

Town of Fountain Hills, Arizona

Popular Annual Financial Report

for fiscal year 2014-2015 ending June 30, 2015



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Welcome

Members of the Administration Department, Finance Division, are pleased to present the Town of Fountain Hills Popular Annual Financial Report for the fiscal year ended June 30, 2015. This report is intended to present an accessible overview of the Town's financial position and policies, and its commitment to providing responsive services and programs in a fiscally responsible manner.

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

The financial information provided here is drawn from detailed information found within the fiscal year 2014-2015 Comprehensive Annual Financial Report (CAFR). The financial statements were prepared in conformance with accounting principles generally accepted in the United States of America (GAAP) and audited by an independent accounting firm, receiving an unmodified (or clean) opinion. The numbers contained within the CAFR were obtained by employing the basis of accounting as prescribed by the Governmental Accounting Standards Board (GASB).

While the numbers in this Popular Report come from an audited source, they are presented in an abridged, unaudited non-GAAP format. Citizens who wish to review audited GAAP-basis financial statements can refer to



the Town's 2014-2015 CAFR, which is available online at www.fh.az.gov/170/Financial-Reports-Budgets.

Members of the Finance Division and staff across the organization are proud to serve this fine community. We hope that the 2014-2015 Popular Annual Financial Report serves its purpose and helps assure you that every effort is made to manage the community's resources wisely for the benefit of all.

Craig Rudolph CPA, CPFO, CGFM
Finance Director



Profile of Fountain Hills, Arizona

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

Located on 13,006 acres of land, and bordering northeast Scottsdale, Fountain Hills is surrounded by the 3,500-foot McDowell Mountains 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 1,575 feet at the fountain, 2,130 feet on Golden Eagle Boulevard, and is approximately 500 feet above Phoenix.

Over the past twenty plus years, Fountain Hills has grown from 10,190 residents to a town of 22,489 based on the 2010 census. On June 5, 2006, the Town of Fountain Hills became twenty square miles and about 10% larger by annexing 1,300 acres of State Trust Land. The process to annex the State Trust Land occurred over a two and one-half year period and development of the land will occur over the next decade. Annexing this property into the Town ensures that its future development will be of the highest quality under such Town's standards as the cut-and-fill ordinance and strict zoning

regulations. Fountain Hills will have an opportunity to demonstrate that it is truly the best place to live in the valley.

The Town offers a wide range of living accommodations, from small community condominiums to large custom homes. Fountain Hills also offers recreational, cultural and retirement programs that address the needs and lifestyles of active families as well as older adults. The community consists of primarily residential property; of the total 20.32 square miles of land, only 2.6% of the total is zoned commercial and/or industrial, 22.9% is preserved as open space and 51.3% is residential.

The Town of Fountain Hills is an Arizona Municipal Corporation, acting as a general law town as prescribed in the Arizona Revised Statutes. The Town was incorporated on December 5, 1989, with the governmental and administrative affairs of the Town operating under the Council-Manager form of government. The Town Council is responsible for the adoption of local ordinances, budget adoption, development of citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and administering the Town's operations through three department directors and approximately 52 full-time-equivalent (FTE) employees. The Presiding Judge, Town Attorney and Town Prosecutor are under the direction of the Town Council.

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



The Government of Fountain Hills, Arizona

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

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

The annual budget serves as the foundation for the Town of Fountain Hills' financial planning and control. The Town Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Fund. Therefore, these funds have appropriated budgets. On or before the second meeting in April, the Town Manager submits to the Town Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing

them. The Town Council is then required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the Town of Fountain Hills' fiscal year. The budget is legally enacted through passage of a resolution and is prepared by fund and department. The resolution sets the limit for total expenditures during the fiscal year. The Town Manager may authorize transfers from and within personnel and from operating capital to services or supplies within a department. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20.

Principal Employers	2014
Fountain Hills Unified School District No. 98	193
Fountain View Village	140
Rural Metro Corporation	111
Firerock Country Club	100
Safeway Stores	86





2014-2015 Financial Overview

In this section, we present an overview of monies in and monies out for the Town of Fountain Hills for the fiscal year ended June 30, 2015.

