, Town staffing was reduced from 81 to 51 FTE's (full time equivalents) over the last five years.

The Town Council established priorities for FY13-14 of which the top two are Economic Development and Pavement Management. In order to implement the Pavement Management program, the Council approved the use of Vehicle License Tax revenues to be dedicated to annual pavement maintenance with an effective date of July 1, 2013. Economic Development initiatives are funded through a new dedicated local sales tax which provides funding for business attraction, retention and expansion.

AWARDS AND ACKNOWLEDGEMENT

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2013. This was the eighteenth 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 Generally Accepted Accounting Principles (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.

For the second year, The Town was also given the Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 2013.

In addition, the government received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year beginning July 1, 2013. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device. This is the twelfth consecutive year that the Town has received the award.

An investment policy was adopted and was awarded the Investment Policy Certification from the Association of Public Treasurers of United States and Canada.

Acknowledgements. The preparation of this report would not have been possible without the efficient and dedicated services of the entire team of the Finance Division 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,



Ken Buchanan
Town Manager

**TOWN OF FOUNTAIN HILLS, ARIZONA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2014**

ELECTED OFFICIALS

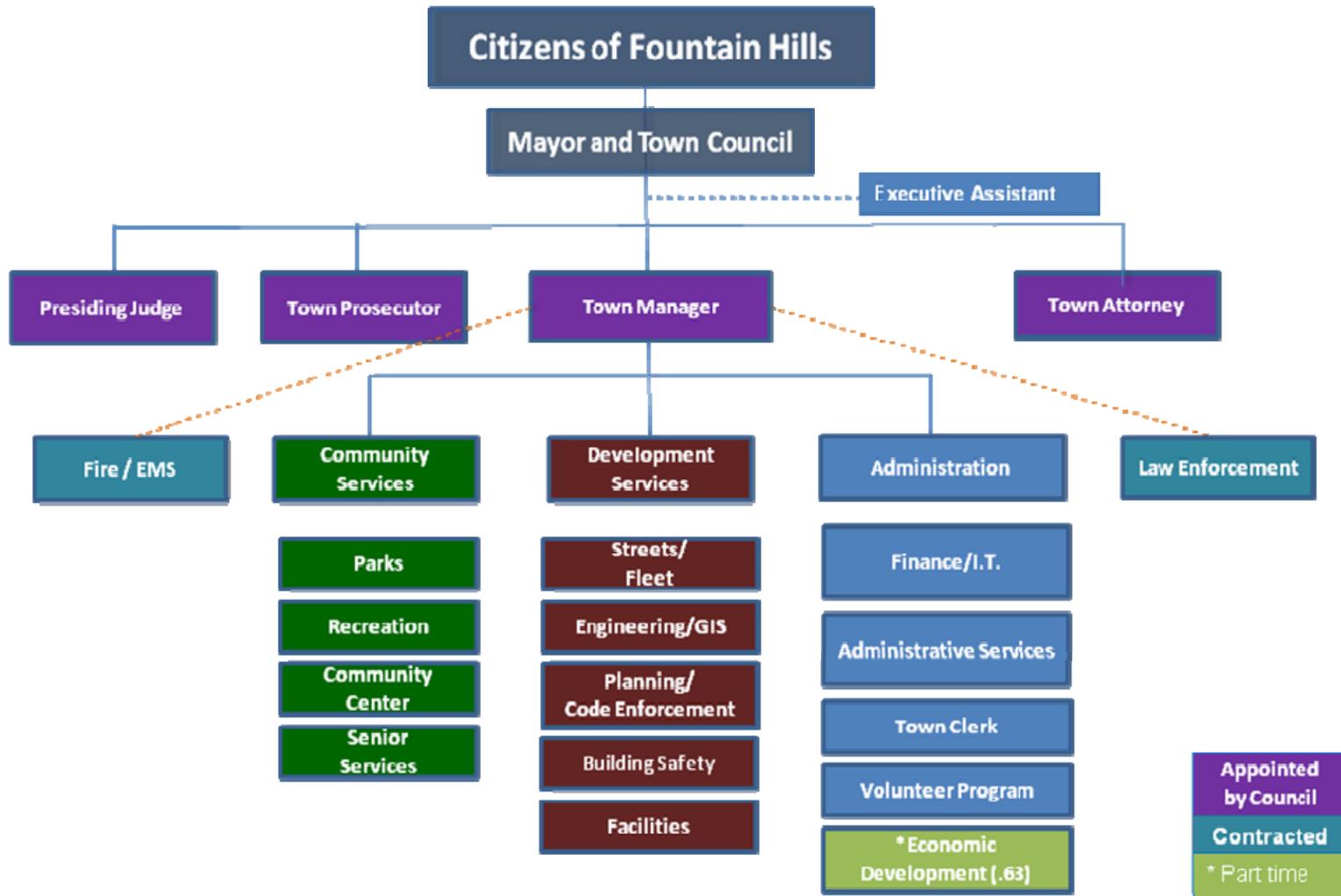
Mayor	Ms. Linda M. Kavanagh
Vice-Mayor	Mr. Cecil A. Yates
Councilmember	Mr. Dennis Brown
Councilmember	Ms. Ginny Dickey
Councilmember	Mr. Tait D. Elkie
Councilmember	Ms. Cassie Hansen
Councilmember	Mr. Henry Leger

DEPARTMENT DIRECTORS

Town Manager	Ken Buchanan
Finance Director	Craig Rudolphy
Presiding Judge	Robert Melton
Community Services Director	Mark Mayer
Development Services Director	Paul Mood
Fire Chief	Randy Roberts Rural Metro Corporation
District Commander	Captain David Letourneau Maricopa County Sheriff's Office
Town Prosecutor	Mark Iacovino The Law Office of Mark Iacovino
Town Attorney	Andrew McGuire Gust Rosenfeld, P.L.C.

TOWN OF FOUNTAIN HILLS, ARIZONA
 ORGANIZATIONAL CHART
 JUNE 30, 2014

Town of Fountain Hills Organization





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Town of Fountain Hills
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fountain Hills, Arizona as of June 30, 2014, and the respective changes in financial position and the budgetary comparison schedules of the General Fund and HURF Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 14 - 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

CliftonLarsonAllen LLP

Phoenix, Arizona
October 17, 2014

REQUIRED SUPPLEMENTARY INFORMATION

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**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

As management of the Town of Fountain Hills, Arizona (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014. This discussion and analysis is intended to be an easily readable breakdown of the Town of Fountain Hills' financial activities based on currently known facts, decisions and conditions. This analysis focuses on current year activities and operations and should be read in combination with the transmittal letter and the financial statements that follow. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

FINANCIAL HIGHLIGHTS

- ◆ The assets of the Town exceeded its liabilities at the close of fiscal year 2013-14 and fiscal year 2012-13 by \$114.4 million and \$116.1 million, respectively. Of these amounts, \$19.2 million and \$20.6 million, respectively, may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ Governmental activities program revenues increased overall by \$224,165 (8.5%) over the previous year. The majority of the increase was attributable to an increase in Fees, Fines and Charges for Services. Fees, Fines and Charges for Services increased by 15.5% indicating an improving economy, particularly in building permits and development fees.
- ◆ At June 30, 2014, total fund balance of the governmental funds was \$22.7 million. The decrease of \$1.8 million from the prior year was mainly the result of an increase in capital outlay. Of the total fund balance, \$5.0 million is unassigned in the General Fund, while the remainder is classified as nonspendable, restricted, committed, and assigned.
- ◆ The major governmental funds, which include the General Fund, total \$17.5 million in revenues, consisting primarily of local taxes, intergovernmental revenues, charges for services and licenses and permits. The total expenditures of the General Fund were \$12.5 million and the fund balance increased from \$7.7 million to \$8.0 million including the Rainy Day, Public Art, and Vehicle Replacement Funds. The Highway User Revenue Fund (HURF) revenues were \$2.1 million with expenditures of \$3.1 million. The non-major governmental funds revenues were \$1.2 million with the majority from local sales taxes (Downtown Strategy and Economic Development Funds) and property taxes (Eagle Mountain Community Facilities District). Expenditures for the non-major funds were \$0.7 million primarily for debt service for Eagle Mountain Community Facilities District.
- ◆ The Town's total net position of governmental activities decreased \$1.8 million (1.5%) from the prior fiscal year. Revenues increased 6.1% with higher fee revenue; expenditures for long term debt were reduced but increased in Highways and Streets due to continuation of the program for pavement maintenance.
- ◆ General revenues accounted for \$15.9 million in revenue, or 85% of all current fiscal year revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2.9 million or 15% of total current fiscal year revenues.
- ◆ The Town had approximately \$20.5 million in expenses related to governmental activities, an increase of 4.0% over the prior fiscal year, attributed to the pavement management program.
- ◆ Per local policy, residual unassigned General Fund revenues may be transferred to the Rainy Day fund, to supplement pay-as-you-go capital outlay expenditures or prepay existing town debt. The Council authorized the use of general fund surplus revenues in FY11-12 to transfer funds to the Municipal Property Corporation Debt Service Fund to provide funds that were placed in an irrevocable trust to provide for future principal and interest payments on bonds that were issued in 2005 for the Town Hall. The general fund balance will include the surplus, the Rainy Day fund and Vehicle Replacement funds in the amount of \$3.0 million.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position 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., earned but unused compensated absences).

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

Fund Financial Statements

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

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

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

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

Notes to Basic Financial Statements

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

Other Information

Governments have the 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 following the notes to the basic financial statements. The Town has chosen to present these budgetary statements as part of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

While this document contains information about the funds used by the Town to provide services to our citizens, the Statement of Net Position and the Statement of Activities serve to provide an answer to the question of how the Town, as a whole, did financially throughout the year. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the Town's assets and the changes in those assets. The change in assets is important because it tells the reader whether the financial position of the Town as a whole has improved or diminished. However, in evaluating the overall position of the Town, non-financial information such as changes in the Town's tax base and the condition of the Town's capital assets will also need to be evaluated.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

Analysis of Net Position

Net position may serve, over time, as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$114.4 million at the current fiscal year end. The following table presents a summary of the Town's net position for the fiscal years ended June 30, 2014 and June 30, 2013.

**Town of Fountain Hills, Arizona
Statement of Net Position**

	2014	2013	Percent Change
ASSETS			
Current and Other Assets	\$ 26,489,337	\$ 28,460,597	(6.9)%
Capital Assets:			
Non-depreciable	27,334,347	26,223,288	4.2 %
Depreciable (net)	73,728,913	77,222,272	(4.5)%
Total Assets	<u>127,552,597</u>	<u>131,906,157</u>	(3.3)%
LIABILITIES			
Other Liabilities	3,717,336	3,820,104	(2.7)%
Long-Term Liabilities:			
Due Within One Year	2,164,879	2,449,599	(11.6)%
Due in More Than One Year	7,289,432	9,501,392	(23.3)%
Total Liabilities	<u>13,171,647</u>	<u>15,771,095</u>	(16.5)%
NET POSITION			
Net Investment in Capital Assets	89,713,260	89,800,560	(0.1)%
Restricted	5,480,867	5,721,744	(4.2)%
Unrestricted	19,186,823	20,612,758	(6.9)%
Total Net Position	<u>\$ 114,380,950</u>	<u>\$ 116,135,062</u>	(1.5)%

The largest portion of the Town's net position (78%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, improvements, vehicles, machinery and equipment, and artwork) less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, a portion of the Town's net position (5%) is for the specified purposes of debt service repayment, capital outlay investment, and highways and streets.

At the end of the current fiscal year, the Town reported positive balances in all three categories of net position. The same situation held true for the prior fiscal year.

The Town's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

Analysis of Changes in Net Position

The Town's total net position decreased by \$1.8 million during the fiscal year. The decrease was primarily a result of the pavement management program.

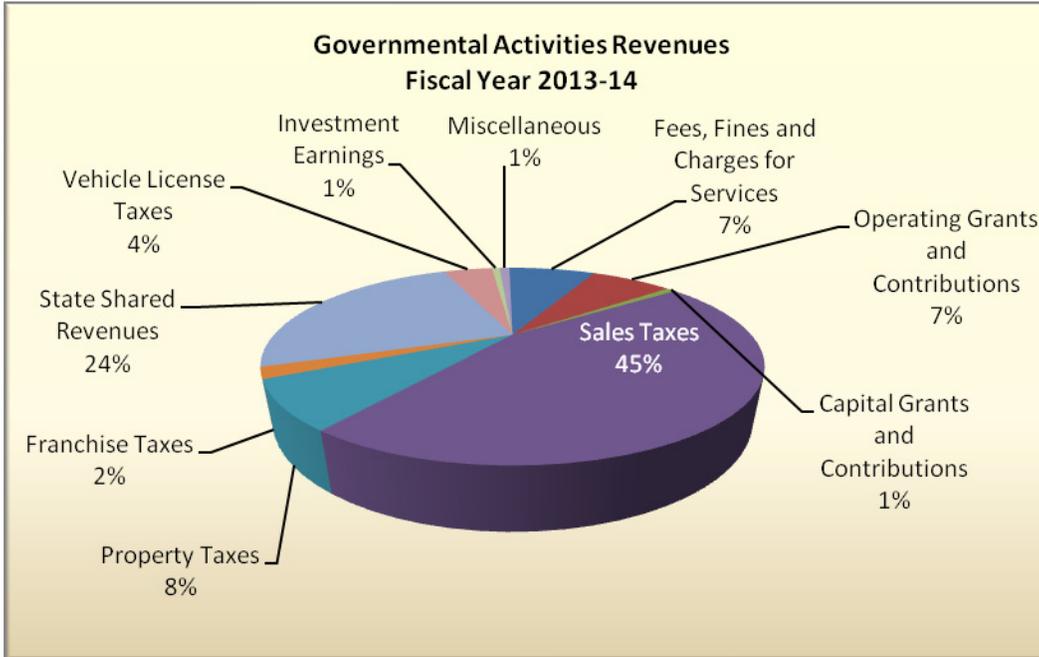
Total governmental revenues increased over the prior year with a net increase of \$1.1 million (6%); primarily due to building permits and related construction and intergovernmental revenues. The Town also saw an increase in local sales taxes of \$0.5 million (6%) as well as revenues shared with cities/towns by the State (income tax, state sales tax and vehicle license taxes – increase of 7%) reflecting improvements in the economy.

