



Town of Fountain Hills, Arizona

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013



**TOWN OF FOUNTAIN HILLS, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**Issued By:
Administration Department
Finance Division**

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INTRODUCTORY SECTION

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Town of Fountain Hills

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Fountain Hills, AZ 85268
Phone: 480-816-5100 • Fax: 480-837-3145
www.fh.az.gov

October 31, 2013

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 generally accepted accounting principles (GAAP) in the United States of America and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Town of Fountain Hills for the fiscal year ended June 30, 2013.

This report consists of management's representations concerning the finances of the Town of Fountain Hills. 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 of Fountain Hills 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' financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Fountain Hills' 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 of Fountain Hills' financial statements have been audited by Clifton Larson Allen LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Fountain Hills for the fiscal year ended June 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; 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 of Fountain Hills' financial statements for the fiscal year ended June 30, 2013, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

GAAP 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' MD&A can be found immediately following the report of the independent auditors.

Town of Fountain Hills Profile



The Town of Fountain Hills is a planned, family-oriented 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 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, and bordering northeast Scottsdale, Fountain

Hills is surrounded by the 3,500-foot McDowell Mountains on the west, the Fort McDowell Indian Reservation on the east, the Salt River Pima Maricopa Indian Community on the south and by the McDowell Mountain Regional Park on the north. Elevation is 1,520 feet at the fountain, 3,000 feet on Golden Eagle Boulevard, and is 500 feet above Phoenix.

Over the past twenty-three years, Fountain Hills has grown from 10,190 residents to a town of approximately 22,500 based on the 2010 census. 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. Fountain Hills will have an opportunity to demonstrate that it is truly the best place to live in the Valley.

The Town offers a range of living styles, from small community subdivisions to a number of large custom homes. Fountain Hills also offers recreational, cultural and retirement programs that address the needs and lifestyles of active families and adults. The community consists of primarily residential property; of the total 20.32 square miles of land only 2.6% of the total is zoned commercial and/or industrial, 23.0% is reserved as open space and 51.3% is residential.

The Town's Mission Statement for the Organization

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 and 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. The Town Council is responsible, among other things, for the adoption of local ordinances, budget adoption, the development of citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and administering the Town's operations through three department directors and approximately 50 FTE employees. The Judge, Town Attorney and Town Prosecutor are under the direction of the Town Council.



The Town provides or administers a full range of services including public safety (law enforcement, fire, animal control, building inspection); development services (code enforcement, planning, zoning and public works); the construction and maintenance of streets and infrastructure, municipal court, recreational activities, community center, senior center and cultural events. The Town does not maintain utility or other operations that require the establishment of enterprise funds.

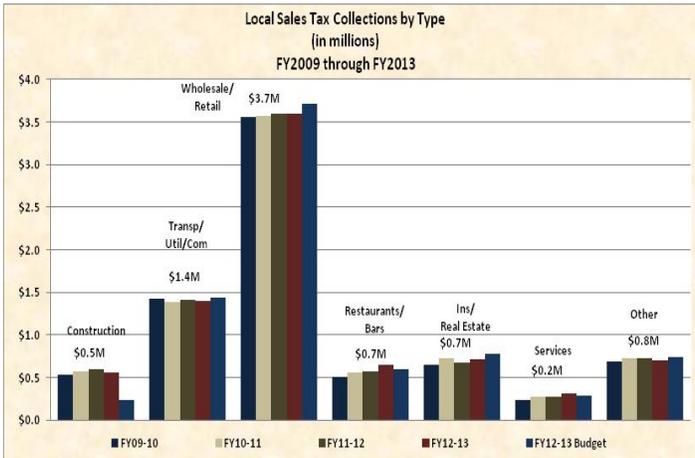
The financial reporting entity (the Town) includes all the funds of the primary government (i.e., the Town of Fountain Hills as legally defined) as well as all of its component units. The component units consist of legally separate entities for which the primary government is financially accountable. 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, Eagle Mountain Community Facilities District and Fountain Hills Municipal Property Corporation are included in the financial reports 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 legally allocates, or appropriates, available monies for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund. Therefore, these funds have appropriated budgets, and budget to actual information is presented. On or before the second 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 no later than June 30, the close of the Town of Fountain Hills' fiscal year. The budget is legally enacted through passage of an ordinance and is prepared by fund and department. The ordinance 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 9, Section 20.

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.

Local Economy. The great recession appears to be recovering modestly in Fountain Hills; this is indicated by the local sales tax receipts in retail and restaurant categories. While retail activity has remained consistent with prior years the restaurant/bar activity has jumped 12% over the prior year which we interpret as a leading indicator of a rebounding economy. The Town of Fountain Hills’ local tax revenue base consists of two major tax categories, the most significant being retail sales and transportation/communication/utilities (construction was a third significant category in prior years). The chart below is a look at the past three years’ local sales tax activity by sector:



As can be seen in the chart on the left sales tax collections continue to show signs of moderate growth. Retail sales experienced less than 1% increase over the prior year; restaurant/bar revenues have exceeded prior years and had an increase of 12% from FY11-12. Construction sales tax, a one-time revenue source, is driven entirely by development activity in the community and decreased 7% over the prior year; recent building permit activity indicates that construction sales tax is likely to increase over the next two years. Transportation/communication tax revenues remain flat.

Construction activity provides revenue to the Town through local sales tax, the proceeds of which are utilized for 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 90% of total General Fund revenue for fiscal year 2012-13.

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 0.045%). State shared income tax revenue category is based on two years prior personal and corporate earnings; from FY09-10 through FY11-12 the Town lost 53% of this revenue source (\$1.7M or 13% of the General Fund operating budget). However, the revenue from the State income tax increased by 19% in FY12-13 and is anticipated to increase another 11% for FY13-14. After a 16% decrease in State sales tax from FY08-09 through FY11-12 this revenue has recovered with a 7% increase in FY12-13 and anticipated to increase another 3% in FY13-14.

Other local activity has remained fairly level during the recessionary period due to the lack of major retailers (the Town has three grocery stores and one major retailer). Fountain Hills is past the historic period of rapid growth and the long-term economic outlook for the Town must recognize this fact. The opportunity to further expand the retail tax base in Fountain Hills is limited by the lack of available commercial land – 72% 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 2012-13

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

- J&D Auto Sales
- Prevco Subsea Housings

Three Special Use Permits were granted:

- AT&T Cell Tower at Presbyterian Church
- Prevco Subsea Housings (pending)

Three Temporary Use Permits were issued during the period:

- Halloween Carnival
- Sofritas Outdoor Seating & Dancing
- K-Group Development

Twenty-one new Single-Family Residential Building Permits were issued.

One new Commercial Building Permit was issued:

- FH Water & Ice

There were thirty-two commercial tenant improvement permits issued during the last fiscal year that indicate that Fountain Hills is still a desirable place to locate a business.

Fiscal year	SFR	DUP		MULTI		Dwelling Units	Comm	Pools & Fences	Add'ns (Not Garages)	Garages & Carports	Other	MONTH TOTAL
		Bldgs.	Total Units	Bldgs.	Total Units							
JULY	2	0	0	0	0	0	2	11	3	2	21	41
AUGUST	1	0	0	0	0	0	2	4	3	0	27	37
SEPTEMBER	2	0	0	0	0	0	3	6	1	0	14	26
OCTOBER	0	0	0	0	0	0	4	8	1	1	25	39
NOVEMBER	1	0	0	0	0	0	1	5	1	0	23	31
DECEMBER	1	0	0	0	0	0	3	6	3	0	19	32
JANUARY	0	0	0	0	0	0	3	4	0	1	31	39
FEBRUARY	3	0	0	0	0	0	5	4	3	1	21	37
MARCH	5	0	0	0	0	0	1	5	4	0	23	38
APRIL	1	0	0	0	0	0	3	7	5	1	24	41
MAY	0	0	0	0	0	0	3	4	2	0	13	22
JUNE	5	0	0	0	0	0	2	11	2	0	16	36
YEARLY TOTAL	21	0	0	0	0	0	32	75	28	6	257	419

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.

In early 2009, the Strategic Planning Advisory Commission began the process of gathering public input to update the Strategic Plan's vision, confirm residents' values, and create a fresh structure for the Strategic Plan revision. Subsequently, *Strategic Plan 2010* is built upon the foundation of a clearly defined vision statement and eight key values, with specific indicators to evaluate Council and staff priorities. Based on citizen input, the Strategic Plan is designed to guide our future decisions grounded on these common values:

1. Civility
2. Civic Responsibility
3. Environmental Stewardship
4. Economic Vitality
5. Education, Learning and Culture
6. Maintain and Improve Community Infrastructure
7. Public Safety, Health and Welfare
8. Recreational Opportunities and Amenities

These values guide the Town's annual budget process.

The Fountain Hills Town Council maintains a fund balance policy that ensures adequate reserves that will provide financial stability in the event of an unanticipated economic downturn. The policy was amended in FY08-09 to include the establishment of a Rainy Day Fund beginning in FY09-10. In FY11-12 the Town adopted Governmental Accounting Standards Board (GASB) Statement No. 54 which changed how governments report fund balance. The overall principal and goal of GASB No. 54 is to report governmental fund balances based on a hierarchy that shows, from the highest to the lowest, the level or form of constraints on fund balance, and accordingly, the extent to which governments are bound to honor them:

1. Nonspendable – The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories or prepaids. In Fountain Hills this classification would apply to our inventory and prepaid items.
2. Restricted – The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external reporting providers, or through enabling legislation. In Fountain Hills this classification would apply to Highway User Revenue Fund (HURF), Development Fees, the Grant/Special Revenue Fund and the Debt Service Fund.
3. Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. In Fountain Hills this classification would apply to the Rainy Day Fund, Excise/Downtown Development Fund, and any General Fund surplus.
4. Assigned – Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In Fountain Hills this classification would apply to the current Public Art funds as well as assignments for ongoing capital projects and equipment replacement.

5. Unassigned – The unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. In Fountain Hills this classification would be any residual balance of monies not contained in any of the other classifications.

The fund balance amounts will not be programmed for expenditure and are only available for use within the confines of expenditure limitations imposed by the State. A Capital Projects Fund has been created and is funded with proceeds from excess revenues collected over budget and any unexpended appropriations not needed to meet fund balance requirements or re-appropriation.

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 fiscal year 2009-10 to reduce the allocation of the local construction sales tax to the Capital Projects Fund from 85% to 50%, reflecting the transition from one-time building activity to ongoing redevelopment activity. The debt policy was prepared with a preference for "pay-as-you-go" financing for capital spending, however, the policy did not anticipate the lack of funding for capital projects and bond funding is being reconsidered.

Major Initiatives

The Town of Fountain Hills' adopted FY2012-13 budget reflects the continued recession in the local economy as well as an 8% decline in population resulting from the 2010 census, which is also mirrored at the national and state levels. Due to the challenging current economic conditions, the Town has made significant reductions in staff and service levels. This was accomplished by a thorough assessment of all existing and proposed programs and workload; as a result Town staffing was reduced from 81 to 56 FTE's (full time equivalents) over the last three years.

The Town Council established priorities for FY13-14 of which the top two are Economic Development and Pavement Management. In order to operationalize the Pavement Management program the Council approved the use of Vehicle License Tax revenues to be dedicated to annual pavement maintenance with an effective date of July 1, 2013. Economic Development initiatives are funded through a new dedicated local sales tax which provides funding for business attraction, retention and expansion.

AWARDS AND ACKNOWLEDGEMENT

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, 2012. This was the sixteenth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both 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 another certificate.

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year ending June 30, 2013. 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 twelfth consecutive year that the Town has received the award. An investment policy was adopted and was awarded the Investment Policy Certification from the Association of Public Treasurers of United States and Canada.

Acknowledgements. The preparation of this report would not have been possible without the efficient and dedicated services of the entire team of the Finance and Administration Department. I would also like to extend my appreciation to the Mayor and Council for their leadership and support. Each member of the department has my sincere appreciation for the contributions made in the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ken Buchanan".

Ken Buchanan
Town Manager

**TOWN OF FOUNTAIN HILLS, ARIZONA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2013**

ELECTED OFFICIALS

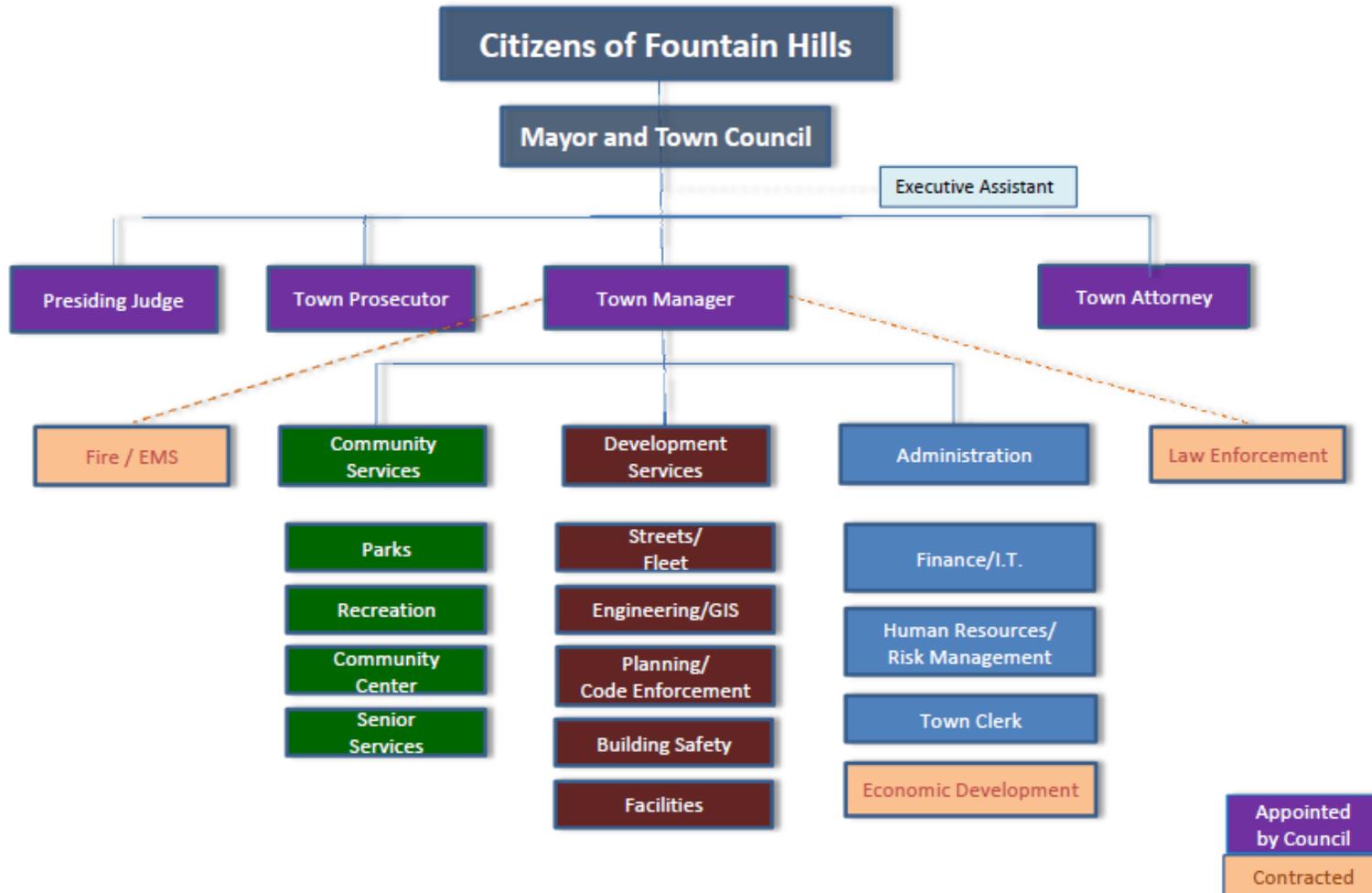
Mayor	Ms. Linda Kavanagh
Vice-Mayor	Mr. Tait Elkie
Councilmember	Mr. Dennis Brown
Councilmember	Mr. Cecil Yates
Councilmember	Mr. Henry Leger
Councilmember	Ms. Cassie Hansen
Councilmember	Ms. Ginny Dickey

DEPARTMENT DIRECTORS

Town Manager	Ken Buchanan
Deputy Town Manager/ Finance Director	Julie A. Ghetti, MPA, CPA, CGFM
Presiding Judge	Mitchell S. Eisenberg
Community Services Director	Mark Mayer
Development Services Director	Paul Mood
Interim Fire Chief	Randy Roberts Rural Metro Corporation
District Commander	Captain Joe Rodriguez Maricopa County Sheriff's Office
Town Prosecutor	Iacovino & Kayler
Town Attorney	Andrew McGuire, Gust Rosenfeld, P.L.C.

