<table>
<thead>
<tr>
<th>CONTENTS</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Accountant’s Report</td>
<td>1</td>
</tr>
<tr>
<td>Annual Expenditure Limitation Report - Part I</td>
<td>2</td>
</tr>
<tr>
<td>Annual Expenditure Limitation Report - Part II</td>
<td>3</td>
</tr>
<tr>
<td>Annual Expenditure Limitation Report - Reconciliation</td>
<td>4</td>
</tr>
<tr>
<td>Notes to Annual Expenditure Limitation Report</td>
<td>5</td>
</tr>
</tbody>
</table>
INDEPENDENT ACCOUNTANT’S REPORT

The Auditor General of the State of Arizona

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

We have examined the accompanying Annual Expenditure Limitation Report of Town of Fountain Hills, Arizona for the year ended June 30, 2016. The Town of Fountain Hills, Arizona’s management is responsible for this report. Our responsibility is to express an opinion on this report based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the amounts and disclosures in the report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Annual Expenditure Limitation Report referred to above presents, in all material respects, the information prescribed by the uniform expenditure reporting system as described in Note 1.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 19, 2016
1. Economic Estimates Commission expenditure limitation $ 26,804,069

2. Voter-approved alternative expenditure limitation
   (approved N/A) 

3. Enter applicable amount from line 1 or line 2 $ 26,804,069

4. Amount subject to the expenditure limitation
   (total amount from Part II, Line C) $ 15,310,762

5. Amount under the expenditure limitation $ 11,493,307

I hereby certify, to the best of my knowledge and belief, that the information contained in this report is accurate and in accordance with the requirements of the uniform expenditure reporting system.

Signature of Chief Fiscal Officer

Name and Title: Craig Rudolphy, Finance Director

Telephone Number: 480-816-5162 Date: October 19, 2016

See accompanying notes to report.
**TOWN OF FOUNTAIN HILLS, ARIZONA**

**ANNUAL EXPENDITURE LIMITATION REPORT - PART II**

**YEAR ENDED JUNE 30, 2016**

<table>
<thead>
<tr>
<th>Description</th>
<th>Governmental Funds</th>
<th>Enterprise Funds</th>
<th>Internal Service Funds</th>
<th>Fiduciary Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Amounts reported on the Reconciliation, Line D</strong></td>
<td>$ 24,787,833</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$ 24,787,833</td>
</tr>
<tr>
<td><strong>B. Less exclusions claimed:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Bond proceeds</td>
<td>5,415,799</td>
<td>5,415,799</td>
<td></td>
<td></td>
<td>5,415,799</td>
</tr>
<tr>
<td>Debt service requirements on bonded indebtedness</td>
<td>2,001,850</td>
<td>2,001,850</td>
<td></td>
<td></td>
<td>2,001,850</td>
</tr>
<tr>
<td>Proceeds from other long-term obligations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt service requirements on other long-term obligations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Dividends, interest, and gains on the sale or redemption of investment securities</td>
<td>193,084</td>
<td></td>
<td></td>
<td></td>
<td>193,084</td>
</tr>
<tr>
<td>3 Trustee or custodian</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Grants and aid from the federal government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes</td>
<td>75,000</td>
<td></td>
<td></td>
<td></td>
<td>75,000</td>
</tr>
<tr>
<td>6 Amounts received from the State of Arizona</td>
<td>219,327</td>
<td>219,327</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Quasi-external interfund transactions</td>
<td>8,532</td>
<td></td>
<td></td>
<td></td>
<td>8,532</td>
</tr>
<tr>
<td>8 Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Highway user revenues in excess of those received in fiscal year 1979-80</td>
<td>1,563,479</td>
<td></td>
<td></td>
<td></td>
<td>1,563,479</td>
</tr>
<tr>
<td>10 Contracts with other political subdivisions</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Refunds, reimbursements, and other recoveries</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Voter-approved exclusions not identified above</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 Prior years carryforward</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 Total exclusions claimed</td>
<td>9,477,071</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9,477,071</td>
</tr>
<tr>
<td><strong>C. Amounts subject to expenditure limitation</strong></td>
<td>$ 15,310,762</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$ 15,310,762</td>
</tr>
</tbody>
</table>

See accompanying notes to report.
### TOWN OF FOUNTAIN HILLS, ARIZONA
#### ANNUAL EXPENDITURE LIMITATION REPORT - RECONCILIATION
#### YEAR ENDED JUNE 30, 2016

<table>
<thead>
<tr>
<th>Description</th>
<th>Governmental Funds</th>
<th>Enterprise Funds</th>
<th>Internal Service Funds</th>
<th>Fiduciary Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund financial statements</td>
<td>$27,357,799</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$27,357,799</td>
</tr>
<tr>
<td>B. Subtractions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Items not requiring the use of working capital -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Loss on disposal of capital assets</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Other postemployment benefits expense</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Claims incurred but not reported</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Pension expense</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Landfill closure and postclosure care costs</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>2. Expenditures of separate legal entities established under Arizona Revised Statues</td>
<td>$2,569,966</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$2,569,966</td>
</tr>
<tr>
<td>3. Present value of net minimum capital lease and installment purchase contract payments recorded as expenditures at inception of the agreements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Involuntary court judgments</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>5. Total subtractions</td>
<td>$2,569,966</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$2,569,966</td>
</tr>
<tr>
<td>C. Additions:</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>1. Principal payments on long-term debt</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>2. Acquisition of capital assets</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>3. Other postemployment benefits paid in the current year but reported as expenses in previous years</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>4. Claims paid in the current year but reported as expenses incurred but not reported in previous years</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>5. Pension contributions paid in the current year</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>6. Landfill closure and postclosure care costs paid in the current year but reported as expenses in previous years</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>7. Total additions</td>
<td>$ -</td>
<td></td>
<td></td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>D. Amounts reported on Part II, Line A</td>
<td>$24,787,833</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$24,787,833</td>
</tr>
</tbody>
</table>

