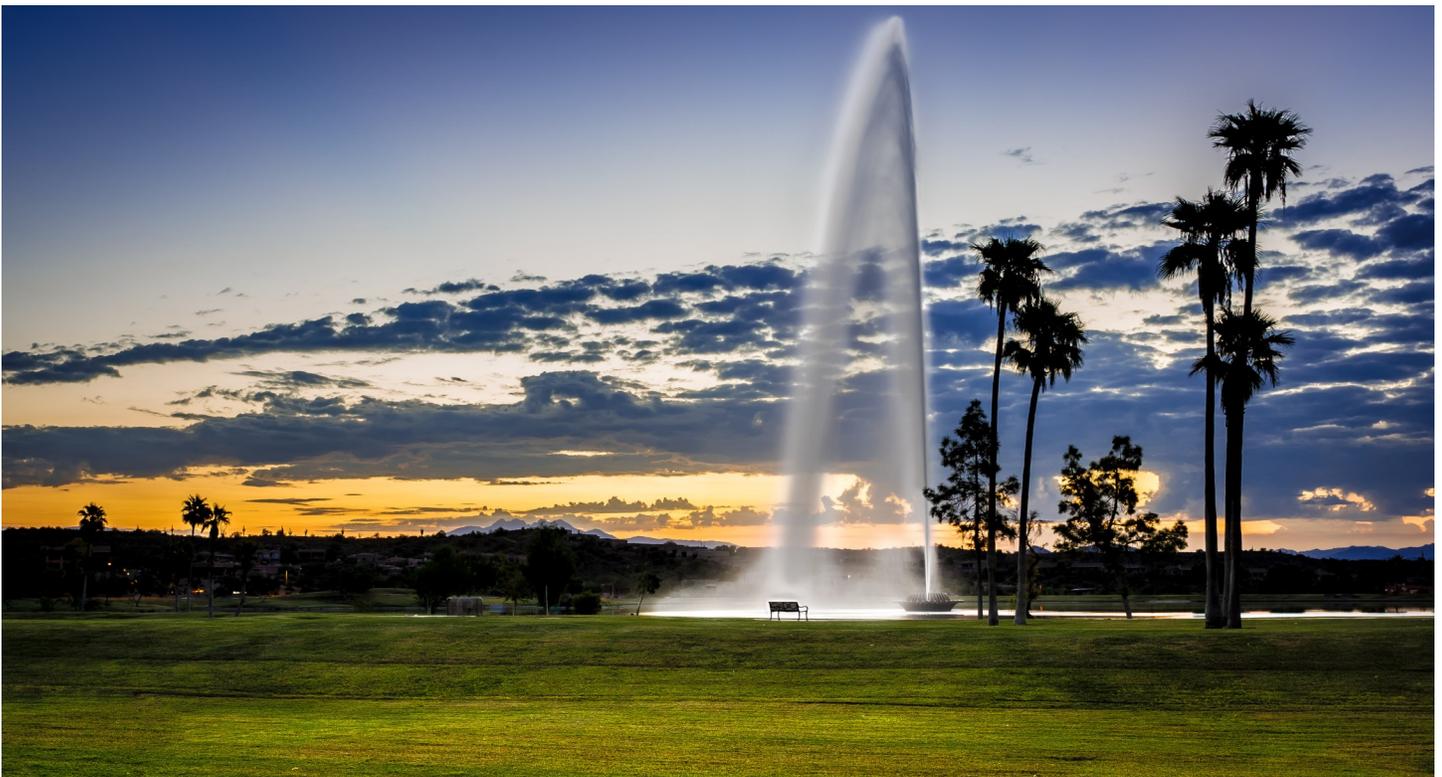




Town of Fountain Hills, Arizona

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018



TOWN OF FOUNTAIN HILLS, ARIZONA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Issued by:
Administration Department
Finance Division

TOWN OF FOUNTAIN HILLS, ARIZONA

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INTRODUCTORY SECTION

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TOWN OF FOUNTAIN HILLS

16705 E. Avenue of the Fountains, Fountain Hills, AZ 85268
480.816.5100 | Fax: 480.837.3145

October 4, 2018

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, 2018.

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, 2018, 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, 2018, 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 overlooks the Verde River Valley and the east valley of the metro Phoenix area. The Town 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, 2,130 feet at the Golden Eagle Trailhead, and is approximately 500 feet above Phoenix.

Over the past twenty-five plus years, Fountain Hills has grown from 10,190 residents to a town of 23,899 in 2015. 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 Town standards.

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 2.5% of the total is zoned commercial and/or industrial, 23.3% is preserved as open space and 51.0% 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 56 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 and emergency services); development services (code enforcement, planning and zoning); public works (including 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 for 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. In April/May, the Town Manager submits to the Town Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. The Town Council is then required to hold public hearings on the proposed budget and to adopt a final budget by 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.

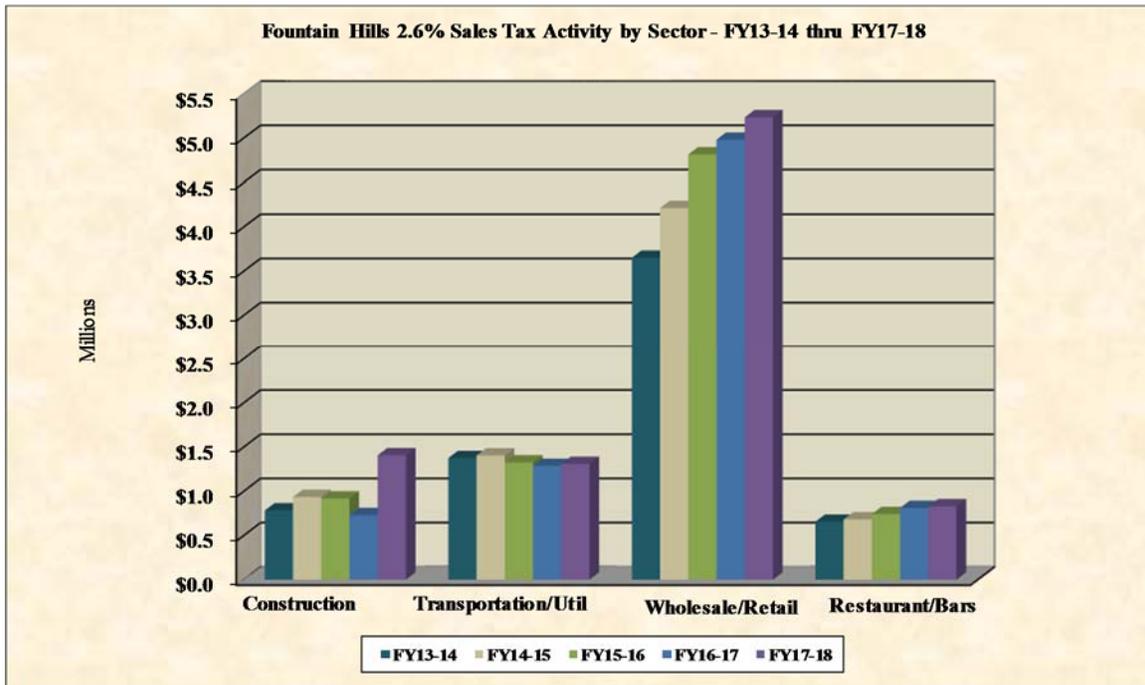
The Town is subject to the State of Arizona's Expenditure Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carry-over of unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds.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

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 and department. 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 and all other funds are presented in Combining and Individual Fund Financial Statements and 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 moderate increase of local sales tax receipts. Construction activity has increased almost 50% from the prior year, due to several commercial and residential developments currently in progress. The following chart 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 5.1% increase over the prior year; restaurant/bar revenues have exceeded any prior year and an increase of 2.2% from FY16-17. Construction sales tax, a one-time revenue source, is driven entirely by development activity in the community and increased 92.9% from 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 1.7%.

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 2017-18.

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 0.4%). 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 FY17-18. After decreases in State sales tax from FY08-09 through FY11-12, this revenue increased by 7.3% in FY17-18 compared to the prior year.

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

Development Activity over the past year:

Development Services has been involved with the following development activities during fiscal year 2017-18 (7/1/2017 – 6/30/2018):

Two Development Agreements were approved by Council:
 Copperwynd
 Adero Canyon Phase II/Eagle Nest

Eight Site Plans were approved during the period.

Two Special Use Permits were granted.

Six Administrative Use Permits were issued.

Fifty new Single-Family Residential Building Permits were issued.

Thirty-two Multi-family permits were issued.

There were three new Commercial Building Permits issued.

There were seventeen 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	4	2	2	2	0	27	6	0	39
AUGUST	7	0	0	0	0	23	2	0	32
SEPTEMBER	5	2	2	2	1	18	3	2	31
OCTOBER	4	3	3	3	0	17	6	0	30
NOVEMBER	3	2	2	2	2	17	1	0	25
DECEMBER	4	2	2	2	1	28	4	1	40
JANUARY	7	2	2	2	2	23	6	0	40
FEBRUARY	0	0	0	0	5	32	0	0	37
MARCH	3	0	0	0	2	24	9	0	38
APRIL	5	11	12	11	3	41	5	0	65
MAY	6	4	4	4	1	29	2	1	43
JUNE	2	4	4	4	3	43	8	0	60
YEARLY TOTAL	50	32	33	32	20	322	52	4	480

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 and the vehicle license tax are 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. Although the State-shared revenue formula generally allocate revenues based on official census data, in recent years, the state legislature has reduced the formula distribution of State-shared revenues to cities.

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 needs to be reconsidered.

In early 2009, the Strategic Planning Advisory Commission (SPAC) 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. In 2017, SPAC again updated the Strategic Plan. Based on citizen input, the newest Strategic Plan is designed to guide our future decisions grounded on these common values:

1. Economic Growth
2. Infrastructure Maintenance
3. Demographic Balance
4. Financial Stability and Sustainability
5. Community and Quality of Life

These values guide the Town's annual budget process.

The Mayor and Council on January 30, 2018, approved a resolution to refer a \$7.0 million property tax question to voters on May 15, 2018. The ballot referendum failed which will require the Town Council to adopt other revenues and possible service level reductions to ensure that future budgets are balanced.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

The Town of Fountain Hills' adopted FY17-18 budget reflected the continued slow recovery in the local economy, which is also somewhat mirrored at the national and state levels. Due to the challenging economic conditions, the Town had 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 has been reduced from 115 to 56 FTE's (full time equivalents) over the past years.

The Town Council established priorities in FY16-17 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. Also, effective July 1, 2016, 0.2% of local sales tax revenues that had been allocated to MPC debt service payments were reallocated to pavement maintenance. Economic Development initiatives are funded through a dedicated portion of the local sales tax which provides funding for business attraction, retention and expansion.

For the Year. The following list depicts the continued commitment of the Town of Fountain Hills to make the community a better place to live. Fiscal year 2017-18 goals attained are summarized within this list of accomplishments:

- Continuation of Fire Station 2 relocation design and construction
- Initiation of design and construction of the Valley Metro Bus Stop
- Construction of the Adero Canyon Trailhead
- Added several new monthly and special educational programs, workshops and support groups at the Community Center
- New public art installed: Mirth & Melancholy, Orange Sellers, Alignment, and Southwest Landscape
- Awarded Playful City USA for 7th time
- Secured grant funding from the Arizona Office of Tourism - Proposition 302
- Secured grant funding from Salt River Pima-Maricopa Indian Community - Proposition 202
- Awarded the 2017 Governor's Tourism Award for Outstanding Marketing Campaign
- Named World's 17th International Dark Skies Community, 13th in the United States and 3rd in Arizona
- Donation of the 1998 Fire Department's aerial ladder truck to the Helping Hands Program in Texas

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, 2017. This was the twenty-second 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.

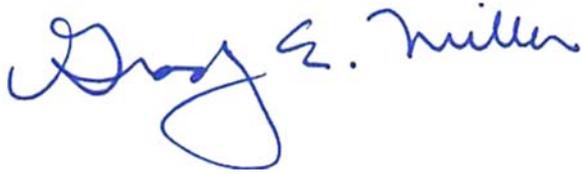
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for the fiscal year ended 2018 Certificate.

For the sixth year, the Town was also given the Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 2017.

In addition, the government received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year beginning July 1, 2017. 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 sixteenth consecutive year that the Town has received the award.

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, stylized initial 'G'.

