



Town of Fountain Hills, Arizona

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2016



TOWN OF FOUNTAIN HILLS, ARIZONA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Issued by:
Administration Department
Finance Division

TOWN OF FOUNTAIN HILLS, ARIZONA

TABLE OF CONTENTS

| <u>INTRODUCTORY SECTION</u> | <u>Page</u> |
|--|--------------------|
| Letters of Transmittal | 1 |
| List of Principal Officials | 12 |
| GFOA Certificate of Achievement | 13 |
| Organizational Chart | 14 |
| | |
| <u>FINANCIAL SECTION</u> | |
| INDEPENDENT AUDITOR’S REPORT | 17 |
| MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) | 21 |
| | |
| BASIC FINANCIAL STATEMENTS | |
| Government-Wide Financial Statements: | |
| Statement of Net Position | 34 |
| Statement of Activities | 35 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 38 |
| Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position | 41 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 42 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities | 44 |
| Notes to Financial Statements | 45 |

TOWN OF FOUNTAIN HILLS, ARIZONA

TABLE OF CONTENTS

| <u>FINANCIAL SECTION</u> | <u>Page</u> |
|--|-------------|
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Schedule of Revenues Expenditures and Changes in Fund Balances – Budget and Actual: | |
| General Fund | 68 |
| Highway User Revenue Fund | 69 |
| Grants Fund | 70 |
| Note to Required Supplementary Information | 71 |
| COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES | |
| Special Revenue Funds: | |
| Combining Balance Sheet | 76 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances | 78 |
| Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual | 80 |
| Debt Service Funds: | |
| Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual | 86 |
| Capital Projects Fund: | |
| Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual | 90 |
| <u>STATISTICAL SECTION</u> | |
| Financial Trends: | |
| Net Position by Component | 94 |
| Changes in Net Position | 96 |

TOWN OF FOUNTAIN HILLS, ARIZONA

TABLE OF CONTENTS

| <u>STATISTICAL SECTION</u> | <u>Page</u> |
|--|-------------|
| Financial Trends: | |
| Fund Balances – Governmental Funds | 98 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 100 |
| Revenue Capacity: | |
| Governmental Activities – Tax Revenues by Source | 102 |
| Assessed Value and Estimated Actual Value of Taxable Property | 103 |
| Principal Property Taxpayers | 104 |
| Property Tax Levies and Collections | 105 |
| Taxable Sales by Category | 106 |
| Direct and Overlapping Sales Tax Rates | 108 |
| Debt Capacity: | |
| Ratios of Outstanding Debt by Type | 109 |
| Ratios of General Bonded Debt Outstanding | 110 |
| Direct and Overlapping Governmental Activities Debt | 111 |
| Legal Debt Margin Information | 112 |
| Calculation of Legal Debt Margin | 114 |
| Revenue Bond Coverage | 115 |
| Demographic and Economic Information: | |
| Demographic and Economic Statistics | 116 |
| Principal Employers | 118 |

TOWN OF FOUNTAIN HILLS, ARIZONA

TABLE OF CONTENTS

STATISTICAL SECTION

Page

Operating Information:

Authorized Full-Time Equivalent Government Employees by Function

119

Operating Indicators by Function

120

Capital Assets Statistics by Function

122

(This page intentionally left blank)

INTRODUCTORY SECTION

(This page intentionally left blank)



Town of FOUNTAIN HILLS

October 17, 2016

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 conformity 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 certified public accounting firm licensed in the State of Arizona. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the Town of Fountain Hills (Town) for the fiscal year ended June 30, 2016.

This report consists of management's representations concerning the finances of the Town. 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 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's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, the Town's 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's financial statements have been audited by Heinfeld, Meech & Co., P.C., a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ended June 30, 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Town's financial statements for the fiscal year ended June 30, 2016, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's 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's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

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, Fountain Hills is surrounded by the 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 approximately 500 feet above Phoenix.

Over the past twenty plus years, Fountain Hills has grown from 10,190 residents to a town of 22,489 in 2010. 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.

The Town offers a wide range of living accommodations, from small condominium complexes to large custom homes. Fountain Hills also offers recreational and cultural programs and services that contribute to a high quality of life for its residents. The community consists of primarily residential property and open space; of the total 20.32 square miles of land only 0.7% of the total is zoned commercial and/or industrial, 23.3% is preserved as open space and 51.1% 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. Legislative authority is vested in a seven member Town Council. The Mayor is a member of the Town Council who is directly elected by voters and chairs the Town Council meetings. The members of the Council are elected at large and serve four year overlapping terms. The Town Council is responsible for the adoption of local ordinances, budget adoption, appointment of residents to citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and overall management of the Town through department directors and approximately 52 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 report of the Town.

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.

Internal Controls. As earlier noted, the management of the Town of Fountain Hills, Arizona, is responsible for establishing and maintaining a system of internal control. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding;

- 1) Safeguarding of assets against loss from unauthorized use or deposition, and
- 2) Reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes:

- 1) The cost of a control should not exceed the benefits likely to be derived, and
- 2) The valuation of costs and benefits requires estimates and judgments by management.

The system of internal control is subject to periodic evaluation by management and is also considered by the independent auditors in connection with the annual audit of the Town's financial statements. All internal control evaluations occur within the above framework. The Town's internal accounting controls are considered to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Controls. The budget process is a cyclical process and begins each year with the preparation of the base budget by each department head. Each budget is based on expenditures to date and the previous years' experience. The departments' base budgets, along with any requests for new positions, programs or services are reviewed by the Town Manager. The Town Manager then meets with department heads to review their base budgets and requests for new services and/or programs. Once management has reviewed the departments' requests, a tentative budget is presented to the Town Council by the Town Manager.

The Town Council formally adopts the budget and appropriates funding from the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented. On or before the second Town Council 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 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 IX, Section 20.

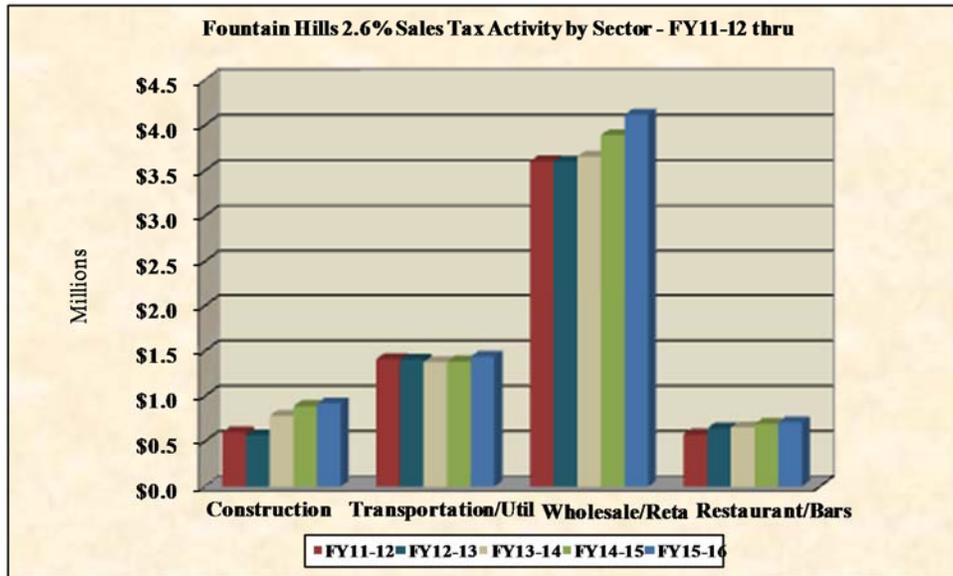
The Town is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carry-over of unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. All appropriations lapse at year-end requiring actual fund balances to be re-budgeted each fiscal year.

To ensure compliance with the state imposed expenditure limitation, a uniform expenditure report must be filed with the state each year. This report reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the state's uniform expenditure reporting system (ARS Section 41-1279.07). Public hearings on the budget are held each year in accordance with legal requirements in order to obtain comments from local taxpayers.

The appropriated budget is prepared by fund, function/program (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within the department. Transfers of appropriations between departments, however, require Town Council approval. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. Budget-to-actual comparisons for the General Fund and Major Special Revenue Funds are presented in the Required Supplementary Information Other Than MD&A and all other funds are presented in Other Information – Fund Schedules.

Local Economy. The Town of Fountain Hills, Arizona, continues to face many issues during these slow growth economic times. Its citizens, governing body, and municipal government are committed to finding solutions for each of the issues. In order to address these issues, the Town has proposed a baseline budget requiring any new positions to be deemed mission critical. All vacancies will be evaluated to assess the need for replacement, elimination or modification to the job description. The Town will be closely monitoring its revenue sources and make adjustments accordingly.

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. Construction activity has increased 3% over the prior year which we interpret as a leading indicator of a recovering economy. The Town of Fountain Hills' local tax revenue base consists of two major tax categories, the most significant being wholesale/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 five years' significant local sales tax activity by sector:



As can be seen in the chart, sales tax collections continue to show signs of moderate growth. Retail sales experienced a 5.8% increase over the prior year; restaurant/bar revenues have exceeded any prior year and an increase of 2.1% from FY14-15. Construction sales tax, a one-time revenue source, is driven entirely by development activity in the community and increased 3.4% over the prior year; recent building permit activity indicates that construction sales tax is likely to increase over the next years. Transportation/communication/utilities tax revenues also posted an increase of 4.0%.

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 84% of total General Fund revenue for fiscal year 2015-16.

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; revenue from the State income tax increased by 3.7% in FY15-16. After decreases in State sales tax from FY08-09 through FY11-12, this revenue declined by 0.5% in FY15-16 compared to the prior year.

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 75% 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 2015-16 (7/1/2015 – 6/30/2016):

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

- Desert Vista storage
- Park Place
- Copper Ridge
- Golf School extension at Sunridge Canyon Golf Course

Four Special Use Permits were granted.

One Temporary Use Permits were issued during the period.

Ten Temporary Visitor Permits were issued.

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

There were eight new Commercial Building Permits issued.

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

A summary of the activity, by month, is shown below:

| Fiscal year | SFR | DUP/MULTI | | | T.I. & Comm | Pools, Fences & Other | Add Ons (Not Garages) | Garages & Carports | MONTH TOTAL |
|--------------|-----|-----------|-------------|----------------|-------------|-----------------------|-----------------------|--------------------|-------------|
| | | Bldgs. | Total Units | Permits Issued | | | | | |
| JULY | 3 | 0 | 0 | 3 | 1 | 21 | 4 | 0 | 29 |
| AUGUST | 2 | 0 | 0 | 2 | 3 | 20 | 3 | 2 | 30 |
| SEPTEMBER | 4 | 1 | 2 | 5 | 2 | 23 | 4 | 0 | 34 |
| OCTOBER | 2 | 1 | 2 | 3 | 5 | 17 | 3 | 0 | 28 |
| NOVEMBER | 3 | 0 | 0 | 3 | 1 | 15 | 5 | 0 | 24 |
| DECEMBER | 1 | 1 | 2 | 2 | 3 | 19 | 5 | 2 | 31 |
| JANUARY | 5 | 0 | 0 | 5 | 0 | 24 | 0 | 0 | 29 |
| FEBRUARY | 2 | 0 | 0 | 2 | 1 | 18 | 2 | 0 | 23 |
| MARCH | 5 | 0 | 0 | 5 | 2 | 33 | 2 | 1 | 43 |
| APRIL | 4 | 0 | 0 | 4 | 3 | 29 | 5 | 0 | 41 |
| MAY | 3 | 0 | 0 | 3 | 1 | 31 | 3 | 2 | 40 |
| JUNE | 5 | 0 | 0 | 5 | 2 | 42 | 3 | 1 | 53 |
| YEARLY TOTAL | 39 | 3 | 6 | 42 | 24 | 292 | 39 | 8 | 405 |

Economic Outlook.

Retail Sales – Not having a property tax, the Town of Fountain Hills relies heavily on Town transaction privilege tax (TPT), sometimes called a sales tax. Overall, Town TPT revenues provide over 50% of the General Fund revenues. The Town's TPT rate is currently at 2.6%. The construction TPT is equally divided between the General Fund and the Capital Projects Fund.

State Shared Revenues – The Town of Fountain Hills receives significant revenue allocations from the State. These "State Shared Revenues" include allocations of the state-collected income tax, sales tax, fuel tax and motor vehicle-in-lieu taxes. All but the fuel tax is placed in the Town's General Fund, where it is used to sustain a large portion of the Town's day-to-day activities. These revenue sources have improved recently with the economy showing signs of recovery.

Highway User Revenue Fund (HURF) – The state shared fuel tax, as it is often called, is placed in this fund to be used specifically for street maintenance and related activity. In recent years, the state legislature has reduced the formula distribution of state-shared revenues to cities. The state shared revenue formulas generally allocate revenues based on official census data. (Last census: Year 2010).

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.

The Town's Financial Policies have helped weather the slow economic recovery. This policy continues to require the Town to internally restrict an amount equal to 20% of the average actual General Fund revenues for the preceding five fiscal years as part of its General Fund balance. This amount is estimated to be about 60 days of expenditures coverage and is considered a "Rainy Day" fund.

Additionally, a reserve of 10% of the average actual General Fund revenues for the preceding five fiscal years is set aside for "pay-as-you-go" capital replacement expenditures, vehicle or equipment replacement, capital projects, prepaying or defeasing existing Town debt, or any other expenditure that is non-recurring in nature.

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.

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* was 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 Strategic Planning Advisory Commission is currently in the process of preparing an update to the Plan.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

The Town of Fountain Hills' adopted FY15-16 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 115 to 54 FTE's (full time equivalents) over the past years.

The Town Council established priorities for FY15-16 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.

During FY14-15, the Town embarked on two major street reconstruction projects. First was the Shea Boulevard widening project, a Maricopa Association of Governments (MAG) Proposition 400 project which provided 70% of the project funding with a 30% match from the Town. Shea Boulevard is a road of regional significance and has an average traffic volume of 25,000 vehicles per day at Saguaro Boulevard. And the second project was the Saguaro Boulevard Reconstruction. Saguaro Boulevard was one of the first streets constructed in Fountain Hills and is a major truck route. This reconstruction is the first major work performed on the street. Bonds totaling \$7,565,000 were issued by the Town to fund this project. Both of these projects are now completed.

For the Year. The following depicts the continued commitment of the Town of Fountain Hills to make the community a better place to live. Fiscal year 2015-16 goals attained are summarized within this list of accomplishments:

- Initiation of Ashbrook Wash channelization improvements – Bayfield to Del Cambre
- Approval of Fire Station 2 relocation
- Completion of Fountain Park Phase 6 improvements
- Completion of Shea Boulevard widening
- Completion of Saguaro Boulevard reconstruction
- Upgrades to traffic signal at Palisades & Saguaro Boulevards
- Added several new monthly and special educational programs, workshops and support groups at the Community Center
- New public art installed: Thomas Jefferson, George Washington, Gone But Not Forgotten, and So Good to See You.
- East Loop Sonoran Trail in the Preserve was approved by Council and construction has begun.
- Rotary Harmony Musical Playground was approved by Council for construction at Fountain Park.
- Installation of pathway lighting in Fountain Park
- Installation of new tot playground and canopy in conjunction with the Kiwanis Club
- APRA (Arizona Parks & Recreation Association) Outstanding Program recognition for Slide the City
- Awarded Playful City USA for 6th time
- Successfully executed Presidential campaign rally (Donald Trump)
- Bronze award for Best Company Image/Logo from IFEA (International Festival and Events Association)
- Gold Award for Best Advertising Series from IFEA (International Festival and Events Association)
- Secured grant funding from the Arizona Office of Tourism - Proposition 302
- Secured grant funding from Salt River Pima Indian Community - Proposition 202

AWARDS AND ACKNOWLEDGEMENTS

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, 2015. This was the twentieth consecutive year that the Town has received this prestigious award. In order to be awarded a Certificate of Achievement, the Town published an easily readable and efficiently organized CAFR. This report satisfied both accounting principles generally accepted in the United States of America (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 the fiscal year ended 2016 Certificate.

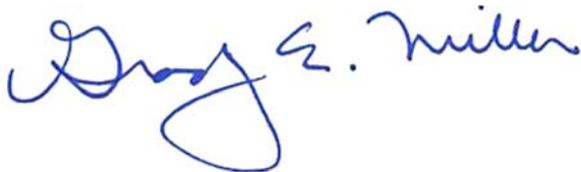
For the fourth year, The Town was also given the Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 2015.

In addition, the government received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year beginning July 1, 2014. 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 fourteenth 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.

Acknowledgments. The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the efficient and dedicated services of the entire team of the Finance Division. I also wish to extend my appreciation to the Mayor and members of Town Council for their leadership and support in planning and conducting the financial affairs of the Town in a responsible and progressive manner. Each employee of the Town has my sincere appreciation for the contributions made in the preparation of this report.

Respectfully submitted,

A handwritten signature in blue ink that reads "Grady E. Miller". The signature is written in a cursive style with a large, looping initial "G".

