



CITY AUDITOR'S OFFICE

FY 2018/19 Financial and Compliance Audit

December 5, 2019

REPORT NO. 2001

CITY COUNCIL

Mayor W.J. "Jim" Lane
Suzanne Klapp
Virginia Korte
Vice Mayor Kathy Littlefield
Linda Milhaven
Guy Phillips
Solange Whitehead



Honorable Mayor and Members of the City Council:

Enclosed is the City's *FY 2018/19 Financial and Compliance Audit* reports. The City contracted with the certified public accounting firm of Heinfeld, Meech & Co., P.C. to complete the audits of the City's financial statements and required compliance reports. The audits included the City and its seven component units: five Community Facilities Districts, the Scottsdale Municipal Property Corporation and the Scottsdale Preserve Authority.

The City Auditor's Office monitors the audit contract and submits the reports to the Audit Committee for review. At its November 12, 2019, regular meeting, the Audit committee recommended the Council accept the reports. The financial and compliance reports were subsequently accepted by the City Council at its November 25, 2019, meeting.

In the Independent Auditor's Reports on the City's comprehensive annual financial report and on the annual financial reports of each of the seven component units, Heinfeld, Meech concluded that the financial statements present fairly, in all material respects, the financial position, changes in financial position, and where applicable, cash flows of the specified activities and funds, and the budgetary comparison for the General Fund.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

Audit Team:

Paul Christiansen, CPA, CIA – Sr. Auditor

CITY COUNCIL REPORT



Meeting Date: November 25, 2019
 Charter Provision: *Submit the independent audit of the City's annual financial statements to the Council*
 Objective: *Commitment to economic sustainability and transparency*

ACTION

FY 2018/19 Annual Financial Audit. Accept the FY 2018/19 financial audit reports submitted by the City's external auditors, Heinfeld, Meech & Co., P.C.

BACKGROUND

The City Charter requires the Council to designate the certified public accountants (CPAs) to perform an independent audit of the City's annual financial statements. The Charter further states these reports are submitted to the Council and shall be a matter of public record.

After performing the annual financial audit, the contracted CPA firm reports on the City's Comprehensive Annual Financial Report (CAFR) and on the annual financial reports of its component units: the 5 Community Facilities Districts (CFDs), the Municipal Property Corporation (MPC), and the Scottsdale Preserve Authority (SPA).

For the City to meet its federal funding requirements, the CPA firm also reports on the City's expenditures of federal awards (called a "Single Audit" report). Further, to meet certain state funding requirements, the CPA firm reports on the City's compliance with its Highway User Revenue Fund (HURF) uses.

Later, typically in January or February, the CPA firm will also report on a Housing and Urban Development (HUD) required financial schedule for the City's federally-supported housing programs and on the City's state-required Annual Expenditure Limitation Report.

The Audit Committee received the FY 2018/19 financial audit reports at its November 12, 2019, meeting. After review and discussion with Heinfeld, Meech & Co., P.C., the Audit Committee voted unanimously (3 – 0) to recommend that the City Council accept the reports.

ANALYSIS & ASSESSMENT

In its *Independent Auditor's Report* on the City's FY 2018/19 comprehensive annual financial report (CAFR), the CPA firm stated the auditors obtained reasonable assurance that the financial statements present fairly, in all material respects, the financial position, changes in financial position and, where applicable, cash flows of the specified activities and funds and the budgetary comparison for the General Fund. The Independent Auditor's Report, which is on pages 15 - 16 of the City's CAFR, also notes in a "Change in Accounting Principle" paragraph that the City adopted

newly applicable accounting standards related to debt disclosures and interest costs, but these required changes did not modify the auditor's opinion on the financial statements. The Independent Auditor's Report also describes management's responsibility for the financial statements, the auditors' responsibility in auditing the financial statements, and the level of review the auditors performed on other information presented within the CAFR.

As required, the CPA firm's *Communication to Governance* letter related to the CAFR summarizes significant aspects of the City's accounting practices, which includes noting the newly applicable accounting standards. Further, this governance letter lists the City's most sensitive accounting estimates, which the firm found reasonable, and makes other required disclosures. The letter does not identify any matters of concern.

The *Single Audit* reports include the CPA firm's reports on the City's: 1) internal control over financial reporting and compliance based on the financial statement audit and 2) compliance with certain federal funding requirements, internal control over compliance, and the schedule of federal awards expended. The CPA firm did not note any financial-related internal control matters or instances of noncompliance with federal grant requirements that were required to be reported.

Also, in the Single Audit report, the CPA firm concluded that the City's schedule of expenditures of federal awards, which totaled almost \$12.6 million for FY 2018/19, was fairly stated in relation to the City's basic financial statements.

In a separate state-required report, the CPA firm stated its opinion that the City complied with the state's requirement to use *Highway User Revenue Fund (HURF)* monies for authorized transportation purposes.

As with the City's CAFR, the CPA firm issued *unmodified* opinions on the separate annual financial reports of the component units: the 5 CFDs, the MPC and the SPA for FY 2018/19.

The firm's *Communication to Governance* letters for each component unit did not disclose any matters of concern, and the management representation letters are attached to each of the governance letters.

In addition, the CPA firm issued an *Independent Auditor's Report* on internal control over financial reporting and compliance based on a financial statement audit for each of these entities. These reports did not identify any internal control deficiencies or noncompliance matters.

OPTIONS & STAFF RECOMMENDATION

Recommended Approach

As recommended by the Council's Audit Committee, accept the FY 2018/19 financial audit reports submitted by Heinfeld, Meech & Co., P.C.

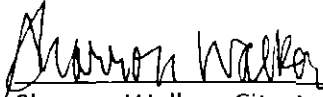
RESPONSIBLE DEPARTMENTS

Offices of the City Treasurer (*financial reports*) and the City Auditor (*independent audit*)

STAFF CONTACTS

Jeff Nichols, City Treasurer, and Sharron Walker, City Auditor

APPROVED BY



Sharron Walker, City Auditor
(480) 312-7867, SWalker@ScottsdaleAZ.gov

11/12/19

Date

ATTACHMENTS

Citywide Reports

1. **Comprehensive Annual Financial Report (CAFR)**
 - a) Communication to Governance
 - b) Single Audit Report (federal funds, internal control and compliance)
 - c) HURF Compliance Report (state compliance)

Component Unit Reports

2. **DC Ranch Community Facilities District (CFD)**
 - a) Communication to Governance
 - b) Report on Internal Control over Financial Reporting and Compliance
3. **McDowell Mountain Ranch CFD**
 - a) Communication to Governance
 - b) Report on Internal Control over Financial Reporting and Compliance
4. **Municipal Property Corporation (MPC)**
 - a) Communication to Governance
 - b) Report on Internal Control over Financial Reporting and Compliance
5. **Scottsdale Mountain CFD**
 - a) Communication to Governance
 - b) Report on Internal Control over Financial Reporting and Compliance
6. **Scottsdale Preserve Authority (SPA)**
 - a) Communication to Governance
 - b) Report on Internal Control over Financial Reporting and Compliance
7. **Via Linda Road CFD**
 - a) Communication to Governance
 - b) Report on Internal Control over Financial Reporting and Compliance
8. **Waterfront Commercial CFD**
 - a) Communication to Governance
 - b) Report on Internal Control over Financial Reporting and Compliance



COMPREHENSIVE ANNUAL FINANCIAL REPORT

City of Scottsdale, Arizona
For the Fiscal Year Ended June 30, 2019

Fire Station 613, located at 26380 N. Hayden Rd.