The Town's total revenues for the current fiscal year were \$18.7 million. The total cost of all programs and services was \$20.5 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

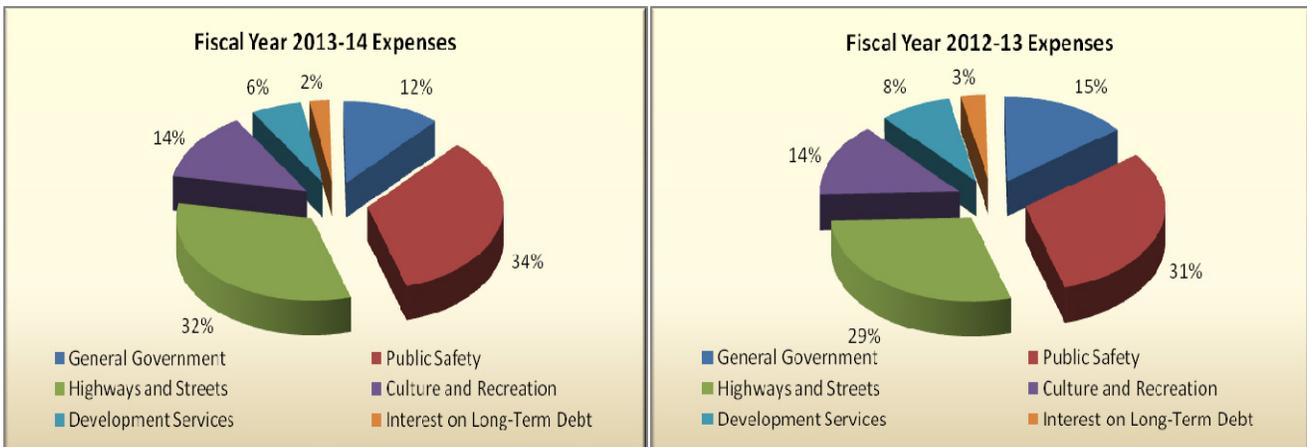
	<u>2014</u>	<u>2013</u>	<u>Percent Change</u>
REVENUES			
Program Revenues:			
Fees, Fines and Charges for Services	\$ 1,412,797	\$ 1,223,499	15.5 %
Operating Grants and Contributions	1,307,738	1,266,906	3.2 %
Capital Grants and Contributions	144,570	150,535	(4.0)%
General Revenues:			
Sales Taxes	8,459,267	7,957,163	6.3 %
Property Taxes	1,449,646	1,385,147	4.7 %
Franchise Taxes	349,414	334,668	4.4 %
State Shared Revenues	4,525,857	4,226,234	7.1 %
Vehicle License Taxes	800,475	752,949	6.3 %
Investment Earnings	123,311	69,998	76.2 %
Miscellaneous	166,115	300,899	(44.8)%
Total Revenues	<u>18,739,190</u>	<u>17,667,998</u>	6.1 %
EXPENSES			
General Government	2,432,965	2,909,443	(16.4)%
Public Safety	6,958,056	6,100,131	14.1 %
Highways and Streets	6,630,875	5,712,817	16.1 %
Culture and Recreation	2,760,690	2,779,294	(0.7)%
Development Services	1,237,717	1,633,361	(24.2)%
Interest on Long-Term Debt	472,999	567,043	(16.6)%
Total Expenses	<u>20,493,302</u>	<u>19,702,089</u>	4.0 %
CHANGE IN NET POSITION	(1,754,112)	(2,034,091)	(13.8)%
Net Position - Beginning of Year	<u>116,135,062</u>	<u>118,169,153</u>	(1.7)%
NET POSITION - END OF YEAR	<u><u>\$ 114,380,950</u></u>	<u><u>\$ 116,135,062</u></u>	(1.5)%

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

General revenues such as property, business, and privilege taxes are not shown by program, but are effectively used to support program activities town-wide. For governmental activities overall, without regard to program, business taxes which includes sales and use taxes and franchise taxes, are the largest single source of funds (47%), followed by state shared revenues (24%), property taxes (8%), grants (8%), fees, fines and charges for services (7%), and vehicle license tax (4%).



The charts below compare the governmental expenses from fiscal years 2013-14 and 2012-13.



**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

The following items are significant current year transactions that had an impact on the Statement of Net Position and Statement of Activities:

- Depreciable assets declined 4.5% (\$3,493,359) with the Town's depreciation of capital assets.
- Overall revenues increased by 6% compared to the prior year, largely due to an increase in sales tax. Additionally, state shared revenues increased 7% which reflected the improving economy. The Town does not have a primary property tax that is used for operations; the Town property tax levy is dependent upon the annual debt payment for voter approved bonds.
- Fees, Fines and Charges for Services revenue increased 15.5% compared to the prior year due in large part to an increase in building permits.
- Sales tax revenues in Fountain Hills are derived primarily from retail and transportation/communications/utilities activity. An increase in these revenues reflects an improving economy.
- State shared revenues are determined by the prior two years of income tax returns in Arizona and is shared with cities and towns based on population; last fiscal year revenues, both State income tax and State sales tax, were higher than anticipated with an increase of \$299,623.
- Investment income increased in the current year 76.2% over the prior year. This increase was due to realized gains on the Town's investment portfolio.
- The decrease in miscellaneous revenues is primarily attributable to a decline in forfeitures in the retirement plan. In the prior year, there was also a recovery from the State Treasurer's investment pool which did not occur in the current year.
- Overall expenses increased 4.0% due to primarily to increases in public safety contracts and expenditures for the pavement management program.
- General Government expenses were less than prior year due to decreases in attorney fees and contracted services.
- Public Safety costs include contracts for police and fire; those contracts are multi-year with automatic increases.
- Increase in Highways and Streets expenses was due to the pavement management program.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the Town's financing requirements. In particular, unassigned 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 major Governmental Funds reported by the Town include the General Fund, Highway Users Revenue Fund, Capital Projects Fund, General Obligation Debt Service Fund, and the Municipal Property Corporation Debt Service Fund.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported a combined fund balance of \$22.7 million, a decrease of \$1.8 million.

Fund	Balance	Increase (Decrease) From FY 2012-13
General Fund	\$ 7,997,952	\$ 301,130
HURF Fund	701,391	(156,790)
Capital Projects Fund	7,147,586	(1,857,690)
General Obligation Debt Service Fund	76,834	15,606
Municipal Property Corporation Debt Service Fund	1,973,067	(370,119)
Nonmajor Governmental Funds	4,817,723	244,720
	<u>\$ 22,714,553</u>	<u>\$ (1,823,143)</u>

The General Fund is the chief operating fund of the Town of Fountain Hills, Arizona. At the end of the current fiscal year, the fund balance of the General Fund was \$8.0 million, while total fund balance of all funds reached \$22.7 million. 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 64 percent of total General Fund expenditures, while total fund balance represents 111 percent of total expenditures. The fund balance of the Town of Fountain Hills' General Fund, which includes the Vehicle Replacement Fund, balance increased by \$0.3 million. Any residual balance will be transferred to the Capital Projects Fund per the Town Council policy. Expenditures within the General Fund increased 4% over the prior year – the primary reason for the increase is the purchase of a new fire truck.

The General Fund comprises 35 percent of the total fund balance. Approximately \$5.0 million or 62 percent of the General Fund's fund balance constitutes unassigned fund balance. The remaining fund balance is committed, assigned and non-spendable for inventory and prepaid items.

The General Fund is the principal operating fund of the Town; overall the General Fund's performance resulted in a net change in fund balance of \$0.3 million.

The fund balance of the HURF Fund decreased \$0.2 million. The decrease was due primarily to expenditures for the pavement management program.

The fund balance of the Capital Project's Fund decreased \$1.9 million during the current fiscal year. The decrease was primarily due to the new street yard building, Fire Station #1 renovations and the Avenue of the Fountains median improvements.

The fund balance of the General Obligation Debt Service Fund increased \$15,606 during the current fiscal year. The increase was largely due to lower debt service payments.

The fund balance of the Municipal Property Corporation (MPC) Debt Service Fund decreased \$0.4 million during the current fiscal year. Revenues for the MPC are derived from local sales tax collections which were consistent with the prior year. The annual debt payment committed for the MPC is fixed but there were insufficient reserves to pay annual debt service. Reserves from this fund contributed to the early retirement of Town Hall bonds in a prior year.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

All non-major governmental funds of the Town are combined into one column on the governmental fund statements. The non-major governmental funds reported a \$0.2 million increase in fund balance mainly due to the allocation of local sales tax for economic development and revenues from development fees.

BUDGETARY HIGHLIGHTS

A statement showing the original and final budget amounts compared to the Town's actual financial activity for the General Fund is provided in this report as part of the basic financial statements. The significant variances are summarized as follows:

The favorable revenue variance of \$83,503 in sales taxes is due to higher than expected tax revenue, mostly attributable to the improved economy.

The favorable revenue variance of \$46,414 in franchise taxes is due to higher than expected franchise payments from services operating in the Town, mostly attributable to the improved economy.

The unfavorable variance in intergovernmental revenues of \$52,285 was a result of the state's actual collections of fire insurance premium taxes being less than projected, which affects the distribution to cities and towns.

The unfavorable revenue variance of \$92,396 in fines and forfeiture reflects decreased court activity related to decreased traffic citations within Town borders.

The unfavorable revenue variance of \$48,090 in licenses and permits reflects the lower activity than anticipated in the current year largely attributable to less construction activity toward the end of the year.

The favorable expenditure variance of \$1,428,037 includes all departments. Development Services noticed lower than anticipated repairs and maintenance and utilities for Town-owned facilities. The Municipal Court also reduced staffing with a part-time judge. The general government Administration variance is due primarily to the appropriation of approximately \$168,400 in the event the economy worsened during the fiscal year; this contingency was not required. The remainder of the general government Administration variance was due to an employee going from full-time to part-time and less than anticipated information technology improvements.

The change of \$114,019 between the original and final budget was not significant during the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2014, the Town had invested \$101.1 million in capital assets, including buildings, vehicles, computers, equipment, infrastructure and artwork net of accumulated depreciation. This amount represents a net decrease from the prior fiscal year of \$2.4 million. Total depreciation expense for the current fiscal year was \$4.8 million, which accounted for most of the decrease.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

Major capital asset events during the current fiscal year included the following:

- Avenue of the Fountains median improvements
- Fire Station #1 remodel
- Street maintenance building
- ERV star pumper fire truck

The schedule below presents a summary of capital asset balances for the fiscal years ended June 30, 2014 and June 30, 2013.

**Town of Fountain Hills, Arizona
Capital Assets (Net of Accumulated Depreciation)**

	2014	2013	Percent Change
Land	\$ 23,571,668	\$ 23,571,668	0.0%
Artwork	1,967,500	1,886,500	4.3%
Construction in Progress	1,795,179	765,120	134.6%
Infrastructure	51,559,773	55,215,185	-6.6%
Buildings	14,027,400	14,189,682	-1.1%
Improvements	6,907,205	7,148,597	-3.4%
Vehicles, Machinery and Equipment	1,234,535	668,808	84.6%
Total Capital Assets	<u>\$ 101,063,260</u>	<u>\$ 103,445,560</u>	-2.3%

Additional information on the Town's capital assets can be found in Note 3.A.3.

Long-Term Debt

At year-end, the Town had \$9.2 million in bonds outstanding, \$2.0 million due within one year; this amount represents a net decrease of \$2.4 million. The chart below is a summary of the Town's outstanding debt as of year-end:

**Town of Fountain Hills, Arizona
Outstanding Long-term Bonds**

	2014	2013
General Obligation Bonds	\$ 4,495,000	\$ 5,700,000
Revenue Bonds	4,695,000	5,905,000
Total Outstanding Debt	<u>\$ 9,190,000</u>	<u>\$ 11,605,000</u>

The Town's general obligation bonds are subject to two limits; the Constitutional debt limit (total debt limit) on all general obligation bonds (up to 20% of the total secondary assessed valuation) and the statutory debt limit on general purpose municipal bonds (up to 6% of the total secondary assessed valuation). The current total debt limitation for the Town is \$93.2 million, which is more than the Town's outstanding general obligation debt. Additional information on the Town's long-term debt can be found in Note 3.C.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

ECONOMIC FACTORS

The Town continues to maintain strong reserves for unforeseen circumstances, whether of a financial nature or a natural (or other) disaster. The Town's reserves, in combination with our consistent adherence to adopted financial policies and management practices, proved big factors in the Aa3 credit rating awarded to Fountain Hills by a major credit rating agency.

The housing market has shown signs of recovery (both nationally and regionally), indicating that the overall economy may continue to experience moderate growth in the year ahead. The Town's local housing economy provides building permit and construction sales tax revenue, which have declined over the past fiscal years. With a limited inventory of available lots, the Town will have to adjust to the new economy, one that is less dependent upon building activity as a source of reliable revenue. There is an area of almost 1,300 acres that was annexed in 2006 that is planned to be developed but the first building permit is not scheduled to be issued until beyond 2015.

The Town's local sales tax collections, which represent the largest town revenue source is made up of primarily retail, telecommunications and restaurant bar activity. Construction related sales tax are projected to stop declining for the foreseeable future; retail collections, however, are projected to remain steady due to the fact that the existing retail base is not significantly affected by a recession (major retail activity consists of three grocery stores and one shopping center with a major retailer).

The Town is heavily dependent upon State shared revenues for General Fund operations (37%); State-shared income tax revenues are anticipated to increase slightly during fiscal year 2014-15 with increased individual and business revenues and state collections. The Town is aggressively pursuing economic vitality and redevelopment opportunities, specifically a proposed development in the downtown center. The plan was presented to the public late summer of 2009 and serves as a useful tool for economic development to attract developers.

As of June 30, 2014, the Town had set aside \$7.1 million in the capital improvement fund. The Town had been successful in obtaining a contract with ADOT to fund a major road improvement along Shea Boulevard that was completed in fiscal year 2011-2012. The Town completed a second construction project for another major road improvement on Shea Boulevard with further funding from ADOT in fiscal year 2012-2013. The widening of Shea Boulevard, funded primarily by a grant, will begin in fiscal year 2014-2015 as well as the reconstruction of Saguaro Boulevard, which will be bond financed.

NEXT YEAR'S BUDGETS AND RATES

The protracted economic recession has forced the Town to evaluate core services and, in some cases, to reduce existing service levels. Prudent long-term fiscal planning dictates that we remain conservative, focus on the highest Council and citizen priorities, and fund only those enhancements we can sustain financially.

