

Town of Fountain Hills, Arizona

Popular Annual Financial Report

for fiscal year 2015-2016 ending June 30, 2016



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Welcome

The Town of Fountain Hills is pleased to present its Popular Annual Financial Report for the fiscal year ended June 30, 2016. This report is intended to present an accessible overview of the Town's financial position and policies, and its commitment to providing responsive services and programs in a fiscally responsible manner.

We share with you details of how the Town's revenue is generated, where the dollars are spent, and how the local economy impacts Fountain Hills' overall financial status. Above all, our goal is to provide you with an opportunity to better understand the many financial aspects that affect your local government.

The financial information provided here is drawn from detailed information found within the fiscal year 2015-2016 Comprehensive Annual Financial Report (CAFR). The financial statements were prepared in conformance with accounting principles generally accepted in the United States of America (GAAP) and audited by an independent accounting firm, receiving an unmodified (or clean) opinion. The numbers contained within the CAFR were obtained by employing the basis of accounting as prescribed by the Governmental Accounting Standards Board (GASB).

While the numbers in this Popular Report come from an audited source, they are presented in an abridged, unaudited non-GAAP format. Citizens who wish to review audited GAAP-basis financial statements can refer to the Town's 2015-2016 CAFR, which is availa-



ble online at www.fh.az.gov/financial-reports.

Members of the Finance Division and staff across the organization are proud to serve this fine community. We hope that the 2015-2016 Popular Annual Financial Report serves its purpose and helps assure you that every effort is made to manage the community's resources wisely for the benefit of all.

Craig Rudolph CPA, CPFO, CGFM
Finance Director



Profile of Fountain Hills, Arizona

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's 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 of Fountain Hills is an Arizona Municipal Corporation, acting as a general law town as prescribed in the Arizona Revised Statutes. The Town was incorporated on December 5, 1989, with the governmental and administrative affairs of the Town operating under the Council-Manager form of government. The Mayor is a member of the Town Council who is directly elected by the 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.

This Popular Annual Financial Report may be accessed on the Town's website, at www.fh.az.gov/pafr.



The Government of Fountain Hills, Arizona

The Town provides or administers a full range of services including public safety (law enforcement, fire, animal control); development services (code enforcement, planning, 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.

The annual budget serves as the foundation for the Town of Fountain Hills' financial planning and control. The Town Council formally adopts the budget and appropriates, funding for the General Fund, Excise Tax Funds, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Therefore, these funds have appropriated budgets. 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's 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 total expenditures during the fiscal year. The Town Manager may authorize transfers from and within personnel and from operating capital to services or supplies within a department. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20.

Principal Employers	2015
Fountain Hills Unified School District No. 98	171
Fountain View Village	140
Rural Metro Corporation	111
Target Stores	101
Firerock Country Club	100





2015-2016 Financial Overview

In this section, we present an overview of monies in and monies out for the Town of Fountain Hills for the fiscal year ended June 30, 2016.

MONIES IN

As a governmental entity, the Town uses fund accounting, or self-balancing sets of accounts segregated for specific activities. Governmental funds are used to account for tax supported activities and the Town receives the funding it needs to provide services to the community from a variety of sources. The table below presents a summary of governmental revenues by primary type for fiscal years 2015-2016, 2014-2015 and 2013-2014, in order to present a picture of typical revenues from year to year. The improving national and local economy contributed to an increase in revenues in 2015, with only slight increases in 2016 of \$236,969 or 1.1% compared to 2015. Intergovernmental revenue includes income and sales tax shared from the State and distributed based on population—these revenues declined due to a Maricopa Association of Governments grant received in 2015. Building activity increased resulting in an increase in Licenses and Permits.

Governmental Funds Three Year Revenues Summary by Type			
Revenues	2016	2015	2014
Taxes:			
Sales	\$ 9,395,667	\$ 8,983,049	\$ 8,459,267
Property	2,543,298	904,660	1,463,056
Franchise	360,320	352,673	349,414
Licenses and Permits	1,372,045	1,043,382	891,782
Leases and Rents	258,165	269,753	252,584
Intergovernmental	7,559,436	9,770,048	6,677,518
Charges for Services	197,109	176,541	161,376
Other	147,662	188,251	134,114
Fines and Forfeitures	209,380	186,456	170,995
Investment Earnings	219,058	150,358	123,331
Total Revenues	<u>\$ 22,262,140</u>	<u>\$ 22,025,171</u>	<u>\$ 18,683,437</u>