Grady E. Miller
Town Manager

**TOWN OF FOUNTAIN HILLS, ARIZONA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2016**

ELECTED OFFICIALS

Linda M. Kavanagh, Mayor

Cecil A. Yates, Vice-Mayor

Nick DePorter, Councilmember

Cassie Hansen, Councilmember

Henry Leger, Councilmember

Alan Magazine, Councilmember

Dennis Brown, Councilmember

DEPARTMENT DIRECTORS

Grady Miller, Town Manager

Craig Rudolphy, Finance Director

Robert Melton, Presiding Judge

Mark Mayer, Community Services Director

Paul Mood, Development Services Director

Captain Dave Ott, Rural Metro Corporation, Fire Chief

Captain David Letourneau, Maricopa County Sheriff's Office, District Commander

Mark Iacovino, The Law Office of Mark Iacovino, Town Prosecutor

Andrew McGuire, Gust Rosenfeld, P.L.C., Town Attorney



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

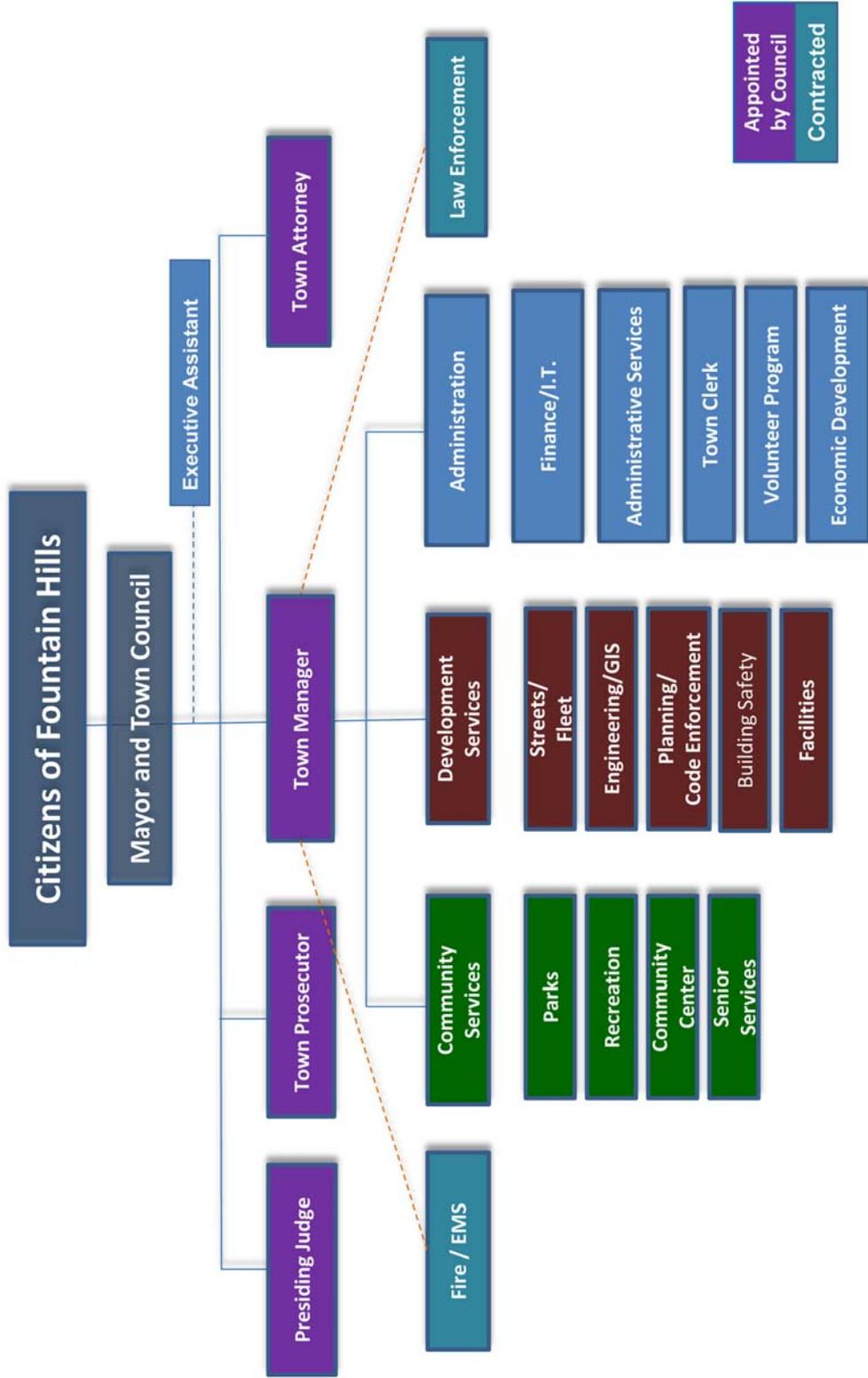
**Town of Fountain Hills
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

Town of Fountain Hills Organization



FINANCIAL SECTION

(This page intentionally left blank)

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Town Council
Town of 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 Town of Fountain Hills, Arizona (Town), as of and for the year ended June 30, 2016, 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 entity'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 entity'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.

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, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1, the Town implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, for the year ended June 30, 2016, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information, as listed in the table of contents, 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 Introductory Section, Combining and Individual Fund Financial Statements and Schedules, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining and Individual Fund Financial Statements and Schedules 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Section 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016, on our consideration of Town of Fountain Hills, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Fountain Hills, Arizona's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 17, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

(This page intentionally left blank)

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

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, 2016. 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. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements.

FINANCIAL HIGHLIGHTS

- The Town's total net position of governmental activities increased \$593.5 thousand to \$117.4 million, representing a .5 percent increase of the total net position.
- General revenues from governmental activities accounted for \$18.4 million in revenue, or 82.1 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4.0 million or 17.9 percent of total governmental activities revenues.
- The Town had \$21.8 million in expenses related to governmental activities, an increase of 9.8 percent from the prior fiscal year primarily due to the pavement management program, increased public safety costs and increased expenses for street and park improvements.
- Among major governmental funds, the General Fund had \$14.7 million in current fiscal year revenues, which primarily consisted of taxes, charges for services and intergovernmental revenues. The total expenditures of the General Fund were \$12.9 million. The General Fund's fund balance increased \$1.5 million to \$10.2 million at the end of the current fiscal year.

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.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

OVERVIEW OF FINANCIAL STATEMENTS - continued

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, liabilities, and deferred inflows/outflows of resources with the difference 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 distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Town include general government, development services, public safety, streets and highways, and culture and recreation.

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 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 (MD&A)
YEAR ENDED JUNE 30, 2016**

OVERVIEW OF FINANCIAL STATEMENTS - continued

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, Highway Users Revenue (HURF), Grants, Capital Projects and all Debt Service Funds, all of which are considered to be major funds. Data from 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 the 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 financial statements can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's budget process. The Town adopts an annual budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances - budget and actual has been provided for the General Fund and major Special Revenue Funds as required supplementary information.

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.

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, governmental activities assets exceeded liabilities by \$117.4 million at the current fiscal year end.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

GOVERNMENT-WIDE FINANCIAL ANALYSIS - continued

The largest portion of the Town's governmental activities net position reflects its investment in capital assets (e.g., land, infrastructure, buildings and improvements, vehicles, machinery and equipment and construction in progress), less any related outstanding debt used to acquire those assets. 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 outstanding 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 represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted and may be used to meet the Town's ongoing obligations to its citizens and creditors.

The following tables present a summary of the Town's net position for the fiscal years ended June 30, 2016 and June 30, 2015.

| | Governmental Activities | |
|----------------------------------|-------------------------|------------------------|
| | As of June 30, 2016 | As of June 30, 2015 |
| Current and other assets | \$ 23,190,907 | \$ 30,103,343 |
| Capital assets, net | 106,661,659 | 105,252,111 |
| Total assets | 129,852,566 | 135,355,454 |
| Current and other liabilities | 4,025,377 | 2,897,349 |
| Long-term liabilities | 8,416,454 | 15,640,889 |
| Total liabilities | 12,441,831 | 18,538,238 |
| Net position | | |
| Net investment in capital assets | 95,647,990 | 95,325,824 |
| Restricted | 4,530,239 | 6,310,810 |
| Unrestricted | 17,232,506 | 15,180,582 |
| Total net position | \$117,410,735 | \$116,817,216 |

At the end of the current fiscal year the Town reported positive balances in all three categories of net position for governmental activities. The Town reported positive balances in all net position categories in the prior fiscal year.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

GOVERNMENT-WIDE FINANCIAL ANALYSIS - continued

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. The following are significant current year transactions that had an impact on the Statement of Net Position.

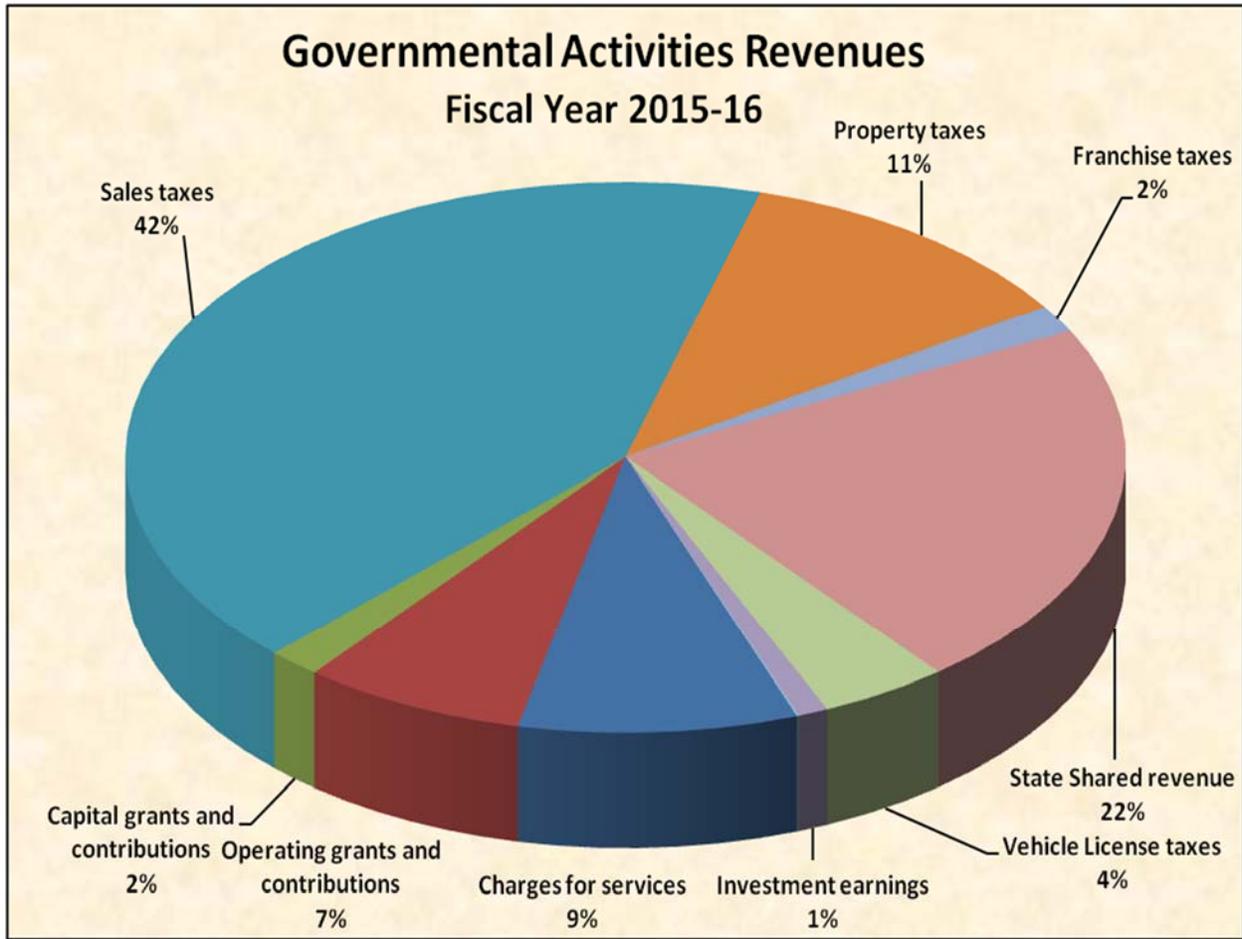
- The addition of \$1.4 million of governmental capital assets primarily through construction projects, infrastructure improvements and purchases of vehicles, machinery, and equipment.

Changes in net position. The Town's total revenues for the current fiscal year were \$22.4 million. The total cost of all programs and services was \$21.8 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2016, and June 30, 2015.

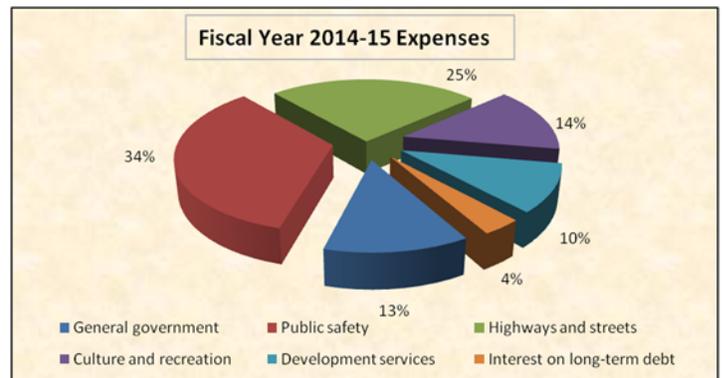
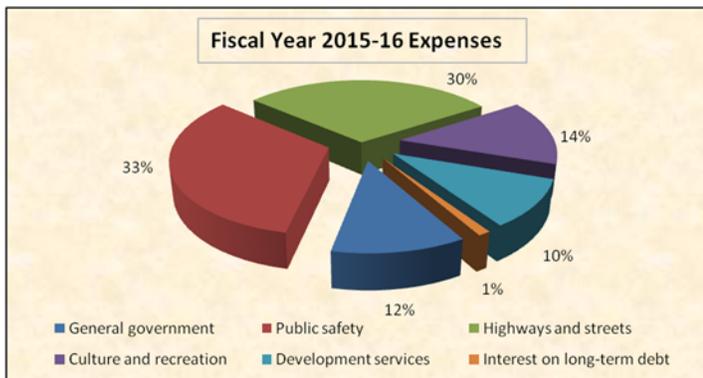
| | <u>Governmental Activities</u> | |
|------------------------------------|--------------------------------|-----------------------|
| | <u>Fiscal</u> | <u>Fiscal</u> |
| | <u>Year Ended</u> | <u>Year Ended</u> |
| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
| Revenues | | |
| Program revenues: | | |
| Charges for services | \$ 2,016,451 | \$ 1,693,830 |
| Operating grants and contributions | 1,615,973 | 1,431,017 |
| Capital grants and contributions | 381,011 | 2,874,796 |
| General revenues | | |
| Property taxes | 2,569,504 | 904,660 |
| Sales taxes | 9,395,667 | 8,983,049 |
| Franchise taxes | 360,320 | 352,673 |
| State Shared revenue | 4,886,238 | 4,854,361 |
| Vehicle License taxes | 927,440 | 858,874 |
| Investment earnings | 219,058 | 150,358 |
| Miscellaneous | 13,826 | 188,251 |
| Total revenues | <u>22,385,488</u> | <u>22,291,869</u> |
| Expenses | | |
| General government | 2,516,966 | 2,479,365 |
| Development services | 2,253,208 | 2,074,611 |
| Public safety | 7,178,890 | 6,816,152 |
| Streets and highways | 6,476,688 | 4,963,979 |
| Culture and recreation | 3,124,523 | 2,822,954 |
| Interest on long-term debt | 241,694 | 698,542 |
| Total expenses | <u>21,791,969</u> | <u>19,855,603</u> |
| Changes in net position | 593,519 | 2,436,266 |
| Net position, beginning | 116,817,216 | 114,380,950 |
| Net position, ending | <u>\$ 117,410,735</u> | <u>\$ 116,817,216</u> |

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

GOVERNMENT-WIDE FINANCIAL ANALYSIS - continued



The charts below compare the governmental expenses from fiscal years 2015-16 and 2014-15.



**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

GOVERNMENT-WIDE FINANCIAL ANALYSIS - continued

The following items are significant current year transactions that have had an impact on the change of net position.

- Fees, Fines and Charges for Services revenue increased 19.0% compared to the prior year due in large part to the collection of the new environmental fee.
- Interest on long-term debt decreased 65.4% due to the refunding of old debt and reissuance of new bonds.
- Public safety costs include contracts for police and fire; those contracts are multi-year with automatic increases.
- Investment income increased in the current year 45.7% over the prior year. This increase was due to the realized gains on the Town's investment portfolio.
- Overall expenses increased 9.8% due primarily to the pavement management program, which increased expenses in Highway and streets by 30.5%.

The following table presents the cost of the Town's major functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and Town's taxpayers by each of these functions.

| | <u>Year Ended June 30, 2016</u> | | <u>Year Ended June 30, 2015</u> | |
|--------------------------------|---------------------------------|------------------------------|---------------------------------|------------------------------|
| | Total Expenses | Net (Expense)/ Revenue | Total Expenses | Net (Expense)/ Revenue |
| Governmental Activities | | | | |
| General government | \$ 2,516,966 | \$ (2,068,504) | \$ 2,479,365 | \$ 1,818,274 |
| Development services | 2,253,208 | (995,716) | 2,074,611 | (2,074,611) |
| Public safety | 7,178,890 | (7,087,802) | 6,816,152 | (6,758,976) |
| Streets and highways | 6,476,688 | (4,816,682) | 4,963,979 | (3,568,151) |
| Culture and recreation | 3,124,523 | (2,568,136) | 2,822,954 | (2,573,954) |
| Interest on long-term debt | 241,694 | (241,694) | 698,542 | (698,542) |
| Total expenses | <u>\$21,791,969</u> | <u>\$(17,778,534)</u> | <u>\$ 19,855,603</u> | <u>\$(13,855,960)</u> |

- The cost of all governmental activities this year was \$21.8 million.
- Federal, State, and county governments and charges for services subsidized certain governmental programs with charges for services of \$2.0 million.
- Net cost of governmental activities of \$17.8 million was financed by general revenues, which are made up of primarily sales taxes of \$9.4 million and State Shared revenues of \$4.9 million.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

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 spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year.

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 \$22.0 million, a decrease of \$5.1 million due primarily to the increases in capital outlay expenditures related to reconstruction of Saguaro Boulevard and Shea Boulevard widening projects and Ashbrook Wash improvements.

The General Fund comprises 46.4 percent of the total fund balance. Approximately \$5.9 million or 57.3 percent of the General Fund's fund balance is unassigned.

The General Fund is the principal operating fund of the Town. The fund balance increased by \$1.5 million to \$10.2 million as of fiscal year end. General Fund revenues increased \$617,710 primarily due to increased sales taxes and permit revenues. General Fund expenditures increased \$329,454. This increase was a result of increased public safety costs.

The Highway User Revenue Fund comprises 7.5 percent of total fund balance. The fund balance decreased \$112,048 from the prior year due to the increase in landscaping costs.

The Capital Projects Fund comprises 24.8 percent of the total fund balance. All of the fund balance is assigned to capital projects. The fund balance decreased \$5.5 million due to ongoing capital projects during the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Town revised the General Fund annual expenditure budget primarily due to changes in the contingency amount. The difference between the original budget and the final amended budget was a \$3,595 decrease, or .03 percent.

