



Town of Fountain Hills, Arizona

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017



TOWN OF FOUNTAIN HILLS, ARIZONA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Issued by:
Administration Department
Finance Division

TOWN OF FOUNTAIN HILLS, ARIZONA

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INTRODUCTORY SECTION

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TOWN OF FOUNTAIN HILLS

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

October 16, 2017

To the Honorable Mayor, Members of the Town Council, and Citizens of the Town of Fountain Hills:

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States by a certified public accounting firm licensed in the State of Arizona. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the Town of Fountain Hills (Town) for the fiscal year ended June 30, 2017.

This report consists of management's representations concerning the finances of the Town. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Fountain Hills's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free of material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town's financial statements have been audited by Heinfeld, Meech & Co., P.C., a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ended June 30, 2017, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Town's financial statements for the fiscal year ended June 30, 2017, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town of Fountain Hills's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

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



Located on 13,006 acres of land, Fountain Hills is surrounded by the McDowell Mountains and Scottsdale on the west, the Fort McDowell Yavapai Nation on the east, the Salt River Pima-Maricopa Indian Community on the south, and by the McDowell Mountain Regional Park on the north. The elevation is 1,520 feet at the fountain, 2,130 feet at the Golden Eagle Trailhead, and is approximately 500 feet above Phoenix.

Over the past twenty plus years, Fountain Hills has grown from 10,190 residents to a town of 23,899 in 2015. On June 5, 2006, the Town of Fountain Hills became twenty

square miles and about ten percent larger by annexing 1,300 acres of State Trust Land. The process to annex the State Trust Land occurred over a two and one-half year period and development of the land will occur over the next decade. Annexing this property into the Town ensures that its future development will be of the highest quality under Town standards.

The Town offers a wide range of living accommodations, from small condominium complexes to large custom homes. Fountain Hills also offers recreational and cultural programs and services that contribute to a high quality of life for its residents. The community consists of primarily residential property and open space; of the total 20.32 square miles of land only 0.5% of the total is zoned commercial and/or industrial, 23.3% is preserved as open space and 51.1% is residential.

The Town's Mission Statement

The Town of Fountain Hills' purpose is to serve the best interests of the community by:

- providing for its safety and well-being;
- respecting its special, small-town character and quality of life;
- providing superior public services;
- sustaining the public trust through open and responsive government;
- and maintaining the stewardship and preservation of its financial and natural resources.

To serve, respect, and provide trust and stewardship.

Fountain Hills Town Hall



The Town of Fountain Hills is an Arizona Municipal Corporation, acting as a general law town as prescribed in the Arizona Revised Statutes. The Town was incorporated on December 5, 1989, with the governmental and administrative affairs of the Town operating under the Council-Manager form of government. Legislative authority is vested in a seven member Town Council. The Mayor is a member of the Town Council who is directly elected by voters and chairs the Town Council meetings. The members of the Council are elected at large and serve four year overlapping terms. The Town Council is responsible for the adoption of local ordinances, budget adoption, appointment of residents to citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and overall management of the Town through department directors and approximately 54 FTE employees. The Presiding Judge, Town Attorney, and Town Prosecutor are under the direction of the Town Council.



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

The financial reporting entity (the Town) includes all the funds of the primary government (i.e., the Town of Fountain Hills as legally defined) as well as all of its component units. The component units consist of legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the Cottonwoods Maintenance District, the Eagle Mountain Community Facilities District and the Fountain Hills Municipal Property Corporation are included in the financial report of the Town.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town of Fountain Hills operates.

Internal Controls. As earlier noted, the management of the Town of Fountain Hills, Arizona, is responsible for establishing and maintaining a system of internal control. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding;

- 1) Safeguarding of assets against loss from unauthorized use or deposition, and
- 2) Reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes:

- 1) The cost of a control should not exceed the benefits likely to be derived, and
- 2) The valuation of costs and benefits requires estimates and judgments by management.

The system of internal control is subject to periodic evaluation by management and is also considered by the independent auditors in connection with the annual audit of the Town's financial statements. All internal control evaluations occur within the above framework. The Town's internal accounting controls are considered to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Controls. The budget process is a cyclical process and begins each year with the preparation of the base budget by each department head. Each budget is based on expenditures to date and the previous years' experience. The departments' base budgets, along with any requests for new positions, programs or services are reviewed by the Town Manager. The Town Manager then meets with department heads to review their base budgets and requests for new services and/or programs. Once management has reviewed the departments' requests, a tentative budget is presented to the Town Council by the Town Manager.

The Town Council formally adopts the budget and appropriates funding for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Therefore, these funds have appropriated budgets, and budget to actual information is presented. On or before the second Town Council meeting in April, the Town Manager submits to the Town Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. The Town Council is then required to hold public hearings on the proposed budget and to adopt a final budget by June 30, the close of the Town of Fountain Hills' fiscal year. The budget is legally enacted through passage of a resolution and is prepared by fund and department. The resolution sets the limit for expenditures during the fiscal

year. The Town Manager may authorize transfers from and within personnel and from operating capital to services or supplies within a department. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article IX, Section 20.

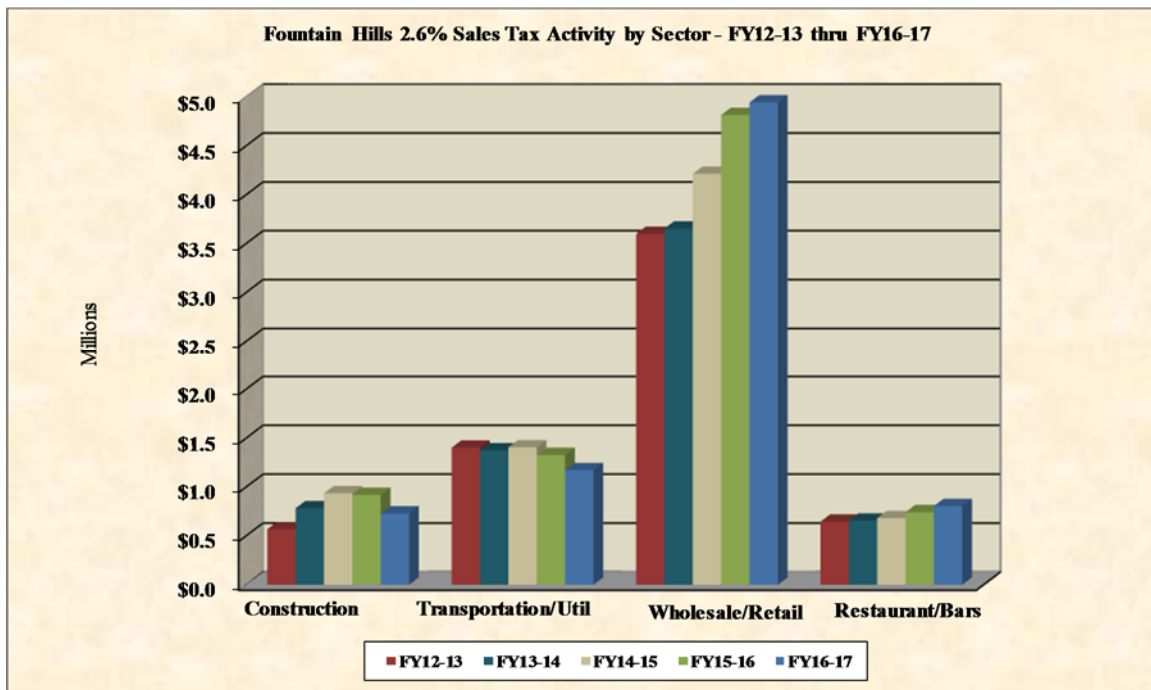
The Town is subject to the State of Arizona's Expenditure Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carry-over of unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds.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

To ensure compliance with the state imposed expenditure limitation, a uniform expenditure report must be filed with the state each year. This report reconciles total Town expenditures from the audited financial statements to total expenditures for reporting in accordance with the state's uniform expenditure reporting system (ARS Section 41-1279.07). Public hearings on the budget are held each year in accordance with legal requirements in order to obtain comments from local taxpayers.

The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within the department. Transfers of appropriations between departments, however, require Town Council approval. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. Budget-to-actual comparisons for the General Fund and Major Special Revenue Funds are presented in the Required Supplementary Information and all other funds are presented in Combining and Individual Fund Financial Statements and Schedules.

Local Economy. The Town of Fountain Hills, Arizona, continues to face many issues during these slow growth economic times. Its citizens, governing body, and municipal government are committed to finding solutions for each of the issues. In order to address these issues, the Town has proposed a baseline budget requiring any new positions to be deemed mission critical. All vacancies will be evaluated to access the need for replacement, elimination or modification to the job description. The Town will be closely monitoring its revenue sources and make adjustments accordingly.

The Great Recession appears to be recovering modestly in Fountain Hills; this recovery is indicated by the stable level of local sales tax receipts. Even though construction activity has decreased almost 21% from the prior year, other categories have increased which we interpret as an indicator of a recovering economy. The Town of Fountain Hills' local tax revenue base consists of two major tax categories, the most significant being wholesale/retail sales and transportation/communication/utilities (construction had been a third significant category in prior years). The following chart is a look at the past five years' significant local sales tax activity by sector:



As can be seen in the chart, sales tax collections continue to show signs of moderate growth. Retail sales experienced a 2.7% increase over the prior year; restaurant/bar revenues have exceeded any prior year and an increase of 8.4% from FY15-16. Construction sales tax, a one-time revenue source, is driven entirely by development activity in the community and decreased 20.6% from the prior year; recent building permit activity indicates that construction sales tax is likely to increase over the next years. Transportation/communication/utilities tax revenues also posted a decrease of 11.7%.

Construction activity provides revenue to the Town through local sales tax, the proceeds of which are utilized for general operations and capital expenditures. Without the resources to fund capital projects, the Town must find additional funds to pay for necessary infrastructure projects. For operating costs, the Town is dependent upon state shared revenues and local sales tax as a major source of operating revenue, accounting for 86% of total General Fund revenue for fiscal year 2016-17.

State shared revenues are derived as a proportionate share of state sales, income and vehicle license taxes which are distributed based on the Town's population compared to all other incorporated cities and towns in Arizona (currently 0.4%). State shared income tax revenue category is based on two years prior personal and corporate earnings; revenue from the State income tax increased by 8.0% in FY16-17. After decreases in State sales tax from FY08-09 through FY11-12, this revenue increased by 2.8% in FY16-17 compared to the prior year.

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 – over 75% 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 2016-17 (7/1/2016 – 6/30/2017):

Two Development Agreements were approved by Council:

Park Place
Copper Ridge

Three Site Plans were approved by the Planning & Zoning Commission during the period:

Park Place
Fountain View Village
Multi-family condominium

Six Special Use Permits were granted.

Twenty-nine Administrative Use Permits were issued.

Fifty-five new Single-Family Residential Building Permits were issued.

Ten Multi-family permits were issued.

There were six new Commercial Building Permits issued.

There were nine commercial tenant improvement permits issued during the last fiscal year.

A summary of the activity, by month, is shown below:

Fiscal year	SFR	DUP/MULTI			T.I. & Comm	Pools, Fences & Other	Add Ons (Not Garages	Garages & Carports	MONTH TOTAL
		Bldgs.	Total Units	Permits Issued					
JULY	3	0	0	0	2	51	2	0	58
AUGUST	3	1	2	1	1	27	3	0	35
SEPTEMBER	2	0	0	0	0	30	3	2	37
OCTOBER	3	5	10	5	1	33	2	0	44
NOVEMBER	3	0	0	0	0	25	3	1	32
DECEMBER	5	0	0	0	0	25	6	1	37
JANUARY	6	1	8	4	2	27	4	0	43
FEBRUARY	5	0	0	0	1	40	2	4	52
MARCH	3	0	0	0	0	32	2	1	38
APRIL	7	0	0	0	1	27	5	0	40
MAY	7	0	0	0	5	30	4	0	47
JUNE	8	0	0	0	2	29	7	1	46
YEARLY TOTAL	55	7	20	10	15	376	43	10	509

Economic Outlook.

Retail Sales – Not having a property tax, the Town of Fountain Hills relies heavily on Town transaction privilege tax (TPT), sometimes called a sales tax. Overall, Town TPT revenues provide over 50% of the General Fund revenues. The Town's TPT rate is currently at 2.6%. The construction TPT is equally divided between the General Fund and the Capital Projects Fund.

State Shared Revenues – The Town of Fountain Hills receives significant revenue allocations from the State. These "State Shared Revenues" include allocations of the state-collected income tax, sales tax, fuel tax and motor vehicle-in-lieu taxes. All but the fuel tax is placed in the Town's General Fund, where it is used to sustain a large portion of the Town's day-to-day activities. These revenue sources have improved recently with the economy showing signs of recovery.

Highway User Revenue Fund (HURF) – The state shared fuel tax, as it is often called, is placed in this fund to be used specifically for street maintenance and related activity. In recent years, the state legislature has reduced the formula distribution of state-shared revenues to cities. The state shared revenue formula generally allocate revenues based on official census data

Long-term Financial Planning. Fountain Hills' Financial Policies are balanced on sound financial reserves and conservative revenue growth forecasts for the foreseeable future. Potential for State legislative impacts to revenue-sharing or local revenues and additional demands for essential Town services remain. The Town's financial policies set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated.

The Town's Financial Policies have helped weather the slow economic recovery. This policy continues to require the Town to internally restrict an amount equal to 20% of the average actual General Fund revenues for the preceding five fiscal years as part of its General Fund balance. This amount is estimated to be about 60 days of expenditures coverage and is considered a "Rainy Day" fund.

Additionally, a reserve of 10% of the average actual General Fund revenues for the preceding five fiscal years is set aside for "pay-as-you-go" capital replacement expenditures, vehicle or equipment replacement, capital projects, prepaying or defeasing existing Town debt, or any other expenditure that is non-recurring in nature.

The Council also adopted Financial Policies that include guidelines for the issuance of debt for capital expenditures, community facility districts, financing alternatives, expenditure controls and financial planning. The policy was amended during FY 09-10 to reduce the allocation of the local construction sales tax to the Capital Projects Fund from 85% to 50%, reflecting the transition from one-time building activity to ongoing redevelopment activity. The debt policy was prepared with a preference for "pay-as-you-go" financing for capital spending, however, the policy did not anticipate the lack of funding for capital projects and bond funding needs to be reconsidered.

In early 2009, the Strategic Planning Advisory Commission (SPAC) began the process of gathering public input to update the Strategic Plan's vision, confirm residents' values, and create a fresh structure for the Strategic Plan revision. Subsequently, *Strategic Plan 2010* was built upon the foundation of a clearly defined vision statement and eight key values, with specific indicators to evaluate Council and staff priorities. In 2017, SPAC again updated the Strategic Plan. Based on citizen input, the newest Strategic Plan is designed to guide our future decisions grounded on these common values:

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

These values guide the Town's annual budget process.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

The Town of Fountain Hills' adopted FY16-17 budget reflected the continued recession in the local economy, which is also somewhat 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 reduction was accomplished by a thorough assessment of all existing and proposed programs and workload; as a result, Town staffing was reduced from 115 to 54 FTE's (full time equivalents) over the past years.

The Town Council established priorities for FY16-17 of which the top two are Economic Development and Pavement Management. In order to implement the Pavement Management program, the Council approved the use of Vehicle License Tax revenues to be dedicated to annual pavement maintenance with an effective date of July 1, 2013. Economic Development initiatives are funded through a dedicated local sales tax which provides funding for business attraction, retention and expansion.

For the Year. The following list depicts the continued commitment of the Town of Fountain Hills to make the community a better place to live. Fiscal year 2016-17 goals attained are summarized within this list of accomplishments:

- Completion of Ashbrook Wash channelization improvements – Bayfield to Del Cambre
- Initiation of Fire Station 2 relocation design and construction
- Installation of a new chiller
- Completion of the new Lake Aeration System at Fountain Park
- Demolition of the Bus Barn at Four Peaks Park
- Resurfaced the basketball courts at Golden Eagle Park
- Completion of the reconstruction of the tennis courts, mainly financed through the AZSTA (Arizona Sports and Tourism Authority) grant, at Golden Eagle and Four Peaks Parks
- Added several new monthly and special educational programs, workshops and support groups at the Community Center
- New public art installed: Selfie Gate, Sky Totem, Ascendo, Strength to the People, Gahn Dancer II and Mounted Carousel Horse
- Completion and dedication of the Rotary Harmony Musical Playground
- Completion of the East Loop Sonoran Trail in the Preserve
- APRA (Arizona Parks & Recreation Association) Outstanding Sports Program recognition for Archery
- Awarded Playful City USA for 6th time
- Bronze award for Best Onsite décor for Turkey Trot from IFEA (International Festival and Events Association)
- Silver awards for Best Single Display Ad and Best Ad Series from IFEA (International Festival and Events Association)
- Gold Award for Best Organizational Website from IFEA (International Festival and Events Association)
- Secured grant funding from the Arizona Office of Tourism - Proposition 302
- Secured grant funding from Salt River Pima Indian Community - Proposition 202
- Secured grant funding from Fort McDowell Yavapai Nation - Proposition 202
- Voted one of the Best Cities for Building Wealth from Lending EDU
- Recognized in the Top 50 of the Most Beautiful Places in the Country by Expedia

AWARDS AND ACKNOWLEDGEMENTS

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2016. This was the twenty-first consecutive year that the Town has received this prestigious award. In order to be awarded a Certificate of Achievement, the Town published an easily readable and efficiently organized CAFR. This report satisfied both accounting principles generally accepted in the United States of America (GAAP) and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for the fiscal year ended 2017 Certificate.