Grady E. Miller
Town Manager

**TOWN OF FOUNTAIN HILLS, ARIZONA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2018**

ELECTED OFFICIALS

Linda M. Kavanagh, Mayor

Dennis Brown, Vice-Mayor

Nick DePorter, Councilmember

Henry Leger, Councilmember

Alan Magazine, Councilmember

Art Tolis, Councilmember

Vacant, Councilmember

DEPARTMENT DIRECTORS

Grady Miller, Town Manager

Craig Rudolphy, Finance Director

David Trimble, Administrative Services Director

Rachael Goodwin, Community Services Director

Robert Rogers, Development Services Director

Scott Cooper, Economic Development Director

Justin Weldy, Public Works Director

Elizabeth Burke, Town Clerk

Captain Dave Ott, Rural Metro Corporation, Fire Chief

Captain Hank Brandimarte, Maricopa County Sheriff's Office, District Commander

Robert Melton, Presiding Judge

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

Mitesh Patel, Dickinson Wright PLLC, Interim Town Attorney



Government Finance Officers Association

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

Presented to

**Town of Fountain Hills
Arizona**

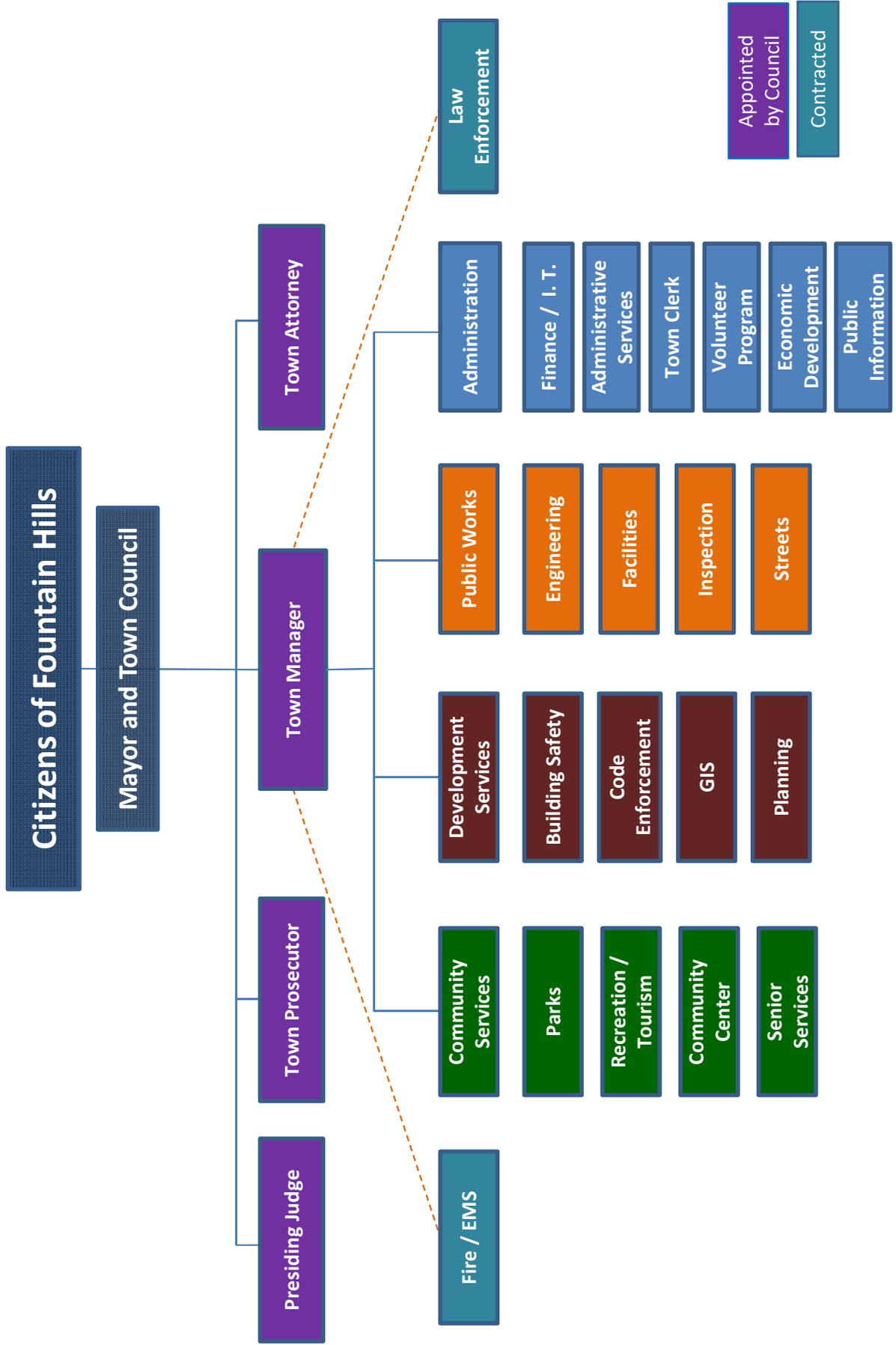
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

Town of Fountain Hills Organization



FINANCIAL SECTION

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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, 2018, 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, 2018, 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.

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 4, 2018, on our consideration of the 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 solely 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 effectiveness of the Town's 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 the 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 4, 2018

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

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**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

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, 2018. 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 \$652.1 thousand to \$ 117.6 million, representing a .6 percent increase of the total net position.
- General revenues from governmental activities accounted for \$19.6 million in revenue, or 81.8 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4.4 million or 18.2 percent of total governmental activities revenues.
- The Town had \$23.3 million in expenses related to governmental activities, a decrease of 1.1 percent from the prior fiscal year primarily due to decreased public works costs.
- Among major governmental funds, the General Fund had \$16.0 million in current fiscal year revenues, which primarily consisted of taxes and intergovernmental revenues. The total expenditures of the General Fund were \$15.0 million. The General Fund's fund balance decreased \$6.3 thousand to remain at \$7.2 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, 2018**

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 administration, development services, public safety, public works, 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, 2018**

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 User 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 \$117.6 million at the current fiscal year end.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

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, 2018 and June 30, 2017.

	Governmental Activities	
	As of	As of
	June 30, 2018	June 30, 2017
Current and other assets	\$ 23,821,565	\$ 24,037,642
Capital assets, net	102,259,689	103,179,955
Total assets	126,081,254	127,217,597
Current and other liabilities	5,475,597	4,588,747
Long-term liabilities	2,994,108	5,669,418
Total liabilities	8,469,705	10,258,165
Net position		
Net investment in capital assets	96,777,854	94,909,703
Restricted	4,589,526	4,471,661
Unrestricted	16,244,169	17,578,068
Total net position	\$ 117,611,549	\$ 116,959,432

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 also 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, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS – continued

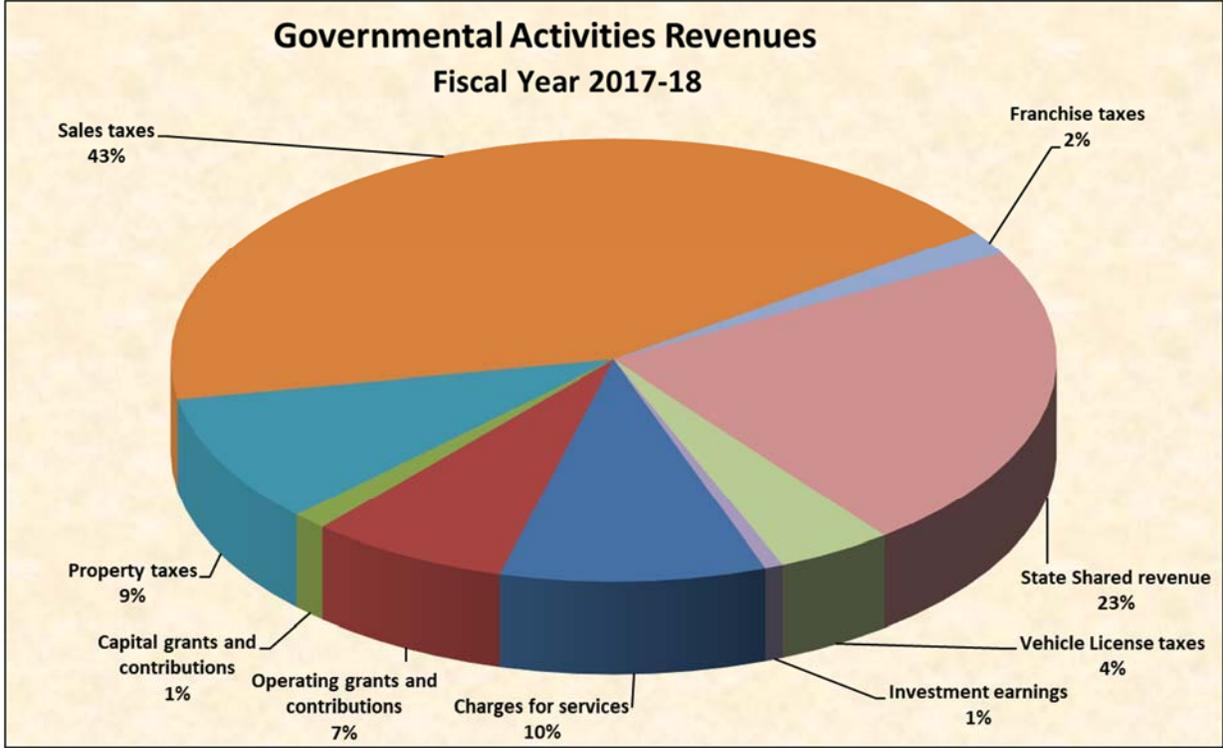
The Town's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Changes in net position. The Town's total revenues for the current fiscal year were \$23.9 million. The total cost of all programs and services was \$23.3 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2018 and June 30, 2017.

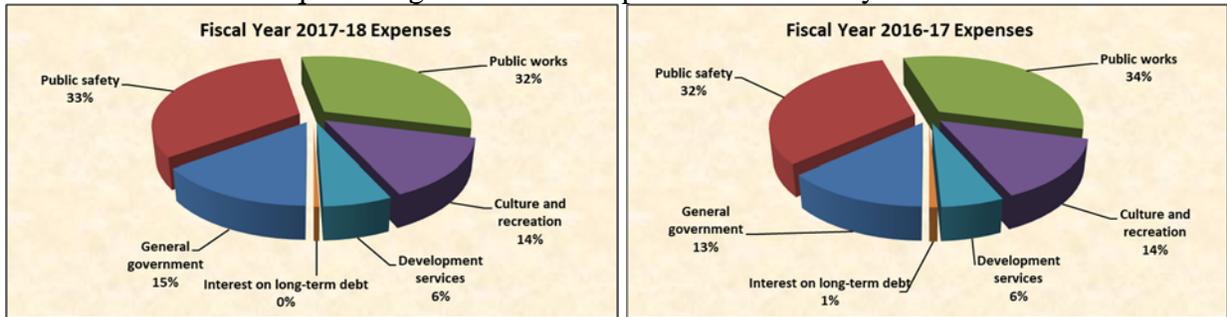
	<u>Governmental Activities</u>	
	<u>Fiscal Year Ended June 30, 2018</u>	<u>Fiscal Year Ended June 30, 2017</u>
Revenues		
Program revenues:		
Charges for services	\$ 2,316,983	\$ 2,664,463
Operating grants and contributions	1,737,958	1,699,931
Capital grants and contributions	304,951	494,328
General revenues		
Property taxes	2,263,623	2,296,199
Sales taxes	10,311,577	9,415,151
Franchise taxes	421,682	367,119
State-shared revenue	5,384,831	5,115,914
Vehicle License taxes	1,011,836	941,364
Investment earnings	158,860	55,127
Miscellaneous	10,410	28,839
Total revenues	<u>23,922,711</u>	<u>23,078,435</u>
Expenses		
General government	3,431,752	3,142,722
Development services	1,460,967	1,364,378
Public safety	7,567,012	7,563,898
Public works	7,380,663	7,904,577
Culture and recreation	3,311,648	3,375,414
Interest on long-term debt	118,552	178,749
Total expenses	<u>23,270,594</u>	<u>23,529,738</u>
Changes in net position	652,117	(451,303)
Net position, beginning	116,959,432	117,410,735
Net position, ending	<u>\$ 117,611,549</u>	<u>\$ 116,959,432</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS – continued



The charts below compare the governmental expenses from fiscal years 2017-18 and 2016-17.



**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

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 decreased 13.0 percent compared to the prior year due in large part to the absence of in-lieu fees for encroachment permits.
- Interest on long-term debt decreased 33.7 percent due to lower rates on the reissued bonds.
- Public safety costs include contracts for police and fire; one contract is multi-year with automatic increases while the other is a cost reimbursement contract.
- Investment income increased in the current year 188.2 percent over the prior year due to higher overall market returns.
- Overall, expenses decreased 1.1 percent due primarily to cautious spending by the departments and staffing efficiencies.

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 Town's taxpayers by each of these functions.

	Year Ended June 30, 2018		Year Ended June 30, 2017	
	Total Expenses	Net (Expense)/ Revenue	Total Expenses	Net (Expense)/ Revenue
Governmental Activities				
General government	\$ 3,431,752	\$ (2,978,065)	\$ 3,142,722	\$ (2,506,081)
Development services	1,460,967	(146,052)	1,364,378	(298,295)
Public safety	7,567,012	(7,266,692)	7,563,898	(7,186,135)
Public works	7,380,663	(5,725,133)	7,904,577	(6,148,913)
Culture and recreation	3,311,648	(2,676,208)	3,375,414	(2,352,843)
Interest on long-term debt	118,552	(118,552)	178,749	(178,749)
Total expenses	\$23,270,594	\$(18,910,702)	\$23,529,738	\$(18,671,016)

- The cost of all governmental activities this year was \$23.3 million.
- Federal, State, and county governments and charges for services subsidized certain governmental programs with charges for services of \$4.4 million.
- Net cost of governmental activities of \$18.9 million was financed by general revenues, which are made up of primarily sales taxes of \$10.3 million and State-shared revenues of \$6.4 million.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

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 decrease of \$639,708 in the combined fund balance from \$22.0 million to \$21.3 million.

The General Fund comprises 33.6 percent of the total fund balance. Approximately \$2.1 million or 29.9 percent of the General Fund's fund balance is unassigned.

The General Fund is the principal operating fund of the Town. The fund balance decreased by \$6,349 to remain at \$7.2 million as of fiscal year end. General Fund revenues increased \$1.0 million primarily due to increased sales tax and State-shared revenues. General Fund expenditures increased \$1.1 million. The majority of the increase was a result of purchase of a new fire truck.

The Highway User Revenue Fund comprises 15.9 percent of total fund balance. The fund balance increased \$1.1 million from the prior year as a result of the postponement of some pavement maintenance due to results of a pavement management analysis and the re-evaluation of the current process.