A schedule showing the budget amounts compared to the Town's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variances are summarized as follows:

- The favorable variance of \$721,209 in overall revenues is primarily due to higher than expected tax revenue, mostly attributable to the improving economy.
- The favorable total expenditures variance of \$788,946 includes all departments.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of the end of the current fiscal year, the Town had invested \$106.7 million in governmental capital assets, including buildings, facilities, vehicles, computers, equipment, infrastructure assets and artwork. These amounts represent net increases prior to depreciation of \$6.5 million from the prior fiscal year for governmental activities. The increases were primarily due to park and street improvements. Total depreciation expense for the current fiscal year was \$5.1 million for governmental activities.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2016 and June 30, 2015.

| | Governmental Activities | |
|-----------------------------------|-------------------------|----------------------|
| | As of | As of |
| | June 30, 2016 | June 30, 2015 |
| Capital assets – non-depreciable | \$ 27,522,240 | \$ 29,930,540 |
| Capital assets – depreciable, net | 79,139,419 | 75,321,571 |
| Total | \$106,661,659 | \$105,252,111 |

The estimated construction commitments amount is \$873,945.

Additional information on the Town's capital assets can be found in Note 5.

Debt Administration. At year-end, the Town had \$10.7 million in governmental long-term debt outstanding with \$2.7 million due within one year. Long-term debt decreased by \$4.3 million for governmental activities.

State statutes currently limit the amount of general obligation debt a Town may issue a percentage of its total assessed valuation for water, sewer, lights, open space preserves parks, playgrounds and recreational facilities. The current 20 percent debt limitation for the Town is \$80.4 million. State statutes also currently limit the amount of general obligation debt a Town may issue to a percentage of its total assessed valuation for all other purposes. The current six percent debt limitation for the Town is \$24.1 million.

Additional information on the Town's long-term debt can be found in Notes 7 and 8 in the notes to the financial statements.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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.

(This page intentionally left blank)

BASIC FINANCIAL STATEMENTS

(This page intentionally left blank)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2016

| | Governmental Activities |
|---|----------------------------|
| <u>ASSETS</u> | |
| Current assets: | |
| Cash and investments | \$ 22,089,531 |
| Accounts receivable | 118,415 |
| Intergovernmental receivable | 785,556 |
| Taxes receivable | 75,984 |
| Interest receivable | 33,975 |
| Inventory, at cost | 9,272 |
| Prepaid items | 9,178 |
| Cash and investments - restricted | 68,996 |
| Total current assets | 23,190,907 |
| Noncurrent assets: | |
| Capital assets not being depreciated | 27,522,240 |
| Capital assets, net of accumulated depreciation | 79,139,419 |
| Total noncurrent assets | 106,661,659 |
| Total assets | 129,852,566 |
| <u>LIABILITIES</u> | |
| Current liabilities: | |
| Accounts payable | 784,899 |
| Accrued wages and benefits | 63,163 |
| Other liabilities | 13,829 |
| Customer deposits | 10,999 |
| Compensated absences payable | 244,653 |
| Revenue bonds payable | 370,000 |
| General obligation bonds payable | 2,305,000 |
| Unearned revenues | 232,834 |
| Total current liabilities | 4,025,377 |
| Noncurrent liabilities: | |
| Non-current portion of long-term liabilities | 8,416,454 |
| Total noncurrent liabilities | 8,416,454 |
| Total liabilities | 12,441,831 |
| <u>NET POSITION</u> | |
| Net investment in capital assets | 95,647,990 |
| Restricted for: | |
| Streets and highways | 1,380,800 |
| Capital outlay | 2,261,275 |
| Debt service | 888,164 |
| Unrestricted | 17,232,506 |
| Total net position | \$ 117,410,735 |

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|--------------------------------------|----------------------|-------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | | |
| General government | \$ 2,516,966 | \$ 298,737 | \$ 77,101 | \$ 72,624 | \$ (2,068,504) |
| Development services | 2,253,208 | 1,257,492 | | | (995,716) |
| Public safety | 7,178,890 | 90,345 | 743 | | (7,087,802) |
| Streets and highways | 6,476,688 | 48,688 | 1,451,431 | 159,887 | (4,816,682) |
| Culture and recreation | 3,124,523 | 321,189 | 86,698 | 148,500 | (2,568,136) |
| Interest on long-term debt | 241,694 | | | | (241,694) |
| Total governmental activities | <u>\$ 21,791,969</u> | <u>\$ 2,016,451</u> | <u>\$ 1,615,973</u> | <u>\$ 381,011</u> | <u>(17,778,534)</u> |

General revenues:

Taxes:

| | |
|---|-------------------|
| Property taxes | 2,569,504 |
| Sales taxes | 9,395,667 |
| Franchise taxes | 360,320 |
| State sales & income tax revenue sharing - unrestricted | 4,886,238 |
| Vehicle license tax revenue sharing - unrestricted | 927,440 |
| Investment earnings | 219,058 |
| Miscellaneous | 13,826 |
| Total general revenues | <u>18,372,053</u> |

Changes in net position

593,519

Net position, beginning of year

116,817,216

Net position, end of year

\$ 117,410,735

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

(This page intentionally left blank)

FUND FINANCIAL STATEMENTS

**TOWN OF FOUNTAIN HILLS, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016**

| | General | Highway User Revenue | Grants |
|--|--------------------------|-------------------------|-----------------------|
| <u>ASSETS</u> | | | |
| Cash and investments | \$ 9,779,326 | \$ 1,510,388 | \$ 142,302 |
| Accounts receivable | 104,888 | 12,627 | |
| Intergovernmental receivable | 492,818 | 176,778 | 72,624 |
| Taxes receivable | 17,728 | | |
| Interest receivable | 14,379 | | |
| Inventory, at cost | 9,272 | | |
| Prepaid items | 4,123 | | |
| Cash and investments - restricted | 68,996 | | |
| Total assets | \$ 10,491,530 | \$ 1,699,793 | \$ 214,926 |
| <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ 158,983 | \$ 42,652 | \$ |
| Accrued wages and benefits | 52,877 | 6,838 | |
| Other liabilities | 10,320 | | |
| Customer deposits | 10,999 | | |
| Unearned revenues | 17,908 | | 214,926 |
| Total liabilities | 251,087 | 49,490 | 214,926 |
| Deferred inflows of resources: | | | |
| Unavailable revenues - property taxes | | | |
| Unavailable revenues - other | 19,799 | 3,989 | |
| Total deferred inflows of resources | 19,799 | 3,989 | |
| Fund balances: | | | |
| Nonspendable | 13,395 | | |
| Restricted | | 1,376,811 | |
| Committed | 2,652,357 | | |
| Assigned | 1,701,086 | 269,503 | |
| Unassigned | 5,853,806 | | |
| Total fund balances | 10,220,644 | 1,646,314 | |
| Total liabilities, deferred inflows of resources and fund balances | \$ 10,491,530 | \$ 1,699,793 | \$ 214,926 |

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

| <u>General Obligation Debt Service</u> | <u>Eagle Mountain Debt Service</u> | <u>Municipal Property Corporation Debt Service</u> | <u>Capital Projects</u> | <u>Non-Major Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|--|--|-------------------------|---|---|
| \$ 445,613 | \$ 72,412 | \$ 284,573 | \$ 5,986,276 | \$ 3,868,641 | \$ 22,089,531 |
| | | | | 900 | 118,415 |
| | | 27,320 | 1,815 | 14,201 | 785,556 |
| 51,079 | 7,177 | | | | 75,984 |
| | | | 13,238 | 6,358 | 33,975 |
| | | | | 5,055 | 9,272 |
| | | | | | 9,178 |
| | | | | | 68,996 |
| <u>\$ 496,692</u> | <u>\$ 79,589</u> | <u>\$ 311,893</u> | <u>\$ 6,001,329</u> | <u>\$ 3,895,155</u> | <u>\$ 23,190,907</u> |
| | | | | | |
| \$ | \$ | \$ 10 | \$ 533,697 | \$ 49,557 | \$ 784,899 |
| | | | | 3,448 | 63,163 |
| | | | 3,349 | 160 | 13,829 |
| | | | | | 10,999 |
| | | | | | 232,834 |
| | | <u>10</u> | <u>537,046</u> | <u>53,165</u> | <u>1,105,724</u> |
| | | | | | |
| 23,355 | 2,851 | | | | 26,206 |
| <u>23,355</u> | <u>2,851</u> | | | | <u>23,788</u> |
| | | | | | 49,994 |
| | | | | | |
| 473,337 | 76,738 | 311,883 | | 5,055 | 18,450 |
| | | | | 2,261,273 | 4,500,042 |
| | | | | 1,366,083 | 4,018,440 |
| | | | 5,464,283 | 209,579 | 7,644,451 |
| | | | | | 5,853,806 |
| <u>473,337</u> | <u>76,738</u> | <u>311,883</u> | <u>5,464,283</u> | <u>3,841,990</u> | <u>22,035,189</u> |
| | | | | | |
| <u>\$ 496,692</u> | <u>\$ 79,589</u> | <u>\$ 311,893</u> | <u>\$ 6,001,329</u> | <u>\$ 3,895,155</u> | <u>\$ 23,190,907</u> |

(This page intentionally left blank)

**TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Total governmental fund balances **\$ 22,035,189**

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 funds.

| | | |
|-------------------------------|----------------------|-------------|
| Governmental capital assets | \$ 210,423,922 | |
| Less accumulated depreciation | <u>(103,762,263)</u> | 106,661,659 |

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

| | | |
|----------------|---------------|--------|
| Property taxes | 26,206 | |
| Other | <u>23,788</u> | 49,994 |

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

| | | |
|------------------------------|---------------------|---------------------|
| Compensated absences payable | (322,438) | |
| Bonds payable | <u>(11,013,669)</u> | <u>(11,336,107)</u> |

Net position of governmental activities **\$ 117,410,735**

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

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

| | <u>General</u> | <u>Highway User Revenue</u> | <u>Grants</u> |
|--|----------------------|---------------------------------|-----------------|
| Revenues: | | | |
| Property taxes | \$ | \$ | \$ |
| Sales taxes | 7,873,427 | | |
| Franchise taxes | 360,320 | | |
| Licenses and permits | 796,330 | | |
| Leases and rents | 258,165 | | |
| Intergovernmental | 4,886,238 | 2,378,871 | 122,624 |
| Charges for services | 169,396 | 27,713 | |
| Other | 83,461 | 22,670 | |
| Fines and forfeitures | 185,279 | | |
| Investment earnings | 95,114 | 2,412 | |
| Total revenues | <u>14,707,730</u> | <u>2,431,666</u> | <u>122,624</u> |
| Expenditures: | | | |
| Current - | | | |
| General government | 2,269,332 | | 50,000 |
| Development services | 1,492,528 | | |
| Public safety | 7,034,887 | | |
| Streets and highways | | 2,498,714 | |
| Culture and recreation | 2,045,894 | | |
| Capital outlay | 88,644 | | 108,947 |
| Debt service - | | | |
| Principal retirement | | | |
| Interest on long-term debt | | | |
| Fiscal charges | | | |
| Total expenditures | <u>12,931,285</u> | <u>2,498,714</u> | <u>158,947</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,776,445</u> | <u>(67,048)</u> | <u>(36,323)</u> |
| Other financing sources (uses): | | | |
| Transfer in | | | 36,323 |
| Transfer out | (281,484) | (45,000) | |
| Total other financing sources (uses): | <u>(281,484)</u> | <u>(45,000)</u> | <u>36,323</u> |
| Changes in fund balances | <u>1,494,961</u> | <u>(112,048)</u> | |
| Fund balances, beginning of year, as restated | 8,725,683 | 1,758,362 | |
| Fund balances, end of year | <u>\$ 10,220,644</u> | <u>\$ 1,646,314</u> | <u>\$</u> |

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

| <u>General Obligation Debt Service</u> | <u>Eagle Mountain Debt Service</u> | <u>Municipal Property Corporation Debt Service</u> | <u>Capital Projects</u> | <u>Non-Major Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|--|--|-------------------------|---|---|
| \$ 2,119,611 | \$ 418,257 | \$ 708,777 | \$ 459,075 | \$ 5,430 | \$ 2,543,298 |
| | | | | 354,388 | 9,395,667 |
| | | | | 575,715 | 360,320 |
| | | | 118,356 | 53,347 | 1,372,045 |
| | | | 41,531 | | 258,165 |
| | | | | 24,101 | 7,559,436 |
| | | | | 35,219 | 197,109 |
| 2,514 | 472 | 994 | 82,333 | | 147,662 |
| <u>2,122,125</u> | <u>418,729</u> | <u>709,771</u> | <u>701,295</u> | <u>1,048,200</u> | <u>219,058</u> |
| | | | | | <u>22,262,140</u> |
| | | | 1,935 | 2,759 | 2,324,026 |
| | | | 28,500 | 696,786 | 2,217,814 |
| | | | | | 7,034,887 |
| | | | | | 2,498,714 |
| | | | | 194,971 | 2,240,865 |
| | | | 6,273,791 | | 6,471,382 |
| 1,770,000 | 365,000 | 2,125,000 | | | 4,260,000 |
| 231,850 | 43,516 | 32,740 | | | 308,106 |
| 1,000 | 195 | 810 | | | 2,005 |
| <u>2,002,850</u> | <u>408,711</u> | <u>2,158,550</u> | <u>6,304,226</u> | <u>894,516</u> | <u>27,357,799</u> |
| 119,275 | 10,018 | (1,448,779) | (5,602,931) | 153,684 | (5,095,659) |
| | | | | | |
| | | | 140,852 | 384,869 | 562,044 |
| | | | (36,323) | (199,237) | (562,044) |
| | | | <u>104,529</u> | <u>185,632</u> | |
| 119,275 | 10,018 | (1,448,779) | (5,498,402) | 339,316 | (5,095,659) |
| 354,062 | 66,720 | 1,760,662 | 10,962,685 | 3,502,674 | 27,130,848 |
| <u>\$ 473,337</u> | <u>\$ 76,738</u> | <u>\$ 311,883</u> | <u>\$ 5,464,283</u> | <u>\$ 3,841,990</u> | <u>\$ 22,035,189</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Changes in fund balances - total governmental funds **\$ (5,095,659)**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

| | | |
|-------------------------------------|--------------------|-----------|
| Expenditures for capitalized assets | \$ 6,394,346 | |
| Less current year depreciation | <u>(5,131,605)</u> | 1,262,741 |

| | | |
|---|--|---------|
| Donated artwork is not reported in the governmental funds. However, in the Statement of Activities, the costs of those assets are reported as capital grants and contributions. | | 148,500 |
|---|--|---------|

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

| | | |
|----------------|-----------------|----------|
| Property taxes | 26,206 | |
| Other | <u>(51,358)</u> | (25,152) |

| | | |
|--|--|-----------|
| Repayments of bond principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. | | 4,260,000 |
|--|--|-----------|

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 governmental funds.

| | | |
|-------------------------------------|-----------------|---------------|
| Loss on disposal of assets | (1,693) | |
| Amortization of deferred bond items | 68,417 | |
| Compensated absences | <u>(23,635)</u> | <u>43,089</u> |

Changes in net position in governmental activities **\$ 593,519**

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

During the year ended June 30, 2016, the Town implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements and establishes a hierarchy of inputs to valuation techniques used to measure fair value. This Statement also enhances accountability and transparency through revised note disclosures.

The more significant of the Town's accounting policies are described below.

A. Reporting Entity

The Town's major operations include parks and recreation, culture and recreation and general administrative services.

The Town is a municipal entity governed by an elected Mayor and Council. The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The Town is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, the component units combined with the Town for financial statement presentation purposes and the Town are not included in any other governmental reporting entity. Consequently, the Town's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable.

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 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 Districts' governing body is substantially the same as the Town and the Town's management oversees operations, resulting in the Town having the ability to exercise control. 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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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.

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. The reported information includes all of the nonfiduciary activities of the Town and its component units. For the most part, the effect of internal activity has been removed from these statements. Interfund services provided and used, such as interfund transfers, are not eliminated in the process of consolidation. 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 is 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, unrestricted state shared revenues, investment income and other items not included among program revenues are reported instead as general revenues.

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. 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.

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 expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, state shared revenues, licenses and permits, charges for services, and investment income 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. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. 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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

The Town reports the following major governmental funds.

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

Highway User Revenue Fund (HURF) – This fund accounts for the Town’s share of motor vehicle fuel tax revenues.

Grants Fund – This fund accounts for the activities of various restricted grants and contributions received by 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.

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

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

D. Cash and Investments

Cash and cash equivalents at year end were cash on hand, cash in bank, restricted cash, and cash and investments held by the State Treasurer.

Cash and investments are pooled, except for investments that are restricted under provisions of bond indentures or other restrictions that are required to be reported in the individual funds.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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.

Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer’s Office. The purpose of the pooled collateral program is to ensure that governmental entities’ public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository’s compliance with the program.

E. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments. Investment income is a component of revenue in the governmental funds financial statements.

F. 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). Interfund balances between governmental funds are eliminated on the Statement of Net Position.

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.

All receivables are shown net of an allowance for uncollectibles.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

G. Inventory

All inventories are valued 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 in the governmental funds.

H. 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.

I. Restricted Cash and Investments

The Town reported restricted assets in the amount of \$68,996 for funds held in an escrow account. The agreement provides that if, prior to July 1, 2017, 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.

J. Capital Assets

Capital assets, which include land and improvements, artwork, buildings and improvements, vehicles, machinery, and equipment, construction in progress, and infrastructure assets, are reported in the government-wide financial statements.

Capital assets are defined by the Town as assets with an initial, individual cost in excess of \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the 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 assets or materially extend the life of the asset are not capitalized.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

| | |
|-------------------------------------|---------------|
| Buildings and building improvements | 20 - 50 years |
| Improvements other than buildings | 20 years |
| Infrastructure | 15 - 50 years |
| Vehicles, machinery and equipment | 5 - 20 years |

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town did not have any items that qualified for reporting in this category.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

L. 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.

All eligible full-time and part-time employees can accrue vacation leave. Full-time employees accrue up to a maximum of 416 hours of vacation through carryover of balances, while part-time employees can accrue up to 208 hours, depending upon their length of service. In the event of termination, employees will be paid for any accrued, but unused, vacation hours. Full-time employees 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.

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

M. 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 are amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

N. 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 in the fund financial statements are reported as other financing sources/uses in governmental funds.