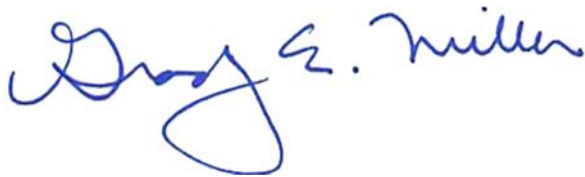
For the fifth year, The Town was also given the Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 2016.

In addition, the government received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year beginning July 1, 2016. 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 fifteenth 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.

Acknowledgments. The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the efficient and dedicated services of the entire team of the Finance Division. I also wish to extend my appreciation to the Mayor and members of Town Council for their leadership and support in planning and conducting the financial affairs of the Town in a responsible and progressive manner. Each employee of the Town has my sincere appreciation for the contributions made in the preparation of this report.

Respectfully submitted,

A handwritten signature in blue ink, reading "Grady E. Miller". The signature is fluid and cursive, with the first name "Grady" being the most prominent part.

Grady E. Miller
Town Manager

**TOWN OF FOUNTAIN HILLS, ARIZONA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2017**

ELECTED OFFICIALS

Linda M. Kavanagh, Mayor

Alan Magazine, Vice-Mayor

Dennis Brown, Councilmember

Nick DePorter, Councilmember

Henry Leger, Councilmember

Art Tolis, Councilmember

Cecil A. Yates, Councilmember

DEPARTMENT DIRECTORS

Grady Miller, Town Manager

Craig Rudolph, Finance Director

Robert Melton, Presiding Judge

Rachael Goodwin, Interim Community Services Director

Robert Rogers, Development Services Director

Justin Weldy, Interim Public Works Director

Captain Dave Ott, Rural Metro Corporation, Fire Chief

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

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

Andrew McGuire, Gust Rosenfeld, P.L.C., Town Attorney



Government Finance Officers Association

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

Presented to

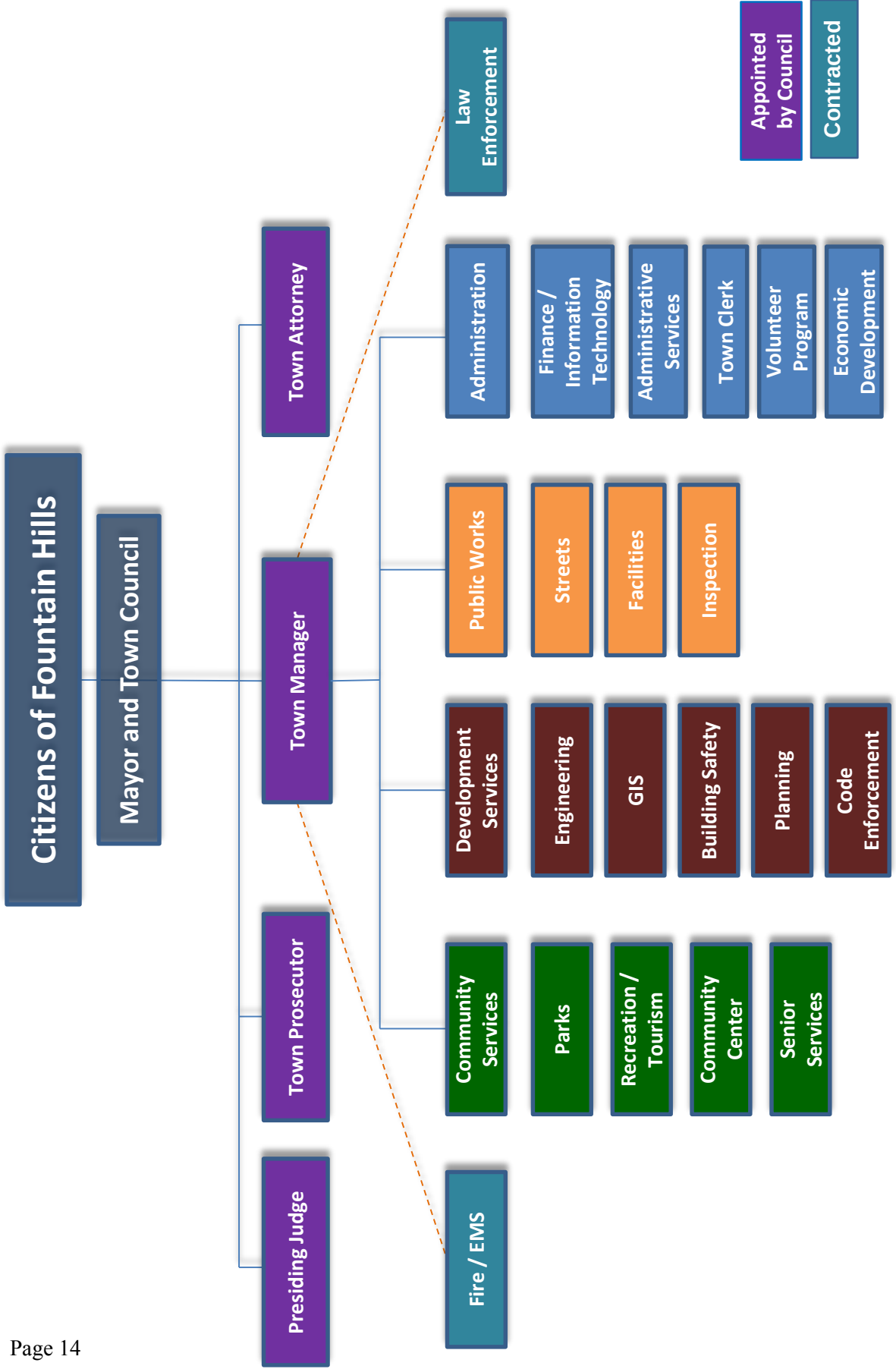
**Town of Fountain Hills
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

Town of Fountain Hills Organization



FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Fountain Hills, Arizona (Town), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fountain Hills, Arizona, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Introductory Section, Combining and Individual Fund Financial Statements and Schedules, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining and Individual Fund Financial Statements and Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017, on our consideration of the Town of Fountain Hills, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Fountain Hills, Arizona's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 16, 2017

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

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**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

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, 2017. This discussion and analysis is intended to be an easily readable breakdown of the Town of Fountain Hills' financial activities based on currently known facts, decisions and conditions. This analysis focuses on current year activities and operations and should be read in combination with the transmittal letter and the financial statements that follow. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements.

FINANCIAL HIGHLIGHTS

- The Town's total net position of governmental activities decreased \$451.3 thousand to \$ 117.0 million, representing a .4% percent decrease of the total net position.
- General revenues from governmental activities accounted for \$18.2 million in revenue, or 79.0 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4.9 million or 21.0 percent of total governmental activities revenues.
- The Town had \$23.5 million in expenses related to governmental activities, an increase of 8.0 percent from the prior fiscal year primarily due to increased public works costs.
- Among major governmental funds, the General Fund had \$15.0 million in current fiscal year revenues, which primarily consisted of taxes and intergovernmental revenues. The total expenditures of the General Fund were \$13.9 million. The General Fund's fund balance decreased \$3.0 million to \$7.2 million at the end of the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF FINANCIAL STATEMENTS – continued

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. The accrual basis of accounting is used for the government-wide financial statements.

The Statement of Net Position presents information on all of the Town's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

The government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Town include general government, development services, public safety, public works, and culture and recreation.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town are included in governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements use the modified accrual basis of accounting and focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF FINANCIAL STATEMENTS – continued

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Highway Users Revenue (HURF), Grants, Capital Projects, Development Fees and all Debt Service Funds, all of which are considered to be major funds. Data from other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements and schedules.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's budget process. The Town adopts an annual budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances - budget and actual has been provided for the General Fund and major Special Revenue Funds as required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

While this document contains information about the funds used by the Town to provide services to our citizens, the Statement of Net Position and the Statement of Activities serve to provide an answer to the question of how the Town, as a whole, did financially throughout the year. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the Town's assets and the changes in those assets. The change in assets is important because it tells the reader whether the financial position of the Town as a whole has improved or diminished. However, in evaluating the overall position of the Town, non-financial information such as changes in the Town's tax base and the condition of the Town's capital assets will also need to be evaluated.

Analysis of Net Position.

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, governmental activities assets exceeded liabilities by \$117.0 million at the current fiscal year end.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS – continued

The largest portion of the Town's governmental activities net position reflects its investment in capital assets (e.g., land, infrastructure, buildings and improvements, vehicles, machinery and equipment and construction in progress), less any related outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related outstanding debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, a portion of the Town's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted and may be used to meet the Town's ongoing obligations to its citizens and creditors.

The following tables present a summary of the Town's net position for the fiscal years ended June 30, 2017 and June 30, 2016.

	Governmental Activities	
	As of	As of
	June 30, 2017	June 30, 2016
Current and other assets	\$ 24,037,642	\$ 23,190,907
Capital assets, net	103,179,955	106,661,659
Total assets	127,217,597	129,852,566
Current and other liabilities	4,588,747	4,025,377
Long-term liabilities	5,669,418	8,416,454
Total liabilities	10,258,165	12,441,831
Net position		
Net investment in capital assets	94,909,703	95,647,990
Restricted	4,471,661	4,530,239
Unrestricted	17,578,068	17,232,506
Total net position	\$ 116,959,432	\$ 117,410,735

At the end of the current fiscal year the Town reported positive balances in all three categories of net position for governmental activities. The Town reported positive balances in all net position categories in the prior fiscal year.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS – continued

The Town's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The following are significant current year transactions that had an impact on the Statement of Net Position.

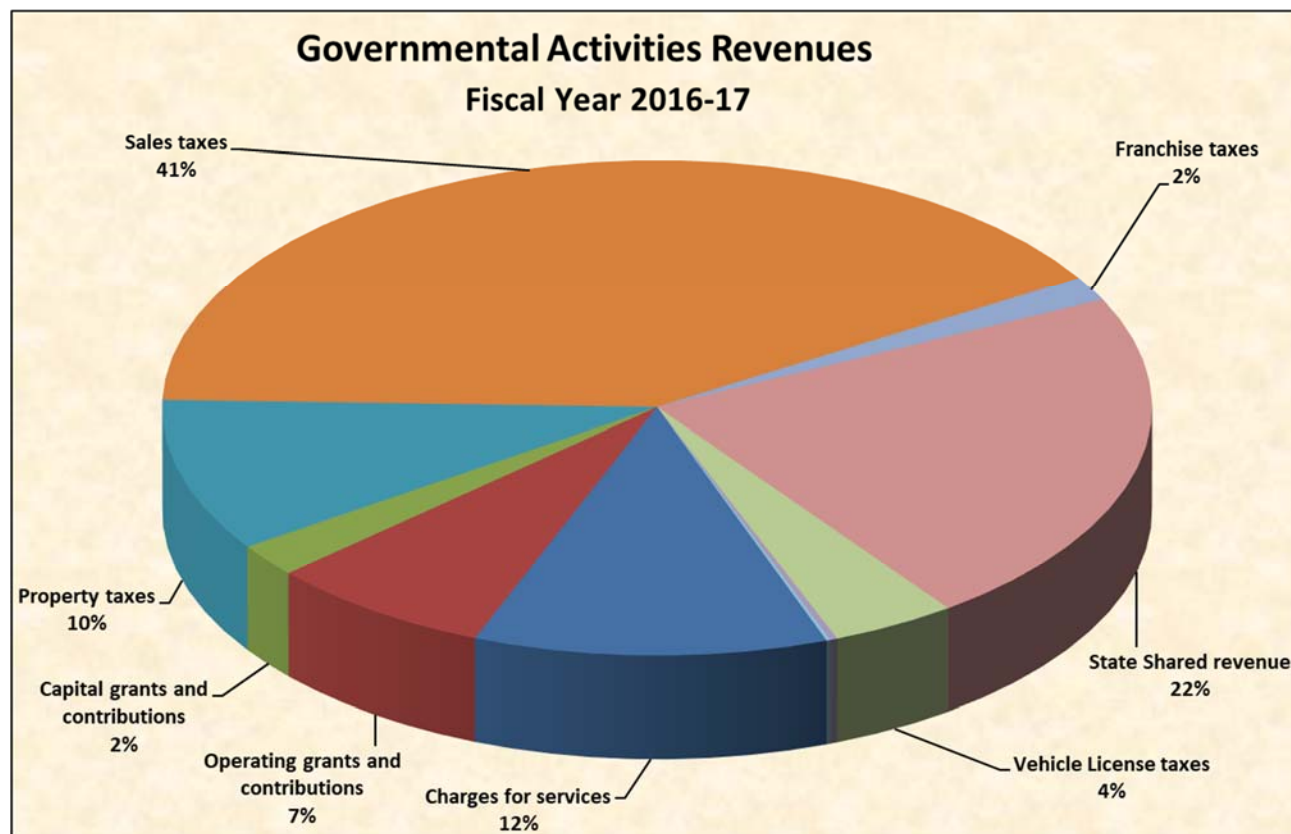
- The reduction of \$3.5 million of governmental capital assets is due primarily to depreciation expense.

Changes in net position. The Town's total revenues for the current fiscal year were \$23.1 million. The total cost of all programs and services was \$23.5 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016.

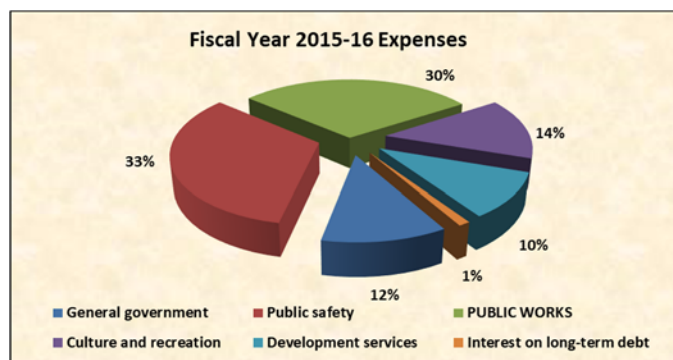
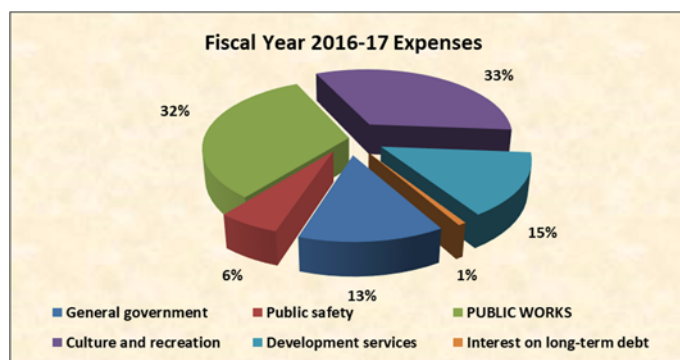
	Governmental Activities	
	Fiscal	Fiscal
	Year Ended	Year Ended
	June 30, 2017	June 30, 2016
Revenues		
Program revenues:		
Charges for services	\$ 2,664,463	\$ 2,016,451
Operating grants and contributions	1,699,931	1,615,973
Capital grants and contributions	494,328	381,011
General revenues		
Property taxes	2,296,199	2,569,504
Sales taxes	9,415,151	9,395,667
Franchise taxes	367,119	360,320
State Shared revenue	5,115,914	4,886,238
Vehicle License taxes	941,364	927,440
Investment earnings	55,127	219,058
Miscellaneous	28,839	13,826
Total revenues	<u>23,078,435</u>	<u>22,385,488</u>
Expenses		
General government	3,142,722	2,516,966
Development services	1,364,378	2,253,208
Public safety	7,563,898	7,178,890
Public Works	7,904,577	6,476,688
Culture and recreation	3,375,414	3,124,523
Interest on long-term debt	178,749	241,694
Total expenses	<u>23,529,738</u>	<u>21,791,969</u>
Changes in net position	<u>(451,303)</u>	<u>593,519</u>
Net position, beginning	<u>117,410,735</u>	<u>116,817,216</u>
Net position, ending	<u>\$ 116,959,432</u>	<u>\$ 117,410,735</u>

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS – continued



The charts below compare the governmental expenses from fiscal years 2016-17 and 2015-16.