The fiscal year 2014-2015 General Fund operating budget is \$13.7 million representing a 4% increase from fiscal year 2013-14 budget. The operating budget is comprised of the costs to continue operations from year to year without any capital expenditures. It encompasses all the basic services provided to Fountain Hills' residents: police and fire protection; parks, recreation, streets maintenance; planning and zoning; building inspection; economic development and administrative services. The capital budget is set at \$ 22.2 million, a 22% increase over fiscal year 2013-14 in anticipation of the reconstruction of Saguaro Boulevard that will be funded by voter-approved bonds. There are some projects in the five-year plan that are considered affordable within current revenue sources, others will require other sources of revenue for funding such as bonds, grants, etc. Capital budgets tend to rise and fall each year depending on the timing of projects – especially if a town, such as Fountain Hills, strives to achieve a "pay-as-you-go" program.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2014**

The capital improvement program (CIP) is the Town's financial plan for supporting large capital projects. The five-year CIP addresses the growing needs of the community and enhances the quality of life through major public investment, and is an essential ingredient in the Town's service delivery plan. The CIP is closely aligned with the general plan, and integrates a number of specialized facility and infrastructure master plans. Looking ahead, the five-year CIP totals \$22.8 million; with the capital budget for fiscal year 2014-15 totaling \$ 22.2 million (which includes carryover funds for some large projects currently underway). In fiscal year 2014-15, the CIP places major emphasis on major road improvements and maintenance. Due to the economy, there are no recreational or non-essential projects proposed.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Finance Division, Town of Fountain Hills, 16705 East Avenue of the Fountains, Fountain Hills, Arizona 85268 or visit our website at: www.fh.az.gov.

BASIC FINANCIAL STATEMENTS

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities
ASSETS	
Cash and Investments	\$ 20,972,629
Cash with Paying Agent	2,348,018
Receivables, Net:	
Accounts Receivable	172,590
Intergovernmental Receivables	850,699
Property Taxes Receivable	20,620
Inventory, At Cost	14,358
Prepaid Items	19,345
Restricted Assets	2,091,078
Capital Assets:	
Non-Depreciable	27,334,347
Depreciable (Net)	73,728,913
Total Assets	127,552,597
LIABILITIES	
Accounts Payable	790,531
Accrued Wages and Benefits	130,595
Interest Payable	230,406
Retainage Payable	48,660
Unearned Revenue	357,144
Matured Debt Principal Payable	2,160,000
Noncurrent Liabilities:	
Due Within One Year	2,164,879
Due in More Than One Year	7,289,432
Total Liabilities	13,171,647
NET POSITION	
Net Investment in Capital Assets	89,713,260
Restricted For:	
Highways and Streets	702,604
Public Safety	256,850
Capital Outlay	2,450,605
Debt Service	2,061,016
Cottonwoods Maintenance District	9,792
Unrestricted	19,186,823
Total Net Position	\$ 114,380,950

See accompanying Notes to Basic Financial Statements.

**TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General Government	\$ 2,432,965	\$ 1,373,670	\$ -	\$ 43,448	\$ (1,015,847)
Public Safety	6,958,056	16,971	39,174	-	(6,901,911)
Highways and Streets	6,630,875	22,156	1,268,564	20,122	(5,320,033)
Culture and Recreation	2,760,690	-	-	81,000	(2,679,690)
Development Services	1,237,717	-	-	-	(1,237,717)
Interest on Long-Term Debt	472,999	-	-	-	(472,999)
Total Governmental Activities	\$20,493,302	\$ 1,412,797	\$ 1,307,738	\$ 144,570	(17,628,197)

GENERAL REVENUES

Taxes:	
Sales	8,459,267
Property	1,449,646
Franchise	349,414
State Sales and Income Tax Revenue Sharing - Unrestricted	4,525,857
Vehicle License Tax Revenue Sharing - Unrestricted	800,475
Investment Earnings	123,311
Miscellaneous	166,115
Total General Revenues	15,874,085
Change in Net Position	(1,754,112)
Net Position - Beginning	116,135,062
Net Position - Ending	\$ 114,380,950

See accompanying Notes to Basic Financial Statements.

**TOWN OF FOUNTAIN HILLS, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General	HURF	Capital Projects	General Obligation Debt Service
ASSETS				
Cash and Investments	\$ 7,463,697	\$ 601,158	\$ 7,852,549	\$ 65,074
Cash with Paying Agent	-	-	-	956,875
Accounts Receivable	119,384	21,205	32,001	-
Intergovernmental Receivable	635,612	153,826	-	-
Taxes Receivable	5,946	-	-	11,760
Due from Other Funds	40,808	-	-	-
Inventory, At cost	14,358	-	-	-
Prepaid Items	18,348	997	-	-
Restricted Assets	75,623	-	-	-
Total Assets	<u>\$ 8,373,776</u>	<u>\$ 777,186</u>	<u>\$ 7,884,550</u>	<u>\$ 1,033,709</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 237,146	\$ 61,825	\$ 456,303	\$ -
Accrued Wages and Benefits	114,444	12,757	-	-
Retainage Payable	-	-	48,660	-
Unearned Revenue	-	-	200,000	-
Due to Other Funds	-	-	-	-
Interest Payable	-	-	-	56,875
Matured Debt Principal Payable	-	-	-	900,000
Total Liabilities	<u>351,590</u>	<u>74,582</u>	<u>704,963</u>	<u>956,875</u>
Deferred Inflows of Resources				
Unavailable Revenues	<u>24,234</u>	<u>1,213</u>	<u>32,001</u>	<u>-</u>
Fund Balances				
Nonspendable				
Cash with Escrow Agent	-	-	-	-
Inventory	14,358	-	-	-
Prepaid Items	18,348	997	-	-
Restricted	-	700,394	-	76,834
Committed	1,345,200	-	-	-
Assigned	1,647,193	-	7,147,586	-
Unassigned	4,972,853	-	-	-
Total Fund Balances	<u>7,997,952</u>	<u>701,391</u>	<u>7,147,586</u>	<u>76,834</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 8,373,776</u>	<u>\$ 777,186</u>	<u>\$ 7,884,550</u>	<u>\$ 1,033,709</u>

See accompanying Notes to Basic Financial Statements.

Municipal Property Corporation Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 4,990,151	\$ 20,972,629
1,029,700	361,443	2,348,018
-	-	172,590
40,818	20,443	850,699
-	2,914	20,620
-	-	40,808
-	-	14,358
-	-	19,345
2,015,455	-	2,091,078
<u>\$ 3,085,973</u>	<u>\$ 5,374,951</u>	<u>\$ 26,530,145</u>

\$ 10	\$ 35,247	\$ 790,531
-	3,394	130,595
-	-	48,660
-	157,144	357,144
40,808	-	40,808
117,088	56,443	230,406
955,000	305,000	2,160,000
<u>1,112,906</u>	<u>557,228</u>	<u>3,758,144</u>

-	-	57,448
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1,973,067	-	1,973,067
-	-	14,358
-	-	19,345
-	2,728,362	3,505,590
-	2,089,361	3,434,561
-	-	8,794,779
-	-	4,972,853
<u>1,973,067</u>	<u>4,817,723</u>	<u>22,714,553</u>

<u>\$ 3,085,973</u>	<u>\$ 5,374,951</u>	<u>\$ 26,530,145</u>
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**TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balances for Governmental Funds \$ 22,714,553

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

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

Governmental Capital Assets	194,991,356
Less Accumulated Depreciation	(93,928,096)
Capital Assets Used in Governmental Activities	101,063,260

Some revenues are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds.

Miscellaneous Permits	25,447
Miscellaneous Revenue	32,001

Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the governmental funds.

General Obligation Bonds	(4,495,000)
Revenue Bonds Payable	(4,695,000)
Compensated Absences	(264,311)
	(9,454,311)

Total Net Position of Governmental Activities	\$ 114,380,950
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TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>HURF</u>	<u>Capital Projects</u>	<u>General Obligation Debt Service</u>
REVENUES				
Taxes:				
Sales	\$ 7,100,383	\$ -	\$ 390,871	\$ -
Property	-	-	-	1,029,428
Franchise	349,414	-	-	-
Intergovernmental	4,503,364	2,069,039	43,448	-
Fines and Forfeitures	154,024	-	-	-
Licenses and Permits	554,690	-	-	-
Charges for Services	139,220	22,156	-	-
Leases and Rents	252,584	-	-	-
Investment Earnings	56,576	375	30,815	178
Other	123,932	10,182	-	-
Total Revenues	<u>13,234,187</u>	<u>2,101,752</u>	<u>465,134</u>	<u>1,029,606</u>
EXPENDITURES				
Current:				
General Government	2,125,922	-	-	-
Public Safety	6,886,158	-	-	-
Highways and Streets	-	3,073,746	-	-
Culture and Recreation	1,900,648	-	-	-
Development Services	1,597,517	-	-	-
Debt Service:				
Principal Retirement	-	-	-	900,000
Interest on Long-Term Debt	-	-	-	113,750
Fiscal Charges	-	-	-	250
Capital Outlay	-	-	1,750,465	-
Total Expenditures	<u>12,510,245</u>	<u>3,073,746</u>	<u>1,750,465</u>	<u>1,014,000</u>
Excess (Deficiency) of Revenues Over Expenditures	723,942	(971,994)	(1,285,331)	15,606
OTHER FINANCING SOURCES (USES)				
Transfers In	-	994,000	421,641	-
Transfers Out	(422,812)	(178,796)	(994,000)	-
Total Other Financing Sources (Uses)	<u>(422,812)</u>	<u>815,204</u>	<u>(572,359)</u>	<u>-</u>
Net Change in Fund Balance	301,130	(156,790)	(1,857,690)	15,606
FUND BALANCE				
Beginning of Year	7,696,822	858,181	9,005,276	61,228
End of Year	<u>\$ 7,997,952</u>	<u>\$ 701,391</u>	<u>\$ 7,147,586</u>	<u>\$ 76,834</u>

See accompanying Notes to Basic Financial Statements.

Municipal Property Corporation Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ 645,342	\$ 322,671	\$ 8,459,267
-	433,628	1,463,056
-	-	349,414
-	61,667	6,677,518
-	16,971	170,995
-	337,092	891,782
-	-	161,376
-	-	252,584
11,341	24,026	123,311
-	-	134,114
656,683	1,196,055	18,683,417
-	68,923	2,194,845
-	4,612	6,890,770
-	11,813	3,085,559
-	21,291	1,921,939
-	177,466	1,774,983
1,210,000	305,000	2,415,000
234,176	112,885	460,811
4,510	7,428	12,188
-	-	1,750,465
1,448,686	709,418	20,506,560
(792,003)	486,637	(1,823,143)
421,884	928	1,838,453
-	(242,845)	(1,838,453)
421,884	(241,917)	-
(370,119)	244,720	(1,823,143)
2,343,186	4,573,003	24,537,696
\$ 1,973,067	\$ 4,817,723	\$ 22,714,553

**TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014**

Net Change in Fund Balances of Governmental Funds \$ (1,823,143)

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	2,385,168
Less Current Year Depreciation	(4,823,757)
Excess Depreciation Over Capital Expenditures	(2,438,589)

The Statement of Activities reports losses arising from the disposal of existing capital assets as well as capital contributions received from other governments. Conversely, governmental funds do not report any gain or loss on disposals of capital assets or capital contributions.

Loss on Disposal of Capital Assets	(44,833)
Capital Contributions	101,122

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

Property Taxes	(13,410)
Miscellaneous Permits	(63,940)
Miscellaneous Revenue	32,001

The issuance of long-term debt (e.g. bonds) 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 position. The issuance of long-term debt increases long-term liabilities on the Statement of Net Position and the repayment of principal on long-term debt reduces long-term debt on the Statement of Net Position. Also, governmental funds report the effect of issuance costs, premiums, and similar items when the debt is first issued, whereas these items are amortized over the term of the long term debt in the Statement of Activities except for issuance costs which are expensed in the year when incurred.

Principal Payments on General Obligation Bonds	1,205,000
Principal Payments on Revenue Bonds	1,210,000

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

Net Decrease in Compensated Absences	81,680
Change in Net Position of Governmental Activities	\$ (1,754,112)

See accompanying Notes to Basic Financial Statements.

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Taxes:				
Sales Taxes	\$ 7,016,880	\$ 7,016,880	\$ 7,100,383	\$ 83,503
Franchise Taxes	303,000	303,000	349,414	46,414
Intergovernmental	4,555,649	4,555,649	4,503,364	(52,285)
Fines and Forfeitures	246,420	246,420	154,024	(92,396)
Licenses and Permits	602,780	602,780	554,690	(48,090)
Charges for Services	142,048	142,048	139,220	(2,828)
Leases and Rents	224,544	224,544	252,584	28,040
Investment Earnings	61,200	61,200	56,576	(4,624)
Other	229,648	229,648	123,932	(105,716)
Total Revenues	<u>13,382,169</u>	<u>13,382,169</u>	<u>13,234,187</u>	<u>(147,982)</u>
EXPENDITURES				
Current:				
General Government:				
Mayor and Council	77,652	79,702	76,800	2,902
Administration	2,184,483	2,080,191	1,756,630	323,561
Municipal Court	360,006	362,401	292,492	69,909
Total General Government	<u>2,622,141</u>	<u>2,522,294</u>	<u>2,125,922</u>	<u>396,372</u>
Public Safety:				
Law Enforcement	3,121,325	3,121,325	3,064,708	56,617
Fire and Emergency Medical	3,975,005	4,060,663	3,821,450	239,213
Total Public Safety	<u>7,096,330</u>	<u>7,181,988</u>	<u>6,886,158</u>	<u>295,830</u>
Culture and Recreation:				
Community Services	2,239,465	2,267,884	1,900,648	367,236
Development Services	1,866,327	1,966,116	1,597,517	368,599
Total Expenditures	<u>13,824,263</u>	<u>13,938,282</u>	<u>12,510,245</u>	<u>1,428,037</u>
Excess (Deficiency) of Revenues Over Expenditures	(442,094)	(556,113)	723,942	1,280,055
OTHER FINANCING SOURCES (USES)				
Transfers Out	(221,500)	(221,500)	(422,812)	(201,312)
Net Change in Fund Balance	(663,594)	(777,613)	301,130	1,078,743
FUND BALANCE				
Beginning of Year	-	-	7,696,822	7,696,822
End of Year	<u>\$ (663,594)</u>	<u>\$ (777,613)</u>	<u>\$ 7,997,952</u>	<u>\$ 8,775,565</u>

See accompanying Notes to Basic Financial Statements.

