Welcome

The Town of Fountain Hills is pleased to present its Popular Annual Financial Report for the fiscal year ended June 30, 2018. This report is intended to present an accessible overview of the Town’s financial position and policies, and its commitment to providing responsive services and programs in a fiscally responsible manner.

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

The financial information provided here is drawn from detailed information found within the fiscal year 2017-2018 Comprehensive Annual Financial Report (CAFR). The financial statements were prepared in conformance with accounting principles generally accepted in the United States of America (GAAP) and audited by an independent accounting firm, receiving an unmodified (or clean) opinion. The numbers contained within the CAFR were obtained by employing the basis of accounting as prescribed by the Governmental Accounting Standards Board (GASB).

While the numbers in this Popular Report come from an audited source, they are presented in an abridged, unaudited non-GAAP format. Citizens who wish to review audited GAAP-basis financial statements can refer to the Town’s 2017-2018 CAFR, which is available online at www.fh.az.gov/CAFR.

Members of the Finance Division and staff across the organization are proud to serve this fine community. We hope that the 2017-2018 Popular Annual Financial Report serves its purpose and helps assure you that every effort is made to manage the community’s resources wisely for the benefit of all.

Craig Rudolphy CPA, CPFO, CGFM
Finance Director
Profile of Fountain Hills, Arizona

The Town of Fountain Hills is a master planned community established in 1970 by McCulloch Properties (now MCO Properties, Inc.). Prior to 1970, the area was a cattle ranch and was part of one of the largest land and cattle holdings in Arizona. The land was purchased by Robert McCulloch in the late 1960s and the community was designed by Charles Wood, Jr. (designer of Disneyland in southern California). The centerpiece of Fountain Hills is one of the world's tallest man-made fountains, a focal point that attracts thousands of visitors each year.

Located on 13,006 acres of land, Fountain Hills is surrounded by the McDowell Mountains and Scottsdale on the west, the Fort McDowell Yavapai Nation on the east, the Salt River Pima-Maricopa Indian Community on the south, and by the McDowell Mountain Regional Park on the north. The elevation is 1,520 feet at the fountain, 3,000 feet on Golden Eagle Boulevard, and is approximately 500 feet above Phoenix.

Over the past twenty plus years, Fountain Hills has grown from 10,190 residents to a town of 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 such Town’s standards as the cut-and-fill ordinance and strict zoning regulations.

The Town offers a wide range of living accommodations, from small condominium complexes to large custom homes. Fountain Hills also offers recreational and cultural programs and services that contribute to a high quality of life for its residents. The community consists of primarily residential property and open space; of the total 20.32 square miles of land, only 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 of Fountain Hills is an Arizona Municipal Corporation, acting as a general law town as prescribed in the Arizona Revised Statutes. The Town was incorporated on December 5, 1989, with the governmental and administrative affairs of the Town operating under the Council-Manager form of government. The Mayor is a member of the Town Council who is directly elected by the voters and chairs the Town Council meetings. The members of the Council are elected at large and serve four-year overlapping terms. The Town Council is responsible for the adoption of local ordinances, budget adoption, appointment of residents to citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and overall management of the Town through department directors and approximately 56 FTE employees. The Presiding Judge, Town Attorney and Town Prosecutor are under the direction of the Town Council.

This Popular Annual Financial Report may be accessed on the Town’s website, at www.fh.azgov/PAFR.
The Government of Fountain Hills, Arizona

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

The annual budget serves as the foundation for the Town of Fountain Hills’ financial planning and control. The Town Council formally adopts the budget and appropriates funding for the General Fund, Excise Tax Funds, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Therefore, these funds have appropriated budgets. On or before the second Town Council meeting in April, the Town Manager submits to the Town Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. The Town Council is then required to hold public hearings on the proposed budget and to adopt a final budget by June 30, the close of the Town’s fiscal year. The budget is legally enacted through passage of a resolution and is prepared by fund and department. The resolution sets the limit for total expenditures during the fiscal year. The Town Manager may authorize transfers from and within personnel and from operating capital to services or supplies within a department. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20.

<table>
<thead>
<tr>
<th>Principal Employers</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fountain Hills Unified School District No. 98</td>
<td>149</td>
</tr>
<tr>
<td>Fountain View Village</td>
<td>120</td>
</tr>
<tr>
<td>Rural Metro Corporation</td>
<td>111</td>
</tr>
<tr>
<td>Firerock Country Club</td>
<td>100</td>
</tr>
<tr>
<td>Target Stores</td>
<td>98</td>
</tr>
</tbody>
</table>
2017-2018 Financial Overview

In this section, we present an overview of monies in and monies out for the Town of Fountain Hills for the fiscal year ended June 30, 2018.