O. Net Position Flow Assumption

In the government-wide financial statements the Town applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

P. 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 FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – 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.

Nonspendable. The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.

Restricted. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed. The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Town Council, the Town's highest level of decision making authority, by resolution or ordinance. Those committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned. Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Town Council or a management official delegated that authority by formal Town Council action. The authority to make assignments has been delegated by the Town Council to the Finance Director.

Unassigned. Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – FUND BALANCE CLASSIFICATIONS

The Town applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The Town has established a fund balance policy which states that the combined General Fund operating fund balance should be at least 30 percent of the average actual General Fund revenues for the preceding five fiscal years.

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 \$2,649,684, reported as a committed fund balance at June 30, 2016. The Rainy Day fund may only be used for the following: 1) to replace the loss of more than 25 percent 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 one percent of the previous fiscal year General Fund balance. Repayments shall be appropriated as part of the annual budget adoption.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – FUND BALANCE CLASSIFICATIONS

The table below provides detail of the major components of the Town’s fund balance classifications at year end.

| | General Fund | Highway User Revenue Fund | General Obligation Debt Service Fund | Eagle Mountain Debt Service Fund | Municipal Property Corporation Debt Service Fund | Capital Projects Fund | Non-Major Governmental Funds | Total |
|-------------------------|---------------------|------------------------------------|--|--|--|-----------------------------|------------------------------------|---------------------|
| Fund Balances: | | | | | | | | |
| Nonspendable: | | | | | | | | |
| Inventory | \$ 9,272 | | | | | | | \$ 9,272 |
| Prepaid items | 4,123 | | | | | | 5,055 | 9,178 |
| Restricted: | | | | | | | | |
| Capital Projects | | | | | | | 14,144 | 14,144 |
| Debt Service | | | 473,337 | 76,738 | 311,883 | | | 861,958 |
| Streets and Highways | | 1,376,811 | | | | | | 1,376,811 |
| Development Fees | | | | | | | 2,247,129 | 2,247,129 |
| Committed: | | | | | | | | |
| Rainy Day | 2,649,684 | | | | | | | 2,649,684 |
| Public Art | 2,673 | | | | | | | 2,673 |
| Downtown Strategy | | | | | | | 939,510 | 939,510 |
| Economic Development | | | | | | | 129,928 | 129,928 |
| Tourism | | | | | | | 141 | 141 |
| Local Court Enhancement | | | | | | | 296,504 | 296,504 |
| Assigned: | | | | | | | | |
| Capital Projects | 794,905 | | | | | 5,355,811 | | 6,150,716 |
| Environmental | | | | | | | 209,579 | 209,579 |
| Vehicle Replacement | 376,244 | 269,503 | | | | | | 645,747 |
| Facilities Replacement | | | | | | 108,472 | | 108,472 |
| Equipment Replacement | 529,937 | | | | | | | 529,937 |
| Unassigned | 5,853,806 | | | | | | | 5,853,806 |
| Total fund balances | <u>\$10,220,644</u> | <u>\$ 1,646,314</u> | <u>\$ 473,337</u> | <u>\$ 76,738</u> | <u>\$ 311,883</u> | <u>\$ 5,464,283</u> | <u>\$ 3,841,990</u> | <u>\$22,035,189</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess Expenditures Over Budget – At year end, the Town had expenditures in funds that exceeded the budgets, however, this does not constitute a violation of any legal provisions.

NOTE 4 – CASH AND INVESTMENTS

Arizona Revised Statutes authorize the Town to invest public monies in the State Treasurer's local government investment pools, the County Treasurer's investment pool, obligations of the U.S. Government and its agencies, obligations of the state and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the Town's investments.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the Town's deposits may not be returned to the Town. The Town does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the Town's deposits was \$518,319 and the bank balance was \$660,899. At year end, \$166,850 of the Town's deposits were covered by collateral held by the pledging financial institution in the Town's name. The remaining amount is covered by FDIC.

Fair Value Measurements. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are significant other observable inputs
- Level 3 inputs are significant unobservable inputs

The State Treasurer's pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant's position in the State Treasurer investment pools approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 – CASH AND INVESTMENTS

All investments in which the fair value hierarchy is applicable are measured at fair value on a recurring basis. At year end, cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

| | |
|-----------------------------------|-----------------------------|
| Carrying amount of investments | \$ 21,570,562 |
| Carrying amount of cash deposits | 518,319 |
| Cash on hand | 650 |
| Restricted cash and investments | <u>68,996</u> |
| Total pooled cash and investments | <u><u>\$ 22,158,527</u></u> |

At year end, the Town’s investments consisted of the following:

| Investment Type | Category | Fair Value | Investment Maturities (in Years) | | Credit Rating | |
|--|----------------|----------------------------|-------------------------------------|---------------------|---------------|---------|
| | | | Less than 1 | 1-5 | S&P | Moody’s |
| U.S. Treasury Notes | Level 2 | \$ 8,857,427 | \$ 1,402,876 | \$7,454,551 | N/A | N/A |
| Federal National Mortgage Association Notes | Level 2 | 2,861,938 | | 2,861,938 | AA+ | Aaa |
| Federal Home Loan Mortgage Corporation Notes | Level 2 | 2,410,783 | 414,979 | 1,995,804 | AA+ | Aaa |
| Federal Home Loan Bank Notes | Level 2 | 1,077,448 | | 1,080,448 | AA+ | Aaa |
| Tennessee Valley Authority | Level 2 | 258,898 | | 258,898 | AA+ | Aaa |
| Wells Fargo Money Market Funds | Level 2 | 40,587 | <u>40,587</u> | | N/A | N/A |
| | | | <u>\$ 1,858,442</u> | <u>\$13,651,639</u> | | |
| State Treasurer’s Investment Pool 7 | Not applicable | 6,755,484 | 73 days average maturities | | | |
| | | <u>(692,003)</u> | Withdrawal in transit | | | |
| Total | | <u><u>\$21,570,562</u></u> | | | | |

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 – CASH AND INVESTMENTS

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates may reduce the market value of Town investments. In accordance with its investment policy, the Town manages its exposure to declines in fair values by the following:

- 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.

Credit Risk. Credit risk is the risk of default of debt by the Town. The Town will limit credit risk by limiting investments in the Town's portfolio to the asset classes designated as acceptable in ARS §35-323. 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 advisers with which the Town will do business.

Custodial Credit Risk – Investments. Custodial credit risk is the risk that in the event of bank failure, the Town's deposits may not be returned to the Town. The Town's investment in the State Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however the Town's portion is not identified with specific investments and is not subject to custodial credit risk.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 – CASH AND INVESTMENTS

Concentration of Credit Risk. Concentration of credit risk is the risk of loss from over concentration of investments. In accordance with its investment policy, the Town diversifies its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. With the exception of U.S. Treasury notes and securities and authorized pools, no more than 25 percent of the Town’s total investment portfolio will be invested in a single security type or with a single financial institution. At year end, the Town had the following diversification of Town investments:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Percent of Town Investments</u> |
|--|---------------------|--|
| U.S. Treasury Notes | \$8,857,427 | 39.79% |
| Federal National Mortgage Association Notes | 2,861,938 | 12.86 |
| Federal Home Loan Mortgage Corporation Notes | 2,410,783 | 10.83 |
| Federal Home Loan Bank Notes | 1,077,448 | 4.84 |
| Tennessee Valley Authority | 258,898 | 1.16 |
| Wells Fargo Money Market Funds | 40,587 | 0.18 |
| State Treasurer’s Investment Pool 7 | 6,755,484 | 30.34 |
| | <u>\$22,262,565</u> | <u>100.00%</u> |

NOTE 5 – RECEIVABLES

Receivable balances, net of allowance for uncollectibles, have been disaggregated by type and presented separately in the financial statements with the exception of intergovernmental receivables. Intergovernmental receivables, net of allowance for uncollectibles, as of year end for the Town’s individual major funds consisted entirely of due from state.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 – CAPITAL ASSETS

A summary of capital asset activity at year end is as follows:

| Governmental Activities | Beginning Balance | Increase | Decrease | Ending Balance |
|--|-----------------------|---------------------|---------------------|-----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 23,571,668 | \$ | \$ | \$ 23,571,668 |
| Artwork | 2,216,500 | 148,500 | | 2,365,000 |
| Construction in progress | 4,142,372 | 5,959,330 | 8,516,130 | 1,585,572 |
| Total capital assets, not being depreciated | <u>29,930,540</u> | <u>6,107,830</u> | <u>8,516,130</u> | <u>27,522,240</u> |
| Capital assets, being depreciated: | | | | |
| Infrastructure | 137,811,105 | 8,022,471 | | 145,833,576 |
| Buildings and building improvements | 18,996,641 | | | 18,996,641 |
| Improvements other than buildings | 13,666,226 | 840,031 | | 14,506,257 |
| Vehicles, machinery and equipment | 3,530,259 | 88,644 | 53,695 | 3,565,208 |
| Total capital assets being depreciated | <u>174,004,231</u> | <u>8,951,146</u> | <u>53,695</u> | <u>182,901,682</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure | (83,268,194) | (3,909,289) | | (87,177,483) |
| Buildings and building improvements | (4,794,867) | (397,463) | | (5,192,330) |
| Improvements other than buildings | (8,354,644) | (664,514) | | (9,019,158) |
| Vehicles, machinery and equipment | (2,264,955) | (160,339) | (52,002) | (2,373,292) |
| Total accumulated depreciation | <u>(98,682,660)</u> | <u>(5,131,605)</u> | <u>(52,002)</u> | <u>(103,762,263)</u> |
| Total capital assets, being depreciated, net | <u>75,321,571</u> | <u>3,819,541</u> | <u>1,693</u> | <u>79,139,419</u> |
| Governmental activities capital assets, net | <u>\$ 105,252,111</u> | <u>\$ 9,927,371</u> | <u>\$ 8,517,823</u> | <u>\$ 106,661,659</u> |

Depreciation expense was charged to functions/programs as follows:

| | |
|----------------------------|---------------------|
| Governmental activities: | |
| General government | \$ 183,610 |
| Development services | 4,539 |
| Public safety | 143,866 |
| Streets and highways | 3,904,796 |
| Culture and recreation | 894,794 |
| Total depreciation expense | <u>\$ 5,131,605</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 – CAPITAL ASSETS

Construction Commitments – At June 30, 2016, the Town has the following active construction commitments:

| Project | Governmental Activities | |
|----------------------------------|-------------------------|----------------------|
| | Spent-to-Date | Remaining Commitment |
| Drainage – Ashbrook Wash Channel | \$ 1,230,249 | \$ 198,110 |
| Fire Station #2 Relocation | 42,314 | 290,150 |
| Tennis Court Renovation | 108,947 | 259,558 |
| Adero Canyon TrailHead | 43,100 | 126,127 |
| Total commitments | <u>\$ 1,424,610</u> | <u>\$ 873,945</u> |

NOTE 7 – BONDS PAYABLE

Bonds payable at year end consisted of the following general obligation and revenue bonds. The bonds are both callable and noncallable with interest payable semiannually.

| Purpose | Original Amount Issued | Interest Rates | Remaining Maturities | Outstanding Principal June 30, 2016 | Due Within One Year |
|---|------------------------|----------------|----------------------|-------------------------------------|---------------------|
| Governmental activities: | | | | | |
| General Obligation Bonds: | | | | | |
| General Obligation Refunding Bonds, Series 2005 | \$ 7,225,000 | 4% | 7/1/17-19 | \$ 1,200,000 | \$ 435,000 |
| General Obligation Bonds, Series 2014 | 7,565,000 | 4% | 7/1/17-20 | 6,205,000 | 1,495,000 |
| Eagle Mountain Community Facilities District, General Obligation Refunding Bonds, Series 2015 | 2,300,000 | 2.00-3.00% | 7/1/17-21 | 1,935,000 | 375,000 |
| Revenue Bonds: | | | | | |
| Municipal Facilities Revenue Refunding Bonds, Series 2015 | 1,880,000 | 2% | 7/1/17-20 | 1,400,000 | 370,000 |
| Total | | | | <u>\$ 10,740,000</u> | <u>\$ 2,675,000</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 – BONDS PAYABLE

Annual debt service requirements to maturity on the bonds payable at year end are summarized as follows:

| <u>Year ending June 30,</u> | <u>Governmental Activities</u> | |
|-----------------------------|--------------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2017 | \$ 2,675,000 | \$ 244,986 |
| 2018 | 2,720,000 | 185,092 |
| 2019 | 2,635,000 | 123,872 |
| 2020 | 2,310,000 | 67,302 |
| 2021 | 400,000 | 7,040 |
| Total | <u>\$10,740,000</u> | <u>\$ 628,292</u> |

Pledged Revenues

The Town has pledged excise tax revenues to repay a total of \$1,400,000 in outstanding Municipal Facilities Revenue Refunding Bonds. For the current fiscal year, the net revenues available to service the debt were \$16.3 million. For the fiscal year ended June 30, 2016, the debt principal and interest paid on this debt was \$512,740 (three percent of pledged revenues). The total principal and interest remaining to be paid on the bonds is \$1,455,080.

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the current fiscal year was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---|------------------------------|-------------------|--------------------|---------------------------|--------------------------------|
| Governmental activities: | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | \$11,475,000 | \$ | \$2,135,000 | \$ 9,340,000 | \$ 2,305,000 |
| Revenue bonds | 3,525,000 | | 2,125,000 | 1,400,000 | 370,000 |
| Premium | 342,086 | | 68,417 | 273,669 | |
| Total bonds payable | <u>15,342,086</u> | | <u>4,328,417</u> | <u>11,013,669</u> | <u>2,675,000</u> |
| Compensated absences payable | <u>298,803</u> | <u>256,119</u> | <u>232,484</u> | <u>322,438</u> | <u>244,653</u> |
| Governmental activity long-term liabilities | <u>\$15,640,889</u> | <u>\$ 256,119</u> | <u>\$4,560,901</u> | <u>\$11,336,107</u> | <u>\$ 2,919,653</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 – TRANSFERS

At year end, interfund transfers were as follows:

| | Transfers in | | | Total |
|------------------------------|----------------|-----------------------------|------------------------------------|------------|
| | Grants Fund | Capital Projects Fund | Non-Major Governmental Funds | |
| Transfers out | | | | |
| General Fund | \$ | \$ 81,715 | \$ 199,769 | \$ 281,484 |
| HURF Fund | | | 45,000 | 45,000 |
| Capital Projects Fund | 36,323 | | | 36,323 |
| Non-Major Governmental Funds | | 59,137 | 140,100 | 199,237 |
| Total | \$ 36,323 | \$ 140,852 | \$ 384,869 | \$ 562,044 |

The Capital Projects Funds transferred \$36,323 to the Grants Fund for the Town’s portion of grant project G5203 – tennis court replacement. The Non-major Governmental Fund (Economic Development Fund) transferred \$140,100 to the Non-major Governmental Fund (Tourism Fund) to provide funding for operating costs of the tourism program. The General Fund transferred \$81,715 to the Capital Projects Funds for funding of facilities replacements. The Non-major Governmental Fund (Downtown Strategy) transferred \$59,137 to the Capital Projects Fund to cover the costs installing lights at intersection with Avenue of the Fountains which were not part of the original contract for the Saguaro Boulevard Reconstruction project. The General Fund transferred \$199,769 to the Non-major Governmental Fund (Economic Development Fund - \$50,000) for funding economic development efforts and (Environmental Fund - \$194,769) to pay for funding operations of the fund, including the billing of the environmental fee. The Highway User Revenue Fund transferred \$45,000 to the Non-major Governmental Fund (Environmental Fund) for the costs of street sweeping.

NOTE 10 – CONTINGENT LIABILITIES

Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures/expenses that may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Lawsuits – The Town is a party to a number of various types of lawsuits, many of which normally occur in governmental operations. The ultimate outcome of the actions is not determinable, however, Town management believes that the outcome of these proceedings, either individually or in the aggregate, will not have a materially adverse effect on the accompanying financial statements.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 – 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 Pool (Pool). The Pool is made up of various towns and cities within Arizona that operate a common risk management and insurance program. The Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its' members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations.

The Town joined the Arizona Municipal Workers' Compensation Pool (Pool) together with other governments in the state for risks of loss related to workers' compensation claims. The Pool is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The Town is responsible for paying a premium, based on an experience rating formula that allocates pool expenditures and liabilities among members.

The Town continues to carry commercial insurance for all other risks of loss, including employee health, dental, and vision insurance.

NOTE 12 – 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, 2016, was \$2,569,070. The Town's total payroll was \$2,941,575.

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 – RETIREMENT PLANS

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 percent of his or her gross earnings. The Town must match the employee contribution of 11 percent. During the fiscal year, the Town’s required and actual contributions amounted to \$279,944. The employees’ contributions totaled \$279,944. 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 \$92,984 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 2015-16 or as of the close of the fiscal year.