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HIGHWAY USER REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Intergovernmental	\$ 2,018,340	\$ 2,018,340	\$ 2,069,039	\$ 50,699
Charges for Services	25,240	25,240	22,156	(3,084)
Investment Earnings	1,200	1,200	375	(825)
Other	6,060	6,060	10,182	4,122
Total Revenues	<u>2,050,840</u>	<u>2,050,840</u>	<u>2,101,752</u>	<u>50,912</u>
EXPENDITURES				
Current:				
Highways and Streets	<u>2,094,000</u>	<u>3,091,318</u>	<u>3,073,746</u>	<u>17,572</u>
Excess (Deficiency) of Revenues Over Expenditures	(43,160)	(1,040,478)	(971,994)	68,484
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	994,000	994,000
Transfers Out	<u>(225,000)</u>	<u>(225,000)</u>	<u>(178,796)</u>	<u>46,204</u>
Total Other Finance Sources (Uses)	<u>(225,000)</u>	<u>(225,000)</u>	<u>815,204</u>	<u>1,040,204</u>
Net Change in Fund Balance	(268,160)	(1,265,478)	(156,790)	1,108,688
FUND BALANCE				
Beginning of Year	-	-	858,181	858,181
End of Year	<u>\$ (43,160)</u>	<u>\$ (1,265,478)</u>	<u>\$ 701,391</u>	<u>\$ 1,966,869</u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

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TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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

The Town reports the following component units:

Eagle Mountain Community Facilities District and the Cottonwoods Maintenance 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 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, the Districts are responsible for the debt; the debt is therefore not subject to the Town's debt limit. The District cannot be part of another reporting entity. The District's governing body is substantially the same as the Town. As a result, for financial reporting purposes, transactions of the Districts are combined together and included as if they were part of the Town's operations.

Town of Fountain Hills, Arizona Municipal Property Corporation. The Town of Fountain Hills, Arizona Municipal Property Corporation's (MPC) Board of Directors consists of three members which are appointed by the Fountain Hills Town Council. The MPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the Town in obtaining financing for various projects of the Town. The Town has a "moral obligation" for the repayment of the MPC's bonds. The MPC cannot be part of another reporting entity. The MPC provides services almost exclusively to the Town. As a result, for financial reporting purposes, transactions of the MPC are combined together and included as if they were part of the Town's operations.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the Town as a whole. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by taxes and intergovernmental revenues. The Town does not have any business-type activities.

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

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

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

Government-Wide Financial Statements

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Financial Statements

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

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

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

Delinquent property taxes not received within 60 days of the fiscal year end are reported as deferred inflows of resources. Other receivables that will not be collected within the available period have also been reported as deferred inflows on the governmental fund financial statements.

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

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Town reports the following major governmental funds.

General Fund

This fund is the Town's primary operating fund. The Fund accounts for all financial resources of the Town, except those required to be accounted for in other funds.

Highway Users Revenue Fund (HURF)

This special revenue fund accounts for the Town's share of motor fuel tax revenues.

Capital Projects Fund

This fund accounts for the capital improvements to various projects and equipment purchases of the Town.

General Obligation Debt Service Fund

This fund accounts for the Town's property tax revenues received to pay the debt service of the Town's general obligation bonds.

Municipal Property Corporation Debt Service Fund

This fund accounts for the revenues received to pay the debt service on MPC revenue bonds.

D. Assets, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance

1. Deposits and Investments

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

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position or Fund Balance (Continued)

2. Receivables and Payables

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

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

Pursuant to Arizona Revised Statutes (A.R.S.) a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise. The State Constitution and State law specify a property tax levy limitation system. The system consists of two levies, a limited levy known as the primary property tax levy and an unlimited levy referred to as the secondary levy, which may only be used to retire bonded indebtedness.

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

There is also a control on the assessed value of property for primary tax purposes. The base year for the new tax system is fiscal year 1978-79. From this base year, two assessed values evolve. The primary assessed values are allowed to increase by no more than 10 percent a year. The dollar amount of the secondary property tax levy is "unlimited" and the actual full cash value of property is used in determining the tax rate. The Town does not assess a primary tax.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position or Fund Balance (Continued)

2. Receivables and Payables (Continued)

Intergovernmental receivables include amounts due from other government agencies and include Town sales tax (\$530,669), Highway User Revenue fuel tax (\$119,479), State sales and income tax (\$166,205), and vehicle license tax (\$34,346) in the governmental funds and governmental activities column of the government-wide financial statements.

3. Inventory

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

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. In the government-wide and fund financial statements prepaids are recognized as expenses/expenditures when goods and/or services are received rather than when purchased.

5. Restricted Assets

The Town reported restricted assets in the amount of \$75,623 for funds held in an escrow account. The agreement provides that if, prior to July 1, 2014, any future Council fails to ratify this agreement or fails to provide severance when required as set forth in the agreement between the Town Council and Town Manager, the Town Manager shall be permitted to withdraw all funds from the escrow, minus any interest earned, which interest shall be payable to the Town upon the Town Manager's withdrawal of the amounts in escrow. The Town also has \$2,015,455 deposited in an irrevocable trust with an escrow agent to make future principal and interest payments on the 2004 Municipal Property Corporation Revenue Bonds.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position or Fund Balance (Continued)

6. Capital Assets

Capital assets, which include land, artwork, buildings, improvements, vehicles, machinery, and equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), 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 \$10,000 or more and an estimated useful life of more than one year. The capital assets include all infrastructure assets acquired by the Town since incorporation.

Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

7. Compensated Absences

The Town's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. Sick leave and vacation benefits accrue as pay periods are completed at the current rate of pay.

Effective October 7, 2004, all eligible full-time and part-time employees can accrue vacation leave. Full-time employees accrue up to a maximum of 224 hours of vacation through carryover of balances, while part-time employees can accrue up to 112 hours, depending upon their length of service. In the event of termination, employees will be paid for any accrued, but unused, vacation hours. Also effective October 7, 2004, full-time employees started to accrue sick leave, based on their length of service, up to a maximum of 960 hours. A portion of this balance will be paid upon a satisfactory separation of service.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position or Fund Balance (Continued)

7. Compensated Absences (Continued)

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

8. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts and the difference between the reacquisition price and the net carrying amount of the old debt, are amortized over the life of the bonds using the straight-line method over the term of the related debt. The difference between the reacquisition price and the net carrying value of the old debt is reported as either a deferred inflow or a deferred outflow of resources and the premium and/or discount are recorded against the outstanding debt. Issuance costs are expensed when incurred.

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

9. Net Position

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position or Fund Balance (Continued)

10. Fund Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories and prepaid items, or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations. Committed fund balances are self-imposed limitations approved by the Town's Council, which is the highest level of decision-making authority within the Town. Only the Town Council can remove or change the constraints placed on committed fund balances. Fund balances must be committed prior to fiscal year end through formal council action by passage of a resolution at a public meeting. Assigned fund balances are resources constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town Council has authorized the Finance Director to assign fund balances. The unassigned fund balance is the residual classification for the General Fund and includes all amounts not reported in the other classifications.

Also, deficits in fund balances of the other governmental funds are reported as unassigned.

It is the Town's policy to use restricted fund balance first, then committed, assigned, and lastly unassigned amounts.

The Town has established a fund balance policy whereas the combined General Fund operating fund balance of at least 30% of revenues is recommended.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, Deferred Inflows of Resources and Net Position or Fund Balance (Continued)

10. Fund Balance Classifications (Continued)

The Town has established a stabilization fund (Rainy Day fund) in the Town's fund balance policy. The Rainy Day fund had a balance of \$1,345,200, reported as a committed fund balance at June 30, 2014. The Rainy Day fund may only be used for the following: 1) to replace the loss of more than 25% of the Town's local share of State shared revenues, 2) for any event that threatens the health, safety or welfare of the Town's citizens, 3) for any event that threatens the fiscal stability of the Town, and lastly 4) to address any matter declared as an emergency by the Governor of the State of Arizona or the Mayor of the Town. All withdrawals from the Rainy Day fund shall be subject to the following rules: 1) any appropriation shall require the approval by at least 2/3 vote by the Town Council, and 2) the maximum amount of Rainy Day withdrawal in any fiscal year shall not exceed one-half of the total balance in the fund. Replenishment of the Rainy Day fund when spent by the Town should not exceed a period of more than five years, and should be repaid in equal annual installments of not less than 1% of the previous fiscal year General Fund fund balance. Repayments shall be appropriated as part of the annual budget adoption.

11. Interfund Activity

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

12. Estimates

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

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. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through passage of a resolution. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. Expenditures may not legally exceed the expenditure limitation described below for all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
5. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, and Capital Projects Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

Major Funds:	<u>Amount of Overexpenditure</u>
Municipal Property Corporation Debt Service Fund	\$ 337,286

The overexpenditure of \$337,286 was due to the principal and interest payments made on the Series 2004 MPC revenue bonds that are not budgeted for by the Town as the cash has been fully paid to the trustee for future distribution.

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**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2014, consist of the following:

Deposits:	
Cash on Hand	\$ 650
Cash in Bank	795,509
Cash on Deposit with Paying Agent	2,348,018
Investments	
Local Government Investment Pool	4,952,605
Wells Fargo Money Market	73,640
U.S. Agency Securities	3,080,552
U.S. Treasury Securities	2,091,078
U.S. Treasury Notes	12,069,673
Total	<u>25,411,725</u>
Less Cash with Paying Agent	(2,348,018)
Less Restricted Assets	(2,091,078)
Total Cash and Investments	<u><u>\$ 20,972,629</u></u>

Deposits

The Town's deposits at June 30, 2014, had a carrying value of \$795,509 and a bank balance of \$809,618. Of the bank balance, \$500,000 was insured by federal depository insurance and \$309,618 was collateralized by securities held by the pledging financial institutions in the Town's name.

Investments

The Town's investments at June 30, 2014 were as follows:

<u>Investment Type</u>	<u>Amount</u>
Local Government Investment Pool	\$ 4,952,605
Wells Fargo Money Market	73,640
U.S. Agency Securities	3,080,552
U.S. Treasury Securities	2,091,078
U.S. Treasury Notes	12,069,673
	<u><u>\$ 22,267,548</u></u>

The State Board of Deposit provides oversight for the LGIP, 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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Town will limit credit risk by limiting investments in the Town’s portfolio to the asset classes designated as acceptable in A.R.S 835-323. When possible, analysis of the credit worthiness of all individual debt issuers held in the portfolio should be conducted on an annual basis in an effort to guard against investing in weak or deteriorating credit situation. Additionally, the Town will pre-qualify financial institutions, brokers/dealers, and investment advisors with which the Town will do business.

At June 30, 2014, credit risk for the Town’s investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Agency</u>	<u>Amount</u>
Local Government Investment Pool	AAA	S&P	\$ 4,952,605
Wells Fargo Money Market	N/A	N/A	73,640
U.S. Agency Securities	AA+	S&P	3,080,552
U.S. Treasury Securities	N/A	N/A	2,091,078
U.S. Treasury Notes	AA+	S&P	12,069,673
			<u>\$ 22,267,548</u>

Custodial credit risk – Concentration credit risk is the risk of loss associated with the majority of investments in a single issuer. The Town of Fountain Hills will diversify its investments by security type and institution. With the exception of U.S. Treasury notes and securities and authorized pools, no more than 25% of the Town’s total investment portfolio will be invested in a single security type or with a single financial institution.

At June 30, 2014, the Town had the following diversification of Town investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Percent of Town Investments</u>
Local Government Investment Pool	\$ 4,952,605	22.24%
Wells Fargo Money Market	73,640	0.33%
U.S. Agency Securities	3,080,552	13.83%
U.S. Treasury Securities	2,091,078	9.40%
U.S. Treasury Notes	12,069,673	54.20%
	<u>\$ 22,267,548</u>	<u>100.00%</u>

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect an investment’s fair value. The Town will look to mitigate interest rate risk by performing the following:

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

- Structuring the investment portfolio so that securities mature concurrent with the anticipated cash requirements for ongoing operations, thereby avoiding, as much as possible, the need to sell securities into an adverse market environment prior to maturity.
- Investing funds primarily in shorter-term securities or similar investment pools and limiting the average maturity of the portfolio in accordance with the needs of the Town.
- With respect to any firm or individual given responsibility for investments utilizing external research and advice regarding the current interest rate outlook and global economic condition to optimize portfolio duration strategy.

The following is a table of the Town's investment maturities:

<u>Investment</u>	<u>Maturity</u>			<u>Total</u>
	<u>0-6 Months</u>	<u>6-12 Months</u>	<u>12+ Months</u>	
Local Government Investment Pool	\$ 4,952,605	\$ -	\$ -	\$ 4,952,605
Wells Fargo Advantage Money Market	73,640	-	-	73,640
Federal Farm Credit Bank Notes	-	-	500,435	500,435
Federal Home Loan Bank Global Notes	-	-	431,475	431,475
Federal Home Loan Mortgage Corp. Notes	-	-	452,300	452,300
Federal National Mortgage Association Notes	-	-	1,696,342	1,696,342
U.S. Treasury Securities	414,291	1,676,787	-	2,091,078
U.S. Treasury Notes	-	2,284,421	9,785,252	12,069,673
Total	<u>\$ 5,440,536</u>	<u>\$ 3,961,208</u>	<u>\$ 12,865,804</u>	<u>\$ 22,267,548</u>

2. Receivables

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also record unearned revenue 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 inflows of resources and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Miscellaneous		
General Fund	\$ 24,234	\$ -
Highway User Revenue Fund	1,213	-
Capital Projects Fund	32,001	200,000
Grants		
Nonmajor Governmental Funds	-	157,144
	<u>\$ 57,448</u>	<u>\$ 357,144</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets

Capital assets for the year ended June 30, 2014, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 23,571,668	\$ -	\$ -	\$ 23,571,668
Artwork	1,886,500	81,000	-	1,967,500
Construction in Progress	765,120	1,693,924	(663,865)	1,795,179
Total Capital Assets, Not Being Depreciated	26,223,288	1,774,924	(663,865)	27,334,347
Capital Assets, Being Depreciated:				
Infrastructure	130,788,513	-	(11,626)	130,776,887
Buildings	18,008,744	198,523	(33,872)	18,173,395
Improvements	14,766,654	476,968	-	15,243,622
Vehicles, Machinery and Equipment	3,482,484	699,740	(719,119)	3,463,105
Total Capital Assets, Being Depreciated	167,046,395	1,375,231	(764,617)	167,657,009
Accumulated Depreciation for:				
Infrastructure	(75,573,328)	(3,643,786)	-	(79,217,114)
Buildings	(3,819,062)	(360,805)	33,872	(4,145,995)
Improvements	(7,618,057)	(718,360)	-	(8,336,417)
Vehicles, Machinery and Equipment	(2,813,676)	(100,806)	685,912	(2,228,570)
Total Accumulated Depreciation	(89,824,123)	(4,823,757)	719,784	(93,928,096)
Total Capital Assets, Being Depreciated, Net	77,222,272	(3,448,526)	(44,833)	73,728,913
Governmental Activities Capital Assets, Net	\$ 103,445,560	\$ (1,673,602)	\$ (708,698)	\$ 101,063,260