REVENUE TYPE DEFINITIONS

- **Taxes - Sales** - the Town charges a local sales tax of 2.6% on most goods purchased in the Town. This tax is in addition to the State of Arizona rate of 5.6% and the Maricopa County rate of .7%, for a total sales tax rate of 8.9%.
- **Taxes - Property** - the Town does not charge a primary property tax, only a secondary property tax. The secondary tax is for debt repayment on voter approved bonds (specifically the Community Center, open space and Saguaro Boulevard).
- **Taxes - Franchise** - revenue received from utility (telecommunications) companies for the right to operate within the Town.
- **Licenses and Permits** - includes building permit fees, business and animal license fees, fire inspections, etc.
- **Leases and Rents** - rental fees for use of the Community Center as well as fees from leases for cellular telephone towers.
- **Intergovernmental** - these are revenues received from other governments or entities, including state shared sales tax, state shared income tax, fire insurance premium tax, vehicle license tax, and state grants.
- **Charges for Services** - these are revenues received from services and/or programs provided by the Town such as recreation programs.
- **Other** - these are revenues that do not fit under another classification.
- **Fines and Forfeitures** - these are revenues received from court fines.
- **Investment Earnings** - revenue received from interest on invested monies.



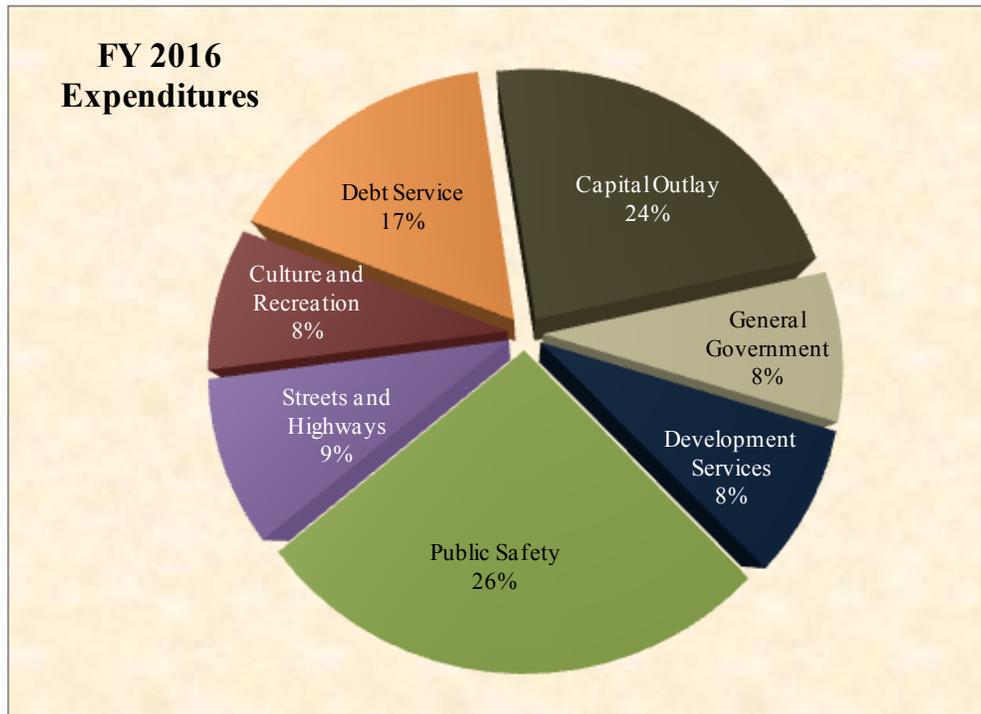
2015-2016 Financial Overview - continued

MONIES OUT

The three-year comparison for Town expenditures shows an increase in the overall cost of operations. Overall, 2016 total Governmental Fund expenditures were \$1,746,387, or 6.8% more than in 2015. The Town contracts for law enforcement and fire and emergency medical services—these contracts include automatic negotiated increases which are reflected in the Public Safety category.