MONIES IN

As a governmental entity, the Town uses fund accounting, or self-balancing sets of accounts segregated for specific activities. Governmental funds are used to account for tax supported activities and the Town receives the funding it needs to provide services to the community from a variety of sources. The table below presents a summary of governmental revenues by primary type for fiscal years 2014-2015, 2013-2014 and 2012-2013, in order to present a picture of typical revenues from year to year. The improving national and local economy contributed to an increase in revenues of \$3,341,754 or 17.9% compared to 2014. Intergovernmental revenue includes income and sales tax shared from the State and distributed based on population, as well as grants—these revenues saw increases consistent with a recovering economy. Building activity increased resulting in an increase in Licenses and Permits.

Governmental Funds Three Year Revenues Summary by Type			
Revenues	2015	2014	2013
Taxes:			
Sales	\$ 8,983,049	\$ 8,459,267	\$ 7,957,163
Property	904,660	1,463,056	1,421,614
Franchise	352,673	349,414	334,668
Intergovernmental	9,770,048	6,677,518	6,323,047
Fines and Forfeitures	186,456	170,995	187,251
Licenses and Permits	1,043,382	891,782	570,904
Charges for Services	176,541	161,376	162,086
Leases and Rents	269,753	252,584	213,871
Investment Revenue	150,358	123,311	69,998
Other	188,251	134,114	300,899
Total Revenues	<u>\$ 22,025,171</u>	<u>\$ 18,683,417</u>	<u>\$ 17,541,501</u>

REVENUE TYPE DEFINITIONS

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

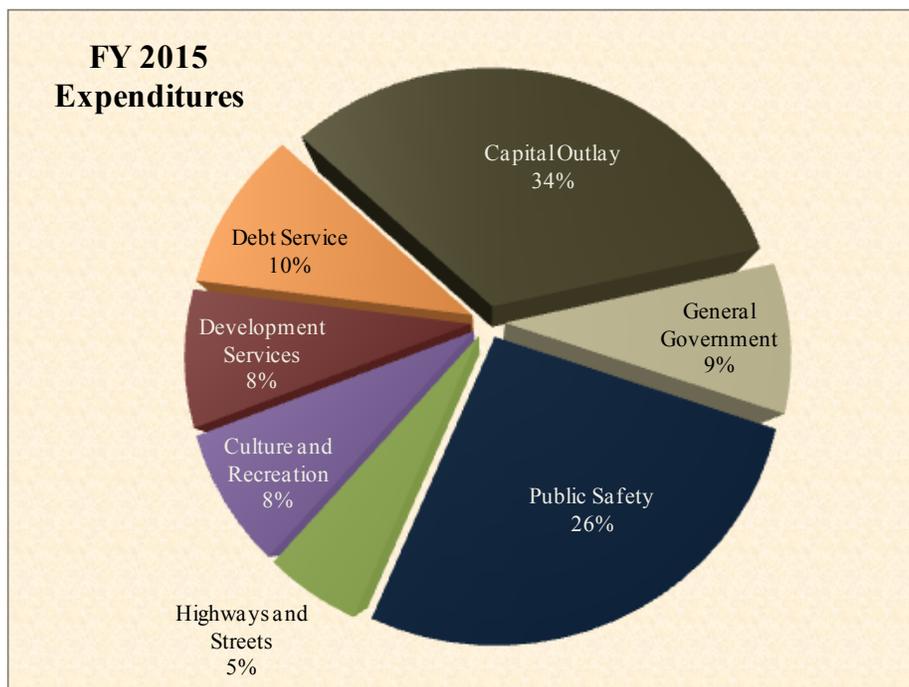


2014-2015 Financial Overview - continued

MONIES OUT

The three-year comparison for Town expenditures shows an increase in the overall cost of operations. Overall, 2015 total Governmental Fund expenditures were \$5,104,402, or 24.9% more than in 2014. The Town contracts for law enforcement and fire and emergency medical services—these contracts include automatic negotiated increases which are reflected in the Public Safety category. Highways and Streets expenditures decreased due to the postponement of pavement maintenance to allow for an accumulation of additional funding needed for the next fiscal year. Capital Outlay increased due to the continuation of the Shea Boulevard Widening project and the start of the Saguaro Boulevard Reconstruction projects paid for with voter-approved bonds. Debt service includes the annual principal and interest payment for outstanding bonds.

