

Town of Fountain Hills, Arizona

Popular Annual Financial Report

for fiscal year 2013-2014 ending June 30, 2014



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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, 2014. 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 2013-2014 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 2013-2014 CAFR, which is available online at www.fh.az.gov/financial-reports.aspx.

Members of the Finance Division and staff across the organization are proud to serve this fine community. We hope that the 2013-2014 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 on the west, the Fort McDowell Yavapai Indian Reservation on the east, the Salt River Pima-Maricopa Indian Community on the south and by the McDowell Mountain Regional Park on the north. Elevation is 1,520 feet at the fountain, 3,000 feet on Golden Eagle Boulevard, and is 500 feet above Phoenix.

Over the past twenty-five years, Fountain Hills has grown from 10,030 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 ten percent larger by annexing 1,300 acres of state trust land. The process to annex the state trust land occurred over a two and one-half year period and development of the land will occur over the next decade. Annexing this property into the Town ensures that its future development will be of the highest quality under such Town's standards as the cut-and-fill ordinance and strict zoning regulations. Fountain Hills will have an

opportunity to demonstrate that it is truly the best place to live in the valley.

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

The Town 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 51 FTE employees. The Presiding Judge, Town Attorney and Town Prosecutor are under the direction of the Town Council.

| Principal Employers | 2013 |
|---|------|
| Fountain Hills Unified School District No. 98 | 230 |
| Fountain View Village | 150 |
| Fry's Food and Drug Store | 90 |
| Safeway Stores | 88 |
| Target Stores | 84 |



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 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.





2013-2014 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, 2014.

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 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 \$1,141,916 or 6.5% compared to 2013. Intergovernmental revenue includes income and sales tax shared from the State and distributed based on population—these revenues saw increases consistent with a recovering economy. Building activity increased resulting in an increase in Licenses and Permits.

| Governmental Funds | | |
|-----------------------------------|----------------------|----------------------|
| Two Year Revenues Summary by Type | | |
| Revenues | 2014 | 2013 |
| Taxes: | | |
| Sales | \$ 8,459,267 | \$ 7,957,163 |
| Property | 1,463,056 | 1,421,614 |
| Franchise | 349,414 | 334,668 |
| Intergovernmental | 6,677,518 | 6,323,047 |
| Fines and Forfeitures | 170,995 | 187,251 |
| Licenses and Permits | 891,782 | 570,904 |
| Charges for Services | 161,376 | 162,086 |
| Leases and Rents | 252,584 | 213,871 |
| Investment Revenue | 123,311 | 69,998 |
| Other | 134,114 | 300,899 |
| Total Revenues | <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 Library/Museum, 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 and vehicle license tax.
- **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.