MONIES IN
As a governmental entity, the Town uses fund accounting, or self-balancing sets of accounts segregated for specific activities. Governmental funds are used to account for tax supported activities and the Town receives the funding it needs to provide services to the community from a variety of sources. The table below presents a summary of governmental revenues by primary type for fiscal years 2017-2018, 2016-2017 and 2015-2016, in order to present a picture of typical revenues from year to year. The improving national and local economy contributed to an increase in revenues of $1,975,766 or 8.8% compared to 2017. Intergovernmental revenue includes income and sales tax shared from the State and distributed based on population. This revenue figure again increased in 2018. Charges for services decreased from prior years, but revenue from investment earnings was significantly higher. The Property tax figure had very little change, but other taxes increased more dramatically.

Revenues 2018 2017 2016
Taxes:
Sales $10,311,578 $ 9,415,151 $ 9,395,667
Property 2,286,081 2,287,444 2,543,298
Franchise 421,682 367,119 360,320
Licenses and Permits 2,004,386 1,310,973 1,372,045
Leases and Rents 282,531 284,090 258,165
Intergovernmental 8,266,028 7,917,651 7,559,436
Charges for Services 254,122 351,476 197,109
Other 207,697 153,438 147,662
Fines and Forfeitures 182,997 257,727 209,380
Investment Earnings 158,860 55,127 219,058
Total Revenues $ 24,375,962 $ 22,400,196 $ 22,262,140

REVENUE TYPE DEFINITIONS
- **Taxes - Sales** - the Town charges a local sales tax of 2.6% on most goods purchased in the Town. This tax is in addition to the State of Arizona rate of 5.6% and the Maricopa County rate of .7%, for a total sales tax rate of 8.9%.
- **Taxes - Property** - the Town does not charge a primary property tax, only a secondary property tax. The secondary tax is for debt repayment on voter approved bonds (specifically open space, the Community Center, and Saguaro Boulevard).
- **Taxes - Franchise** - revenue received from utility (telecommunications) companies for the right to operate within the Town.
- **Licenses and Permits** - includes building permit fees, business and animal license fees, fire inspections, etc. Note that animal license fees are reverted to the County for upcoming fiscal years.
- **Leases and Rents** - rental fees for use of the Community Center as well as fees from leases for cellular telephone towers.
- **Intergovernmental** - these are revenues received from other governments or entities, including state shared sales tax, state shared income tax, fire insurance premium tax, vehicle license tax, and state grants.
- **Charges for Services** - these are revenues received from services and/or programs provided by the Town such as recreation programs.
- **Other** - these are revenues that do not fit under another classification.
- **Fines and Forfeitures** - these are revenues received from court fines.
- **Investment Earnings** - revenue received from interest on invested monies.
2017-2018 Financial Overview - continued

MONIES OUT

The three-year comparison for Town expenditures shows an increase in the overall cost of operations. Overall, 2018 total Governmental Fund expenditures were greater than 2017 by $2,552,122, or 11.7%. The Town contracts for law enforcement and fire and emergency medical services—these contracts include automatic negotiated increases which are reflected in the Public Safety category. Public Works includes Streets and Highways expenditures, which increased in prior years due to pavement maintenance, but decreased in 2018. Debt Service includes the annual principal and interest payment for outstanding bonds. Capital Outlay increased in 2018 due in a large part to construction work on the new fire station and the Adero Canyon Trail.

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>$3,195,936</td>
<td>$2,713,548</td>
<td>$2,324,026</td>
</tr>
<tr>
<td>Development Services</td>
<td>$1,397,249</td>
<td>$1,275,147</td>
<td>$2,217,814</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$7,402,227</td>
<td>$7,420,032</td>
<td>$7,034,887</td>
</tr>
<tr>
<td>Public Works</td>
<td>$3,420,317</td>
<td>$3,954,450</td>
<td>$2,498,714</td>
</tr>
<tr>
<td>Culture and Recreation</td>
<td>$2,375,758</td>
<td>$2,484,940</td>
<td>$2,240,865</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$2,906,969</td>
<td>$2,922,166</td>
<td>$4,570,111</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>$4,317,214</td>
<td>$1,693,265</td>
<td>$6,471,382</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>$25,015,670</strong></td>
<td><strong>$22,463,548</strong></td>
<td><strong>$27,357,799</strong></td>
</tr>
</tbody>
</table>

**FY 2018 Expenditures**

- **Public Safety** 33.0%
- **Public Works** 17.6%
- **Culture and Recreation** 11.1%
- **Debt Service** 13.0%
- **Capital Outlay** 7.5%
- **General Government** 12.1%
- **Development Services** 5.7%
2017-2018 Financial Overview - continued

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

Operating Funds Expenditures
Budget and Actual
Last Five Fiscal Years
(In Millions)
The Statement of Net Position presents information on all the Town’s assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. Net position is categorized by activity type. Governmental activities include services largely funded through revenues such as sales tax and charges for services.