**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS – continued

The following items are significant current year transactions that have had an impact on the change of net position.

- Fees, Fines and Charges for Services revenue increased 32.1 percent compared to the prior year due in large part to the collection of the new environmental fee.
- Interest on long-term debt decreased 26.0 percent due to the prior year refunding of old debt and reissuance of new bonds.
- Public safety costs include contracts for police and fire; one contract is multi-year with automatic increases while the other is a cost reimbursement contract.
- Investment income decreased in the current year 74.8 percent over the prior year due to low overall market returns.
- Overall, expenses increased 8.0 percent due primarily to a general increase in the cost of obtaining goods and services.

The following table presents the cost of the Town's major functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the Town's taxpayers by each of these functions.

	<u>Year Ended June 30, 2017</u>		<u>Year Ended June 30, 2016</u>	
	Total	Net	Total	Net
	Expenses	(Expense)/ Revenue	Expenses	(Expense)/ Revenue
Governmental Activities				
General government	\$ 3,142,722	\$ (2,506,081)	\$ 2,516,966	\$ (2,068,504)
Development services	1,364,378	(298,295)	2,253,208	(995,716)
Public safety	7,563,898	(7,186,135)	7,178,890	(7,087,802)
Public Works	7,904,577	(6,148,913)	6,476,688	(4,816,682)
Culture and recreation	3,375,414	(2,352,843)	3,124,523	(2,568,136)
Interest on long-term debt	178,749	(178,749)	241,694	(241,694)
Total expenses	<u>\$23,529,738</u>	<u>\$ (18,671,016)</u>	<u>\$21,791,969</u>	<u>\$ (17,778,534)</u>

- The cost of all governmental activities this year was \$23.5 million.
- Federal, State, and county governments and charges for services subsidized certain governmental programs with charges for services of \$4.9 million.
- Net cost of governmental activities of \$18.7 million was financed by general revenues, which are made up of primarily sales taxes of \$9.4 million and State Shared revenues of \$6.1 million.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year.

The financial performance of the Town as a whole is reflected in its governmental funds. As the Town completed the year, its governmental funds reported no change in the combined fund balance of \$22.0 million.

The General Fund comprises 32.7 percent of the total fund balance. Approximately \$2.7 million or 37.6 percent of the General Fund's fund balance is unassigned.

The General Fund is the principal operating fund of the Town. The fund balance decreased by \$3.0 million to \$7.2 million as of fiscal year end. General Fund revenues increased \$267,181 primarily due to increased State-shared revenues. General Fund expenditures increased \$941,373. This increase was a result of increased public safety costs and the purchase of eight new vehicles that were due to be replaced.

The Highway User Revenue Fund comprises 10.5 percent of total fund balance. The fund balance increased \$656,238 from the prior year due to the increase in sales tax revenues.

The Capital Projects Fund comprises 37.1 percent of the total fund balance. All of the fund balance is committed or assigned to capital projects. The fund balance increased \$2.7 million due to the delays involving ongoing capital projects during the fiscal year.

The Development Fees Fund is 8.8 percent of the total fund balance. The fund balance decreased primarily because of transfers out to projects utilizing the development fees.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Town revised the General Fund annual expenditure budget primarily due to changes in the contingency amount. The difference between the original budget and the final amended budget was a \$85,280 decrease, or .6 percent.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

BUDGETARY HIGHLIGHTS – continued

A schedule showing the budget amounts compared to the Town's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variances are summarized as follows:

- The negative variance of \$156,233 in overall revenues is primarily due to less than expected licenses and permits revenue, mostly attributable to the delay in commercial construction projects assumed to begin in FY 2016-2017.
- The favorable total expenditures variance of \$1,423,435 includes all departments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of the end of the current fiscal year, the Town had invested \$103.2 million in governmental capital assets, including buildings, facilities, vehicles, computers, equipment, infrastructure assets and artwork. These amounts represent net increases prior to depreciation of \$1.3 million from the prior fiscal year for governmental activities. The increases were primarily due to park and street improvements. Total depreciation expense for the current fiscal year was \$5.2 million for governmental activities.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2017 and June 30, 2016.

	Governmental Activities	
	As of	As of
	June 30, 2017	June 30, 2016
Capital assets – non-depreciable	\$ 27,134,114	\$ 27,522,240
Capital assets – depreciable, net	76,045,841	79,139,419
Total	<u><u>\$103,179,955</u></u>	<u><u>\$106,661,659</u></u>

The estimated construction commitments amount is \$286,836.

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

Debt Administration. At year-end, the Town had \$8.3 million in governmental long-term debt outstanding with \$2.7 million due within one year. Long-term debt decreased by \$2.7 million for governmental activities.

**TOWN OF FOUNTAIN HILLS, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSETS AND DEBT ADMINISTRATION – continued

State statutes currently limit the amount of general obligation debt a Town may issue a percentage of its total assessed valuation for water, sewer, lights, open space preserves parks, playgrounds and recreational facilities. The current 20 percent debt limitation for the Town is \$84.7 million. State statutes also currently limit the amount of general obligation debt a Town may issue to a percentage of its total assessed valuation for all other purposes. The current six percent debt limitation for the Town is \$25.4 million.

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

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Finance Division, Town of Fountain Hills, 16705 East Avenue of the Fountains, Fountain Hills, Arizona 85268 or visit our website at: www.fh.az.gov.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
<u>ASSETS</u>	
Current assets:	
Cash and investments	\$ 22,274,126
Accounts receivable	656,587
Intergovernmental receivable	913,745
Taxes receivable	62,522
Interest receivable	38,452
Inventory, at cost	5,872
Prepaid items	17,342
Cash and investments - restricted	68,996
Total current assets	<u>24,037,642</u>
Noncurrent assets:	
Capital assets not being depreciated	27,134,114
Capital assets, net of accumulated depreciation	76,045,841
Total noncurrent assets	<u>103,179,955</u>
Total assets	<u><u>127,217,597</u></u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	1,035,703
Accrued wages and benefits	70,322
Other liabilities	8,922
Customer deposits	151,547
Compensated absences payable	300,219
Revenue bonds payable	360,000
General obligation bonds payable	2,360,000
Unearned revenues	302,034
Total current liabilities	<u>4,588,747</u>
Noncurrent liabilities:	
Non-current portion of long-term liabilities	5,669,418
Total noncurrent liabilities	<u>5,669,418</u>
Total liabilities	<u><u>10,258,165</u></u>
<u>NET POSITION</u>	
Net investment in capital assets	94,909,703
Restricted for:	
Streets and highways	1,999,080
Capital outlay	1,959,320
Debt service	513,261
Unrestricted	17,578,068
Total net position	<u><u>\$ 116,959,432</u></u>

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

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 3,142,722	\$ 415,883	\$ 82,182	\$ 138,576	\$ (2,506,081)
Development services	1,364,378	1,066,083			(298,295)
Public safety	7,563,898	273,515	50,112	54,136	(7,186,135)
Public works	7,904,577	216,724	1,538,940		(6,148,913)
Culture and recreation	3,375,414	692,258	28,697	301,616	(2,352,843)
Interest on long-term debt	178,749				(178,749)
Total governmental activities	<u>\$ 23,529,738</u>	<u>\$ 2,664,463</u>	<u>\$ 1,699,931</u>	<u>\$ 494,328</u>	<u>(18,671,016)</u>

General revenues:

Taxes:

Property taxes	2,296,199
Sales taxes	9,415,151
Franchise taxes	367,119
State sales & income tax revenue sharing - unrestricted	5,115,914
Vehicle license tax revenue sharing - unrestricted	941,364
Investment earnings	55,127
Miscellaneous	28,839
Total general revenues	<u>18,219,713</u>

Changes in net position (451,303)

Net position, beginning of year 117,410,735

Net position, end of year \$ 116,959,432

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

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FUND FINANCIAL STATEMENTS

TOWN OF FOUNTAIN HILLS, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	General	Highway User Revenue	Grants	General Obligation Debt Service
<u>ASSETS</u>				
Cash and investments	\$ 6,972,039	\$ 2,227,457	\$ 177,892	\$ 238,076
Accounts receivable	148,773	6,849		
Intergovernmental receivable	678,813	215,469		
Taxes receivable				54,367
Interest receivable	17,675			
Due from other funds			96,900	
Inventory, at cost	5,872			
Prepaid items	16,868			
Cash and investments - restricted	68,996			
Total assets	\$ 7,909,036	\$ 2,449,775	\$ 274,792	\$ 292,443
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 340,944	\$ 136,954	\$ 10,246	\$
Accrued wages and benefits	60,501	6,280		
Other liabilities	8,544			
Customer deposits	151,547			
Unearned revenues	37,488		264,546	
Due to other funds	91,334			
Total liabilities	690,358	143,234	274,792	
Deferred inflows of resources:				
Unavailable revenues - property taxes				31,029
Unavailable revenues - other	41,036	3,989		
Total deferred inflows of resources	41,036	3,989		31,029
Fund balances:				
Nonspendable	22,740			
Restricted		1,995,090		261,414
Committed	2,714,135			
Assigned	1,743,768	307,462		
Unassigned	2,696,999			
Total fund balances	7,177,642	2,302,552		261,414
Total liabilities, deferred inflows of resources and fund balances	\$ 7,909,036	\$ 2,449,775	\$ 274,792	\$ 292,443

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

Eagle Mountain Debt Service	Municipal Property Corporation Debt Service	Capital Projects	Development Fees	Non-Major Governmental Funds	Total Governmental Funds
\$ 43,147	\$ 169,563	\$ 8,597,333	\$ 1,939,113	\$ 1,909,506	\$ 22,274,126
		54,136	417,291	29,538	656,587
				19,463	913,745
8,107				48	62,522
		13,655	4,135	2,987	38,452
				7,294	104,194
					5,872
				474	17,342
					68,996
<u>\$ 51,254</u>	<u>\$ 169,563</u>	<u>\$ 8,665,124</u>	<u>\$ 2,360,539</u>	<u>\$ 1,969,310</u>	<u>\$ 24,141,836</u>
\$	\$	\$ 505,435	\$	\$ 42,124	\$ 1,035,703
				3,541	70,322
				378	8,922
					151,547
					302,034
		12,860			104,194
		<u>518,295</u>		<u>46,043</u>	<u>1,672,722</u>
3,932					34,961
			417,291		462,316
<u>3,932</u>			<u>417,291</u>		<u>497,277</u>
				474	23,214
47,322	169,563		1,943,248	16,073	4,432,710
		7,127,301		1,448,949	11,290,385
		1,019,528		457,771	3,528,529
					2,696,999
<u>47,322</u>	<u>169,563</u>	<u>8,146,829</u>	<u>1,943,248</u>	<u>1,923,267</u>	<u>21,971,837</u>
<u>\$ 51,254</u>	<u>\$ 169,563</u>	<u>\$ 8,665,124</u>	<u>\$ 2,360,539</u>	<u>\$ 1,969,310</u>	<u>\$ 24,141,836</u>

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TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total governmental fund balances	\$	21,971,837
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Amounts reported for *governmental activities* in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets	\$ 211,759,485	
Less accumulated depreciation	<u>(108,579,530)</u>	103,179,955

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

Property taxes	34,961	
Other	<u>462,316</u>	497,277

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

Compensated absences payable	(419,385)	
Bonds payable	<u>(8,270,252)</u>	<u>(8,689,637)</u>

Net position of governmental activities	\$	<u>116,959,432</u>
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The notes to the basic financial statements are an integral part of this statement.

TOWN OF FOUNTAIN HILLS, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General	Highway User Revenue	Grants	General Obligation Debt Service
Revenues:				
Property taxes	\$	\$	\$	\$ 1,902,919
Sales taxes	7,970,576	719,662		
Franchise taxes	367,119			
Licenses and permits	698,808			
Leases and rents	284,090			
Intergovernmental	5,160,526	2,480,304	206,161	
Charges for services	181,106	170,370		
Other	94,117	4,492		
Fines and forfeitures	211,190			
Investment earnings	7,379	7,023		4,408
Total revenues	<u>14,974,911</u>	<u>3,381,851</u>	<u>206,161</u>	<u>1,907,327</u>
Expenditures:				
Current -				
General government	2,495,993		47,068	
Development services	780,509			
Public safety	7,420,032			
Public works	672,806	2,925,613		
Culture and recreation	2,286,053			
Capital outlay	217,265		324,001	
Debt service -				
Principal retirement				1,930,000
Interest on long-term debt				188,250
Fiscal charges				1,000
Total expenditures	<u>13,872,658</u>	<u>2,925,613</u>	<u>371,069</u>	<u>2,119,250</u>
Excess (deficiency) of revenues over expenditures	<u>1,102,253</u>	<u>456,238</u>	<u>(164,908)</u>	<u>(211,923)</u>
Other financing sources (uses):				
Transfer in	39,828	200,000	164,908	
Transfer out	(4,185,083)			
Total other financing sources (uses):	<u>(4,145,255)</u>	<u>200,000</u>	<u>164,908</u>	
Changes in fund balances	<u>(3,043,002)</u>	<u>656,238</u>		<u>(211,923)</u>
Fund balances, beginning of year	10,220,644	1,646,314		473,337
Fund balances, end of year	<u>\$ 7,177,642</u>	<u>\$ 2,302,552</u>	<u>\$</u>	<u>\$ 261,414</u>

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

Eagle Mountain Debt Service	Municipal Property Corporation Debt Service	Capital Projects	Development Fees	Non-Major Governmental Funds	Total Governmental Funds
\$ 378,872	\$	\$ 365,082	\$	\$ 5,653	\$ 2,287,444
				359,831	9,415,151
					367,119
			111,434	500,731	1,310,973
					284,090
				70,660	7,917,651
					351,476
		54,136		693	153,438
				46,537	257,727
938	2,315	23,898	4,420	4,746	55,127
<u>379,810</u>	<u>2,315</u>	<u>443,116</u>	<u>115,854</u>	<u>988,851</u>	<u>22,400,196</u>
		2,207		168,280	2,713,548
				494,638	1,275,147
					7,420,032
		352,233		3,798	3,954,450
			535	198,352	2,484,940
		1,151,999			1,693,265
375,000	370,000				2,675,000
34,056	22,680				244,986
170	1,010				2,180
<u>409,226</u>	<u>393,690</u>	<u>1,506,439</u>	<u>535</u>	<u>865,068</u>	<u>22,463,548</u>
<u>(29,416)</u>	<u>(391,375)</u>	<u>(1,063,323)</u>	<u>115,319</u>	<u>123,783</u>	<u>(63,352)</u>
	249,055	4,110,777		429,570	5,194,138
		(364,908)	(419,200)	(224,947)	(5,194,138)
	<u>249,055</u>	<u>3,745,869</u>	<u>(419,200)</u>	<u>204,623</u>	
<u>(29,416)</u>	<u>(142,320)</u>	<u>2,682,546</u>	<u>(303,881)</u>	<u>328,406</u>	<u>(63,352)</u>
76,738	311,883	5,464,283	2,247,129	1,594,861	22,035,189
<u>\$ 47,322</u>	<u>\$ 169,563</u>	<u>\$ 8,146,829</u>	<u>\$ 1,943,248</u>	<u>\$ 1,923,267</u>	<u>\$ 21,971,837</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Changes in fund balances - total governmental funds **\$ (63,352)**

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

Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Expenditures for capitalized assets	\$ 1,696,612	
Less current year depreciation	<u>(5,193,321)</u>	(3,496,709)

Donated items are not reported in the governmental funds. However, in the Statement of Activities, the costs of those assets are reported as capital grants and contributions.	230,956
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Some revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	8,755	
Other	<u>438,528</u>	447,283

Repayments of bond principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	2,675,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Loss on disposal of assets	(215,951)	
Amortization of deferred bond items	68,417	
Compensated absences	<u>(96,947)</u>	<u>(244,481)</u>

Changes in net position in governmental activities **\$ (451,303)**

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Fountain Hills, Arizona (Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

A. Reporting Entity

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

The Town is a municipal entity governed by an elected Mayor and Council. The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The Town is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, the component units combined with the Town for financial statement presentation purposes and the Town are not included in any other governmental reporting entity. Consequently, the Town's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable.