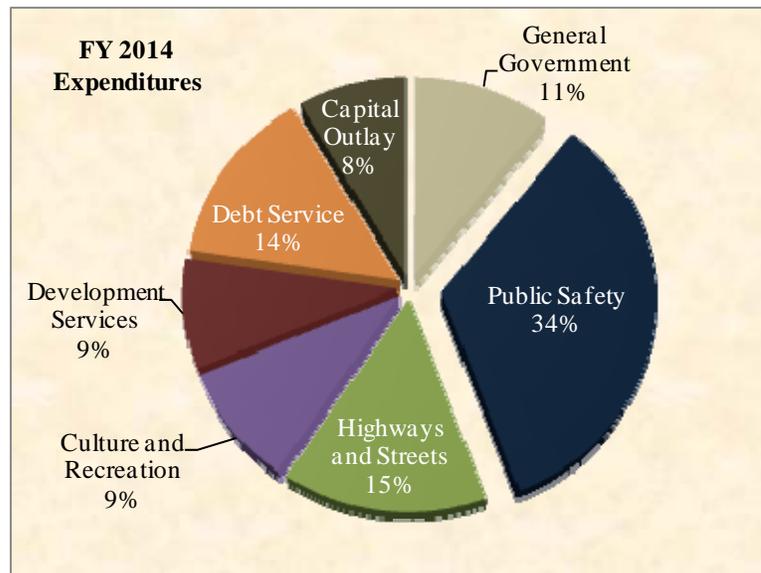


2013-2014 Financial Overview - continued

MONIES OUT

The two-year comparison for Town expenditures shows an increase in the overall cost of operations. Overall, 2014 total Governmental Fund expenditures were \$2,991,372, or 17.1% more than in 2013. The Town contracts for law enforcement and emergency medical services—these contracts include automatic negotiated increases which are reflected in the Public Safety category. General Government expenditures decreased as a result of reallocating resources to a pavement management—this decrease is reflected in the increases in Highways and Streets and Capital Outlay. Development Services includes public works and facilities projects that were re-initiated after being deferred during the economic downturn. Debt service includes the annual principal and interest payment for outstanding bonds (there were no new bonds during the year).

| Governmental Funds | | |
|---------------------------------------|----------------------|----------------------|
| Two Year Expenditures Summary by Type | | |
| Expenditures | 2014 | 2013 |
| General Government | \$ 2,194,845 | \$ 2,699,109 |
| Public Safety | 6,890,770 | 6,022,269 |
| Highways and Streets | 3,085,559 | 2,058,990 |
| Culture and Recreation | 1,921,939 | 1,791,018 |
| Development Services | 1,774,983 | 1,643,757 |
| Debt Service | 2,887,999 | 2,847,043 |
| Capital Outlay | <u>1,750,465</u> | <u>453,002</u> |
| Total Expenditures | <u>\$ 20,506,560</u> | <u>\$ 17,515,188</u> |