City of Scottsdale, Arizona



Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2019

Prepared by:

City Treasurer's Office
Jeffery M. Nichols, CPA
City Treasurer/Chief Financial Officer
Joyce L. Gilbride, CPA
Accounting Director



CITY OF SCOTTSDALE, ARIZONA

Comprehensive Annual Financial Report For the Fiscal Year ended June 30, 2019

Table of Contents

INTRODUCTORY SECTION

| | |
|--|----|
| Letter of Transmittal - City Treasurer | 1 |
| Certificate of Achievement - Government Finance Officers Association | 9 |
| List of Elected and Appointed Officials..... | 11 |
| Organizational Chart | 13 |

FINANCIAL SECTION

| | |
|--|----|
| Independent Auditor's Report..... | 15 |
| Management's Discussion and Analysis | 17 |

Basic Financial Statements:

Government-wide Financial Statements:

| | |
|---------------------------------|----|
| Statement of Net Position | 34 |
| Statement of Activities | 36 |

Fund Financial Statements:

| | |
|---|----|
| Balance Sheet - Governmental Funds..... | 37 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position..... | 39 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 40 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 42 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund..... | 43 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund | 45 |
| Statement of Fund Net Position - Proprietary Funds..... | 46 |
| Reconciliation of the Proprietary Funds Statement of Fund Net Position to the Statement of Net Position..... | 48 |

| | |
|--|----|
| Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds..... | 49 |
| Reconciliation of the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position to the Statement of Activities | 50 |
| Statement of Cash Flows - Proprietary Funds | 51 |
| Statement of Fiduciary Net Position - Fiduciary Funds | 53 |

Notes to Financial Statements:

| | |
|--|-----|
| I. Summary of Significant Accounting Policies | 54 |
| II. Reconciliation of Government-wide and Fund Financial Statements..... | 65 |
| III. Stewardship, Compliance, and Accountability..... | 75 |
| IV. Detailed Notes on All Funds | |
| A. Cash and Investments..... | 79 |
| B. Endowments..... | 83 |
| C. Receivables..... | 84 |
| D. Capital Assets..... | 86 |
| E. Interfund Balances and Interfund Transfers..... | 88 |
| F. Leases..... | 89 |
| G. Service Concession Arrangements..... | 91 |
| H. Bonds, Loans, and Other Payables..... | 92 |
| V. Other Information | |
| A. Risk Management..... | 105 |
| B. Contingent Liabilities | 105 |
| C. Subsequent Events | 106 |
| D. Tax Abatement Agreements | 106 |
| E. Joint Ventures..... | 107 |
| F. Pollution Remediation | 108 |
| G. Related Organization | 109 |
| H. Retirement and Pension Plans | 109 |

| | |
|--|------------|
| I. Other Postemployment Benefits | 124 |
| J. Postemployment Benefits Other Than Pensions (OPEB) | 125 |
| Required Supplementary Information | 129 |
| Combining and Individual Fund Statements and Schedules: | |
| Combining Balance Sheet - Nonmajor Governmental Funds..... | 139 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds | 140 |
| Combining Balance Sheet - Nonmajor Special Revenue Governmental Funds..... | 141 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Governmental Funds | 143 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual: | |
| Transportation - Special Revenue Fund..... | 145 |
| Community Development Block Grant - Special Revenue Fund..... | 146 |
| HOME - Special Revenue Fund | 147 |
| Grants - Special Revenue Fund..... | 148 |
| Section 8 - Special Revenue Fund..... | 149 |
| Preserve Privilege Tax - Special Revenue Fund..... | 150 |
| Streetlight Districts - Special Revenue Fund..... | 151 |
| Special Programs - Special Revenue Fund..... | 152 |
| Tourism Development - Special Revenue Fund | 153 |
| Combining and Individual Fund Statements and Schedules: | |
| Combining Balance Sheet - Nonmajor Debt Service Governmental Funds..... | 154 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Debt Service Governmental Funds..... | 155 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual: | |
| General Obligation Bond Debt Service Fund..... | 156 |
| Municipal Property Corporation Debt Service Fund..... | 157 |
| Debt Service Stabilization Debt Service Fund | 158 |
| Scottsdale Preserve Authority Debt Service Fund..... | 159 |

Combining and Individual Fund Statements and Schedules:

Combining Balance Sheet - Nonmajor Capital Projects Governmental Funds..... 160

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Capital Projects Governmental Funds 161

Combining Balance Sheet - Nonmajor Permanent Governmental Funds 162

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Permanent Governmental Funds..... 163

Combining Statement of Fund Net Position - Internal Service Funds 165

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position -
Internal Service Funds 166

Combining Statement of Cash Flows - Internal Service Funds..... 167

Combining Statement of Fiduciary Net Position - Fiduciary Funds..... 169

Combining Statement of Changes in Assets and Liabilities - Agency Funds 170

Other Supplementary Information:

Schedule of Changes in Long-Term Debt..... 172

STATISTICAL SECTION

Financial Trends

Net Position by Component - Last Ten Fiscal Years (accrual basis of accounting) 176

Changes in Net Position - Last Ten Fiscal Years (accrual basis of accounting) 177

Fund Balances of Governmental Funds - Last Ten Fiscal Years
(modified accrual basis of accounting)..... 180

Changes in Fund Balances of Governmental Funds - Last Ten Fiscal Years
(modified accrual basis of accounting)..... 181

Tax Revenues by Source - Last Ten Fiscal Years (modified accrual basis of accounting) 184

Revenue Capacity

Taxable Sales Subject to Privilege (Sales) Tax by Category - Last Ten Fiscal Years 185