Governmental Funds			
Three Year Expenditures Summary by Type			
Expenditures	2015	2014	2013
General Government	\$ 2,275,124	\$ 2,194,845	\$ 2,699,109
Public Safety	6,675,874	6,890,770	6,022,269
Highways and Streets	1,275,779	3,085,559	2,058,990
Culture and Recreation	1,962,585	1,921,939	1,791,018
Development Services	2,073,990	1,774,983	1,643,757
Debt Service	2,548,542	2,887,999	2,847,043
Capital Outlay	<u>8,799,068</u>	<u>1,750,465</u>	<u>453,002</u>
Total Expenditures	<u>\$ 25,610,962</u>	<u>\$ 20,506,560</u>	<u>\$ 17,515,188</u>



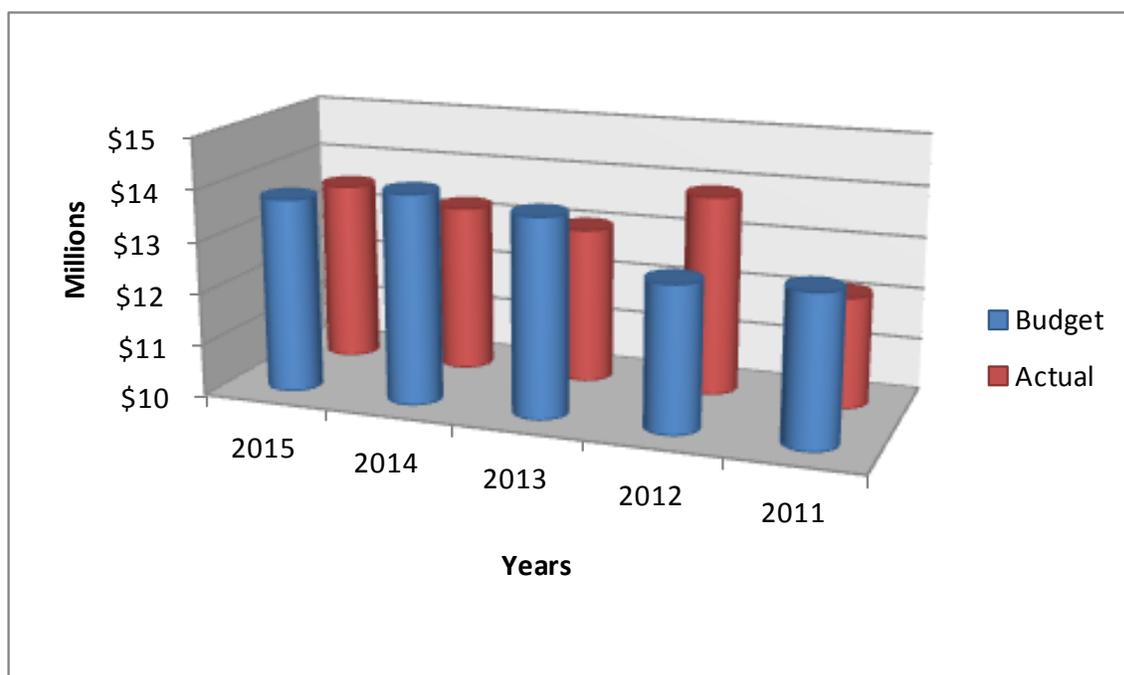


2014-2015 Financial Overview - continued

EXPENDITURE TYPE DEFINITIONS

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

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





The Town's Net Position

Statement of Net Position			
	2015	2014	2013
ASSETS			
Current and Other Assets	\$ 30,103,343	\$ 26,489,337	\$ 28,460,597
Capital Assets			
Non-Depreciable	29,930,540	27,334,347	26,223,288
Depreciable (net)	75,321,571	73,728,913	77,222,272
Total Assets	<u>135,355,454</u>	<u>127,552,597</u>	<u>131,906,157</u>
LIABILITIES			
Current and Other Liabilities	2,897,349	3,717,336	3,820,104
Long-Term Liabilities			
Due Within One Year	4,545,644	2,164,879	2,449,599
Due in More Than One Year	11,095,245	7,289,432	9,501,392
Total Liabilities	<u>18,538,238</u>	<u>13,171,647</u>	<u>15,771,095</u>
NET POSITION			
Net Investment in Capital Assets	95,325,824	89,713,260	89,800,560
Restricted	6,310,810	5,480,867	5,721,744
Unrestricted	15,180,582	19,186,823	20,612,758
Total Net Position	<u>\$ 116,817,216</u>	<u>\$ 114,380,950</u>	<u>\$ 116,135,062</u>

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

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

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

NET POSITION may serve, over time, as useful indicators of a government's financial position and consists of three components. The largest portion (82%) reflects the Town's investment in capital assets (land, buildings, infrastructure, vehicles, machinery and equipment), less any outstanding related debt used to acquire those assets. An additional portion of the Town's net position (5%) represents resources subject to restrictions on how they may be used. These legal restrictions are imposed by outside entities such as federal or state governments. An example of such a restriction is the gasoline tax. The State of Arizona charges the gasoline tax and shares some of it with communities. These revenues are legally restricted by the State to be used only for expenditure on street projects. Portions of net assets are also restricted to pay debt service and fund capital projects. The remainder (13%) of net position is unrestricted as to pur-