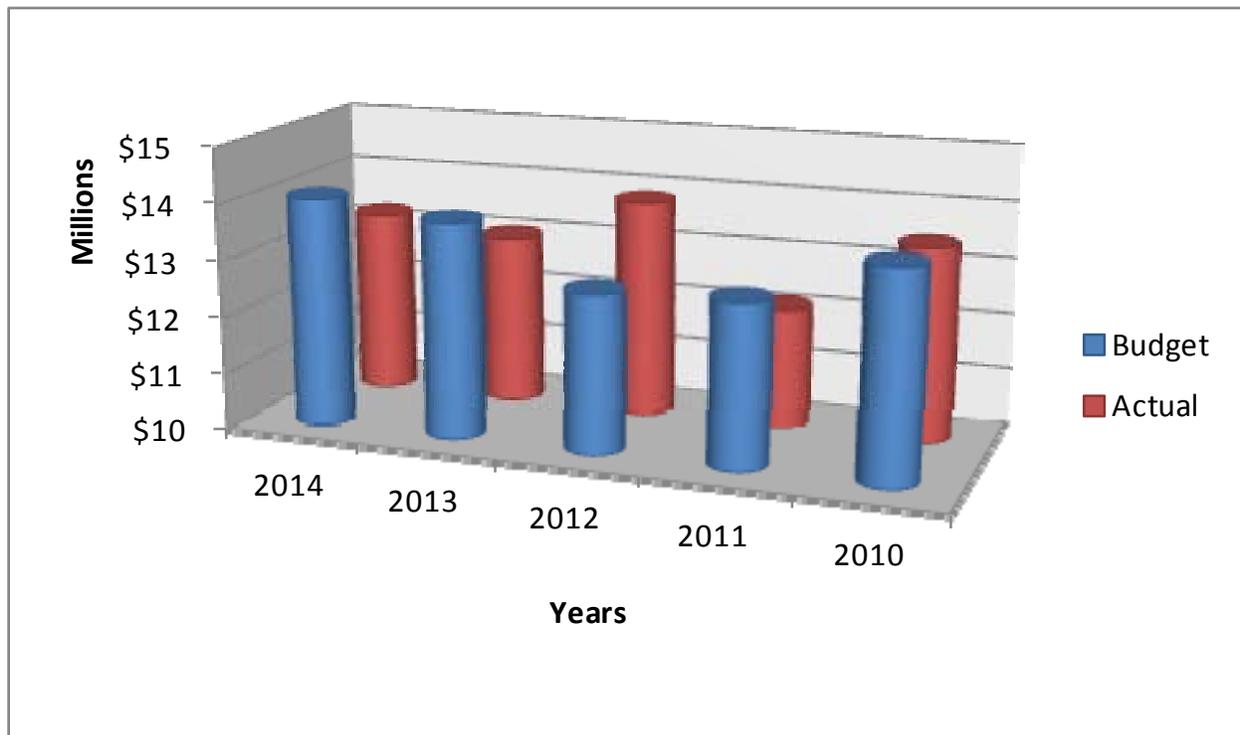


2013-2014 Financial Overview - continued

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 capi-

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





The Town's Net Position

| Statement of Net Position | | |
|----------------------------------|-----------------------|-----------------------|
| | 2014 | 2013 |
| ASSETS | | |
| Current and Other Assets | \$ 28,489,337 | \$ 28,460,597 |
| Capital Assets | | |
| Non-Depreciable | 27,334,347 | 26,223,288 |
| Depreciable (net) | <u>73,728,913</u> | <u>77,222,272</u> |
| Total Assets | <u>129,552,597</u> | <u>131,906,157</u> |
| LIABILITIES | | |
| Current and Other Liabilities | 3,717,336 | 3,820,104 |
| Long-Term Liabilities | | |
| Due Within One Year | 2,164,879 | 2,449,599 |
| Due in More Than One Year | <u>7,289,432</u> | <u>9,501,392</u> |
| Total Liabilities | <u>13,171,647</u> | <u>15,771,095</u> |
| NET POSITION | | |
| Net Investment in Capital Assets | 89,713,260 | 89,800,560 |
| Restricted | 5,480,867 | 5,721,744 |
| Unrestricted | <u>19,186,823</u> | <u>20,612,758</u> |
| Total Net Position | <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) 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 debt that the Town must pay back and is broken out into the current year and future years.

NET POSITION may serve, over time, as useful indicators of a government's financial position and consist of three components. The largest portion (78%) 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 of net position is unrestricted as to purpose.