The Capital Projects Fund comprises 33.6 percent of the total fund balance. All of the fund balance is committed or assigned to capital projects. The fund balance decreased \$988,023 million due to the 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 an \$814,378 decrease, or 4.5 percent.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

BUDGETARY HIGHLIGHTS – continued

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 \$1.0 million in overall revenues is primarily due to increased licenses and permit fees, sales taxes resulting from building activity and State-shared revenues.
- The favorable total expenditures variance of \$2.3 million is due primarily to cautious spending and staffing efficiencies by all departments and by not utilizing third party contracts for inspection services as originally anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of the end of the current fiscal year, the Town had invested \$102.3 million in governmental capital assets, including buildings, facilities, vehicles, computers, equipment, infrastructure assets and artwork. This amount represents a net increase prior to depreciation of \$3.9 million from the prior fiscal year for governmental activities. The increase was primarily due to building and park improvements and purchase of equipment. Total depreciation expense for the current fiscal year was \$5.2 million for governmental activities.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2018 and June 30, 2017.

	Governmental Activities	
	As of	As of
	June 30, 2018	June 30, 2017
Capital assets – non-depreciable	\$ 30,157,640	\$ 27,134,114
Capital assets – depreciable, net	72,102,049	76,045,841
Total	\$102,259,689	\$103,179,955

The estimated construction commitments amount is \$3,543,200.

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

Debt Administration. At year-end, the Town had \$5.5 million in governmental long-term debt outstanding with \$2.8 million due within one year. Long-term debt decreased by \$2.6 million for governmental activities.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2018**

CAPITAL ASSETS AND DEBT ADMINISTRATION – continued

State statutes currently limit the amount of general obligation debt a Town may issue to a percentage of its total assessed valuation for water, sewer, artificial lighting, parks, open space, recreational facility improvements, public safety, law enforcement, fire and emergency facilities and street and transportation facilities. The current 20 percent debt limitation for the Town is \$104.9 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 \$31.5 million.

Additional information on the Town's long-term debt can be found in Notes 6 and 7 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.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ 22,823,317
Accounts receivable	168,786
Intergovernmental receivable	691,402
Taxes receivable	50,230
Interest receivable	52,395
Inventory, at cost	13,490
Prepaid items	21,945
Total current assets	23,821,565
Noncurrent assets:	
Capital assets not being depreciated	30,157,640
Capital assets, net of accumulated depreciation	72,102,049
Total noncurrent assets	102,259,689
Total assets	126,081,254
 <u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	1,673,496
Retainage payable	284,083
Accrued wages and benefits	114,051
Other liabilities	28,231
Customer deposits	105,128
Compensated absences payable	373,187
Revenue bonds payable	370,000
General obligation bonds payable	2,265,000
Unearned revenues	262,421
Total current liabilities	5,475,597
Noncurrent liabilities:	
Non-current portion of long-term liabilities	2,994,108
Total noncurrent liabilities	2,994,108
Total liabilities	8,469,705
 <u>NET POSITION</u>	
Net investment in capital assets	96,777,854
Restricted for:	
Streets and highways	3,049,766
Capital outlay	1,451,059
Debt service	88,701
Unrestricted	16,244,169
Total net position	\$ 117,611,549

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, 2018**

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	\$ 3,431,752	\$ 295,716	\$ 56,025	\$ 101,946	\$ (2,978,065)
Development services	1,460,967	1,314,915			(146,052)
Public safety	7,567,012	155,973	45,447	98,900	(7,266,692)
Public works	7,380,663	52,465	1,593,514	9,551	(5,725,133)
Culture and recreation	3,311,648	497,914	42,972	94,554	(2,676,208)
Interest on long-term debt	118,552				(118,552)
Total governmental activities	<u>\$ 23,270,594</u>	<u>\$ 2,316,983</u>	<u>\$ 1,737,958</u>	<u>\$ 304,951</u>	<u>(18,910,702)</u>

General revenues:

Taxes:

Property taxes	2,263,623
Sales taxes	10,311,578
Franchise taxes	421,682
State sales & income tax revenue sharing - unrestricted	5,384,831
Vehicle license tax revenue sharing - unrestricted	1,011,836
Investment earnings	158,860
Miscellaneous	10,409
Total general revenues	<u>19,562,819</u>

Changes in net position 652,117

Net position, beginning of year 116,959,432

Net position, end of year \$ 117,611,549

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

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FUND FINANCIAL STATEMENTS

**TOWN OF FOUNTAIN HILLS, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General	Highway User Revenue	Grants
<u>ASSETS</u>			
Cash and investments	\$ 6,942,070	\$ 3,781,637	\$ 296,474
Accounts receivable	163,026	5,760	
Intergovernmental receivable	460,620	213,872	
Taxes receivable			
Interest receivable	22,254		
Due from other funds			
Inventory, at cost	13,490		
Prepaid items	21,945		
Total assets	\$ 7,623,405	\$ 4,001,269	\$ 296,474
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 196,526	\$ 605,219	\$ 65,949
Retainage payable			
Accrued wages and benefits	103,343	7,027	
Other liabilities	10,888	345	
Customer deposits	105,128		
Unearned revenues	31,896		230,525
Due to other funds	568		
Total liabilities	448,349	612,591	296,474
Deferred inflows of resources:			
Unavailable revenues - property taxes			
Unavailable revenues - other	3,763	5,760	
Total deferred inflows of resources	3,763	5,760	
Fund balances:			
Nonspendable	35,435		
Restricted		3,044,006	
Committed	2,893,850		
Assigned	2,101,574	338,912	
Unassigned	2,140,434		
Total fund balances	7,171,293	3,382,918	
Total liabilities, deferred inflows of resources and fund balances	\$ 7,623,405	\$ 4,001,269	\$ 296,474

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>
\$ 25,400	\$ 7,634	\$ 5,516	\$ 8,207,746	\$ 3,556,840	\$ 22,823,317
				16,910	168,786
44,072	6,079			79	691,402
			22,164	7,977	50,230
				568	52,395
					568
					13,490
					21,945
<u>\$ 69,472</u>	<u>\$ 13,713</u>	<u>\$ 5,516</u>	<u>\$ 8,229,910</u>	<u>\$ 3,582,374</u>	<u>\$ 23,822,133</u>
\$	\$	\$	\$ 770,023	\$ 35,779	\$ 1,673,496
			284,083		284,083
				3,681	114,051
			16,998		28,231
					105,128
					262,421
					568
			<u>1,071,104</u>	<u>39,460</u>	<u>2,467,978</u>
11,190	1,313				12,503
<u>11,190</u>	<u>1,313</u>				<u>9,523</u>
					<u>22,026</u>
58,282	12,400	5,516		1,451,059	35,435
			5,780,363	1,468,527	4,571,263
			1,378,443	623,328	10,142,740
					4,442,257
					2,140,434
<u>58,282</u>	<u>12,400</u>	<u>5,516</u>	<u>7,158,806</u>	<u>3,542,914</u>	<u>21,332,129</u>
<u>\$ 69,472</u>	<u>\$ 13,713</u>	<u>\$ 5,516</u>	<u>\$ 8,229,910</u>	<u>\$ 3,582,374</u>	<u>\$ 23,822,133</u>

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TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total governmental fund balances **\$ 21,332,129**

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	\$ 215,630,172	
Less accumulated depreciation	<u>(113,370,483)</u>	102,259,689

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	12,503	
Other	<u>9,523</u>	22,026

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

Compensated absences payable	(520,460)	
Bonds payable	<u>(5,481,835)</u>	<u>(6,002,295)</u>

Net position of governmental activities **\$ 117,611,549**

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, 2018

	General	Highway User Revenue	Grants
Revenues:			
Property taxes	\$	\$	\$
Sales taxes	8,417,615	793,198	
Franchise taxes	421,682		
Licenses and permits	930,768		
Leases and rents	282,531		
Intergovernmental	5,430,178	2,605,350	157,946
Charges for services	233,947	20,175	
Other	94,772	2,148	
Fines and forfeitures	153,736		
Investment earnings	40,940	39,992	
Total revenues	16,006,169	3,460,863	157,946
Expenditures:			
Current -			
General government	2,892,222		56,000
Development services	866,594		
Public safety	7,402,227		
Public works	638,111	2,555,562	
Culture and recreation	2,168,710		
Capital outlay	1,025,632	24,935	101,946
Debt service -			
Principal retirement			
Interest on long-term debt			
Fiscal charges			
Total expenditures	14,993,496	2,580,497	157,946
Excess (deficiency) of revenues over expenditures	1,012,673	880,366	
Other financing sources (uses):			
Transfer in	1,036,553	200,000	
Transfer out	(2,055,575)		
Total other financing sources (uses)	(1,019,022)	200,000	
Changes in fund balances	(6,349)	1,080,366	
Fund balances, beginning of year	7,177,642	2,302,552	
Fund balances, end of year	\$ 7,171,293	\$ 3,382,918	\$

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

General Obligation Debt Service	Eagle Mountain Debt Service	Municipal Property Corporation Debt Service	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,909,924	\$ 370,686	\$	\$	\$	\$
			704,166	5,471	2,286,081
				396,599	10,311,578
				1,073,618	421,682
				72,554	2,004,386
			108,451	2,326	282,531
			39,831	29,261	8,266,028
8,494	2,115	3,811		23,677	254,122
<u>1,918,418</u>	<u>372,801</u>	<u>3,811</u>	<u>852,448</u>	<u>1,603,506</u>	<u>24,375,962</u>
			2,791	244,923	3,195,936
				530,655	1,397,249
					7,402,227
			221,948	4,696	3,420,317
				207,048	2,375,758
			3,164,701		4,317,214
1,980,000	380,000	360,000			2,720,000
140,950	27,528	16,686			185,164
600	195	1,010			1,805
<u>2,121,550</u>	<u>407,723</u>	<u>377,696</u>	<u>3,389,440</u>	<u>987,322</u>	<u>25,015,670</u>
(203,132)	(34,922)	(373,885)	(2,536,992)	616,184	(639,708)
		209,838	2,748,969	348,368	4,543,728
			(1,200,000)	(1,288,153)	(4,543,728)
		<u>209,838</u>	<u>1,548,969</u>	<u>(939,785)</u>	
(203,132)	(34,922)	(164,047)	(988,023)	(323,601)	(639,708)
261,414	47,322	169,563	8,146,829	3,866,515	21,971,837
<u>\$ 58,282</u>	<u>\$ 12,400</u>	<u>\$ 5,516</u>	<u>\$ 7,158,806</u>	<u>\$ 3,542,914</u>	<u>\$ 21,332,129</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, 2018

Changes in fund balances - total governmental funds **\$ (639,708)**

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	\$ 4,293,214	
Less current year depreciation	<u>(5,235,480)</u>	(942,266)

Donated items are not reported in the governmental funds. However, in the Statement of Activities, the costs of those assets are reported as capital grants and contributions.		22,000
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Some revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	(22,458)	
Other	<u>(452,793)</u>	(475,251)

Repayments of bond principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		2,720,000
--	--	-----------

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.

Amortization of deferred bond items	68,417	
Compensated absences	<u>(101,075)</u>	<u>(32,658)</u>

Changes in net position in governmental activities **\$ 652,117**

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, 2018

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.

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

A. Reporting Entity

The Town's major operations include development services, culture and recreation, public works, public safety and general administrative services.

The Town is a municipal corporation 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 Districts cannot be part of another reporting entity. The Districts' governing bodies are 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, 2018

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 Town's 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. Governmental activities normally are supported by taxes and intergovernmental revenues. The Town does not have any fiduciary or 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, 2018

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 earnings associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. 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.

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 and sales tax.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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. 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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Investment Earnings

Investment earnings is composed of interest, dividends, and net changes in the fair value of applicable investments. Investment earnings 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.

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. 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. Capital assets are recorded at historical cost, if purchased or constructed. Donated capital assets are recorded at the acquisition 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.

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

J. 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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

K. 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 regularly-scheduled employees can accrue vacation leave. Employees accrue up to a maximum of two times the yearly maximum accrual of vacation through carryover of balances. In the event of termination, employees will be paid for any accrued, but unused, vacation hours. Full-time and part-time regularly-scheduled employees accrue sick leave, up to a maximum of 1040 hours. Part-time non-regularly-scheduled, temporary, or seasonal, and other employees accrue paid sick time for hours worked, not to exceed 40 hours per calendar year.

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 termination, resignations and retirements. Generally, resources from the General Fund are used to pay for compensated absences.

L. 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.

M. 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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. 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.

O. 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.

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – FUND BALANCE CLASSIFICATIONS

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.

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 \$2,807,648, reported as a committed fund balance at June 30, 2018. 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 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, 2018

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	\$ 13,490							\$ 13,490
Prepaid items	21,945							21,945
Restricted:								
Capital Projects							17,045	17,045
Debt Service			58,282	12,400	5,516			76,198
Highways and Streets		3,044,006						3,044,006
Development Fees							1,434,014	1,434,014
Committed:								
Rainy Day	2,807,648							2,807,648
Public Art	86,202							86,202
Downtown Strategy							959,920	959,920
Economic Development							137,030	137,030
Tourism							4,092	4,092
Capital Projects						5,780,363		5,780,363
Local Court Enhancement							367,485	367,485
Assigned:								
Capital Projects	842,294					1,378,443		2,220,737
Environmental							623,328	623,328
Vehicle Replacement	697,750	338,912						1,036,662
Equipment Replacement	561,530							561,530
Unassigned:								
	2,140,434							2,140,434
Total fund balances	<u>\$ 7,171,293</u>	<u>\$3,382,918</u>	<u>\$ 58,282</u>	<u>\$ 12,400</u>	<u>\$ 5,516</u>	<u>\$ 7,158,806</u>	<u>\$ 3,542,914</u>	<u>\$ 21,332,129</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – 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 \$835,504 and the bank balance was \$1,062,940. At year end, \$574,199 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

Valuation Techniques. Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing techniques. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Real estate assets classified in Level 3 are valued by external appraisals and are generally obtained at least annually. The appraisals are performed using generally accepted valuation approaches by an independent appraiser.