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 196,870
Public Safety	67,286
Highways and Streets	3,679,407
Culture and Recreation	880,194
Total Depreciation Expense	\$ 4,823,757

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Construction Commitments

At June 30, 2014, the Town has the following active construction commitments:

Project	Governmental Activities	
	Spent-to-date	Remaining Commitment
Avenue of the Fountains Median and Right of Way Improvements	\$ 645,290	\$ 1,094,898
Fountain Park VI	71,238	26,500
Saguaro Boulevard Reconstruction	265,229	142,012
Fountain Hills Boulevard Shoulder Paving	103,372	10,440
Palisades and Saguaro Traffic Signal Upgrades	13,979	5,991
Total Commitments	<u>\$ 1,099,108</u>	<u>\$ 1,279,841</u>

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2014, consisted of the following:

Transfers Out	Transfers In				Total
	HURF Fund	Capital Projects Fund	Municipal Property Corporation Debt Service Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ -	\$ 421,884	\$ 928	\$ 422,812
HURF Fund	-	178,796	-	-	178,796
Capital Projects Fund	994,000	-	-	-	994,000
Nonmajor Governmental Funds	-	242,845	-	-	242,845
Total	<u>\$ 994,000</u>	<u>\$ 421,641</u>	<u>\$ 421,884</u>	<u>\$ 928</u>	<u>\$ 1,838,453</u>

The General Fund transferred \$421,884 to pay for debt service costs on the Municipal Property Corporation's outstanding bonds. The General Fund transferred \$928 to the Development Fees Nonmajor Governmental Fund to reimburse for a refund incorrectly returned. The Capital Projects Fund transferred \$994,000, to the HURF Fund to fund additional street pavement projects. The HURF Fund transferred 178,796 to the Capital Projects Fund for construction of a new streets building. The Nonmajor Governmental Funds transferred \$242,845 to the Capital Projects Fund to fund a median improvement project.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Long-Term Obligations

Bonds payable at year end consisted of general obligation, municipal property corporation and community facilities district bonds. The bonds are both callable and noncallable with the interest payable semiannually. Property taxes from the General Obligation Bond Debt Service Fund and Eagle Mountain Debt Service Fund are used to pay general obligation and community facilities district bonds. Tax revenues from the General Fund and Excise Tax Fund are used to pay municipal facilities bonds.

Bonds outstanding at June 30, 2014, were as follows:

Purpose	Interest Rates	Maturity Date	Original Amount	Outstanding Amount
Governmental Activities:				
General Obligation Bonds:				
General Obligation Refunding Bonds, Series 2005	4.00	07/01/15-19	\$ 7,225,000	\$ 2,000,000
Eagle Mountain Community Facilities District, General Obligation Refunding Bonds, Series 2005	4.00-4.125	7/1/2015-21	4,555,000	2,495,000
Total General Obligation Bonds			<u>\$ 11,780,000</u>	<u>\$ 4,495,000</u>
Revenue Bonds:				
Municipal Facilities Revenue Bonds, Series 2004	4.25-4.50	7/1/14-15	\$ 3,645,000	\$ 1,915,000
Municipal Facilities Revenue Refunding Bonds, Series 2005	3.25-4.00	7/01/15-20	5,330,000	2,780,000
Total Revenue Bonds			<u>\$ 8,975,000</u>	<u>\$ 4,695,000</u>

The Town has pledged future excise taxes to repay a total of \$4,695,000 in outstanding municipal facilities revenue and refunding bonds. For fiscal year ended June 30, 2014, the net revenues available to service this debt were \$14.8 million. The debt principal and interest paid on this debt for the fiscal year was \$1,210,000 and \$234,176, respectively (10 percent of available pledged revenues).

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2014, are as follows:

	<u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2014</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds					
General Obligation Bonds	\$ 5,700,000	\$ -	\$ (1,205,000)	\$ 4,495,000	\$ 705,000
Revenue Bonds	5,905,000	-	(1,210,000)	4,695,000	1,265,000
Total Bonds	11,605,000	-	(2,415,000)	9,190,000	1,970,000
Other Liabilities:					
Compensated Absences	345,991	159,256	(240,936)	264,311	194,879
Governmental Activities Long-Term Liabilities	<u>\$ 11,950,991</u>	<u>\$ 159,256</u>	<u>\$ (2,655,936)</u>	<u>\$ 9,454,311</u>	<u>\$ 2,164,879</u>

Debt service requirements on long-term debt at June 30, 2014, are as follows:

<u>Year Ending June 30.</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,970,000	\$ 386,581
2016	2,830,000	307,136
2017	1,120,000	186,406
2018	1,150,000	141,606
2019	1,040,000	100,567
2020 - 2022	1,080,000	60,585
	<u>\$ 9,190,000</u>	<u>\$ 1,182,881</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Fund Balances

Fund Balances at June 30, 2014 were as follows:

	General	HURF	Capital Projects	General Obligation Debt Service	Municipal Property Corporation Debt Service	Nonmajor Governmental Funds	Total
Nonspendable:							
Cash with Escrow Agent	\$ -	\$ -	\$ -	\$ -	\$ 1,973,067	\$ -	\$ 1,973,067
Inventory	14,358	-	-	-	-	-	14,358
Prepays	18,348	997	-	-	-	-	19,345
Restricted:							
Debt Service	-	-	-	76,834	-	11,115	87,949
Highways and Streets	-	700,394	-	-	-	-	700,394
Local Court Enhancement	-	-	-	-	-	256,850	256,850
New Development	-	-	-	-	-	2,450,605	2,450,605
Cottonwoods Maintenance District	-	-	-	-	-	9,792	9,792
Committed							
Rainy Day Funds	1,345,200	-	-	-	-	-	1,345,200
Town Beautification and Economic Development	-	-	-	-	-	2,089,361	2,089,361
Assigned							
Public Art	1,078	-	-	-	-	-	1,078
Vehicle Replacement	301,259	-	-	-	-	-	301,259
Capital Projects	537,942	-	7,147,586	-	-	-	7,685,528
Equipment Replacement	806,914	-	-	-	-	-	806,914
Unassigned	4,972,853	-	-	-	-	-	4,972,853
Total Fund Balance	<u>\$ 7,997,952</u>	<u>\$ 701,391</u>	<u>\$ 7,147,586</u>	<u>\$ 76,834</u>	<u>\$ 1,973,067</u>	<u>\$ 4,817,723</u>	<u>\$ 22,714,553</u>

NOTE 4 OTHER INFORMATION

A. Contingent Liabilities

Lawsuits

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

B. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the Town is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$8,000,000 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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Risk Management (Continued)

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

C. Retirement Plans

Defined Contribution Pension Plan

All full-time employees of the Town participate in a defined contribution pension plan administered by the ICMA Retirement Corporation as a 401(a) plan. The payroll for the Town employees covered by this plan for the year ended June 30, 2014, was \$2,380,050. The Town's total payroll was \$2,811,315.

A defined contribution pension plan provides benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined, instead of specifying the amount of benefit the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investment of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. All 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 five years of service on a pro rata basis.

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 match the employee contribution of 11%. During the fiscal year, the Town's required and actual contributions amounted to \$261,806. The employees' contributions totaled \$261,806. Employees may also contribute to the ICMA Retirement Corporation 457 plan on a voluntary basis; there is no employer match for those contributions. During the fiscal year, employees contributed \$129,453 to that plan.

No pension provision changes occurred during the year that affected the required contributions to be made by the Town or its employees. The ICMA Retirement Corporation held no securities of the Town or other related parties during the fiscal year 2013-14 or as of the close of the fiscal year.

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

Local Court Enhancement Fund - accounts for a local court surcharge, restricted for court enhancement.

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

Downtown Strategy Fund - accounts for the portion of Town sales tax committed by the Town Council for the development of downtown.

Economic Development Fund – accounts for the portion of Town sales tax committed by the Town Council for economic development.

Cottonwoods Maintenance Fund - accounts for all special assessments restricted to pay for maintenance of the Cottonwoods Special Assessment District.

DEBT SERVICE FUNDS

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014**

	Special Revenue Funds			
	Development Fees	Local Court Enhancement	Grants	Downtown Strategy
ASSETS				
Cash and Investments	\$ 2,451,501	\$ 256,850	\$ 188,804	\$ 2,035,147
Cash with Paying Agent	-	-	-	-
Intergovernmental Receivable	-	-	-	8,164
Taxes Receivable	-	-	-	-
Total Assets	\$ 2,451,501	\$ 256,850	\$ 188,804	\$ 2,043,311
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 896	\$ -	\$ 31,660	\$ -
Accrued Wages and Benefits	-	-	-	-
Unearned Revenue	-	-	157,144	-
Interest Payable	-	-	-	-
Matured Debt Principal Payable	-	-	-	-
Total Liabilities	896	-	188,804	-
Fund Balances				
Restricted	2,450,605	256,850	-	-
Committed	-	-	-	2,043,311
Total Fund Balances	2,450,605	256,850	-	2,043,311
Total Liabilities and Fund Balances	\$ 2,451,501	\$ 256,850	\$ 188,804	\$ 2,043,311

<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>		
<u>Economic Development</u>	<u>Cottonwoods Maintenance</u>	<u>Total Special Revenue Funds</u>	<u>Eagle Mountain Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 39,640	\$ 10,008	\$ 4,981,950	\$ 8,201	\$ 4,990,151
-	-	-	361,443	361,443
12,245	34	20,443	-	20,443
-	-	-	2,914	2,914
<u>\$ 51,885</u>	<u>\$ 10,042</u>	<u>\$ 5,002,393</u>	<u>\$ 372,558</u>	<u>\$ 5,374,951</u>
\$ 2,441	\$ 250	\$ 35,247	\$ -	\$ 35,247
3,394	-	3,394	-	3,394
-	-	157,144	-	157,144
-	-	-	56,443	56,443
-	-	-	305,000	305,000
<u>5,835</u>	<u>250</u>	<u>195,785</u>	<u>361,443</u>	<u>557,228</u>
-	9,792	2,717,247	11,115	2,728,362
46,050	-	2,089,361	-	2,089,361
<u>46,050</u>	<u>9,792</u>	<u>4,806,608</u>	<u>11,115</u>	<u>4,817,723</u>
<u>\$ 51,885</u>	<u>\$ 10,042</u>	<u>\$ 5,002,393</u>	<u>\$ 372,558</u>	<u>\$ 5,374,951</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 2014**

	Special Revenue Funds			
	Development Fees	Local Court Enhancement	Grants	Downtown Strategy
REVENUES				
Taxes:				
Sales	\$ -	\$ -	\$ -	\$ 129,068
Property	-	-	-	-
Intergovernmental	-	-	61,667	-
Fines and Forfeitures	-	16,971	-	-
Licenses and Permits	337,092	-	-	-
Investment Earnings	11,915	122	-	11,879
Total Revenues	<u>349,007</u>	<u>17,093</u>	<u>61,667</u>	<u>140,947</u>
EXPENDITURES				
Current:				
General Government	-	3,893	61,667	-
Public Safety	4,612	-	-	-
Highways and Streets	11,813	-	-	-
Culture and Recreation	21,291	-	-	-
Development Services	-	-	-	29,885
Debt Service				
Principal Retirement	-	-	-	-
Interest on Long-Term Debt	-	-	-	-
Fiscal Charges	-	-	-	-
Total Expenditures	<u>37,716</u>	<u>3,893</u>	<u>61,667</u>	<u>29,885</u>
Excess (Deficiency) of Revenues Over Expenditures	311,291	13,200	-	111,062
OTHER FINANCING SOURCES (USES)				
Transfers In	928	-	-	-
Transfers Out	-	-	-	(242,845)
Total Other Financing Sources (Uses)	<u>928</u>	<u>-</u>	<u>-</u>	<u>(242,845)</u>
Net Change in Fund Balances	312,219	13,200	-	(131,783)
FUND BALANCES				
Beginning of Year	2,138,386	243,650	-	2,175,094
End of Year	<u>\$ 2,450,605</u>	<u>\$ 256,850</u>	<u>\$ -</u>	<u>\$ 2,043,311</u>

Special Revenue Funds			Debt Service Fund	
Economic Development	Cottonwoods Maintenance	Total Special Revenue Funds	Eagle Mountain Debt Service	Total Nonmajor Governmental Funds
\$ 193,603	\$ -	\$ 322,671	\$ -	\$ 322,671
-	4,823	4,823	428,805	433,628
-	-	61,667	-	61,667
-	-	16,971	-	16,971
-	-	337,092	-	337,092
28	5	23,949	77	24,026
<u>193,631</u>	<u>4,828</u>	<u>767,173</u>	<u>428,882</u>	<u>1,196,055</u>
-	3,363	68,923	-	68,923
-	-	4,612	-	4,612
-	-	11,813	-	11,813
-	-	21,291	-	21,291
147,581	-	177,466	-	177,466
-	-	-	305,000	305,000
-	-	-	112,885	112,885
-	-	-	7,428	7,428
<u>147,581</u>	<u>3,363</u>	<u>284,105</u>	<u>425,313</u>	<u>709,418</u>
46,050	1,465	483,068	3,569	486,637
-	-	928	-	928
-	-	(242,845)	-	(242,845)
-	-	(241,917)	-	(241,917)
46,050	1,465	241,151	3,569	244,720
-	8,327	4,565,457	7,546	4,573,003
<u>\$ 46,050</u>	<u>\$ 9,792</u>	<u>\$ 4,806,608</u>	<u>\$ 11,115</u>	<u>\$ 4,817,723</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
FISCAL YEAR ENDED JUNE 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Taxes:				
Sales	\$ 120,000	\$ 120,000	\$ 390,871	\$ 270,871
Intergovernmental	3,878,000	3,878,000	43,448	(3,834,552)
Licenses and Permits	200,000	200,000	-	(200,000)
Investment Earnings	-	-	30,815	30,815
Total Revenues	<u>4,198,000</u>	<u>4,198,000</u>	<u>465,134</u>	<u>(3,732,866)</u>
EXPENDITURES				
Capital Outlay	<u>19,198,080</u>	<u>18,204,080</u>	<u>1,750,465</u>	<u>16,453,615</u>
Excess (Deficiency) of Revenues Over Expenditures	(15,000,080)	(14,006,080)	(1,285,331)	12,720,749
OTHER FINANCING SOURCES (USES)				
Transfers In	2,093,000	2,093,000	421,641	(1,671,359)
Transfers Out	-	-	(994,000)	(994,000)
Issuance of Long-Term Debt	8,200,000	8,200,000	-	(8,200,000)
Total Other Financing Sources (Uses)	<u>10,293,000</u>	<u>10,293,000</u>	<u>(572,359)</u>	<u>(10,865,359)</u>
Net Change in Fund Balance	(4,707,080)	(3,713,080)	(1,857,690)	1,855,390
FUND BALANCE				
Beginning of Year	-	-	9,005,276	9,005,276
End of Year	<u>\$ (4,707,080)</u>	<u>\$ (3,713,080)</u>	<u>\$ 7,147,586</u>	<u>\$ 10,860,666</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL OBLIGATION DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2014