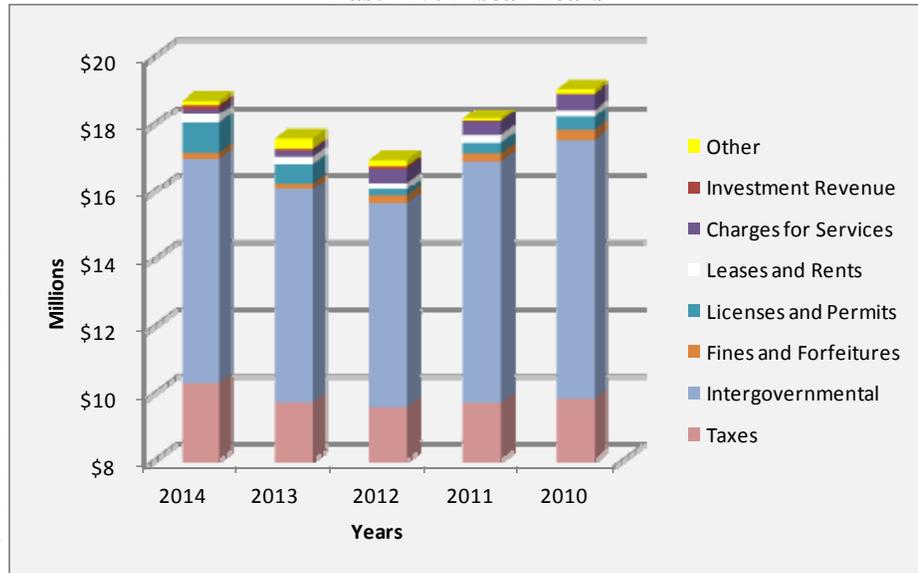


Fund Accounting

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 61% of governmental

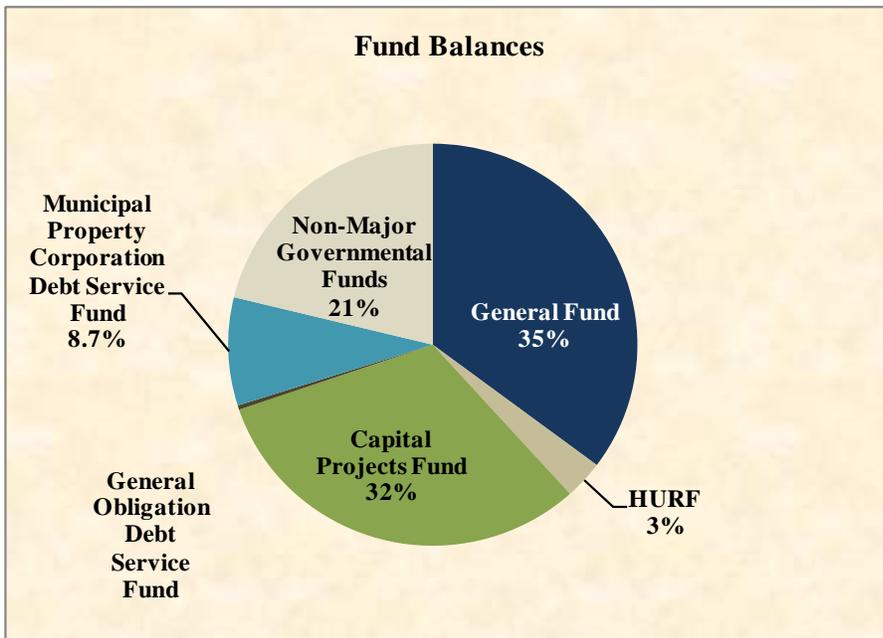
**Revenues by Category
Last Five Fiscal Years**



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

Fund Balances





Property Taxes

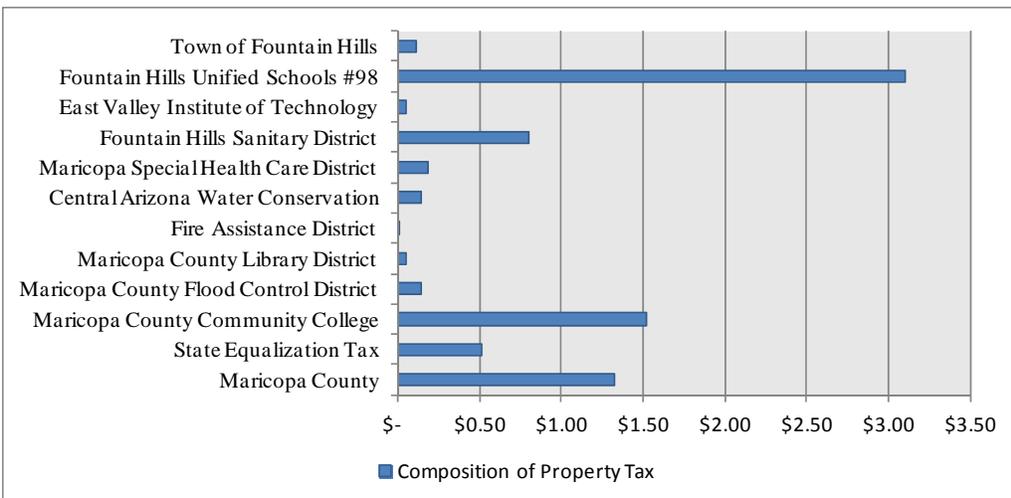
One of the biggest bills residents face each year is tied to the property they own. Property tax in Fountain Hills is administered by Maricopa County, and is based on property value (ad valorem) and typically included with the resident's monthly mortgage payment. As the table indicates, only a small portion (1.4%) of your property taxes go to the Town of Fountain Hills—this portion pays for the annual payment on the bonds approved by voters for open space, the Community

| Property Tax Levy - Fiscal Year 2013-2014 | | |
|---|------------------|------------------|
| Entity | Primary Rate | Secondary Rate |
| Maricopa County | \$ 1.3209 | \$ - |
| State Equalization Tax | 0.5089 | - |
| Maricopa County Community College | 1.2824 | 0.2363 |
| Maricopa County Flood Control District | - | 0.1392 |
| Maricopa County Library District | - | 0.0556 |
| Fire Assistance District | - | 0.0113 |
| Central Arizona Water Conservation | - | 0.1400 |
| Maricopa Special Health Care District | - | 0.1856 |
| Fountain Hills Sanitary District | - | 0.8008 |
| East Valley Institute of Technology | - | 0.0500 |
| Fountain Hills Unified Schools #98 | 2.2763 | 0.8269 |
| Town of Fountain Hills | - | 0.1151 |
| Total | \$ 5.3885 | \$ 2.5608 |