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, as an investment company, 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, 2018

NOTE 3 – 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, 2018, are classified in the accompanying financial statements as follows:

Carrying amount of investments	\$	21,986,963
Carrying amount of cash deposits		835,504
Cash on hand		850
Total pooled cash and investments	<u>\$</u>	<u>22,823,317</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. Government and Agency Notes	Level 1	\$ 6,914,966	\$ 1,934,019	\$4,980,948	AA+	Aaa
Corporate and Foreign Bonds	Level 2	2,691,880		2,691,879	BBB+-AAA	A3-Aaa
Commercial Paper	Level 2	598,049	598,049		A-1	P-1
Certificates of Deposit	Level 2	1,258,376	399,872	858,504	A	A-1
Wells Fargo Money Market Funds	Level 1	505,331	505,331		N/A	N/A
			<u>\$ 3,437,271</u>	<u>\$8,531,331</u>		
State Treasurer’s Investment Pool 7	Not applicable	<u>10,018,361</u>	55 days average maturities			
Total		<u>\$ 21,986,963</u>				

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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS

Credit Risk. Credit risk is the risk of default of debt by an issuer or counterparty to an investment. 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 a 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 depository financial institution 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.

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, the investment policy establishes a maximum percentage of 30 percent in insured or collateralized certificates of deposit; 20 percent in certificates of deposit registry services; 30 percent in commercial paper; and 30 percent in bonds, debentures, or notes.

Investment Type	Fair Value	Percent of Town Investments
U.S. Government and Agency Notes	\$ 6,914,966	31.5%
Corporate and Foreign Bonds	2,691,880	12.2%
Commercial Paper	598,049	2.7%
Certificates of Deposit	1,258,376	5.7%
Wells Fargo Money Market Funds	505,331	2.3%
State Treasurer’s investment pool 7	10,018,361	45.6%
	<u>\$ 21,986,963</u>	

NOTE 4 – 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 receivables due from the State.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – 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	2,503,900	22,000		2,525,900
Construction in progress	1,058,546	3,266,647	265,121	4,060,072
Total capital assets, not being depreciated	<u>27,134,114</u>	<u>3,288,647</u>	<u>265,121</u>	<u>30,157,640</u>
Capital assets, being depreciated:				
Infrastructure	147,196,425			147,196,425
Buildings and building improvements	18,533,141	241,121		18,774,262
Improvements other than buildings	15,149,782			15,149,782
Vehicles, machinery and equipment	3,746,023	1,050,567	444,527	4,352,063
Total capital assets being depreciated	<u>184,625,371</u>	<u>1,291,688</u>	<u>444,527</u>	<u>185,472,532</u>
Less accumulated depreciation for:				
Infrastructure	(91,167,751)	(3,994,842)		(95,162,593)
Buildings and building improvements	(5,339,415)	(397,002)		(5,736,417)
Improvements other than buildings	(9,646,388)	(643,853)		(10,290,241)
Vehicles, machinery and equipment	(2,425,976)	(199,783)	(444,527)	(2,181,232)
Total accumulated depreciation	<u>(108,579,530)</u>	<u>(5,235,480)</u>	<u>(444,527)</u>	<u>(113,370,483)</u>
Total capital assets, being depreciated, net	<u>76,045,841</u>	<u>(3,943,792)</u>		<u>72,102,049</u>
Governmental activities capital assets, net	<u>\$ 103,179,955</u>	<u>\$ (655,145)</u>	<u>\$ 265,121</u>	<u>\$ 102,259,689</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 173,852
Development services	16,721
Public safety	164,785
Public works	3,960,346
Culture and recreation	919,776
Total depreciation expense	<u>\$ 5,235,480</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – CAPITAL ASSETS

Construction Commitments – At June 30, 2018, the Town has the following active construction commitments:

Project	Governmental Activities	
	Spent-to-Date	Remaining Commitment
Valley Metro Bus Stop – Library	\$ 67,366	\$ 8,711
Fire Station #2 Relocation	2,069,481	2,288,716
Adero Canyon Trailhead	1,266,557	1,180,118
Video Surveillance Cameras	32,509	11,284
Fountain Hills Boulevard Shoulder Paving	46,524	7,956
Wayfinding Sign	49,084	46,416
Total commitments	<u>\$ 3,531,522</u>	<u>\$ 3,543,200</u>

NOTE 6 – 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, 2018	Due Within One Year
Governmental activities:					
General Obligation Bonds:					
General Obligation Refunding Bonds, Series 2005	\$ 7,225,000	4%	7/1/19	\$ 310,000	\$ 310,000
General Obligation Bonds, Series 2014	7,565,000	2-3%	7/1/19-20	3,185,000	1,570,000
Notes from Private Placements:					
Eagle Mountain Community Facilities District, General Obligation Refunding Bonds, Series 2015	2,300,000	1.76%	7/1/19-21	1,180,000	385,000
Municipal Facilities Revenue Refunding Bonds, Series 2015	1,880,000	1.62%	7/1/19-20	670,000	370,000
Total				<u>\$ 5,345,000</u>	<u>\$ 2,635,000</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – BONDS PAYABLE

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

Year ending June 30,	Governmental Activities	
	Principal	Interest
2019	\$ 2,635,000	\$ 123,872
2020	2,310,000	67,302
2021	400,000	7,040
Total	\$ 5,345,000	\$ 198,214

Private Placements

The Town has outstanding bonds from private placements reported as governmental activities of \$670,000. The Municipal Facilities Revenue Refunding Bonds contain a provision that the Town must maintain excise taxes coverage of two and one-half times debt service. In the event the Town does not maintain this coverage, the Town will impose additional excise taxes. The Town does not have a line of credit associated with the bonds.

The Eagle Mountain Community Facilities District has outstanding bonds from private placements reported as governmental activities of \$1,180,000. There are no specific provisions regarding default on the Eagle Mountain Community Facilities District debt.

Pledged Revenues

The Town has pledged excise tax revenues to repay a total of \$670,000 in outstanding Municipal Facilities Revenue Refunding Bonds. For the current fiscal year, the net revenues available to service the debt were \$18,194,833. For the fiscal year ended June 30, 2018, the debt principal and interest paid on this debt was \$376,686 (two percent of pledged revenues). The total principal and interest remaining to be paid on the bonds is \$685,714.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 7,035,000	\$	\$ 2,360,000	\$ 4,675,000	\$ 2,265,000
Revenue bonds	1,030,000		360,000	670,000	370,000
Premium	205,252		68,417	136,835	
Total bonds payable	<u>8,270,252</u>		<u>2,788,417</u>	<u>5,481,835</u>	<u>2,635,000</u>
Compensated absences payable	<u>419,385</u>	<u>314,692</u>	<u>213,617</u>	<u>520,460</u>	<u>373,187</u>
Governmental activity long-term Liabilities	<u>\$ 8,689,637</u>	<u>\$ 314,692</u>	<u>\$ 3,002,034</u>	<u>\$ 6,002,295</u>	<u>\$ 3,008,187</u>

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At year end, interfund balances were as follows:

Due to/from other funds:

	Non-Major Governmental Funds
General Fund	\$ 568
Total Due from Other Funds	<u>\$ 568</u>

The interfund balance was repaid in July 2018.

Interfund transfers:

At year end, interfund transfers were as follows:

	Transfers out			Total
	General Fund	Capital Projects Fund	Non-Major Governmental Funds	
Transfers in				
General Fund	\$	\$ 1,000,000	\$ 36,553	\$ 1,036,553
HURF Fund		200,000		200,000
Municipal Property Corporation Debt Service Fund	209,838			209,838
Capital Projects Fund	1,645,737		1,103,232	2,748,969
Non-Major Governmental Funds	200,000		148,368	348,368
Total	<u>\$ 2,055,575</u>	<u>\$ 1,200,000</u>	<u>\$ 1,288,153</u>	<u>\$ 4,543,728</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The General Fund transferred \$1,145,737 to Capital Projects Fund for the excess revenues over expenditures per the Town’s Financial Policy; \$209,838 to Municipal Property Corporation Debt Service Fund for debt service costs; \$200,000 to Environmental Fund for funding operations of that fund; and \$500,000 to Facilities Replacement Fund for funding facilities replacement. The Open Space Development Fee Fund transferred \$1,103,232 to Capital Projects Fund for the Adero Canyon Trailhead project. The Tourism Fund transferred \$36,553 to the General Fund to provide funding for special events. The Capital Projects Fund transferred \$200,000 to Highway User Fund for pavement maintenance costs and \$1,000,000 to the Vehicle Replacement Fund for the purchase of a new fire truck. The Economic Development Fund transferred \$148,368 to the Tourism Fund to provide funding for operating costs of the tourism program.

NOTE 9 – 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.

NOTE 10 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town’s insurance protection is provided by the Arizona Municipal Risk Retention Pool (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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – RISK MANAGEMENT

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. There were no settlements that exceeded insurance coverage in any of the past three years.

NOTE 11 – 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 contribution rates are 11 percent for both the employee and the Town. The payroll for the Town employees covered by this plan for the year ended June 30, 2018, was \$2,764,251. The Town's total payroll was \$3,444,672.

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 and the returns earned on investment of those contributions. 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 on a pro rata basis for five years. Town Council has the authority to establish and amend benefit terms and to establish and amend the contribution rates.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 – 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. During the fiscal year, the Town's required and actual contributions amounted to \$304,068. The employees' contributions totaled \$304,068. Employees may also contribute to the ICMA Retirement Corporation 457 plan on a voluntary basis (with the exception of one contract employee that is limited to 11 percent of earnings); there is no employer match for those contributions. During the fiscal year, employees contributed \$164,174 to that plan. The Town contributed \$8,386 for the contract employee's 457 account.

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 2017-18 or as of the close of the fiscal year.

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, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Sales taxes	\$ 8,481,288	\$ 8,481,288	\$ 8,417,614	\$ (63,674)
Franchise taxes	360,000	360,000	421,682	61,682
Licenses and permits	2,089,675	2,089,675	930,768	(1,158,907)
Leases and rents	235,423	235,423	282,531	47,108
Intergovernmental	5,321,168	5,321,168	5,430,178	109,010
Charges for services	198,724	198,724	233,947	35,223
Other	51,785	66,785	94,773	27,988
Fines and forfeitures	200,000	200,000	153,736	(46,264)
Investment earnings	12,980	12,980	40,940	27,960
Total revenues	<u>16,951,043</u>	<u>16,966,043</u>	<u>16,006,169</u>	<u>(959,874)</u>
Expenditures:				
Current -				
General government				
Mayor and council	71,849	81,849	77,779	4,070
Administration	2,603,146	2,603,146	2,288,481	314,665
Non departmental	1,364,057	310,879	204,810	106,069
Municipal court	339,913	339,913	321,152	18,761
Total general government	<u>4,378,965</u>	<u>3,335,787</u>	<u>2,892,222</u>	<u>443,565</u>
Development services	1,890,482	1,890,482	866,594	1,023,888
Public safety				
Fire and emergency	3,881,833	3,881,833	3,626,953	254,880
Law enforcement	3,855,626	3,838,581	3,775,274	63,307
Total public safety	<u>7,737,459</u>	<u>7,720,414</u>	<u>7,402,227</u>	<u>318,187</u>
Public works	837,495	836,595	638,111	198,484
Culture and recreation	2,391,496	2,421,196	2,168,710	252,486
Capital outlay	862,000	1,079,045	1,025,632	53,413
Total expenditures	<u>18,097,897</u>	<u>17,283,519</u>	<u>14,993,496</u>	<u>2,290,023</u>
Excess (deficiency) of revenues over expenditures	<u>(1,146,854)</u>	<u>(317,476)</u>	<u>1,012,673</u>	<u>1,330,149</u>
Other financing sources (uses):				
Transfer in	1,062,500	1,062,500	1,075,553	13,053
Transfer out	(948,838)	(948,838)	(2,094,575)	(1,145,737)
Total other financing sources (uses):	<u>113,662</u>	<u>113,662</u>	<u>(1,019,022)</u>	<u>(1,132,684)</u>
Changes in fund balances	<u>(1,033,192)</u>	<u>(203,814)</u>	<u>(6,349)</u>	<u>197,465</u>
Fund balances, beginning of year	7,468,718	7,553,998	7,177,642	(376,356)
Fund balances (deficits), end of year	<u>\$ 6,435,526</u>	<u>\$ 7,350,184</u>	<u>\$ 7,171,293</u>	<u>\$ (244,640)</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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Sales taxes	\$ 769,512	\$ 769,512	\$ 793,198	\$ 23,686
Intergovernmental	2,566,773	2,566,773	2,605,350	38,577
Charges for services	262,000	262,000	20,175	(241,825)
Other	25,000	25,000	2,148	(22,852)
Investment earnings	2,340	2,340	39,992	37,652
Total revenues	<u>3,625,625</u>	<u>3,625,625</u>	<u>3,460,863</u>	<u>(164,762)</u>
Expenditures:				
Current -				
Public works	3,825,625	3,828,714	2,555,562	1,273,152
Capital outlay			24,935	(24,935)
Total expenditures	<u>3,825,625</u>	<u>3,828,714</u>	<u>2,580,497</u>	<u>1,248,217</u>
Excess (deficiency) of revenues over expenditures	<u>(200,000)</u>	<u>(203,089)</u>	<u>880,366</u>	<u>1,083,455</u>
Other financing sources (uses):				
Transfer in	200,000	200,000	200,000	
Total other financing sources (uses)	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	
Changes in fund balances		<u>(3,089)</u>	<u>1,080,366</u>	<u>1,083,455</u>
Fund balances, beginning of year	2,302,552	2,302,552	2,302,552	
Fund balances, end of year	<u>\$ 2,302,552</u>	<u>\$ 2,299,463</u>	<u>\$ 3,382,918</u>	<u>\$ 1,083,455</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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 1,344,000	\$ 1,329,000	\$ 157,946	\$ (1,171,054)
Total revenues	<u>1,344,000</u>	<u>1,329,000</u>	<u>157,946</u>	<u>(1,171,054)</u>
Expenditures:				
Current -				
General government	1,092,000	1,077,000	56,000	1,021,000
Capital outlay	<u>252,000</u>	<u>252,000</u>	<u>101,946</u>	<u>150,054</u>
Total expenditures	<u>1,344,000</u>	<u>1,329,000</u>	<u>157,946</u>	<u>1,171,054</u>
Changes in fund balances				
Fund balances, beginning of year				
Fund balances, end of year	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