See accompanying notes to report.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Annual Expenditure Limitation Report (AELR) is presented as prescribed by the Uniform Expenditure Reporting System (UERS), as required by Arizona Revised Statutes §41-1279.07. The AELR excludes expenditures, expenses, or deductions of certain revenues specified in the Arizona Constitution, Article IX, §20, from the total expenditures, expenses, or deductions reported in the fund financial statements.

In accordance with the UERS requirements, a note to the AELR is presented below for any exclusion claimed on Part II and each subtraction or addition in the Reconciliation that cannot be traced directly to an amount reported in the fund financial statements. All references to financial statement amounts in the following notes refer to the Statement of Revenues, Expenditures, and Changes in Fund Balances for the Governmental Funds.

NOTE 2 - The exclusion claim for expenditures of separate legal entities established under Arizona Revised Statutes in the Governmental Funds consists of expenditures from the Municipal Property Corporation Debt Service Fund, Cottonwoods Maintenance Fund and the Eagle Mountain Debt Service Fund.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal Property Corporation Debt Service Fund</td>
<td>$2,158,550</td>
</tr>
<tr>
<td>Cottonwoods Maintenance Fund</td>
<td>$2,705</td>
</tr>
<tr>
<td>Eagle Mountain Debt Service Fund</td>
<td>$408,711</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,569,966</strong></td>
</tr>
</tbody>
</table>

NOTE 3 - Bond proceeds and interest earnings are claimed as exclusions in the year the expenditure occurs and any unused amounts are carried forward for future years. The rollforward of carryforward exclusions is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carryforward exclusions as of 6/30/15</td>
<td>$5,415,799</td>
</tr>
<tr>
<td>Prior year bond proceeds utilized</td>
<td>$(5,415,799)</td>
</tr>
<tr>
<td>Carryforward exclusions as of 6/30/16</td>
<td>$-</td>
</tr>
</tbody>
</table>

NOTE 4 - The exclusions claimed for debt service requirements on bonded indebtedness in the Governmental Funds consisted of principal retirement, interest, and fiscal fees in the General Obligation Debt Service Fund.
NOTE 5 - The exclusions claimed for dividends, interest, and gains on the sale or redemption of investment securities in the Governmental Funds consisted of investment earnings. The current year exclusion utilized is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Governmental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carryforward exclusions as of 6/30/15</td>
<td>$ -</td>
</tr>
<tr>
<td>Investment Earnings</td>
<td>219,058</td>
</tr>
<tr>
<td>Current year exclusion utilized</td>
<td>(193,084)</td>
</tr>
<tr>
<td>Carryforward exclusions as of 6/30/16</td>
<td>$  25,974</td>
</tr>
</tbody>
</table>

NOTE 6 - Grant revenues from private organizations are claimed as exclusions in the year the expenditure occurs and any unused amounts are carried forward for future years. The current year grant exclusion utilized is as follows:

| Proposition 202                      | $  75,000    |
| Current year exclusion utilized      | $  75,000    |

NOTE 7 - State grant revenues are claimed as exclusions in the year the expenditure occurs and any unused amounts are carried forward for future years. The current year state grant exclusion utilized is as follows:

| Arizona Sports and Tourism Authority | $   72,624  |
| Proposition 302                     |  28,347     |
| Regional Area Road Fund             |  118,356    |
| Current year exclusion utilized     | $  219,327  |

NOTE 8 - Quasi-external interfund transactions are claimed as exclusions in the year the expenditure occurs and any unused amounts are carried forward for future years. The current year exclusion is $8,532 related to the Town's environmental fee paid from the General Fund to the Environmental Fee Fund.
NOTE 9 - The highway user revenue (HURF) earned in excess of the amounts received in fiscal year 1979-80 is as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>HURF Fund Intergovernmental Revenue</td>
<td>$2,378,871</td>
</tr>
<tr>
<td>Less: Vehicle License Tax Revenues</td>
<td>(927,440)</td>
</tr>
<tr>
<td>Excludable Revenue</td>
<td>$1,451,431</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carryforward HURF funds as of 6/30/15</td>
<td>$975,977</td>
</tr>
<tr>
<td>HURF Fund Expenditures</td>
<td>2,498,714</td>
</tr>
<tr>
<td>Less: Expenditures of Vehicle License Tax</td>
<td>(927,440)</td>
</tr>
<tr>
<td>Less: Expenditures of Non-excludable Revenue</td>
<td>(52,795)</td>
</tr>
<tr>
<td>Plus: Amounts Transferred to the Environmental</td>
<td>45,000</td>
</tr>
<tr>
<td>Fund for Eligible HURF Expenditures</td>
<td></td>
</tr>
<tr>
<td>Less: Current year HURF funds utilized</td>
<td>(1,451,431)</td>
</tr>
<tr>
<td>Less: Prior Year HURF exclusions utilized</td>
<td>(112,048)</td>
</tr>
<tr>
<td>Carryforward HURF funds as of 6/30/16</td>
<td>$863,929</td>
</tr>
</tbody>
</table>