**TOWN OF FOUNTAIN HILLS, ARIZONA
ORGANIZATIONAL CHART
JUNE 30, 2013**

Town of Fountain Hills Organization





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, 2012

Executive Director/CEO

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Town Council
Town of Fountain Hills, Arizona
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 the Town of Fountain Hills, Arizona (Town), as of and for the year ended June 30, 2013, 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.

Auditors' 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. 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 auditors' 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 Town'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 Town'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, 2013, and the respective changes in financial position and the budgetary comparison schedules of the General Fund and HURF Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

The prior year financial statements were restated due to the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which resulted in a change in accounting principle. A summary of the restatement is presented in Note 3.E. The auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 15 - 25 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 combining and individual nonmajor fund financial statements and schedules and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules is 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 combining and individual nonmajor fund financial statements and schedules is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

The introductory and statistical sections 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.

Clifton Larson Allen LLP

Phoenix, Arizona
October 31, 2013

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REQUIRED SUPPLEMENTARY INFORMATION

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**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

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, 2013. 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. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

FINANCIAL HIGHLIGHTS

- ◆ The assets of the Town exceeded its liabilities at the close of fiscal year 2012-13 and fiscal year 2011-12 by \$116.1 million and \$118.2 million, respectively. Of these amounts, \$20.6 million and \$20.2 million, respectively, may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ Governmental activities program revenues decreased overall by \$1,095,510 (29%) over the previous year. The completion of a major street project funded by grants/contributions contributed to the majority of the decline of capital grants. Fees, Fines and Charges for services increased by 15.6% indicating an improving economy, particularly in development permits.
- ◆ At June 30, 2013, total fund balance of the governmental funds was \$24.5 million virtually unchanged from the previous year. Of this, \$4.1 million is unassigned in the General Fund, while the remainder is classified as restricted, committed, and assigned.
- ◆ The major governmental funds which includes the General Fund, total \$16.5 million in revenues, consisting primarily of local taxes, intergovernmental taxes, charges for services and licenses and permits. The total expenditures of the General Fund were \$12.0 million and the fund balance increased from \$7.2 million to \$7.7 million including the Rainy Day, Public Art, and Vehicle Replacement Funds. The Highway User Revenue Fund (HURF) revenues were \$1.2 million with expenditures of \$2.0 million – the General Fund transferred \$767,000 to the HURF fund to initiate a pavement maintenance program. The non-major governmental funds revenues were \$1.0 million with the majority from local sales taxes (Excise Tax Fund) and property taxes (Eagle Mountain Community Facilities District). Expenditures for the non-major funds were \$0.7 million primarily for debt service for Eagle Mountain Community Facilities District.
- ◆ The Town's total net position of governmental activities decreased \$2,034,091 (1.7%) from the prior fiscal year. Revenues decreased 2.3% with the expiration of grant funding; expenditures for long term debt were reduced but increased in Highways and Streets to initiate a program for pavement maintenance.
- ◆ General revenues accounted for \$15.0 million in revenue, or 85% of all current fiscal year revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2.6 million or 15% of total current fiscal year revenues.
- ◆ The Town had approximately \$19.7 million in expenses related to governmental activities, an increase of 6.6% over the prior fiscal year, attributed to programmed increases in public safety contracts and the implementation of a pavement maintenance program.
- ◆ Per local policy, residual unassigned General Fund revenues may be transferred to the Rainy Day fund, supplement pay-as-you-go capital outlay expenditures or prepay existing town debt. The Council authorized the use of general fund surplus revenues in FY11-12 to transfer funds to the Municipal Property Corporation Debt Service Fund to provide funds that were placed in an irrevocable trust to provide for future principal and interest payments on bonds that were issued in 2005 for the Town Hall. The general fund balance will include the surplus, the Rainy Day and vehicle replacement funds in the amount of \$7.7 million.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

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.

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 and liabilities, with the difference between the two 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., uncollected taxes and earned but unused compensated absences).

The government-wide financial statements outline functions of the Town that are principally supported by taxes and intergovernmental revenues. The governmental activities of the Town include general government, public safety, highways and streets, culture and recreation, development services, and interest on long-term debt.

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 the 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 balances 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
FISCAL YEAR ENDED JUNE 30, 2013**

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 Fund, Highway Users Revenue Fund (HURF), General Obligation Debt Service Fund, Municipal Property Corporation Debt Service Fund, and Capital Projects Fund, all of which are considered to be major funds. Data from the 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 Basic 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 basic financial statements can be found immediately following the basic financial statements.

Other Information

Governments have the option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information following the notes to the basic financial statements. The Town has chosen to present these budgetary statements as part of the basic financial statements.

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.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

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, assets exceeded liabilities by \$116.1 million at the current fiscal year end. The following table presents a summary of the Town's net position for the fiscal years ended June 30, 2013 and June 30, 2012.

**Town of Fountain Hills, Arizona
Statement of Net Position**

	2013	2012 (Restated)	Percent Change
ASSETS			
Current and Other Assets	\$ 28,460,597	\$ 27,817,313	2.3%
Capital Assets:			
Non-depreciable	26,223,288	25,934,778	1.1%
Depreciable (net)	77,222,272	81,921,325	-5.7%
Total Assets	131,906,157	135,673,416	-2.8%
LIABILITIES			
Other Liabilities	3,820,104	3,256,053	17.3%
Long-Term Liabilities:			
Due Within One Year	2,449,599	2,319,551	5.6%
Due in More Than One Year	9,501,392	11,928,659	-20.3%
Total Liabilities	15,771,095	17,504,263	-9.9%
NET POSITION			
Net Investment in Capital Assets	89,800,560	92,006,103	-2.4%
Restricted	5,721,744	5,951,416	-3.9%
Unrestricted	20,612,758	20,211,634	2.0%
Total Net Position	\$ 116,135,062	\$ 118,169,153	-1.7%

The largest portion of the Town's net position (77%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, improvements other than buildings, vehicles, machinery and equipment, and artwork) less any related debt used to acquire those assets that is still outstanding. 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 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 (5%) is for the specified purposes of debt service repayment, capital outlay investment, and highways and streets.

At the end of the current fiscal year, the Town reported positive balances in all three categories of net position. The same situation held true for the prior fiscal year.

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.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

Analysis of Changes in Net Position

The Town's total net position decreased by \$2,034,091 during the FY12-13; the decrease was primarily a result of the use of reserves to pay down long term debt for the Town Hall. The elimination of the annual debt service payment provided the General Fund with an additional \$350,000 for operations.

Total governmental revenues decreased over the prior year with a net decrease of \$424,257 (2%); primarily due to the expiration of capital grants of \$1,242,171 (89%). The decrease was offset with an increase in revenues for programs. The Town also saw a modest increase in local sales taxes of \$169,674 (2%) as well as revenues shared with cities/towns by the State (income tax, state sales tax and vehicle license taxes – increase of 11%) reflecting a modest economic recovery.

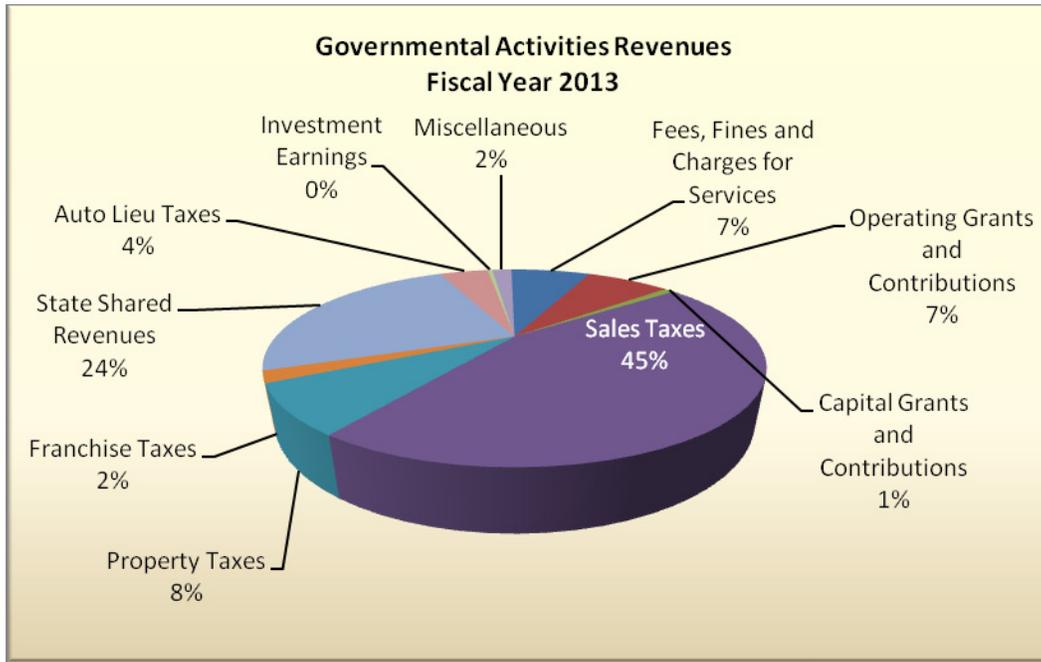
The Town's total revenues for the current fiscal year were \$17.7 million. The total cost of all programs and services was \$19.7 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

**Town of Fountain Hills, Arizona
Changes in Net Position**

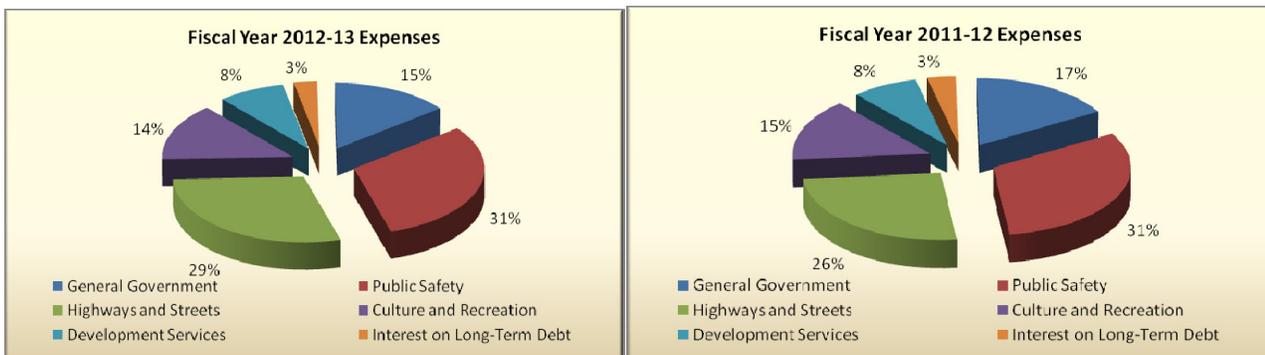
	2013	2012 (Restated)	Percent Change
REVENUES			
Program Revenues:			
Fees, Fines and Charges for Services	\$ 1,223,499	\$ 1,058,088	15.6%
Operating Grants and Contributions	1,266,906	1,285,656	-1.5%
Capital Grants and Contributions	150,535	1,392,706	-89.2%
General Revenues:			
Sales Taxes	7,957,163	7,787,489	2.2%
Property Taxes	1,385,147	1,453,405	-4.7%
Franchise Taxes	334,668	332,130	0.8%
State Shared Revenues	4,226,234	3,793,385	11.4%
Auto Lieu Taxes	752,949	722,126	4.3%
Investment Earnings	69,998	88,877	-21.2%
Miscellaneous	300,899	178,393	68.7%
Total Revenues	<u>17,667,998</u>	<u>18,092,255</u>	-2.3%
EXPENSES			
General Government	2,909,443	3,119,113	-6.7%
Public Safety	6,100,131	5,820,136	4.8%
Highways and Streets	5,712,817	4,718,047	21.1%
Culture and Recreation	2,779,294	2,754,731	0.9%
Development Services	1,633,361	1,442,613	13.2%
Interest on Long-Term Debt	567,043	620,478	-8.6%
Total Expenses	<u>19,702,089</u>	<u>18,475,118</u>	6.6%
CHANGE IN NET POSITION	(2,034,091)	(382,863)	-431.3%
Net Position - Beginning of Year - Restated	<u>118,169,153</u>	<u>118,552,016</u>	-0.3%
NET POSITION - END OF YEAR	<u><u>\$ 116,135,062</u></u>	<u><u>\$ 118,169,153</u></u>	-1.7%

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

General revenues such as property, business, and privilege taxes are not shown by program, but are effectively used to support program activities town-wide. For governmental activities overall, without regard to program, business taxes which includes Sales and Use Taxes and Franchise Taxes, are the largest single source of funds (47%), followed by state shared revenues (24%), property taxes (8%), grants (8%), charges for services (7%) and auto lieu (4%).



The charts below compare the governmental expenses from fiscal year 2012-13 and fiscal year 2011-12.



- General Government
- Public Safety
- Highways and Streets
- Culture and Recreation
- Community Development
- Interest on long-term debt

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

The following items are significant current year transactions that had an impact on the Statement of Net Position and Statement of Activities:

- Overall revenues decreased by 2.3% compared to last year largely due to the intergovernmental grant funds that expired. Additionally, state shared revenues increased 4.8% which reflected the improving economy. The town does not have a primary property tax that is used for operations; the town property tax levy is dependent upon the annual debt payment for voter approved bonds.
- Depreciable assets declined 5.7% (\$4,699,053) with the Town's deferred investment in capital infrastructure and improvements, specifically roads. A major road project, Shea Boulevard climbing lane, was funded through the American Recovery and Reinvestment Act (ARRA) through Arizona Department of Transportation (\$1.8 million). This project was a federal grant that was awarded to the Arizona Department of Transportation for a project within the town infrastructure. The Town was not considered a subrecipient of the grant; however, the improvements were donated from the Arizona Department of Transportation.
- The increase in miscellaneous revenues is primarily attributable to recovery from the State Local Government Investment Pool (\$38,263) as well as employee 401(A) forfeitures (\$170,853).
- State shared revenues are determined by the prior two years of income tax returns in Arizona and is shared with cities and towns based on population; last fiscal year revenues, both State income tax and State sales tax, were higher than anticipated with an increase of \$432,849.
- Sales tax revenues in Fountain Hills are derived primarily from retail, telecommunications, restaurant/bars and construction activity. Construction activity saw the steepest declines from \$2.4 million in FY08 to less than \$600 thousand in FY13; retail and telecommunications activity, have dropped slightly by less than ½%. Restaurants and bars increased by 8.6% reflecting the improving economy.
- Overall expenses increased 6.6% despite the implementation of a major pavement management program (\$767,000) which was accomplished with reductions in staff and programs.
- General Government expenditures were less due to decreased grant funding.
- Development Services includes Public Works, Streets, Building Safety, Planning, Code Enforcement and Facilities. Pavement maintenance program resulted in an increase in Development Services expenditures.
- Public Safety costs include contracts for police and fire; those contracts are multi-year with automatic increases.
- Other significant expense reductions were deferral of replacement equipment and vehicles until the economy shows signs of recovery.