See accompanying notes to this schedule.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

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

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

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING BALANCE SHEET - ALL NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
JUNE 30, 2018

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Non-Major Governmental Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 2,127,311	\$ 1,429,529	\$ 3,556,840
Intergovernmental receivable	16,910		16,910
Taxes receivable	79		79
Interest receivable	3,492	4,485	7,977
Due from other funds	568		568
Total assets	<u>\$ 2,148,360</u>	<u>\$ 1,434,014</u>	<u>\$ 3,582,374</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 35,779	\$	\$ 35,779
Accrued wages and benefits	3,681		3,681
Total liabilities	<u>39,460</u>		<u>39,460</u>
Fund balances:			
Restricted	17,045	1,434,014	1,451,059
Committed	1,468,527		1,468,527
Assigned	623,328		623,328
Total fund balances	<u>2,108,900</u>	<u>1,434,014</u>	<u>3,542,914</u>
 Total liabilities and fund balances	 <u>\$ 2,148,360</u>	 <u>\$ 1,434,014</u>	 <u>\$ 3,582,374</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE
YEAR ENDED JUNE 30, 2018

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Non-Major Governmental Funds</u>
Revenues:			
Property taxes	\$ 5,471	\$	\$ 5,471
Sales taxes	396,599		396,599
Licenses and permits	488,474	585,144	1,073,618
Intergovernmental	72,554		72,554
Other	2,326		2,326
Fines and forfeitures	29,261		29,261
Investment earnings	14,288	9,389	23,677
Total revenues	<u>1,008,973</u>	<u>594,533</u>	<u>1,603,506</u>
Expenditures:			
Current -			
General government	244,923		244,923
Development services	530,655		530,655
Public works	4,696		4,696
Culture and recreation	206,513	535	207,048
Total expenditures	<u>986,787</u>	<u>535</u>	<u>987,322</u>
Excess (deficiency) of revenues over expenditures	<u>22,186</u>	<u>593,998</u>	<u>616,184</u>
Other financing sources (uses):			
Transfer in	348,368		348,368
Transfer out	(184,921)	(1,103,232)	(1,288,153)
Total other financing sources (uses)	<u>163,447</u>	<u>(1,103,232)</u>	<u>(939,785)</u>
Changes in fund balances	<u>185,633</u>	<u>(509,234)</u>	<u>(323,601)</u>
Fund balances, beginning of year	1,923,267	1,943,248	3,866,515
Fund balances, end of year	<u>\$ 2,108,900</u>	<u>\$ 1,434,014</u>	<u>\$ 3,542,914</u>

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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 the downtown area.

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.

Capital Projects Funds

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

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

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2018

	<u>Downtown Strategy</u>	<u>Economic Development</u>	<u>Tourism</u>
<u>ASSETS</u>			
Cash and investments	\$ 954,283	\$ 128,952	\$ 13,023
Intergovernmental receivable	3,268	13,074	
Taxes receivable			
Interest receivable	3,492		
Due from other funds			
Total assets	<u><u>\$ 961,043</u></u>	<u><u>\$ 142,026</u></u>	<u><u>\$ 13,023</u></u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 1,123	\$ 2,832	\$ 7,819
Accrued wages and benefits		2,164	1,112
Total liabilities	<u>1,123</u>	<u>4,996</u>	<u>8,931</u>
Fund balances:			
Restricted			
Committed	959,920	137,030	4,092
Assigned			
Total fund balances	<u>959,920</u>	<u>137,030</u>	<u>4,092</u>
Total liabilities and fund balances	<u><u>\$ 961,043</u></u>	<u><u>\$ 142,026</u></u>	<u><u>\$ 13,023</u></u>

<u>Local Court Enhancement</u>	<u>Environmental</u>	<u>Cottonwoods Maintenance</u>	<u>Totals</u>
\$ 366,349	\$ 647,363	\$ 17,341	\$ 2,127,311
568			16,910
		79	79
			3,492
568			568
<u>\$ 367,485</u>	<u>\$ 647,363</u>	<u>\$ 17,420</u>	<u>\$ 2,148,360</u>
\$	\$ 23,630	\$ 375	\$ 35,779
	405		3,681
	<u>24,035</u>	<u>375</u>	<u>39,460</u>
		17,045	17,045
367,485			1,468,527
	623,328		623,328
<u>367,485</u>	<u>623,328</u>	<u>17,045</u>	<u>2,108,900</u>
<u>\$ 367,485</u>	<u>\$ 647,363</u>	<u>\$ 17,420</u>	<u>\$ 2,148,360</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, 2018

	Downtown Strategy	Economic Development	Tourism
Revenues:			
Property taxes	\$	\$	\$
Sales taxes	79,320	317,279	
Licenses and permits			
Intergovernmental			72,554
Other			2,251
Fines and forfeitures			
Investment earnings	3,756	1,151	932
Total revenues	83,076	318,430	75,737
Expenditures:			
Current -			
General government	56,044	183,332	
Development services			
Public works			
Culture and recreation			206,513
Total expenditures	56,044	183,332	206,513
Excess (deficiency) of revenues over expenditures	27,032	135,098	(130,776)
Other financing sources (uses):			
Transfer in			148,368
Transfer out		(158,368)	(26,553)
Total other financing sources (uses)		(158,368)	121,815
Changes in fund balances	27,032	(23,270)	(8,961)
Fund balances, beginning of year	932,888	160,300	13,053
Fund balances, end of year	\$ 959,920	\$ 137,030	\$ 4,092

<u>Local Court Enhancement</u>	<u>Environmental</u>	<u>Cottonwoods Maintenance</u>	<u>Totals</u>
\$	\$	\$ 5,471	\$ 5,471
	488,474		396,599
	75		488,474
29,261			72,554
589	7,663	197	2,326
<u>29,850</u>	<u>496,212</u>	<u>5,668</u>	<u>1,008,973</u>
5,547			244,923
	530,655		530,655
		4,696	4,696
			<u>206,513</u>
<u>5,547</u>	<u>530,655</u>	<u>4,696</u>	<u>986,787</u>
24,303	(34,443)	972	22,186
	200,000		348,368
	<u>200,000</u>		<u>(184,921)</u>
			<u>163,447</u>
24,303	165,557	972	185,633
343,182	457,771	16,073	1,923,267
<u>\$ 367,485</u>	<u>\$ 623,328</u>	<u>\$ 17,045</u>	<u>\$ 2,108,900</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, 2018

	Downtown Strategy		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Property taxes	\$	\$	\$
Sales taxes	76,956	79,320	2,364
Licenses and permits			
Intergovernmental			
Other			
Fines and forfeitures			
Investment earnings	3,060	3,756	696
Total revenues	80,016	83,076	3,060
Expenditures:			
Current -			
General government	58,796	56,044	2,752
Development services			
Public works			
Culture and recreation			
Capital outlay			
Total expenditures	58,796	56,044	2,752
Excess (deficiency) of revenues over expenditures	21,220	27,032	5,812
Other financing sources (uses):			
Transfer in			
Transfer out	(100,000)		100,000
Total other financing sources (uses)	(100,000)		100,000
Changes in fund balances	(78,780)	27,032	105,812
Fund balances, beginning of year	932,888	932,888	
Fund balances, end of year	\$ 854,108	\$ 959,920	\$ 105,812

Economic Development			Tourism		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$ 307,800	\$ 317,279	\$ 9,479			
			83,000	72,554	(10,446)
			10,000	2,251	(7,749)
48	1,151	1,103	180	932	752
<u>307,848</u>	<u>318,430</u>	<u>10,582</u>	<u>93,180</u>	<u>75,737</u>	<u>(17,443)</u>
252,823	183,332	69,491			
			221,498	206,513	14,985
<u>252,823</u>	<u>183,332</u>	<u>69,491</u>	<u>221,498</u>	<u>206,513</u>	<u>14,985</u>
55,025	135,098	80,073	(128,318)	(130,776)	(2,458)
			148,368	148,368	
(158,368)	(158,368)		(13,500)	(26,553)	(13,053)
<u>(158,368)</u>	<u>(158,368)</u>		<u>134,868</u>	<u>121,815</u>	<u>(13,053)</u>
(103,343)	(23,270)	80,073	6,550	(8,961)	(15,511)
160,300	160,300		13,053	13,053	
<u>\$ 56,957</u>	<u>\$ 137,030</u>	<u>\$ 80,073</u>	<u>\$ 19,603</u>	<u>\$ 4,092</u>	<u>\$ (15,511)</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, 2018

	Local Court Enhancement		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Property taxes	\$	\$	\$
Sales taxes			
Licenses and permits			
Intergovernmental			
Other			
Fines and forfeitures	24,600	29,261	4,661
Investment earnings	180	589	409
Total revenues	24,780	29,850	5,070
Expenditures:			
Current -			
General government	50,265	5,547	44,718
Development services			
Public works			
Culture and recreation			
Capital outlay	30,000		30,000
Total expenditures	80,265	5,547	74,718
Excess (deficiency) of revenues over expenditures	(55,485)	24,303	79,788
Other financing sources (uses):			
Transfer in			
Transfer out			
Total other financing sources (uses)			
Changes in fund balances	(55,485)	24,303	79,788
Fund balances, beginning of year	343,182	343,182	
Fund balances, end of year	\$ 287,697	\$ 367,485	\$ 79,788

Environmental			Cottonwoods Maintenance		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
492,444	488,474	(3,970)	5,454	5,471	17
	75	75			
540	7,663	7,123	36	197	161
<u>492,984</u>	<u>496,212</u>	<u>3,228</u>	<u>5,490</u>	<u>5,668</u>	<u>178</u>
711,806	530,655	181,151	5,031	4,696	335
<u>711,806</u>	<u>530,655</u>	<u>181,151</u>	<u>5,031</u>	<u>4,696</u>	<u>335</u>
<u>(218,822)</u>	<u>(34,443)</u>	<u>184,379</u>	<u>459</u>	<u>972</u>	<u>513</u>
200,000	200,000				
<u>200,000</u>	<u>200,000</u>				
<u>(18,822)</u>	<u>165,557</u>	<u>184,379</u>	<u>459</u>	<u>972</u>	<u>513</u>
457,771	457,771		16,073	16,073	
<u>\$ 438,949</u>	<u>\$ 623,328</u>	<u>\$ 184,379</u>	<u>\$ 16,532</u>	<u>\$ 17,045</u>	<u>\$ 513</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, 2018

	Totals		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Property taxes	\$ 5,454	\$ 5,471	\$ 17
Sales taxes	384,756	396,599	11,843
Licenses and permits	492,444	488,474	(3,970)
Intergovernmental	83,000	72,554	(10,446)
Other	10,000	2,326	(7,674)
Fines and forfeitures	24,600	29,261	4,661
Investment earnings	4,044	14,288	10,244
Total revenues	<u>1,004,298</u>	<u>1,008,973</u>	<u>4,675</u>
Expenditures:			
Current -			
General government	361,884	244,923	116,961
Development services	711,806	530,655	181,151
Public works	5,031	4,696	335
Culture and recreation	221,498	206,513	14,985
Capital outlay	30,000		30,000
Total expenditures	<u>1,330,219</u>	<u>986,787</u>	<u>343,432</u>
Excess (deficiency) of revenues over expenditures	<u>(325,921)</u>	<u>22,186</u>	<u>348,107</u>
Other financing sources (uses):			
Transfer in	348,368	348,368	
Transfer out	(271,868)	(184,921)	86,947
Total other financing sources (uses)	<u>76,500</u>	<u>163,447</u>	<u>86,947</u>
Changes in fund balances	<u>(249,421)</u>	<u>185,633</u>	<u>435,054</u>
Fund balances, beginning of year	1,923,267	1,923,267	
Fund balances, end of year	<u>\$ 1,673,846</u>	<u>\$ 2,108,900</u>	<u>\$ 435,054</u>

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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, 2018

	General Obligation Debt Service		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Property taxes	\$ 1,893,694	\$ 1,909,924	\$ 16,230
Investment earnings	720	8,494	7,774
Total revenues	1,894,414	1,918,418	24,004
Expenditures:			
Debt service -			
Principal retirement	1,980,000	1,980,000	
Interest on long-term debt	140,950	140,950	
Fiscal charges	600	600	
Total expenditures	2,121,550	2,121,550	
Excess (deficiency) of revenues over expenditures	(227,136)	(203,132)	24,004
Other financing sources (uses):			
Transfer in			
Total other financing sources (uses)			
Changes in fund balances	(227,136)	(203,132)	24,004
Fund balances, beginning of year	261,414	261,414	
Fund balances, end of year	\$ 34,278	\$ 58,282	\$ 24,004

Eagle Mountain Debt Service		
Budget	Actual	Variance - Positive (Negative)
\$ 372,746	\$ 370,686	\$ (2,060)
120	2,115	1,995
<u>372,866</u>	<u>372,801</u>	<u>(65)</u>
380,075	380,000	75
27,456	27,528	(72)
200	195	5
<u>407,731</u>	<u>407,723</u>	<u>8</u>
<u>(34,865)</u>	<u>(34,922)</u>	<u>(57)</u>
<u>(34,865)</u>	<u>(34,922)</u>	<u>(57)</u>
47,322	47,322	
<u>\$ 12,457</u>	<u>\$ 12,400</u>	<u>\$ (57)</u>