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Property	\$ 1,013,040	\$ 1,029,428	\$ 16,388
Investment Earnings	210	178	(32)
Total Revenues	1,013,250	1,029,606	16,356
EXPENDITURES			
Debt Service:			
Principal Retirement	900,000	900,000	-
Interest on Long-Term Debt	113,750	113,750	-
Fiscal Charges	2,100	250	1,850
Total Expenditures	1,015,850	1,014,000	1,850
Excess (Deficiency) of Revenues Over Expenditures	(2,600)	15,606	18,206
FUND BALANCE			
Beginning of Year	-	61,228	61,228
End of Year	\$ (2,600)	\$ 76,834	\$ 79,434

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MUNICIPAL PROPERTY CORPORATION DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2014

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes:			
Sales	\$ 594,000	\$ 645,342	\$ 51,342
Investment Earnings	500	11,341	10,841
Total Revenues	<u>594,500</u>	<u>656,683</u>	<u>62,183</u>
EXPENDITURES			
Debt Service:			
Principal Retirement	955,000	1,210,000	(255,000)
Interest on Long-Term Debt	149,400	234,176	(84,776)
Fiscal Charges	7,000	4,510	2,490
Total Expenditures	<u>1,111,400</u>	<u>1,448,686</u>	<u>(337,286)</u>
Excess (Deficiency) of Revenues Over Expenditures	(516,900)	(792,003)	(275,103)
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>193,500</u>	<u>421,884</u>	<u>228,384</u>
Net Change in Fund Balance	(323,400)	(370,119)	(46,719)
FUND BALANCE			
Beginning of Year	-	2,343,186	2,343,186
End of Year	<u>\$ (323,400)</u>	<u>\$ 1,973,067</u>	<u>\$ 2,296,467</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
DEVELOPMENT FEES FUND
FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Licenses and Permits	\$ 130,632	\$ 337,092	\$ 206,460
Investment Earnings	100	11,915	11,815
Total Revenues	<u>130,732</u>	<u>349,007</u>	<u>218,275</u>
EXPENDITURES			
Current			
Public Safety	10,000	4,612	5,388
Highways and Streets	20,000	11,813	8,187
Culture and Recreation	20,000	21,291	(1,291)
Total Expenditures	<u>50,000</u>	<u>37,716</u>	<u>12,284</u>
Excess (Deficiency) of Revenues Over Expenditures	80,732	311,291	230,559
OTHER FINANCING SOURCES (USES)			
Transfers In	<u>-</u>	<u>928</u>	<u>928</u>
Net Change in Fund Balance	80,732	312,219	231,487
FUND BALANCE			
Beginning of Year	-	2,138,386	2,138,386
End of Year	<u>\$ 80,732</u>	<u>\$ 2,450,605</u>	<u>\$ 2,369,873</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL COURT ENHANCEMENT FUND
FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Fines and Forfeitures	\$ 14,250	\$ 16,971	\$ 2,721
Investment Earnings	300	122	(178)
Total Revenues	<u>14,550</u>	<u>17,093</u>	<u>2,543</u>
EXPENDITURES			
Current:			
General Government	<u>48,875</u>	<u>3,893</u>	<u>44,982</u>
Excess (Deficiency) of Revenues Over Expenditures	(34,325)	13,200	47,525
FUND BALANCE			
Beginning of Year	-	243,650	243,650
End of Year	<u>\$ (34,325)</u>	<u>\$ 256,850</u>	<u>\$ 291,175</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GRANTS FUND
FISCAL YEAR ENDED JUNE 30, 2014

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,498,655	\$ 1,498,655	\$ 61,667	\$ (1,436,988)
EXPENDITURES				
Current:				
General Government	1,498,655	1,297,964	61,667	1,236,297
Excess (Deficiency) of Revenues Over Net Change in Fund Balance	-	200,691	-	(200,691)
FUND BALANCE				
Beginning of Year	-	-	-	-
End of Year	\$ -	\$ 200,691	\$ -	\$ (200,691)

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
DOWNTOWN STRATEGY FUND
FISCAL YEAR ENDED JUNE 30, 2014

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Sales	\$ 114,084	\$ 129,068	\$ 14,984
Investment Earnings	-	11,879	11,879
Total Revenues	114,084	140,947	26,863
EXPENDITURES			
Current:			
Development Services	114,079	29,885	84,194
Excess (Deficiency) of Revenues Over Expenditures	5	111,062	111,057
OTHER FINANCING SOURCES (USES)			
Transfers Out	(1,840,000)	(242,845)	1,597,155
Net Change in Fund Balance	(1,839,995)	(131,783)	1,708,212
FUND BALANCE			
Beginning of Year	-	2,175,094	2,175,094
End of Year	\$ (1,839,995)	\$ 2,043,311	\$ 3,883,306

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
ECONOMIC DEVELOPMENT FUND
FISCAL YEAR ENDED JUNE 30, 2014

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Sales	\$ 171,119	\$ 193,603	\$ 22,484
Investment Earnings	-	28	28
Total Revenues	171,119	193,631	22,512
EXPENDITURES			
Current:			
Development Services	171,119	147,581	23,538
Excess (Deficiency) of Revenues Over Expenditures	-	46,050	46,050
FUND BALANCE			
Beginning of Year	-	-	-
End of Year	\$ -	\$ 46,050	\$ 46,050

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
COTTONWOODS MAINTENANCE FUND
FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes:			
Property	\$ 4,823	\$ 4,823	\$ -
Investment Earnings	-	5	5
Total Revenue	<u>4,823</u>	<u>4,828</u>	<u>5</u>
EXPENDITURES			
Current:			
General Government	<u>3,500</u>	<u>3,363</u>	<u>137</u>
Excess (Deficiency) of Revenue Over Expenditures	1,323	1,465	142
FUND BALANCE			
Beginning of Year	-	8,327	8,327
End of Year	<u>\$ 1,323</u>	<u>\$ 9,792</u>	<u>\$ 8,469</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
EAGLE MOUNTAIN DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2014

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Property	\$ 430,248	\$ 428,805	\$ (1,443)
Investment Earnings	600	77	(523)
Total Revenues	430,848	428,882	(1,966)
EXPENDITURES			
Debt Service:			
Principal Retirement	305,000	305,000	-
Interest on Long-Term Debt	112,885	112,885	-
Fiscal Charges	7,350	7,428	(78)
Total Expenditures	425,235	425,313	(78)
Excess (Deficiency) of Revenues Over Expenditures	5,613	3,569	(2,044)
FUND BALANCE			
Beginning of Year	-	7,546	7,546
End of Year	\$ 5,613	\$ 11,115	\$ 5,502

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STATISTICAL SECTION (UNAUDITED)

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

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

	Fiscal Year			
	2005	2006	2007	2008
Governmental Activities:				
Net Investment in Capital Assets	\$ 17,495,539	\$ 20,806,507	\$ 92,508,637	\$ 94,939,805
Restricted	5,144,127	12,446,147	12,210,966	12,799,502
Unrestricted	10,821,304	9,053,611	14,276,126	13,230,726
Total Governmental Activities Net Position	<u>\$ 33,460,970</u>	<u>\$ 42,306,265</u>	<u>\$ 118,995,729</u>	<u>\$ 120,970,033</u>

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

Fiscal Year

2009	2010	2011	2012	2013	2014
\$ 94,611,110	\$ 95,467,509	\$ 92,579,483	\$ 92,006,103	\$ 89,800,560	\$ 89,713,260
11,828,137	11,396,116	4,385,595	5,951,416	5,721,744	5,480,867
13,765,293	12,321,090	22,598,669	21,064,267	20,612,758	19,186,823
<u>\$ 120,204,540</u>	<u>\$ 119,184,715</u>	<u>\$ 119,563,747</u>	<u>\$ 119,021,786</u>	<u>\$ 116,135,062</u>	<u>\$ 114,380,950</u>

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

	Fiscal Year			
	2005	2006	2007	2008
EXPENSES				
Governmental Activities:				
General Government	\$ 3,766,500	\$ 3,875,014	\$ 4,292,515	\$ 3,921,588
Public Safety	5,024,686	5,403,620	5,935,742	6,532,292
Highways and Streets	1,281,061	1,581,068	5,225,835	5,981,347
Culture and Recreation	2,362,661	2,576,406	3,282,160	3,092,661
Development Services	1,460,181	1,812,469	2,512,170	2,861,653
Interest on Long-Term Debt	1,162,796	1,297,119	1,163,370	1,132,947
Total Government Activities Expenses	<u>15,057,885</u>	<u>16,545,696</u>	<u>22,411,792</u>	<u>23,522,488</u>
PROGRAM REVENUES				
Governmental activities:				
Fees, Fines, and Charges for Services				
General Government	4,431,154	4,029,437	910,978	830,963
Public Safety	-	-	982,659	746,227
Highways and Streets	-	-	-	-
Operating Grants and Contributions	1,692,712	2,022,675	-	56,802
Capital Grants and Contributions	237,307	-	989,100	835,659
Total Governmental Activities Program Revenues	<u>6,420,723</u>	<u>6,155,938</u>	<u>3,509,168</u>	<u>3,222,272</u>
Net (Expenses)/Revenues	\$ (8,637,162)	\$ (10,389,758)	\$ (18,902,624)	\$ (20,300,216)

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

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 4,231,529	\$ 3,720,236	\$ 2,876,848	\$ 3,119,113	\$ 2,909,443	\$ 2,432,965
7,312,415	6,293,323	5,963,067	5,820,136	6,100,131	6,958,056
5,051,294	5,202,285	5,567,973	4,718,047	5,712,817	6,630,875
3,336,616	2,927,848	2,840,154	2,754,731	2,779,294	2,760,690
2,218,994	1,612,287	1,572,202	1,442,613	1,633,361	1,237,717
1,033,536	950,484	851,957	779,576	567,043	472,999
<u>23,184,384</u>	<u>20,706,463</u>	<u>19,672,201</u>	<u>18,634,216</u>	<u>19,702,089</u>	<u>20,493,302</u>
544,753	1,340,457	1,126,926	1,025,940	1,204,356	1,373,670
55,042	32,667	21,222	20,323	14,227	16,971
-	2,556	16,270	11,825	4,916	22,156
-	1,666,498	1,614,462	1,285,656	1,266,906	1,307,738
<u>1,353,409</u>	<u>632,617</u>	<u>2,273,414</u>	<u>1,392,706</u>	<u>150,535</u>	<u>144,570</u>
<u>2,841,453</u>	<u>3,674,795</u>	<u>5,052,294</u>	<u>3,736,450</u>	<u>2,640,940</u>	<u>2,865,105</u>
\$ (20,342,931)	\$ (17,031,668)	\$ (14,619,907)	\$ (14,897,766)	\$ (17,061,149)	\$ (17,628,197)

(Continued)

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

	Fiscal Year			
	2005	2006	2007	2008
(Concluded)				
GENERAL REVENUES AND OTHER				
Governmental Activities:				
Taxes:				
Sales Taxes	\$ 8,879,798	\$ 11,007,924	\$ 11,407,714	\$ 10,489,591
Property Taxes	2,020,800	1,648,947	1,385,953	1,635,542
Franchise Taxes	216,031	314,359	324,318	336,290
State Shared Revenues	4,756,481	5,389,551	8,444,731	8,848,199
Investment Earnings	395,124	673,351	1,094,994	780,935
Miscellaneous	120,666	200,921	85,418	183,963
Total Governmental Activities	<u>16,388,900</u>	<u>19,235,053</u>	<u>22,743,128</u>	<u>22,274,520</u>
CHANGE IN NET POSITION				
Governmental Activities	<u>\$ 7,751,738</u>	<u>\$ 8,845,295</u>	<u>\$ 3,840,504</u>	<u>\$ 1,974,304</u>

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

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 8,932,374	\$ 7,644,440	\$ 8,013,480	\$ 7,787,489	\$ 7,957,163	\$ 8,459,267
1,531,770	1,928,028	1,349,079	1,453,405	1,385,147	1,449,646
321,964	285,881	322,659	332,130	334,668	349,414
8,456,552	6,000,923	5,217,140	4,515,511	4,979,183	5,326,332
258,478	22,831	28,456	88,877	69,998	123,311
76,300	129,740	68,125	178,393	300,899	166,115
<u>19,577,438</u>	<u>16,011,843</u>	<u>14,998,939</u>	<u>14,355,805</u>	<u>15,027,058</u>	<u>15,874,085</u>
<u>\$ (765,493)</u>	<u>\$ (1,019,825)</u>	<u>\$ 379,032</u>	<u>\$ (541,961)</u>	<u>\$ (2,034,091)</u>	<u>\$ (1,754,112)</u>

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

	Fiscal Year			
	2005	2006	2007	2008
General Fund:				
Reserved	\$ 40,664	\$ 14,393	\$ 2,934,144	\$ 3,053,070
Unreserved, Designated for:				
Vehicle Replacement	-	-	-	-
Unreserved, Undesignated	9,041,779	6,515,855	3,666,005	3,526,738
Total General Fund	<u>\$ 9,082,443</u>	<u>\$ 6,530,248</u>	<u>\$ 6,600,149</u>	<u>\$ 6,579,808</u>
All Other Governmental Funds:				
Unreserved, Designated for				
Vehicle Replacement	\$ -	\$ -	\$ -	\$ -
Unreserved, Undesignated Reported in:				
Special Revenue Funds	2,176,086	1,951,434	5,305,432	3,876,927
Capital Projects Funds	2,429,225	9,496,266	9,916,670	10,764,857
Debt Service Funds	644,089	159,530	1,386,674	1,585,740
Total All Other Governmental Funds	<u>\$ 5,249,400</u>	<u>\$ 11,607,230</u>	<u>\$ 16,608,776</u>	<u>\$ 16,227,524</u>

	Fiscal Year			
	2011	2012	2013	2014
General Fund:				
Nonspendable				
Inventory	\$ 13,183	\$ 9,332	\$ 10,201	\$ 14,358
Prepaid Items	29,234	28,245	32,493	18,348
Committed	-	1,345,200	1,345,200	1,345,200
Assigned	-	2,190,910	2,191,063	1,647,193
Unassigned	8,263,549	3,656,173	4,117,865	4,972,853
Total General Fund	<u>\$ 8,305,966</u>	<u>\$ 7,229,860</u>	<u>\$ 7,696,822</u>	<u>\$ 7,997,952</u>
All Other Governmental Funds:				
Nonspendable				
Cash with Escrow Agent	\$ -	\$ 2,623,895	\$ 2,301,609	\$ 1,973,067
Prepaid Items	6,217	5,474	4,706	997
Restricted	4,379,987	3,300,426	3,354,189	3,505,590
Committed	11,480,869	2,039,560	2,175,094	2,089,361
Assigned	-	9,312,168	9,005,276	7,147,586
Total All Other Governmental Funds	<u>\$ 15,867,073</u>	<u>\$ 17,281,523</u>	<u>\$ 16,840,874</u>	<u>\$ 14,716,601</u>

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

Note: During fiscal year 2011, the Town implemented GASB Statement No. 54. Therefore, starting in the fiscal year ended June 30, 2011, governmental fund balances will be presented based on the GASB Statement No. 54 hierarchy.