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 resources that are available for spending. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Major Governmental Funds reported by the Town include the General Fund, Capital Projects Fund, General Obligation Debt Service Fund, Highway Users Revenue Fund and the Municipal Property Corporation Debt Service Fund.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported a combined fund balance of \$24.5 million, an increase of \$26,313.

Fund	Balance	Increase (Decrease) From FY 2011-12
General Fund	\$ 7,696,822	\$ 466,962
HURF Fund	858,181	(9,038)
Capital Projects Fund	9,005,276	(306,892)
General Obligation Debt Service Fund	61,228	(2,089)
Municipal Property Corporation Debt Service Fund	2,343,186	(396,325)
Nonmajor Governmental Funds	4,573,003	273,695
	<u>\$ 24,537,696</u>	<u>\$ 26,313</u>

The General Fund is the chief operating fund of the Town of Fountain Hills, Arizona. At the end of the current fiscal year, the fund balance of the General Fund was \$7,696,822, while total fund balance of all funds reached \$24.5 million. As a measure of the General Fund's liquidity, it may be useful to compare both General Fund balance and total fund balance to total fund expenditures. General Fund balance represents 64 percent of total General Fund expenditures, while total fund balance represents 140 percent of total expenditures. The fund balance of the Town of Fountain Hills, Arizona's General Fund decreased by \$0.5 million which includes the Vehicle Replacement Fund balance. Any residual balance will be transferred to the Capital Projects Fund per the Town Council policy. Expenditures within the General Fund increased 2.2% over the prior year – the primary reason for the increase is the contractual obligations for public safety contracts.

The General Fund comprises 31 percent of the total fund balance. Approximately \$4.1 million or 54 percent of the General Fund's fund balance constitutes unassigned fund balance. The remaining fund balance is committed, assigned and non-spendable for inventory and prepaid items.

The General Fund is the principal operating fund of the Town; overall the General Fund's performance resulted in revenues over expenditures for FY13 in an amount of \$1.3 million. The fund balance of \$7.7 million in the General Fund as of June 30, 2013 increased in the current year substantially due to an increase in revenues.

The fund balance of the HURF Fund decreased \$9,078. The decrease was not significant during the year.

The fund balance of the Capital Project's Fund decreased \$306,892 during the current fiscal year. The decrease was primarily due to the planned use of capital project fund balance to fund pay as you go projects that were committed through matching funds for grants.

The fund balance of the General Obligation Debt Service Fund decreased \$2,089 during the current fiscal year. The decrease was largely due to the use of prior year reserves for debt service.

The fund balance of the Municipal Property Corporation (MPC) Debt Service Fund decreased \$396,325 during the current fiscal year. Revenues for the MPC are derived from local sales tax collections which were consistent with the prior year. The annual debt payment committed for the MPC is fixed but there were sufficient reserves to pay annual debt service. Reserves from this fund contributed to the defeasance of Town Hall bonds in the prior year.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

All nonmajor governmental funds of the Town are combined into one column on the governmental fund statements. The nonmajor governmental funds reported a \$273,695 increase in fund balance mainly due to the local sales tax and revenues from development fee permits.

BUDGETARY HIGHLIGHTS

A statement showing the original and final budget amounts compared to the town's actual financial activity for the general fund is provided in this report as part of the basic financial statements. The significant variances are summarized as follows:

The unfavorable revenue variance of \$268,332 in franchise taxes is due to the appropriation of revenue from a potential franchise agreement between the Town and the private water company that did not occur.

The unfavorable variance in intergovernmental revenues of \$89,779 was a result of the state's projection of state sales and vehicle license taxes being less than actual collections which affects the distribution to cities and towns.

The unfavorable revenue variance of \$22,342 in licenses and permits reflects the continued economic recession, particularly in construction related activities but an increase over the prior year. Building permit revenues declined as well as business license renewals and applications.

The unfavorable revenue variance of \$116,776 in fines and forfeiture reflects decreased court activity related to decreased traffic citations within town borders.

The unfavorable revenue variance of \$259,444 in Charges for Services was due to the projection for a movie theater project that would have contributed approximately \$200,000 to public art, however, the project did not materialize.

The favorable expenditure variance of \$1,616,220 includes all departments. During the year the Town Council made a major shift in priorities to focus on the Town's infrastructure, specifically pavement maintenance which resulted in several reductions in force. Additionally, planned projects or major maintenance projects were deferred due to staff's reprioritization to the pavement program resulting in unspent funds in all departments.

The general government Administration variance is due primarily to the appropriation of approximately \$300,000 in the event the economy worsened during the fiscal year; this contingency was not required.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013, the Town had invested \$193.0 million in capital assets, including buildings, vehicles, computers, equipment, infrastructure and artwork. This amount represents a net increase prior to depreciation of \$489,681 from the prior fiscal year. Total depreciation expense for the current fiscal year was \$4.9 million.

The schedule on the following page presents a summary of capital asset balances for the fiscal years ended June 30, 2013 and June 30, 2012.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

**Town of Fountain Hills, Arizona
Capital Assets (Net of Accumulated Depreciation)**

	2013	2012	Percent Change
Land	\$ 23,571,668	\$ 23,571,668	0.0%
Artwork	1,886,500	1,829,500	3.1%
Construction in Progress	765,120	533,610	43.4%
Infrastructure	55,215,185	58,772,006	-6.1%
Buildings	14,189,682	14,550,487	-2.5%
Improvements other than Buildings	7,148,597	7,833,033	-8.7%
Vehicles, Machinery and Equipment	668,808	765,799	-12.7%
Total Capital Assets	<u>\$ 103,445,560</u>	<u>\$ 107,856,103</u>	-4.1%

Additional information on the Town's capital assets can be found in Note 3.A.3.

Long-Term Debt

At year-end, the Town had \$11.6 million in bonds outstanding, \$2.4 million due within one year; this represents a net decrease of \$2.3 million. The chart below is a summary of the Town's outstanding debt as of year-end:

**Town of Fountain Hills, Arizona
Outstanding Long-term Bonds**

	2013	2012
General Obligation Bonds	\$ 5,700,000	\$ 6,845,000
Revenue Bonds	5,905,000	7,040,000
Total Outstanding Debt	<u>\$ 11,605,000</u>	<u>\$ 13,885,000</u>

The Town's general obligation bonds are subject to two limits; the Constitutional debt limit (total debt limit) on all general obligation bonds (up to 20% of the total secondary assessed valuation) and the statutory debt limit on general municipal purpose bonds (up to 6% of the total secondary assessed valuation). The current total debt limitation for the Town is \$95.3 million, which is more than the Town's outstanding general obligation debt. Additional information on the Town's long-term debt can be found in Notes 3.C.

ECONOMIC FACTORS

The Town continues to maintain strong reserves for unforeseen circumstances, whether of a financial nature or a natural (or other) disaster. The Town's reserves, in combination with our consistent adherence to adopted financial policies and management practices, proved big factors in the Aa3 credit rating awarded to Fountain Hills by the major credit rating companies.

The housing market has shown signs of recovery (both nationally and regionally), indicating that the overall economy may continue to experience moderate growth in the year ahead. The Town's local housing economy provides building permit and construction sales tax revenue, which have declined over the past four fiscal years. With a limited inventory of available lots the Town will have to adjust to the new economy, one that is less dependent upon building activity as a source of reliable revenue. There is an area of almost 1,300 acres that was annexed in 2006 that is planned to be developed but the first building permit is not scheduled to be issued until beyond 2015.

The Town's local sales tax collections, which represent the largest town revenue source is made up of primarily retail, telecommunications and restaurant bar activity. Construction related sales tax are projected to stop declining for the foreseeable future; retail collections, however, are projected to remain steady due to the fact that the existing retail base is not significantly affected by the recession (major retail activity consists of three grocery stores and one shopping center with a major retailer).

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2013**

The Town is heavily dependent upon state shared revenues for general fund operations (37%); state-shared income tax revenues are anticipated to increase slightly during fiscal year 2013-14 with increased individual and business revenues and state collections. The Town is aggressively pursuing economic vitality and redevelopment opportunities, specifically a proposed development in the downtown center. The Town partnered with the Fountain Hills Chamber of Commerce to commission a vision for the downtown core including the world renowned Fountain lake area. The plan was presented to the public late summer of 2009 and serves as a useful tool for economic development to attract developers.

As of June 30, 2013 the Town had set aside \$9.0 million in the capital improvement fund but the majority of capital projects will be deferred until the economy improves. The Town has been successful in obtaining a contract with ADOT to fund a major road improvement along Shea Boulevard that was completed in FY11. The Town completed a second construction project for another major road improvement on Shea Boulevard with further funding from ADOT in FY12.

NEXT YEAR'S BUDGETS AND RATES

The protracted economic recession has forced the town to evaluate core services and, in some cases, to reduce existing service levels. Prudent long-term fiscal planning dictates that we remain conservative, focus on the highest Council and citizen priorities, and fund only those enhancements we can sustain financially.

The FY14 general fund operating budget is \$13.2 million representing a 3% decrease from fiscal year 2012-13 budget. The operating budget is comprised of the costs to continue operations from year to year without any capital expenditures. It encompasses all the basic services provided to Fountain Hills' residents: police and fire protection; parks, recreation, streets maintenance; planning and zoning; building inspection; economic development and administrative services. The capital budget is set at \$19.2 million, a 66% increase over fiscal year 2012-13 in anticipation of a successful road bond sale in November. There are some projects in the five-year plan that are considered affordable within current revenue sources, others will require other sources of revenue for funding such as bonds, grants, etc. Capital budgets tend to rise and fall each year depending on the timing of projects – especially if a town, such as Fountain Hills, strives to achieve a “pay-as-you-go” program.

The capital improvement program (CIP) is the town's financial plan for supporting large capital projects. The five-year CIP addresses the growing needs of the community and enhances the quality of life through major public investment, and is an essential ingredient in the town's service delivery plan. The CIP is closely aligned with the general plan, and integrates a number of specialized facility and infrastructure master plans. Looking ahead, the five-year CIP totals \$24.1 million; with the capital budget for fiscal year 2013-14 totaling \$19.2 million (which includes carryover funds for some large projects currently underway). In fiscal year 2013-14, the CIP places major emphasis on major road improvements and maintenance. Due to the economy there are no recreational or non essential projects proposed.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities
ASSETS	
Cash and Investments	\$ 22,661,466
Cash with Paying Agent	2,269,987
Receivables, Net:	
Accounts Receivable	177,837
Intergovernmental Receivables	853,807
Property Taxes Receivable	25,090
Inventory, At Cost	10,201
Prepaid Items	37,199
Restricted Assets	2,425,010
Capital Assets:	
Non-Depreciable	26,223,288
Depreciable (Net)	77,222,272
Total Assets	131,906,157
LIABILITIES	
Accounts Payable	969,871
Accrued Wages and Benefits	127,907
Interest Payable	277,793
Unearned Revenue	404,533
Matured Debt Principal Payable	2,040,000
Noncurrent Liabilities:	
Due Within One Year	2,449,599
Due in More Than One Year	9,501,392
Total Liabilities	15,771,095
NET POSITION	
Net Investment in Capital Assets	89,800,560
Restricted For:	
Highways and Streets	906,011
Public Safety	243,650
Capital Outlay	2,138,386
Debt Service	2,425,370
Cottonwoods Maintenance District	8,327
Unrestricted	20,612,758
Total Net Position	\$ 116,135,062

See accompanying Notes to Basic Financial Statements.

**TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2013**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General Government	\$ 2,909,443	\$ 1,204,356	\$ -	\$ 76,958	\$ (1,628,129)
Public Safety	6,100,131	14,227	34,719	-	(6,051,185)
Highways and Streets	5,712,817	4,916	1,232,187	73,577	(4,402,137)
Culture and Recreation	2,779,294	-	-	-	(2,779,294)
Development Services	1,633,361	-	-	-	(1,633,361)
Interest on Long-Term Debt	567,043	-	-	-	(567,043)
Total Governmental Activities	\$19,702,089	\$ 1,223,499	\$ 1,266,906	\$ 150,535	(17,061,149)

GENERAL REVENUES

Taxes:	
Sales Taxes	7,957,163
Property Taxes	1,385,147
Franchise Taxes	334,668
State Sales Tax Revenue Sharing - Unrestricted	4,226,234
Auto Lieu Tax Revenue Sharing - Unrestricted	752,949
Investment Earnings	69,998
Miscellaneous	300,899
Total General Revenues	15,027,058
 Change in Net Position	 (2,034,091)
 Net Position - Beginning, As Restated	 <u>118,169,153</u>
 Net Position - Ending	 <u>\$ 116,135,062</u>

See accompanying Notes to Basic Financial Statements.

**TOWN OF FOUNTAIN HILLS, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General</u>	<u>HURF</u>	<u>Capital Projects</u>	<u>General Obligation Debt Service</u>
ASSETS				
Cash and Investments	\$ 7,196,392	\$ 1,502,179	\$ 9,225,975	\$ 53,718
Cash with Paying Agent	-	-	-	927,906
Accounts Receivable	120,358	49,176	-	-
Intergovernmental Receivable	674,916	116,526	-	-
Taxes Receivable	1,588	-	-	20,219
Inventory, at cost	10,201	-	-	-
Prepaid Items	32,493	4,706	-	-
Restricted Assets	75,595	-	-	-
Total Assets	<u>\$ 8,111,543</u>	<u>\$ 1,672,587</u>	<u>\$ 9,225,975</u>	<u>\$ 1,001,843</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 254,754	\$ 675,002	\$ 20,699	\$ -
Accrued Wages and Benefits	115,910	11,997	-	-
Unearned Revenue	2,500	79,577	200,000	-
Interest Payable	-	-	-	72,906
Matured Debt Principal Payable	-	-	-	855,000
Total Liabilities	<u>373,164</u>	<u>766,576</u>	<u>220,699</u>	<u>927,906</u>
Deferred Inflows of Resources				
Unavailable Revenues	<u>41,557</u>	<u>47,830</u>	<u>-</u>	<u>12,709</u>
Fund Balances				
Nonspendable				
Cash with Escrow Agent	-	-	-	-
Inventory	10,201	-	-	-
Prepaid Items	32,493	4,706	-	-
Restricted	-	853,475	-	61,228
Committed	1,345,200	-	-	-
Assigned	2,191,063	-	9,005,276	-
Unassigned	4,117,865	-	-	-
Total Fund Balances	<u>7,696,822</u>	<u>858,181</u>	<u>9,005,276</u>	<u>61,228</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 8,111,543</u>	<u>\$ 1,672,587</u>	<u>\$ 9,225,975</u>	<u>\$ 1,001,843</u>

See accompanying Notes to Basic Financial Statements.

Municipal Property Corporation Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 4,683,202	\$ 22,661,466
989,838	352,243	2,269,987
-	8,303	177,837
41,577	20,788	853,807
-	3,283	25,090
-	-	10,201
-	-	37,199
2,349,415	-	2,425,010
<u>\$ 3,380,830</u>	<u>\$ 5,067,819</u>	<u>\$ 28,460,597</u>

\$ -	\$ 19,416	\$ 969,871
-	-	127,907
-	122,456	404,533
142,644	62,243	277,793
895,000	290,000	2,040,000
<u>1,037,644</u>	<u>494,115</u>	<u>3,820,104</u>

-	701	102,797
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2,301,609	-	2,301,609
-	-	10,201
-	-	37,199
41,577	2,397,909	3,354,189
-	2,175,094	3,520,294
-	-	11,196,339
-	-	4,117,865
<u>2,343,186</u>	<u>4,573,003</u>	<u>24,537,696</u>

<u>\$ 3,380,830</u>	<u>\$ 5,067,819</u>	<u>\$ 28,460,597</u>
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**TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balances for Governmental Funds \$ 24,537,696

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 governmental funds.