Eagle Mountain Community Facilities District and the Cottonwoods Maintenance District. As special purpose districts and separate political subdivisions under the Arizona Constitution, the Districts can levy taxes and issue bonds independently of the Town. Property owners in the designated areas are assessed taxes for the costs of operating the Districts. The Town Council serves as the Board of Directors; however, the Town has no liability for the Districts' debt, the Districts are responsible for the debt; the debt is therefore not subject to the Town's debt limit. The Districts cannot be part of another reporting entity. The Districts' governing bodies are substantially the same as the Town and the Town's management oversees operations, resulting in the Town having the ability to exercise control. As a result, for financial reporting purposes, transactions of the Districts are combined together and included as if they were part of the Town's operations.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Town of Fountain Hills, Arizona Municipal Property Corporation. The Town of Fountain Hills, Arizona Municipal Property Corporation's (MPC) Board of Directors consists of three members which are appointed by the Fountain Hills Town Council. The MPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the Town in obtaining financing for various projects of the Town. The Town has a "moral obligation" for the repayment of the MPC's bonds. The MPC cannot be part of another reporting entity. The MPC provides services exclusively to the Town. As a result, for financial reporting purposes, transactions of the MPC are combined together and included as if they were part of the Town's operations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) present financial information about the Town as a whole. The reported information includes all of the nonfiduciary activities of the Town and its component units. For the most part, the effect of internal activity has been removed from these statements. Interfund services provided and used, such as interfund transfers, are not eliminated in the process of consolidation. 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, unrestricted state shared revenues, investment income and other items not included among program revenues are reported instead as general revenues.

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

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, state shared revenues, licenses and permits, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Unearned revenues arise when resources are received by the Town before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

The Town reports the following major governmental funds.

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

Highway User Revenue Fund (HURF) – This fund accounts for the Town's share of motor vehicle fuel tax revenues and sales tax.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Grants Fund – This fund accounts for the activities of various restricted grants and contributions received by the Town.

General Obligation Debt Service Fund – This fund accounts for the Town's property tax revenues received to pay the debt service of the Town's general obligation bonds.

Municipal Property Corporation Debt Service Fund – This fund accounts for the revenues received to pay the debt service on MPC revenue bonds.

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

Capital Projects Fund – This fund accounts for the capital improvements to various projects and equipment purchases of the Town.

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

D. Cash and Investments

Cash and cash equivalents at year end were cash on hand, cash in bank, restricted cash, and cash and investments held by the State Treasurer.

Cash and investments are pooled, except for investments that are restricted under provisions of bond indentures or other restrictions that are required to be reported in the individual funds.

Arizona Revised Statutes authorize the Town to invest public monies in the State Treasurer's local government investment pools, the County Treasurer's investment pool, obligations of the U.S. Government and its agencies, obligations of the state and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. Investments are stated at fair value.

Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments. Investment income is a component of revenue in the governmental funds financial statements.

F. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). Interfund balances between governmental funds are eliminated on the Statement of Net Position.

Property taxes are levied by the Town and collected by the Maricopa County Treasurer. Property taxes are levied no later than the third Monday in August and are payable in two installments due October 1 of the current year and March 1 of the subsequent year. Taxes become delinquent after the first business day of November and May, respectively. Interest attaches on installments after the delinquency date.

All receivables are shown net of an allowance for uncollectibles.

G. Inventory

All inventories are valued at average cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. Inventories are recorded as expenses when consumed in the government-wide financial statements, and as expenditures when consumed in the governmental funds.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. In the government-wide and fund financial statements, prepaids are recognized as expenses/expenditures when goods and/or services are received rather than when purchased.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Restricted Cash and Investments

The Town reported restricted assets in the amount of \$68,996 for funds held in an escrow account. The agreement provides that if, prior to July 1, 2017, 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.

J. Capital Assets

Capital assets, which include land and improvements, artwork, buildings and improvements, vehicles, machinery, and equipment, construction in progress, and infrastructure assets, are reported in the government-wide financial statements.

Capital assets are defined by the Town as assets with an initial, individual cost in excess of \$10,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost, if purchased or constructed. Donated capital assets are recorded at the acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized.

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

Buildings and building improvements	20 - 50 years
Improvements other than buildings	20 years
Infrastructure	15 - 50 years
Vehicles, machinery and equipment	5 - 20 years

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town did not have any items that qualified for reporting in this category.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. Compensated Absences

The Town's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. Sick leave and vacation benefits accrue as pay periods are completed at the current rate of pay.

All eligible full-time and part-time regularly-scheduled employees can accrue vacation leave. Employees accrue up to a maximum of two times the yearly maximum accrual of vacation through carryover of balances, depending upon their length of service. In the event of termination, employees will be paid for any accrued, but unused, vacation hours. Full-time and part-time regularly-scheduled employees accrue sick leave, up to a maximum of 1040 hours. A portion of this balance will be paid upon a satisfactory separation of service. Part-time non-regularly-scheduled, temporary, or seasonal, and other employees accrue paid sick time for hours worked, not to exceed 40 hours per calendar year.

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

M. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses in governmental funds.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

O. Net Position Flow Assumption

In the government-wide financial statements the Town applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

P. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – FUND BALANCE CLASSIFICATIONS

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance classifications.

Nonspendable. The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.

Restricted. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed. The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Town Council, the Town's highest level of decision making authority, by resolution or ordinance. Those committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – FUND BALANCE CLASSIFICATIONS

Assigned. Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Town Council or a management official delegated that authority by formal Town Council action. The authority to make assignments has been delegated by the Town Council to the Finance Director.

Unassigned. Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Town applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The Town has established a fund balance policy which states that the combined General Fund operating fund balance should be at least 30 percent of the average actual General Fund revenues for the preceding five fiscal years.

The Town has established a stabilization fund (Rainy Day fund) in the Town's fund balance policy. The Rainy Day fund had a balance of \$2,711,008, reported as a committed fund balance at June 30, 2017. The Rainy Day fund may only be used for the following: 1) to replace the loss of more than 25 percent of the Town's local share of State shared revenues, 2) for any event that threatens the health, safety or welfare of the Town's citizens, 3) for any event that threatens the fiscal stability of the Town, and lastly 4) to address any matter declared as an emergency by the governor of the State of Arizona or the Mayor of the Town. All withdrawals from the Rainy Day fund shall be subject to the following rules: 1) any appropriation shall require the approval by at least 2/3 vote by the Town Council, and 2) the maximum amount of Rainy Day withdrawal in any fiscal year shall not exceed one-half of the total balance in the fund. Replenishment of the Rainy Day fund when spent by the Town should not exceed a period of more than five years, and should be repaid in annual installments of not less than one percent of the previous fiscal year General Fund balance. Repayments shall be appropriated as part of the annual budget adoption.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – FUND BALANCE CLASSIFICATIONS

The table below provides detail of the major components of the Town's fund balance classifications at year end.

	General Fund	Highway User Revenue Fund	General Obligation Debt Service Fund	Eagle Mountain Debt Service Fund	Municipal Property Corporation Debt Service Fund	Capital Projects Fund	Development Fees Fund	Non-Major Governmental Funds	Total
Fund Balances:									
Nonspendable:									
Inventory	\$ 5,872	\$	\$	\$	\$	\$	\$	\$	\$ 5,872
Prepaid items	16,868							474	17,342
Restricted:									
Capital Projects								16,073	16,073
Debt Service			261,414	47,322	169,563				478,299
Public Works		1,995,090							1,995,090
Development Fees							1,943,248		1,943,248
Committed:									
Rainy Day	2,711,008								2,711,008
Public Art	3,127								3,127
Downtown Strategy								932,888	932,888
Economic Development								160,300	160,300
Tourism								13,053	13,053
Capital Projects						7,127,301			7,127,301
Local Court Enhancement								342,708	342,708
Assigned:									
Capital Projects	813,302					1,019,528			1,832,830
Environmental								457,771	457,771
Vehicle Replacement	388,264	307,462							695,726
Equipment Replacement	542,202								542,202
Unassigned:	2,696,999								2,696,999
Total fund balances	<u>\$ 7,177,642</u>	<u>\$ 2,302,552</u>	<u>\$ 261,414</u>	<u>\$ 47,322</u>	<u>\$ 169,563</u>	<u>\$ 8,146,829</u>	<u>\$ 1,943,248</u>	<u>\$ 1,923,267</u>	<u>\$ 21,971,837</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – CASH AND INVESTMENTS

Arizona Revised Statutes authorize the Town to invest public monies in the State Treasurer's local government investment pools, the County Treasurer's investment pool, obligations of the U.S. Government and its agencies, obligations of the state and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the Town's investments.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the Town's deposits may not be returned to the Town. The Town does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the Town's deposits was \$523,530 and the bank balance was \$559,051. At year end, \$60,232 of the Town's deposits were covered by collateral held by the pledging financial institution in the Town's name. The remaining amount is covered by FDIC.

Fair Value Measurements. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are significant other observable inputs
- Level 3 inputs are significant unobservable inputs

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

The State Treasurer's pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools, as an investment company, are not registered with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant's position in the State Treasurer investment pools approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – CASH AND INVESTMENTS

All investments in which the fair value hierarchy is applicable are measured at fair value on a recurring basis. At year end, cash and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Carrying amount of investments	\$ 21,749,746
Carrying amount of cash deposits	523,530
Cash on hand	850
Restricted cash and investments	68,996
Total pooled cash and investments	<u>\$ 22,343,122</u>

At year end, the Town's investments consisted of the following:

Investment Type	Category	Fair Value	Investment Maturities (in Years)		Credit Rating	
			Less than 1	1-5	S&P	Moody's
U.S. Treasury Notes	Level 2	\$ 6,742,894	\$ 1,293,736	\$ 5,449,158	AA+	Aaa
Federal National Mortgage Association Notes	Level 2	3,022,719		3,022,719	AA+	Aaa
Federal Home Loan Mortgage Corporation Notes	Level 2	2,708,783	373,594	2,335,189	AA+	Aaa
Federal Home Loan Bank Notes	Level 2	3,026,897	741,885	2,285,012	AA+	Aaa
Wells Fargo Money Market Funds	Level 2	20,002	20,002		N/A	N/A
			<u>\$ 2,429,217</u>	<u>\$ 13,092,078</u>		
State Treasurer's Investment Pool 7	Not applicable	6,228,451	55 days average maturities			
Total		<u>\$ 21,749,746</u>				

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates may reduce the market value of Town investments. In accordance with its investment policy, the Town manages its exposure to declines in fair values by the following:

- Structuring the investment portfolio so that securities mature concurrent with the anticipated cash requirements for ongoing operations, thereby avoiding, as much as possible, the need to sell securities into an adverse market environment prior to maturity.
- Investing funds primarily in shorter-term securities or similar investment pools and limiting the average maturity of the portfolio in accordance with the needs of the Town.
- With respect to any firm or individual given responsibility for investments utilizing external research and advice regarding the current interest rate outlook and global economic condition to optimize portfolio duration strategy.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – CASH AND INVESTMENTS

Credit Risk. Credit risk is the risk of default of debt by an issuer or counterparty to an investment. The Town will limit credit risk by limiting investments in the Town's portfolio to the asset classes designated as acceptable in ARS §35-323. When possible, analysis of the credit worthiness of all individual debt issuers held in the portfolio should be conducted on an annual basis in an effort to guard against investing in a weak or deteriorating credit situation. Additionally, the Town will pre-qualify financial institutions, brokers/dealers, and investment advisers with which the Town will do business.

Custodial Credit Risk – Investments. Custodial credit risk is the risk that in the event of depository financial institution failure, the Town's deposits may not be returned to the Town. The Town's investment in the State Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however the Town's portion is not identified with specific investments and is not subject to custodial credit risk.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss from over concentration of investments. In accordance with its investment policy, the Town diversifies its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. With the exception of U.S. Treasury notes and securities and authorized pools, the investment policy establishes a maximum percentage of 30 percent in insured or collateralized certificates of deposit; 20 percent in certificates of deposit registry services; 30 percent in commercial paper; and 30 percent in bonds, debentures, or notes.

Investment Type	Fair Value	Percent of Town Investments
U.S. Treasury Notes	\$ 6,742,894	31.0%
Federal National Mortgage Association Notes	3,022,719	13.9
Federal Home Loan Mortgage Corporation Notes	2,708,783	12.5
Federal Home Loan Bank Notes	3,026,897	13.9
Wells Fargo Money Market Funds	20,002	0.1
State Treasurer's Investment Pool 7	6,228,451	28.6
	<u>\$21,749,746</u>	<u>100.0%</u>

NOTE 4 – RECEIVABLES

Receivable balances, net of allowance for uncollectibles, have been disaggregated by type and presented separately in the financial statements with the exception of intergovernmental receivables. Intergovernmental receivables, net of allowance for uncollectibles, as of year-end for the Town's individual major funds consisted entirely of receivables due from the State.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 – CAPITAL ASSETS

A summary of capital asset activity at year end is as follows:

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 23,571,668	\$	\$	\$ 23,571,668
Artwork	2,365,000	138,900		2,503,900
Construction in progress	1,585,572	1,423,249	1,950,275	1,058,546
Total capital assets, not being depreciated	<u>27,522,240</u>	<u>1,562,149</u>	<u>1,950,275</u>	<u>27,134,114</u>
Capital assets, being depreciated:				
Infrastructure	145,833,576	1,362,849		147,196,425
Buildings and building improvements	18,996,641		463,500	18,533,141
Improvements other than buildings	14,506,257	643,525		15,149,782
Vehicles, machinery and equipment	3,565,208	309,320	128,505	3,746,023
Total capital assets being depreciated	<u>182,901,682</u>	<u>2,315,694</u>	<u>592,005</u>	<u>184,625,371</u>
Less accumulated depreciation for:				
Infrastructure	(87,177,483)	(3,990,268)		(91,167,751)
Buildings and building improvements	(5,192,330)	(395,919)	(248,834)	(5,339,415)
Improvements other than buildings	(9,019,158)	(627,230)		(9,646,388)
Vehicles, machinery and equipment	(2,373,292)	(179,904)	(127,220)	(2,425,976)
Total accumulated depreciation	<u>(103,762,263)</u>	<u>(5,193,321)</u>	<u>(376,054)</u>	<u>(108,579,530)</u>
Total capital assets, being depreciated, net	<u>79,139,419</u>	<u>(2,877,627)</u>	<u>215,951</u>	<u>76,045,841</u>
Governmental activities capital assets, net	<u>\$ 106,661,659</u>	<u>\$(1,315,478)</u>	<u>\$ 2,166,226</u>	<u>\$103,179,955</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 181,201
Development services	12,011
Public safety	143,866
Public works	3,953,474
Culture and recreation	902,769
Total depreciation expense	<u>\$ 5,193,321</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 – CAPITAL ASSETS

Construction Commitments – At June 30, 2017, the Town has the following active construction commitments:

Project	Governmental Activities	
	Spent-to-Date	Remaining Commitment
Valley Metro Bus Stop - Library	\$ 20,517	\$ 5,761
Unpaved Alley Parking	14,658	12,342
Fire Station #2 Relocation	233,033	67,164
New Chiller	15,000	16,392
Lighting Upgrades	107,413	44,856
Lake Aeration System	171,504	9,699
Adero Canyon Trailhead	163,358	120,361
Fountain Hills Boulevard Shoulder Paving	114,460	10,261
Total commitments	<u>\$ 839,943</u>	<u>\$ 286,836</u>

NOTE 6 – BONDS PAYABLE

Bonds payable at year end consisted of the following general obligation and revenue bonds. The bonds are both callable and noncallable with interest payable semiannually.

Purpose	Original Amount Issued	Interest Rates	Remaining Maturities	Outstanding Principal June 30, 2017	Due Within One Year
Governmental activities:					
General Obligation Bonds:					
General Obligation Refunding Bonds, Series 2005	\$ 7,225,000	4%	7/1/18-19	\$ 765,000	\$ 455,000
General Obligation Bonds, Series 2014	7,565,000	2-3%	7/1/18-20	4,710,000	1,525,000
Eagle Mountain Community Facilities District, General Obligation Refunding Bonds, Series 2015	2,300,000	1.76%	7/1/18-21	1,560,000	380,000
Revenue Bonds:					
Municipal Facilities Revenue Refunding Bonds, Series 2015	1,880,000	4%	7/1/18-20	1,030,000	360,000
Total				<u>\$ 8,065,000</u>	<u>\$ 2,720,000</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 – BONDS PAYABLE

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

Year ending June 30,	Governmental Activities	
	Principal	Interest
2018	\$ 2,720,000	\$ 185,092
2019	2,635,000	123,872
2020	2,310,000	67,302
2021	400,000	7,040
Total	<u>\$ 8,065,000</u>	<u>\$ 383,306</u>

Pledged Revenues

The Town has pledged excise tax revenues to repay a total of \$1,030,000 in outstanding Municipal Facilities Revenue Refunding Bonds. For the current fiscal year, the net revenues available to service the debt were \$16.6 million. For the fiscal year ended June 30, 2017, the debt principal and interest paid on this debt was \$392,680 (two percent of pledged revenues). The total principal and interest remaining to be paid on the bonds is \$1,062,400.