Direct and Overlapping Sales Tax Rates - Last Ten Fiscal Years 186

Sales Tax Revenue Payers by Industry - Current Year and Nine Years Ago 187

| | |
|---|-----|
| Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years..... | 188 |
| Principal Property Taxpayers - Current Year and Nine Years Ago..... | 189 |
| Assessed Value of Taxable Property - Last Ten Fiscal Years..... | 190 |
| Property Tax Levies and Collections - Last Ten Fiscal Years | 191 |
| Debt Capacity | |
| Ratios of Outstanding Debt by Type - Last Ten Fiscal Years | 192 |
| Ratios of Net General Bonded Debt Outstanding - Last Ten Fiscal Years | 193 |
| Direct and Overlapping Governmental Activities Debt as of June 30, 2019 | 194 |
| Legal Debt Margin Information - Last Ten Fiscal Years..... | 195 |
| Pledged-Revenue Coverage - Last Ten Fiscal Years | 197 |
| Demographic and Economic Information | |
| Demographic and Economic Statistics - Last Ten Fiscal Years | 198 |
| Principal Employers - Current Year and Nine Years Ago..... | 199 |
| Operating Information | |
| Full-time Equivalent City Government Employees by Function - Last Ten Fiscal Years..... | 200 |
| Operating Indicators by Division - Last Ten Fiscal Years..... | 201 |
| Capital Asset Statistics by Function - Last Ten Fiscal Years | 204 |



Letter of Transmittal
For the Fiscal Year Ended June 30, 2019



October 18, 2019

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Scottsdale, Arizona:

The Comprehensive Annual Financial Report of the City of Scottsdale, Arizona, (the City) for the fiscal year ended June 30, 2019, is submitted in accordance with City Charter and Arizona Revised Statutes. Both require the City to issue an annual report on its financial position and activity, and to have the report audited by certified public accountants independent of City government. This report was prepared by the City's Accounting Department in conformity with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of the information contained in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework designed for this purpose. Because the cost of internal control should not exceed anticipated benefits the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements. To the best of management's knowledge and belief, the enclosed data is accurate in all material aspects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the City.

Heinfeld, Meech & Co., P.C., a firm of licensed certified public accountants, performed the annual independent audit. The goal of the audit was to provide reasonable assurance that the basic financial statements of the City are free of material misstatement. The independent auditor concluded, based upon the audit, that the City's financial statements for the fiscal year ended June 30, 2019, are fairly stated in conformity with GAAP. This is the most favorable conclusion and is commonly known as an unmodified or "clean" opinion. The independent auditor's report is located at the front of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated Single Audit designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair representation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report and may be obtained from the City's website.

This letter of transmittal provides a non-technical summary of City finances, economic prospects, and achievements. Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the City's basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

CITY OF SCOTTSDALE PROFILE

History

Scottsdale was founded in 1888 when retired Army Chaplain Major Winfield Scott homesteaded what is now the center of the City. The City incorporated in 1951 and the City Charter, under which it is presently governed, was adopted in 1961. Portions of the City's charter have been modified several times by vote of the citizens.

Current Profile

Scottsdale is centrally located in Maricopa County, Arizona, with its boundaries encompassing 184.5 square miles, stretching 31 miles from north to south, and 11.4 miles at its widest point. The City is bordered on the west by Phoenix, the state capital, by Tempe on the south, and by the Salt River-Pima Maricopa Indian Community on the east. Scottsdale and its neighboring cities form the greater metropolitan Phoenix area which is the economic, political, and population center of the state. The City has experienced significant increases in population over the years, with the 1950 census reporting 2,021 residents, and the 2010 census reporting 217,365. At July 1, 2019 the City's population was estimated at 255,300 residents, making it the fifth largest municipality by population in Arizona.

Government and Organization

Scottsdale operates under a council-manager form of government as provided by its Charter. The Mayor and six City Council members are elected at large on a non-partisan ballot and serve overlapping four-year terms. The City Council directly appoints six officers (City Attorney, City Auditor, City Clerk, City Manager, City Treasurer, and Presiding Judge) who have full responsibility for carrying out City Council policies and administering day-to-day operations. The City provides a full range of municipal services including police and fire protection, sanitation service, water and sewer services, construction and maintenance of streets, and recreational activities including libraries and cultural events.

Budgetary Controls

The annual budget serves as the foundation for Scottsdale's financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the City's various funds. On or before the second regular Council meeting in May, the City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Three public hearings are held prior to the final budget adoption in order to obtain taxpayer comments. Each year in June, the budget is legally enacted through passage of an ordinance. The ordinance sets the maximum legal expenditure limit for the ensuing fiscal year. Additional expenditures may be authorized if directly necessitated by a natural or man-made disaster as prescribed in the Arizona State Constitution, Article 9, Section 20. During fiscal year 2019, there were no such supplemental budgetary appropriations authorized.

The expenditure appropriations in the adopted budget are by division; however, divisional appropriations may be amended during the year. On the recommendation of the City Manager and with the approval of the City Council: 1) transfers may be made from the appropriations for contingencies to divisions; and 2) unexpended appropriations may be transferred from one division to another.

LOCAL ECONOMY

Business

Scottsdale has a diverse economy built on medical research, high-tech innovation, tourism, and corporate headquarters. The Scottsdale Airpark is one of the largest employment centers in the state of Arizona with more than 2,900 businesses employing over 50,000 employees in 2 million square feet of commercial space. The high-tech innovation center SkySong, located just a few miles from downtown Scottsdale, is designed to help companies grow through a unique partnership with nearby Arizona State University. Downtown Scottsdale is home to a number of technology and healthcare companies and one of the most successful shopping centers in the southwest United States – Scottsdale Fashion Square. Farther north, the Scottsdale Cure Corridor is a partnership of premier healthcare providers and biomedical companies seeking to advance medicine and patient care through cutting-edge research.

Tourism

Tourism is one of Scottsdale’s largest and most vibrant industries, and is a significant contributor to the City’s economy. With a variety of lodging properties in the area, including several world-class resorts and “boutique” hotels, along with spectacular spas, trend-setting dining, and one-of-a kind Sonoran Desert golf courses, Scottsdale is one of the most popular tourist destinations in Arizona.

Sales Tax

Scottsdale’s largest revenue source is sales tax generated from a variety of business categories including automotive, construction, food stores, hotels, department stores, retail stores, restaurants, utilities, and rentals. Sales tax is generated directly from the City’s own applied tax rate and indirectly as the City receives a share of sales tax generated from the State of Arizona’s applied tax rate. The City’s sales tax rate increased from 1.65 percent to 1.75 percent in February 2019 due to voters passing a temporary 0.10 percent increase to provide funds for transportation improvement projects. The increase is in effect for ten years.