Governmental Capital Assets	193,269,683
Less Accumulated Depreciation	(89,824,123)
Capital Assets Used in Governmental Activities	103,445,560

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

Property Taxes	12,709
Miscellaneous Permits	89,387
Grants	701

Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the governmental funds.

General Obligation Bonds	(5,700,000)
Revenue Bonds Payable	(5,905,000)
Compensated Absences	(345,991)
	(11,951,000)

Total Net Position of Governmental Activities	\$ 116,135,062
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TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>HURF</u>	<u>Capital Projects</u>	<u>General Obligation Debt Service</u>
REVENUES				
Taxes:				
Sales Taxes	\$ 6,758,279	\$ -	\$ 281,775	\$ -
Property Taxes	-	-	-	998,602
Franchise Taxes	334,668	-	-	-
Intergovernmental	4,925,637	1,232,187	40,001	-
Fines and Forfeitures	173,024	-	-	-
Licenses and Permits	416,437	-	-	-
Charges for Services	157,170	4,916	-	-
Rents and Royalties	213,871	-	-	-
Investment Earnings	22,611	711	21,140	372
Other	279,033	10,240	11,626	-
Total Revenues	<u>13,280,730</u>	<u>1,248,054</u>	<u>354,542</u>	<u>998,974</u>
EXPENDITURES				
Current:				
General Government	2,530,796	-	-	-
Public Safety	6,022,269	-	-	-
Highways and Streets	-	2,024,092	-	-
Culture and Recreation	1,780,492	-	-	-
Development Services	1,643,757	-	-	-
Debt Service:				
Principal Retirement	-	-	-	855,000
Interest on Long-Term Debt	-	-	-	145,813
Fiscal Charges	-	-	-	250
Capital Outlay	-	-	436,377	-
Total Expenditures	<u>11,977,314</u>	<u>2,024,092</u>	<u>436,377</u>	<u>1,001,063</u>
Excess (Deficiency) of Revenues Over Expenditures	1,303,416	(776,038)	(81,835)	(2,089)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	767,000	108,943	-
Transfers Out	(836,454)	-	(334,000)	-
Total Other Financing Sources (Uses)	<u>(836,454)</u>	<u>767,000</u>	<u>(225,057)</u>	<u>-</u>
Net Change in Fund Balance	466,962	(9,038)	(306,892)	(2,089)
FUND BALANCE				
Beginning of Year	7,229,860	867,219	9,312,168	63,317
End of Year	<u>\$ 7,696,822</u>	<u>\$ 858,181</u>	<u>\$ 9,005,276</u>	<u>\$ 61,228</u>

See accompanying Notes to Basic Financial Statements.

Municipal Property Corporation Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
\$ 611,406	\$ 305,703	\$ 7,957,163
-	423,012	1,421,614
-	-	334,668
-	125,222	6,323,047
-	14,227	187,251
-	154,467	570,904
-	-	162,086
-	-	213,871
13,602	11,562	69,998
-	-	300,899
625,008	1,034,193	17,541,501
-	168,313	2,699,109
-	-	6,022,269
-	34,898	2,058,990
-	10,526	1,791,018
-	-	1,643,757
1,135,000	290,000	2,280,000
285,287	123,760	554,860
4,500	7,433	12,183
-	16,625	453,002
1,424,787	651,555	17,515,188
(799,779)	382,638	26,313
403,454	-	1,279,397
-	(108,943)	(1,279,397)
403,454	(108,943)	-
(396,325)	273,695	26,313
2,739,511	4,299,308	24,511,383
\$ 2,343,186	\$ 4,573,003	\$ 24,537,696

**TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2013**

Net Change in Fund Balances of Governmental Funds \$ 26,313

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for Capital Assets	467,691
Less Current Year Depreciation	(4,935,234)
Excess Depreciation Over Capital Expenditures	(4,467,543)

The Statement of Activities reports losses arising from the disposal of existing capital assets as well as capital contributions received from other governments. Conversely, governmental funds do not report any gain or loss on disposals of capital assets or capital contributions.

Capital Contributions	57,000
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Some revenues reported in the Statement of Activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.

Property Taxes	(9,410)
Miscellaneous Permits	61,629
Grants	701

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. The issuance of long-term debt increases long-term liabilities on the Statement of Net Position and the repayment of principal on long-term debt reduces long-term debt on the Statement of Net Position. Also, governmental funds report the effect of issuance costs, premiums, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long term debt in the Statement of Activities.

Principal Payments on General Obligation Bonds	1,145,000
Principal Payments on Revenue Bonds	1,135,000

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 the governmental funds.

Net Decrease in Compensated Absences	17,219
Change in Net Position of Governmental Activities	\$ (2,034,091)

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes:				
Sales Taxes	\$ 6,765,120	\$ 6,715,080	\$ 6,758,279	\$ 43,199
Franchise Taxes	603,000	603,000	334,668	(268,332)
Intergovernmental	5,015,416	5,015,416	4,925,637	(89,779)
Fines and Forfeitures	289,800	289,800	173,024	(116,776)
Licenses and Permits	438,779	438,779	416,437	(22,342)
Charges for Services	416,614	416,614	157,170	(259,444)
Rents and Royalties	228,224	222,090	213,871	(8,219)
Investment Earnings	60,000	60,000	22,611	(37,389)
Other	287,371	287,371	279,033	(8,338)
Total Revenues	14,104,324	14,048,150	13,280,730	(767,420)
EXPENDITURES				
Current:				
General Government:				
Mayor and Council	82,811	82,811	76,005	6,806
Administration	2,998,227	2,683,305	2,080,837	602,468
Municipal Court	402,933	402,933	373,954	28,979
Total General Government	3,483,971	3,169,049	2,530,796	638,253
Public Safety:				
Law Enforcement	2,946,362	2,946,362	2,890,429	55,933
Fire and Emergency Medical	3,255,335	3,255,335	3,131,840	123,495
Total Public Safety	6,201,697	6,201,697	6,022,269	179,428
Culture and Recreation:				
Community Services	2,250,838	2,241,484	1,780,492	460,992
Development Services:	2,091,732	1,981,304	1,643,757	337,547
Total Expenditures	14,028,238	13,593,534	11,977,314	1,616,220
Excess (Deficiency) of Revenues Over Expenditures	76,086	454,616	1,303,416	848,800
OTHER FINANCING SOURCES (USES)				
Transfers Out	(233,750)	(235,454)	(836,454)	(601,000)
Net Change in Fund Balance	(157,664)	219,162	466,962	247,800
FUND BALANCE				
Beginning of Year	7,416,368	7,416,368	7,229,860	(186,508)
End of Year	\$ 7,258,704	\$ 7,635,530	\$ 7,696,822	\$ 61,292

See accompanying Notes to Basic Financial Statements.

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HIGHWAY USER REVENUE FUND
FISCAL YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Intergovernmental	\$ 1,265,640	\$ 1,265,640	\$ 1,232,187	\$ (33,453)
Charges for Services	50,240	50,240	4,916	(45,324)
Investment Earnings	1,200	1,200	711	(489)
Other	4,800	4,800	10,240	5,440
Total Revenues	<u>1,321,880</u>	<u>1,321,880</u>	<u>1,248,054</u>	<u>(73,826)</u>
EXPENDITURES				
Current:				
Highways and Streets	<u>1,321,880</u>	<u>2,348,880</u>	<u>2,024,092</u>	<u>324,788</u>
Excess (Deficiency) of Revenues Over Expenditures	-	(1,027,000)	(776,038)	250,962
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>-</u>	<u>-</u>	<u>767,000</u>	<u>767,000</u>
Net Change in Fund Balance	-	(1,027,000)	(9,038)	1,017,962
FUND BALANCE				
Beginning of Year	680,710	680,710	867,219	186,509
End of Year	<u>\$ 680,710</u>	<u>\$ (346,290)</u>	<u>\$ 858,181</u>	<u>\$ 1,204,471</u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

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TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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.

During the year ended June 30, 2013, the Town adopted GASB Statements No. 63 and 65. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

A. Reporting Entity

The Town is a municipal entity governed by an elected Mayor and Council. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations and so data from these units are combined with data of the Town, the primary government.

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, component units combined with the Town for financial statement presentation purposes and the Town is 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 Improvement 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 for Town taxes, and thus for the costs of operating the districts. The Town Council serves as the Board of Directors; however, the District has no liability for the districts' debt, the Town is responsible for the debt; the debt is therefore, not subject to the Town's debt limit; therefore, providing a financial benefit to the Town. 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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

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. 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. For the most part, the effect of internal activity has been removed from these statements. These statements are to distinguish between the governmental and business-type activities of the Town. Governmental activities normally are supported by taxes and intergovernmental revenues. The Town does not have any business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are 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, state shared revenues, investment earnings and other items not included among program revenues are reported instead as general revenues.

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

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. Property taxes are recognized as revenues in the year for which they are levied. 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.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 resources are provided during the current year for payment of long-term debt principal and interest due early in the following year (not to exceed one month) and therefore the expenditures and related liabilities have been recognized. Compensated absences are recorded only when payment is due.

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

Delinquent property taxes not received within 60 days of the fiscal year end are reported as deferred inflows of resources. Other receivables that will not be collected within the available period have also been reported as deferred inflows on the governmental fund financial statements.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

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. Non-major funds are aggregated and presented in a single column.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The Town reports the following major governmental funds.

Major Governmental Funds

General Fund

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

Highway Users Revenue Fund (HURF)

This special revenue fund accounts for the Town's share of motor fuel tax revenues and lottery proceeds.

Capital Projects Fund

This fund accounts for the capital improvements to various projects and equipment purchases of 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.

D. Assets, Liabilities, and Net Position or Fund Balance

1. Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Fund Balance (Continued)

2. 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). All other outstanding balances between funds are reported as “due to/from other funds.”

All trade and property tax receivables are shown net of an allowance for uncollectibles.

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.

Pursuant to Arizona Revised Statutes (A.R.S.) a lien against assessed real and personal property attaches on the first day of January preceding assessment and levy; however according to case law, an enforceable legal claim to the asset does not arise. The State Constitution and State law specify a property tax levy limitation system. The system consists of two levies, a limited levy known as the primary property tax levy and an unlimited levy referred to as the secondary levy, which may only be used to retire bonded indebtedness.

The primary tax levy is limited to an increase of 2 percent over the previous year’s maximum allowable primary levy, plus an increased dollar amount because of a net gain in property not taxed the previous year. Also, the primary property tax from all taxing jurisdictions for homeowners may not exceed 1 percent of the market value of their homes. If the combined primary property tax (for the Town, County, School District, etc.) exceeds 1 percent of the market value of the homes, the school districts will reduce their rate until the homeowners’ aggregate rate is equal to or less than the allowable 1 percent. The State will then subsidize the school districts for the reduced revenue. This 1 percent limitation applies to primary property taxes only and does not affect the secondary property tax levy.

There is also a control on the assessed value of property for primary tax purposes. The base year for the new tax system is fiscal year 1978-79. From this base year, two assessed values evolve. The primary assessed values are allowed to increase by no more than 10 percent a year. The dollar amount of the secondary property tax levy is “unlimited” and the actual full cash value of property is used in determining the tax rate.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Fund Balance (Continued)

2. Receivables and Payables (Continued)

Intergovernmental receivables include amounts due from other government agencies and include Town sales tax (\$540,498), Highway User Revenue fuel tax (\$116,526), state sales tax (\$160,265), and auto lieu (\$36,518) in the governmental funds and governmental activities column of the government-wide financial statements.

3. Inventory

Inventories are stated 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 on the fund financial statements.

4. 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.

5. Restricted Assets

The Town reported restricted assets in the amount of \$75,595 for funds held in an escrow account. The agreement provides that if, prior to July 1, 2014, any future Council fails to ratify this agreement or fails to provide severance when required as set forth in the agreement between the Town Council and Town Manager, the Town Manager shall be permitted to withdraw all funds from the escrow, minus any interest earned, which interest shall be payable to the Town upon the Town Manager's withdrawal of the amounts in escrow. The Town also has \$2,349,415 deposited in an irrevocable trust with an escrow agent to make future principal and interest payments on the 2004 Municipal Property Corporation Revenue Bond.

6. Capital Assets

Capital assets, which include land, artwork, buildings, improvements other than buildings, vehicles, machinery, and equipment, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of \$10,000 or more and an estimated useful life of more than one year. The capital assets include all infrastructure assets acquired by the Town since incorporation.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Fund Balance (Continued)

6. Capital Assets (Continued)

Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Assets	Years
Infrastructure	15-50
Buildings	50
Improvements other than buildings	20
Vehicles, machinery and equipment	5-20

7. 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 vest after 30 days at the employee’s then current rate of pay.

Effective October 7, 2004, all eligible full-time and part-time employees can accrue vacation leave. Full-time employees can accrue up to a maximum of 224 hours of vacation, while part-time employees can accrue up to 112 hours, depending upon their length of service. In the event of termination, employees will be paid for any accrued, but unused, vacation hours. Also effective October 7, 2004, full-time employees started to accrue sick leave, based on their length of service, up to a maximum of 720 hours. A portion of this balance will be paid upon a satisfactory separation of service.

The current and long-term liabilities, including related benefits, for accumulated vacation and sick leave are reported on the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to pay for compensated absences.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Fund Balance (Continued)

8. 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 and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt. The difference between the reacquisition price and the net carrying value of the old debt is reported as either a deferred inflow or a deferred outflow of resources and the premium and/or discount are recorded against the outstanding debt. Issuance costs are expended when incurred.

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 of 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.

9. Net Position

In the government-wide financial statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. The net investment in capital assets, is separately reported because capital assets make up a significant portion of total net position. Restricted net position account for the portion of net position restricted by parties outside the Town. Unrestricted net position is the remaining net position not included in the previous two categories.

10. 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.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories and prepaid items, or are legally or contractually required to be maintained intact.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Fund Balance (Continued)

10. Fund Balance Classifications (Continued)

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations. Committed fund balances are self-imposed limitations approved by the Town's Council, which is the highest level of decision-making authority within the Town. Only the Town Council can remove or change the constraints placed on committed fund balances. Fund balances must be committed prior to fiscal year end through formal council action at a public meeting. Assigned fund balances are resources constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The Town Council has authorized the Deputy Town Manager/Finance Director to assign fund balances. The unassigned fund balance is the residual classification for the General Fund and includes all amounts not reported in the other classifications.

Also, deficits in fund balances of the other governmental funds are reported as unassigned.

It is the Town's policy to use restricted fund balance first, then committed, assigned, and lastly unassigned amounts.

The Town has established a fund balance policy whereas the combined General Fund operating fund balance of at least 30% of revenues is recommended.

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 \$1,345,200, reported as a committed fund balance at June 30, 2013. The rainy day funds may only be used for the following: 1) to replace the loss of more than 25% 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 by the Governor of the State of Arizona or the Mayor of the Town. All withdrawals from the rainy day funds 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 funds spent by the Town should not exceed a period of more than five years, and should be repaid in equal annual installments of not less than 1% of the previous fiscal year General Fund fund balance. Repayments shall be appropriated as part of the annual budget adoption.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Fund Balance (Continued)

11. 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 statements are reported as other financing sources/uses in governmental funds.

12. 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 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The Town Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the Town is legally enacted through passage of an ordinance. 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.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgetary information (Continued)

5. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, and Capital Projects Funds (except for the HURF Debt Service and Cottonwoods Special Assessment Funds, in which the Town did not adopt a budget) 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.

No supplementary budgetary appropriations were necessary during the year.