NOTE 13 – RECLASSIFICATION FROM PRIOR PERIOD

The July 1, 2015 fund balances of the General Fund, Highway User Revenue Fund, and Capital Projects Fund do not agree to the prior year financial statements due to reclassifications of sub-fund activity. The net effect of the adjustments is zero.

| | Governmental Funds | | |
|--|--------------------|------------------------------|--------------------------|
| | General Fund | Highway User Revenue Fund | Capital Projects Fund |
| Fund balance, June 30, 2015, as previously reported | \$ 8,894,502 | \$ 1,692,305 | \$ 10,859,923 |
| Reclassification of sub-fund activity | (168,819) | 66,057 | 102,762 |
| Fund balance, July 1, 2015, as restated | \$ 8,725,683 | \$ 1,758,362 | \$ 10,962,685 |

(This page intentionally left blank)

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL
YEAR ENDED JUNE 30, 2016

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|---------------------|----------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| Sales taxes | \$ 7,317,367 | \$ 7,317,367 | \$ 7,873,427 | \$ 556,060 |
| Franchise taxes | 324,310 | 324,310 | 360,320 | 36,010 |
| Licenses and permits | 686,428 | 686,428 | 796,330 | 109,902 |
| Leases and rents | 280,831 | 280,831 | 258,165 | (22,666) |
| Intergovernmental | 4,892,167 | 4,892,167 | 4,886,238 | (5,929) |
| Charges for services | 151,700 | 151,700 | 169,396 | 17,696 |
| Other | 135,207 | 136,707 | 83,461 | (62,137) |
| Fines and forfeitures | 147,011 | 147,011 | 185,279 | 38,268 |
| Investment earnings | 50,000 | 50,000 | 95,114 | 54,005 |
| Total revenues | <u>13,985,021</u> | <u>13,986,521</u> | <u>14,707,730</u> | <u>721,209</u> |
| Expenditures: | | | | |
| Current - | | | | |
| General government | | | | |
| Mayor and council | 80,084 | 80,084 | 72,094 | 7,990 |
| Administration | 2,218,990 | 2,063,303 | 1,895,939 | 167,364 |
| Municipal court | 277,107 | 302,107 | 301,299 | 808 |
| Total general government | <u>2,576,181</u> | <u>2,445,494</u> | <u>2,269,332</u> | <u>176,162</u> |
| Development services | 1,624,529 | 1,662,249 | 1,492,528 | 169,721 |
| Public safety | | | | |
| Fire and emergency | 3,501,797 | 3,501,797 | 3,481,017 | 20,780 |
| Law enforcement | 3,683,970 | 3,683,970 | 3,553,870 | 130,100 |
| Total public safety | <u>7,185,767</u> | <u>7,185,767</u> | <u>7,034,887</u> | <u>150,880</u> |
| Culture and recreation | | | | |
| Community services | 2,275,574 | 2,330,946 | 2,045,894 | 285,052 |
| Capital outlay | 46,775 | 80,775 | 88,644 | (7,869) |
| Total expenditures | <u>13,708,826</u> | <u>13,705,231</u> | <u>12,931,285</u> | <u>773,946</u> |
| Excess (deficiency) of revenues over expenditures | <u>276,195</u> | <u>281,290</u> | <u>1,776,445</u> | <u>1,525,155</u> |
| Other financing sources (uses): | | | | |
| Transfer in | 2,000 | 2,000 | | (2,000) |
| Transfer out | (309,195) | (308,195) | (281,484) | 26,711 |
| Total other financing sources (uses): | <u>(307,195)</u> | <u>(306,195)</u> | <u>(281,484)</u> | <u>24,711</u> |
| Changes in fund balances | <u>(31,000)</u> | <u>(54,905)</u> | <u>1,494,961</u> | <u>1,549,866</u> |
| Fund balances, beginning of year, as restated | 8,725,683 | 8,725,683 | 8,725,683 | |
| Fund balances (deficits), end of year | <u>\$ 8,694,683</u> | <u>\$ 8,670,778</u> | <u>\$ 10,220,644</u> | <u>\$ 1,549,866</u> |

See accompanying notes to this schedule.

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
HIGHWAY USER REVENUE
YEAR ENDED JUNE 30, 2016**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Intergovernmental | \$ 2,292,162 | \$ 2,292,162 | \$ 2,378,871 | \$ 86,709 |
| Charges for services | 12,000 | 12,000 | 27,713 | 15,713 |
| Other | 6,000 | 6,000 | 22,670 | 16,670 |
| Investment earnings | 300 | 300 | 2,412 | 2,112 |
| Total revenues | <u>2,310,462</u> | <u>2,310,462</u> | <u>2,431,666</u> | <u>121,204</u> |
| Expenditures: | | | | |
| Current - | | | | |
| Streets and highways | 2,798,026 | 2,803,121 | 2,498,714 | 304,407 |
| Total expenditures | <u>2,798,026</u> | <u>2,803,121</u> | <u>2,498,714</u> | <u>304,407</u> |
| Excess (deficiency) of revenues over expenditures | <u>(487,564)</u> | <u>(492,659)</u> | <u>(67,048)</u> | <u>425,611</u> |
| Other financing sources (uses): | | | | |
| Transfer out | (45,000) | (45,000) | (45,000) | |
| Total other financing sources (uses): | <u>(45,000)</u> | <u>(45,000)</u> | <u>(45,000)</u> | |
| Changes in fund balances | <u>(532,564)</u> | <u>(537,659)</u> | <u>(112,048)</u> | <u>425,611</u> |
| Fund balances, beginning of year | 1,758,362 | 1,758,362 | 1,758,362 | |
| Fund balances, end of year | <u>\$ 1,225,798</u> | <u>\$ 1,220,703</u> | <u>\$ 1,646,314</u> | <u>\$ 425,611</u> |

See accompanying notes to this schedule.

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GRANTS
YEAR ENDED JUNE 30, 2016**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|------------------|-----------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 1,655,000 | \$ 1,620,141 | \$ 122,624 | \$ (1,497,517) |
| Total revenues | <u>1,655,000</u> | <u>1,620,141</u> | <u>122,624</u> | <u>(1,497,517)</u> |
| Expenditures: | | | | |
| Current - | | | | |
| General government | 1,655,000 | 1,231,636 | 50,000 | 1,181,636 |
| Capital outlay | | 368,505 | 108,947 | 259,558 |
| Total expenditures | <u>1,655,000</u> | <u>1,600,141</u> | <u>158,947</u> | <u>1,441,194</u> |
| Excess (deficiency) of revenues over expenditures | | <u>20,000</u> | <u>(36,323)</u> | <u>(56,323)</u> |
| Other financing sources (uses): | | | | |
| Transfer in | | | 36,323 | 36,323 |
| Total other financing sources (uses): | | | <u>36,323</u> | <u>36,323</u> |
| Changes in fund balances | | <u>20,000</u> | | <u>(20,000)</u> |
| Fund balances, beginning of year | | | | |
| Fund balances, end of year | <u>\$</u> | <u>\$ 20,000</u> | <u>\$</u> | <u>\$ (20,000)</u> |

See accompanying notes to this schedule.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2015

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

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 41-1379.07).
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.

(This page intentionally left blank)

**COMBINING AND INDIVIDUAL
INDIVIDUAL FUND STATEMENTS
AND SCHEDULES**

(This page intentionally left blank)

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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 and tourism.

Tourism Fund – accounts for the portion of Town sales tax committed by the Town Council as well as any grants received for all tourism activities.

Local Court Enhancement Fund – accounts for a local court surcharge, committed for court enhancement.

Environmental Fund – accounts for all funds received from collection of the environmental fee.

Cottonwoods Maintenance Fund – accounts for all funds restricted to pay for maintenance of the Cottonwoods Maintenance District.

Development Fees Fund – accounts for restricted development fees collected from building permits.

Capital Projects Funds

Facilities Replacement Fund – accounts for all funds assigned for the maintenance and repair of facilities and equipment.

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2016

| | <u>Downtown Strategy</u> | <u>Economic Development</u> | <u>Tourism</u> |
|---|------------------------------|---------------------------------|-------------------------|
| <u>ASSETS</u> | | | |
| Cash and investments | \$ 934,072 | \$ 125,993 | \$ 10,729 |
| Accounts receivable | | | |
| Intergovernmental receivable | 2,731 | 10,928 | |
| Interest receivable | 2,707 | | |
| Prepaid items | | 5,055 | |
| Total assets | <u><u>\$ 939,510</u></u> | <u><u>\$ 141,976</u></u> | <u><u>\$ 10,729</u></u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ | \$ 4,981 | \$ 9,375 |
| Accrued wages and benefits | | 2,012 | 1,053 |
| Other liabilities | | | 160 |
| Total liabilities | | <u>6,993</u> | <u>10,588</u> |
| Fund balances: | | | |
| Nonspendable | | 5,055 | |
| Restricted | | | |
| Committed | 939,510 | 129,928 | 141 |
| Assigned | | | |
| Total fund balances | <u>939,510</u> | <u>134,983</u> | <u>141</u> |
| Total liabilities and fund balances | <u><u>\$ 939,510</u></u> | <u><u>\$ 141,976</u></u> | <u><u>\$ 10,729</u></u> |

| <u>Local Court Enhancement</u> | <u>Environmental</u> | <u>Cottonwoods Maintenance</u> | <u>Development Fees</u> | <u>Totals</u> |
|------------------------------------|----------------------|------------------------------------|-----------------------------|--|
| \$ 295,962 | \$ 244,013 900 | \$ 14,394 | \$ 2,243,478 | \$ 3,868,641 900 |
| 542 | | | 3,651 | 14,201 6,358 5,055 |
| <u>\$ 296,504</u> | <u>\$ 244,913</u> | <u>\$ 14,394</u> | <u>\$ 2,247,129</u> | <u>\$ 3,895,155</u> |
| \$ | \$ 34,951 383 | \$ 250 | \$ | \$ 49,557 3,448 160 |
| | <u>35,334</u> | <u>250</u> | | <u>53,165</u> |
| 296,504 | 209,579 | 14,144 | 2,247,129 | 5,055 2,261,273 1,366,083 209,579 |
| <u>296,504</u> | <u>209,579</u> | <u>14,144</u> | <u>2,247,129</u> | <u>3,841,990</u> |
| <u>\$ 296,504</u> | <u>\$ 244,913</u> | <u>\$ 14,394</u> | <u>\$ 2,247,129</u> | <u>\$ 3,895,155</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2016

| | Downtown Strategy | Economic Development | Tourism |
|--|----------------------|-------------------------|-----------|
| Revenues: | | | |
| Property taxes | \$ | \$ | \$ |
| Sales taxes | 70,877 | 283,511 | |
| Licenses and permits | | | |
| Intergovernmental | | | 53,347 |
| Fines and forfeitures | | | |
| Investment earnings | 11,786 | 217 | 149 |
| Total revenues | 82,663 | 283,728 | 53,496 |
| Expenditures: | | | |
| Current - | | | |
| General government | | | |
| Development services | 46,932 | 174,798 | |
| Culture and recreation | | | 194,435 |
| Total expenditures | 46,932 | 174,798 | 194,435 |
| Excess (deficiency) of revenues over expenditures | 35,731 | 108,930 | (140,939) |
| Other financing sources (uses): | | | |
| Transfer in | | 50,000 | 140,100 |
| Transfer out | (59,137) | (140,100) | |
| Total other financing sources (uses): | (59,137) | (90,100) | 140,100 |
| Changes in fund balances | (23,406) | 18,830 | (839) |
| Fund balances, beginning of year | 962,916 | 116,153 | 980 |
| Fund balances, end of year | \$ 939,510 | \$ 134,983 | \$ 141 |

| <u>Local Court Enhancement</u> | <u>Environmental</u> | <u>Cottonwoods Maintenance</u> | <u>Development Fees</u> | <u>Totals</u> |
|------------------------------------|----------------------|------------------------------------|-----------------------------|---------------------|
| \$ | \$ | \$ 5,430 | \$ | \$ 5,430 |
| | 486,751 | | 88,964 | 354,388 |
| 24,101 | | | | 575,715 |
| 127 | 410 | 30 | 22,500 | 53,347 |
| <u>24,228</u> | <u>487,161</u> | <u>5,460</u> | <u>111,464</u> | <u>1,048,200</u> |
| 2,759 | | | | 2,759 |
| | 472,351 | 2,705 | | 696,786 |
| | | | 536 | 194,971 |
| <u>2,759</u> | <u>472,351</u> | <u>2,705</u> | <u>536</u> | <u>894,516</u> |
| <u>21,469</u> | <u>14,810</u> | <u>2,755</u> | <u>110,928</u> | <u>153,684</u> |
| | 194,769 | | | 384,869 |
| | <u>194,769</u> | | | <u>(199,237)</u> |
| <u>21,469</u> | <u>209,579</u> | <u>2,755</u> | <u>110,928</u> | <u>339,316</u> |
| 275,035 | | 11,389 | 2,136,201 | 3,502,674 |
| <u>\$ 296,504</u> | <u>\$ 209,579</u> | <u>\$ 14,144</u> | <u>\$ 2,247,129</u> | <u>\$ 3,841,990</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2016

| | Downtown Strategy | | Variance - Positive (Negative) |
|--|-------------------|-------------------|--------------------------------------|
| | Budget | Actual | |
| Revenues: | | | |
| Property taxes | \$ | \$ | \$ |
| Sales taxes | 66,517 | 70,877 | 4,360 |
| Licenses and permits | | | |
| Intergovernmental | | | |
| Fines and forfeitures | | | |
| Investment earnings | 6,000 | 11,786 | 5,786 |
| Total revenues | <u>72,517</u> | <u>82,663</u> | <u>10,146</u> |
| Expenditures: | | | |
| Current - | | | |
| General government | | | |
| Development services | 80,886 | 46,932 | 33,954 |
| Culture and recreation | | | |
| Capital outlay | | | |
| Total expenditures | <u>80,886</u> | <u>46,932</u> | <u>33,954</u> |
| Excess (deficiency) of revenues over expenditures | <u>(8,369)</u> | <u>35,731</u> | <u>44,100</u> |
| Other financing sources (uses): | | | |
| Transfer in | | | |
| Transfer out | (477,000) | (59,137) | 417,863 |
| Total other financing sources (uses): | <u>(477,000)</u> | <u>(59,137)</u> | <u>417,863</u> |
| Changes in fund balances | <u>(485,369)</u> | <u>(23,406)</u> | <u>461,963</u> |
| Fund balances, beginning of year | 962,916 | 962,916 | |
| Fund balances (deficits), end of year | <u>\$ 477,547</u> | <u>\$ 939,510</u> | <u>\$ 461,963</u> |

| Economic Development | | | Tourism | | |
|----------------------|-------------------|--------------------------------|-----------------|----------------|--------------------------------|
| Budget | Actual | Variance - Positive (Negative) | Budget | Actual | Variance - Positive (Negative) |
| \$ 266,066 | \$ 283,511 | \$ 17,445 | | | |
| | | | 53,359 | 53,347 | (12) |
| | 217 | 217 | | 149 | 149 |
| <u>266,066</u> | <u>283,728</u> | <u>17,662</u> | <u>53,359</u> | <u>53,496</u> | <u>137</u> |
| 177,001 | 174,798 | 2,203 | | | |
| | | | 195,280 | 194,435 | 845 |
| <u>177,001</u> | <u>174,798</u> | <u>2,203</u> | <u>195,280</u> | <u>194,435</u> | <u>845</u> |
| 89,065 | 108,930 | 19,865 | (141,921) | (140,939) | 982 |
| | | | | | |
| 50,000 | 50,000 | | 140,100 | 140,100 | |
| (140,100) | (140,100) | | | | |
| <u>(90,100)</u> | <u>(90,100)</u> | | <u>140,100</u> | <u>140,100</u> | |
| (1,035) | 18,830 | 19,865 | (1,821) | (839) | 982 |
| 116,153 | 116,153 | | 980 | 980 | |
| <u>\$ 115,118</u> | <u>\$ 134,983</u> | <u>\$ 19,865</u> | <u>\$ (841)</u> | <u>\$ 141</u> | <u>\$ 982</u> |

(Continued)

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2016

| | Local Court Enhancement | | Variance - Positive (Negative) |
|--|-------------------------|------------|--------------------------------------|
| | Budget | Actual | |
| Revenues: | | | |
| Property taxes | \$ | \$ | \$ |
| Sales taxes | | | |
| Licenses and permits | | | |
| Intergovernmental | | | |
| Fines and forfeitures | 16,350 | 24,101 | 7,751 |
| Investment earnings | 100 | 127 | 27 |
| Total revenues | 16,450 | 24,228 | 7,778 |
| Expenditures: | | | |
| Current - | | | |
| General government | 50,615 | 2,759 | 47,856 |
| Development services | | | |
| Culture and recreation | | | |
| Capital outlay | 30,000 | | 30,000 |
| Total expenditures | 80,615 | 2,759 | 77,856 |
| Excess (deficiency) of revenues over expenditures | (64,165) | 21,469 | 85,634 |
| Other financing sources (uses): | | | |
| Transfer in | | | |
| Transfer out | | | |
| Total other financing sources (uses): | | | |
| Changes in fund balances | (64,165) | 21,469 | 85,634 |
| Fund balances, beginning of year | 275,035 | 275,035 | |
| Fund balances, end of year | \$ 210,870 | \$ 296,504 | \$ 85,634 |

| Environmental | | | Cottonwoods Maintenance | | |
|-------------------|-------------------|--------------------------------|-------------------------|------------------|--------------------------------|
| Budget | Actual | Variance - Positive (Negative) | Budget | Actual | Variance - Positive (Negative) |
| \$ 540,000 | \$ 486,751 | \$ (53,249) | \$ 5,366 | \$ 5,430 | \$ 64 |
| | 410 | 410 | | 30 | 30 |
| <u>540,000</u> | <u>487,161</u> | <u>(52,839)</u> | <u>5,366</u> | <u>5,460</u> | <u>94</u> |
| 639,241 | 472,351 | 166,890 | 4,043 | 2,705 | 1,338 |
| <u>639,241</u> | <u>472,351</u> | <u>166,890</u> | <u>4,043</u> | <u>2,705</u> | <u>1,338</u> |
| (99,241) | 14,810 | 114,051 | 1,323 | 2,755 | 1,432 |
| <u>(99,241)</u> | <u>14,810</u> | <u>114,051</u> | <u>1,323</u> | <u>2,755</u> | <u>1,432</u> |
| 221,480 | 194,769 | (26,711) | | | |
| <u>221,480</u> | <u>194,769</u> | <u>(26,711)</u> | | | |
| 122,239 | 209,579 | 87,340 | 11,389 | 11,389 | |
| <u>122,239</u> | <u>209,579</u> | <u>87,340</u> | <u>11,389</u> | <u>11,389</u> | |
| <u>\$ 122,239</u> | <u>\$ 209,579</u> | <u>\$ 87,340</u> | <u>\$ 12,712</u> | <u>\$ 14,144</u> | <u>\$ 1,432</u> |

(Continued)