The City has experienced a year-over-year increase of 7.1 percent in sales tax revenue for fiscal year 2019, with the highest reported tax revenues in miscellaneous retail stores, automotive, and rentals categories. The City anticipates a stable sales tax revenue stream through fiscal year 2020, with slowing growth forecasted in subsequent years.

Property Values

Scottsdale is a safe, family-friendly community and benefits from a robust assessed valuation of the properties contained within its boundaries. These strong assessed valuations contribute to Scottsdale residents experiencing lower property tax rates and higher median housing values than many of the surrounding municipalities in the Phoenix metropolitan area. Scottsdale property owners will see a decrease in the City's combined property tax rate in the coming year of \$0.0609 over the prior year. This decrease in the combined rate is due to the allowable two percent statutory adjustment and a reduction in debt service payments.

LONG-TERM FINANCIAL PLANNING

Scottsdale's Five-Year Financial Plan is based on sound financial reserves, low debt burden, and conservative revenue growth forecasts. The City anticipates a moderate increase in revenues over the next several years with a continued focus on efficient spending to maintain essential City services to the community such as police, fire, transportation, and social services.

Adopted Comprehensive Financial Policies

Financial policies establish the guidance for Scottsdale's overall fiscal planning and management. They set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. The City has 47 adopted financial policies governing operations, capital management, debt management, reserves, and financial reporting. Regular review and refinement of these policies is done in conjunction with financial plan development and policies that are adopted annually by the City Council.

In fiscal year 2019, the City Council adopted a new *Public Safety Personnel Retirement System (PSPRS) Pension Funding Policy* as required by state law. This policy outlines how the City will maintain stability of required contributions, how and when the City's funding requirements will be met, and defines the City's funded ratio target under the PSPRS and when it will be met.

Financial Resources Planning

Scottsdale's strategic financial planning begins with a determination of the City's fiscal capacity based on long-term financial forecasts of available revenues. Conservative financial forecasts, coupled with financial trend analysis techniques and reserve analysis, help preserve the fiscal well-being of Scottsdale. Strategic financial planning is a critical element to maintain long-term financial stability.

Multi-Year Operating Budget Planning

Multi-year budgeting encompasses long-range operating expenditure plans (including the operating impacts of capital projects), which are linked to community expectations and broad goals of the City Council. While the City is required to adopt a one-year budget to meet State statutory requirements, Scottsdale builds a five-year financial plan to help anticipate future impacts and ensure achievement of the City's long-term objectives.

Strategic Capital Improvement Project Planning

Scottsdale Capital Improvement Projects are planned for five or more years and analyzed using City specific prioritization criteria. The operating cost impacts of projects are also planned and considered in developing future operating budgets. Projects with significant operating impacts are carefully timed to avoid contingent liabilities that future operating resources cannot meet. All capital funding sources are conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used, capital project plans are sized to conform to existing debt management policies.

The City Council Capital Improvement Plan Subcommittee is responsible for reviewing the City's Capital Improvement Plan (CIP) and making recommendations to the City Council. Their work plan includes identifying capital projects to be funded by General Fund and Transportation 0.3 percent sales tax funding. The subcommittee consists of three members of City Council with the Chair position rotating every six months.

Cash Management

To capitalize on investment leverage, it is the City's practice to "pool" available cash from all funds for investment purposes. In accordance with the City's investment policy, available cash is invested with the goal of safety, meaning protection of principal, as the first priority, ensuring adequate liquidity as the second priority, and maximizing yield as the third priority. The City's investments generally include federal agencies, treasuries, certificates of deposit, commercial paper, and corporate notes. The average duration of the investments in the City's portfolio as of June 30, 2019 was 1.77 years. The average yield on investments increased from 1.96 percent in fiscal year 2018 to 2.32 percent in fiscal year 2019.

Debt Management

Scottsdale has a financial policy that prohibits the issuance of debt for operating expenses. With that as a governing framework, all debt issuances are for the purpose of financing infrastructure or long-lived assets. Each debt issuance is evaluated against policies addressing: debt service as a percent of operating expenditures; tax and revenue bases for the repayment of debt; overall debt burden on the community; and statutory limitations and market factors affecting interest costs. In all cases, a long-term analysis is made considering the debt capacity that fits the financial wherewithal (and willingness) of our community to pay for the capital projects. Sizing of the City's Capital Improvement Plan based on debt capacity in conjunction with conservatively estimated revenues helps stabilize per capita debt and lower annual debt service costs to the City over the long-term.

In recent years the City has issued two types of debt: voter approved General Obligation bonds and non-voter approved Municipal Property Corporation bonds and Certificates of Participation (see Section IV.H. of the Notes to the Financial Statements for further information).

The City retained credit ratings of “Aaa,” “AAA,” and “AAA” from the three major credit rating agencies (Moody’s Investors Service, Standard and Poor’s Rating Group, and Fitch Investors Services, respectively) on the City’s outstanding General Obligation bonds where debt service is supported by property taxes. Scottsdale is one of a handful of cities in the nation to earn this distinction. Ratings for the City’s revenue bonds, where debt service is supported by enterprise revenues or excise taxes, are also highly rated by the three major credit rating agencies. A summary of the City’s bond ratings follows:

City of Scottsdale Bonded Debt Ratings

As of June 30, 2019

| | Moody's Investors Service | Standard and Poor's Rating Group | Fitch Investors Services |
|-------------------------------------|--|---|---|
| General Obligation (GO) | Aaa | AAA | AAA |
| Water and Sewer Revenue (W&S) | Aaa | AAA | AAA |
| Municipal Property Corp (MPC) | Aa1 | AAA | AAA |
| Scottsdale Preserve Authority (SPA) | Aa2 | AA+ | AA+ |

ACCOMPLISHMENTS AND PRIORITIES

Noteworthy achievements by the City in fiscal year 2019 include:

- Voter-approved bonds financed resurfacing 57 lane miles of City streets, improving driving conditions and reducing maintenance costs.
- Two new trailheads were opened and 10 miles of new trails were completed to welcome people to the McDowell Mountain Preserve.
- Attracted new companies and helped others expand, resulting in 1,531 new jobs.

The City’s adopted fiscal year 2020 budget increases General Fund spending by \$16.7 million when compared to the fiscal year 2019 adopted budget. This increase supports core services and the priorities and policy direction of the City Council. Significant items include:

- \$4.6 million to fund a 2.5 percent market adjustment for employees and an additional \$2.2 million for the City’s pay for performance program.
- \$3.4 million to address public safety pension-related items.
- \$1.0 million to cover the City’s share of the increase in employee healthcare costs.
- \$1.0 million for priority items such as custodial contract increases, operating costs for recently completed fire stations, and the Airport Terminal Area Redevelopment Project.