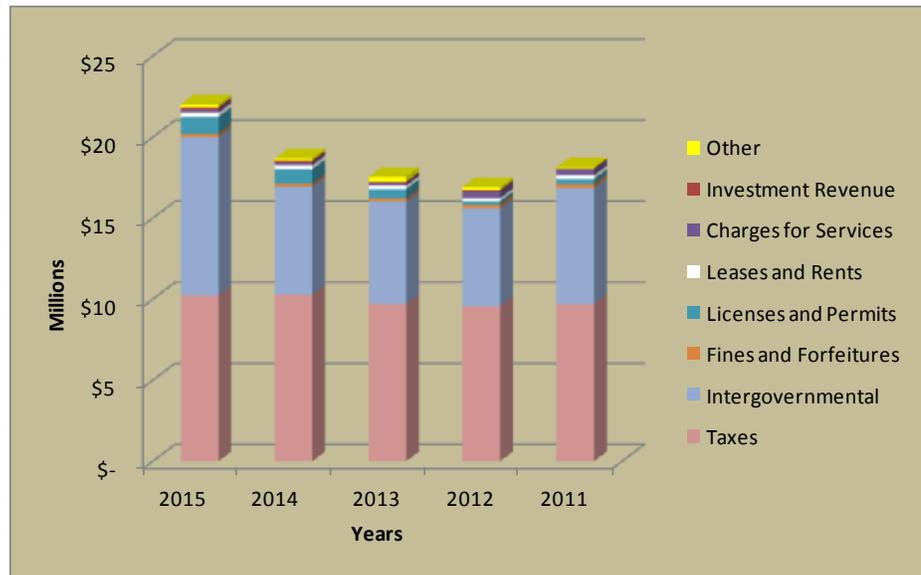
Fund Accounting

Fund Accounting

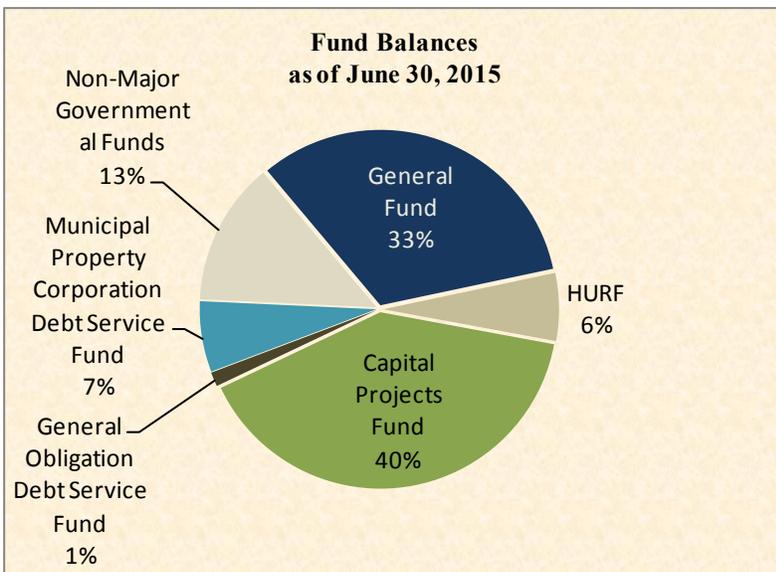
State and local governments, such as the Town, employ fund accounting whereby assets and liabilities are grouped according to the purpose for which they are to be used. Each grouping, or fund, operates as a separate self-balancing set of accounts. The General Fund is the chief operating fund of the Town and General Fund expenditures account for 49% of governmental expenditures. Special

revenue funds group revenues raised for a specific purpose. Capital project funds account for

Revenues by Category
Last Five Fiscal Years



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





Property Taxes

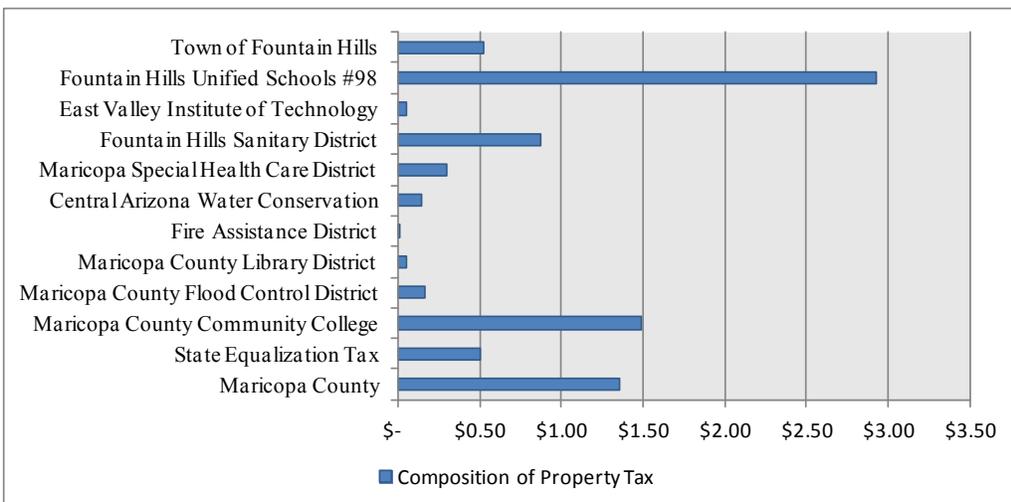
One of the biggest bills residents face each year is tied to the property they own. Property tax in Fountain Hills is administered by Maricopa County, and is based on property value (ad valorem) and typically included with the resident’s monthly mortgage payment. As the table indicates, only a small portion (6.2%) of your property taxes go to the Town of Fountain Hills—this portion pays for the annual payment on the bonds approved by voters for open

Property Tax Levy - Fiscal Year 2014-2015		
Entity	Primary Rate	Secondary Rate
Maricopa County	\$ 1.3609	\$ -
State Equalization Tax	0.5054	-
Maricopa County Community College	1.2628	0.2312
Maricopa County Flood Control District	-	0.1592
Maricopa County Library District	-	0.0556
Fire Assistance District	-	0.0116
Central Arizona Water Conservation	-	0.1400
Maricopa Special Health Care District	-	0.3021
Fountain Hills Sanitary District	-	0.8771
East Valley Institute of Technology	-	0.0500
Fountain Hills Unified Schools #98	1.9688	0.9567
Town of Fountain Hills	-	0.5246
Total	\$ 5.0979	\$ 3.3081

space and the Community Center building. The majority supports Fountain Hills schools, Fountain Hills Sanitary District, and various Maricopa County districts. Currently, property taxes represent one of the smallest and most stable sources of revenue for the Town at 4.1% of total revenues.