Municipal Property Corporation Debt Service		
Budget	Actual	Variance - Positive (Negative)
\$ 840	\$ 3,811	\$ 2,971
<u>840</u>	<u>3,811</u>	<u>2,971</u>
360,000	360,000	
16,686	16,686	
1,010	1,010	
<u>377,696</u>	<u>377,696</u>	
<u>(376,856)</u>	<u>(373,885)</u>	<u>2,971</u>
<u>209,838</u>	<u>209,838</u>	
<u>209,838</u>	<u>209,838</u>	
<u>(167,018)</u>	<u>(164,047)</u>	<u>2,971</u>
169,563	169,563	
<u>\$ 2,545</u>	<u>\$ 5,516</u>	<u>\$ 2,971</u>

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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, 2018

	Totals		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Property taxes	\$ 2,266,440	\$ 2,280,610	\$ 14,170
Investment earnings	1,680	14,420	12,740
Total revenues	<u>2,268,120</u>	<u>2,295,030</u>	<u>26,910</u>
Expenditures:			
Debt service -			
Principal retirement	2,720,075	2,720,000	75
Interest on long-term debt	185,092	185,164	(72)
Fiscal charges	1,810	1,805	5
Total expenditures	<u>2,906,977</u>	<u>2,906,969</u>	<u>8</u>
Excess (deficiency) of revenues over expenditures	<u>(638,857)</u>	<u>(611,939)</u>	<u>26,918</u>
Other financing sources (uses):			
Transfer in	209,838	209,838	
Total other financing sources (uses)	<u>209,838</u>	<u>209,838</u>	
Changes in fund balances	<u>(429,019)</u>	<u>(402,101)</u>	<u>26,918</u>
Fund balances, beginning of year	478,299	478,299	
Fund balances, end of year	<u>\$ 49,280</u>	<u>\$ 76,198</u>	<u>\$ 26,918</u>

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TOWN OF FOUNTAIN HILLS, ARIZONA
BALANCE SHEET - NON-MAJOR CAPITAL PROJECTS FUND
JUNE 30, 2018

	Development Fees
<u>ASSETS</u>	
Cash and investments	\$ 1,429,529
Interest receivable	4,485
Total assets	\$ 1,434,014
<u>LIABILITIES AND FUND BALANCES</u>	
Fund balances:	
Restricted	\$ 1,434,014
Total fund balances	1,434,014
Total liabilities and fund balances	\$ 1,434,014

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2018

	Development Fees
Revenues:	
Licenses and permits	\$ 585,144
Investment earnings	9,389
Total revenues	594,533
 Expenditures:	
Current -	
Culture and recreation	535
Total expenditures	535
 Excess (deficiency) of revenues over expenditures	593,998
 Other financing sources (uses):	
Transfer out	(1,103,232)
Total other financing sources (uses)	(1,103,232)
 Changes in fund balances	(509,234)
 Fund balances, beginning of year	1,943,248
 Fund balances, end of year	\$ 1,434,014

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, 2018

	Capital Projects		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
Revenues:			
Sales taxes	\$ 368,124	\$ 704,166	\$ 336,042
Licenses and permits			
Intergovernmental	255,000		(255,000)
Other	170,000	103,051	(66,949)
Investment earnings	6,024	22,557	16,533
Total revenues	<u>799,148</u>	<u>829,774</u>	<u>30,626</u>
Expenditures:			
Current -			
General government	1,940	2,791	(851)
Public works	364,800	58,189	306,611
Culture and recreation			
Capital outlay	7,285,000	3,164,701	4,120,299
Total expenditures	<u>7,651,740</u>	<u>3,225,681</u>	<u>4,426,059</u>
Excess (deficiency) of revenues over expenditures	<u>(6,852,592)</u>	<u>(2,395,907)</u>	<u>4,456,685</u>
Other financing sources (uses):			
Transfer in	2,077,024	2,248,969	171,945
Transfer out	(1,200,000)	(1,200,000)	
Total other financing sources (uses)	<u>877,024</u>	<u>1,048,969</u>	<u>171,945</u>
Changes in fund balances	<u>(5,975,568)</u>	<u>(1,346,938)</u>	<u>4,628,630</u>
Fund balances, beginning of year	7,127,301	7,127,301	
Fund balances, end of year	<u>\$ 1,151,733</u>	<u>\$ 5,780,363</u>	<u>\$ 4,628,630</u>

Facilities Replacement Fund			Development Fees		
Budget	Non-GAAP Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
			158,160	585,144	426,984
	5,400	5,400			
1,440	17,274	15,834	6,540	9,389	2,849
<u>1,440</u>	<u>22,674</u>	<u>21,234</u>	<u>164,700</u>	<u>594,533</u>	<u>429,833</u>
906,850	163,759	743,091			
			60,535	535	60,000
<u>906,850</u>	<u>163,759</u>	<u>743,091</u>	<u>60,535</u>	<u>535</u>	<u>60,000</u>
(905,410)	(141,085)	764,325	104,165	593,998	489,833
500,000	500,000				
			(1,977,024)	(1,103,232)	873,792
<u>500,000</u>	<u>500,000</u>		<u>(1,977,024)</u>	<u>(1,103,232)</u>	<u>873,792</u>
(405,410)	358,915	764,325	(1,872,859)	(509,234)	1,363,625
1,019,528	1,019,528		1,943,248	1,943,248	
<u>\$ 614,118</u>	<u>\$ 1,378,443</u>	<u>\$ 764,325</u>	<u>\$ 70,389</u>	<u>\$ 1,434,014</u>	<u>\$ 1,363,625</u>

(Continued)

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, 2018

	Totals		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
Revenues:			
Sales taxes	\$ 368,124	\$ 704,166	\$ 336,042
Licenses and permits	158,160	585,144	426,984
Intergovernmental	255,000		(255,000)
Other	170,000	108,451	(61,549)
Investment earnings	14,004	49,220	35,216
Total revenues	<u>965,288</u>	<u>1,446,981</u>	<u>481,693</u>
Expenditures:			
Current -			
General government	1,940	2,791	(851)
Public works	1,271,650	221,948	1,049,702
Culture and recreation	60,535	535	60,000
Capital outlay	7,285,000	3,164,701	4,120,299
Total expenditures	<u>8,619,125</u>	<u>3,389,975</u>	<u>5,229,150</u>
Excess (deficiency) of revenues over expenditures	<u>(7,653,837)</u>	<u>(1,942,994)</u>	<u>5,710,843</u>
Other financing sources (uses):			
Transfer in	2,577,024	2,748,969	171,945
Transfer out	(3,177,024)	(2,303,232)	873,792
Total other financing sources (uses)	<u>(600,000)</u>	<u>445,737</u>	<u>1,045,737</u>
Changes in fund balances	<u>(8,253,837)</u>	<u>(1,497,257)</u>	<u>6,756,580</u>
Fund balances, beginning of year	10,090,077	10,090,077	
Fund balances, end of year	<u>\$ 1,836,240</u>	<u>\$ 8,592,820</u>	<u>\$ 6,756,580</u>

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 five 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 with 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 value 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)

	Fiscal Year ended June 30			
	2009	2010	2011	2012
Governmental activities:				
Net investment in capital assets	\$ 94,611,110	\$ 95,467,509	\$ 92,579,483	\$ 92,006,103
Restricted	11,828,137	11,396,116	4,385,595	5,951,416
Unrestricted	<u>13,765,293</u>	<u>12,321,090</u>	<u>22,598,669</u>	<u>21,064,267</u>
Total governmental activities net position	<u>\$ 120,204,540</u>	<u>\$ 119,184,715</u>	<u>\$ 119,563,747</u>	<u>\$ 119,021,786</u>

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

Fiscal Year ended June 30

<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 89,800,560	\$ 89,713,260	\$ 95,325,824	\$ 95,647,990	\$ 94,909,703	\$ 96,777,854
5,721,744	5,480,867	6,310,810	4,530,239	4,471,661	4,589,526
<u>20,612,758</u>	<u>19,186,823</u>	<u>15,180,582</u>	<u>17,232,506</u>	<u>17,578,068</u>	<u>16,244,169</u>
<u>\$ 116,135,062</u>	<u>\$ 114,380,950</u>	<u>\$ 116,817,216</u>	<u>\$ 117,410,735</u>	<u>\$ 116,959,432</u>	<u>\$ 117,611,549</u>

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

	Fiscal Year Ended June 30				
	2009	2010	2011	2012	2013
Expenses					
Governmental activities:					
General government	\$ 4,231,529	\$ 3,720,236	\$ 2,876,848	\$ 3,119,113	\$ 2,909,443
Development services	2,218,994	1,612,287	1,572,202	1,442,613	1,633,361
Public works	5,051,294	5,202,285	5,567,973	4,718,047	5,712,817
Public safety	7,312,415	6,293,323	5,963,067	5,820,136	6,100,131
Culture and recreation	3,336,616	2,927,848	2,840,154	2,754,731	2,779,294
Interest on long-term debt	1,033,536	950,484	851,957	779,576	567,043
Total governmental activities expenses	<u>23,184,384</u>	<u>20,706,463</u>	<u>19,672,201</u>	<u>18,634,216</u>	<u>19,702,089</u>
Program Revenues					
Governmental activities:					
Fines, fees and charges for services:					
General government	499,914	474,434	337,279	272,469	380,926
Development services	455,543	236,377	344,821	322,984	377,483
Public works	50,408	266,706	77,409	95,201	112,521
Public safety	55,042	59,806	65,568	63,926	63,824
Culture and recreation	427,137	338,357	339,341	303,508	288,745
Operating grants and contributions	-	1,666,498	1,614,462	1,285,656	1,266,906
Capital grants and contributions	1,353,409	632,617	2,273,414	1,392,706	150,535
Total governmental activities program revenues	<u>2,841,453</u>	<u>3,674,795</u>	<u>5,052,294</u>	<u>3,736,450</u>	<u>2,640,940</u>
Net (Expenses)/Revenues	(20,342,931)	(17,031,668)	(14,619,907)	(14,897,766)	(17,061,149)
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes:					
Property taxes	1,531,770	1,928,028	1,349,079	1,453,405	1,385,147
Sales taxes	8,932,374	7,644,440	8,013,480	7,787,489	7,957,163
Franchise taxes	321,964	285,881	322,659	332,130	334,668
State shared revenues	8,456,552	6,000,923	5,217,140	4,515,511	4,979,183
Investment earnings	258,478	22,831	28,456	88,877	69,998
Miscellaneous	76,300	129,740	68,125	178,393	300,899
Total governmental activities	<u>19,577,438</u>	<u>16,011,843</u>	<u>14,998,939</u>	<u>14,355,805</u>	<u>15,027,058</u>
Changes in Net Position					
Governmental activities	<u>\$ (765,493)</u>	<u>\$ (1,019,825)</u>	<u>\$ 379,032</u>	<u>\$ (541,961)</u>	<u>\$ (2,034,091)</u>

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

Fiscal Year Ended June 30

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 2,432,965	\$ 2,479,365	\$ 2,516,966	\$ 3,142,722	\$ 3,431,752
1,237,717	2,074,611	2,253,208	1,364,378	1,460,967
6,630,875	4,963,979	6,476,688	7,904,577	7,567,012
6,958,056	6,816,152	7,178,890	7,563,898	7,380,663
2,760,690	2,822,954	3,124,523	3,375,414	3,311,648
472,999	698,542	241,694	178,749	118,552
<u>20,493,302</u>	<u>19,855,603</u>	<u>21,791,969</u>	<u>23,529,738</u>	<u>23,270,594</u>
215,943	337,655	298,737	837,163	295,716
531,193	693,670	1,257,492	1,062,094	1,314,915
250,421	236,706	48,688	216,724	155,973
74,887	86,641	90,345	155,454	52,465
340,353	339,158	321,189	393,028	497,914
1,307,738	1,431,017	1,615,973	1,699,931	1,737,958
144,570	2,874,796	381,011	494,328	304,951
<u>2,865,105</u>	<u>5,999,643</u>	<u>4,013,435</u>	<u>4,858,722</u>	<u>4,359,892</u>
(17,628,197)	(13,855,960)	(17,778,534)	(18,671,016)	(18,910,702)
1,449,646	904,660	2,569,504	2,296,199	2,263,623
8,459,267	8,983,049	9,395,667	9,415,151	10,311,577
349,414	352,673	360,320	367,119	421,682
5,326,332	5,713,235	5,813,678	6,057,278	6,396,667
123,311	150,358	219,058	55,127	158,860
166,115	188,251	13,826	28,839	10,410
<u>15,874,085</u>	<u>16,292,226</u>	<u>18,372,053</u>	<u>18,219,713</u>	<u>19,562,819</u>
<u>\$ (1,754,112)</u>	<u>\$ 2,436,266</u>	<u>\$ 593,519</u>	<u>\$ (451,303)</u>	<u>\$ 652,117</u>

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

	Fiscal Year ended June 30			
	2009	2010		
General fund				
Reserved	\$ 3,234,860	\$ 3,235,811		
Unreserved, designated	127,916	333,796		
Unreserved, undesignated	<u>3,302,373</u>	<u>3,418,799</u>		
Total general fund	<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	4,198,782	4,498,523		
Capital projects funds	10,246,395	10,020,336		
Debt service funds	<u>1,218,971</u>	<u>1,182,834</u>		
Total all other governmental funds	<u>\$ 15,759,768</u>	<u>\$ 15,861,177</u>		
	Fiscal Year ended June 30			
	2011	2012	2013	2014
General fund				
Nonspendable				
Inventory	\$ 13,183	\$ 9,332	\$ 10,201	\$ 14,358
Prepaid items	29,234	28,245	32,493	18,348
Committed	-	1,345,200	1,345,200	1,345,200
Assigned	-	2,190,910	2,191,063	1,647,193
Unassigned	<u>8,263,549</u>	<u>3,656,173</u>	<u>4,117,865</u>	<u>4,972,853</u>
Total general fund	<u>\$ 8,305,966</u>	<u>\$ 7,229,860</u>	<u>\$ 7,696,822</u>	<u>\$ 7,997,952</u>
All other governmental funds				
Nonspendable				
Cash with escrow agent	\$ -	\$ 2,623,895	\$ 2,301,609	\$ 1,973,067
Prepaid items	6,217	5,474	4,706	997
Restricted	4,379,987	3,300,426	3,354,189	3,505,590
Committed	11,480,869	2,039,560	2,175,094	2,089,361
Assigned	<u>-</u>	<u>9,312,168</u>	<u>9,005,276</u>	<u>7,147,586</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>