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2016

| | Development Fees | | Variance - Positive (Negative) |
|--|---------------------|---------------------|--------------------------------------|
| | Budget | Actual | |
| Revenues: | | | |
| Property taxes | \$ | \$ | \$ |
| Sales taxes | | | |
| Licenses and permits | 104,640 | 88,964 | (15,676) |
| Intergovernmental | | | |
| Fines and forfeitures | | | |
| Investment earnings | 6,000 | 22,500 | 16,500 |
| Total revenues | <u>110,640</u> | <u>111,464</u> | <u>824</u> |
| Expenditures: | | | |
| Current - | | | |
| General government | | | |
| Development services | | | |
| Culture and recreation | 535 | 536 | (1) |
| Capital outlay | | | |
| Total expenditures | <u>535</u> | <u>536</u> | <u>(1)</u> |
| Excess (deficiency) of revenues over expenditures | <u>110,105</u> | <u>110,928</u> | <u>823</u> |
| Other financing sources (uses): | | | |
| Transfer in | | | |
| Transfer out | (270,686) | | 270,686 |
| Total other financing sources (uses): | <u>(270,686)</u> | | <u>270,686</u> |
| Changes in fund balances | <u>(160,581)</u> | <u>110,928</u> | <u>271,509</u> |
| Fund balances, beginning of year | 2,136,201 | 2,136,201 | |
| Fund balances, end of year | <u>\$ 1,975,620</u> | <u>\$ 2,247,129</u> | <u>\$ 271,509</u> |

| Totals | | |
|---------------------|---------------------|--------------------------------------|
| Budget | Actual | Variance - Positive (Negative) |
| \$ 5,366 | \$ 5,430 | \$ 64 |
| 332,583 | 354,388 | 21,805 |
| 644,640 | 575,715 | (68,925) |
| 53,359 | 53,347 | (12) |
| 16,350 | 24,101 | 7,751 |
| 12,100 | 35,219 | 23,119 |
| <u>1,064,398</u> | <u>1,048,200</u> | <u>(16,198)</u> |
| 50,615 | 2,759 | 47,856 |
| 901,171 | 696,786 | 204,385 |
| 195,815 | 194,971 | 844 |
| 30,000 | | 30,000 |
| <u>1,177,601</u> | <u>894,516</u> | <u>283,085</u> |
| <u>(113,203)</u> | <u>153,684</u> | <u>266,887</u> |
| 411,580 | 384,869 | (26,711) |
| <u>(887,786)</u> | <u>(199,237)</u> | <u>688,549</u> |
| <u>(476,206)</u> | <u>185,632</u> | <u>661,838</u> |
| <u>(589,409)</u> | <u>339,316</u> | <u>928,725</u> |
| 3,502,674 | 3,502,674 | |
| <u>\$ 2,913,265</u> | <u>\$ 3,841,990</u> | <u>\$ 928,725</u> |

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2016

| | General Obligation Debt Service | | |
|---|---------------------------------|--------------|--------------------------------------|
| | Budget | Actual | Variance - Positive (Negative) |
| Revenues: | | | |
| Property taxes | \$ 2,109,477 | \$ 2,119,611 | \$ 10,134 |
| Sales taxes | | | |
| Investment earnings | 210 | 2,514 | 2,304 |
| Total revenues | 2,109,687 | 2,122,125 | 12,438 |
| Expenditures: | | | |
| Debt service - | | | |
| Principal retirement | 1,770,000 | 1,770,000 | |
| Interest on long-term debt | 321,622 | 231,850 | 89,772 |
| Fiscal charges | 3,100 | 1,000 | 2,100 |
| Total expenditures | 2,094,722 | 2,002,850 | 91,872 |
| Changes in fund balances | 14,965 | 119,275 | 104,310 |
| Fund balances, beginning of year | 354,062 | 354,062 | |
| Fund balances, end of year | \$ 369,027 | \$ 473,337 | \$ 104,310 |

Eagle Mountain Debt Service

Municipal Property Corporation Debt Service

| Eagle Mountain Debt Service | | | Municipal Property Corporation Debt Service | | |
|-----------------------------|------------------|--------------------------------|---|-------------------|--------------------------------|
| Budget | Actual | Variance - Positive (Negative) | Budget | Actual | Variance - Positive (Negative) |
| \$ 416,686 | \$ 418,257 | \$ 1,571 | \$ 665,165 | \$ 708,777 | \$ 43,612 |
| 9 | 472 | 463 | 100 | 994 | 894 |
| <u>416,695</u> | <u>418,729</u> | <u>2,034</u> | <u>665,265</u> | <u>709,771</u> | <u>44,506</u> |
| 365,000 | 365,000 | | 480,000 | 2,125,000 | (1,645,000) |
| 43,516 | 43,516 | | 32,740 | 32,740 | |
| 3,335 | 195 | 3,140 | 8,000 | 810 | 7,190 |
| <u>411,851</u> | <u>408,711</u> | <u>3,140</u> | <u>520,740</u> | <u>2,158,550</u> | <u>(1,637,810)</u> |
| 4,844 | 10,018 | 5,174 | 144,525 | (1,448,779) | (1,593,304) |
| 66,720 | 66,720 | | 1,760,662 | 1,760,662 | |
| <u>\$ 71,564</u> | <u>\$ 76,738</u> | <u>\$ 5,174</u> | <u>\$ 1,905,187</u> | <u>\$ 311,883</u> | <u>\$ (1,593,304)</u> |

(Continued)

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2016

| | Totals | | Variance - Positive (Negative) |
|---|---------------------|--------------------|--------------------------------------|
| | Budget | Actual | |
| Revenues: | | | |
| Property taxes | \$ 2,526,163 | \$ 2,537,868 | \$ 11,705 |
| Sales taxes | 665,165 | 708,777 | 43,612 |
| Investment earnings | 319 | 3,980 | 3,661 |
| Total revenues | <u>3,191,647</u> | <u>3,250,625</u> | <u>58,978</u> |
| Expenditures: | | | |
| Debt service - | | | |
| Principal retirement | 2,615,000 | 4,260,000 | (1,645,000) |
| Interest on long-term debt | 397,878 | 308,106 | 89,772 |
| Fiscal charges | 14,435 | 2,005 | 12,430 |
| Total expenditures | <u>3,027,313</u> | <u>4,570,111</u> | <u>(1,542,798)</u> |
| Changes in fund balances | <u>164,334</u> | <u>(1,319,486)</u> | <u>(1,483,820)</u> |
| Fund balances, beginning of year | 2,181,444 | 2,181,444 | |
| Fund balances, end of year | <u>\$ 2,345,778</u> | <u>\$ 861,958</u> | <u>\$ (1,483,820)</u> |

(This page intentionally left blank)

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2016

| | Capital Projects | | Variance - Positive (Negative) |
|--|---------------------|---------------------|--------------------------------------|
| | Budget | Non-GAAP Actual | |
| Revenues: | | | |
| Sales taxes | \$ 332,035 | \$ 459,075 | \$ 127,040 |
| Intergovernmental | 1,790,000 | 118,356 | (1,671,644) |
| Other | 154,082 | 41,531 | (112,551) |
| Investment earnings | 12,000 | 82,140 | 70,140 |
| Total revenues | <u>2,288,117</u> | <u>701,102</u> | <u>(1,587,015)</u> |
| Expenditures: | | | |
| Current - | | | |
| General government | 1,685 | 1,935 | (250) |
| Development services | | | |
| Capital outlay | 14,261,200 | 6,226,093 | 8,035,107 |
| Total expenditures | <u>14,262,885</u> | <u>6,228,028</u> | <u>8,034,857</u> |
| Excess (deficiency) of revenues over expenditures | <u>(11,974,768)</u> | <u>(5,526,926)</u> | <u>6,447,842</u> |
| Other financing sources (uses): | | | |
| Transfer in | 745,686 | 59,137 | (686,549) |
| Transfer out | | (36,323) | (36,323) |
| Total other financing sources (uses): | <u>745,686</u> | <u>22,814</u> | <u>(722,872)</u> |
| Changes in fund balances | <u>(11,229,082)</u> | <u>(5,504,112)</u> | <u>5,724,970</u> |
| Fund balances, beginning of year | 10,859,923 | 10,859,923 | |
| Fund balances (deficits), end of year | <u>\$ (369,159)</u> | <u>\$ 5,355,811</u> | <u>\$ 5,724,970</u> |

| Facilities Replacement Fund | | | Totals | | |
|-----------------------------|-------------------|--------------------------------|---------------------|---------------------|--------------------------------|
| Budget | Non-GAAP Actual | Variance - Positive (Negative) | Budget | Non-GAAP Actual | Variance - Positive (Negative) |
| \$ | \$ | \$ | \$ 332,035 | \$ 459,075 | \$ 127,040 |
| | | | 1,790,000 | 118,356 | (1,671,644) |
| | | | 154,082 | 41,531 | (112,551) |
| | 193 | 193 | 12,000 | 82,333 | 70,333 |
| | <u>193</u> | <u>193</u> | <u>2,288,117</u> | <u>701,295</u> | <u>(1,586,822)</u> |
| | | | 1,685 | 1,935 | (250) |
| 130,000 | 28,500 | 101,500 | 130,000 | 28,500 | 101,500 |
| | 47,698 | (47,698) | 14,261,200 | 6,273,791 | 7,987,409 |
| <u>130,000</u> | <u>76,198</u> | <u>53,802</u> | <u>14,392,885</u> | <u>6,304,226</u> | <u>8,088,659</u> |
| <u>(130,000)</u> | <u>(76,005)</u> | <u>53,995</u> | <u>(12,104,768)</u> | <u>(5,602,931)</u> | <u>6,501,837</u> |
| 81,715 | 81,715 | | 827,401 | 140,852 | (686,549) |
| | | | | (36,323) | (36,323) |
| <u>81,715</u> | <u>81,715</u> | | <u>827,401</u> | <u>104,529</u> | <u>(722,872)</u> |
| <u>(48,285)</u> | <u>5,710</u> | <u>53,995</u> | <u>(11,277,367)</u> | <u>(5,498,402)</u> | <u>5,778,965</u> |
| 102,762 | 102,762 | | 10,962,685 | 10,962,685 | |
| <u>\$ 54,477</u> | <u>\$ 108,472</u> | <u>\$ 53,995</u> | <u>\$ (314,682)</u> | <u>\$ 5,464,283</u> | <u>\$ 5,778,965</u> |

(This page intentionally left blank)

STATISTICAL SECTION

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.

Note: For locally assessed property (i.e., excluding mines, utilities, etc.) Proposition 117, approved by voters in 2012, amended the Arizona Constitution to require that all property taxes after fiscal year 2014-15 be based upon property values limited to 5 percent in annual growth. The aggregate assessed value of all taxable properties within a taxing jurisdiction (i.e., after applying assessment ratios based on the use of a property), including property values with a growth limit, is currently referred to as net limited assessed value and formerly as primary assessed value. In accordance with Proposition 117, this value is used for all taxing purposes beginning fiscal year 2015-16. Aggregate assessed value without a growth limit is currently referred to as net full cash assessed value and formerly as secondary assessed value. This remains the value utilized for determining debt capacity limits.

Town of Fountain Hills, Arizona
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

| | June 30 | | | |
|--|----------------|----------------|----------------|----------------|
| | 2007 | 2008 | 2009 | 2010 |
| Governmental activities: | | | | |
| Net investment in capital assets | \$ 92,508,637 | \$ 94,939,805 | \$ 94,611,110 | \$ 95,467,509 |
| Restricted | 12,210,966 | 12,799,502 | 11,828,137 | 11,396,116 |
| Unrestricted | 14,276,126 | 13,230,726 | 13,765,293 | 12,321,090 |
| Total governmental activities net position | \$ 118,995,729 | \$ 120,970,033 | \$ 120,204,540 | \$ 119,184,715 |

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

June 30

| <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| \$ 92,579,483 | \$ 92,006,103 | \$ 89,800,560 | \$ 89,713,260 | \$ 95,325,824 | \$ 95,647,990 |
| 4,385,595 | 5,951,416 | 5,721,744 | 5,480,867 | 6,310,810 | 4,530,239 |
| <u>22,598,669</u> | <u>21,064,267</u> | <u>20,612,758</u> | <u>19,186,823</u> | <u>15,180,582</u> | <u>17,232,506</u> |
| <u>\$ 119,563,747</u> | <u>\$ 119,021,786</u> | <u>\$ 116,135,062</u> | <u>\$ 114,380,950</u> | <u>\$ 116,817,216</u> | <u>\$ 117,410,735</u> |

Town of Fountain Hills, Arizona
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

| | Fiscal Year Ended June 30 | | | |
|---|----------------------------------|-------------------|-----------------------|-----------------------|
| | 2007 | 2008 | 2009 | 2010 |
| Expenses | | | | |
| Governmental activities: | | | | |
| General government | \$ 4,292,515 | \$ 3,921,588 | \$ 4,231,529 | \$ 3,720,236 |
| Development services | 2,512,170 | 2,861,653 | 2,218,994 | 1,612,287 |
| Public safety | 5,935,742 | 6,532,292 | 7,312,415 | 6,293,323 |
| Streets and highways | 5,225,835 | 5,981,347 | 5,051,294 | 5,202,285 |
| Culture and recreation | 3,282,160 | 3,092,661 | 3,336,616 | 2,927,848 |
| Interest on long-term debt | 1,163,370 | 1,132,947 | 1,033,536 | 950,484 |
| Total governmental activities expenses | <u>22,411,792</u> | <u>23,522,488</u> | <u>23,184,384</u> | <u>20,706,463</u> |
| Program Revenues | | | | |
| Governmental activities: | | | | |
| Fines, fees and charges for services: | | | | |
| General government | 910,978 | 830,963 | 499,914 | 474,434 |
| Development Services | 445,028 | 390,589 | 455,543 | 236,377 |
| Public safety | 982,659 | 746,227 | 55,042 | 59,806 |
| Streets and highways | 28,185 | 23,700 | 50,408 | 266,706 |
| Culture and recreation | 153,218 | 338,332 | 427,137 | 338,357 |
| Operating grants and contributions | - | 56,802 | - | 1,666,498 |
| Capital grants and contributions | 989,100 | 835,659 | 1,353,409 | 632,617 |
| Total governmental activities program revenues | <u>3,509,168</u> | <u>3,222,272</u> | <u>2,841,453</u> | <u>3,674,795</u> |
| Net (Expenses)/Revenues | (18,902,624) | (20,300,216) | (20,342,931) | (17,031,668) |
| General Revenues and Other Changes in Net Assets | | | | |
| Governmental activities: | | | | |
| Taxes: | | | | |
| Property taxes | 1,385,953 | 1,635,542 | 1,531,770 | 1,928,028 |
| Sales taxes | 11,407,714 | 10,489,591 | 8,932,374 | 7,644,440 |
| Franchise taxes | 324,318 | 336,290 | 321,964 | 285,881 |
| State shared revenues | 8,444,731 | 8,848,199 | 8,456,552 | 6,000,923 |
| Investment earnings | 1,094,994 | 780,935 | 258,478 | 22,831 |
| Miscellaneous | 85,418 | 183,963 | 76,300 | 129,740 |
| Total governmental activities | <u>21,357,175</u> | <u>20,638,978</u> | <u>18,045,668</u> | <u>14,083,815</u> |
| Changes in Net Position | | | | |
| Governmental activities | <u>\$ 2,454,551</u> | <u>\$ 338,762</u> | <u>\$ (2,297,263)</u> | <u>\$ (2,947,853)</u> |

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

Fiscal Year Ended June 30

| <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---------------------|-----------------------|-----------------------|-----------------------|---------------------|-------------------|
| \$ 2,876,848 | \$ 3,119,113 | \$ 2,909,443 | \$ 2,432,965 | \$ 2,479,365 | \$ 2,516,966 |
| 1,572,202 | 1,442,613 | 1,633,361 | 1,237,717 | 2,074,611 | 2,253,208 |
| 5,963,067 | 5,820,136 | 6,100,131 | 6,958,056 | 6,816,152 | 7,178,890 |
| 5,567,973 | 4,718,047 | 5,712,817 | 6,630,875 | 4,963,979 | 6,476,688 |
| 2,840,154 | 2,754,731 | 2,779,294 | 2,760,690 | 2,822,954 | 3,124,523 |
| 851,957 | 779,576 | 567,043 | 472,999 | 698,542 | 241,694 |
| <u>19,672,201</u> | <u>18,634,216</u> | <u>19,702,089</u> | <u>20,493,302</u> | <u>19,855,603</u> | <u>21,791,969</u> |
| 337,279 | 272,469 | 380,926 | 215,943 | 337,655 | 298,737 |
| 344,821 | 322,984 | 377,483 | 531,193 | 693,670 | 1,257,492 |
| 65,568 | 63,926 | 63,824 | 74,887 | 86,641 | 90,345 |
| 77,409 | 95,201 | 112,521 | 250,421 | 236,706 | 48,688 |
| 339,341 | 303,508 | 288,745 | 340,353 | 339,158 | 321,189 |
| 1,614,462 | 1,285,656 | 1,266,906 | 1,307,738 | 1,431,017 | 1,615,973 |
| <u>2,273,414</u> | <u>1,392,706</u> | <u>150,535</u> | <u>144,570</u> | <u>2,874,796</u> | <u>381,011</u> |
| <u>5,052,294</u> | <u>3,736,450</u> | <u>2,640,940</u> | <u>2,865,105</u> | <u>5,999,643</u> | <u>4,013,435</u> |
| (14,619,907) | (14,897,766) | (17,061,149) | (17,628,197) | (13,855,960) | (17,778,534) |
| 1,349,079 | 1,453,405 | 1,385,147 | 1,449,646 | 904,660 | 2,569,504 |
| 8,013,480 | 7,787,489 | 7,957,163 | 8,459,267 | 8,983,049 | 9,395,667 |
| 322,659 | 332,130 | 334,668 | 349,414 | 352,673 | 360,320 |
| 5,217,140 | 4,515,511 | 4,979,183 | 5,326,332 | 5,713,235 | 5,813,678 |
| 28,456 | 88,877 | 69,998 | 123,311 | 150,358 | 219,058 |
| <u>68,125</u> | <u>178,393</u> | <u>300,899</u> | <u>166,115</u> | <u>188,251</u> | <u>13,826</u> |
| <u>13,649,860</u> | <u>12,902,400</u> | <u>13,641,911</u> | <u>14,424,439</u> | <u>15,387,566</u> | <u>18,372,053</u> |
| <u>\$ (970,047)</u> | <u>\$ (1,995,366)</u> | <u>\$ (3,419,238)</u> | <u>\$ (3,203,758)</u> | <u>\$ 1,531,606</u> | <u>\$ 593,519</u> |