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

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



the County), dividing by 100 and multiplying by the tax rate. For example, a residential property with an assessed value of \$350,000 would pay approximately \$2,942 ($\$350,000 \times 10\%$ divided by 100×8.4060).



Capital Investments

How Capital Investments are Funded

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

Every year, the Town prepares and adopts an on-going, Five-Year Capital Improvement Plan that provides for a comparable annual value of infrastructure improvement projects. Town Council and staff review and update the plan each year as part of the budget process. The projects are funded using a combination of grants and existing funds. Construction projects, also known as construction -in-progress, include items such as the Shea Boulevard Widening and Saguario Boulevard Reconstruction projects.

The Town’s Debt Policy provides a set of criteria to help determine when it’s best to fund capital projects using existing revenues, issuing bonds or seeking loans. The Town has an Aa2 bond rating from Moody’s Investors Service for the general obligation bonds and an Aa3 rating for the revenue bonds. These ratings allow the Town to receive very competitive interest rates when issuing debt.

Two Year Debt Summary		
All Funds		
Debt Type	2015	2014
General Obligation Bonds	\$ 11,475,000	\$ 4,495,000
Revenue Bonds	<u>3,525,000</u>	<u>4,695,000</u>
Total Debt	<u>\$ 15,000,000</u>	<u>\$ 9,190,000</u>

DEBT TYPE DEFINITIONS

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

Repayment of Outstanding Debt

Year ending June 30	Principal	Interest
2016	\$ 4,328,417	\$ 308,106
2017	2,743,417	244,986
2018	2,788,417	185,092
2019	2,703,417	123,872
2020	2,378,418	67,302
2021	400,000	7,040
	<u>\$ 15,342,086</u>	<u>\$ 936,398</u>

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

Debt Margin

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

The Town’s available debt margin is \$71.1 million in the 20% capacity and \$24.2 million in the 6% capacity. The Town is currently using only 11% of the 20% capacity and nothing of the 6% capacity.



Fountain Hills, Arizona Awards

Awards

Fountain Hills has had its share of accolades. NerdWallet ranked Fountain Hills 15th among the best places to start a business in Arizona. Movoto ranked the Town as 3rd of the best Phoenix suburbs. The Arizona Parks and Recreation Association bestowed the “Best of Special Event” award, recognizing the “Slide the City” event, hosted in Fountain Hills on April 25, 2015. This event brought more than 4,000 people into Fountain Hills to slide down a giant Slip-and-Slide style waterslide. These honors make the Town proud, and we continually strive to make our community an even better place to live.



The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2014. This was the 19th consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

In addition, the government also received the GFOA’s Distinguished Budget Presentation Award for its annual budget for the fiscal year beginning July 1, 2014. 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 13th consecutive year that the Town has received the award.