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
Major Funds:	
Municipal Property Corporation Debt Service Fund	\$ 348,087
Nonmajor Governmental Funds:	
Grants Fund	85,222

Cash was available to cover the over expenditures listed above.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2013, consist of the following:

Deposits:	
Cash on Hand	\$ 650
Cash in Bank	431,054
Cash on Deposit with Paying Agent	2,269,987
Investments	
Local Government Investment Pool	7,109,344
Wells Fargo Money Market	118,351
U.S. Agency Securities	5,056,063
U.S. Treasury Securities	2,425,010
U.S. Treasury Notes	9,946,004
Total	<u>27,356,463</u>
Less Cash with Paying Agent	(2,269,987)
Less Restricted Assets	(2,425,010)
Total Cash and Investments	<u><u>\$ 22,661,466</u></u>

Deposits

The Town's deposits at June 30, 2013, had a carrying value of \$431,054 and a bank balance of \$441,366. Of the bank balance, \$250,000 was insured by federal depository insurance and \$191,366 was collateralized by securities held by the pledging financial institutions in the Town's name.

Investments

The Town's investments at June 30, 2013 were as follows:

<u>Investment Type</u>	<u>Amount</u>
Local Government Investment Pool	\$ 7,109,344
Wells Fargo Money Market	118,351
U.S. Agency Securities	5,056,063
U.S. Treasury Securities	2,425,010
U.S. Treasury Notes	9,946,004
	<u><u>\$ 24,654,772</u></u>

The State Board of Deposit provides oversight for the LGIP, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The Town will limit credit risk by limiting investments in the Town’s portfolio to the asset classes designated as acceptable in A.R.S 835-323. When possible, analysis of the credit worthiness of all individual debt issuers held in the portfolio should be conducted on an annual basis in an effort to guard against investing in weak or deteriorating credit situation. Additionally, the Town will pre-qualify financial institutions, brokers/dealers, and investment advisors with which the Town will do business.

At June 30, 2013, credit risk for the Town’s investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Agency</u>	<u>Amount</u>
Local Government Investment Pool	AA+	S&P	\$ 7,109,344
Wells Fargo Money Market	N/A	N/A	118,351
U.S. Agency Securities	AA+	S&P	5,056,063
U.S. Treasury Securities	N/A	N/A	2,425,010
U.S. Treasury Notes	AA+	S&P	9,946,004
			<u>\$ 24,654,772</u>

Custodial credit risk – Concentration credit risk is the risk of loss associated with the significant of investments in a single issuer. The Town of Fountain Hills will diversify its investments by security type and institution. With the exception of U.S. Treasury notes and securities and authorized pools, no more than 25% of the Town’s total investment portfolio will be invested in a single security type or with a single financial institution.

At June 30, 2013, the Town had the following diversification of Town investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Percent of Town Investments</u>
Local Government Investment Pool	\$ 7,109,344	28.84%
Wells Fargo Money Market	118,351	0.48%
U.S. Agency Securities	5,056,063	20.51%
U.S. Treasury Securities	2,425,010	9.84%
U.S. Treasury Notes	9,946,004	40.34%
	<u>\$ 24,654,772</u>	<u>100.00%</u>

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect an investment’s fair value. The Town will look to mitigate interest rate risk by performing the following:

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

- 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.

The following is a table of the Town's investment maturities:

Investment	Maturity			Total
	0-6 Months	6-12 Months	12+ Months	
Local Government Investment Pool	\$ 7,109,344	\$ -	\$ -	\$ 7,109,344
Wells Fargo Advantage Money Market	118,351	-	-	118,351
Federal Home Loan Bank Global Notes	-	1,011,731	-	1,011,731
Federal Home Loan Mortgage Corp. Notes	125,172	-	1,307,220	1,432,392
Federal National Mortgage Association Notes	-	-	2,611,940	2,611,940
U.S. Treasury Securities	409,555	306,950	1,708,505	2,425,010
U.S. Treasury Notes	-	1,767,659	8,178,345	9,946,004
Total	<u>\$ 7,762,422</u>	<u>\$ 3,086,340</u>	<u>\$ 13,806,010</u>	<u>\$ 24,654,772</u>

2. Receivables

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also record unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Miscellaneous		
General Fund	\$ 41,557	\$ 2,500
Highway User Revenue Fund	47,830	79,577
Capital Projects Fund	-	200,000
Property Taxes		
General Obligation Debt Service Fund	12,709	-
Grants		
Nonmajor Governmental Funds	701	122,456
	<u>\$ 102,797</u>	<u>\$ 404,533</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Capital Assets

Capital assets for the year ended June 30, 2013, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 23,571,668	\$ -	\$ -	\$ 23,571,668
Artwork	1,829,500	57,000	-	1,886,500
Construction in Progress	533,610	377,133	(145,623)	765,120
Total Capital Assets, Not Being Depreciated	25,934,778	434,133	(145,623)	26,223,288
Capital Assets, Being Depreciated:				
Infrastructure	130,788,513	-	-	130,788,513
Buildings	18,008,744	-	-	18,008,744
Improvements Other Than Buildings	14,639,264	127,390	-	14,766,654
Vehicles, Machinery and Equipment	3,408,693	108,791	(35,000)	3,482,484
Total Capital Assets, Being Depreciated	166,845,214	236,181	(35,000)	167,046,395
Accumulated Depreciation for:				
Infrastructure	(72,016,507)	(3,556,821)	-	(75,573,328)
Buildings	(3,458,257)	(360,805)	-	(3,819,062)
Improvements Other Than Buildings	(6,806,231)	(811,826)	-	(7,618,057)
Vehicles, Machinery and Equipment	(2,642,894)	(205,782)	35,000	(2,813,676)
Total Accumulated Depreciation	(84,923,889)	(4,935,234)	35,000	(89,824,123)
Total Capital Assets, Being Depreciated, Net	81,921,325	(4,699,053)	-	77,222,272
Governmental Activities Capital Assets, Net	\$ 107,856,103	\$ (4,264,920)	\$ (145,623)	\$ 103,445,560

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 224,309
Public Safety	77,533
Highways and Streets	3,654,931
Culture and Recreation	978,461
Total Depreciation Expense	\$ 4,935,234

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Transfers

Interfund transfers for the year ended June 30, 2013, consisted of the following:

Transfers Out	Transfers In			Total
	HURF Fund	Capital Projects Fund	Municipal Property Corporation Debt Service Fund	
General Fund	\$ 433,000	\$ -	\$ 403,454	\$ 836,454
Capital Projects Fund	334,000	-	-	334,000
Nonmajor Governmental Funds	-	108,943	-	108,943
Total	<u>\$ 767,000</u>	<u>\$ 108,943</u>	<u>\$ 403,454</u>	<u>\$ 1,279,397</u>

The General Fund transferred \$403,454 to pay for debt service costs on the Municipal Property Corporation's outstanding bonds. The General Fund and Capital Projects Fund transferred \$433,000 and \$334,000 respectively, to the HURF Fund for pavement projects. The Nonmajor Governmental Funds transferred \$108,943 to the Capital Projects Fund to fund a portion of capital acquisitions.

C. Long-Term Obligations

Bonds payable at year end consisted of general obligation, municipal property corporation and community facilities district bonds. The bonds are both callable and noncallable with the interest payable semiannually. Property taxes from the General Obligation Bond Debt Service Fund and Eagle Mountain Debt Service Fund are used to pay general obligation and community facilities district bonds. State shared revenues from the HURF Fund are used to pay street and highway user bonds. Tax revenues from the General Fund and Excise Tax Fund are used to pay municipal facilities bonds.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Long-Term Obligations (Continued)

Bonds outstanding at June 30, 2013, were as follows:

Purpose	Interest Rates	Maturity Date	Original Amount	Outstanding Amount
Governmental Activities:				
General Obligation Bonds:				
General Obligation Refunding Bonds, Series 2005	3.75-4.00	07/01/13-19	\$ 7,225,000	\$ 2,900,000
Eagle Mountain Community Facilities District, General Obligation Refunding Bonds, Series 2005	3.75-4.125	7/1/2013-21	4,555,000	2,800,000
Total General Obligation Bonds			<u>\$ 11,780,000</u>	<u>\$ 5,700,000</u>
Revenue Bonds:				
Municipal Facilities Revenue Bonds, Series 2004	4.00-4.50	7/01/13-15	3,645,000	2,170,000
Municipal Facilities Revenue Refunding Bonds, Series 2005	3.75-4.50	7/01/13-20	5,330,000	3,735,000
Total Revenue Bonds			<u>\$ 8,975,000</u>	<u>\$ 5,905,000</u>

The Town has pledged future excise taxes to repay a total of \$5,905,000 in outstanding municipal facilities revenue and refunding bonds. For fiscal year ended June 30, 2013, the net revenues available to service this debt were \$13.8 million. The debt principal and interest paid on this debt in fiscal year 2012-13 was \$1,135,000 and \$285,287, respectively (10 percent of available pledged revenues).

Changes in long-term obligations for the year ended June 30, 2013, are as follows:

	July 1, 2012	Increases	Decreases	June 30, 2013	Due Within One Year
Governmental Activities					
Bonds					
General Obligation Bonds	\$ 6,845,000	\$ -	\$ (1,145,000)	\$ 5,700,000	\$ 1,205,000
Revenue Bonds	7,040,000	-	(1,135,000)	5,905,000	1,210,000
Total Bonds	<u>13,885,000</u>	-	<u>(2,280,000)</u>	<u>11,605,000</u>	<u>2,415,000</u>
Other Liabilities:					
Compensated Absences	363,210	236,984	(254,203)	345,991	34,599
Governmental Activities Long-Term Liabilities	<u>\$ 14,248,210</u>	<u>\$ 236,984</u>	<u>\$ (2,534,203)</u>	<u>\$ 11,950,991</u>	<u>\$ 2,449,599</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Long-Term Obligations (Continued)

Debt service requirements on long-term debt at June 30, 2013, are as follows:

<u>Year Ending June 30,</u>	Governmental Activities	
	Principal	Interest
2014	\$ 2,415,000	\$ 476,569
2015	1,970,000	386,581
2016	2,830,000	307,136
2017	1,120,000	186,406
2018	1,150,000	141,606
2019 - 2021	2,120,000	161,152
	\$ 11,605,000	\$ 1,659,450

In prior years, the Town defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. At year end, \$6,145,000 of defeased bonds are still outstanding.

D. Fund Balances

Fund Balances at June 30, 2013 were as follows:

	General	HURF	Capital Projects	General Obligation Debt Service	Municipal Property Corporation Debt Service	Nonmajor Governmental Funds	Total
Nonspendable:							
Cash with Escrow Agent	\$ -	\$ -	\$ -	\$ -	\$ 2,301,609	\$ -	\$ 2,301,609
Inventory	10,201	-	-	-	-	-	10,201
Prepays	32,493	4,706	-	-	-	-	37,199
Restricted:							
Debt Service	-	-	-	61,228	41,577	7,546	110,351
Highways and Streets	-	853,475	-	-	-	-	853,475
Local Court Enhancement	-	-	-	-	-	243,650	243,650
New Development	-	-	-	-	-	2,138,386	2,138,386
Cottonwoods Maintenance District	-	-	-	-	-	8,327	8,327
Committed							
Rainy Day Funds	1,345,200	-	-	-	-	-	1,345,200
Town Beautification and Economic Development	-	-	-	-	-	2,175,094	2,175,094
Assigned							
Public Art	1,563	-	-	-	-	-	1,563
Vehicle Replacement	775,700	-	-	-	-	-	775,700
Capital Projects	565,520	-	9,005,276	-	-	-	9,570,796
Equipment Replacement	848,280	-	-	-	-	-	848,280
Unassigned	4,117,865	-	-	-	-	-	4,117,865
Total Fund Balance	\$ 7,696,822	\$ 858,181	\$ 9,005,276	\$ 61,228	\$ 2,343,186	\$ 4,573,003	\$ 24,537,696

**TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Change in Accounting Principle

For the year ended June 30, 2013 The Town restated governmental fund net position due to the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which resulted in a change in accounting principle. The change in accounting principle resulted in the restatement of net position to retroactively expense bond issuance costs previously reported as deferred charges and amortized over the life of the bonds. The effect of the restatement is as follows:

	Net Position as Previously Stated	Restatement Due to Change in Accounting Principle	Net Position As Restated
Governmental Activities	\$ 119,021,786	\$ (852,633)	\$ 118,169,153

NOTE 4 OTHER INFORMATION

A. Contingent Liabilities

Lawsuits

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

B. 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, of which the Town is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$8,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year, and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Town was unable to obtain workers' compensation insurance at a cost considered to be economically justifiable. Therefore, the Town joined the Arizona Municipal Workers' Compensation Pool (AMWCP). AMWCP is a public entity risk pool currently operating as a common workers' compensation insurance program for 67 member cities and towns. The Town is responsible for paying a premium, based on an experience rating formula that allocates pool expenditures and liabilities among members.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans

Defined Contribution Pension Plan

All full-time employees of the Town participate in a defined contribution pension plan administered by the ICMA Retirement Corporation as a 401(a) plan. The payroll for the Town employees covered by this plan for the year ended June 30, 2013, was \$2,561,493. The Town's total payroll was \$2,881,474.

A defined contribution pension plan provides benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined, instead of specifying the amount of benefit the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investment of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. All non-peace officer full-time Town employees must participate in the pension plan from the date they are hired. Contributions made by an employee vest immediately and contributions made by the Town vest after three years of service.

An employee that leaves the employment of the Town is entitled to his or her contributions and the vested portion of the Town's contributions, plus interest earned. Each employee must contribute 11% of his or her gross earnings. The Town must match the employee contribution of 11%. During fiscal year 2012-13, the Town's required and actual contributions amounted to \$281,746. The employees' contributions totaled \$281,746. Employees may also contribute to the ICMA Retirement Corporation 457 plan on a voluntary basis; there is no employer match for those contributions. During fiscal year 2012-13, employees contributed \$140,764 to that plan.

In the current year, there were a significant amount of forfeitures (\$164,057) that were forfeited from participant accounts back to the Town. This is due to employees making withdrawals on their balances without being 100% vested in the plan.

No pension provision changes occurred during the year that affected the required contributions to be made by the Town or its employees.

The ICMA Retirement Corporation held no securities of the Town or other related parties during the fiscal year 2011-12 or as of the close of the fiscal year.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Development Fees Fund - accounts for development fees collected from developers restricted for projects approved by the Town Council.

Local Court Enhancement Fund - accounts for a local court surcharge.

Grants Fund - accounts for the activities of various grants and contributions received by the Town.

Excise Tax Fund - accounts for the portion of Town sales tax reserved by the Town Council for special projects including Town beautification and economic development.

Cottonwoods Maintenance Fund - accounts for all special assessments received to pay for maintenance of the Cottonwoods Special Assessment District.