Town of Fountain Hills, Arizona
Fund Balances — Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

| | June 30 | | | |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2007 | 2008 | 2009 | 2010 |
| General fund | | | | |
| Reserved | \$ 2,934,144 | \$ 3,053,070 | \$ 3,234,860 | \$ 3,235,811 |
| Unreserved, designated | - | - | 127,916 | 333,796 |
| Unreserved, undesignated | <u>3,666,005</u> | <u>3,526,738</u> | <u>3,302,373</u> | <u>3,418,799</u> |
| Total general fund | <u>\$ 6,600,149</u> | <u>\$ 6,579,808</u> | <u>\$ 6,665,149</u> | <u>\$ 6,988,406</u> |
| All other governmental funds | | | | |
| Unreserved, designated | \$ - | \$ - | \$ 95,620 | \$ 159,484 |
| Unreserved, undesignated reported in: | | | | |
| Special revenue funds | 5,305,432 | 3,876,927 | 4,198,782 | 4,498,523 |
| Capital projects funds | 9,916,670 | 10,764,857 | 10,246,395 | 10,020,336 |
| Debt service funds | <u>1,386,674</u> | <u>1,585,740</u> | <u>1,218,971</u> | <u>1,182,834</u> |
| Total all other governmental funds | <u>\$ 16,608,776</u> | <u>\$ 16,227,524</u> | <u>\$ 15,759,768</u> | <u>\$ 15,861,177</u> |

| | June 30 | | | | | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| General fund | | | | | | |
| Nonspendable: | | | | | | |
| Inventory | \$ 13,183 | \$ 9,332 | \$ 10,201 | \$ 14,358 | \$ 6,975 | \$ 9,272 |
| Prepaid items | 29,234 | 28,245 | 32,493 | 18,348 | 10,655 | 4,123 |
| Committed | - | 1,345,200 | 1,345,200 | 1,345,200 | 2,634,923 | 2,652,357 |
| Assigned | - | 2,190,910 | 2,191,063 | 1,647,193 | 1,872,492 | 1,701,086 |
| Unassigned | <u>8,263,549</u> | <u>3,656,173</u> | <u>4,117,865</u> | <u>4,972,853</u> | <u>4,369,457</u> | <u>5,853,806</u> |
| Total general fund | <u>\$ 8,305,966</u> | <u>\$ 7,229,860</u> | <u>\$ 7,696,822</u> | <u>\$ 7,997,952</u> | <u>\$ 8,894,502</u> | <u>\$ 10,220,644</u> |
| All other governmental funds | | | | | | |
| Nonspendable | | | | | | |
| Cash with escrow agent | \$ - | \$ 2,623,895 | \$ 2,301,609 | \$ 1,973,067 | \$ 1,645,000 | \$ - |
| Inventory | | | | | | 5,055 |
| Prepaid items | 6,217 | 5,474 | 4,706 | 997 | 656 | - |
| Restricted | 4,379,987 | 3,300,426 | 3,354,189 | 3,505,590 | 10,066,786 | 4,500,044 |
| Committed | 11,480,869 | 2,039,560 | 2,175,094 | 2,089,361 | 1,079,780 | 1,366,081 |
| Assigned | <u>-</u> | <u>9,312,168</u> | <u>9,005,276</u> | <u>7,147,586</u> | <u>5,444,124</u> | <u>5,943,365</u> |
| 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> | <u>\$ 18,236,346</u> | <u>\$ 11,814,545</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.

(This page intentionally left blank)

Town of Fountain Hills, Arizona
Statement of Revenues, Expenditures and Changes in Fund Balances
Last Ten Fiscal Years
(modified accrual basis of accounting)

| | Fiscal Year Ended June 30 | | | |
|--|----------------------------------|---------------------|---------------------|-------------------|
| | 2007 | 2008 | 2009 | 2010 |
| Revenues | | | | |
| Taxes | \$ 13,159,087 | \$ 12,457,086 | \$ 10,960,001 | \$ 9,818,985 |
| Licenses and permits | 1,239,318 | 1,125,957 | 541,627 | 399,094 |
| Leases and rents | 267,350 | 296,434 | 290,083 | 215,520 |
| Intergovernmental | 8,444,731 | 9,353,260 | 9,607,961 | 7,672,037 |
| Charges for services | 898,955 | 620,300 | 316,676 | 464,036 |
| Other | 85,418 | 183,963 | 43,683 | 129,740 |
| Fines and forfeitures | 304,214 | 287,120 | 339,658 | 297,030 |
| Special assessments | 4,228 | 4,337 | 4,037 | - |
| Investment earnings | 1,094,994 | 780,935 | 258,478 | 22,831 |
| Total revenues | <u>25,498,295</u> | <u>25,109,392</u> | <u>22,362,204</u> | <u>19,019,273</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 4,024,551 | 3,548,295 | 3,514,249 | 3,186,368 |
| Development services | 2,462,643 | 2,751,740 | 2,036,295 | 1,669,449 |
| Public safety | 5,689,020 | 6,321,669 | 6,624,141 | 6,200,227 |
| Streets and highways | 2,028,397 | 2,214,557 | 1,199,850 | 973,746 |
| Culture and recreation | 2,131,374 | 2,257,007 | 2,215,065 | 2,007,737 |
| Capital outlay | 2,002,887 | 5,239,169 | 3,708,277 | 1,254,223 |
| Debt service: | | | | |
| Principal | 1,968,228 | 2,153,228 | 2,240,000 | 2,460,000 |
| Interest | 1,058,665 | 1,025,321 | 925,663 | 825,988 |
| Other debt service | - | - | 3,471 | 16,869 |
| Total expenditures | <u>21,365,765</u> | <u>25,510,986</u> | <u>22,467,011</u> | <u>18,594,607</u> |
| Excess (deficiency) of revenues over (under) expenditures | 4,132,530 | (401,594) | (104,807) | 424,666 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 4,383,069 | 2,756,988 | 3,759,735 | 1,127,776 |
| Transfers out | (4,383,069) | (2,756,988) | (3,950,654) | (1,127,776) |
| Issuance of refunding bonds | - | - | - | - |
| Issuance of long-term debt | - | - | - | - |
| Bond Premium | - | - | - | - |
| Payment to refunded bonds escrow agent | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>(190,919)</u> | <u>-</u> |
| Net change in fund balances | <u>\$ 4,132,530</u> | <u>\$ (401,594)</u> | <u>\$ (295,726)</u> | <u>\$ 424,666</u> |
| Debt service as a percentage of noncapital expenditures | 15.4% | 15.3% | 15.7% | 18.9% |

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

Fiscal Year Ended June 30

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|----|-------------------|-------------------|-------------------|-----------------------|---------------------|-----------------------|
| \$ | 9,704,054 | \$ 9,577,321 | \$ 9,713,445 | \$ 10,271,737 | \$ 10,240,382 | \$ 12,299,285 |
| | 312,367 | 194,976 | 570,904 | 891,782 | 1,043,382 | 1,372,045 |
| | 227,195 | 206,018 | 213,871 | 252,584 | 269,753 | 258,165 |
| | 7,165,103 | 6,035,448 | 6,323,047 | 6,677,518 | 9,770,048 | 7,559,436 |
| | 388,635 | 405,663 | 162,086 | 161,376 | 176,541 | 197,109 |
| | 72,125 | 178,393 | 300,899 | 134,114 | 188,251 | 147,662 |
| | 236,221 | 223,673 | 187,251 | 170,995 | 186,456 | 209,380 |
| | - | - | - | - | - | - |
| | 28,456 | 88,877 | 69,998 | 123,311 | 150,358 | 219,058 |
| | <u>18,134,156</u> | <u>16,910,369</u> | <u>17,541,501</u> | <u>18,683,417</u> | <u>22,025,171</u> | <u>22,262,140</u> |
| | 2,575,975 | 2,887,321 | 2,699,109 | 2,194,845 | 2,275,124 | 2,324,026 |
| | 1,564,615 | 1,421,787 | 1,643,757 | 1,774,983 | 2,073,990 | 2,217,814 |
| | 5,772,800 | 5,869,445 | 6,022,269 | 6,890,770 | 6,675,874 | 7,034,887 |
| | 1,123,230 | 1,054,930 | 2,058,990 | 3,085,559 | 1,275,779 | 2,498,714 |
| | 1,871,446 | 1,794,332 | 1,791,018 | 1,921,939 | 1,962,585 | 2,240,865 |
| | 1,043,304 | 884,323 | 453,002 | 1,750,465 | 8,799,068 | 6,471,382 |
| | 2,114,999 | 1,965,000 | 2,280,000 | 2,415,000 | 1,850,000 | 4,260,000 |
| | 729,077 | 639,135 | 554,860 | 460,811 | 454,957 | 308,106 |
| | 15,254 | 55,752 | 12,183 | 12,188 | 243,585 | 2,005 |
| | <u>16,810,700</u> | <u>16,572,025</u> | <u>17,515,188</u> | <u>20,506,560</u> | <u>25,610,962</u> | <u>27,357,799</u> |
| | 1,323,456 | 338,344 | 26,313 | (1,823,143) | (3,585,791) | (5,095,659) |
| | 431,880 | 2,470,027 | 1,279,397 | 1,838,453 | 2,519,774 | 562,044 |
| | (431,880) | (2,470,027) | (1,279,397) | (1,838,453) | (2,519,774) | (562,044) |
| | - | - | - | - | 4,180,000 | - |
| | - | - | - | - | 7,565,000 | - |
| | - | - | - | - | 342,086 | - |
| | - | - | - | - | (4,085,000) | - |
| | - | - | - | - | 8,002,086 | - |
| \$ | <u>1,323,456</u> | <u>\$ 338,344</u> | <u>\$ 26,313</u> | <u>\$ (1,823,143)</u> | <u>\$ 4,416,295</u> | <u>\$ (5,095,659)</u> |
| | 19.6% | 18.7% | 16.7% | 16.0% | 15.2% | 21.9% |

Town of Fountain Hills, Arizona
Governmental Activities - Tax Revenues by Source
Last Ten Fiscal Years
(modified accrual basis of accounting)

| Fiscal Year Ended June 30 | Property Tax | Sales Tax | Franchise Tax | Total |
|--------------------------------------|---------------------|------------------|----------------------|---------------|
| 2007 | \$ 1,427,055 | \$ 11,407,714 | \$ 324,318 | \$ 11,732,032 |
| 2008 | 1,631,205 | 10,489,591 | 336,290 | 10,825,881 |
| 2009 | 1,705,663 | 8,932,374 | 321,964 | 9,254,338 |
| 2010 | 1,888,664 | 7,644,441 | 285,881 | 7,930,322 |
| 2011 | 1,367,915 | 8,013,480 | 322,659 | 8,336,139 |
| 2012 | 1,457,702 | 7,779,219 | 332,130 | 8,111,349 |
| 2013 | 1,421,614 | 7,957,163 | 334,668 | 8,291,831 |
| 2014 | 1,463,056 | 8,459,267 | 349,414 | 8,808,681 |
| 2015 | 904,660 | 8,983,050 | 352,673 | 9,335,723 |
| 2016 | 2,543,298 | 9,395,667 | 360,320 | 9,755,987 |

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

| Fiscal Year | Net Assessed Taxable Value | Total Direct Tax Rate* | Estimated Actual Taxable Value | Net Assessed Taxable Value as a Percentage of Estimated Actual Taxable Value |
|--------------------|-----------------------------------|-------------------------------|---------------------------------------|---|
| 2007 | \$ 397,380,162 | \$ 0.3012 | \$ 3,353,535,254 | 11.85% |
| 2008 | 610,738,122 | 0.2124 | 5,318,424,271 | 11.48% |
| 2009 | 684,742,347 | 0.1972 | 5,867,175,208 | 11.67% |
| 2010 | 651,218,464 | 0.2273 | 5,524,103,469 | 11.79% |
| 2011 | 576,535,714 | 0.1639 | 4,915,512,973 | 11.73% |
| 2012 | 451,860,136 | 0.2258 | 3,971,538,882 | 11.38% |
| 2013 | 377,521,718 | 0.2657 | 3,309,940,258 | 11.41% |
| 2014 | 366,302,672 | 0.2773 | 3,260,087,621 | 11.24% |
| 2015 | 402,965,927 | 0.1151 | 3,616,672,185 | 11.14% |
| 2016 | 402,135,304 | 0.5246 | 4,290,989,150 | 9.37% |

* Per \$100 of assessed full cash value.

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

Town of Fountain Hills, Arizona
Principal Property Taxpayers
June 30, 2016 and 2007

| Taxpayer | 2016 | | | 2007 | | |
|--|----------------------------|------|--|------------------------------|------|--|
| | Net Limited Assessed Value | Rank | Percentage of Total Net Limited Assessed Value | Net Full Cash Assessed Value | Rank | Percentage of Total Net Full Cash Assessed Value |
| Chaparral City Water Company | \$ 3,207,780 | 1 | 0.80% | \$ 3,114,960 | 2 | 0.78% |
| Adero Canyon II LLC | 2,918,983 | 2 | 0.73% | | | |
| Hunter Retail LLC | 2,516,743 | 3 | 0.63% | | | |
| WSL Fountain View Investors V, LLC | 1,854,251 | 4 | 0.46% | 2,425,837 | 5 | 0.61% |
| Whitestone Fountain Hills, LLC | 1,720,807 | 5 | 0.43% | | | |
| Target Corporation | 1,496,191 | 6 | 0.37% | 1,580,692 | 7 | 0.40% |
| Smith's Food & Drug Centers Inc. | 1,228,266 | 7 | 0.31% | 1,370,079 | 10 | 0.34% |
| EN, LLC | 1,224,187 | 8 | 0.30% | 2,509,538 | 4 | 0.63% |
| Qwest Corporation | 1,132,473 | 9 | 0.28% | 2,955,801 | 3 | 0.74% |
| 29SC Ridgeview LP | 1,079,348 | 10 | 0.27% | | | |
| Inland Western Fountain Hills Four Peaks LLC | | | | 3,216,251 | 1 | 0.81% |
| Four Peaks AZ Development LLC | | | | 1,752,935 | 6 | 0.44% |
| Fountain Hills Hotel Developers LLC | | | | 1,516,379 | 8 | 0.38% |
| Sun Tech Development, LLC | | | | 1,370,079 | 9 | 0.34% |
| Totals | \$ 18,379,029 | | 4.58% | \$ 21,812,551 | | 5.47% |

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

| 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 |
|--------------------|-----------------------|--------------------------------|---|-----------------------------------|------------------------------|---|
| 2007 | \$ 1,391,521 | \$ 1,353,901 | 97.3% | \$ 27,206 | \$ 1,381,107 | 99.3% |
| 2008 | 1,630,534 | 1,574,505 | 96.6% | 47,833 | 1,622,338 | 99.5% |
| 2009 | 1,719,105 | 1,656,021 | 96.3% | 53,379 | 1,709,400 | 99.4% |
| 2010 | 1,895,552 | 1,834,884 | 96.8% | 52,189 | 1,887,073 | 99.6% |
| 2011 | 1,340,544 | 1,298,832 | 96.9% | 24,924 | 1,323,756 | 98.7% |
| 2012 | 1,446,076 | 1,403,367 | 97.0% | 20,255 | 1,423,622 | 98.4% |
| 2013 | 1,429,284 | 1,393,084 | 97.5% | 18,931 | 1,412,015 | 98.8% |
| 2014 | 1,449,884 | 1,421,918 | 98.1% | 18,546 | 1,440,464 | 99.4% |
| 2015 | 892,104 | 878,216 | 98.4% | 7,475 | 885,692 | 99.3% |
| 2016 | 2,532,115 | 2,502,081 | 98.8% | - | 2,502,081 | 98.8% |

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)

| | Fiscal Year Ended June 30 | | | |
|-------------------------------|----------------------------------|----------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 |
| Sales category: | | | | |
| Construction | \$ 2,695,237 | \$ 2,063,189 | \$ 1,414,308 | \$ 538,562 |
| Transportation/utilities | 1,330,956 | 1,422,158 | 1,311,735 | 1,424,828 |
| Wholesale/retail | 4,144,430 | 3,912,579 | 3,687,605 | 3,556,292 |
| Restaurants/bars | 537,596 | 582,226 | 493,242 | 509,624 |
| Real estate, rental & leasing | 785,490 | 983,047 | 665,153 | 650,400 |
| Services | 280,290 | 327,411 | 258,139 | 241,685 |
| Other | 1,633,715 | 1,198,981 | 1,102,192 | 723,050 |
| Total | <u>\$ 11,407,714</u> | <u>\$ 10,489,591</u> | <u>\$ 8,932,374</u> | <u>\$ 7,644,441</u> |

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

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

Fiscal Year Ended June 30

| <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| \$ 567,135 | \$ 600,403 | \$ 567,589 | \$ 783,064 | \$ 888,311 | \$ 918,150 |
| 1,388,075 | 1,409,349 | 1,402,734 | 1,375,623 | 1,383,464 | 1,438,191 |
| 3,567,986 | 3,601,904 | 3,598,895 | 3,653,181 | 3,889,874 | 4,116,630 |
| 559,931 | 575,704 | 645,258 | 655,654 | 695,041 | 709,787 |
| 731,758 | 678,326 | 720,023 | 782,453 | 816,890 | 753,570 |
| 276,566 | 274,521 | 310,303 | 342,079 | 340,002 | 365,924 |
| 922,029 | 639,012 | 712,360 | 867,213 | 969,468 | 1,093,415 |
| <u>\$ 8,013,480</u> | <u>\$ 7,779,219</u> | <u>\$ 7,957,162</u> | <u>\$ 8,459,267</u> | <u>\$ 8,983,050</u> | <u>\$ 9,395,667</u> |

Town of Fountain Hills, Arizona
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

| Fiscal Year Ended June 30 | Town Rate | Maricopa County | State Rate | Total Tax Rate |
|--|----------------------|----------------------------|-----------------------|---------------------------|
| 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% |
| 2015 | 2.60% | 0.70% | 5.60% | 8.90% |
| 2016 | 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

| Fiscal Year Ended June 30 | 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 | | |
| 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 | 612 |
| 2013 | 2,900,000 | 2,800,000 | 5,650,000 | - | - | 11,350,000 | 507 |
| 2014 | 2,000,000 | 2,495,000 | 4,425,000 | - | - | 8,920,000 | 389 |
| 2015 | 9,175,000 | 2,300,000 | 1,880,000 | - | - | 13,355,000 | 628 |
| 2016 | 7,405,000 | 1,935,000 | 1,400,000 | - | - | 10,740,000 | 449 |

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 issuance discounts and premiums.

Population and personal income data can be found in the Schedule of Demographic and Economic Statistics.
 Personal income for fiscal year 2016 was not available.