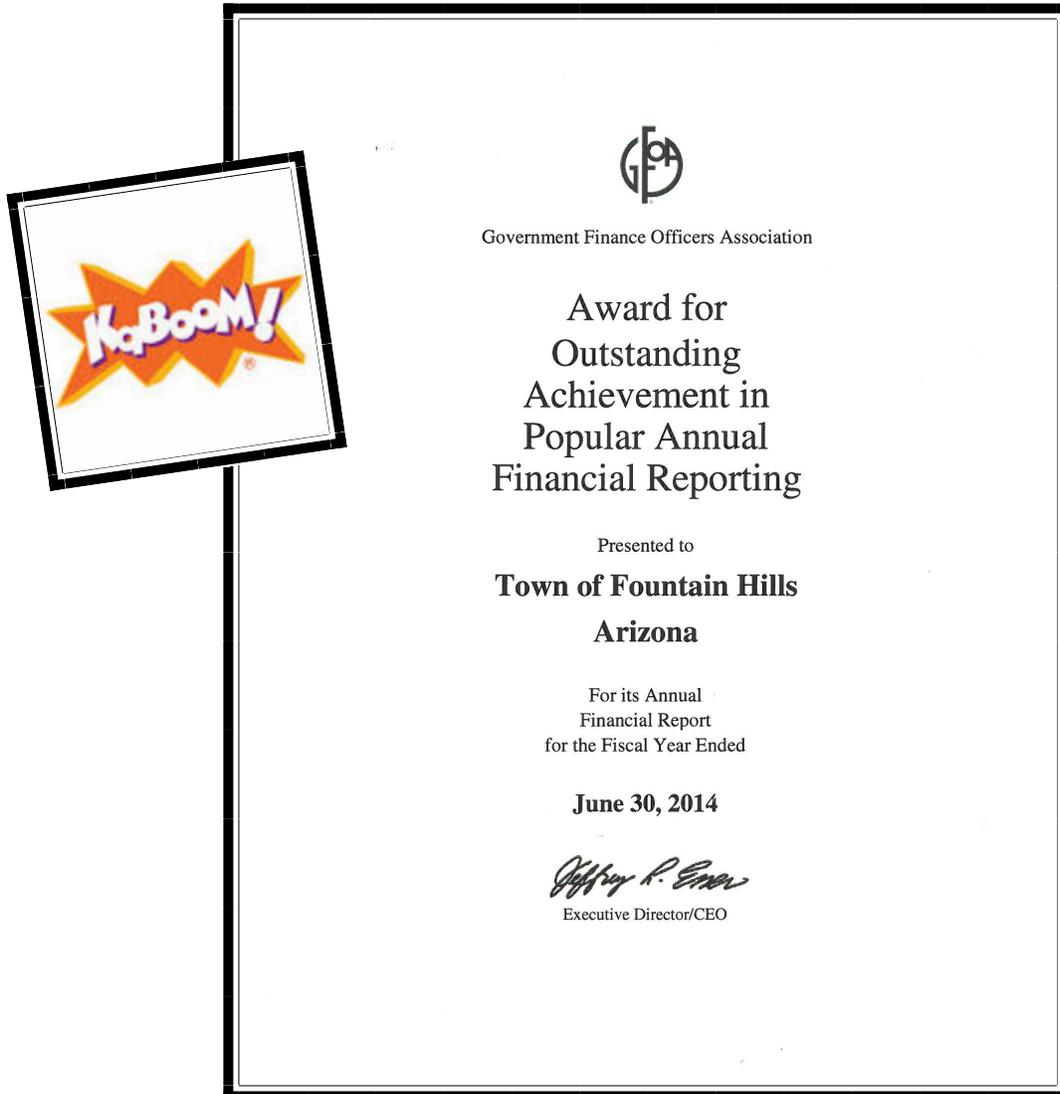
Also, the GFOA recognized the Town for its June 30, 2014, submission of its Popular Annual Financial Report (PAFR). The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. The requirements are based on an evaluation of creativity, presentation, understandability, and reader appeal. This award is for the Town’s third submission of its PAFR.

Two hundred forty-one cities and towns, including Fountain Hills, earned recognition from national non-profit KaBOOM! and the Humana Foundation as 2015 Playful City USA communities for making play a priority in their communities. From 42 states and the District of Columbia, the Playful City USA honorees range from nine-time honorees to first-time recipients. Playful City USA communities utilize play as an innovative solution to address a number of challenges facing kids, families, and communities. In turn, these communities retain a competitive advantage by creating healthier, more vibrant communities where families want to live and companies want to do business.





Fountain Hills, Arizona Awards - continued



The Government Finance Officers Association of the United States and Canada has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Town of Fountain Hills, Arizona for its Popular Annual Financial Report for the fiscal year ending June 30, 2014. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.



Town of Fountain Hills, Arizona

Town Officials

TOWN COUNCIL

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

This Popular Annual Financial Report is intended to summarize the financial information appearing in the fiscal year 2014-2015 Comprehensive Annual Financial Report (CAFR). Copies of the CAFR can be viewed on the Town's website at www.fh.az.gov/170/Financial-Reports-Budgets. The data included in this review is not prepared in accordance with GAAP as only a portion of the Town's financial statements are presented.

TOWN MANAGER

Grady Miller

DEPARTMENT DIRECTORS

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



Arizona Legislature—District 23

U.S. Congress—District 6

TOWN HALL

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