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

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

Fiscal Year ended June 30

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 6,975	\$ 9,272	\$ 5,872	\$ 13,490
10,655	4,123	16,868	21,945
2,634,923	2,652,357	2,714,135	2,893,850
1,872,492	1,701,086	1,743,768	2,101,574
<u>4,369,457</u>	<u>5,853,806</u>	<u>2,696,999</u>	<u>2,140,434</u>
<u>\$ 8,894,502</u>	<u>\$ 10,220,644</u>	<u>\$ 7,177,642</u>	<u>\$ 7,171,293</u>

\$ 1,645,000	\$ -	\$ -	\$ -
656	5,055	474	-
10,066,786	4,500,044	4,432,710	4,571,263
1,079,780	1,366,081	8,576,250	7,248,890
<u>5,444,124</u>	<u>5,943,364</u>	<u>1,784,761</u>	<u>2,340,683</u>
<u>\$ 18,236,346</u>	<u>\$ 11,814,544</u>	<u>\$ 14,794,195</u>	<u>\$ 14,160,836</u>

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				
	2009	2010	2011	2012	2013
Revenues					
Taxes	\$ 10,960,001	\$ 9,818,985	\$ 9,704,054	\$ 9,577,321	\$ 9,713,445
Licenses and permits	541,627	399,094	312,367	194,976	570,904
Leases and rents	290,083	215,520	227,195	206,018	213,871
Intergovernmental	9,607,961	7,672,037	7,165,103	6,035,448	6,323,047
Charges for services	316,676	464,036	388,635	405,663	162,086
Other	43,683	129,740	72,125	178,393	300,899
Fines and forfeitures	339,658	297,030	236,221	223,673	187,251
Special assessments	4,037	-	-	-	-
Investment earnings	258,478	22,831	28,456	88,877	69,998
Total revenues	<u>22,362,204</u>	<u>19,019,273</u>	<u>18,134,156</u>	<u>16,910,369</u>	<u>17,541,501</u>
Expenditures					
Current:					
General government	3,514,249	3,186,368	2,575,975	2,887,321	2,699,109
Development services	2,036,295	1,669,449	1,564,615	1,421,787	1,643,757
Public works	1,199,850	973,746	1,123,230	1,054,930	2,058,990
Public safety	6,624,141	6,200,227	5,772,800	5,869,445	6,022,269
Culture and recreation	2,215,065	2,007,737	1,871,446	1,794,332	1,791,018
Capital outlay	3,708,277	1,254,223	1,043,304	884,323	453,002
Debt service:					
Principal	2,240,000	2,460,000	2,114,999	1,965,000	2,280,000
Interest	925,663.00	825,988	729,077	639,135	554,860
Other debt service	3,471.00	16,869	15,254	55,752	12,183
Total expenditures	<u>22,467,011</u>	<u>18,594,607</u>	<u>16,810,700</u>	<u>16,572,025</u>	<u>17,515,188</u>
Excess (deficiency) of revenues over (under) expenditures	(104,807)	424,666	1,323,456	338,344	26,313
Other Financing Sources (Uses)					
Transfers in	3,759,735	1,127,776	431,880	2,470,027	1,279,397
Transfers out	(3,950,654)	(1,127,776)	(431,880)	(2,470,027)	(1,279,397)
Issuance of refunding bonds	-	-	-	-	-
Issuance of long-term debt	-	-	-	-	-
Bond Premium	-	-	-	-	-
Payment to refunded bonds escrow agent	-	-	-	-	-
Total other financing sources (uses)	<u>(190,919)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (295,726)</u>	<u>\$ 424,666</u>	<u>\$ 1,323,456</u>	<u>\$ 338,344</u>	<u>\$ 26,313</u>
Expenditures for capitalized assets	\$ 2,528,881	\$ 532,461	\$ 389,082	\$ 1,333,785	\$ 467,691
Debt service as a percentage of noncapital expenditures	15.9%	18.3%	17.4%	17.5%	16.7%

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

Fiscal Year Ended June 30

2014	2015	2016	2017	2018
\$ 10,271,737	\$ 10,240,382	\$ 12,299,285	\$ 12,069,714	\$ 13,019,341
891,782	1,043,382	1,372,045	1,310,973	2,004,386
252,584	269,753	258,165	284,090	282,531
6,677,518	9,770,048	7,559,436	7,917,651	8,266,028
161,376	176,541	197,109	351,476	254,122
134,114	188,251	147,662	153,438	207,697
170,995	186,456	209,380	257,727	182,997
-	-	-	-	-
123,311	150,358	219,058	55,127	158,860
<u>18,683,417</u>	<u>22,025,171</u>	<u>22,262,140</u>	<u>22,400,196</u>	<u>24,375,962</u>
2,194,845	2,275,124	2,324,026	2,713,548	3,195,936
1,774,983	2,073,990	2,217,814	1,275,147	1,397,249
3,085,559	1,275,779	2,498,714	3,954,450	7,402,227
6,890,770	6,675,874	7,034,887	7,420,032	3,420,317
1,921,939	1,962,585	2,240,865	2,484,940	2,375,758
1,750,465	8,799,068	6,471,382	1,693,265	4,317,214
2,415,000	1,850,000	4,260,000	2,675,000	2,720,000
460,811	454,957	308,106	244,986	185,164
12,188	243,585	2,005	2,180	1,805
<u>20,506,560</u>	<u>25,610,962</u>	<u>27,357,799</u>	<u>22,463,548</u>	<u>25,015,670</u>
(1,823,143)	(3,585,791)	(5,095,659)	(63,352)	(639,708)
1,838,453	2,519,774	562,044	5,194,138	4,543,728
(1,838,453)	(2,519,774)	(562,044)	(5,194,138)	(4,543,728)
-	4,180,000	-	-	-
-	7,565,000	-	-	-
-	342,086	-	-	-
-	(4,085,000)	-	-	-
-	8,002,086	-	-	-
<u>\$ (1,823,143)</u>	<u>\$ 4,416,295</u>	<u>\$ (5,095,659)</u>	<u>\$ (63,352)</u>	<u>\$ (639,708)</u>
\$ 2,385,168	\$ 9,067,254	\$ 6,394,346	\$ 1,696,612	\$ 4,293,214
15.9%	15.4%	21.8%	14.1%	14.0%

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
2009	\$ 1,705,663	\$ 8,932,374	\$ 321,964	\$ 10,960,001
2010	1,888,664	7,644,441	285,881	9,818,986
2011	1,367,915	8,013,480	322,659	9,704,054
2012	1,457,702	7,779,219	332,130	9,569,051
2013	1,421,615	7,957,162	334,668	9,713,445
2014	1,463,056	8,459,267	349,414	10,271,737
2015	904,660	8,983,050	352,673	10,240,383
2016	2,543,298	9,395,667	360,320	12,299,285
2017	2,287,444	9,415,151	367,119	12,069,714
2018	2,286,081	10,311,578	421,682	13,019,341

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
2009	\$ 683,827,567	\$ 0.1972	\$ 6,086,032,196	11.24%
2010	651,694,135	0.2273	5,729,894,491	11.37%
2011	576,401,885	0.1639	5,068,665,363	11.37%
2012	452,236,007	0.2258	4,096,551,487	11.04%
2013	377,816,392	0.2657	3,422,463,416	11.04%
2014	365,963,182	0.2773	3,359,684,579	10.89%
2015	403,330,477	0.1151	3,722,794,676	10.83%
2016	402,223,763	0.5246	3,744,585,506	10.74%
2017	423,688,665	0.4472	3,965,824,715	10.68%
2018	444,639,625	0.4259	4,166,589,970	10.67%

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

*Note: On November 6, 2012, voters approved Proposition 117, an amendment to the Arizona Constitution. Beginning with Tax Year 2015 (Fiscal Year 2016), both primary and secondary taxes are levied against the net limited assessed value. The net full cash assessed value is used for determining the Town's bonding capacity and as the ceiling for net limited assessed value.

** Per \$100 of assessed taxable value.

**Town of Fountain Hills, Arizona
Principal Property Taxpayers
June 30, 2018 and 2009**

Taxpayer	2018			2009		
	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
Toll Brothers AZ Construction Company	\$ 4,406,088	1	0.99%			
EPCOR - Chaparral City Water Company	3,737,160	2	0.84%	3,249,180	4	0.48%
Hunter Retail LLC	2,574,292	3	0.58%			
WSL Fountain View Investors V, LLC	2,044,311	4	0.46%	3,196,512	5	0.47%
Whitestone Fountain Hills, LLC	1,897,190	5	0.43%			
Smith's Food & Drug Centers Inc.	1,300,356	6	0.29%	1,987,058	10	0.29%
MJFFH7 LLC	1,265,132	7	0.28%			
Palisades Resorts LLC	1,225,428	8	0.28%			
Fountain Hills Invest Co., LLC	1,215,236	9	0.27%			
Target Corporation	1,214,812	10	0.27%	2,558,638	6	0.37%
EN LLC				5,768,595	1	0.84%
Inland Western Fountain Hills Four Peaks LLC				4,500,754	2	0.66%
Adero Canyon LLC				3,542,320	3	0.52%
Pacific FH Resort LLC				2,522,720	7	0.37%
Qwest Corporation				2,320,477	8	0.34%
Sun Tech Development, LLC				<u>2,301,963</u>	9	<u>0.34%</u>
Totals	<u>\$ 20,880,005</u>		<u>4.69%</u>	<u>\$ 31,948,217</u>		<u>4.68%</u>

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

Note: On November 6, 2012, voters approved Proposition 117, an amendment to the Arizona Constitution. Beginning with Tax Year 2015 (Fiscal Year 2016), both primary and secondary taxes are levied against the net assessed limited property valuation. The net assessed full cash property valuation is used for determining the Town's bonding capacity and as the ceiling for net limited assessed property valuation.

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
2009	\$ 1,719,105	\$ 1,660,820	96.6%	\$ 53,379	\$ 1,714,199	99.7%
2010	1,895,552	1,838,909	97.0%	52,188	1,891,097	99.8%
2011	1,340,544	1,307,092	97.5%	24,924	1,332,016	99.4%
2012	1,446,076	1,414,482	97.8%	20,255	1,434,737	99.2%
2013	1,429,285	1,401,654	98.1%	18,833	1,420,487	99.4%
2014	1,449,884	1,426,612	98.4%	18,448	1,445,060	99.7%
2015	892,104	881,170	98.8%	6,995	888,165	99.6%
2016	2,532,115	2,502,995	98.8%	19,374	2,522,369	99.6%
2017	2,278,728	2,241,482	98.4%	29,637	2,271,119	99.7%
2018	2,272,027	2,230,328	98.2%	-	2,230,328	98.2%

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				
	2009	2010	2011	2012	2013
Sales category:					
Construction	\$ 1,414,308	\$ 538,562	\$ 567,135	\$ 600,403	\$ 567,589
Transportation/utilities	1,311,735	1,424,828	1,388,075	1,409,349	1,402,734
Wholesale/retail	3,687,605	3,556,292	3,567,986	3,601,904	3,598,895
Restaurants/bars	493,242	509,624	559,931	575,704	645,258
Real estate, rental & leasing	665,153	650,400	731,758	678,326	720,023
Services	258,139	241,685	276,566	274,521	310,303
Other	<u>1,102,192</u>	<u>723,050</u>	<u>922,029</u>	<u>639,012</u>	<u>712,360</u>
Total	<u>\$ 8,932,374</u>	<u>\$ 7,644,441</u>	<u>\$ 8,013,480</u>	<u>\$ 7,779,219</u>	<u>\$ 7,957,162</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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 783,064	\$ 935,694	\$ 918,717	\$ 730,164	\$ 1,408,332
1,375,623	1,405,768	1,327,441	1,288,153	1,309,928
3,653,181	4,214,119	4,815,582	4,982,218	5,235,992
655,654	682,180	742,540	811,985	829,857
782,453	617,348	552,856	636,834	745,171
342,079	604,618	779,753	852,675	747,834
<u>867,213</u>	<u>523,323</u>	<u>258,779</u>	<u>113,122</u>	<u>34,464</u>
<u>\$ 8,459,267</u>	<u>\$ 8,983,050</u>	<u>\$ 9,395,667</u>	<u>\$ 9,415,151</u>	<u>\$ 10,311,578</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
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%
2017	2.60%	0.70%	5.60%	8.90%
2018	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										Debt Per Capita
	General Obligation Bonds*	Community Facilities District Bonds**	Municipal Property Corporation Bonds*	Highway User Revenue Bonds	Special Assessment Bonds	Total Outstanding Debt					
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	697				
2012	3,755,000	3,090,000	7,040,000	-	-	13,885,000	602				
2013	2,900,000	2,800,000	5,905,000	-	-	11,605,000	498				
2014	2,000,000	2,495,000	4,695,000	-	-	9,190,000	390				
2015	9,517,086	2,300,000	3,525,000	-	-	15,342,086	642				
2016	7,678,669	1,935,000	1,400,000	-	-	11,013,669	450				
2017	5,680,252	1,560,000	1,030,000	-	-	8,270,252	336				
2018	3,631,835	1,180,000	670,000	-	-	5,481,835	223				

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

* All bond amounts presented are net of original issuance discounts and premiums.