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

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

**NET POSITION** may serve, over time, as useful indicators of a government’s financial position and consist of three components. The largest portion (82%) reflects the Town’s investment in capital assets (land, buildings, infrastructure, vehicles, machinery and equipment), less any outstanding related debt used to acquire those assets. An additional portion of the Town’s net position (4%) represents resources subject to restrictions on how they may be used. These legal restrictions are imposed by outside entities such as federal or state governments. An example of such a restriction is the gasoline tax. The State of Arizona charges the gasoline tax and shares some of it with communities. These revenues are legally restricted by the State to be used only for expenditure on street projects. Portions of net assets are also restricted to pay debt service and fund capital projects. The remainder (14%) of net position is unrestricted as to purpose.

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<thead>
<tr>
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<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current and Other Assets</td>
<td>$23,821,565</td>
<td>$24,037,642</td>
<td>$23,190,907</td>
</tr>
<tr>
<td>Capital Assets, net</td>
<td>102,259,689</td>
<td>103,179,955</td>
<td>106,661,659</td>
</tr>
<tr>
<td>Total Assets</td>
<td>126,081,254</td>
<td>127,217,597</td>
<td>129,852,566</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current and Other Liabilities</td>
<td>5,475,597</td>
<td>4,588,747</td>
<td>4,025,377</td>
</tr>
<tr>
<td>Long-Term Liabilities</td>
<td>2,994,108</td>
<td>5,669,418</td>
<td>8,416,454</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>8,469,705</td>
<td>10,258,165</td>
<td>12,441,831</td>
</tr>
<tr>
<td><strong>NET POSITION</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Investment in Capital Assets</td>
<td>96,777,854</td>
<td>94,909,703</td>
<td>95,647,990</td>
</tr>
<tr>
<td>Restricted</td>
<td>4,589,526</td>
<td>4,471,661</td>
<td>4,530,239</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>16,244,169</td>
<td>17,578,068</td>
<td>17,232,506</td>
</tr>
<tr>
<td>Total Net Position</td>
<td>$117,611,549</td>
<td>$116,959,432</td>
<td>$117,410,735</td>
</tr>
</tbody>
</table>

The Town’s Net Position
Fund Accounting

State and local governments, such as the Town, employ fund accounting whereby assets and liabilities are grouped according to the purpose for which they are to be used. Each grouping, or fund, operates as a separate self-balancing set of accounts. The General Fund is the chief operating fund of the Town and General Fund accounts for 33.6% of the total fund balance. Capital project funds account for the acquisition or construction of major capital facilities as well as facilities replacement. These intended uses can be demonstrated by viewing the components of governmental fund balances. The fund balance is an important component of fiscal planning and factors into the Town’s debt rating, and has been maintained during the Great Recession due to the Town Council’s commitment to fund ongoing services with ongoing revenues.
Property Taxes

One of the biggest bills residents face each year is tied to the property they own. Property tax in Fountain Hills is administered by Maricopa County, and is based on property value (ad valorem) and typically included with the resident’s monthly mortgage payment. As the table indicates, only a small portion (5.2%) of your property taxes go to the Town of Fountain Hills—this portion pays for the annual payment on the bonds approved by voters for open space, the Community Center building, and Saguaro Boulevard. The majority of the tax supports Fountain Hills schools, Fountain Hills Sanitary District, and various Maricopa County districts. Currently, property taxes represent one of the most stable sources of revenue for the Town at 10.2% of total revenues.

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

Revenue from the secondary property tax pays for the annual debt service payment on bonds that have been approved by voters and special taxing districts such as the Sanitary District; the rate is set by the County. The rate is calculated using 10% of the assessed valuation of property (assigned by the County), dividing by 100 and multiplying by the tax rate. For example, a residential property with an assessed value of $300,000 would pay approximately $2,471 in taxes ($300,000 x 10% divided by 100 x 8.2364).
Capital Investments

HOW CAPITAL INVESTMENTS ARE FUNDED
The Town’s capital outlay consists of investments in our roads, equipment, public facilities, and parks.

