

Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2019

Town of Fountain Hills Arizona



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Welcome

The Town of Fountain Hills is pleased to present its Popular Annual Financial Report for the fiscal year ended June 30, 2019. 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 2018-2019 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 Annual Financial 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 2018-2019 CAFR, which is available online at www.fh.az.gov/CAFR.



Members of the Finance Division, and staff across the organization, are proud to serve this fine community. We hope that the 2018-2019 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.

David Pock, CPA, CGFM
Finance Director



Community Profile

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

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

Over the past twenty plus years, Fountain Hills has grown from 10,190 residents to a town of 23,899 in 2015. On June 5, 2006, the Town of Fountain Hills became twenty square miles and about ten percent larger by annexing 1,300 acres of State Trust Land. The process to annex the State Trust Land occurred over a two and one-half year period and development of the land is expected to occur over the next decade. Annexing this property into the Town ensures that its future development will be of the highest quality under such Town's standards as the cut-and-fill ordinance and strict zoning regulations.

The Town offers a wide range of living accommodations, from small condominium complexes to large custom homes. Fountain Hills also offers recreational and cultural programs and services that contribute to a high quality of life for its residents. The community consists of primarily residential property and open space; of the total 20.32 square miles of land, only 2.5% of the total is zoned commercial and/or industrial, 23.3% is preserved as open space and 51.0% is residential.

The Town of Fountain Hills is an Arizona Municipal Corporation, acting as a general law town as prescribed in the Arizona Revised Statutes. The Town was incorporated on December 5, 1989, with the governmental and administrative affairs of the Town operating under the Council-Manager form of government. The Mayor is a member of the Town Council who is directly elected by the voters and chairs the Town Council meetings. The members of the Council are elected at large and serve four-year overlapping terms. The Town Council is responsible for the adoption of local ordinances, budget adoption, appointment of residents to citizen advisory committees and hiring the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council and overall management of the Town through approximately 56 FTE employees. The Presiding Judge, Town Attorney and Town Prosecutor are under the direction of the Town Council.

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

Town Government



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

erty Corporation are included in the financial report of the Town.

The annual budget serves as the foundation for the Town of Fountain Hills' financial planning and control. The Town Council formally adopts the budget and appropriates funding for the General Fund, Excise Tax Funds, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Therefore, these funds have appropriated budgets.

On or before the second Town Council meeting in April, the Town Manager submits to the Town Council a proposed budget for the fiscal year commencing the following July 1st. The budget includes proposed expenditures and the means of financing them. The Town Council is then required to hold public hearings on the proposed budget and to adopt a final budget by June 30, the close of the Town's fiscal year. The budget is legally enacted through passage of a resolution and is prepared by fund and department.

The resolution sets the limit for total expenditures during the fiscal year. The Town Manager may authorize transfers within a department, including those within personnel and from operating capital to services or supplies. 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.

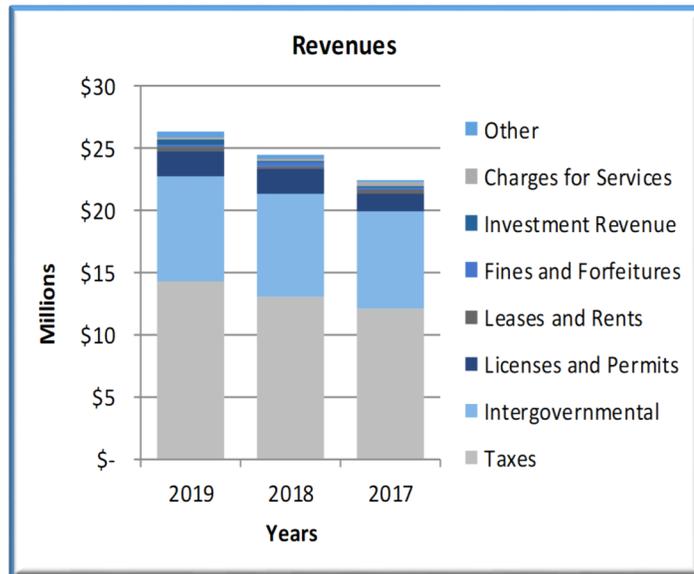


2018-2019 Financial Overview

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, 2019.

MONIES IN

As a governmental entity, the Town uses fund accounting that is 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 to the right presents a summary of governmental revenues by primary type for the three past fiscal years. The improving national and local economy contributed to an increase in revenues of \$1,903,216, or 7.8%, compared to 2018.