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 9,340,000	\$	\$ 2,305,000	\$ 7,035,000	\$ 2,360,000
Revenue bonds	1,400,000		370,000	1,030,000	360,000
Premium	273,669		68,417	205,252	
Total bonds payable	<u>11,013,669</u>		<u>2,743,417</u>	<u>8,270,252</u>	<u>2,720,000</u>
Compensated absences payable	<u>322,438</u>	<u>347,200</u>	<u>250,253</u>	<u>419,385</u>	<u>300,219</u>
Governmental activity long-term liabilities	<u>\$ 11,336,107</u>	<u>\$ 347,200</u>	<u>\$ 2,933,670</u>	<u>\$ 8,689,637</u>	<u>\$ 3,020,219</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At year end, interfund balances were as follows:

Due to/from other funds:

	Grants Fund	Non-Major Governmental Funds	Total Due to Other Funds
General Fund	\$ 91,334	\$	\$ 91,334
Capital Projects Fund	5,566	7,294	12,860
Total Due from Other Funds	<u>\$ 96,900</u>	<u>\$ 7,294</u>	<u>\$ 104,194</u>

At year end, two funds had negative cash balances in the LGIP account. Negative cash in the LGIP account was reduced by interfund borrowing with other funds. All interfund balances are expected to be paid within one year.

Interfund transfers:

At year end, interfund transfers were as follows:

Transfers in	Transfers out				
	Grants Fund	Capital Projects Fund	Development Fees	Non-Major Governmental Funds	Total
General Fund	\$	\$	\$	\$ 39,828	\$ 39,828
HURF Fund		200,000			200,000
Grants Fund		164,908			164,908
Debt Service Funds	249,055				249,055
Capital Projects Fund	3,645,558		419,200	46,019	4,110,777
Non-Major Governmental Funds	290,470			139,100	429,570
Total	<u>\$4,185,083</u>	<u>\$ 364,908</u>	<u>\$ 419,200</u>	<u>\$ 224,947</u>	<u>\$5,194,138</u>

The General Fund transferred \$249,055 to the Debt Service Funds to pay for debt service costs; \$3,645,558 to the Capital Projects Fund for funding of facilities replacements and capital projects as well as transferring excess revenues over expenditures per the Town's Financial Policy; and \$290,470 to the Non-major Governmental Funds (Economic Development Fund - \$50,000) for funding economic development efforts and (Environmental Fund - \$240,000) to pay for funding operations of the fund, including the billing of the environmental fee and (Tourism Fund - \$470) for art walk brochures. The Capital Projects Funds transferred \$200,000 to the HURF Fund for pavement management costs; and \$164,908 to the Grants Fund for the Town's portion of grant project G5203 – tennis court replacement. The Development Fees Fund transferred \$419,200 to the Capital Projects Fund for the relocation of Fire Station # 2 (\$255,306) and the Adero Canyon Trailhead (\$163,894) projects. The Non-major Governmental Funds (Economic Development Fund) transferred \$39,828 to the General Fund for Town-wide contracts and \$139,100 to the Non-major Governmental Fund (Tourism Fund) to provide funding for operating costs of the tourism program; (Downtown Strategy) transferred \$46,019 to the Capital Projects Fund to cover the costs installing lights at intersection with Avenue of the Fountains (\$24,000) and Fountain Park access improvements (\$22,019).

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 – CONTINGENT LIABILITIES

Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures/expenses that may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Lawsuits – The Town is a party to a number of various types of lawsuits, many of which normally occur in governmental operations. The ultimate outcome of the actions is not determinable; however, Town management believes that the outcome of these proceedings, either individually or in the aggregate, will not have a materially adverse effect on the accompanying financial statements.

Developer Agreement – As of June 30, 2017, the Town reported a receivable from a developer in the Development Fees Fund of \$417,291, which is due solely from one developer who is disputing the fees. While a portion of the receivable was collected in the subsequent fiscal year, the Town continues to work with the developer to successfully resolve the unpaid balance, which is approximately \$300,000. Should the fees be reduced or credited, any outstanding fees would be paid from the General Fund.

NOTE 10 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town's insurance protection is provided by the Arizona Municipal Risk Retention Pool (Pool). The Pool is made up of various towns and cities within Arizona that operate a common risk management and insurance program. The Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its' members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations.

The Town joined the Arizona Municipal Workers' Compensation Pool (Pool) together with other governments in the state for risks of loss related to workers' compensation claims. The Pool is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The Town is responsible for paying a premium, based on an experience rating formula that allocates pool expenditures and liabilities among members.

The Town continues to carry commercial insurance for all other risks of loss, including employee health, dental, and vision insurance. There were no settlements that exceeded insurance coverage in any of the past three years.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 – RETIREMENT PLANS

Defined Contribution Pension Plan

All full-time employees of the Town participate in a defined contribution pension plan administered by the ICMA Retirement Corporation as a 401(a) plan. The contribution rates are 11 percent for both the employee and the Town. The payroll for the Town employees covered by this plan for the year ended June 30, 2017, was \$2,638,552. The Town's total payroll was \$3,142,946.

A defined contribution pension plan provides benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined, instead of specifying the amount of benefit the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investment of those contributions. All full-time Town employees must participate in the pension plan from the date they are hired. Contributions made by an employee vest immediately and contributions made by the Town vest on a pro rata basis for five years. Town Council has the authority to establish and amend benefit terms and to establish and amend the contribution rates.

An employee that leaves the employment of the town is entitled to his or her contributions and the vested portion of the Town's contributions, plus interest earned. During the fiscal year, the Town's required and actual contributions amounted to \$290,241. The employees' contributions totaled \$290,241. Employees may also contribute to the ICMA Retirement Corporation 457 plan on a voluntary basis (with the exception of one contract employee that is limited to 11 percent of earnings); there is no employer match for those contributions. During the fiscal year, employees contributed \$131,668 to that plan. The Town contributed \$5,550 for the contract employee's 457 account.

No pension provision changes occurred during the year that affected the required contributions to be made by the Town or its employees. The ICMA Retirement Corporation held no securities of the Town or other related parties during the fiscal year 2016-17 or as of the close of the fiscal year.

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL
YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Sales taxes	\$ 7,551,057	\$ 7,551,057	\$ 7,970,576	\$ 419,519
Franchise taxes	332,418	332,418	367,119	34,701
Licenses and permits	1,292,775	1,292,775	698,808	(593,967)
Leases and rents	254,691	254,691	284,090	29,399
Intergovernmental	5,213,309	5,213,309	5,160,526	(52,783)
Charges for services	154,050	154,050	181,106	27,056
Other	107,147	107,147	94,117	(13,030)
Fines and forfeitures	195,685	195,685	211,190	15,505
Investment earnings	30,012	30,012	7,379	(22,633)
Total revenues	15,131,144	15,131,144	14,974,911	(156,233)
Expenditures:				
Current -				
General government				
Mayor and council	72,545	72,545	71,213	1,332
Administration	2,164,280	2,164,280	1,921,811	242,469
Non departmental	981,986	583,364	202,454	380,910
Municipal court	321,254	321,254	300,515	20,739
Total general government	3,540,065	3,141,443	2,495,993	645,450
Development services	927,139	944,139	780,509	163,630
Public safety				
Fire and emergency	3,708,717	3,708,717	3,535,439	173,278
Law enforcement	3,930,111	3,930,111	3,884,593	45,518
Total public safety	7,638,828	7,638,828	7,420,032	218,796
Public works	830,201	830,201	672,806	157,395
Culture and recreation	2,217,840	2,514,182	2,286,053	228,129
Capital outlay	227,300	227,300	217,265	10,035
Total expenditures	15,381,373	15,296,093	13,872,658	1,423,435
Excess (deficiency) of revenues over expenditures	(250,229)	(164,949)	1,102,253	1,267,202
Other financing sources (uses):				
Transfer in	78,828	78,828	83,828	5,000
Transfer out	(2,580,525)	(2,580,525)	(4,229,083)	(1,648,558)
Total other financing sources (uses):	(2,501,697)	(2,501,697)	(4,145,255)	(1,643,558)
Changes in fund balances	(2,751,926)	(2,666,646)	(3,043,002)	(376,356)
Fund balances, beginning of year	10,220,644	10,220,644	10,220,644	
Fund balances (deficits), end of year	\$ 7,468,718	\$ 7,553,998	\$ 7,177,642	\$ (376,356)

See accompanying notes to this schedule.

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
HIGHWAY USER REVENUE
YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Sales taxes	\$ 692,778	\$ 692,778	\$ 719,662	\$ 26,884
Intergovernmental	2,373,986	2,373,986	2,480,304	106,318
Charges for services	262,000	262,000	170,370	(91,630)
Other	25,000	25,000	4,492	(20,508)
Investment earnings	300	300	7,023	6,723
Total revenues	<u>3,354,064</u>	<u>3,354,064</u>	<u>3,381,851</u>	<u>27,787</u>
Expenditures:				
Current -				
Public works	3,594,696	3,702,675	2,925,613	777,062
Total expenditures	<u>3,594,696</u>	<u>3,702,675</u>	<u>2,925,613</u>	<u>777,062</u>
Excess (deficiency) of revenues over expenditures	<u>(240,632)</u>	<u>(348,611)</u>	<u>456,238</u>	<u>804,849</u>
Other financing sources (uses):				
Transfer in	202,000	202,000	200,000	(2,000)
Total other financing sources (uses):	<u>202,000</u>	<u>202,000</u>	<u>200,000</u>	<u>(2,000)</u>
Changes in fund balances	<u>(38,632)</u>	<u>(146,611)</u>	<u>656,238</u>	<u>802,849</u>
Fund balances, beginning of year	1,646,314	1,646,314	1,646,314	
Fund balances, end of year	<u>\$ 1,607,682</u>	<u>\$ 1,499,703</u>	<u>\$ 2,302,552</u>	<u>\$ 802,849</u>

See accompanying notes to this schedule.

TOWN OF FOUNTAIN HILLS, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GRANTS
YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 1,476,000	\$ 1,465,430	\$ 206,161	\$ (1,259,269)
Total revenues	<u>1,476,000</u>	<u>1,465,430</u>	<u>206,161</u>	<u>(1,259,269)</u>
Expenditures:				
Current -				
General government	1,265,000	1,228,152	47,068	1,181,084
Capital outlay	390,000	416,278	324,001	92,277
Total expenditures	<u>1,655,000</u>	<u>1,644,430</u>	<u>371,069</u>	<u>1,273,361</u>
Excess (deficiency) of revenues over expenditures	<u>(179,000)</u>	<u>(179,000)</u>	<u>(164,908)</u>	<u>14,092</u>
Other financing sources (uses):				
Transfer in	179,000	179,000	164,908	(14,092)
Total other financing sources (uses):	<u>179,000</u>	<u>179,000</u>	<u>164,908</u>	<u>(14,092)</u>
Changes in fund balances	<u></u>	<u></u>	<u></u>	<u></u>
Fund balances, beginning of year				
Fund balances, end of year	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

See accompanying notes to this schedule.

TOWN OF FOUNTAIN HILLS, ARIZONA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

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

1. In accordance with Arizona Revised Statutes, the Town Manager submits a proposed budget for the fiscal year commencing the following July 1 to the Town Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the budget for the Town is legally enacted through passage of a resolution. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total Town expenditures from the audited basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S 41-1279.07).
4. Expenditures may not legally exceed the expenditure limitation described below for all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund and in total by fund for other funds. The Town Manager, subject to Town Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without Town Council approval.
5. Formal budgetary integration is employed as a management control device during the year for the General, Highway User Revenue, Excise Tax, Special Revenue, Debt Service, and Capital Projects Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The Town is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the Town to spend more than budgeted revenues plus the carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The Town complied with this law during the year.

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**COMBINING AND INDIVIDUAL
FUND STATEMENTS
AND SCHEDULES**

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NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Downtown Strategy Fund – accounts for the portion of Town sales tax committed by the Town Council for the development of the downtown area.

Economic Development Fund – accounts for the portion of Town sales tax committed by the Town Council for economic development and tourism.

Tourism Fund – accounts for the portion of Town sales tax committed by the Town Council as well as any grants received for all tourism activities.

Local Court Enhancement Fund – accounts for a local court surcharge, committed for court enhancement.

Environmental Fund – accounts for all funds received from collection of the environmental fee.

Cottonwoods Maintenance Fund – accounts for all funds restricted to pay for maintenance of the Cottonwoods Maintenance District.

Capital Projects Funds

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

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING BALANCE SHEET - NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2017

	Downtown Strategy	Economic Development	Tourism
<u>ASSETS</u>			
Cash and investments	\$ 926,095	\$ 155,850	\$ 31,655
Accounts receivable			
Intergovernmental receivable	3,806	15,227	
Taxes receivable			
Interest receivable	2,987		
Due from other funds			
Prepaid items			
Total assets	<u><u>\$ 932,888</u></u>	<u><u>\$ 171,077</u></u>	<u><u>\$ 31,655</u></u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$	\$ 8,657	\$ 17,198
Accrued wages and benefits		2,119	1,027
Other liabilities		1	377
Total liabilities	<u><u></u></u>	<u><u>10,777</u></u>	<u><u>18,602</u></u>
Fund balances:			
Nonspendable			
Restricted			
Committed	932,888	160,300	13,053
Assigned			
Total fund balances	<u><u>932,888</u></u>	<u><u>160,300</u></u>	<u><u>13,053</u></u>
Total liabilities and fund balances	<u><u>\$ 932,888</u></u>	<u><u>\$ 171,077</u></u>	<u><u>\$ 31,655</u></u>

Local Court Enhancement	Environmental	Cottonwoods Maintenance	Totals
\$ 335,458	\$ 443,523	\$ 16,925	\$ 1,909,506
	29,538		29,538
430			19,463
		48	48
			2,987
7,294			7,294
474			474
<u>\$ 343,656</u>	<u>\$ 473,061</u>	<u>\$ 16,973</u>	<u>\$ 1,969,310</u>
\$ 474	\$ 14,895	\$ 900	\$ 42,124
	395		3,541
			378
<u>474</u>	<u>15,290</u>	<u>900</u>	<u>46,043</u>
474			474
		16,073	16,073
342,708			1,448,949
	457,771		457,771
<u>343,182</u>	<u>457,771</u>	<u>16,073</u>	<u>1,923,267</u>
<u>\$ 343,656</u>	<u>\$ 473,061</u>	<u>\$ 16,973</u>	<u>\$ 1,969,310</u>

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2017

	Downtown Strategy	Economic Development	Tourism
Revenues:			
Property taxes	\$	\$	\$
Sales taxes	71,966	287,865	
Licenses and permits			70,660
Intergovernmental			642
Other			
Fines and forfeitures	1,487	482	392
Investment earnings	73,453	288,347	71,694
Total revenues			
Expenditures:			
Current -			
General government	34,056	134,102	
Development services			
Public works			198,352
Culture and recreation			198,352
Total expenditures			
Excess (deficiency) of revenues over expenditures			
Other financing sources (uses):			
Transfer in		50,000	139,570
Transfer out	(46,019)	(178,928)	
Total other financing sources (uses):			
Changes in fund balances			
Fund balances, beginning of year	939,510	134,983	141
Fund balances, end of year			

Local Court Enhancement	Environmental	Cottonwoods Maintenance	Totals
\$	\$	\$ 5,653	\$ 5,653
	500,731		359,831
	51		500,731
46,537			70,660
263	2,048	74	693
46,800	502,830	5,727	46,537
			4,746
			988,851
122			168,280
	494,638		494,638
		3,798	3,798
			198,352
122	494,638	3,798	865,068
46,678	8,192	1,929	123,783
	240,000		429,570
	240,000		(224,947)
			204,623
46,678	248,192	1,929	328,406
296,504	209,579	14,144	1,594,861
\$ 343,182	\$ 457,771	\$ 16,073	\$ 1,923,267