DEBT SERVICE FUNDS

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

Special Revenue Funds

	Development Fees	Local Court Enhancement	Grants	Excise Tax	Cottonwoods Maintenance
ASSETS					
Cash and Investments	\$ 2,141,653	\$ 243,615	\$ 123,906	\$ 2,160,191	\$ 8,873
Cash with Paying Agent	-	-	-	-	-
Accounts Receivable	-	91	8,212	-	-
Intergovernmental Receivable	-	-	-	20,788	-
Taxes Receivable	-	-	-	-	-
Total Assets	<u>\$ 2,141,653</u>	<u>\$ 243,706</u>	<u>\$ 132,118</u>	<u>\$ 2,180,979</u>	<u>\$ 8,873</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 3,267	\$ 56	\$ 9,662	\$ 5,885	\$ 546
Unearned Revenue	-	-	122,456	-	-
Interest Payable	-	-	-	-	-
Matured Debt Principal Payable	-	-	-	-	-
Total Liabilities	<u>3,267</u>	<u>56</u>	<u>132,118</u>	<u>5,885</u>	<u>546</u>
Deferred Inflows of Resources					
Unavailable Revenues	-	-	-	-	-
Fund Balances					
Restricted	2,138,386	243,650	-	-	8,327
Committed	-	-	-	2,175,094	-
Total Fund Balances	<u>2,138,386</u>	<u>243,650</u>	<u>-</u>	<u>2,175,094</u>	<u>8,327</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,141,653</u>	<u>\$ 243,706</u>	<u>\$ 132,118</u>	<u>\$ 2,180,979</u>	<u>\$ 8,873</u>

Debt Service
Fund

Total Special Revenue Funds	Eagle Mountain Debt Service	Total Nonmajor Governmental Funds
\$ 4,678,238	\$ 4,964	\$ 4,683,202
-	352,243	352,243
8,303	-	8,303
20,788	-	20,788
-	3,283	3,283
<u>\$ 4,707,329</u>	<u>\$ 360,490</u>	<u>\$ 5,067,819</u>

\$ 19,416	\$ -	\$ 19,416
122,456	-	122,456
-	62,243	62,243
-	290,000	290,000
141,872	352,243	494,115

-	701	701
---	-----	-----

2,390,363	7,546	2,397,909
2,175,094	-	2,175,094
<u>4,565,457</u>	<u>7,546</u>	<u>4,573,003</u>

<u>\$ 4,707,329</u>	<u>\$ 360,490</u>	<u>\$ 5,067,819</u>
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**TOWN OF FOUNTAIN HILLS, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 2013**

Special Revenue Funds

	Development Fees	Local Court Enhancement	Grants	Excise Tax	Cottonwoods Maintenance
REVENUES					
Taxes:					
Sales Taxes	\$ -	\$ -	\$ -	\$ 305,703	\$ -
Property Taxes	-	-	-	-	3,339
Intergovernmental	-	-	125,222	-	-
Fines and Forfeitures	-	14,227	-	-	-
Licenses and Permits	154,467	-	-	-	-
Investment Earnings	5,578	196	-	5,656	10
Total Revenues	<u>160,045</u>	<u>14,423</u>	<u>125,222</u>	<u>311,359</u>	<u>3,349</u>
EXPENDITURES					
Current:					
General Government	-	11,298	78,603	67,380	11,032
Highways and Streets	15,430	-	19,468	-	-
Culture and Recreation	-	-	10,526	-	-
Debt Service					
Principal Retirement	-	-	-	-	-
Interest on Long-Term Debt	-	-	-	-	-
Fiscal Charges	-	-	-	-	-
Capital Outlay	-	-	16,625	-	-
Total Expenditures	<u>15,430</u>	<u>11,298</u>	<u>125,222</u>	<u>67,380</u>	<u>11,032</u>
Excess (Deficiency) of Revenues Over Expenditures	144,615	3,125	-	243,979	(7,683)
OTHER FINANCING SOURCES (USES)					
Transfers Out	-	-	-	(108,943)	-
Net Change in Fund Balances	144,615	3,125	-	135,036	(7,683)
FUND BALANCES					
Beginning of Year	1,993,771	240,525	-	2,040,058	16,010
End of Year	<u>\$ 2,138,386</u>	<u>\$ 243,650</u>	<u>\$ -</u>	<u>\$ 2,175,094</u>	<u>\$ 8,327</u>

<u>Debt Service Fund</u>		
<u>Total Special Revenue Funds</u>	<u>Eagle Mountain Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 305,703	\$ -	\$ 305,703
3,339	419,673	423,012
125,222	-	125,222
14,227	-	14,227
154,467	-	154,467
11,440	122	11,562
<u>614,398</u>	<u>419,795</u>	<u>1,034,193</u>
168,313	-	168,313
34,898	-	34,898
10,526	-	10,526
-	290,000	290,000
-	123,760	123,760
-	7,433	7,433
16,625	-	16,625
<u>230,362</u>	<u>421,193</u>	<u>651,555</u>
384,036	(1,398)	382,638
<u>(108,943)</u>	<u>-</u>	<u>(108,943)</u>
275,093	(1,398)	273,695
4,290,364	8,944	4,299,308
<u>\$ 4,565,457</u>	<u>\$ 7,546</u>	<u>\$ 4,573,003</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
FISCAL YEAR ENDED JUNE 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Taxes:				
Sales Taxes	\$ 120,000	\$ 120,000	\$ 281,775	\$ 161,775
Intergovernmental	5,758,000	5,758,000	40,001	(5,717,999)
Investment Earnings	-	-	21,140	21,140
Other	15,000	15,000	11,626	(3,374)
Total Revenues	<u>5,893,000</u>	<u>5,893,000</u>	<u>354,542</u>	<u>(5,538,458)</u>
EXPENDITURES				
Capital Outlay	<u>11,587,281</u>	<u>11,253,281</u>	<u>436,377</u>	<u>10,816,904</u>
Excess (Deficiency) of Revenues Over Expenditures	(5,694,281)	(5,360,281)	(81,835)	5,278,446
OTHER FINANCING SOURCES (USES)				
Transfers In	1,299,000	1,299,000	108,943	(1,190,057)
Transfers Out	-	-	(334,000)	(334,000)
Total Other Financing Sources (Uses)	<u>1,299,000</u>	<u>1,299,000</u>	<u>(225,057)</u>	<u>(1,524,057)</u>
Net Change in Fund Balance	(4,395,281)	(4,061,281)	(306,892)	3,754,389
FUND BALANCE				
Beginning of Year	9,312,168	9,312,168	9,312,168	-
End of Year	<u>\$ 4,916,887</u>	<u>\$ 5,250,887</u>	<u>\$ 9,005,276</u>	<u>\$ 3,754,389</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL OBLIGATION DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Property Taxes	\$ 1,000,800	\$ 998,602	\$ (2,198)
Investment Earnings	1,200	372	(828)
Total Revenues	1,002,000	998,974	(3,026)
EXPENDITURES			
Debt Service:			
Principal Retirement	855,000	855,000	-
Interest on Long-Term Debt	145,813	145,813	-
Fiscal Charges	2,100	250	1,850
Total Expenditures	1,002,913	1,001,063	1,850
Excess (Deficiency) of Revenues Over Expenditures	(913)	(2,089)	(1,176)
FUND BALANCE			
Beginning of Year	63,317	63,317	-
End of Year	\$ 62,404	\$ 61,228	\$ (1,176)

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MUNICIPAL PROPERTY CORPORATION DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Sales Taxes	\$ 591,120	\$ 611,406	\$ 20,286
Investment Earnings	500	13,602	13,102
Total Revenues	591,620	625,008	33,388
EXPENDITURES			
Debt Service:			
Principal Retirement	880,000	1,135,000	(255,000)
Interest on Long-Term Debt	189,700	285,287	(95,587)
Fiscal Charges	7,000	4,500	2,500
Total Expenditures	1,076,700	1,424,787	(348,087)
Excess (Deficiency) of Revenues Over Expenditures	(485,080)	(799,779)	(314,699)
OTHER FINANCING SOURCES (USES)			
Transfers In	193,500	403,454	209,954
Net Change in Fund Balance	(291,580)	(396,325)	(104,745)
FUND BALANCE			
Beginning of Year	115,616	2,739,511	2,623,895
End of Year	\$ (175,964)	\$ 2,343,186	\$ 2,519,150

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
DEVELOPMENT FEES FUND
FISCAL YEAR ENDED JUNE 30, 2013**

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Licenses and Permits	\$ 130,632	\$ 154,467	\$ 23,835
Investment Earnings	100	5,578	5,478
Total Revenues	130,732	160,045	29,313
EXPENDITURES			
Current			
Highways and Streets	50,000	15,430	34,570
Excess (Deficiency) of Revenues Over Expenditures	80,732	144,615	63,883
FUND BALANCE			
Beginning of Year	1,993,775	1,993,771	(4)
End of Year	\$ 2,074,507	\$ 2,138,386	\$ 63,879

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL COURT ENHANCEMENT FUND
FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes:			
Fines and Forfeitures	\$ 14,250	\$ 14,227	\$ (23)
Investment Earnings	300	196	(104)
Total Revenues	<u>14,550</u>	<u>14,423</u>	<u>(127)</u>
EXPENDITURES			
Current:			
General Government	<u>47,250</u>	<u>11,298</u>	<u>35,952</u>
Excess (Deficiency) of Revenues Over Expenditures	(32,700)	3,125	35,825
FUND BALANCE			
Beginning of Year	240,525	240,525	-
End of Year	<u>\$ 207,825</u>	<u>\$ 243,650</u>	<u>\$ 35,825</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GRANTS FUND
FISCAL YEAR ENDED JUNE 30, 2013

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,500,000	\$ 1,500,000	\$ 125,222	\$ (1,374,778)
EXPENDITURES				
Current:				
General Government	40,000	40,000	78,603	(38,603)
Highways and Streets	-	-	19,468	(19,468)
Culture and Recreation	-	-	10,526	(10,526)
Capital Outlay	-	-	16,625	(16,625)
Total Expenditures	<u>40,000</u>	<u>40,000</u>	<u>125,222</u>	<u>(85,222)</u>
Excess (Deficiency) of Revenues Over Expenditures	1,460,000	1,460,000	-	(1,460,000)
OTHER FINANCING SOURCES (USES)				
Transfers In	40,000	40,000	-	(40,000)
Transfers Out	(1,500,000)	(1,240,000)	-	1,240,000
Total Other Finance Sources (Uses)	<u>(1,460,000)</u>	<u>(1,200,000)</u>	<u>-</u>	<u>1,200,000</u>
Net Change in Fund Balance	-	260,000	-	(260,000)
FUND BALANCE				
Beginning of Year	-	-	-	-
End of Year	<u>\$ -</u>	<u>\$ 260,000</u>	<u>\$ -</u>	<u>\$ (260,000)</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
EXCISE TAX FUND
FISCAL YEAR ENDED JUNE 30, 2013

	Original and Final Budget	Actual	Variance with Final Budget
REVENUES			
Taxes:			
Sales Taxes	\$ 295,560	\$ 305,703	\$ 10,143
Investment Earnings	-	5,656	5,656
Total Revenues	295,560	311,359	15,799
EXPENDITURES			
Current:			
General Government	183,968	67,380	116,588
Excess (Deficiency) of Revenues Over Expenditures	111,592	243,979	132,387
OTHER FINANCING SOURCES (USES)			
Transfers Out	-	(108,943)	(108,943)
Net Change in Fund Balance	111,592	135,036	23,444
FUND BALANCE			
Beginning of Year	2,040,058	2,040,058	-
End of Year	\$ 2,151,650	\$ 2,175,094	\$ 23,444

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
COTTONWOODS MAINTENANCE FUND
FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes:			
Property Taxes	\$ 3,315	\$ 3,339	\$ 24
Investment Earnings	-	10	10
Total Revenue	<u>3,315</u>	<u>3,349</u>	<u>34</u>
EXPENDITURES			
Current:			
General Government	<u>18,315</u>	<u>11,032</u>	<u>7,283</u>
Excess (Deficiency) of Revenue Over Expenditures	(15,000)	(7,683)	(3,715)
FUND BALANCE			
Beginning of Year	16,010	16,010	-
End of Year	<u>\$ 1,010</u>	<u>\$ 8,327</u>	<u>\$ (3,715)</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
EAGLE MOUNTAIN DEBT SERVICE FUND
FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES			
Taxes:			
Property Taxes	\$ 422,100	\$ 419,673	\$ (2,427)
Investment Earnings	600	122	(478)
Total Revenues	<u>422,700</u>	<u>419,795</u>	<u>(2,905)</u>
EXPENDITURES			
Debt Service:			
Principal Retirement	290,000	290,000	-
Interest on Long-Term Debt	123,760	123,760	-
Fiscal Charges	7,350	7,433	(83)
Total Expenditures	<u>421,110</u>	<u>421,193</u>	<u>(83)</u>
Excess (Deficiency) of Revenues Over Expenditures	1,590	(1,398)	(2,988)
FUND BALANCE			
Beginning of Year	8,944	8,944	-
End of Year	<u>\$ 10,534</u>	<u>\$ 7,546</u>	<u>\$ (2,988)</u>

STATISTICAL SECTION (UNAUDITED)

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.

See the table of contents for page numbers of the schedules that encompass the above sections.

**TOWN OF FOUNTAIN HILLS, ARIZONA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year			
	2004	2005	2006	2007
Governmental Activities:				
Net Investment in Capital Assets	\$ 11,261,256	\$ 17,495,539	\$ 20,806,507	\$ 92,508,637
Restricted	6,471,863	5,144,127	12,446,147	12,210,966
Unrestricted	7,976,113	10,821,304	9,053,611	14,276,126
Total Governmental Activities Net Position	<u>\$ 25,709,232</u>	<u>\$ 33,460,970</u>	<u>\$ 42,306,265</u>	<u>\$ 118,995,729</u>

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

Fiscal Year

2008	2009	2010	2011	2012	2013
\$ 94,939,805	\$ 94,611,110	\$ 95,467,509	\$ 92,579,483	\$ 92,006,103	\$ 89,800,560
12,799,502	11,828,137	11,396,116	4,385,595	5,951,416	5,721,744
13,230,726	13,765,293	12,321,090	22,598,669	21,064,267	20,612,758
<u>\$ 120,970,033</u>	<u>\$ 120,204,540</u>	<u>\$ 119,184,715</u>	<u>\$ 119,563,747</u>	<u>\$ 119,021,786</u>	<u>\$ 116,135,062</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year			
	2004	2005	2006	2007
EXPENSES				
Governmental Activities:				
General Government	\$ 3,686,452	\$ 3,766,500	\$ 3,875,014	\$ 4,292,515
Public Safety	4,918,280	5,024,686	5,403,620	5,935,742
Highways and Streets	1,419,509	1,281,061	1,581,068	5,225,835
Culture and Recreation	2,068,613	2,362,661	2,576,406	3,282,160
Development Services	1,144,964	1,460,181	1,812,469	2,512,170
Interest on Long-Term Debt	1,499,575	1,162,796	1,297,119	1,163,370
Total Government Activities Expenses	<u>14,737,393</u>	<u>15,057,885</u>	<u>16,545,696</u>	<u>22,411,792</u>
PROGRAM REVENUES				
Governmental activities:				
Fees, Fines, and Charges for Services				
General Government	3,388,923	4,431,154	4,029,437	910,978
Public Safety	-	-	-	982,659
Highways and Streets	-	-	-	-
Other Activities	32,209	59,550	103,826	626,431
Operating Grants and Contributions	1,590,787	1,692,712	2,022,675	-
Capital Grants and Contributions		237,307		989,100
Total Governmental Activities Program Revenues	<u>5,011,919</u>	<u>6,420,723</u>	<u>6,155,938</u>	<u>3,509,168</u>
Net (Expenses)/Revenues	\$ (9,725,474)	\$ (8,637,162)	\$ (10,389,758)	\$ (18,902,624)

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

Fiscal Year

	2008	2009	2010	2011	2012	2013
\$	3,921,588	\$ 4,231,529	\$ 3,720,236	\$ 2,876,848	\$ 3,119,113	\$ 2,909,443
	6,532,292	7,312,415	6,293,323	5,963,067	5,820,136	6,100,131
	5,981,347	5,051,294	5,202,285	5,567,973	4,718,047	5,712,817
	3,092,661	3,336,616	2,927,848	2,840,154	2,754,731	2,779,294
	2,861,653	2,218,994	1,612,287	1,572,202	1,442,613	1,633,361
	1,132,947	1,033,536	950,484	851,957	779,576	567,043
	<u>23,522,488</u>	<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>
	830,963	544,753	1,340,457	1,126,926	1,025,940	1,204,356
	746,227	55,042	32,667	21,222	20,323	14,227
	-	-	2,556	16,270	11,825	4,916
	752,621	888,249	-	-	-	-
	56,802	-	1,666,498	1,614,462	1,285,656	1,266,906
	<u>835,659</u>	<u>1,353,409</u>	<u>632,617</u>	<u>2,273,414</u>	<u>1,392,706</u>	<u>150,535</u>
	<u>3,222,272</u>	<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>
\$	(20,300,216)	\$ (20,342,931)	\$ (17,031,668)	\$ (14,619,907)	\$ (14,897,766)	\$ (17,061,149)