Additionally, an estimated \$190.1 million will be spent on capital improvements in the upcoming fiscal year. These projects address critical infrastructure needs and City Council priorities in a variety of areas. Significant projects include:

- Scottsdale Stadium Phase I Improvements: \$41.8 million
- Thomas Groundwater Treatment Facility: \$28.0 million
- Pima Road - Pinnacle Peak to Happy Valley: \$21.5 million
- Crossroads East Flood Control Phase I: \$14.7 million

AWARDS AND ACKNOWLEDGEMENTS

Certificates of Achievement

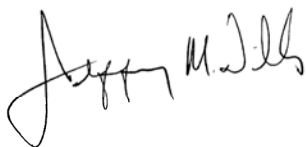
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2018, marking the forty-sixth consecutive year the City has achieved this prestigious recognition. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Additionally, the City received the *Distinguished Budget Presentation Award* for the fiscal year beginning July 1, 2018 from the GFOA for our conformity in budget presentation. We believe that our current budget continues to conform to the program requirements, and we expect to receive this award again for the fiscal year beginning July 1, 2019.

Acknowledgements

The preparation of this report would not have been possible without the talent, effort, and dedication of Accounting staff and the many members of other departments who responded so positively to the requests for detailed information that accompanies each annual audit. I also wish to express my sincere appreciation to the City Council and the City Manager for their support in maintaining the highest standards of professionalism in planning and conducting the financial affairs of the City of Scottsdale.

Respectfully submitted,



Jeffery M. Nichols, CPA

City Treasurer/Chief Financial Officer

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Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Scottsdale
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morrill

Executive Director/CEO

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Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2019



City of Scottsdale, Arizona

List of Elected and Appointed Officials

City Council

W.J. "Jim" Lane, Mayor

Suzanne Klapp

Virginia Korte

Kathy Littlefield

Linda Milhaven

Guy Phillips

Solange Whitehead

Charter Officers

Jim Thompson, City Manager

Bruce Washburn, City Attorney

Sharron Walker, City Auditor

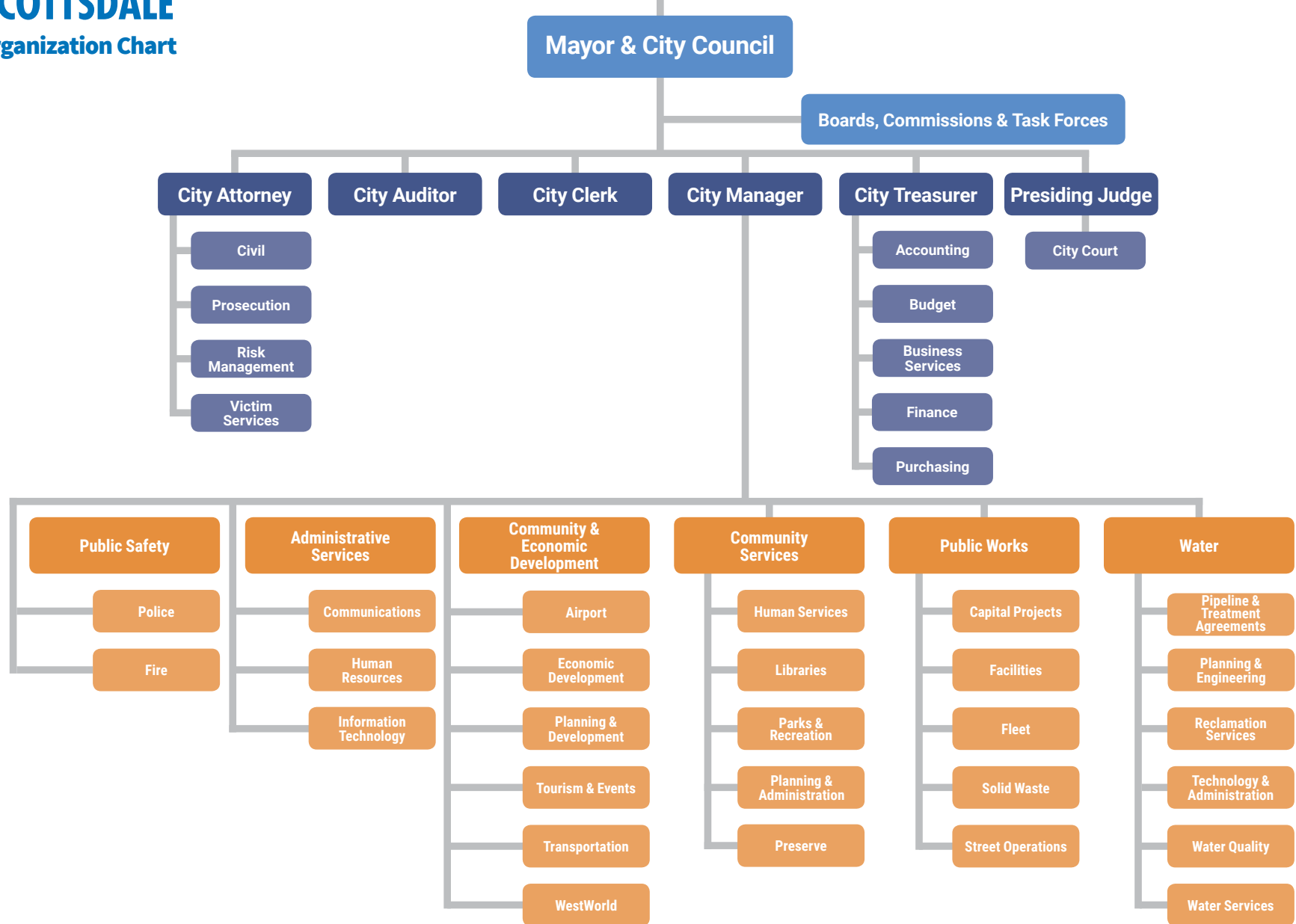
Carolyn Jagger, City Clerk

Joseph Olcavage, Presiding Judge

Jeffery M. Nichols, City Treasurer/Chief Financial Officer

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Citizens of Scottsdale





INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Scottsdale, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scottsdale, Arizona (the City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City'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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scottsdale, Arizona, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, and Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, for the year ended June 30, 2019, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, net pension liability information, and other postemployment benefit plan 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 City's basic financial statements. The Introductory Section, Combining and Individual Fund Statements and Schedules, Other Supplementary Information 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 Statements and Schedules and Other Supplementary Information 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 Combining and Individual Fund Statements and Schedules and Other Supplementary Information are 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 18, 2019, on our consideration of the City of Scottsdale, 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 City of Scottsdale'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 City of Scottsdale, Arizona's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 18, 2019

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

This section of the City of Scottsdale, Arizona's (the City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal years ended June 30, 2019 and 2018. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow, along with the letter of transmittal and other portions of this CAFR.