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2017

	Downtown Strategy		
	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues:			
Property taxes	\$	\$	\$
Sales taxes	69,278	71,966	2,688
Licenses and permits			
Intergovernmental			
Other			
Fines and forfeitures			
Investment earnings	3,036	1,487	(1,549)
Total revenues	<u>72,314</u>	<u>73,453</u>	<u>1,139</u>
Expenditures:			
Current -			
General government	46,655	34,056	12,599
Development services			
Public works			
Culture and recreation			
Capital outlay			
Total expenditures	<u>46,655</u>	<u>34,056</u>	<u>12,599</u>
Excess (deficiency) of revenues over expenditures	<u>25,659</u>	<u>39,397</u>	<u>13,738</u>
Other financing sources (uses):			
Transfer in			
Transfer out	(975,000)	(46,019)	928,981
Total other financing sources (uses):	<u>(975,000)</u>	<u>(46,019)</u>	<u>928,981</u>
Changes in fund balances	<u>(949,341)</u>	<u>(6,622)</u>	<u>942,719</u>
Fund balances, beginning of year	939,510	939,510	
Fund balances (deficits), end of year	<u>\$ (9,831)</u>	<u>\$ 932,888</u>	<u>\$ 942,719</u>

Economic Development			Tourism		
<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
\$ 277,111	\$ 287,865	\$ 10,754			
			70,570	70,660	90
			10,000	642	(9,358)
96	482	386		392	392
<u>277,207</u>	<u>288,347</u>	<u>11,140</u>	<u>80,570</u>	<u>71,694</u>	<u>(8,876)</u>
139,483	134,102	5,381			
			218,790	198,352	20,438
<u>139,483</u>	<u>134,102</u>	<u>5,381</u>	<u>218,790</u>	<u>198,352</u>	<u>20,438</u>
<u>137,724</u>	<u>154,245</u>	<u>16,521</u>	<u>(138,220)</u>	<u>(126,658)</u>	<u>11,562</u>
50,000	50,000		139,570	139,570	
(178,928)	(178,928)				
<u>(128,928)</u>	<u>(128,928)</u>		<u>139,570</u>	<u>139,570</u>	
8,796	25,317	16,521	1,350	12,912	11,562
134,983	134,983		141	141	
<u>\$ 143,779</u>	<u>\$ 160,300</u>	<u>\$ 16,521</u>	<u>\$ 1,491</u>	<u>\$ 13,053</u>	<u>\$ 11,562</u>

(Continued)

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2017

	Local Court Enhancement		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Property taxes	\$	\$	\$
Sales taxes			
Licenses and permits			
Intergovernmental			
Other			
Fines and forfeitures	16,350	46,537	30,187
Investment earnings	100	263	163
Total revenues	<u>16,450</u>	<u>46,800</u>	<u>30,350</u>
Expenditures:			
Current -			
General government	58,115	122	57,993
Development services			
Public works			
Culture and recreation			
Capital outlay	30,000		30,000
Total expenditures	<u>88,115</u>	<u>122</u>	<u>87,993</u>
Excess (deficiency) of revenues over expenditures	<u>(71,665)</u>	<u>46,678</u>	<u>118,343</u>
Other financing sources (uses):			
Transfer in			
Transfer out			
Total other financing sources (uses):			
Changes in fund balances	<u>(71,665)</u>	<u>46,678</u>	<u>118,343</u>
Fund balances, beginning of year	296,504	296,504	
Fund balances, end of year	<u>\$ 224,839</u>	<u>\$ 343,182</u>	<u>\$ 118,343</u>

Environmental			Cottonwoods Maintenance		
Budget	Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
540,000	500,731	(39,269)	5,588	5,653	65
	51	51			
	2,048	2,048		74	74
<u>540,000</u>	<u>502,830</u>	<u>(37,170)</u>	<u>5,588</u>	<u>5,727</u>	<u>139</u>
540,586	494,638	45,948	4,265	3,798	467
<u>540,586</u>	<u>494,638</u>	<u>45,948</u>	<u>4,265</u>	<u>3,798</u>	<u>467</u>
<u>(586)</u>	<u>8,192</u>	<u>8,778</u>	<u>1,323</u>	<u>1,929</u>	<u>606</u>
240,000	240,000				
<u>240,000</u>	<u>240,000</u>				
<u>239,414</u>	<u>248,192</u>	<u>8,778</u>	<u>1,323</u>	<u>1,929</u>	<u>606</u>
209,579	209,579		14,144	14,144	
<u>\$ 448,993</u>	<u>\$ 457,771</u>	<u>\$ 8,778</u>	<u>\$ 15,467</u>	<u>\$ 16,073</u>	<u>\$ 606</u>

(Continued)

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
NON-MAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2017

	Totals		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Property taxes	\$ 5,588	\$ 5,653	\$ 65
Sales taxes	346,389	359,831	13,442
Licenses and permits	540,000	500,731	(39,269)
Intergovernmental	70,570	70,660	90
Other	10,000	693	(9,307)
Fines and forfeitures	16,350	46,537	30,187
Investment earnings	3,232	4,746	1,514
Total revenues	<u>992,129</u>	<u>988,851</u>	<u>(3,278)</u>
Expenditures:			
Current -			
General government	244,253	168,280	75,973
Development services	540,586	494,638	45,948
Public works	4,265	3,798	467
Culture and recreation	218,790	198,352	20,438
Capital outlay	30,000		30,000
Total expenditures	<u>1,037,894</u>	<u>865,068</u>	<u>172,826</u>
Excess (deficiency) of revenues over expenditures	<u>(45,765)</u>	<u>123,783</u>	<u>169,548</u>
Other financing sources (uses):			
Transfer in	429,570	429,570	
Transfer out	(1,153,928)	(224,947)	928,981
Total other financing sources (uses):	<u>(724,358)</u>	<u>204,623</u>	<u>928,981</u>
Changes in fund balances	<u>(770,123)</u>	<u>328,406</u>	<u>1,098,529</u>
Fund balances, beginning of year	1,594,861	1,594,861	
Fund balances, end of year	<u>\$ 824,738</u>	<u>\$ 1,923,267</u>	<u>\$ 1,098,529</u>

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TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2017

	General Obligation Debt Service		
	Budget	Actual	Variance - Positive (Negative)
Revenues:			
Property taxes	\$ 1,894,584	\$ 1,902,919	\$ 8,335
Investment earnings	210	4,408	4,198
Total revenues	<u>1,894,794</u>	<u>1,907,327</u>	<u>12,533</u>
Expenditures:			
Debt service -			
Principal retirement	1,930,000	1,930,000	
Interest on long-term debt	188,250	188,250	
Fiscal charges	1,100	1,000	100
Total expenditures	<u>2,119,350</u>	<u>2,119,250</u>	<u>100</u>
Excess (deficiency) of revenues over expenditures	<u>(224,556)</u>	<u>(211,923)</u>	<u>12,633</u>
Other financing sources (uses):			
Transfer in			
Total other financing sources (uses):			
Changes in fund balances	<u>(224,556)</u>	<u>(211,923)</u>	<u>12,633</u>
Fund balances, beginning of year	473,337	473,337	
Fund balances, end of year	<u>\$ 248,781</u>	<u>\$ 261,414</u>	<u>\$ 12,633</u>

Eagle Mountain Debt Service		
Budget	Actual	Variance - Positive (Negative)
\$ 378,392	\$ 378,872	\$ 480
150	938	788
378,542	379,810	1,268
375,000	375,000	
34,056	34,056	
170	170	
409,226	409,226	
(30,684)	(29,416)	1,268
(30,684)	(29,416)	1,268
76,738	76,738	
\$ 46,054	\$ 47,322	\$ 1,268

Municipal Property Corporation Debt Service		
Budget	Actual	Variance - Positive (Negative)
\$ 300	\$ 2,315	\$ 2,015
300	2,315	2,015
370,000	370,000	
22,680	22,680	
1,010	1,010	
393,690	393,690	
(393,390)	(391,375)	2,015
249,055	249,055	
249,055	249,055	
(144,335)	(142,320)	2,015
311,883	311,883	
\$ 167,548	\$ 169,563	\$ 2,015

(Continued)

TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2017

	Totals		Variance - Positive (Negative)
	Budget	Actual	
Revenues:			
Property taxes	\$ 2,272,976	\$ 2,281,791	\$ 8,815
Investment earnings	660	7,661	7,001
Total revenues	<u>2,273,636</u>	<u>2,289,452</u>	<u>15,816</u>
Expenditures:			
Debt service -			
Principal retirement	2,675,000	2,675,000	
Interest on long-term debt	244,986	244,986	
Fiscal charges	2,280	2,180	100
Total expenditures	<u>2,922,266</u>	<u>2,922,166</u>	<u>100</u>
Excess (deficiency) of revenues over expenditures	<u>(648,630)</u>	<u>(632,714)</u>	<u>15,916</u>
Other financing sources (uses):			
Transfer in	249,055	249,055	
Total other financing sources (uses):	<u>249,055</u>	<u>249,055</u>	
Changes in fund balances	<u>(399,575)</u>	<u>(383,659)</u>	<u>15,916</u>
Fund balances, beginning of year	861,958	861,958	
Fund balances, end of year	<u>\$ 462,383</u>	<u>\$ 478,299</u>	<u>\$ 15,916</u>

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TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2017

	Capital Projects		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
Revenues:			
Sales taxes	\$ 433,023	\$ 365,082	\$ (67,941)
Licenses and permits			
Intergovernmental	255,000		(255,000)
Other	150,000	54,136	(95,864)
Investment earnings	6,000	19,756	13,756
Total revenues	<u>844,023</u>	<u>438,974</u>	<u>(405,049)</u>
Expenditures:			
Current -			
General government	1,685	2,207	(522)
Public works	350,000	259,148	90,852
Culture and recreation			
Capital outlay	8,912,200	1,151,999	7,760,201
Total expenditures	<u>9,263,885</u>	<u>1,413,354</u>	<u>7,850,531</u>
Excess (deficiency) of revenues over expenditures	<u>(8,419,862)</u>	<u>(974,380)</u>	<u>7,445,482</u>
Other financing sources (uses):			
Transfer in	4,046,962	3,110,777	(936,185)
Transfer out	(379,000)	(364,908)	14,092
Total other financing sources (uses):	<u>3,667,962</u>	<u>2,745,869</u>	<u>(922,093)</u>
Changes in fund balances	<u>(4,751,900)</u>	<u>1,771,489</u>	<u>6,523,389</u>
Fund balances, beginning of year	5,355,812	5,355,812	
Fund balances, end of year	<u>\$ 603,912</u>	<u>\$ 7,127,301</u>	<u>\$ 6,523,389</u>

Facilities Replacement Fund			Development Fees		
Budget	Non-GAAP Actual	Variance - Positive (Negative)	Budget	Actual	Variance - Positive (Negative)
\$	\$	\$	\$	\$	\$
			180,571	111,434	(69,137)
	4,142	4,142	6,264	4,420	(1,844)
	4,142	4,142	186,835	115,854	(70,981)
431,000	93,085	337,915	535	535	
431,000	93,085	337,915	535	535	
(431,000)	(88,943)	342,057	186,300	115,319	(70,981)
1,000,000	1,000,000		(2,071,962)	(419,200)	1,652,762
1,000,000	1,000,000		(2,071,962)	(419,200)	1,652,762
569,000	911,057	342,057	(1,885,662)	(303,881)	1,581,781
108,471	108,471		2,247,129	2,247,129	
\$ 677,471	\$ 1,019,528	\$ 342,057	\$ 361,467	\$ 1,943,248	\$ 1,581,781

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TOWN OF FOUNTAIN HILLS, ARIZONA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
ALL CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2017

	Totals		
	Budget	Non-GAAP Actual	Variance - Positive (Negative)
Revenues:			
Sales taxes	\$ 433,023	\$ 365,082	\$ (67,941)
Licenses and permits	180,571	111,434	(69,137)
Intergovernmental	255,000		(255,000)
Other	150,000	54,136	(95,864)
Investment earnings	12,264	28,318	16,054
Total revenues	<u>1,030,858</u>	<u>558,970</u>	<u>(471,888)</u>
Expenditures:			
Current -			
General government	1,685	2,207	(522)
Public works	781,000	352,233	428,767
Culture and recreation	535	535	
Capital outlay	8,912,200	1,151,999	7,760,201
Total expenditures	<u>9,695,420</u>	<u>1,506,974</u>	<u>8,188,446</u>
Excess (deficiency) of revenues over expenditures	<u>(8,664,562)</u>	<u>(948,004)</u>	<u>7,716,558</u>
Other financing sources (uses):			
Transfer in	5,046,962	4,110,777	(936,185)
Transfer out	(2,450,962)	(784,108)	1,666,854
Total other financing sources (uses):	<u>2,596,000</u>	<u>3,326,669</u>	<u>730,669</u>
Changes in fund balances	<u>(6,068,562)</u>	<u>2,378,665</u>	<u>8,447,227</u>
Fund balances, beginning of year	7,711,412	7,711,412	
Fund balances, end of year	<u>\$ 1,642,850</u>	<u>\$ 10,090,077</u>	<u>\$ 8,447,227</u>

STATISTICAL SECTION

The statistical section presents financial statement trends as well as detailed financial and operational information not available elsewhere in the report. The statistical section is intended to enhance the reader's understanding of the information presented in the financial statements, notes to the financial statements, and other supplementary information presented in this report. The statistical section is comprised of the five categories of statistical information presented below.

Financial Trends

These schedules contain information on financial trends to help the reader understand how the Town's financial position and financial activities have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the Town's ability to generate revenue.

Debt Capacity

These schedules present information to help the reader evaluate the Town's current levels of outstanding debt as well as assess the Town's ability to make debt payments and/or issue additional debt in the future.

Demographic and Economic Information

These schedules present various demographic and economic indicators to help the reader understand the environment in which the Town's financial activities take place and to help make comparisons with other cities.

Operating Information

These schedules contain information about the Town's operations and various resources to help the reader draw conclusions as to how the Town's financial information relates to the services provided by the Town.

Note: For locally assessed property (i.e., excluding mines, utilities, etc.) Proposition 117, approved by voters in 2012, amended the Arizona Constitution to require that all property taxes after fiscal year 2014-15 be based upon property values limited to 5 percent in annual growth. The aggregate assessed value of all taxable properties within a taxing jurisdiction (i.e., after applying assessment ratios based on the use of a property), including property values with a growth limit, is currently referred to as net limited assessed value and formerly as primary assessed value. In accordance with Proposition 117, this value is used for all taxing purposes beginning with fiscal year 2015-16. Aggregate assessed value without a growth limit is currently referred to as net full cash assessed value and formerly as secondary assessed value. This value remains the value utilized for determining debt capacity limits.