Center and the Library/Museum buildings. 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 7.8% 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 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 \$2,782 ($\$350,000 \times 10\%$ divided by 100×7.9493).



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.

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 | 2014 | 2013 |
| General Obligation Bonds | \$ 4,495,000 | \$ 5,700,000 |
| Revenue Bonds | 4,695,000 | 5,905,000 |
| Total Debt | <u>\$ 9,190,000</u> | <u>\$ 11,605,000</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 |
|---------------------|---------------------|---------------------|
| 2015 | \$ 1,970,000 | \$ 386,581 |
| 2016 | 2,830,000 | 307,136 |
| 2017 | 1,120,000 | 186,406 |
| 2018 | 1,150,000 | 141,606 |
| 2019 | 1,040,000 | 100,567 |
| 2020-2022 | 1,080,000 | 60,585 |
| | <u>\$ 9,190,000</u> | <u>\$ 1,182,881</u> |

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

The Town's available debt margin is \$71.3 million in the 20% capacity and \$22.0 million in the 6% capacity. The Town is currently using only 3% of the 20% capacity and nothing of the 6% capacity.



Fountain Hills, Arizona Awards

Awards

Fountain Hills has had its share of accolades. We have been named one of the “10 Great Places to Raise a Family in the U.S.” and have been recognized as “The Best Place to Live in the Phoenix Metropolitan Area.” We have also been listed as “The Best Affordable Suburb” in Arizona. These honors make us proud, and we continually strive to make our community an even better place to live.

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Fountain Hills for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. This was the 18th consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

In addition, the government also received the GFOA’s Distinguished Budget Presentation Award for its annual budget for the fiscal year beginning July 1, 2013. In order to qualify for the Distinguished Budget Presentation Award, the government’s budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device. This is the 12th consecutive year that the Town has received the award.

Also, the GFOA recognized the Town for its June 30, 2013, submission of its Popular Annual Financial Report (PAFR). The Award for Out-

standing 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 second submission of its PAFR.