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%.

Property - the Town does not charge a primary property tax, only a secondary property tax. The secondary tax is for debt repayment on voter approved bonds (specifically open space, the Community Center, and Saguaro Boulevard).

Franchise - revenue received from utility (telecommunications) companies for the right to operate within the Town.

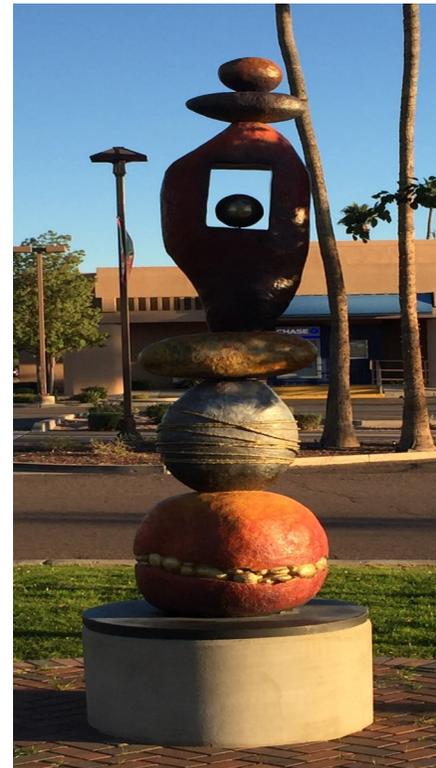
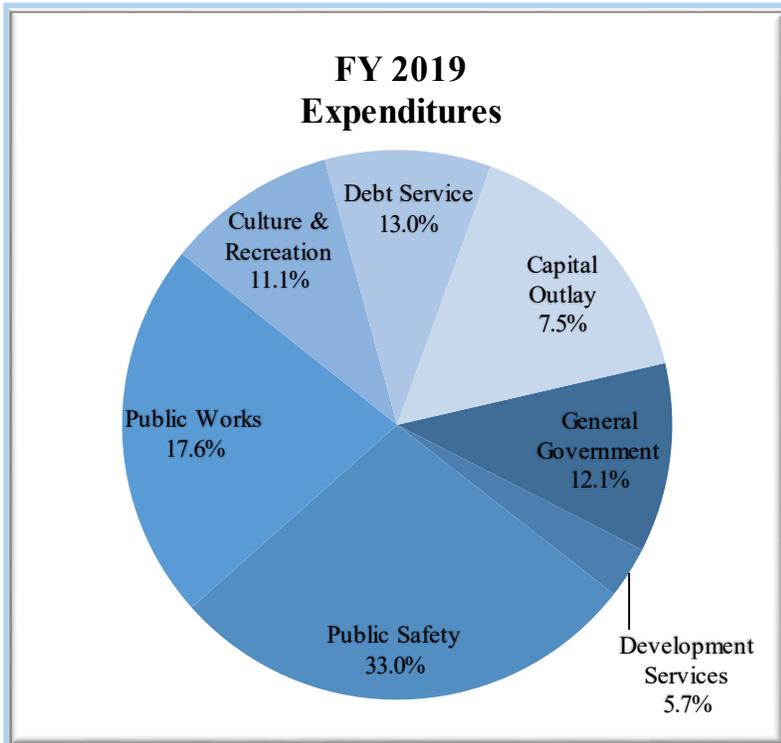
- **Licenses and Permits** - includes building permit fees, business animal license fees, fire inspections, etc..
- **Leases and Rents** - rental fees for use of the Community Center as well as fees from leases for cellular telephone towers.
- **Intergovernmental** - these are revenues received from other governments or entities, including state shared sales tax, state shared income tax, fire insurance premium tax, vehicle license tax, and state grants.
- **Charges for Services** - these are revenues received from services and/or programs provided by the Town such as recreation programs.
- **Other** - these are revenues that do not fit under another classification.
- **Fines and Forfeitures** - these are revenues received from court fines.
- **Investment Earnings** - revenue received from interest on invested monies.