(Continued)

TOWN OF FOUNTAIN HILLS, ARIZONA
CHANGES IN NET POSITION (CONTINUED)
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year			
	2004	2005	2006	2007
(Concluded)				
GENERAL REVENUES AND OTHER				
Governmental Activities:				
Taxes:				
Sales Taxes	\$ 7,733,643	\$ 8,879,798	\$ 11,007,924	\$ 11,407,714
Property Taxes	2,195,856	2,020,800	1,648,947	1,385,953
Franchise Taxes	126,362	216,031	314,359	324,318
State Shared Revenues	4,489,844	4,756,481	5,389,551	8,444,731
Investment Earnings	122,082	395,124	673,351	1,094,994
Miscellaneous	195,978	120,666	200,921	85,418
Total Governmental Activities	<u>14,863,765</u>	<u>16,388,900</u>	<u>19,235,053</u>	<u>22,743,128</u>
CHANGE IN NET POSITION				
Governmental Activities	<u>\$ 5,138,291</u>	<u>\$ 7,751,738</u>	<u>\$ 8,845,295</u>	<u>\$ 3,840,504</u>

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

Fiscal Year

2008	2009	2010	2011	2012	2013
\$ 10,489,591	\$ 8,932,374	\$ 7,644,440	\$ 8,013,480	\$ 7,787,489	\$ 7,957,163
1,635,542	1,531,770	1,928,028	1,349,079	1,453,405	1,385,147
336,290	321,964	285,881	322,659	332,130	334,668
8,848,199	8,456,552	6,000,923	5,217,140	4,515,511	4,979,183
780,935	258,478	22,831	28,456	88,877	69,998
183,963	76,300	129,740	68,125	178,393	300,899
<u>22,274,520</u>	<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>
<u>\$ 1,974,304</u>	<u>\$ (765,493)</u>	<u>\$ (1,019,825)</u>	<u>\$ 379,032</u>	<u>\$ (541,961)</u>	<u>\$ (2,034,091)</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
 FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)**

	Fiscal Year			
	2004	2005	2006	2007
General Fund:				
Reserved	\$ 77,485	\$ 40,664	\$ 14,393	\$ 2,934,144
Unreserved, Designated for:				
Vehicle Replacement	-	-	-	-
Unreserved, Undesignated	6,293,941	9,041,779	6,515,855	3,666,005
Total General Fund	<u>\$ 6,371,426</u>	<u>\$ 9,082,443</u>	<u>\$ 6,530,248</u>	<u>\$ 6,600,149</u>
All Other Governmental Funds:				
Unreserved, Designated for				
Vehicle Replacement	\$ -	\$ -	\$ -	\$ -
Unreserved, Undesignated Reported in:				
Special Revenue Funds	5,969,830	2,176,086	1,951,434	5,305,432
Capital Projects Funds	-	2,429,225	9,496,266	9,916,670
Debt Service Funds	530,372	644,089	159,530	1,386,674
Total All Other Governmental Funds	<u>\$ 6,500,202</u>	<u>\$ 5,249,400</u>	<u>\$ 11,607,230</u>	<u>\$ 16,608,776</u>

	Fiscal Year		
	2011	2012	2013
General Fund:			
Nonspendable			
Inventory	\$ 13,183	\$ 9,332	\$ 10,201
Prepaid Items	29,234	28,245	32,493
Restricted	-	-	-
Committed	-	1,345,200	1,345,200
Assigned	-	2,190,910	2,191,063
Unassigned	8,263,549	3,656,173	4,117,865
Total General Fund	<u>\$ 8,305,966</u>	<u>\$ 7,229,860</u>	<u>\$ 7,696,822</u>
All Other Governmental Funds:			
Nonspendable			
Cash with Escrow Agent	\$ -	\$ 2,623,895	\$ 2,301,609
Prepaid Items	6,217	5,474	4,706
Restricted	4,379,987	3,300,426	3,354,189
Committed	11,480,869	2,039,560	2,175,094
Assigned	-	9,312,168	9,005,276
Total All Other Governmental Funds	<u>\$ 15,867,073</u>	<u>\$ 17,281,523</u>	<u>\$ 16,840,874</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		
2008	2009	2010
\$ 3,053,070	\$ 3,234,860	\$ 3,235,811
-	127,916	333,796
3,526,738	3,302,373	3,418,799
<u>\$ 6,579,808</u>	<u>\$ 6,665,149</u>	<u>\$ 6,988,406</u>
\$ -	\$ 95,620	\$ 159,484
3,876,927	4,198,782	4,498,523
10,764,857	10,246,395	10,020,336
1,585,740	1,218,971	1,182,834
<u>\$ 16,227,524</u>	<u>\$ 15,759,768</u>	<u>\$ 15,861,177</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year				
	2004	2005	2006	2007	2008
REVENUES					
Taxes	\$ 9,997,706	\$ 11,151,893	\$ 12,993,876	\$ 13,159,087	\$ 12,457,086
Intergovernmental	6,080,631	6,686,500	7,412,226	8,444,731	9,353,260
Fines and Forfeitures	361,339	249,564	235,050	304,214	287,120
Licenses and Permits	1,600,934	2,230,046	1,918,107	1,239,318	1,125,957
Charges for Services	1,038,170	1,834,205	1,689,046	898,955	620,300
Rents and Royalties	242,704	222,327	255,527	267,350	296,434
Special Assessments	3,612	1,512	21,147	4,228	4,337
Investment Income (Loss)	122,082	395,124	673,351	1,094,994	780,935
Other	261,561	179,657	233,565	85,418	183,963
Total Revenues	<u>19,708,739</u>	<u>22,950,828</u>	<u>25,431,895</u>	<u>25,498,295</u>	<u>25,109,392</u>
EXPENDITURES					
General Government	3,614,458	9,547,409	4,459,183	4,024,551	3,548,295
Public Safety	4,616,161	4,754,523	5,208,770	5,689,020	6,321,669
Highways and Streets	1,402,502	1,682,563	2,121,986	2,028,397	2,214,557
Culture and Recreation	1,597,150	3,004,216	3,607,750	2,131,374	2,257,007
Development Services	1,144,964	1,460,181	1,812,469	2,462,643	2,751,740
Capital Outlay	101,951	-	-	2,002,887	5,239,169
Debt Service					
Principal Retirement	1,423,228	1,308,228	1,968,228	1,968,228	2,153,228
Interest on Long-Term Debt	1,499,575	1,164,561	1,192,414	1,058,665	1,025,320
Other Debt Service	-	229,990	532,762	-	-
Total Expenditures	<u>15,399,989</u>	<u>23,151,671</u>	<u>20,903,562</u>	<u>21,365,765</u>	<u>25,510,985</u>
Excess of Revenues Over (Under) Expenditures	4,308,750	(200,843)	4,528,333	4,132,530	(401,593)
OTHER FINANCING SOURCES (USES)					
Transfers In	1,630,907	4,805,635	10,146,663	4,383,069	2,756,988
Transfers Out	(1,630,907)	(4,805,635)	(10,146,663)	(4,383,069)	(2,756,988)
Issuance of Refunding Debt	-	12,555,000	4,555,000	-	-
Issuance of Long-Term Debt	-	3,783,896	-	-	-
Payment to Refunded Debt Escrow Agent	-	(14,677,838)	(4,338,781)	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>1,661,058</u>	<u>216,219</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ 4,308,750</u>	<u>\$ 1,460,215</u>	<u>\$ 4,744,552</u>	<u>\$ 4,132,530</u>	<u>\$ (401,593)</u>
Debt Service as a Percentage of Noncapital Expenditures	23.62%	13.22%	21.46%	18.53%	18.60%

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

Fiscal Year				
2009	2010	2011	2012	2013
\$ 10,960,001	\$ 9,818,985	\$ 9,704,054	\$ 9,577,321	\$ 9,713,445
9,607,961	7,672,037	7,165,103	6,035,448	6,323,047
339,658	297,030	236,221	223,673	187,251
541,627	399,094	312,367	194,976	570,904
316,676	464,036	388,635	405,663	162,086
290,083	215,520	227,195	206,018	213,871
4,037	-	-	-	-
258,478	22,831	28,456	88,877	69,998
43,683	129,740	72,125	178,393	300,899
<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>
3,514,249	3,186,368	2,575,975	2,887,321	2,699,109
6,624,141	6,200,227	5,772,800	5,869,445	6,022,269
1,199,850	973,746	1,123,230	1,054,930	2,058,990
2,215,065	2,007,737	1,871,446	1,794,332	1,791,018
2,036,295	1,669,449	1,564,615	1,421,787	1,643,757
3,708,277	1,254,223	1,043,304	884,323	453,002
2,240,000	2,460,000	2,115,000	1,965,000	2,280,000
929,134	842,857	744,330	639,135	554,860
-	-	-	55,752	12,183
<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>
(104,807)	424,666	1,323,456	338,344	26,313
3,759,735	1,127,776	431,880	2,470,027	1,279,397
(3,950,654)	(1,127,776)	(431,880)	(2,470,027)	(1,279,397)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>(190,919)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ (295,726)</u>	<u>\$ 424,666</u>	<u>\$ 1,323,456</u>	<u>\$ 338,344</u>	<u>\$ 26,313</u>
20.33%	18.29%	17.41%	17.09%	16.63%

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**TOWN OF FOUNTAIN HILLS, ARIZONA
 GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
 LAST TEN FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)**

Fiscal Year	Sales Taxes	Property Taxes	Franchise Taxes	Total
2004	\$ 7,733,643	\$ 2,195,856	\$ 126,362	\$ 10,055,861
2005	8,879,798	2,020,800	216,031	11,116,629
2006	11,007,924	1,648,947	314,359	12,971,230
2007	11,407,714	1,385,953	324,318	13,117,985
2008	10,489,591	1,635,542	336,290	12,461,423
2009	8,932,374	1,531,770	321,964	10,786,108
2010	7,644,440	1,928,028	285,881	9,858,349
2011	8,013,480	1,349,079	322,659	9,685,218
2012	7,787,489	1,453,405	332,130	9,573,024
2013	7,957,163	1,385,147	334,668	9,676,978

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

TOWN OF FOUNTAIN HILLS, ARIZONA
TAXABLE SALES BY CATEGORY
LAST TEN FISCAL YEARS
(UNAUDITED)

	Fiscal Year				
	2004	2005	2006	2007	2008
Sales Category:					
Construction	\$ 1,482,981	\$ 1,837,317	\$ 3,362,079	\$ 2,694,700	\$ 2,062,028
Restaurants and Bars	419,107	524,368	547,276	537,596	582,226
Transportation and Utilities	916,498	1,124,677	1,240,120	1,330,052	1,422,158
Services	423,433	185,868	263,239	280,290	327,411
Real estate, Rental and Leasing	341,951	604,356	626,364	792,358	982,198
Wholesale/Retail	3,212,062	3,536,045	3,796,192	4,144,263	3,912,512
Other	706,816	933,366	1,030,966	1,296,171	1,182,349
Total	<u>\$ 7,502,848</u>	<u>\$ 8,745,997</u>	<u>\$ 10,866,236</u>	<u>\$ 11,075,430</u>	<u>\$ 10,470,882</u>

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

Fiscal Year				
2009	2010	2011	2012	2013
\$ 1,414,240	\$ 538,551	\$ 567,136	\$ 600,402	\$ 563,540
493,242	509,624	559,930	575,705	1,402,193
1,311,735	1,424,827	1,388,074	1,407,331	3,601,212
258,138	241,686	276,566	274,481	645,258
664,999	650,071	731,615	678,267	719,884
3,687,409	3,555,974	3,567,615	3,600,619	309,827
910,561	691,972	733,454	730,956	715,249
<u>\$ 8,740,324</u>	<u>\$ 7,612,705</u>	<u>\$ 7,824,390</u>	<u>\$ 7,867,761</u>	<u>\$ 7,957,163</u>

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**TOWN OF FOUNTAIN HILLS, ARIZONA
 DIRECT AND OVERLAPPING SALES TAX RATES
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Fiscal Year	Town Rate	Maricopa County	State Rate	Total Tax Rate
2004	2.60	0.70	5.60	8.90
2005	2.60	0.70	5.60	8.90
2006	2.60	0.70	5.60	8.90
2007	2.60	0.70	5.60	8.90
2008	2.60	0.70	5.60	8.90
2009	2.60	0.70	5.60	8.90
2010	2.60	0.70	6.60	9.90
2011	2.60	0.70	6.60	9.90
2012	2.60	0.70	6.60	9.90
2013	2.60	0.70	5.60	8.90

Source: The source of this information is the Arizona Department of Revenue.

TOWN OF FOUNTAIN HILLS, ARIZONA
ASSESSED VALUE AND ESTIMATED TOTAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Net Assessed Value	Total Direct Tax Rate	Total Value	Assessed Value as a Percentage of
2004	\$ 323,385,230	\$ 0.48	\$ 2,942,849,050	10.99 %
2005	349,398,334	0.42	3,162,854,959	11.05
2006	375,183,181	0.35	3,411,460,877	11.00
2007	397,380,162	0.30	3,615,453,567	10.99
2008	610,738,122	0.21	5,840,184,927	10.46
2009	684,742,347	0.20	6,648,954,354	10.30
2010	651,218,464	0.23	6,255,310,705	10.41
2011	576,535,714	0.16	5,461,763,819	10.56
2012	451,860,136	0.23	4,370,950,262	10.34
2013	377,521,718	0.27	3,668,373,751	10.29

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
PRINCIPAL PROPERTY TAXPAYERS
JUNE 30, 2013 AND 2004
(UNAUDITED)**

Taxpayer	2013			2004		
	Net Secondary Assessed Value	Rank	Percentage of Total Net Secondary Assessed Value	Net Secondary Assessed Value	Rank	Percentage of Total Net Secondary Assessed Value
Inland Western Fountain Hills Four Peaks, LLC	\$ 3,353,109	1	0.89 %	\$ -		N/A %
Chaparral City Water Company	3,177,001	2	0.84	2,963,381	3	0.92
WSL Fountain View Investors V, LLC	2,177,727	3	0.58	-		N/A
J & R Holdings XX, LLC	1,921,863	4	0.51	-		N/A
Target Corporation	1,889,956	5	0.50	1,344,738	7	0.42
Qwest Corporation	1,647,941	6	0.44	3,385,045	2	1.05
EN II, LLC	1,444,647	7	0.38	-		N/A
Sun Tech Development, LLC	1,320,356	8	0.35	927,446	10	0.29
Firerock, LLC	1,317,707	9	0.35	4,294,133	1	1.33
Arizona State Land Department	1,260,640	10	0.33	-		N/A
MCO Properties, LP	-		-	2,050,345	4	0.63
Fountain Hills Village LLC	-		-	1,947,937	5	0.6
Four Peaks Limited Partnership	-		-	1,353,366	6	0.42
MCO Properties, Inc.	-		-	1,069,752	8	0.33
Fountain Vista Properties LLC	-		-	930,135	9	0.29
	<u>\$ 19,510,947</u>		<u>5.17</u>	<u>\$ 20,266,278</u>		<u>6.28</u>