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

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

<table>
<thead>
<tr>
<th>Debt Type</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Obligation Bonds</td>
<td>$4,675,000</td>
<td>$7,035,000</td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>670,000</td>
<td>1,030,000</td>
</tr>
<tr>
<td>Premium</td>
<td>136,835</td>
<td>205,252</td>
</tr>
<tr>
<td><strong>Total Debt</strong></td>
<td><strong>$5,481,835</strong></td>
<td><strong>$8,270,252</strong></td>
</tr>
</tbody>
</table>

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

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

The Town’s available debt margin is $101.4 million in the 20% capacity and $31.5 million in the 6% capacity. The Town is currently using only 3% of the 20% capacity and none of the 6% capacity.

REPAYMENT OF OUTSTANDING DEBT
The repayment of debt is funded using secondary property tax and general fund revenues.

<table>
<thead>
<tr>
<th>Year ending June 30</th>
<th>Principal</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$2,635,000</td>
<td>$123,872</td>
</tr>
<tr>
<td>2020</td>
<td>2,310,000</td>
<td>67,302</td>
</tr>
<tr>
<td>2021</td>
<td>400,000</td>
<td>7,040</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,345,000</strong></td>
<td><strong>$198,214</strong></td>
</tr>
</tbody>
</table>
Awards & Community

Fountain Hills has had its share of accolades. IFEA/Haas & Wilker-son (International Festivals & Events Association) awarded three of their coveted Pinnacle Awards to the Town, including Best Single Digital/Social Ad (Gold), Best Emergency Preparedness and Risk Management Plan for an Event (Gold), and Best Single Magazine Display Ad (Silver). Also, the Fountain Hills Theater was presented with quite a number of arizOni awards. These honors make us proud, and we continually strive to make our community an even better place to live.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. This was the 22nd consecutive year that the government has received this prestigious award.

In addition, the government also 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 16th consecutive year that the Town has received the award.

On June 16, 2018, MCSO District 7 deputies and command staff took part in “Coffee with a Cop” at the new Fountain Hills Starbucks. The event was standing room only with members of the public talking to deputies and asking law enforcement related questions. The community was given tips regarding crime prevention and given insight into the daily operations of the Maricopa County Sheriff’s Office. In all, it was a successful turnout for the Fountain Hills community and many questions were answered.

The Town of Fountain Hills encourages involvement in government through volunteerism. Many community members volunteer their time and efforts to the Town of Fountain Hills and thereby enrich the community every day. Volunteers work within the Town reducing the cost to deliver services to its residents all while having fun, meeting others and enjoying new challenges! Annually, Volunteers are recognized at the Volunteer of the Year Awards Ceremony.
Awards & Community - continued

The Government Finance Officers Association has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Town of Fountain Hills, Arizona for its Popular Annual Financial Report for the fiscal year ending June 30, 2017. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.
Town of Fountain Hills, Arizona

TOWN COUNCIL

Mayor
Linda M. Kavanagh
Vice Mayor
Dennis Brown
Councilmember
Nick DePorter
Councilmember
Henry Leger
Councilmember
Alan Magazine
Councilmember
Art Tolis
Councilmember
Vacant

This Popular Annual Financial Report is intended to summarize the financial information appearing in the fiscal year 2017-2018 Comprehensive Annual Financial Report (CAFR). Copies of the CAFR can be viewed on the Town’s website at www.fh.az.gov/CAFR. The data included in this review is not prepared in accordance with GAAP as only a portion of the Town’s financial statements are presented.

TOWN MANAGER
Grady E. Miller

DEPARTMENT DIRECTORS

Finance Director
Craig Rudolphy
Administrative Services Director
David Trimble
Community Services Director
Rachael Goodwin
Development Services Director
Robert Rodgers
Economic Development Director
Scott Cooper
Public Works Director
Justin Weldy
Town Clerk
Elizabeth Burke
Fire Chief
Captain David Ott, Rural Metro Corporation
District Commander
Captain Henry Brandimarte, Maricopa County Sheriff’s Office District Commander
Presiding Judge
Robert Melton
Town Prosecutor
Mark Iacovino
The Law Offices of Mark Iacovino
Interim Town Attorney
Mitesh Patel, Dickinson Wright PLLC

TOWN HALL
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Fountain Hills, Arizona 85268

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U.S. Congress—District 6
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- linkedin.com/company/town-of-fountain-hills

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Fax: 480-837-3145
Website: www.fh.az.gov