Governmental Funds			
Three Year Expenditures Summary by Type			
Expenditures	2016	2015	2014
General Government	\$ 2,324,026	\$ 2,275,124	\$ 2,194,845
Development Services	2,217,814	2,073,990	1,774,983
Public Safety	7,034,887	6,675,874	6,890,770
Streets and Highways	2,498,714	1,275,779	3,085,559
Culture and Recreation	2,240,865	1,962,585	1,921,939
Debt Service	4,570,111	2,548,542	2,887,999
Capital Outlay	<u>6,471,382</u>	<u>8,799,068</u>	<u>1,750,465</u>
Total Expenditures	<u>\$ 27,357,799</u>	<u>\$ 25,610,962</u>	<u>\$ 20,506,560</u>

Streets and Highways expenditures increased due to the pavement maintenance performed using an accumulation of additional funding from the prior fiscal year. Debt service includes the annual principal and interest payment for outstanding bonds. Capital Outlay decreased due to the completion of the Shea Boulevard Widening project and the Saguaro Boulevard Reconstruction project which was paid for with voter-approved bonds.



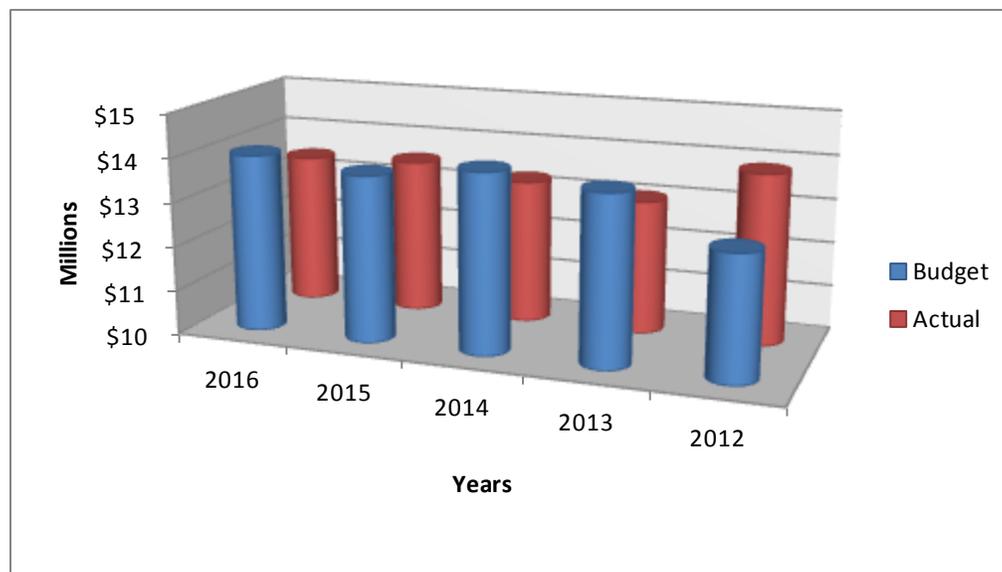


2015-2016 Financial Overview - continued

EXPENDITURE TYPE DEFINITIONS

- **General Government** - functions serving Town operations as a whole, including: Town Council, Town Manager, Town Clerk, Finance, Administrative Services, Information Technology, Town Attorney, and Town Prosecutor.
- **Public Safety** - encompasses the contracted services for Law Enforcement and Fire and Emergency Medical departments.
- **Streets and Highways** - represents the Street division.
- **Culture and Recreation** - encompasses the services, programs and facilities provided by Parks & Recreation, Community Center and Senior Services.
- **Development Services** - encompasses Engineering, Facilities, Planning, Building Safety, Code Compliance and Mapping and Graphics divisions.
- **Capital Outlay** - expenditures on the Town's Capital Improvement Program projects.
- **Debt Service** - interest and other related costs affiliated with the Town's issuance of debt to support various capital improvement activities.

Operating Funds Expenditures Budget and Actual Last Five Fiscal Years (In Millions)





The Town's Net Position

Statement of Net Position			
	2016	2015	2014
ASSETS			
Current and Other Assets	\$ 23,190,907	\$ 30,103,343	\$ 26,489,337
Capital Assets, net	<u>106,661,659</u>	<u>105,252,111</u>	<u>101,063,260</u>
Total Assets	<u>129,852,566</u>	<u>135,355,454</u>	<u>127,552,597</u>
LIABILITIES			
Current and Other Liabilities	4,025,377	2,897,349	3,717,336
Long-Term Liabilities	<u>8,416,454</u>	<u>15,640,889</u>	<u>9,454,311</u>
Total Liabilities	<u>12,441,831</u>	<u>18,538,238</u>	<u>13,171,647</u>
NET POSITION			
Net Investment in Capital Assets	95,647,990	95,325,824	89,713,260
Restricted	4,530,239	6,310,810	5,480,867
Unrestricted	<u>17,232,506</u>	<u>15,180,582</u>	<u>19,186,823</u>
Total Net Position	<u>\$ 117,410,735</u>	<u>\$ 116,817,216</u>	<u>\$ 114,380,950</u>

The Statement of Net Position presents information on all the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. Net position is categorized by activity type. Governmental activities include services largely funded through revenues

such as sales tax and charges for services.