2018-2019 Financial Overview - continued

MONIES OUT

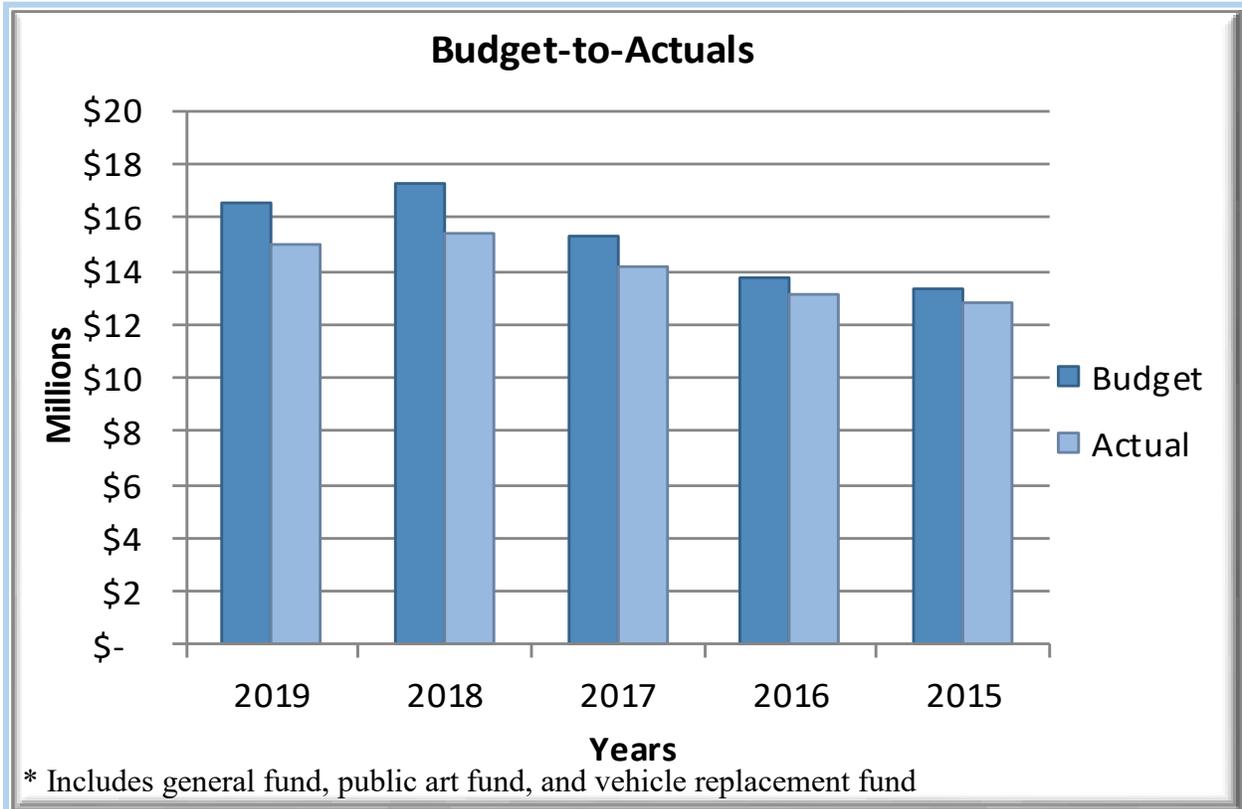
The three-year comparison for Town expenditures shows an increase in the total cost of operations for 2019. Overall, 2019 total Governmental Fund expenditures were greater than 2018 by \$3,260,359, or 13.0%. The Town contracts for law enforcement and fire and emergency medical services—these contracts include automatic negotiated increases which are reflected in the Public Safety category. Public Works includes Streets and Highways expenditures, which has increased due to more pavement maintenance activities. Debt Service includes the annual principal and interest payment for outstanding bonds. Capital Outlay increased slightly in 2019 due in a large part to construction work on the new fire station, Four Peaks Park, and the Adero Canyon Trail.

Governmental Funds			
Three Year Expenditures Summary by Type			
Expenditures	2019	2018	2017
General Government	\$ 3,147,063	\$ 3,195,936	\$ 2,713,548
Development Services	858,957	1,397,249	1,275,147
Public Safety	7,880,668	7,402,227	7,420,032
Public Works	6,295,989	3,420,317	3,954,450
Culture and Recreation	2,845,027	2,375,758	2,484,940
Debt Service	2,760,471	2,906,969	2,922,166
Capital Outlay	4,487,854	4,317,214	1,693,265
Total Expenditures	\$ 28,276,029	\$ 25,015,670	\$ 22,463,548



2018-2019 Financial Overview - continued

Operating Funds* Expenditures Last Five Fiscal Years (In Millions)



EXPENDITURE TYPE DEFINITIONS

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

Net Position

The Statement of Net Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases 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 broken-down into three categories: Net Investment in Capital Assets, Restricted, and Unrestricted. These categories focus on the accessibility of the underlying assets.