FINANCIAL HIGHLIGHTS

- The City's total assets and deferred outflows of resources exceeded its total liabilities and deferred inflows of resources at the close of fiscal years 2019 and 2018 by \$5.22 billion and \$5.10 billion (*net position*), respectively. Of these amounts, \$277.8 million and \$222.7 million, respectively, represent unrestricted net position which may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased in fiscal year 2019 by \$120.1 million compared to an increase in net position of \$112.0 million during fiscal year 2018. Total revenues exceeded total expenses in the current year due primarily to an increase in interest and investment income and business taxes of \$17.6 million and \$14.6 million, respectively, over the prior year.
- As of June 30, 2019, and 2018, the City's governmental funds reported combined ending fund balances of \$260.9 million and \$244.3 million, respectively. Approximately 32 percent of the current year amount (\$82.6 million) is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unrestricted fund balance (*the total of the committed, assigned, and unassigned components of fund balance*) for the General Fund was \$97.1 million or approximately 36 percent of total General Fund expenditures of \$270.1 million.
- The City's total long-term liabilities decreased by \$108.9 million to \$1.46 billion during the current fiscal year. This decrease was due to the City making scheduled principal payments on its debt and lower net pension liabilities.

OVERVIEW OF THE FINANCIAL STATEMENTS

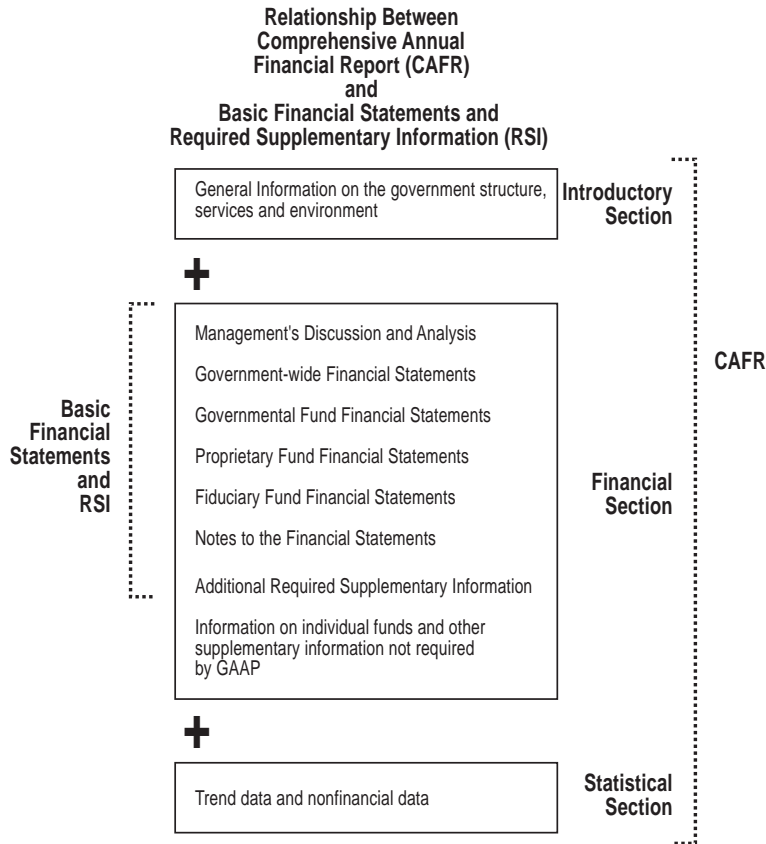
This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which include three components:

- (1) Government-wide Financial Statements
- (2) Fund Financial Statements
- (3) Notes to the Financial Statements

This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019



Government-wide Financial Statements. The **government-wide** financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business and, accordingly, to provide information about the City as a whole, presenting both an aggregate current view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements reflect how services were financed in the short term as well as what dollars remain for future spending. The major fund financial statements also display the City's most significant funds.

The **statement of net position** presents financial information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows 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 City is improving or deteriorating.

The **statement of activities** presents information showing how the City'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 are expected to result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and earned but unused vacation and medical leave.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public works, community and economic development, public safety, community services, and administrative services. The business-type activities of the City include water and sewer utilities, solid waste management, and airport operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the operations of the City of Scottsdale Municipal Property Corporation (MPC), the Scottsdale Preserve Authority (SPA), and the Scottsdale Mountain, McDowell Mountain Ranch, DC Ranch, Via Linda Road, and Waterfront Commercial Community Facilities Districts. Although legally separate from the City, these component units are blended with the primary government because of their governance or financial relationships to the City. Separate financial statements of the MPC, SPA, and the Scottsdale Mountain, McDowell Mountain Ranch, DC Ranch, Via Linda Road, and Waterfront Commercial Community Facilities Districts may be obtained at the Scottsdale City Treasurer's Office, 7447 East Indian School Road, Suite 210, Scottsdale, Arizona 85251.

The government-wide financial statements can be found on pages 34-36 of this report.

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 City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental funds, proprietary funds, and fiduciary 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 focus on near-term inflows and outflows of spendable resources, and provide the balances of spendable resources available at the end of the fiscal year. Such information reflects financial resources available in the near future to finance the City's programs.

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. This comparison highlights the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

The City maintains several individual governmental funds organized according to their purpose (general, permanent, special revenue, debt service, and capital projects). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, General Obligation Bond Debt Service Fund, and the General Capital Improvement Plan (CIP) Construction Capital Projects Fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements in the combining and individual funds statements and schedules section of this report.

The basic governmental fund financial statements can be found on pages 37-45 of this report.

Proprietary Funds. Proprietary funds are generally used to account for services for which the City charges customers; either outside customers or internal units/divisions of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, solid waste, and aviation services. All enterprise funds are considered to be major funds of the City.

Internal service funds are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, personal computer replacement, and health and general liability insurance activities. Because these services predominantly benefit internal units or divisions of the City rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in a separate section of this report.

The basic proprietary fund financial statements can be found on pages 46-52 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City has two agency funds that are reported under the fiduciary funds. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Individual fund data for the fiduciary funds is provided in the form of combining statements in a separate section of this report.

The basic fiduciary fund financial statements can be found on page 53 of this report.