Town of Fountain Hills, Arizona
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

| 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 |
|--------------------|---------------------------------|---|---|--|---|---|-----------------------------------|
| 2007 | \$8,620,000 | \$3,353,535,254 | 0.26% | \$ 376 | 11,595,000 | \$ 506 | \$ 25,498,295 |
| 2008 | 7,570,000 | 5,318,424,271 | 0.14% | 329 | 10,790,000 | 469 | 25,113,211 |
| 2009 | 6,530,000 | 5,867,175,208 | 0.11% | 287 | 9,905,000 | 436 | 21,331,076 |
| 2010 | 5,415,000 | 5,524,103,469 | 0.10% | 241 | 8,920,000 | 397 | 18,958,595 |
| 2011 | 4,595,000 | 4,915,512,973 | 0.09% | 204 | 7,885,000 | 350 | 18,248,326 |
| 2012 | 3,755,000 | 3,971,538,882 | 0.09% | 165 | 6,800,000 | 300 | 17,184,895 |
| 2013 | 2,900,000 | 3,309,940,258 | 0.09% | 127 | 5,650,000 | 247 | 17,723,994 |
| 2014 | 2,000,000 | 3,260,087,621 | 0.06% | 85 | 4,695,000 | 199 | 18,891,967 |
| 2015 | 9,175,000 | 3,616,672,185 | 0.25% | 384 | 3,525,000 | 147 | 22,161,316 |
| 2016 | 7,405,000 | 4,290,989,150 | 0.17% | 310 | 1,400,000 | 59 | 22,262,140 |

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

Note: All bond amounts are net of original issuance 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, 2016

| <u>Governmental Unit</u> | <u>Outstanding Debt</u> | <u>Estimated Percentage Applicable</u> | <u>Estimated Share of Overlapping Debt</u> |
|--|-------------------------|--|--|
| Overlapping: | | | |
| Maricopa County | \$ - | 1.17% | \$ - |
| Maricopa County Community College District | 534,225,000 | 1.17% | 6,250,433 |
| Maricopa Integrated Health System | 73,000,000 | 1.17% | 854,100 |
| East Valley Institute of Technology | - | 2.64% | - |
| Fountain Hills Unified School District | 12,975,000 | 96.18% | 12,479,355 |
| Eagle Mountain Community Facilities District | 1,935,000 | 100.00% | <u>1,935,000</u> |
| | | | 21,518,888 |
| Direct: | | | |
| Town of Fountain Hills, Arizona | | | |
| General Obligation Bonds | | | 7,405,000 |
| Revenue Bonds | | | <u>1,400,000</u> |
| | | | <u>8,805,000</u> |
| Total direct and overlapping debt | | | <u>\$ 30,323,888</u> |

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

| | Fiscal Year Ended June 30 | | | |
|---|----------------------------------|-----------------------|-----------------------|-----------------------|
| | 2007 | 2008 | 2009 | 2010 |
| 6% Debt Limit | | | | |
| Debt limit | \$ 23,842,810 | \$ 36,644,287 | \$ 41,084,541 | \$ 39,073,108 |
| Total applicable to limit | <u>550,000</u> | <u>275,000</u> | <u>-</u> | <u>-</u> |
| Legal debt margin | <u>\$ 23,292,810</u> | <u>\$ 36,369,287</u> | <u>\$ 41,084,541</u> | <u>\$ 39,073,108</u> |
| Total debt applicable to the limit as a percentage of debt limit | | | | |
| | 2% | 1% | - | - |
| 20% Debt Limit | | | | |
| Debt limit | \$ 79,476,032 | \$ 122,147,624 | \$ 136,948,469 | \$ 130,243,693 |
| Total applicable to limit | <u>8,070,000</u> | <u>7,295,000</u> | <u>6,530,000</u> | <u>5,415,000</u> |
| Legal debt margin | <u>\$ 71,406,032</u> | <u>\$ 114,852,624</u> | <u>\$ 130,418,469</u> | <u>\$ 124,828,693</u> |
| Total debt applicable to the limit as a percentage of debt limit | | | | |
| | 10% | 6% | 5% | 4% |

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

Fiscal Year Ended June 30

| <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 34,592,143 | \$ 27,111,608 | \$ 22,651,303 | \$ 21,978,160 | \$ 24,177,956 | \$ 24,128,118 |
| - | - | - | - | - | - |
| <u>\$ 34,592,143</u> | <u>\$ 27,111,608</u> | <u>\$ 22,651,303</u> | <u>\$ 21,978,160</u> | <u>\$ 24,177,956</u> | <u>\$ 24,128,118</u> |
| - | - | - | - | - | |
| \$115,307,143 | \$ 90,372,027 | \$ 75,504,344 | \$ 73,260,534 | \$ 80,593,185 | \$ 80,427,061 |
| <u>4,595,000</u> | <u>3,755,000</u> | <u>2,900,000</u> | <u>2,000,000</u> | <u>9,175,000</u> | <u>7,405,000</u> |
| <u>\$110,712,143</u> | <u>\$ 86,617,027</u> | <u>\$ 72,604,344</u> | <u>\$ 71,260,534</u> | <u>\$ 71,418,185</u> | <u>\$ 73,022,061</u> |
| 4% | 4% | 4% | 3% | 11% | 9% |

**Town of Fountain Hills, Arizona
Calculation of Legal Debt Margin
as of June 30, 2016**

| | |
|--|--------------------------|
| Net limited assessed valuation | \$402,135,304 |
| <p>Water, Sewer, Artificial Lighting, Parks, Open Space, Public Safety, Law Enforcement, Fire and Emergency Facilities, Street and Transportation Facilities, and Recreational Facility Improvements</p> <hr/> | |
| Debt limit - 20% of net limited assessed valuation | \$ 80,427,061 |
| Net debt applicable to limit | <u>7,405,000</u> |
| 20% legal debt margin | <u>73,022,061</u> |
| <p><u>All Other General Obligation Bonds</u></p> <hr/> | |
| Debt limit - 6% of net limited assessed valuation | 24,128,118 |
| Net debt applicable to limit | <u>-</u> |
| 6% legal debt margin | <u>24,128,118</u> |
| Total legal debt margin | <u>\$ 97,150,179</u> |

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

**Town of Fountain Hills
Revenue Bond Coverage
Last Ten Fiscal Years**

| <u>Municipal Facilities Corporation Revenue Bonds</u> | | | | | |
|---|------------------|-----------------|--------------|-----------------------------|-----------------|
| Fiscal Year Ended June 30 | Principal | Interest | Total | Pledged Revenues | Coverage |
| 2007 | \$ 715,000 | \$ 473,349 | \$ 1,188,349 | \$ 18,408,511 | 15.5 |
| 2008 | 805,000 | 498,878 | 1,303,878 | 18,362,405 | 14.1 |
| 2009 | 885,000 | 458,799 | 1,343,799 | 15,930,962 | 11.9 |
| 2010 | 985,000 | 416,886 | 1,401,886 | 14,008,592 | 10.0 |
| 2011 | 1,035,000 | 386,630 | 1,421,630 | 13,489,416 | 9.5 |
| 2012 | 1,085,000 | 327,312 | 1,412,312 | 12,995,685 | 9.2 |
| 2013 | 1,150,000 | 285,287 | 1,435,287 | 13,397,842 | 9.3 |
| 2014 | 1,225,000 | 234,176 | 1,459,176 | 14,313,158 | 9.8 |
| 2015 | 2,545,000 | 184,500 | 2,729,500 | 15,583,484 | 5.7 |
| 2016 | 480,000 | 32,740 | 512,740 | 16,250,673 | 31.7 |

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

| | Calendar Year | | | | |
|---|---------------|-----------|-----------|-----------|-----------|
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| Population | 22,788 | 22,932 | 22,984 | 22,736 | 22,489 |
| Per capita personal income | \$ 32,230 | \$ 32,230 | \$ 38,439 | \$ 38,918 | \$ 40,672 |
| Median age | 46.4 | 46.4 | 48.3 | 48.9 | 53.9 |
| Public school enrollment | 2,425 | 2,307 | 2,233 | 2,203 | 2,103 |
| Town of Fountain Hills unemployment rate | 1.7% | 1.5% | 2.6% | 4.5% | 4.8% |
| Land use | | | | | |
| Total acres | 12,996.0 | 13,005.7 | 13,005.7 | 13,005.7 | 13,005.7 |
| Total square miles | 20.31 | 20.32 | 20.32 | 20.32 | 20.32 |
| Vacant lots | N/A | 3,355 | 1,295 | 1,253 | 1,226 |
| Number of units | | | | | |
| Housing | 12,681 | 12,850 | 12,832 | 12,927 | 12,983 |
| Lodging | 4 | 4 | 4 | 4 | 4 |
| Restaurants | 50 | 53 | 47 | 52 | 53 |
| Shopping centers | 14 | 14 | 19 | 19 | 20 |
| Schools | | | | | |
| Public | 4 | 4 | 4 | 4 | 4 |
| Preschool | 5 | 4 | 4 | 4 | 4 |
| Charter | 2 | 1 | 1 | 1 | 1 |

Sources:

The source of the "Per Capita Personal Income", "Median Age" and "Unemployment Rate" information is Sites USA.

The source of the "Population" is the U.S. Census Bureau.

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 the information is not available.

* Information obtained is based on calendar years; therefore, the latest information obtained was from 2015

Calendar Year

| | 2011 | 2012 | 2013 | 2014 | 2015* |
|----|-------------|-------------|-------------|-------------|--------------|
| | 22,554 | 22,695 | 22,893 | 23,602 | 23,899 |
| \$ | 44,660 | \$ 47,260 | \$ 48,244 | \$ 46,619 | \$ 48,240 |
| | 53.9 | 53.9 | 53.0 | 53.7 | 53.8 |
| | 1,981 | 1,886 | 1,820 | 1,692 | 1,619 |
| | 6.7% | 5.6% | 6.0% | 5.4% | 2.4% |
| | 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 |
| | 1,218 | 1,209 | 1,196 | 1,165 | 1,247 |
| | 12,990 | 12,977 | 12,991 | 12,981 | 13,002 |
| | 4 | 4 | 4 | 4 | 4 |
| | 56 | 56 | 54 | 43 | 46 |
| | 20 | 20 | 20 | 20 | 20 |
| | 4 | 3 | 3 | 3 | 3 |
| | 4 | 6 | 7 | 7 | 7 |
| | 1 | 1 | 1 | 1 | 1 |

Town of Fountain Hills, Arizona
Principal Employers
Prior Fiscal Year and Nine Years Ago

| Employer | 2015 | | | 2006 | |
|---|----------------------------|-------------|--|----------------------------|-------------|
| | Number of Employees | Rank | Percentage of Total Town Employment | Number of Employees | Rank |
| Fountain Hills Unified School District No. 98 | 171 | 1 | 4.2% | 270 | 1 |
| Fountain View Village | 140 | 2 | 3.4% | | |
| Rural Metro Corporation | 111 | 3 | 2.7% | | |
| Target Stores | 101 | 4 | 2.5% | 130 | 3 |
| Firerock Country Club | 100 | 5 | 2.4% | | |
| Safeway Stores | 88 | 6 | 2.2% | 95 | 5 |
| Fry's Food Stores | 80 | 7 | 2.0% | 80 | 7 |
| Bashas | 70 | 8 | 1.7% | 70 | 8 |
| Eagle Mountain Golf Club | 70 | 9 | 1.7% | 70 | 10 |
| Sunridge Canyon Golf Course | 59 | 10 | 1.4% | 70 | 9 |
| Monks Construction | | | | 190 | 2 |
| MCO Properties, Inc. | | | | 125 | 4 |
| Town of Fountain Hills | | | | 87 | 6 |
| Totals | 990 | | 24.2% | 1,187 | |
| Total Town employment | 4,082 | | | | |

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

Note: Total Town employment for 2006 was not available.

* Data for 2016 was not available.

Town of Fountain Hills, Arizona
Authorized Full-time Equivalent Government Employees by Function
Last Ten Fiscal Years

| | Fiscal Year Ended June 30 | | | | | | | | | |
|----------------------|----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
| Municipal court | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 4.00 | 3.63 | 3.63 |
| Administration | 13.00 | 13.50 | 13.50 | 13.25 | 11.25 | 11.58 | 11.68 | 10.56 | 11.33 | 11.63 |
| Development services | 41.00 | 40.50 | 40.00 | 35.75 | 23.25 | 20.25 | 18.75 | 16.25 | 16.30 | 16.30 |
| Community services | <u>28.00</u> | <u>29.25</u> | <u>29.75</u> | <u>27.10</u> | <u>21.63</u> | <u>21.53</u> | <u>21.18</u> | <u>20.18</u> | <u>21.06</u> | <u>20.76</u> |
| Total | <u>87.00</u> | <u>88.25</u> | <u>88.25</u> | <u>81.10</u> | <u>61.13</u> | <u>58.36</u> | <u>56.61</u> | <u>50.99</u> | <u>52.32</u> | <u>52.32</u> |

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

| Function/Program | Fiscal Year Ended June 30 | | | | |
|--|---------------------------|--------|-------|--------|-------|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| Municipal Court | | | | | |
| Cases filed | N/A | N/A | N/A | 3,520 | 2,584 |
| Hearings/Trials held | N/A | N/A | N/A | 1,089 | 738 |
| Administration | | | | | |
| FTEs per 1,000 residents | 3.6 | 3.5 | 3.3 | 3.2 | 2.7 |
| Registered voters - general election | none | 14,335 | none | 15,511 | none |
| Voter turnout - general election | none | 39% | none | 50% | none |
| Development Services | | | | | |
| Building permits issued | 759 | 716 | 391 | 409 | 354 |
| Building inspections conducted | 7,975 | 5,692 | 3,189 | 1,936 | 1,546 |
| Number of code violation cases | N/A | N/A | N/A | 1,024 | 843 |
| Number of zoning cases | N/A | N/A | N/A | 7 | 14 |
| Community Services | | | | | |
| Number of Community Center bookings | N/A | N/A | N/A | 3,396 | 3,315 |
| Number of participants in recreational programs | N/A | N/A | N/A | 1,960 | 1,759 |
| Number of Senior Services members | N/A | N/A | N/A | 1,105 | 1,205 |
| Number of home delivered meals | N/A | N/A | N/A | 10,169 | 9,742 |
| Law Enforcement (contracted) | | | | | |
| Physical arrests | 993 | 524 | 825 | 679 | 645 |
| Traffic violations | 2,315 | 2,504 | 4,900 | 2,959 | 1,909 |
| Fire & Emergency Medical (contracted) | | | | | |
| Total incident responses | 3,069 | 2,694 | 2,787 | 2,875 | 3,179 |
| Average response time (in minutes) | 3:49 | 3:37 | 3:44 | 4:32 | 3:46 |

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

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

Fiscal Year Ended June 30

| 2012 | 2013 | 2014 | 2015 | 2016 |
|-------------|-------------|-------------|-------------|-------------|
| 2,173 | 1,740 | 1,649 | 1,738 | 1,593 |
| 731 | 703 | 1,665 | 1,585 | 1,564 |
| 2.6 | 2.5 | 2.2 | 2.2 | 2.2 |
| 16,074 | none | N/A | 16,213 | none |
| 34% | none | N/A | 38% | none |
| 352 | 419 | 566 | 443 | 381 |
| 1,257 | 1,395 | 2,131 | 2,448 | 2,129 |
| 804 | 746 | 716 | 752 | 713 |
| 7 | 10 | 41 | 65 | 72 |
| 3,236 | 3,196 | 3,383 | 3,439 | 3,124 |
| 1,833 | 1,789 | 2,291 | 2,249 | 2,910 |
| 1,208 | 1,118 | 1,189 | 1,273 | 1,326 |
| 8,419 | 6,941 | 4,799 | 4,035 | 3,497 |
| 522 | 545 | 743 | 445 | 220 |
| 1,366 | 1,296 | 1,379 | 1,539 | 1,215 |
| 3,082 | 3,136 | 2,956 | 3,166 | 3,191 |
| 3:50 | 3:53 | 3:37 | 3:57 | 3:25 |

Town of Fountain Hills, Arizona
Capital Assets Statistics by Function
Last Ten Fiscal Years

| Function/Program | Fiscal Year Ended June 30 | | | | | |
|-----------------------------------|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Public safety | | | | | | |
| Number of fire stations | 2 | 2 | 2 | 2 | 2 | 2 |
| Other highways and streets | | | | | | |
| Streets (centerline miles) | 178.9 | 178.9 | 178.9 | 178.9 | 178.9 | 178.9 |
| Streets (lane miles) | 390 | 390 | 390 | 390 | 390 | 390 |
| Pedestrian lighting | 34 | 34 | 34 | 34 | 34 | 34 |
| Traffic signals | 12 | 13 | 13 | 13 | 13 | 13 |
| Parks and recreation | | | | | | |
| Acreage-developed parks | 116 | 116 | 116 | 116 | 116 | 116 |
| Playgrounds | 6 | 7 | 7 | 7 | 7 | 7 |
| Baseball/softball diamonds | 6 | 6 | 6 | 6 | 6 | 6 |
| Soccer/football fields | 1 | 7 | 7 | 7 | 7 | 7 |
| Community centers | 1 | 1 | 1 | 1 | 1 | 1 |
| Preserve acreage | N/A | N/A | N/A | N/A | N/A | 740 |
| Miles of trails | N/A | N/A | N/A | N/A | N/A | 4.3 |

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

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

Fiscal Year Ended June 30

| <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|-------------|-------------|-------------|-------------|
| 2 | 2 | 2 | 2 |
| 178.9 | 178.9 | 178.9 | 178.9 |
| 390 | 390 | 390 | 390.5 |
| 34 | 34 | 85 | 91 |
| 13 | 13 | 13 | 13 |
| 116 | 116 | 119 | 119 |
| 7 | 7 | 7 | 7 |
| 6 | 6 | 6 | 6 |
| 7 | 7 | 7 | 7 |
| 1 | 1 | 1 | 1 |
| 740 | 740 | 807.2 | 807.2 |
| 10.43 | 10.43 | 15.8 | 15.8 |

(This page intentionally left blank)



Town of Fountain Hills
16705 E. Avenue of the Fountains
Fountain Hills, Arizona 85268
480-816-5100
www.fh.az.gov



- facebook.com/TownofFountainHills



- twitter.com/fhazgov