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

Statement of Net Position			
	2019	2018	2017
ASSETS			
Current and Other Assets	\$ 20,419,804	\$ 23,821,565	\$ 24,037,642
Capital Assets, net	107,559,746	102,259,689	103,179,955
Total Assets	127,979,550	126,081,254	127,217,597
LIABILITIES			
Current and Other Liabilities	3,661,199	5,475,597	4,588,747
Long-Term Liabilities	631,777	2,994,108	5,669,418
Total Liabilities	4,292,976	8,469,705	10,258,165
NET POSITION			
Net Investment in Capital Assets	104,781,328	96,777,854	94,909,703
Restricted	3,646,449	4,589,526	4,471,661
Unrestricted	15,258,797	16,244,169	17,578,068
Total Net Position	\$ 123,686,574	\$ 117,611,549	\$ 116,959,432

LIABILITIES represent what the Town owes. Current and other liabilities consist of payables (money due from the Town) that are due within one year. Long-term liabilities represent debt that the Town must pay back over multiple years. If any portion of long-term debt is due within one year, that portion is reported in current liabilities.

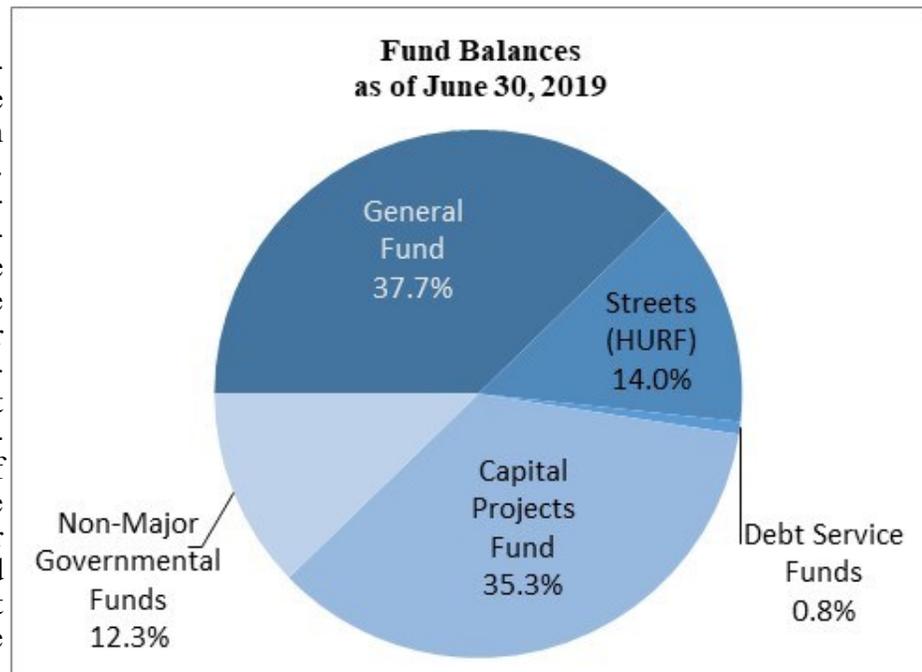
NET POSITION is the residual amount remaining after liabilities are subtracted from assets. The changes reported in net position may be used to evaluate the financial condition of the Town; however, attention should be paid to the movement within categories and not just the total net position. The Town's largest category (85%) reflects 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 (3%) 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 State's requirement that revenues from the gasoline tax 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 (12%) of net position is unrestricted as to purpose.

Fund Accounting

Fund Balance

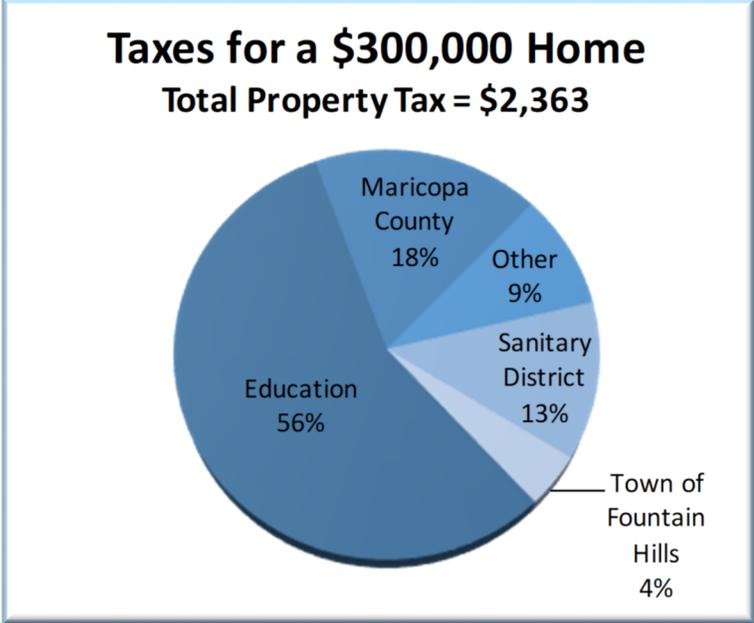
State and local governments, such as the Town, employ a system called fund accounting. This system groups assets and liabilities according to the purpose for which they are to be used. Each grouping, or fund, operates as a separate self-balancing set of accounts. The General Fund is the chief operating fund of the Town and accounts for 37.7% of the total fund balance. Capital project funds account for the acquisition or construction