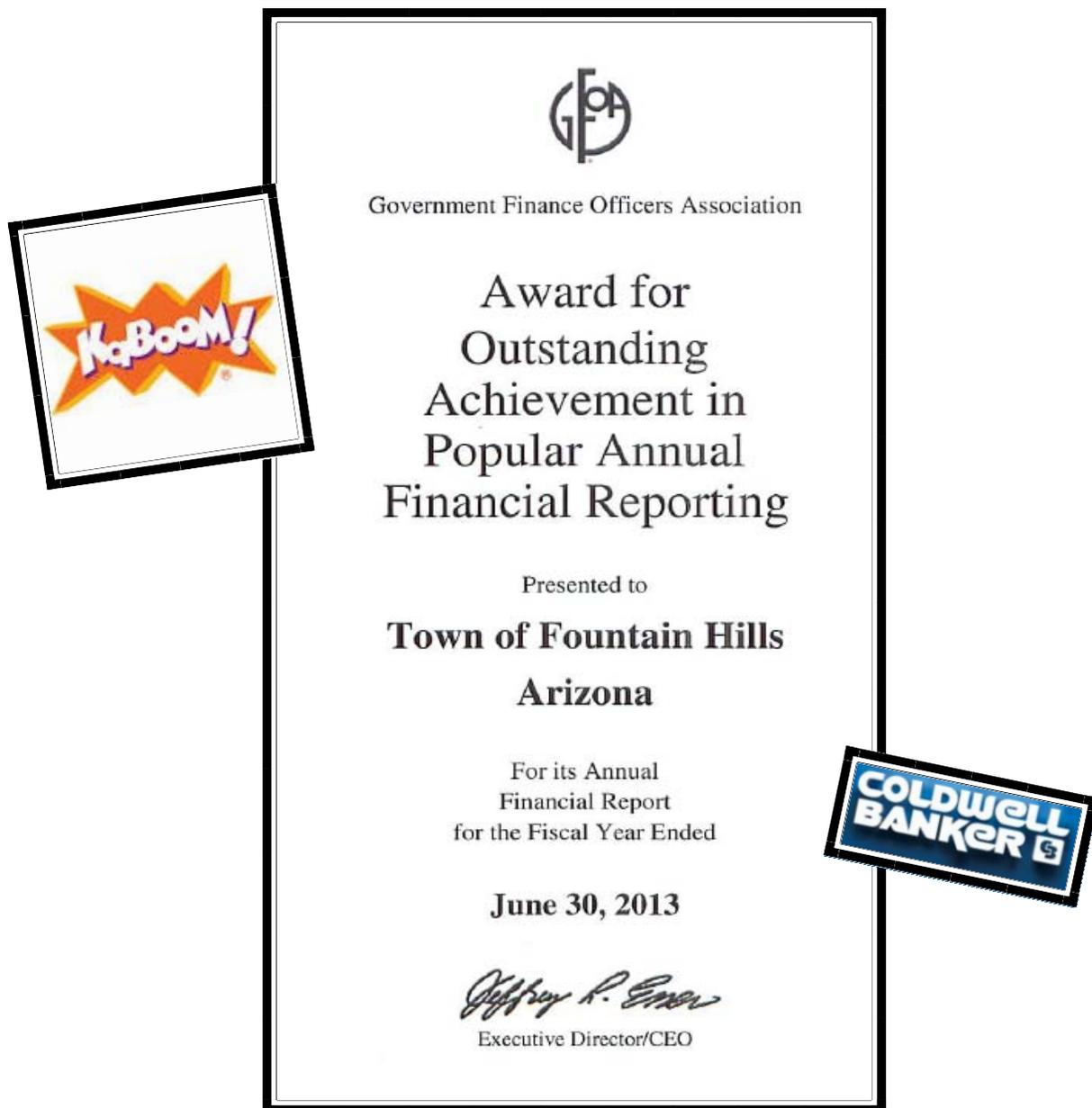
Two hundred seventeen cities and towns, including Fountain Hills, earned recognition from national non-profit KaBOOM! as 2013 Playful City USA communities for their efforts to increase play opportunities for children. Hailing from 43 states, the 217 Playful City USA honorees range from seven-time honorees to 37 first-time recipients. These Playful City USA communities are making a commitment to play and physical activity by developing unique local action plans to increase the quantity and quality of play in their community.

In June 2013, Coldwell Banker identified Best Places to Live for “Booming Suburbs”. Each location was assigned a score based on 15-20 attributes. Some of the attributes include access to suburban amenities, proximity to good schools, commuting by car and community safety. The list includes only those suburbs that have a population greater than 22,275. Fountain Hills was No. 1 in Arizona with a score of 874.18 out of 1,000 possible.





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, 2013. 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 Kavanagh |
| Vice Mayor | Mr. Cecil Yates |
| Councilmember | Mr. Dennis Brown |
| Councilmember | Ms. Ginny Dickey |
| Councilmember | Mr. Henry Leger |
| Councilmember | Ms. Cassie Hansen |
| Councilmember | Mr. Tait Elkie |

This Popular Annual Financial Report is intended to summarize the financial information appearing in the fiscal year 2013-2014 Comprehensive Annual Financial Report (CAFR). Copies of the CAFR can be viewed on the Town's website at www.fh.az.gov/financial-reports.aspx. 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

Ken Buchanan

DEPARTMENT DIRECTORS

| | |
|-------------------------------|---|
| Finance Director | Craig Rudolph |
| Community Services Director | Mark Mayer |
| Development Services Director | Paul Mood |
| Presiding Judge | Robert Melton |
| Fire Chief | 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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