Fiscal Year	
2009	2010
\$ 3,234,860	\$ 3,235,811
127,916	333,796
3,302,373	3,418,799
<u>\$ 6,665,149</u>	<u>\$ 6,988,406</u>

\$ 95,620	\$ 159,484
4,198,782	4,498,523
10,246,395	10,020,336
1,218,971	1,182,834
<u>\$ 15,759,768</u>	<u>\$ 15,861,177</u>

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

	Fiscal Year				
	2005	2006	2007	2008	2009
REVENUES					
Taxes	\$ 11,151,893	\$ 12,993,876	\$ 13,159,087	\$ 12,457,086	\$ 10,960,001
Intergovernmental	6,686,500	7,412,226	8,444,731	9,353,260	9,607,961
Fines and Forfeitures	249,564	235,050	304,214	287,120	339,658
Licenses and Permits	2,230,046	1,918,107	1,239,318	1,125,957	541,627
Charges for Services	1,834,205	1,689,046	898,955	620,300	316,676
Leases and Rents	222,327	255,527	267,350	296,434	290,083
Special Assessments	1,512	21,147	4,228	4,337	4,037
Investment Income (Loss)	395,124	673,351	1,094,994	780,935	258,478
Other	179,657	233,565	85,418	183,963	43,683
Total Revenues	<u>22,950,828</u>	<u>25,431,895</u>	<u>25,498,295</u>	<u>25,109,392</u>	<u>22,362,204</u>
EXPENDITURES					
General Government	9,547,409	4,459,183	4,024,551	3,548,295	3,514,249
Public Safety	4,754,523	5,208,770	5,689,020	6,321,669	6,624,141
Highways and Streets	1,682,563	2,121,986	2,028,397	2,214,557	1,199,850
Culture and Recreation	3,004,216	3,607,750	2,131,374	2,257,007	2,215,065
Development Services	1,460,181	1,812,469	2,462,643	2,751,740	2,036,295
Capital Outlay	-	-	2,002,887	5,239,169	3,708,277
Debt Service					
Principal Retirement	1,308,228	1,968,228	1,968,228	2,153,228	2,240,000
Interest on Long-Term Debt	1,164,561	1,192,414	1,058,665	1,025,320	929,134
Other Debt Service	229,990	532,762	-	-	-
Total Expenditures	<u>23,151,671</u>	<u>20,903,562</u>	<u>21,365,765</u>	<u>25,510,985</u>	<u>22,467,011</u>
Excess of Revenues Over (Under) Expenditures	(200,843)	4,528,333	4,132,530	(401,593)	(104,807)
OTHER FINANCING SOURCES (USES)					
Transfers In	4,805,635	10,146,663	4,383,069	2,756,988	3,759,735
Transfers Out	(4,805,635)	(10,146,663)	(4,383,069)	(2,756,988)	(3,950,654)
Issuance of Refunding Debt	12,555,000	4,555,000	-	-	-
Issuance of Long-Term Debt	3,783,896	-	-	-	-
Payment to Refunded Debt Escrow Agent	(14,677,838)	(4,338,781)	-	-	-
Total Other Financing Sources (Uses)	<u>1,661,058</u>	<u>216,219</u>	<u>-</u>	<u>-</u>	<u>(190,919)</u>
Net Change in Fund Balance	<u>\$ 1,460,215</u>	<u>\$ 4,744,552</u>	<u>\$ 4,132,530</u>	<u>\$ (401,593)</u>	<u>\$ (295,726)</u>
Debt Service as a Percentage of Noncapital Expenditures	13.22%	21.46%	18.53%	18.60%	20.33%

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

Fiscal Year				
2010	2011	2012	2013	2014
\$ 9,818,985	\$ 9,704,054	\$ 9,577,321	\$ 9,713,445	\$ 10,271,737
7,672,037	7,165,103	6,035,448	6,323,047	6,677,518
297,030	236,221	223,673	187,251	170,995
399,094	312,367	194,976	570,904	891,782
464,036	388,635	405,663	162,086	161,376
215,520	227,195	206,018	213,871	252,584
-	-	-	-	-
22,831	28,456	88,877	69,998	123,311
129,740	72,125	178,393	300,899	134,114
<u>19,019,273</u>	<u>18,134,156</u>	<u>16,910,369</u>	<u>17,541,501</u>	<u>18,683,417</u>
3,186,368	2,575,975	2,887,321	2,699,109	2,194,845
6,200,227	5,772,800	5,869,445	6,022,269	6,890,770
973,746	1,123,230	1,054,930	2,058,990	3,085,559
2,007,737	1,871,446	1,794,332	1,791,018	1,921,939
1,669,449	1,564,615	1,421,787	1,643,757	1,774,983
1,254,223	1,043,304	884,323	453,002	1,750,465
2,460,000	2,115,000	1,965,000	2,280,000	2,415,000
842,857	744,330	639,135	554,860	460,811
-	-	55,752	12,183	12,188
<u>18,594,607</u>	<u>16,810,700</u>	<u>16,572,025</u>	<u>17,515,188</u>	<u>20,506,560</u>
424,666	1,323,456	338,344	26,313	(1,823,143)
1,127,776	431,880	2,470,027	1,279,397	1,838,453
(1,127,776)	(431,880)	(2,470,027)	(1,279,397)	(1,838,453)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 424,666</u>	<u>\$ 1,323,456</u>	<u>\$ 338,344</u>	<u>\$ 26,313</u>	<u>\$ (1,823,143)</u>
18.29%	17.41%	17.09%	16.63%	18.20%

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

Fiscal Year	Sales Taxes	Property Taxes	Franchise Taxes	Total
2005	\$ 8,879,798	\$ 2,056,064	\$ 216,031	\$ 11,151,893
2006	11,007,924	1,671,593	314,359	12,993,876
2007	11,407,714	1,427,055	324,318	13,159,087
2008	10,489,591	1,631,205	336,290	12,457,086
2009	8,932,374	1,705,663	321,964	10,960,001
2010	7,644,440	1,888,664	285,881	9,818,985
2011	8,013,480	1,367,915	322,659	9,704,054
2012	7,787,489	1,457,702	332,130	9,577,321
2013	7,957,163	1,421,614	334,668	9,713,445
2014	8,459,267	1,463,056	349,414	10,271,737

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

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

<u>Fiscal Year</u>	<u>Net Assessed Taxable Value</u>	<u>Total Direct Tax Rate*</u>	<u>Estimated Actual Taxable Value</u>	<u>Net Assessed Taxable Value as a Percentage of Estimated Actual Taxable Value</u>
2005	\$ 349,398,334	\$ 0.4150	\$ 3,162,854,959	11.05 %
2006	375,183,181	0.3510	3,411,460,877	11.00
2007	397,380,162	0.3012	3,615,453,567	10.99
2008	610,738,122	0.2124	5,840,184,927	10.46
2009	684,742,347	0.1972	6,648,954,354	10.30
2010	651,218,464	0.2273	6,255,310,705	10.41
2011	576,535,714	0.1639	5,461,763,819	10.56
2012	451,860,136	0.2258	4,370,950,282	10.34
2013	377,521,718	0.2657	3,668,373,751	10.29
2014	366,302,672	0.2773	3,579,924,332	10.23

Source: The source of this information is the Arizona Department of Revenue's Abstract of the Assessment Roll and the Town's financial records.

* Per \$100 of secondary assessed value.

**TOWN OF FOUNTAIN HILLS, ARIZONA
PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2014 AND 2005
(UNAUDITED)**

Taxpayer	2014			2005		
	Net Secondary Assessed Value	Rank	Percentage of Total Net Secondary Assessed Value	Net Secondary Assessed Value	Rank	Percentage of Total Net Secondary Assessed Value
Chaparral City Water Company	\$ 3,314,550	1	0.90 %	\$ 3,137,501	2	0.90 %
Inland Western Fountain Hills Four Peaks, LLC	2,868,432	2	0.78	-		N/A
Whitestone Fountain Hills, LLC	1,738,782	3	0.47	-		N/A
WSL Fountain View Investors V, LLC	1,681,860	4	0.46	-		N/A
Target Corporation	1,432,483	5	0.39	2,327,837	3	0.67
Firerock, LLC	1,289,141	6	0.35	1,045,133	11	0.30
Smith's Food & Drug Centers Inc.	1,261,980	7	0.34	1,049,895	10	0.30
Qwest Corporation	1,193,858	8	0.33	3,261,132	1	0.93
Arizona State Land Department EN, LLC	1,122,752	9	0.31	-		N/A
EN, LLC	1,092,294	10	0.30	2,096,229	4	0.60
Fountain Hills Village LLC	-		-	2,004,824	5	0.57
Kimco Barclay Fountain Hills LP	-		-	1,681,694	6	0.48
Four Peaks Limited Partnership	-		-	1,468,985	7	0.42
Sun Tech Development, LLC	-		-	1,169,471	8	0.33
MCO Properties, Inc.	-		-	1,144,428	9	0.33
	<u>\$ 16,996,132</u>		<u>4.63 %</u>	<u>\$ 20,387,129</u>		<u>5.83 %</u>

Source: The source of this information is the Maricopa County Assessor's Office.

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

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
2005	\$ 2,041,230	\$ 1,992,532	97.6 %	\$ 22,287	\$ 2,014,819	98.7 %
2006	1,673,519	1,618,877	96.7	34,011	1,652,888	98.8
2007	1,391,521	1,359,035	97.7	27,203	1,386,238	99.6
2008	1,630,534	1,578,583	96.8	47,833	1,626,416	99.7
2009	1,719,105	1,660,820	96.6	53,378	1,714,198	99.7
2010	1,895,552	1,838,909	97.0	52,188	1,891,097	99.8
2011	1,340,544	1,307,092	97.5	24,924	1,332,016	99.4
2012	1,446,076	1,414,482	97.8	20,359	1,434,841	99.2
2013	1,429,284	1,401,654	98.1	15,795	1,417,449	99.2
2014	1,449,884	1,426,612	98.4	-	1,426,612	98.4

Source: The source of this information is the Maricopa County Treasurer's Office.

**TOWN OF FOUNTAIN HILLS, ARIZONA
TAXABLE SALES BY CATEGORY
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year				
	2005	2006	2007	2008	2009
Sales Category:					
Construction	\$ 1,837,317	\$ 3,106,859	\$ 2,694,700	\$ 2,062,028	\$ 1,414,240
Transportation and Utilities	1,124,677	1,240,123	1,330,052	1,422,158	1,311,735
Wholesale/Retail	3,536,045	3,796,192	4,144,263	3,912,512	3,687,409
Restaurants and Bars	524,368	547,276	537,596	582,226	493,242
Real estate, Rental and Leasing	604,356	881,584	792,358	982,198	664,999
Services	185,868	263,239	280,290	327,411	258,138
Other	1,067,167	1,172,651	1,632,142	1,201,058	929,163
Total	<u>\$ 8,879,798</u>	<u>\$ 11,007,924</u>	<u>\$ 11,411,401</u>	<u>\$ 10,489,591</u>	<u>\$ 8,758,926</u>

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

Note: Other includes all state and local sales tax audit adjustments.

Fiscal Year				
2010	2011	2012	2013	2014
\$ 538,551	\$ 567,136	\$ 600,402	\$ 563,540	\$ 781,742
1,424,827	1,388,074	1,407,331	1,402,193	1,375,620
3,555,974	3,567,615	3,600,619	3,601,212	3,653,447
509,624	559,930	575,705	645,258	655,656
650,071	731,615	678,267	719,884	782,453
241,686	276,566	274,481	309,827	342,924
723,707	922,545	642,414	715,248	867,425
<u>\$ 7,644,440</u>	<u>\$ 8,013,481</u>	<u>\$ 7,779,219</u>	<u>\$ 7,957,162</u>	<u>\$ 8,459,267</u>

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

<u>Fiscal Year</u>	<u>Town Rate</u>	<u>Maricopa County</u>	<u>State Rate</u>	<u>Total Tax Rate</u>
2005	2.60 %	0.70 %	5.60 %	8.90 %
2006	2.60	0.70	5.60	8.90
2007	2.60	0.70	5.60	8.90
2008	2.60	0.70	5.60	8.90
2009	2.60	0.70	5.60	8.90
2010	2.60	0.70	6.60	9.90
2011	2.60	0.70	6.60	9.90
2012	2.60	0.70	6.60	9.90
2013	2.60	0.70	5.60	8.90
2014	2.60	0.70	5.60	8.90

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

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

Fiscal Year	Governmental Activities					Total Outstanding Debt	Debt Per Capita
	General Obligation Bonds	Community Facilities District Bonds	Municipal Property Corporation Bonds	Highway User Revenue Bonds	Special Assessment Bonds		
2005	\$ 10,675,000	\$ 4,455,000	\$ 12,975,000	\$ 540,000	\$ 12,910	\$ 28,657,910	\$ 1,271
2006	9,600,000	4,415,000	12,310,000	455,000	9,683	26,789,683	1,176
2007	8,620,000	4,255,000	11,595,000	345,000	6,455	24,821,455	1,082
2008	7,570,000	4,070,000	10,790,000	235,000	3,228	22,668,228	986
2009	6,530,000	3,860,000	9,905,000	130,000	-	20,425,000	898
2010	5,415,000	3,630,000	8,920,000	-	-	17,965,000	799
2011	4,595,000	3,370,000	7,885,000	-	-	15,850,000	703
2012	3,755,000	3,090,000	6,800,000	-	-	13,645,000	601
2013	2,900,000	2,800,000	5,650,000	-	-	11,350,000	496
2014	2,000,000	2,495,000	4,695,000	-	-	9,190,000	390

Source: The source of this information is the Town's financial records and the U.S. Bureau of Economic Analysis.