** All bond amounts presented are net of original issuance discounts and premiums.
The Town is not obligated for repayment of the Eagle Mountain Community Facilities District general obligation bonds.

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

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

Fiscal Year	General Obligation Bonds*		Less: Amounts Restricted for		Net General Obligation Bonds		Estimated Actual Taxable Value of Property		Percentage of Estimated Actual Taxable Value of Property		Net General Obligation Debt per Net Limited Assessed Valuation		Municipal Property Corporation Bonds*		Net Municipal Property Corporation Debt per Capita		Total Revenues-All Sources
	Bonds*		Principal		Obligation Bonds		Property		Property		Debt per Net Limited Assessed Valuation		Property Corporation		Debt per Capita		
2009	\$ 10,390,000	\$	9,952	\$	10,380,048	\$	6,086,032,196	0.17%	452	1.52%	\$	8,652,918	\$	376	\$	21,331,076	
2010	9,045,000		177,751		8,867,249		5,729,894,491	0.15%	390	1.36%		7,878,646		347		18,958,595	
2011	7,965,000		83,081		7,881,919		5,068,665,363	0.16%	350	1.37%		6,993,694		311		18,248,326	
2012	6,845,000		94,380		6,750,620		4,096,551,487	0.16%	297	1.49%		4,300,489		189		17,184,895	
2013	5,700,000		82,184		5,617,816		3,422,463,416	0.16%	244	1.49%		3,561,814		154		17,723,994	
2014	4,495,000		87,949		4,407,051		3,359,684,579	0.13%	189	1.20%		2,721,933		117		18,891,967	
2015	11,817,086		420,782		11,396,304		3,722,794,676	0.31%	483	2.83%		1,764,338		75		22,161,316	
2016	9,613,669		576,281		9,037,388		3,744,585,506	0.24%	378	2.25%		1,088,117		46		22,262,139	
2017	7,240,252		343,697		6,896,555		3,965,824,715	0.17%	282	1.63%		860,437		35		22,400,196	
2018	4,811,835		83,185		4,728,650		4,166,589,970	0.11%	192	1.06%		664,484		27		24,375,962	

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

* All bond amounts presented are net of original issuance discounts and premiums. The Town is not obligated for repayment of the Eagle Mountain Community Facilities District general obligation bonds

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

Note: On November 6, 2012, voters approved Proposition 117, an amendment to the Arizona Constitution. Beginning with Tax Year 2015 (Fiscal Year 2016), both primary and secondary taxes are levied against the net limited assessed value. The net full cash assessed value is used for determining the Town's bonding capacity and as the ceiling for net limited assessed value.

Town of Fountain Hills, Arizona
Direct and Overlapping Governmental Activities Debt
as of June 30, 2018

<u>Governmental Unit</u>	<u>Outstanding Debt</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Overlapping:			
Maricopa County	\$ -	1.15%	\$ -
Maricopa County Community College District	380,740,000	1.15%	4,378,510
Maricopa Integrated Health System	75,000,000	1.15%	862,500
East Valley Institute of Technology	-	2.59%	-
Fountain Hills Unified School District	10,270,000	96.22%	9,881,794
Total Overlapping Debt			<u>15,122,804</u>
Direct:			
Town of Fountain Hills, Arizona*			
General Obligation Bonds			3,631,835
Revenue Bonds			670,000
Eagle Mountain Community Facilities District**			<u>1,180,000</u>
Total Direct Debt			<u>5,481,835</u>
Total direct and overlapping debt			<u>\$ 20,604,639</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.

* All bond amounts are net of original issuance discounts and premiums.

** The Town is not obligated for repayment of the Eagle Mountain Community Facilities District general obligation bonds.

Note: The estimated percentage of debt outstanding applicable to the Town is calculated based on the Town's net limited assessed valuation as a percentage of the net limited 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				
	2009	2010	2011	2012	2013
6% Debt Limit					
Debt limit	\$ 41,029,654	\$ 39,101,648	\$ 34,584,113	\$ 27,134,160	\$ 22,668,984
Total net debt applicable to limit	-	-	-	-	-
Legal debt margin	<u>\$ 41,029,654</u>	<u>\$ 39,101,648</u>	<u>\$ 34,584,113</u>	<u>\$ 27,134,160</u>	<u>\$ 22,668,984</u>
 Total debt applicable to the limit as a percentage of debt limit	 -	 -	 -	 -	 -
 20% Debt Limit					
Debt limit	\$ 136,765,513	\$ 130,338,827	\$ 115,280,377	\$ 90,447,201	\$ 75,563,278
Total net debt applicable to limit	<u>6,530,000</u>	<u>5,415,000</u>	<u>4,595,000</u>	<u>3,755,000</u>	<u>2,900,000</u>
Legal debt margin	<u>\$ 130,235,513</u>	<u>\$ 124,923,827</u>	<u>\$ 110,685,377</u>	<u>\$ 86,692,201</u>	<u>\$ 72,663,278</u>
 Total debt applicable to the limit as a percentage of debt limit	 5%	 4%	 4%	 4%	 4%

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

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

Note: On November 6, 2012, voters approved Proposition 117, an amendment to the Arizona Constitution. Beginning with Tax Year 2015 (Fiscal Year 2016), both primary and secondary taxes are levied against the net limited assessed value. The net full cash assessed value is used for determining the Town's bonding capacity and as the ceiling for net limited assessed value.

Fiscal Year Ended June 30

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 21,957,791	\$ 24,199,829	\$ 28,325,296	\$ 30,651,126	\$ 31,459,192
-	-	-	-	-
<u>\$ 21,957,791</u>	<u>\$ 24,199,829</u>	<u>\$ 28,325,296</u>	<u>\$ 30,651,126</u>	<u>\$ 31,459,192</u>
-	-	-	-	-
\$ 73,192,636	\$ 80,666,095	\$ 94,417,653	\$ 102,170,422	\$ 104,863,974
<u>2,000,000</u>	<u>9,175,000</u>	<u>7,405,000</u>	<u>5,475,000</u>	<u>3,495,000</u>
<u>\$ 71,192,636</u>	<u>\$ 71,491,095</u>	<u>\$ 87,012,653</u>	<u>\$ 96,695,422</u>	<u>\$ 101,368,974</u>

3%	11%	8%	5%	3%
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**Town of Fountain Hills, Arizona
Calculation of Legal Debt Margin
as of June 30, 2018**

Net full cash assessed valuation		524,319,870
<p>Water, Sewer, Artificial Lighting, Parks, Open Space, Recreational Facility Improvements, Public Safety, Law Enforcement, Fire and Emergency Facilities, and Street and Transportation Facilities</p> <hr/>		
Debt limit - 20% of net full cash assessed valuation	\$	104,863,974
Net debt applicable to limit		<u>3,495,000</u>
20% legal debt margin		<u>101,368,974</u>
<p><u>All Other General Obligation Bonds</u></p> <hr/>		
Debt limit - 6% of net full cash assessed valuation		31,459,192
Net debt applicable to limit		<u>-</u>
6% legal debt margin		<u>31,459,192</u>
 Total legal debt margin	 \$	 <u>132,828,166</u>

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

Note: On November 6, 2012, voters approved Proposition 117, an amendment to the Arizona Constitution. Beginning with Tax Year 2015 (Fiscal Year 2016), both primary and secondary taxes are levied against the net limited assessed value. The net full cash assessed value is used for determining the Town's bonding capacity and as the ceiling for net limited assessed value.

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

Municipal Facilities Corporation Revenue Bonds					
Fiscal Year Ended June 30	Principal	Interest	Total	Pledged Revenues	Coverage
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
2017	370,000	22,680	392,680	16,815,224	42.8
2018	360,000	16,686	376,686	18,194,833	48.3

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				
	2008	2009	2010	2011	2012
Population	22,984	22,736	22,489	22,741	23,070
Per capita personal income	\$ 38,439	\$ 38,918	\$ 40,672	\$ 44,660	\$ 47,260
Median age	48.3	48.9	53.9	53.9	53.9
Public school enrollment	2,233	2,203	2,103	1,981	1,886
Town of Fountain Hills unemployment rate	2.6%	4.5%	4.8%	6.7%	5.6%
Land use					
Total acres	13,005.7	13,005.7	13,005.7	13,005.7	13,005.7
Total square miles	20.32	20.32	20.32	20.32	20.32
Vacant lots	1,295	1,253	1,226	1,218	1,209
Number of units					
Housing	12,832	12,927	12,983	12,990	12,977
Lodging	4	4	4	4	4
Restaurants	47	52	53	56	56
Shopping centers	19	19	20	20	20
Schools					
Public	4	4	4	4	3
Preschool	4	4	4	4	6
Charter	1	1	1	1	1
Vocational	-	-	-	-	-

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 July 1, 2017 estimate. 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 2017.

Calendar Year

	2013	2014	2015	2016	2017*
	23,318	23,573	23,899	24,482	24,583
\$	48,244	\$ 46,619	\$ 48,240	\$ 50,162	\$ 60,531
	53.0	53.7	53.8	53.7	53.5
	1,820	1,692	1,619	1,506	1,444
	6.0%	5.4%	2.4%	1.9%	1.6%
	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
	1,196	1,165	1,247	1,209	1,175
	12,991	12,981	13,002	13,130	13,176
	4	4	4	4	4
	54	43	46	50	52
	20	20	20	20	20
	3	3	3	3	3
	7	7	7	7	7
	1	1	1	1	1
	-	-	-	-	1

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

Employer	2017*			2008	
	Number of Employees	Rank	Percentage of Total Town Employment	Number of Employees	Rank
Fountain Hills Unified School District No. 98	149	1	3.3%	285	1
Fountain View Village	120	2	2.7%		
Rural Metro Corporation	111	3	2.5%		
Firerock Country Club	100	4	2.2%		
Target Stores	98	5	2.2%	130	3
Safeway Stores	95	6	2.1%	110	5
Fry's Food Stores	85	7	1.9%	80	7
Bashas	75	8	1.7%	70	8
Eagle Mountain Golf Club	70	9	1.6%	70	10
Sunrise Senior Living	69	10	1.5%		
Monks Construction				190	2
MCO Properties, Inc.				125	4
Town of Fountain Hills				87	6
Sunridge Canyon Golf Course				70	9
Totals	972		21.7%	1,217	
Total Town employment	4,474				

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

Note: Total Town employment for 2008 was not available.

* Data for 2018 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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Municipal court	5.00	5.00	5.00	5.00	5.00	4.00	3.63	3.63	3.63	3.63
Administration	13.50	13.25	11.25	11.58	11.68	10.56	11.33	11.63	12.25	13.45
Public works									9.80	9.80
Development services	40.00	35.75	23.25	20.25	18.75	16.25	16.30	16.30	7.50	8.50
Community services	29.75	27.10	21.63	21.53	21.18	20.18	21.06	20.76	20.76	20.56
Total	<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>	<u>53.94</u>	<u>55.94</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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Municipal Court										
Cases filed	N/A	3,520	2,584	2,173	1,740	1,649	1,738	1,593	2,014	1,277
Hearings/Trials held	N/A	1,089	738	731	703	1,665	1,585	1,564	1,844	676
Administration										
FTEs per 1,000 residents	3.8	3.6	2.7	2.6	2.5	2.2	2.2	2.2	2.2	2.3
Registered voters - general election	none	15,511	none	16,074	none	N/A	16,213	none	16,387	none
Voter turnout - general election	none	50%	none	34%	none	N/A	38%	none	41%	none
Development Services										
Building permits issued	376	411	350	346	457	445	443	410	509	468
Building inspections conducted	3,189	1,936	1,546	1,257	1,395	2,131	2,448	2,129	2,704	3,707
Number of code violation cases	N/A	1,024	843	804	746	716	752	713	669	654
Number of zoning cases	N/A	7	14	7	10	41	65	72	50	41
Community Services										
Number of Community Center bookings	N/A	3,396	3,315	3,236	3,196	3,383	3,439	3,124	3,764	4,395
Number of participants in recreational programs	N/A	1,960	1,759	1,833	1,789	2,291	2,249	2,910	3,773	3,794
Number of Senior Services members	N/A	1,105	1,205	1,208	1,118	1,189	1,273	1,326	1,335	1,220
Number of home delivered meals	N/A	10,169	9,742	8,419	6,941	4,799	4,035	3,497	3,920	3,093
Law Enforcement (contracted)										
Physical arrests	825	679	645	522	545	743	445	220	220	214
Traffic violations	4,900	2,959	1,909	1,366	1,296	1,379	1,539	1,215	1,803	1,053
Fire & Emergency Medical (contracted)										
Total incident responses	2,787	2,875	3,179	3,082	3,136	2,956	3,166	3,191	3,425	3,659
Average response time (in minutes)	3:44	4:32	3:46	3:50	3:53	3:37	3:57	3:25	3:33	3:32

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

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

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

Function/Program	Fiscal Year Ended June 30									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Public safety										
Number of fire stations	2	2	2	2	2	2	2	2	2	2
Public works										
Streets (centerline miles)	178.9	178.9	178.9	178.9	178.9	178.9	178.9	178.9	178.9	180.0
Streets (lane miles)	390	390	390	390	390	390	390	390.5	390.5	391.5
Pedestrian lighting	34	34	34	34	34	34	85	91	91	91
Traffic signals	13	13	13	13	13	13	13	13	13	13
Parks and recreation										
Acreage-developed parks	116	116	116	116	116	116	119	119	119	119
Playgrounds	7	7	7	7	7	7	7	7	7	7
Baseball/softball diamonds	6	6	6	6	6	6	6	6	6	6
Soccer/football fields	7	7	7	7	7	7	7	7	7	7
Community centers	1	1	1	1	1	1	1	1	1	1
Preserve acreage	N/A	N/A	N/A	740	740	740	807.2	807.2	807.2	807.2
Miles of trails	N/A	N/A	N/A	4.3	10.43	10.43	15.8	15.8	18.5	18.5

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

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

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