ASSETS represent what the Town owns. Current and other assets include cash, investments, and receivables (money due to the Town). Capital assets are land, buildings, infrastructure, vehicles, machinery, and equipment. They are broken down as non-depreciable (land, art, and construction in progress) and depreciable (all other capital assets).

LIABILITIES represent what the Town owes. Current and other liabilities consist of payables (money due from the Town to pay what it owes). Non-current liabilities represent debt that the Town must pay back and is broken out into the current year and future years.

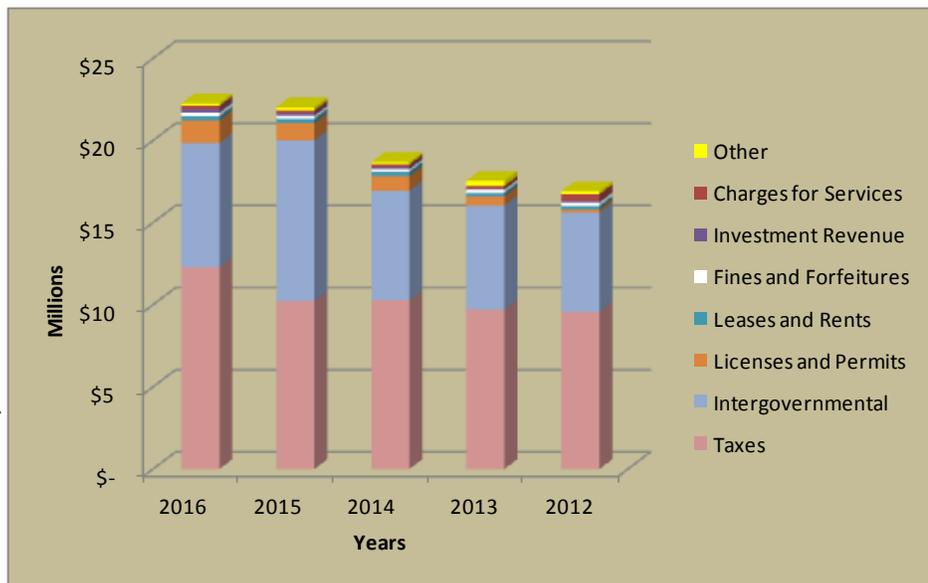
NET POSITION may serve, over time, as useful indicators of a government's financial position and consist of three components. The largest portion (81%) reflects the Town's investment in capital assets (land, buildings, infrastructure, vehicles, machinery and equipment), less any outstanding related debt used to acquire those assets. An additional portion of the Town's net position (4%) represents resources subject to restrictions on how they may be used. These legal restrictions are imposed by outside entities such as federal or state governments. An example of such a restriction is the gasoline tax. The State of Arizona charges the gasoline tax and shares some of it with communities. These revenues are legally restricted by the State to be used only for expenditure on street projects. Portions of net assets are also restricted to pay debt service and fund capital projects. The remainder (15%) of net position is unrestricted as to purpose.



Fund Accounting

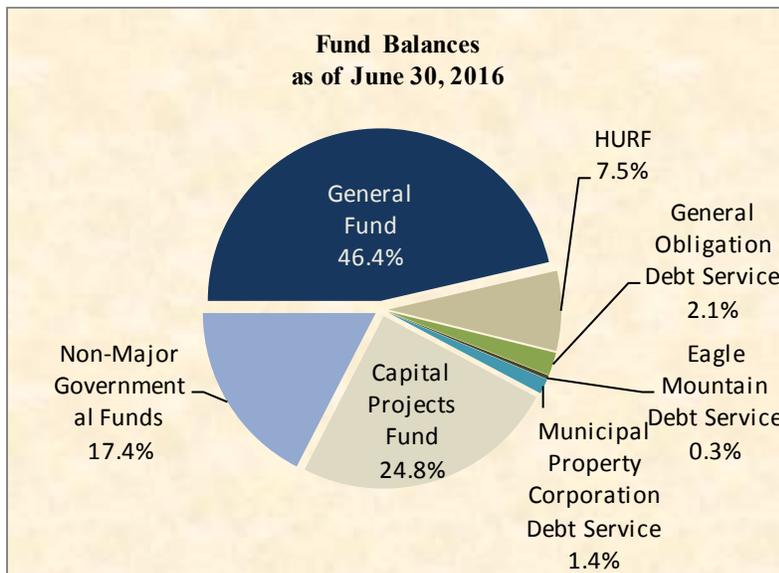
State and local governments, such as the Town, employ fund accounting whereby assets and liabilities are grouped according to the purpose for which they are to be used. Each grouping, or fund, operates as a separate self-balancing set of accounts. The General Fund is the chief operating fund of the Town and General Fund expenditures account for 47% of governmental expenditures. Capital project