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

	Fiscal Year ended June 30			
	2008	2009	2010	2011
Governmental activities:				
Net investment in capital assets	\$ 94,939,805	\$ 94,611,110	\$ 95,467,509	\$ 92,579,483
Restricted	12,799,502	11,828,137	11,396,116	4,385,595
Unrestricted	<u>13,230,726</u>	<u>13,765,293</u>	<u>12,321,090</u>	<u>22,598,669</u>
Total governmental activities net position	<u>\$ 120,970,033</u>	<u>\$ 120,204,540</u>	<u>\$ 119,184,715</u>	<u>\$ 119,563,747</u>

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

Fiscal Year ended June 30

2012	2013	2014	2015	2016	2017
\$ 92,006,103	\$ 89,800,560	\$ 89,713,260	\$ 95,325,824	\$ 95,647,990	\$ 94,909,703
5,951,416	5,721,744	5,480,867	6,310,810	4,530,239	4,471,661
<u>21,064,267</u>	<u>20,612,758</u>	<u>19,186,823</u>	<u>15,180,582</u>	<u>17,232,506</u>	<u>17,578,068</u>
<u>\$ 119,021,786</u>	<u>\$ 116,135,062</u>	<u>\$ 114,380,950</u>	<u>\$ 116,817,216</u>	<u>\$ 117,410,735</u>	<u>\$ 116,959,432</u>

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

	Fiscal Year Ended June 30			
	2008	2009	2010	2011
Expenses				
Governmental activities:				
General government	\$ 3,921,588	\$ 4,231,529	\$ 3,720,236	\$ 2,876,848
Development services	2,861,653	2,218,994	1,612,287	1,572,202
Public works	5,981,347	5,051,294	5,202,285	5,567,973
Public safety	6,532,292	7,312,415	6,293,323	5,963,067
Culture and recreation	3,092,661	3,336,616	2,927,848	2,840,154
Interest on long-term debt	1,132,947	1,033,536	950,484	851,957
Total governmental activities expenses	<u>23,522,488</u>	<u>23,184,384</u>	<u>20,706,463</u>	<u>19,672,201</u>
Program Revenues				
Governmental activities:				
Fines, fees and charges for services:				
General government	830,963	499,914	474,434	337,279
Development services	390,589	455,543	236,377	344,821
Public works	23,700	50,408	266,706	77,409
Public safety	746,227	55,042	59,806	65,568
Culture and recreation	338,332	427,137	338,357	339,341
Operating grants and contributions	56,802	-	1,666,498	1,614,462
Capital grants and contributions	835,659	1,353,409	632,617	2,273,414
Total governmental activities program revenues	<u>3,222,272</u>	<u>2,841,453</u>	<u>3,674,795</u>	<u>5,052,294</u>
Net (Expenses)/Revenues	(20,300,216)	(20,342,931)	(17,031,668)	(14,619,907)
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Property taxes	1,635,542	1,531,770	1,928,028	1,349,079
Sales taxes	10,489,591	8,932,374	7,644,440	8,013,480
Franchise taxes	336,290	321,964	285,881	322,659
State shared revenues	8,848,199	8,456,552	6,000,923	5,217,140
Investment earnings	780,935	258,478	22,831	28,456
Miscellaneous	183,963	76,300	129,740	68,125
Total governmental activities	<u>22,274,520</u>	<u>19,577,438</u>	<u>16,011,843</u>	<u>14,998,939</u>
Changes in Net Position				
Governmental activities	<u>\$ 1,974,304</u>	<u>\$ (765,493)</u>	<u>\$ (1,019,825)</u>	<u>\$ 379,032</u>

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

Fiscal Year Ended June 30

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 3,119,113	\$ 2,909,443	\$ 2,432,965	\$ 2,479,365	\$ 2,516,966	\$ 3,142,722
1,442,613	1,633,361	1,237,717	2,074,611	2,253,208	1,364,378
4,718,047	5,712,817	6,630,875	4,963,979	6,476,688	7,904,577
5,820,136	6,100,131	6,958,056	6,816,152	7,178,890	7,563,898
2,754,731	2,779,294	2,760,690	2,822,954	3,124,523	3,375,414
779,576	567,043	472,999	698,542	241,694	178,749
<u>18,634,216</u>	<u>19,702,089</u>	<u>20,493,302</u>	<u>19,855,603</u>	<u>21,791,969</u>	<u>23,529,738</u>
272,469	380,926	215,943	337,655	298,737	837,163
322,984	377,483	531,193	693,670	1,257,492	1,062,094
95,201	112,521	250,421	236,706	48,688	216,724
63,926	63,824	74,887	86,641	90,345	155,454
303,508	288,745	340,353	339,158	321,189	393,028
1,285,656	1,266,906	1,307,738	1,431,017	1,615,973	1,699,931
1,392,706	150,535	144,570	2,874,796	381,011	494,328
<u>3,736,450</u>	<u>2,640,940</u>	<u>2,865,105</u>	<u>5,999,643</u>	<u>4,013,435</u>	<u>4,858,722</u>
(14,897,766)	(17,061,149)	(17,628,197)	(13,855,960)	(17,778,534)	(18,671,016)
1,453,405	1,385,147	1,449,646	904,660	2,569,504	2,296,199
7,787,489	7,957,163	8,459,267	8,983,049	9,395,667	9,415,151
332,130	334,668	349,414	352,673	360,320	367,119
4,515,511	4,979,183	5,326,332	5,713,235	5,813,678	6,057,278
88,877	69,998	123,311	150,358	219,058	55,127
178,393	300,899	166,115	188,251	13,826	28,839
<u>14,355,805</u>	<u>15,027,058</u>	<u>15,874,085</u>	<u>16,292,226</u>	<u>18,372,053</u>	<u>18,219,713</u>
<u>\$ (541,961)</u>	<u>\$ (2,034,091)</u>	<u>\$ (1,754,112)</u>	<u>\$ 2,436,266</u>	<u>\$ 593,519</u>	<u>\$ (451,303)</u>

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

	Fiscal Year ended June 30		
	2008	2009	2010
General fund			
Reserved	\$ 3,053,070	\$ 3,234,860	\$ 3,235,811
Unreserved, designated	-	127,916	333,796
Unreserved, undesignated	3,526,738	3,302,373	3,418,799
Total general fund	<u>\$ 6,579,808</u>	<u>\$ 6,665,149</u>	<u>\$ 6,988,406</u>
All other governmental funds			
Unreserved, designated	\$ -	\$ 95,620	\$ 159,484
Unreserved, undesignated reported in:			
Special revenue funds	3,876,927	4,198,782	4,498,523
Capital projects funds	10,764,857	10,246,395	10,020,336
Debt service funds	1,585,740	1,218,971	1,182,834
Total all other governmental funds	<u>\$ 16,227,524</u>	<u>\$ 15,759,768</u>	<u>\$ 15,861,177</u>

	Fiscal Year ended June 30						
	2011	2012	2013	2014	2015	2016	2017
General fund							
Nonspendable							
Inventory	\$ 13,183	\$ 9,332	\$ 10,201	\$ 14,358	\$ 6,975	\$ 9,272	\$ 5,872
Prepaid items	29,234	28,245	32,493	18,348	10,655	4,123	16,868
Committed	-	1,345,200	1,345,200	1,345,200	2,634,923	2,652,357	2,714,135
Assigned	-	2,190,910	2,191,063	1,647,193	1,872,492	1,701,086	1,743,768
Unassigned	8,263,549	3,656,173	4,117,865	4,972,853	4,369,457	5,853,806	2,696,999
Total general fund	<u>\$ 8,305,966</u>	<u>\$ 7,229,860</u>	<u>\$ 7,696,822</u>	<u>\$ 7,997,952</u>	<u>\$ 8,894,502</u>	<u>\$ 10,220,644</u>	<u>\$ 7,177,642</u>
All other governmental funds							
Nonspendable							
Cash with escrow agent	\$ -	\$ 2,623,895	\$ 2,301,609	\$ 1,973,067	\$ 1,645,000	\$ -	\$ -
Prepaid items	6,217	5,474	4,706	997	656	5,055	474
Restricted	4,379,987	3,300,426	3,354,189	3,505,590	10,066,786	4,500,044	4,432,710
Committed	11,480,869	2,039,560	2,175,094	2,089,361	1,079,780	1,366,081	8,576,250
Assigned	-	9,312,168	9,005,276	7,147,586	5,444,124	5,943,364	1,784,761
Total all other governmental funds	<u>\$ 15,867,073</u>	<u>\$ 17,281,523</u>	<u>\$ 16,840,874</u>	<u>\$ 14,716,601</u>	<u>\$ 18,236,346</u>	<u>\$ 11,814,544</u>	<u>\$ 14,794,195</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.

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Town of Fountain Hills, Arizona
Statement of Revenues, Expenditures and Changes in Fund Balances
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	2008	2009	2010	2011	2012
Revenues					
Taxes	\$ 12,457,086	\$ 10,960,001	\$ 9,818,985	\$ 9,704,054	\$ 9,577,321
Licenses and permits	1,125,957	541,627	399,094	312,367	194,976
Leases and rents	296,434	290,083	215,520	227,195	206,018
Intergovernmental	9,353,260	9,607,961	7,672,037	7,165,103	6,035,448
Charges for services	620,300	316,676	464,036	388,635	405,663
Other	183,963	43,683	129,740	72,125	178,393
Fines and forfeitures	287,120	339,658	297,030	236,221	223,673
Special assessments	4,337	4,037	-	-	-
Investment earnings	780,935	258,478	22,831	28,456	88,877
Total revenues	<u>25,109,392</u>	<u>22,362,204</u>	<u>19,019,273</u>	<u>18,134,156</u>	<u>16,910,369</u>
Expenditures					
Current:					
General government	3,548,295	3,514,249	3,186,368	2,575,975	2,887,321
Development services	2,751,740	2,036,295	1,669,449	1,564,615	1,421,787
Public works	2,214,557	1,199,850	973,746	1,123,230	1,054,930
Public safety	6,321,669	6,624,141	6,200,227	5,772,800	5,869,445
Culture and recreation	2,257,007	2,215,065	2,007,737	1,871,446	1,794,332
Capital outlay	5,239,169	3,708,277	1,254,223	1,043,304	884,323
Debt service:					
Principal	2,153,228	2,240,000	2,460,000	2,114,999	1,965,000
Interest	1,025,321	925,663.00	825,988	729,077	639,135
Other debt service	-	3,471.00	16,869	15,254	55,752
Total expenditures	<u>25,510,986</u>	<u>22,467,011</u>	<u>18,594,607</u>	<u>16,810,700</u>	<u>16,572,025</u>
Excess (deficiency) of revenues over (under) expenditures	(401,594)	(104,807)	424,666	1,323,456	338,344
Other Financing Sources (Uses)					
Transfers in	2,756,988	3,759,735	1,127,776	431,880	2,470,027
Transfers out	(2,756,988)	(3,950,654)	(1,127,776)	(431,880)	(2,470,027)
Issuance of refunding bonds	-	-	-	-	-
Issuance of long-term debt	-	-	-	-	-
Bond Premium	-	-	-	-	-
Payment to refunded bonds escrow agent	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(190,919)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (401,594)</u>	<u>\$ (295,726)</u>	<u>\$ 424,666</u>	<u>\$ 1,323,456</u>	<u>\$ 338,344</u>
Expenditures for capitalized assets	\$ 5,171,511	\$ 2,528,881	\$ 532,461	\$ 389,082	\$ 1,333,785
Debt service as a percentage of noncapital expenditures	15.6%	15.9%	18.3%	17.4%	17.5%

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

Fiscal Year Ended June 30

2013	2014	2015	2016	2017
\$ 9,713,445	\$ 10,271,737	\$ 10,240,382	\$ 12,299,285	\$ 12,069,714
570,904	891,782	1,043,382	1,372,045	1,310,973
213,871	252,584	269,753	258,165	284,090
6,323,047	6,677,518	9,770,048	7,559,436	7,917,651
162,086	161,376	176,541	197,109	351,476
300,899	134,114	188,251	147,662	153,438
187,251	170,995	186,456	209,380	257,727
-	-	-	-	-
69,998	123,311	150,358	219,058	55,127
<u>17,541,501</u>	<u>18,683,417</u>	<u>22,025,171</u>	<u>22,262,140</u>	<u>22,400,196</u>
2,699,109	2,194,845	2,275,124	2,324,026	2,713,548
1,643,757	1,774,983	2,073,990	2,217,814	1,275,147
2,058,990	3,085,559	1,275,779	2,498,714	3,954,450
6,022,269	6,890,770	6,675,874	7,034,887	7,420,032
1,791,018	1,921,939	1,962,585	2,240,865	2,484,940
453,002	1,750,465	8,799,068	6,471,382	1,693,265
2,280,000	2,415,000	1,850,000	4,260,000	2,675,000
554,860	460,811	454,957	308,106	244,986
12,183	12,188	243,585	2,005	2,180
<u>17,515,188</u>	<u>20,506,560</u>	<u>25,610,962</u>	<u>27,357,799</u>	<u>22,463,548</u>
26,313	(1,823,143)	(3,585,791)	(5,095,659)	(63,352)
1,279,397	1,838,453	2,519,774	562,044	5,194,138
(1,279,397)	(1,838,453)	(2,519,774)	(562,044)	(5,194,138)
-	-	4,180,000	-	-
-	-	7,565,000	-	-
-	-	342,086	-	-
-	-	(4,085,000)	-	-
-	-	8,002,086	-	-
<u>\$ 26,313</u>	<u>\$ (1,823,143)</u>	<u>\$ 4,416,295</u>	<u>\$ (5,095,659)</u>	<u>\$ (63,352)</u>
\$ 467,691	\$ 2,385,168	\$ 9,067,254	\$ 6,394,346	\$ 1,696,612
16.7%	15.9%	15.4%	21.8%	14.1%

Town of Fountain Hills, Arizona
Governmental Activities - Tax Revenues by Source
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year Ended June 30	Property Tax	Sales Tax	Franchise Tax	Total
2008	\$ 1,631,205	\$ 10,489,591	\$ 336,290	\$ 12,457,086
2009	1,705,663	8,932,374	321,964	10,960,001
2010	1,888,664	7,644,441	285,881	9,818,986
2011	1,367,915	8,013,480	322,659	9,704,054
2012	1,457,702	7,779,219	332,130	9,569,051
2013	1,421,615	7,957,162	334,668	9,713,445
2014	1,463,056	8,459,267	349,414	10,271,737
2015	904,660	8,983,050	352,673	10,240,383
2016	2,543,298	9,395,667	360,320	12,299,285
2017	2,287,444	9,415,151	367,119	12,069,714

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

Town of Fountain Hills, Arizona
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Net Assessed Taxable Value	Total Direct Tax Rate*	Estimated Actual Taxable Value	Net Assessed Taxable Value as a Percentage of Estimated Actual Taxable Value
2008	610,738,122	0.2124	5,318,424,271	11.48%
2009	684,742,347	0.1972	5,867,175,208	11.67%
2010	651,218,464	0.2273	5,524,103,469	11.79%
2011	576,535,714	0.1639	4,915,512,973	11.73%
2012	451,860,136	0.2258	3,971,538,882	11.38%
2013	377,521,718	0.2657	3,309,940,258	11.41%
2014	366,302,672	0.2773	3,260,087,621	11.24%
2015	402,965,927	0.1151	3,616,672,185	11.14%
2016	402,135,304	0.5246	3,638,503,500	11.05%
2017	423,652,443	0.4472	3,869,816,740	10.95%

* Per \$100 of assessed full cash value.

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

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

Town of Fountain Hills, Arizona
Principal Property Taxpayers
June 30, 2017 and 2008

Taxpayer	2017			2008		
	Net Limited Assessed Value	Rank	Percentage of Total Net Limited Assessed Value	Net Full Cash Assessed Value	Rank	Percentage of Total Net Full Cash Assessed Value
EPCOR - Chaparral City Water Company	\$ 3,520,260	1	0.83%	\$ 3,249,900	3	0.53%
Adero Canyon II LLC	3,064,932	2	0.72%	1,273,920	8	0.21%
Hunter Retail LLC	2,642,580	3	0.62%			
WSL Fountain View Investors V, LLC	1,945,963	4	0.46%	2,668,420	5	0.44%
Whitestone Fountain Hills, LLC	1,806,848	5	0.43%			
EN, LLC	1,272,884	6	0.30%	3,267,954	1	0.54%
Smith's Food & Drug Centers Inc.	1,270,476	7	0.30%	1,332,351		0.22%
Fountain Hills Invest Co., LLC	1,218,492	8	0.29%			
Target Corporation	1,156,964	9	0.27%	1,716,705	7	0.28%
29SC Ridgeview LP	1,133,315	10	0.27%			
FH Resort Developers, LLC				1,771,506	4	0.29%
Qwest Corporation				2,426,767	6	0.40%
Inland Western Fountain Hills Four Peaks LLC				3,419,087	2	0.56%
Fountain Hills AZ Development LLP				1,550,379	10	0.25%
Sun Tech Development, LLC				1,511,270	9	0.25%
Totals	<u>\$ 19,032,714</u>		<u>4.49%</u>	<u>\$ 24,188,259</u>		<u>3.97%</u>

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

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

Town of Fountain Hills, Arizona
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
2008	\$ 1,630,534	\$ 1,578,583	96.8%	\$ 47,835	\$ 1,626,419	99.7%
2009	1,719,105	1,660,820	96.6%	53,379	1,714,199	99.7%
2010	1,895,552	1,838,909	97.0%	52,189	1,891,097	99.8%
2011	1,340,544	1,307,092	97.5%	24,924	1,332,016	99.4%
2012	1,446,076	1,414,482	97.8%	20,255	1,434,737	99.2%
2013	1,429,285	1,401,654	98.1%	18,835	1,420,488	99.4%
2014	1,449,884	1,426,612	98.4%	18,441	1,445,053	99.7%
2015	892,104	881,170	98.8%	6,993	888,163	99.6%
2016	2,532,115	2,502,995	98.8%	19,370	2,522,365	99.6%
2017	2,278,728	2,241,482	98.4%	-	2,241,482	98.4%

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

Town of Fountain Hills, Arizona
Taxable Sales by Category
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year Ended June 30			
	2008	2009	2010	2011
Sales category:				
Construction	\$ 2,063,189	\$ 1,414,308	\$ 538,562	\$ 567,135
Transportation/utilities	1,422,158	1,311,735	1,424,828	1,388,075
Wholesale/retail	3,912,579	3,687,605	3,556,292	3,567,986
Restaurants/bars	582,226	493,242	509,624	559,931
Real estate, rental & leasing	983,047	665,153	650,400	731,758
Services	327,411	258,139	241,685	276,566
Other	1,198,981	1,102,192	723,050	922,029
Total	<u>\$ 10,489,591</u>	<u>\$ 8,932,374</u>	<u>\$ 7,644,441</u>	<u>\$ 8,013,480</u>

Note: Other includes all state and local sales tax audit adjustments.