of major capital facilities, as well as facilities replacement. Other purposes can be determined by reviewing the fund balances of the individual funds. The fund balance is an important component of fiscal planning and factors into the Town's debt rating. The Town's debt rating (Aa2 as rated by Moody's) has been maintained, even during the Great Recession, due to the Town Council's commitment to fund on-going services with on-going revenues.

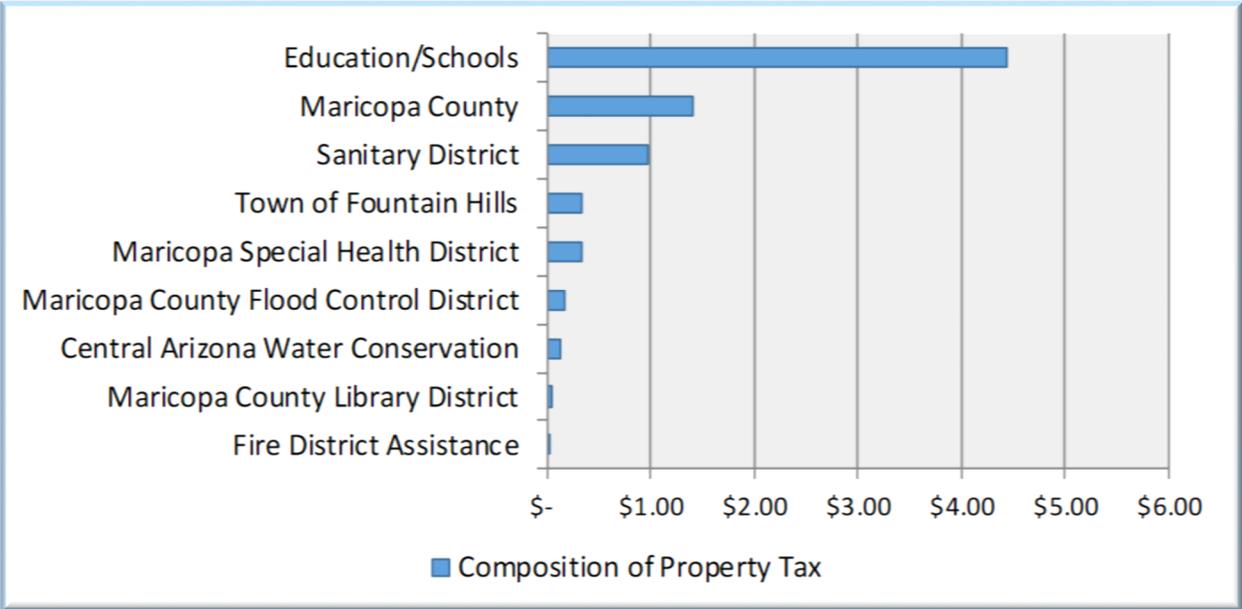


Property Taxes

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 charts indicate, only a small portion (4%) of your property taxes go to the government of the Town. This portion pays for the annual payment on the bonds approved by voters. The majority of your property taxes support other separate entities within the Town, including Fountain Hills Unified School District, Fountain Hills Sanitary District, and various Maricopa County districts. For the fiscal year, property taxes represented \$2,427,731 or 9.2% of total revenues received by the Town.



Property taxes are calculated by Maricopa County using the assessed value of all property located within the Town. For residential property, the tax is calculated using 10% of the assessed valuation of the real property, dividing by 100 and multiplying by the total tax rate (currently \$7.8760). For example, a residential property with an assessed value of \$300,000 would pay approximately \$2,363 in taxes ($\$300,000 \times 10\%$ divided by 100 x \$7.8760).