**Revenues by Category
Last Five Fiscal Years**



funds account for the acquisition or construction of major capital facilities as well as facilities

replacement. These intended uses can be demonstrated by viewing the components of governmental fund balances. The fund balance is an important component of fiscal planning and factors into the Town's debt rating, and has been maintained during the Great Recession due to the Town Council's commitment to fund on-going services with on-going revenues.





Property Taxes

One of the biggest bills residents face each year is tied to the property they own. Property tax in Fountain Hills is administered by Maricopa County, and is based on property value (ad valorem) and typically included with the resident's monthly mortgage payment. As the table indicates, only a small portion (5.2%) of your property taxes go to the Town of Fountain Hills—this portion pays

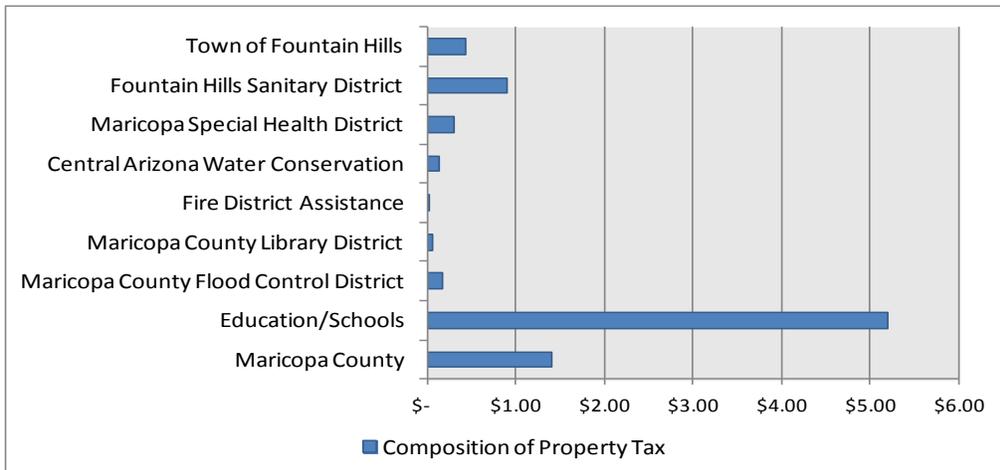
Property Tax Levy - Fiscal Year 2015-2016		
Entity	Primary Rate	Secondary Rate
Maricopa County	\$ 1.4009	\$ -
Education/Schools	3.8244	1.3876
Maricopa County Flood Control District	-	0.1792
Maricopa County Library District	-	0.0556
Fire District Assistance	-	0.0112
Central Arizona Water Conservation	-	0.1400
Maricopa Special Health District	-	0.3053
Fountain Hills Sanitary District	-	0.9017
Town of Fountain Hills	-	0.4472
Total	\$ 5.2253	\$ 3.4278

for the annual payment on the bonds approved by voters for open space, the Community Center building, and Saguaro Boulevard. The majority of the tax supports Fountain Hills schools, Fountain Hills Sanitary District, and various Maricopa County districts. Currently, property taxes represent one of the most stable sources of revenue for the Town at 11.4% of total revenues.

A primary property tax revenue pays for the basic operating costs of government and schools. The Town does not have a primary property tax which can be used for operations.

Revenue from the secondary property tax pays for the annual debt service payment on bonds that have been approved by voters and special taxing districts such as the Sanitary District; the rate is set by the County. The rate is calculated using 10% of the assessed valuation of property (assigned by the County), dividing by 100 and multiplying by the tax rate. For example, a residential property

with an assessed value of \$250,000 would pay approximately \$2,163 ($\$250,000 \times 10\% \div 100 \times 8.6531$).