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

Fiscal Year Ended June 30

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 600,403	\$ 567,589	\$ 783,064	\$ 935,694	\$ 918,717	\$ 729,462
1,409,349	1,402,734	1,375,623	1,405,768	1,327,441	1,171,483
3,601,904	3,598,895	3,653,181	4,214,119	4,815,582	4,944,459
575,704	645,258	655,654	682,180	742,540	804,721
678,326	720,023	782,453	617,348	552,856	634,283
274,521	310,303	342,079	604,618	779,753	847,852
<u>639,012</u>	<u>712,360</u>	<u>867,213</u>	<u>523,323</u>	<u>258,778</u>	<u>282,891</u>
<u>\$ 7,779,219</u>	<u>\$ 7,957,162</u>	<u>\$ 8,459,267</u>	<u>\$ 8,983,050</u>	<u>\$ 9,395,667</u>	<u>\$ 9,415,151</u>

Town of Fountain Hills, Arizona
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

Fiscal Year Ended June 30	Town Rate	Maricopa County	State Rate	Total Tax Rate
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%
2014	2.60%	0.70%	5.60%	8.90%
2015	2.60%	0.70%	5.60%	8.90%
2016	2.60%	0.70%	5.60%	8.90%
2017	2.60%	0.70%	5.60%	8.90%

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

Town of Fountain Hills, Arizona
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities						Debt Per Capita
	General Obligation Bonds*	Community Facilities District Bonds*	Municipal Property Corporation Bonds*	Highway User Revenue Bonds	Special Assessment Bonds	Total Outstanding Debt	
2008	\$ 7,544,841	\$ 4,069,520	\$ 9,215,738	\$ 235,000	\$ 3,228	\$ 21,068,327	\$ 919
2009	6,506,402	3,859,699	8,652,918	130,000	-	19,149,019	833
2010	5,304,170	3,605,048	7,878,616	-	-	16,787,834	738
2011	4,543,667	3,361,913	6,993,694	-	-	14,899,274	663
2012	3,671,714	3,078,906	4,300,489	-	-	11,051,109	490
2013	2,826,063	2,791,753	3,561,814	-	-	9,179,630	404
2014	1,923,166	2,483,885	2,721,933	-	-	7,128,984	311
2015	9,163,024	2,233,280	1,764,338	-	-	13,160,642	558
2016	7,181,977	1,855,411	1,088,117	-	-	10,125,505	424
2017	5,387,809	1,508,746	860,437	-	-	7,756,992	317

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

* All amounts presented are net of original issuance discounts and premiums as well as restricted assets.

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

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

Fiscal Year	General Obligation Bonds*	Estimated Actual Taxable Value of Property	Percentage of Estimated Actual Taxable 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
2008	\$ 7,544,841	\$ 5,318,424,271	0.14%	\$ 329	9,215,738	\$ 402	\$ 25,113,211
2009	6,503,402	5,867,175,208	0.11%	283	8,652,918	376	21,331,076
2010	5,304,170	5,524,103,469	0.10%	233	7,878,646	347	18,958,595
2011	4,543,667	4,915,512,973	0.09%	202	6,993,694	311	18,248,326
2012	3,671,714	3,971,538,882	0.09%	163	4,300,489	191	17,184,895
2013	2,826,063	3,309,940,258	0.09%	125	3,561,814	157	17,723,994
2014	1,923,166	3,260,087,621	0.06%	84	2,721,933	119	18,891,967
2015	9,163,024	3,616,672,185	0.25%	388	1,764,338	75	22,161,316
2016	7,181,977	3,638,503,500	0.20%	301	1,088,117	46	22,262,139
2017	5,387,809	3,869,816,740	0.14%	220	860,437	35	22,400,196

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

* All bond amounts are net of original issuance discounts and premiums as well as restricted assets.

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

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

Town of Fountain Hills, Arizona
Direct and Overlapping Governmental Activities Debt
as of June 30, 2017

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Overlapping:			
Maricopa County	\$ -	1.16%	\$ -
Maricopa County Community College District	445,570,000	1.16%	5,168,612
Maricopa Integrated Health System	37,000,000	1.16%	429,200
East Valley Institute of Technology	-	2.62%	-
Fountain Hills Unified School District	11,670,000	96.18%	11,224,206
Eagle Mountain Community Facilities District*	1,935,000	100.00%	<u>1,560,000</u>
Total Overlapping Debt			<u>18,382,018</u>
Direct:			
Town of Fountain Hills, Arizona			
General Obligation Bonds			5,475,000
Revenue Bonds			1,030,000
Premium on Bonds			<u>205,252</u>
Total Direct Debt			<u>6,710,252</u>
Total direct and overlapping debt			<u><u>\$ 25,092,270</u></u>

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

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

Note: The estimated percentage of debt outstanding applicable to the Town is calculated based on the Town's net limited assessed valuation as a percentage of the net limited assessed valuation of the overlapping jurisdiction.

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the Town of Fountain Hills. This schedule further estimates the portion of outstanding debt of those overlapping governments that is borne by residents and businesses of the Town. This process recognizes that, when considering a town's ability to issue and repay long-term debt, the entire debt burden borne by residents should be taken into account. However, this fact does not imply that every taxpayer is a resident, and, therefore, responsible for repaying the debt of each overlapping government.

Town of Fountain Hills, Arizona
Legal Debt Margin Information
Last Ten Fiscal Years

	Fiscal Year Ended June 30			
	2008	2009	2010	2011
6% Debt Limit				
Debt limit	\$ 36,644,287	\$ 41,084,541	\$ 39,073,108	\$ 34,592,143
Total net debt applicable to limit	<u>275,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Legal debt margin	<u>\$ 36,369,287</u>	<u>\$ 41,084,541</u>	<u>\$ 39,073,108</u>	<u>\$ 34,592,143</u>
 Total debt applicable to the limit as a percentage of debt limit	 1%	 -	 -	 -
 20% Debt Limit				
Debt limit	\$ 122,147,624	\$ 136,948,469	\$ 130,243,693	\$ 115,307,143
Total net debt applicable to limit	<u>7,295,000</u>	<u>6,530,000</u>	<u>5,415,000</u>	<u>4,595,000</u>
Legal debt margin	<u>\$ 114,852,624</u>	<u>\$ 130,418,469</u>	<u>\$ 124,828,693</u>	<u>\$ 110,712,143</u>
 Total debt applicable to the limit as a percentage of debt limit	 6%	 5%	 4%	 4%

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

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

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

Fiscal Year Ended June 30

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 27,111,608	\$ 22,651,303	\$ 21,978,160	\$ 24,177,956	\$ 24,128,118	\$ 25,419,147
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 27,111,608</u>	<u>\$ 22,651,303</u>	<u>\$ 21,978,160</u>	<u>\$ 24,177,956</u>	<u>\$ 24,128,118</u>	<u>\$ 25,419,147</u>
-	-	-	-		
\$ 90,372,027	\$ 75,504,344	\$ 73,260,534	\$ 80,593,185	\$ 80,427,061	\$ 84,730,489
<u>3,755,000</u>	<u>2,900,000</u>	<u>2,000,000</u>	<u>9,175,000</u>	<u>7,405,000</u>	<u>5,475,000</u>
<u>\$ 86,617,027</u>	<u>\$ 72,604,344</u>	<u>\$ 71,260,534</u>	<u>\$ 71,418,185</u>	<u>\$ 73,022,061</u>	<u>\$ 79,255,489</u>
4%	4%	3%	11%	9%	6%

Town of Fountain Hills, Arizona
Calculation of Legal Debt Margin
as of June 30, 2017

Net full cash assessed valuation	423,652,443
Water, Sewer, Artificial Lighting, Parks, Open Space, Public Safety, Law Enforcement, Fire and Emergency Facilities, Street and Transportation Facilities, and Recreational Facility Improvements	
Debt limit - 20% of net full cash assessed valuation	\$ 84,730,489
Net debt applicable to limit	<u>5,475,000</u>
20% legal debt margin	<u>79,255,489</u>
All Other General Obligation Bonds	
Debt limit - 6% of net full cash assessed valuation	25,419,147
Net debt applicable to limit	<u>-</u>
6% legal debt margin	<u>25,419,147</u>
Total legal debt margin	<u>\$ 104,674,636</u>

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

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

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

Municipal Facilities Corporation Revenue Bonds					
Fiscal Year Ended June 30	Principal	Interest	Total	Pledged Revenues	Coverage
2008	\$ 805,000	\$ 498,878	\$ 1,303,878	\$ 18,362,405	14.1
2009	885,000	458,799	1,343,799	15,930,962	11.9
2010	985,000	416,886	1,401,886	14,008,592	10.0
2011	1,035,000	386,630	1,421,630	13,489,416	9.5
2012	1,085,000	327,312	1,412,312	12,995,685	9.2
2013	1,150,000	285,287	1,435,287	13,397,842	9.3
2014	1,225,000	234,176	1,459,176	14,313,158	9.8
2015	2,545,000	184,500	2,729,500	15,583,484	5.7
2016	480,000	32,740	512,740	16,250,673	31.7
2017	370,000	22,680	392,680	16,645,464	42.4

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

Town of Fountain Hills, Arizona
Demographic and Economic Statistics
Last Ten Calendar Years

	Calendar Year				
	2007	2008	2009	2010	2011
Population	22,932	22,984	22,736	22,489	22,554
Per capita personal income	\$ 32,230	\$ 38,439	\$ 38,918	\$ 40,672	\$ 44,660
Median age	46.4	48.3	48.9	53.9	53.9
Public school enrollment	2,307	2,233	2,203	2,103	1,981
Town of Fountain Hills unemployment rate	1.5%	2.6%	4.5%	4.8%	6.7%
Land use					
Total acres	13,005.7	13,005.7	13,005.7	13,005.7	13,005.7
Total square miles	20.32	20.32	20.32	20.32	20.32
Vacant lots	3,355	1,295	1,253	1,226	1,218
Number of units					
Housing	12,850	12,832	12,927	12,983	12,990
Lodging	4	4	4	4	4
Restaurants	53	47	52	53	56
Shopping centers	14	19	19	20	20
Schools					
Public	4	4	4	4	4
Preschool	4	4	4	4	4
Charter	1	1	1	1	1

Sources: The source of the "Per Capita Personal Income", "Median Age" and "Unemployment Rate" information is Sites USA. The source of the "Population" is the U.S. Census Bureau July 1, 2016 estimate. The source of School Enrollment is the Fountain Hills Unified School District No. 98. Other information is from the Town's records.

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

* Information obtained is based on calendar years; therefore, the latest information obtained was from 2016

Calendar Year				
2012	2013	2014	2015	2016*
22,695	22,893	23,602	23,899	24,482
\$ 47,260	\$ 48,244	\$ 46,619	\$ 48,240	\$ 50,162
53.9	53.0	53.7	53.8	53.7
1,886	1,820	1,692	1,619	1,506
5.6%	6.0%	5.4%	2.4%	1.9%
13,005.7	13,005.7	13,005.7	13,005.7	13,005.7
20.32	20.32	20.32	20.32	20.32
1,209	1,196	1,165	1,247	1,209
12,977	12,991	12,981	13,002	13,130
4	4	4	4	4
56	54	43	46	50
20	20	20	20	20
3	3	3	3	3
6	7	7	7	7
1	1	1	1	1

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

Employer	2016*			2007	
	Number of Employees	Rank	Percentage of Total Town Employment	Number of Employees	Rank
Fountain Hills Unified School District No. 98	168	1	3.7%	250	1
Fountain View Village	115	2	2.5%		
Bobcat Contracting, LLC	114	3	2.5%		
Rural Metro Corporation	111	4	2.4%		
Target Stores	103	5	2.3%		
Firerock Country Club	100	6	2.2%		
Fry's Food Stores	86	7	1.9%		
Eagle Mountain Golf Club	70	8	1.5%	40	8
Safeway Stores	70	9	1.5%	95	4
Bashas	70	10	1.5%	70	6
Monks Construction				150	2
MCO Properties, Inc.				85	3
Town of Fountain Hills				68	5
Sunridge Canyon Golf Course				70	7
Golf International				50	9
Totals	1,007		22.2%	878	
Total Town employment	4,535				

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

Note: Total Town employment for 2007 was not available.

* Data for 2017 was not available.

Town of Fountain Hills, Arizona
Authorized Full-time Equivalent Government Employees by Function
Last Ten Fiscal Years

	Fiscal Year Ended June 30									
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Municipal court	5.00	5.00	5.00	5.00	5.00	5.00	4.00	3.63	3.63	3.63
Administration	13.50	13.50	13.25	11.25	11.58	11.68	10.56	11.33	11.63	12.46
Public works										9.80
Development services	40.50	40.00	35.75	23.25	20.25	18.75	16.25	16.30	16.30	7.50
Community services	<u>29.25</u>	<u>29.75</u>	<u>27.10</u>	<u>21.63</u>	<u>21.53</u>	<u>21.18</u>	<u>20.18</u>	<u>21.06</u>	<u>20.76</u>	<u>20.56</u>
Total	<u>88.25</u>	<u>88.25</u>	<u>81.10</u>	<u>61.13</u>	<u>58.36</u>	<u>56.61</u>	<u>50.99</u>	<u>52.32</u>	<u>52.32</u>	<u>53.95</u>

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

Town of Fountain Hills, Arizona
Operating Indicators by Function
Last Ten Fiscal years

Function/Program	Fiscal Year Ended June 30				
	2008	2009	2010	2011	2012
Municipal Court					
Cases filed	N/A	N/A	3,520	2,584	2,173
Hearings/Trials held	N/A	N/A	1,089	738	731
Administration					
FTEs per 1,000 residents	3.5	3.3	3.2	2.7	2.6
Registered voters - general election	14,335	none	15,511	none	16,074
Voter turnout - general election	39%	none	50%	none	34%
Development Services					
Building permits issued	716	376	411	350	346
Building inspections conducted	5,692	3,189	1,936	1,546	1,257
Number of code violation cases	N/A	N/A	1,024	843	804
Number of zoning cases	N/A	N/A	7	14	7
Community Services					
Number of Community Center bookings	N/A	N/A	3,396	3,315	3,236
Number of participants in recreational programs	N/A	N/A	1,960	1,759	1,833
Number of Senior Services members	N/A	N/A	1,105	1,205	1,208
Number of home delivered meals	N/A	N/A	10,169	9,742	8,419
Law Enforcement (contracted)					
Physical arrests	524	825	679	645	522
Traffic violations	2,504	4,900	2,959	1,909	1,366
Fire & Emergency Medical (contracted)					
Total incident responses	2,694	2,787	2,875	3,179	3,082
Average response time (in minutes)	3:37	3:44	4:32	3:46	3:50

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

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

Fiscal Year Ended June 30				
2013	2014	2015	2016	2017
1,740	1,649	1,738	1,593	2,014
703	1,665	1,585	1,564	1,844
2.5	2.2	2.2	2.2	2.2
none	N/A	16,213	none	16,387
none	N/A	38%	none	41%
457	445	443	410	509
1,395	2,131	2,448	2,129	2,704
746	716	752	713	669
10	41	65	72	50
3,196	3,383	3,439	3,124	3,764
1,789	2,291	2,249	2,910	3,773
1,118	1,189	1,273	1,326	1,335
6,941	4,799	4,035	3,497	3,920
545	743	445	220	220
1,296	1,379	1,539	1,215	1,803
3,136	2,956	3,166	3,191	3,425
3:53	3:37	3:57	3:25	3:33

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

Function/Program	Fiscal Year Ended June 30					
	2008	2009	2010	2011	2012	2013
Public safety						
Number of fire stations	2	2	2	2	2	2
Public works						
Streets (centerline miles)	178.9	178.9	178.9	178.9	178.9	178.9
Streets (lane miles)	390	390	390	390	390	390
Pedestrian lighting	34	34	34	34	34	34
Traffic signals	13	13	13	13	13	13
Parks and recreation						
Acreage-developed parks	116	116	116	116	116	116
Playgrounds	7	7	7	7	7	7
Baseball/softball diamonds	6	6	6	6	6	6
Soccer/football fields	7	7	7	7	7	7
Community centers	1	1	1	1	1	1
Preserve acreage	N/A	N/A	N/A	N/A	740	740
Miles of trails	N/A	N/A	N/A	N/A	4.3	10.43

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

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

Fiscal Year Ended June 30			
2014	2015	2016	2017
2	2	2	2
178.9	178.9	178.9	178.9
390	390	390.5	390.5
34	85	91	91
13	13	13	13
116	119	119	119
7	7	7	7
6	6	6	6
7	7	7	7
1	1	1	1
740	807.2	807.2	807.2
10.43	15.8	15.8	18.5

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