Capital Investments

HOW CAPITAL INVESTMENTS ARE FUNDED

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

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

DEBT POLICY

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

Debt Type	Two Year Debt Summary All Funds	
	2019	2018
General Obligation Bonds	\$ 2,010,000	\$ 4,675,000
Revenue Bonds	300,000	670,000
Premium	-	136,835
Total Debt	\$ 2,310,000	\$ 5,481,835

REPAYMENT OF OUTSTANDING DEBT

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

Year ending June 30	Principal	Interest
2020	\$ 2,310,000	\$ 67,302
2021	400,000	7,040
Total	2,710,000	74,342

DEBT MARGIN

The State imposes certain debt limitations of 20% and 6% of the net assessed secondary valuation of the Town. For projects involving water, sewer, artificial lighting, parks, open space, recreation facility improvements, public safety, law enforcement, fire and emergency facilities, and street and transportation facilities, the Town can issue General Obligation (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 \$106.4 million in the 20% capacity and \$32.4 million in the 6% capacity. The Town is currently using only 1% of the 20% capacity and none of the 6% capacity.



DEBT TYPE DEFINITIONS

- General Obligation Bonds** - long-term debt that is repaid from the Town’s assessment of a secondary property tax.
- Revenue Bonds** - long-term debt that is repaid from a pledged Town revenue stream (i.e., Transaction Privilege Tax, Highway User Revenue Fund, etc.).

Awards & Community



One of the many features that make the Town of Fountain Hills so unique is the vast municipally-owned public art collection. More than 150 pieces of art comprise the collection that is located throughout the Town for all to enjoy. The collection includes sculptures, bronzes, murals, paintings, photography, and more. The Fountain Hills Cultural and Civic Association offers regularly scheduled art walks to introduce the collection to residents and visitors.

Fountain Hills has dedicated itself to providing award-winning community service programs for residents of all ages. With numerous parks, fields, courts, meeting rooms, and conference facilities, everyone is sure to find an activity that is right for them. The Town also hosts various special events throughout the year, including celebrations for St. Patrick's Day, the Fourth of July, Thanksgiving, and Christmas.

The Town of Fountain Hills encourages involvement in government through volunteerism. Many community members volunteer



their time and efforts to the Town of Fountain Hills and thereby enrich the community every day. Volunteers work within the Town to reduce the cost of delivering services to its residents all while having fun, meeting others and enjoying new challenges. Annually, Volunteers are recognized at the Volunteer of the Year Awards Ceremony.

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, 2018. This was the 23rd consecutive year that the government has received this prestigious award.

In addition, the GFOA recognized the Town for its June 30, 2018 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 seventh submission of its PAFR.

Finally, the Town also received the GFOA's Distinguished Budget Presentation Award for its annual budget for the fiscal year beginning July 1, 2018. 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 17th consecutive year that the Town has received the award.

Awards & Community - continued



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

**Town of Fountain Hills
Arizona**

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morrill

Executive Director/CEO

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, 2018.

Town of Fountain Hills, Arizona

TOWN COUNCIL

Mayor	Ginny Dickey
Vice Mayor	Art Tolis
Councilmember	Dennis Brown
Councilmember	Sherry Leckrone
Councilmember	Alan Magazine
Councilmember	Mike Scharnow
Councilmember	David Spelich

TOWN MANAGER

Grady E. Miller

DEPARTMENT DIRECTORS

Deputy Town Manager	David Trimble
Finance Director	David Pock
Community Services Director	Rachael Goodwin
Development Services Director	John Wesley
Economic Development Director	James Smith
Public Works Director	Justin Weldy
Town Clerk	Elizabeth Burke
Fire Chief	Captain David Ott, Rural Metro Corporation
District Commander	Captain Larry Kratzer, Maricopa County Sheriff's Office District Commander
Presiding Judge	Robert Melton
Town Prosecutor	Mark Iacovino The Law Offices of Mark Iacovino
Town Attorney	Aaron Arnson, Pierce Coleman PLLC

This Popular Annual Financial Report is intended to summarize the financial information appearing in the fiscal year 2018-2019 Comprehensive Annual Financial Report (CAFR). Copies of the CAFR can be viewed on the Town's website at www.fh.az.gov/CAFR. The data included in this review is not prepared in accordance with GAAP as only a portion of the Town's financial statements are presented.



Arizona Legislature—District 23

U.S. Congress—District 6



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