Note: All amounts presented are net of original issue discounts and premiums.

Population data can be found in the Schedule of Demographic and Economic Statistics.

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

Fiscal Year	General Obligation Bonds	Estimated Actual Taxable Value of Property	Percentage of Estimated Actual Taxable Value of Property	Net General Obligation Bonded Debt per Capita	Municipal Property Corporation Bonds	Net Municipal Property Corporation Debt per Capita	Total Revenues - All Sources
2005	\$ 10,675,000	\$ 3,162,854,959	0.34 %	\$ 468	\$ 12,975,000	\$ 569	\$ 22,950,831
2006	9,600,000	3,411,460,877	0.28	419	12,310,000	537	25,327,909
2007	8,620,000	3,615,453,567	0.24	375	11,595,000	504	25,498,519
2008	7,570,000	5,840,184,927	0.13	333	10,790,000	475	25,113,210
2009	6,530,000	6,648,954,354	0.10	290	9,905,000	440	21,393,767
2010	5,415,000	6,255,310,705	0.09	240	8,920,000	395	18,958,595
2011	4,595,000	5,461,763,819	0.08	202	7,885,000	347	18,307,726
2012	3,755,000	4,370,950,282	0.09	164	6,800,000	297	17,194,297
2013	2,900,000	3,668,373,751	0.08	127	5,650,000	247	17,751,673
2014	2,000,000	3,579,924,332	0.06	87	4,695,000	193	18,891,710

Source: The source of this information is the Maricopa County Assessor's Office and the Town's financial records.

Note: All amounts presented are net of original issue discounts and premiums.

Population data can be found in the Schedule of Demographic and Economic Statistics.

TOWN OF FOUNTAIN HILLS, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2014
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Overlapping:			
Maricopa County	\$ 108,975,000	1.15%	\$ 1,253,213
Maricopa County Community College District	713,145,000	1.15%	8,201,168
East Valley Institute of Technology	-	2.63%	-
Fountain Hills Unified School District	8,505,000	96.11%	8,174,156
Eagle Mountain Community Facilities District	2,495,000	100.00%	2,495,000
			<u>20,123,536</u>
Direct:			
Town of Fountain Hills, Arizona			<u>9,190,000</u>
Total Direct and Overlapping Debt			<u><u>\$ 29,313,536</u></u>

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

Note: The estimated percentage of debt outstanding applicable to the Town is calculated based on the Town's secondary assessed valuation (full cash value) as a percentage of the secondary assessed valuation of the overlapping jurisdiction.

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the Town of Fountain Hills. This schedule further estimates the portion of outstanding debt of those overlapping governments that is borne by residents and businesses of the Town. This process recognizes that, when considering a town's ability to issue and repay long-term debt, the entire debt burden borne by residents should be taken into account. However, this fact does not imply that every taxpayer is a resident, and therefore, responsible for repaying the debt of each overlapping government.

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

6% Debt Limit

	Fiscal Year			
	2005	2006	2007	2008
Debt Limit	\$ 10,485,644	\$ 22,510,991	\$ 23,842,810	\$ 36,644,287
Total Applicable to Limit	<u>1,325,000</u>	<u>800,000</u>	<u>550,000</u>	<u>275,000</u>
Legal Debt Margin	<u>\$ 9,160,644</u>	<u>\$ 21,710,991</u>	<u>\$ 23,292,810</u>	<u>\$ 36,369,287</u>
Total Debt Applicable to the Limit as a Percentage of the Debt Limit	13%	4%	2%	1%

20% Debt Limit

	Fiscal Year			
	2005	2006	2007	2008
Debt Limit	\$ 34,952,148	\$ 75,036,636	\$ 79,476,032	\$ 122,147,624
Total Applicable to Limit	<u>9,350,000</u>	<u>8,800,000</u>	<u>8,070,000</u>	<u>7,295,000</u>
Legal Debt Margin	<u>\$ 25,602,148</u>	<u>\$ 66,236,636</u>	<u>\$ 71,406,032</u>	<u>\$ 114,852,624</u>
Total Debt Applicable to the Limit as a Percentage of the Debt Limit	27%	12%	10%	6%

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

Fiscal Year

2009	2010	2011	2012	2013	2014
\$ 41,084,541	\$ 39,073,108	\$ 34,592,143	\$ 27,111,608	\$ 22,651,303	\$ 21,978,160
-	-	-	-	-	-
<u>\$ 41,084,541</u>	<u>\$ 39,073,108</u>	<u>\$ 34,592,143</u>	<u>\$ 27,111,608</u>	<u>\$ 22,651,303</u>	<u>\$ 21,978,160</u>
0%	0%	0%	0%	0%	0%

Fiscal Year

2009	2010	2011	2012	2013	2014
\$ 136,948,469	\$ 130,243,693	\$ 115,307,143	\$ 90,372,027	\$ 75,504,344	\$ 73,260,534
6,530,000	5,415,000	4,595,000	3,755,000	2,900,000	2,000,000
<u>\$ 130,418,469</u>	<u>\$ 124,828,693</u>	<u>\$ 110,712,143</u>	<u>\$ 86,617,027</u>	<u>\$ 72,604,344</u>	<u>\$ 71,260,534</u>
5%	4%	4%	4%	4%	3%

**TOWN OF FOUNTAIN HILLS, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
AS OF JUNE 30, 2014
(UNAUDITED)**

Net Secondary Assessed Valuation	\$ 366,302,672
<hr/> Water, Sewer, Artificial Lighting, Parks, Open Space, Public Safety, Law Enforcement, Fire and Emergency Facilities, Street and Transportation Facilities, and Recreational Facility Improvements <hr/>	
Debt Limit - 20% of Net Secondary Assessed Valuation	\$ 73,260,534
Net Debt Applicable to Limit	<u>2,000,000</u>
20% Legal Debt Margin	<u>71,260,534</u>
<hr/> All other general obligation bonds <hr/>	
Debt Limit - 6% of Net Secondary Assessed Valuation	21,978,160
Net Debt Applicable to Limit	<u>-</u>
6% Legal Debt Margin	<u>21,978,160</u>
Total legal debt margin	<u><u>\$ 93,238,694</u></u>

Source: The source of this information is the Maricopa County Assessor's Office and the Town's financial records.

**TOWN OF FOUNTAIN HILLS, ARIZONA
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	Municipal Facilities Corporation Revenue Bonds				
	Principal	Interest	Total	Pledged Revenues	Coverage
2005	\$ 620,000	\$ 456,892	\$ 1,076,892	\$ 16,171,235	15.0
2006	665,000	546,576	1,211,576	18,746,928	15.5
2007	715,000	473,349	1,188,349	19,379,717	16.3
2008	805,000	498,878	1,303,878	18,890,944	14.5
2009	885,000	460,379	1,345,379	16,440,872	12.2
2010	985,000	417,028	1,402,028	14,380,648	10.3
2011	1,035,000	327,312	1,362,312	14,001,045	10.3
2012	1,085,000	285,288	1,370,288	13,079,953	9.5
2013	1,150,000	234,175	1,384,175	13,772,209	9.9
2014	1,210,000	234,176	1,444,176	14,774,914	10.2

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

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

	Calendar Year			
	2004	2005	2006	2007
Population	22,048	22,547	22,788	22,932
Per capital personal income	\$ 31,133	\$ 32,414	\$ 32,320	\$ 32,230
Median age	N/A	N/A	46.4	46.4
School enrollment	2,453	2,373	2,425	2,307
Town of Fountain Hills unemployment rate	2.1%	2.0%	1.7%	1.5%
Land use				
Total acres	N/A	N/A	12,996.0	13,005.7
Total square miles	N/A	N/A	20.31	20.32
Vacant lots	N/A	N/A	N/A	3,355
Number of units				
Housing	N/A	N/A	12,681	12,850
Lodging	N/A	N/A	4	4
Restaurants	N/A	N/A	50	53
Shopping centers	N/A	N/A	14	14
Schools				
Public	N/A	N/A	4	4
Preschool	N/A	N/A	5	4
Charter	N/A	N/A	2	1

Source: The source of the "Personal Income" and "Per Capita" information is the U.S. Bureau of Economic Analysis. The source of the "Population" and "Unemployment Rate" information is State of Arizona, Department of Administration, Office of Employment and Population Statistics. The source of School Enrollment is the Fountain Hills Unified School District No. 98. Other information is from the Town's records.

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

* Information obtained is based on calendar years; therefore, the latest information obtained was from 2013.

Calendar Year					
2008	2009	2010	2011	2012	2013*
22,984	22,736	22,489	22,554	22,695	22,893
\$ 38,439	\$ 38,918	\$ 40,672	\$ 44,660	\$ 47,260	\$ 48,244
48.3	48.9	53.9	53.9	53.9	53.0
2,233	2,203	2,103	1,981	1,886	1,820
2.6%	4.5%	4.8%	6.7%	5.6%	6.0%
13,005.7	13,005.7	13,005.7	13,005.7	13,005.7	13,005.7
20.32	20.32	20.32	20.32	20.32	20.32
1,295	1,253	1,226	1,218	1,209	1,196
12,832	12,927	12,983	12,990	12,977	12,991
4	4	4	4	4	4
47	52	53	56	56	54
19	19	20	20	20	20
4	4	4	4	3	3
4	4	4	4	6	7
1	1	1	1	1	1

**TOWN OF FOUNTAIN HILLS, ARIZONA
PRINCIPAL EMPLOYERS
JUNE 30, 2013, AND 2002*
(UNAUDITED)**

Employer	2013			2002*	
	Employees	Rank	Percentage of Total Town Employment	Employees	Rank
Fountain Hills Unified School					
District No. 98	327	1	7.0%	250	1
Fountain View Village	150	2	3.2%	-	
Fry's	90	3	1.9%	-	
Safeway Stores	88	4	1.9%	95	4
Target Stores	84	5	1.8%	-	
Eagle Mountain Golf Club	70	6	1.5%	40	9
Firerock Country Club	68	7	1.5%	-	
Bashas	67	8	1.4%	70	6
United States Postal Service	64	9	1.4%	-	
Sunridge Canyon Golf Course	59	10	1.3%	70	7
Desert Canyon Golf Club	58	11	1.2%	50	8
Town of Fountain Hills	41		0.9%	115	3
MCO Properties, Inc.	12		0.3%	85	5
Monks Construction	-			150	2
Total	<u>1,178</u>		<u>25.3%</u>	<u>925</u>	
Total Town employment	<u>4,655</u>				

Source: The source of this information is the Maricopa Association of Governments.

* Data for 2014 and 2003 were not available.

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

Function	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Municipal Court	5.00	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.00
Administration	11.00	12.50	13.00	13.50	13.50	13.25	11.25	11.58	11.68	10.56
Development Services	39.50	41.00	41.00	40.50	40.00	35.75	23.25	20.25	18.75	16.25
Community Services	21.50	23.50	28.00	29.25	29.75	27.10	21.63	21.53	21.18	20.18
Total	77.00	82.50	87.00	88.25	88.25	81.10	61.13	58.36	56.61	50.99

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

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

Function/Program	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Municipal Court:						
Cases filed	N/A	N/A	N/A	N/A	N/A	3,520
Hearings/Trials held	N/A	N/A	N/A	N/A	N/A	1,089
Administration:						
FTEs per 1,000 residents	3.4	3.6	3.6	3.5	3.3	3.2
Registered voters - general election	none	13,669	none	14,335	none	15,511
Voter turnout - general election	none	21%	none	39%	none	50%
Development Services:						
Building permits issued	430	468	759	716	391	409
Building inspections conducted	8,446	9,377	7,975	5,692	3,189	1,936
Number of code violation cases	N/A	N/A	N/A	N/A	N/A	1,024
Number of zoning cases	N/A	N/A	N/A	N/A	N/A	7
Community Services:						
Number of Community Center bookings	N/A	N/A	N/A	N/A	N/A	3,396
Number of participants in recreational programs	N/A	N/A	N/A	N/A	N/A	1,960
Number of Senior Services members	N/A	N/A	N/A	N/A	N/A	1,105
Number of home delivered meals	N/A	N/A	N/A	N/A	N/A	10,169
Law Enforcement (contracted):						
Physical arrests	644	N/A	993	524	825	679
Traffic violations	2,432	N/A	2,315	2,504	4,900	2,959
Fire & Emergency Medical (contracted):						
Total incident responses	N/A	3,056	3,069	2,694	2,787	2,875
Average response time (in minutes)	N/A	3:47	3:49	3:37	3:44	4:32

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

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

Fiscal Year			
2011	2012	2013	2014
2,584	2,173	1,740	1,649
738	731	703	1,665
2.7	2.6	2.5	2.2
none	16,074	none	N/A
none	34%	none	N/A
354	352	419	566
1,546	1,257	1,395	2,131
843	804	746	716
14	7	10	41
3,315	3,236	3,196	3,383
1,759	1,833	1,789	2,291
1,205	1,208	1,118	1,189
9,742	8,419	6,941	4,799
645	522	545	743
1,909	1,366	1,296	1,379
3,179	3,082	3,136	2,956
3:46	3:50	3:53	3:37

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

Function/Program	Fiscal Year					
	2005	2006	2007	2008	2009	2010
Public Safety:						
Number of Fire stations	2	2	2	2	2	2
Highways and Streets						
Streets (Centerline Miles)	178.5	178.5	178.5	178.5	178.5	178.5
Streets (Lane Miles)	395	395	395	395	395	395
Pedestrian Lighting	N/A	34	34	34	34	34
Traffic Signals	11	12	12	13	13	13
Parks and Recreation:						
Acreage	116	116	116	116	116	116
Playgrounds	3	3	3	4	4	4
Baseball/Softball Diamonds	6	6	6	6	6	6
Soccer/Football Fields	1	1	1	4	4	4
Community Centers	1	1	1	1	1	1
Preserve Acreage	N/A	N/A	N/A	N/A	N/A	N/A
Miles of Trails	N/A	N/A	N/A	N/A	N/A	N/A

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

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

Fiscal Year			
2011	2012	2013	2014
2	2	2	2
178.5	178.5	178.5	178.5
395	395	395	395
34	34	34	34
13	13	13	13
116	116	116	116
4	4	4	4
6	6	6	6
4	4	4	4
1	1	1	1
N/A	740	740	740
N/A	4.3	10.43	10.43



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