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(UNAUDITED)**

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
2004	\$ 2,125,505	\$ 2,053,055	96.6%	\$ 57,506	\$ 2,110,561	99.3%
2005	2,041,230	1,992,532	97.6%	22,283	2,014,815	98.7%
2006	1,673,519	1,618,877	96.7%	34,011	1,652,888	98.8%
2007	1,391,521	1,359,035	97.7%	27,203	1,386,238	99.6%
2008	1,630,534	1,578,583	96.8%	48,013	1,626,596	99.8%
2009	1,719,105	1,660,820	96.6%	53,548	1,714,368	99.7%
2010	1,895,552	1,838,909	97.0%	52,478	1,891,387	99.8%
2011	1,340,544	1,307,092	97.5%	27,530	1,334,622	99.6%
2012	1,446,076	1,414,482	97.8%	26,255	1,414,482	97.8%
2013	1,429,284	1,395,359	97.6%	-	1,395,359	97.6%

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

TOWN OF FOUNTAIN HILLS, ARIZONA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	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	
2004	\$ 11,110,000	\$ 4,615,000	\$ 11,005,000	\$ 630,000	\$ 16,138	\$ 27,376,138	\$ 1,242
2005	10,675,000	4,455,000	12,975,000	540,000	12,910	28,657,910	1,271
2006	9,600,000	4,415,000	12,310,000	455,000	9,683	26,789,683	1,176
2007	8,620,000	4,255,000	11,595,000	345,000	6,455	24,821,455	1,082
2008	7,570,000	4,070,000	10,790,000	235,000	3,228	22,668,228	986
2009	6,530,000	3,860,000	9,905,000	130,000	-	20,425,000	898
2010	5,415,000	3,630,000	8,920,000	-	-	17,965,000	799
2011	4,595,000	3,370,000	7,885,000	-	-	15,850,000	703
2012	3,755,000	3,090,000	7,040,000	-	-	13,885,000	612
2013	2,900,000	2,800,000	5,905,000	-	-	11,605,000	522

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

TOWN OF FOUNTAIN HILLS, ARIZONA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	General Obligation Bonds	Taxable Assessed Value of Property	Percentage of Taxable Assessed Value of Property	Net General Obligation Bonded Debt per Capita	Municipal Property Corporation Bonds	Net Municipal Property Corporation Debt per Capita	Total Revenues - All Sources
2004	\$ 11,110,000	\$ 2,942,849,050	0.38%	\$ 504	\$ 11,005,000	\$ 499	\$ 19,708,739
2005	10,675,000	3,162,854,959	0.34%	473	12,975,000	575	22,950,828
2006	9,600,000	3,411,460,877	0.28%	421	12,310,000	540	25,431,895
2007	8,620,000	3,615,453,567	0.24%	376	11,595,000	506	25,498,295
2008	7,570,000	5,840,184,927	0.13%	329	10,790,000	469	25,109,392
2009	6,530,000	6,648,954,354	0.10%	287	9,905,000	436	22,362,204
2010	5,415,000	6,255,310,705	0.09%	241	8,920,000	397	19,019,273
2011	4,595,000	5,461,763,819	0.08%	204	7,885,000	350	18,134,156
2012	3,755,000	4,370,950,262	0.09%	165	7,040,000	310	18,910,369
2013	2,900,000	3,668,373,751	0.08%	128	5,905,000	271	18,813,259

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

TOWN OF FOUNTAIN HILLS, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2013
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Overlapping:			
Maricopa County	\$ 120,350,000	1.14%	\$ 1,367,853
Maricopa County Community College District	616,235,000	1.14%	7,003,893
East Valley Institute of Technology	-	2.62%	-
Fountain Hills Unified School District	9,505,000	93.44%	8,881,454
Eagle Mountain Community Facilities District	2,800,000	100.00%	2,800,000
Subtotal, Overlapping Debt			<u>20,053,200</u>
Direct:			
Town of Fountain Hills, Arizona			<u>2,900,000</u>
Total Direct and Overlapping Debt			<u><u>\$ 22,953,200</u></u>

Source: The source of this information is the Town's records and the State and County Abstract of the Assessment the Arizona Department of Revenue Report of Indebtedness and the applicable governmental unit.

Note: The estimated percentage of debt outstanding applicable to the Town is calculated based on the Town's secondary assessed valuation (full cash value) as a percentage of the secondary assessed valuation of the overlapping jurisdiction. Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the Town of Fountain Hills. This schedule further estimates the portion of outstanding debt of those overlapping governments that is borne by residents and businesses of the Town. This process recognizes that, when considering a town's ability to issue and repay long-term debt, the entire debt burden borne by residents should be taken into account. However, this fact does not imply that every taxpayer is a resident, and therefore, responsible for repaying the debt of each overlapping government.

**TOWN OF FOUNTAIN HILLS, ARIZONA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(UNAUDITED)**

6% Debt Limit

	Fiscal Year			
	2004	2005	2006	2007
Debt Limit	\$ 19,403,114	\$ 20,963,900	\$ 22,510,991	\$ 23,842,810
Total Applicable to Limit	4,735,000	1,325,000	800,000	550,000
Legal Debt Margin	<u>\$ 14,668,114</u>	<u>\$ 19,638,900</u>	<u>\$ 21,710,991</u>	<u>\$ 23,292,810</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	24%	6%	4%	2%

20% Debt Limit

	Fiscal Year			
	2004	2005	2006	2007
Debt Limit	\$ 64,677,046	\$ 69,879,667	\$ 75,036,636	\$ 79,476,032
Total Applicable to Limit	6,375,000	9,350,000	8,800,000	8,070,000
Legal Debt Margin	<u>\$ 58,302,046</u>	<u>\$ 60,529,667</u>	<u>\$ 66,236,636</u>	<u>\$ 71,406,032</u>
Total Net Debt Applicable to the Limit as a Percentage of the Debt Limit	10%	13%	12%	10%

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

Fiscal Year

2008	2009	2010	2011	2012	2013
\$ 36,644,287	\$ 41,084,541	\$ 39,073,108	\$ 34,592,143	\$ 27,111,608	\$ 22,651,303
275,000	-	-	-	-	-
<u>\$ 36,369,287</u>	<u>\$ 41,084,541</u>	<u>\$ 39,073,108</u>	<u>\$ 34,592,143</u>	<u>\$ 27,111,608</u>	<u>\$ 22,651,303</u>
1%	0%	0%	0%	0%	0%

Fiscal Year

2008	2009	2010	2011	2012	2013
\$ 122,147,624	\$ 136,948,469	\$ 130,243,693	\$ 115,307,143	\$ 90,372,027	\$ 75,504,344
7,295,000	6,530,000	5,415,000	4,595,000	3,755,000	2,900,000
<u>\$ 114,852,624</u>	<u>\$ 130,418,469</u>	<u>\$ 124,828,693</u>	<u>\$ 110,712,143</u>	<u>\$ 86,617,027</u>	<u>\$ 72,604,344</u>
6%	5%	4%	4%	4%	4%

**TOWN OF FOUNTAIN HILLS, ARIZONA
 CALCULATION OF LEGAL DEBT MARGIN
 AS OF JUNE 30, 2013
 (UNAUDITED)**

Net Secondary Assessed Valuation	<u>\$ 377,521,718</u>
<u>Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds</u>	
Debt Limit - 20% of Net Secondary Assessed Valuation	\$ 75,504,344
Net Debt Applicable to Limit	<u>2,900,000</u>
20% Legal Debt Margin	<u>72,604,344</u>
<u>All other general obligation bonds</u>	
Debt Limit - 6% of Net Secondary Assessed Valuation	22,651,303
Net Debt Applicable to Limit	<u>-</u>
6% Legal Debt Margin	<u>22,651,303</u>
Total legal debt margin	<u>\$ 95,255,647</u>

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS
(UNAUDITED)**

Municipal Facilities Revenue Bonds					
Fiscal Year	Principal	Interest	Total	Pledged Revenues	Coverage
2004	\$ 425,000	\$ 550,983	\$ 975,983	\$ 14,044,597	14.4
2005	620,000	456,892	1,076,892	16,171,235	15.0
2006	665,000	546,576	1,211,576	18,746,928	15.5
2007	715,000	473,349	1,188,349	19,379,717	16.3
2008	805,000	498,878	1,303,878	18,890,944	14.5
2009	885,000	460,379	1,345,379	16,440,872	12.2
2010	985,000	424,538	1,409,538	14,380,648	10.2
2011	1,035,000	373,768	1,408,768	14,001,045	9.9
2012	845,000	332,463	1,177,463	13,075,001	11.1
2013	1,135,000	285,287	1,420,287	13,765,970	9.7

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

**TOWN OF FOUNTAIN HILLS, ARIZONA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS
(UNAUDITED)**

	Calendar Year			
	2003	2004	2005	2006
Population	22,243	22,541	23,217	24,452
Personal income	\$ 106,385,325	\$ 115,604,165	\$ 125,718,070	\$ 132,423,154
Per capital personal income	\$ 29,607	\$ 31,133	\$ 32,414	\$ 35,046
Median age	N/A	N/A	N/A	N/A
School enrollment	2,450	2,453	2,373	2,425
Town of Fountain Hills unemployment rate	2.6%	2.1%	2.0%	1.8%
Land use				
Total acres	N/A	N/A	N/A	12,296.0
Total square miles	N/A	N/A	N/A	20.31
Vacant lots	N/A	N/A	N/A	N/A
Number of units				
Housing	N/A	N/A	N/A	12,681
Lodging	N/A	N/A	N/A	4
Restaurants	N/A	N/A	N/A	50
Shopping centers	N/A	N/A	N/A	14
Schools				
Public	N/A	N/A	N/A	4
Preschool	N/A	N/A	N/A	5
Charter	N/A	N/A	N/A	2

Source: The source of the "Personal Income" and "Per Capita" information is the Bureau of Economic Analysis. The source of the "Population" and "Unemployment Rate" information is State of Arizona, Department of Administration, Office of Employment and Population Statistics. 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 that the information is not available.

* Information obtained is based on calendar years; therefore, the latest information obtained was from 2012.

Calendar Year					
2007	2008	2009	2010	2011	2012
25,540	26,633	25,388	22,489	22,554	22,695
\$ 139,665,253	N/A	N/A	N/A	N/A	N/A
\$ 36,135	\$ 32,230	\$ 38,439	\$ 38,918	N/A	\$ 47,260
46.4	46.4	49.7	49.7	N/A	\$ 54
2,307	2,233	2,203	2,103	1,981	1,886
1.6%	2.5%	4.4%	4.5%	6.8%	5.6%
13,005.7	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	20.32
3,355	1,295	1,253	1,226	1,218	1,209
12,850	12,832	12,927	13,167	13,167	12,977
4	4	4	4	4	4
53	47	52	53	56	56
14	19	19	20	20	20
4	4	4	4	4	3
4	4	4	4	4	6
1	1	1	1	1	1

**TOWN OF FOUNTAIN HILLS, ARIZONA
PRINCIPAL EMPLOYERS
JUN 30, 2012, AND 2002*
(UNAUDITED)**

Employer	2012			2002**	
	Employees	Rank	Percentage of Total Town Employment	Employees	Rank
Fountain Hills Unified School					
District No. 98	335	1	6.6%	250	1
Fountain View Village	136	2	2.7%	-	
Rural Metro Corporation	111	3	2.2%	-	
Fry's	105	4	2.1%		
Target Stores	100	5	2.0%		
Firerock Country Club	100	6	2.0%		
Safeway Stores	87	7	1.7%	95	4
Holiday Inn	80	8			
Eagle Mountain Golf Club	70	9	1.4%	40	9
Bashas	63	10	1.2%	70	6
Town of Fountain Hills	60	11	1.2%	115	3
Sunridge Canyon Golf Course	59	12	1.2%	70	7
Desert Canyon Golf Club				50	8
MCO Properties, Inc.				85	5
Monks Construction				150	2
Total	<u>1,306</u>		<u>24.0%</u>	<u>925</u>	
Total Town employment	<u>5,102</u>				

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

* Data for 2013, 2003 and 2004 were not available.

TOWN OF FOUNTAIN HILLS, ARIZONA
FULL-TIME EQUIVALENT GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)

Function	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Municipal Court	5.00	5.00	5.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Administration	10.00	11.00	12.50	13.00	13.50	13.50	13.25	11.25	11.58	11.68
Public Safety	1.00	-	-	-	-	-	-	-	-	-
Development Services	40.00	39.50	41.00	41.00	40.50	40.00	35.75	23.25	20.25	18.75
Community Services	20.00	21.50	23.50	28.00	29.25	29.75	27.10	21.63	21.53	21.18
Total	76.00	77.00	82.50	87.00	88.25	88.25	81.10	61.13	58.36	56.61

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
(UNAUDITED)**

Function/Program	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Municipal Court:						
Cases filed	N/A	N/A	N/A	N/A	N/A	N/A
Hearings/Trials held	N/A	N/A	N/A	N/A	N/A	N/A
Administration:						
FTEs per 1,000 residents	3.4	3.4	3.6	3.6	3.5	3.3
Registered voters - general election	13,349	none	13,669	none	14,335	none
Voter turnout - general election	23%	none	21%	none	39%	none
Development Services:						
Building permits issued	228	430	468	759	716	391
Building inspections conducted	6,985	8,446	9,377	7,975	5,692	3,189
Number of code violation cases	N/A	N/A	N/A	N/A	N/A	N/A
Number of zoning cases	N/A	N/A	N/A	N/A	N/A	N/A
Community Services:						
Number of Community Center bookings	N/A	N/A	N/A	N/A	N/A	N/A
Number of participants in recreational programs	N/A	N/A	N/A	N/A	N/A	N/A
Number of Senior Services members	N/A	N/A	N/A	N/A	N/A	N/A
Number of home delivered meals	N/A	N/A	N/A	N/A	N/A	N/A
Law Enforcement (contracted):						
Physical arrests	601	644	N/A	993	524	825
Traffic violations	3,186	2,432	N/A	2,315	2,504	4,900
Fire & Emergency Medical (contracted):						
Total incident responses	N/A	N/A	3,056	3,069	2,694	2,787
Average response time (in minutes)	N/A	N/A	3:47	3:49	3:37	3:44

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

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

* Includes permits issued for all types of activities requiring permits.

Fiscal Year			
2010	2011	2012	2013
3,520	2,584	2,173	1,740
1,089	738	731	703
3.2	2.7	2.6	2.5
15,511	none	16,074	none
50%	none	34%	none
409	354	352	419
1,936	1,546	1,257	1,395
1,024	843	804	746
7	14	7	10
3,396	3,315	3,236	3,196
1,960	1,759	1596*	1,789*
1,105	1,205	1208*	1,118*
10,169	9,742	8000*	6,941*
679	645	522	545
2,959	1,909	1,366	1,296
2,875	3,179	3,082	3,136
4:32	3:46	3:50	3:53

**TOWN OF FOUNTAIN HILLS, ARIZONA
 CAPITAL ASSETS STATISTICS BY FUNCTION
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Function/Program	Fiscal Year					
	2004	2005	2006	2007	2008	2009
Public Safety:						
Number of Fire stations	2	2	2	2	2	2
Other Public Works:						
Streets (Miles)	178.5	178.5	178.5	178.5	178.5	178.5
Streets (Lane Miles)	395	395	395	395	395	395
Streetlights	N/A	N/A	34	34	34	34
Traffic Signals	11	11	12	13	12	12
Parks and Recreation:						
Acreage	116	116	116	116	116	116
Playgrounds	3	3	3	3	3	3
Baseball/Softball Diamonds	6	6	6	6	6	6
Soccer/Football Fields	4	4	3	3	3	3
Community Centers	1	1	1	1	1	1
Preserve Acreage	N/A	N/A	N/A	N/A	N/A	N/A
Miles of Trails	N/A	N/A	N/A	N/A	N/A	N/A

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

Fiscal Year			
2010	2011	2012	2013
2	2	2	2
178.5	178.5	178.5	178.5
395	395	395	395
34	34	34	34
12	13	13	13
116	116	116	116
3	4	4	4
6	6	6	6
3	5	5	5
1	1	1	1
N/A	N/A	740	740
N/A	N/A	4.3	10.43



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