Capital Investments

How Capital Investments are Funded

The Town's capital outlay consists of investments in our roads, equipment, public facilities, and parks.

Every year, the Town prepares and adopts an on-going, Five-Year Capital Improvement Plan that provides for an annual value of infrastructure improvement projects. Town Council and staff review and update the plan each year as part of the budget process. The projects are funded using a combination of grants and existing funds.

Debt Policy

The Town's Debt Policy provides a set of criteria to help determine when it's best to fund capital projects using existing revenues, issuing bonds or seeking loans. The Town has an Aa2 bond rating from Moody's Investors Service for the general obligation bonds. This rating allows the Town to receive very competitive interest rates when issuing debt.

Two Year Debt Summary All Funds		
Debt Type	2016	2015
General Obligation Bonds	\$ 9,340,000	\$ 11,475,000
Revenue Bonds	1,400,000	3,525,000
Total Debt	<u>\$ 10,740,000</u>	<u>\$ 15,000,000</u>

DEBT TYPE DEFINITIONS

- General Obligation Bonds** - long-term debt that is repaid from the Town's available resources.
- Revenue Bonds** - long-term debt with repayment to come from a pledged Town revenue stream.

Repayment of Outstanding Debt

Year ending June 30	Principal	Interest
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>

The repayment of debt is funded using secondary property tax and general fund revenues.

Debt Margin

The State imposes certain debt limitations of 20% and 6% of the net secondary assessed valuation of the Town. For projects involving water, sewer, artificial lighting, parks, open space, public safety, law enforcement, fire and emergency facilities, street and transportation facilities and recreation facilities, the Town can issue GO bonds up to 20%. For any other general purpose improvements, the Town may issue bonds up to the 6% limit.

The Town's available debt margin is \$73.0 million in the 20% capacity and \$24.1 million in the 6% capacity. The Town is currently using only 9% of the 20% capacity and 0% of the 6% capacity.



Fountain Hills, Arizona Awards

Fountain Hills has had its share of accolades. Movoto ranked Fountain Hills as the third of the ten best places to live in Arizona, giving us an A+ in education, as well as several other bonus points. The Arizona Parks and Recreation Association bestowed a Sports Program Award on the Town for archery instruction. The Fountain Hills Theatre was presented with several ariZoni awards, including a special award for excellence in stage management. These honors make us proud, and we continually strive to make our community an even better place to live.



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 20th consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both the accounting principles generally accepted in the United States of America (GAAP) and applicable legal requirements.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year

beginning July 1, 2015. 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.

Also, the GFOA recognized the Town for its June 30, 2015, submission of its Popular Annual Financial Report (PAFR). The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. The requirements are based on an evaluation of creativity, presentation, understandability, and reader appeal. This award is for the Town's fourth submission of its PAFR.

Two hundred fifty-seven communities, including Fountain Hills, earned recognition from national non-profit KaBOOM! as 2016 Playful City USA communities for making it easy for all kids to get balanced and active play in their neighborhoods and for pledging to integrate play as a solution to the challenges facing their communities. From forty-three states and the District of Columbia, the Playful City USA honorees range from ten-time honorees to first-time recipients. In its tenth year, Playful City USA is a national recognition program that honors cities and towns for taking bold steps to create more play opportunities for all kids.





Fountain Hills, Arizona Awards - continued



The Government Finance Officers Association of the United States and Canada has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Town of Fountain Hills, Arizona for its Popular Annual Financial Report for the fiscal year ending June 30, 2015. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.



Town of Fountain Hills, Arizona

TOWN COUNCIL

Mayor	Linda M. Kavanagh
Vice Mayor	Cecil A. Yates
Councilmember	Nick DePorter
Councilmember	Cassie Hansen
Councilmember	Henry Leger
Councilmember	Alan Magazine
Councilmember	Dennis Brown

TOWN MANAGER

Grady E. Miller

DEPARTMENT DIRECTORS

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

This Popular Annual Financial Report is intended to summarize the financial information appearing in the fiscal year 2015-2016 Comprehensive Annual Financial Report (CAFR). Copies of the CAFR can be viewed on the Town's website at www.fh.az.gov/financial-reports. The data included in this review is not prepared in accordance with GAAP as only a portion of the Town's financial statements are presented.



Arizona Legislature—District 23

U.S. Congress—District 6



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TOWN HALL

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