Notes to the Financial Statements. The notes to the financial statements provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 54-128 of this report.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City's proportionate share of the cost-sharing multiple-employer pension plan's net pension liability, the changes in the City's net pension liabilities regarding the agent multiple-employer pension plans, schedules of contributions to the pension plans, and changes in the City's total other post-employment benefits (OPEB) liability. Required supplementary information can be found on pages 129-135 of this report.

Combining Statements. The combining statements referred to earlier in connection with nonmajor governmental funds, internal service funds, and fiduciary funds are presented on pages 136-170.

Other Supplementary Information. The supplemental schedule of changes in long-term debt provides a comprehensive overview of the City's total debt and can be found on pages 171-174.

Statistical Information. The statistical section, found on pages 175-204, presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information indicates about the City's overall financial health.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

While this document contains information about the funds used by the City to provide services to its citizens, the statement of net position and the statement of activities serve to provide an answer to the question of how the City, as a whole, did financially throughout the year. These statements include all assets/deferred outflows of resources and liabilities/deferred inflows of resources using the accrual basis of accounting similar to the private sector. The basis for this accounting considers all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net position and change in net position. The change in net position reflects whether the financial position of the City, as a whole, has improved or diminished; however, in evaluating the overall financial position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets should also be considered.

Analysis of Net Position. As noted earlier, net position over time may serve as a useful indicator of a government's financial position. For the City, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$5.22 billion, and \$5.10 billion at the close of the fiscal years 2019 and 2018, respectively.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

The following table is a condensed summary of the City's net position for governmental and business-type activities:

Net Position

June 30, 2019 and 2018 (in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Current and other assets | \$ 568,073 | \$ 549,376 | \$ 482,773 | \$ 479,540 | \$ 1,050,846 | \$ 1,028,916 |
| Capital assets | 4,378,286 | 4,370,921 | 1,398,603 | 1,398,212 | 5,776,889 | 5,769,133 |
| Total assets | 4,946,359 | 4,920,297 | 1,881,376 | 1,877,752 | 6,827,735 | 6,798,049 |
| Total deferred outflows of resources | 91,310 | 94,580 | 12,813 | 13,433 | 104,123 | 108,013 |
| Total assets and deferred outflows of resources | 5,037,669 | 5,014,877 | 1,894,189 | 1,891,185 | 6,931,858 | 6,906,062 |
| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Long-term liabilities outstanding | 1,093,373 | 1,176,604 | 413,453 | 440,809 | 1,506,826 | 1,617,413 |
| Other liabilities | 133,012 | 123,482 | 48,249 | 48,223 | 181,261 | 171,705 |
| Total liabilities | 1,226,385 | 1,300,086 | 461,702 | 489,032 | 1,688,087 | 1,789,118 |
| Total deferred inflows of resources | 21,072 | 15,450 | 3,931 | 2,863 | 25,003 | 18,313 |
| Total liabilities and deferred inflows of resources | 1,247,457 | 1,315,536 | 465,633 | 491,895 | 1,713,090 | 1,807,431 |
| NET POSITION | | | | | | |
| Net investment in capital assets | 3,675,567 | 3,604,063 | 1,093,556 | 1,099,864 | 4,769,123 | 4,703,927 |
| Restricted | 119,657 | 123,057 | 52,204 | 48,926 | 171,861 | 171,983 |
| Unrestricted | (5,012) | (27,779) | 282,796 | 250,500 | 277,784 | 222,721 |
| Total net position | \$ 3,790,212 | \$ 3,699,341 | \$ 1,428,556 | \$ 1,399,290 | \$ 5,218,768 | \$ 5,098,631 |

The largest portion (91.4 percent) of the City's net position reflects its net investment in capital assets (e.g., land, buildings, water and sewer system, and streets and storm drains) less any related outstanding debt used to acquire those assets. These amounted to \$4.77 billion and \$4.70 billion at June 30, 2019 and 2018, respectively. Although the City's investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources because the City uses these assets to provide services to citizens and therefore cannot liquidate them.

An additional portion 3.3 percent of the City's net position, \$171.9 million at June 30, 2019 and \$172.0 million at June 30, 2018, represents resources that are subject to external restrictions on how they may be used. Unrestricted net position, 5.3 percent of the City's total net position at June 30, 2019 and 4.4 percent at June 30, 2018, \$277.8 million and \$222.7 million, respectively, may be used to meet the government's ongoing obligations to its citizens and creditors.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Analysis of Changes in Net Position. Total revenues exceeded total expenses in the current year, resulting in an increase in the City's total net position of \$120.1 million in fiscal year 2019 compared to an increase in net position of \$112.0 million during fiscal year 2018. The reasons for this overall increase are explained in the governmental and business-type activities discussion herein and depicted in the table that follows:

Changes in Net Position

For the fiscal years ended June 30, 2019 and 2018 (in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|--------------|--------------------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| REVENUES | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 48,215 | \$ 47,449 | \$ 182,203 | \$ 182,225 | \$ 230,418 | \$ 229,674 |
| Operating grants and contributions | 34,233 | 30,760 | - | - | 34,233 | 30,760 |
| Capital grants and contributions | 35,620 | 60,819 | 17,833 | 23,865 | 53,453 | 84,684 |
| General revenues | | | | | | |
| Property taxes | 68,922 | 64,718 | - | - | 68,922 | 64,718 |
| Business taxes | 237,352 | 222,738 | 167 | 144 | 237,519 | 222,882 |
| Intergovernmental - taxes | 55,456 | 54,268 | - | - | 55,456 | 54,268 |
| Intergovernmental - other | 14,924 | 12,031 | - | - | 14,924 | 12,031 |
| Interest and investment income | 11,860 | 2,218 | 10,276 | 2,291 | 22,136 | 4,509 |
| Other | 9,130 | 10,548 | - | - | 9,130 | 10,548 |
| Total revenues | 515,712 | 505,549 | 210,479 | 208,525 | 726,191 | 714,074 |
| EXPENSES | | | | | | |
| General Government | | | | | | |
| Mayor and City Council | 704 | 638 | - | - | 704 | 638 |
| City Clerk | 952 | 695 | - | - | 952 | 695 |
| City Attorney | 6,890 | 6,486 | - | - | 6,890 | 6,486 |
| City Auditor | 898 | 800 | - | - | 898 | 800 |
| City Court | 5,509 | 5,530 | - | - | 5,509 | 5,530 |
| City Manager | 3,691 | 3,062 | - | - | 3,691 | 3,062 |
| City Treasurer | 8,209 | 6,071 | - | - | 8,209 | 6,071 |
| Public Works | 47,420 | 42,205 | - | - | 47,420 | 42,205 |
| Community and Economic Development | 102,680 | 102,153 | - | - | 102,680 | 102,153 |
| Public Safety | 153,817 | 153,256 | - | - | 153,817 | 153,256 |
| Community Services | 56,730 | 54,710 | - | - | 56,730 | 54,710 |
| Administrative Services | 17,974 | 21,173 | - | - | 17,974 | 21,173 |
| Streetlight and Services Districts | 584 | 605 | - | - | 584 | 605 |
| Interest on Long-Term Debt | 26,364 | 28,724 | - | - | 26,364 | 28,724 |
| Water Utility | - | - | 96,010 | 96,493 | 96,010 | 96,493 |
| Sewer Utility | - | - | 50,462 | 52,142 | 50,462 | 52,142 |
| Airport | - | - | 5,370 | 7,624 | 5,370 | 7,624 |
| Solid Waste | - | - | 21,790 | 19,735 | 21,790 | 19,735 |
| Total expenses | 432,422 | 426,108 | 173,632 | 175,994 | 606,054 | 602,102 |
| Increase in net position before transfers | 83,290 | 79,441 | 36,847 | 32,531 | 120,137 | 111,972 |
| Transfers | 7,581 | 7,756 | (7,581) | (7,756) | - | - |
| Change in net position | 90,871 | 87,197 | 29,266 | 24,775 | 120,137 | 111,972 |
| Net position - beginning | 3,699,341 | 3,611,868 | 1,399,290 | 1,374,515 | 5,098,631 | 4,986,383 |
| Net effect of prior period adjustments | - | 276 | - | - | - | 276 |
| Net position - beginning restated | 3,699,341 | 3,612,144 | 1,399,290 | 1,374,515 | 5,098,631 | 4,986,659 |
| Net position - ending | \$ 3,790,212 | \$ 3,699,341 | \$ 1,428,556 | \$ 1,399,290 | \$ 5,218,768 | \$ 5,098,631 |

Management's Discussion and Analysis

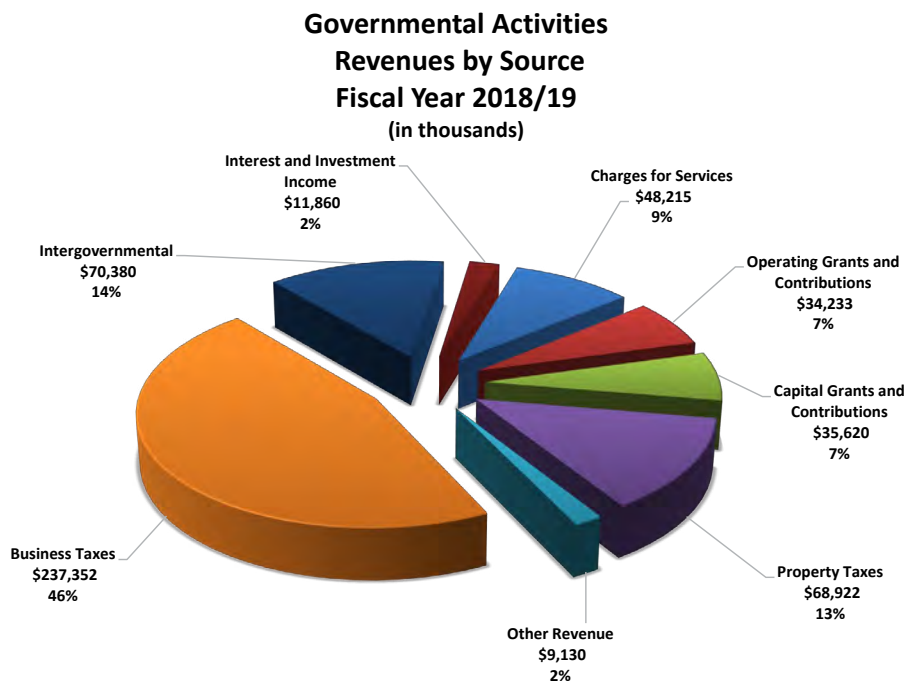
For the Fiscal Year Ended June 30, 2019

Governmental Activities. Net position for governmental activities increased \$90.9 million after transfers during fiscal year 2019 compared to an increase of \$87.2 million after transfers in fiscal year 2018. Total revenues increased \$10.2 million or 2.0 percent from the prior fiscal year and expenses increased \$6.3 million or 1.5 percent. Overall, revenues exceeded expenses resulting in the increase in net position.

The City experienced improved total revenues from governmental activities over the prior year due primarily to a 6.5 percent increase in property taxes, a 6.6 percent increase in business taxes, an 11.3 percent increase in operating grants and contributions, and a greater than 400 percent increase in interest and investment income. These increases reflect the ongoing economic growth experienced locally and nationally over the past several years. Conversely, a decrease (41.4 percent) in capital grants and contributions for governmental activities was noted over the prior year caused by fewer large construction projects completed in fiscal year 2019, resulting in lower developer contributions.

General revenues such as property, franchise, and privilege taxes are not shown by program, but are used to support program activities citywide. Total general revenues for governmental activities were \$397.6 million in fiscal year 2019 compared to \$366.5 million in fiscal year 2018. Property taxes were \$68.9 million in fiscal year 2019 compared to \$64.7 million in fiscal year 2018. As previously noted, business taxes, which include privilege and franchise taxes, increased \$14.6 million or 6.6 percent from the previous year. As well, interest and investment income increased \$9.6 million over the prior year due to an increase in yields on the City's short and long-term investment portfolios caused by strong market conditions for the majority of the fiscal year.

For governmental activities overall, without regard to program, business taxes (46 percent), are the largest single source of funds, followed by intergovernmental taxes (including state shared revenues) (14 percent), property taxes (13 percent), and charges for services (9 percent).



Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Another component of the change in net position is expense. The Public Safety Division, which is comprised of the Police and Fire Departments, is the largest expense function (36 percent), followed by the Community and Economic Development Division (24 percent), and Community Services Division (13 percent).

The Public Safety Division provides police and fire/emergency services throughout the City. Expenses increased by \$0.6 million or 0.4 percent during fiscal year 2019 due primarily to an increase in employee compensation.

The Community and Economic Development Division is charged with stimulating economic activity and offering a diverse range of value-added programs to build, revitalize, and sustain Scottsdale's unique lifestyle and character. The division consists of: Economic Development, Planning and Development Services, Tourism and Development Events, Transportation, and WestWorld. Expenses were \$0.5 million or 0.5 percent higher than the prior fiscal year due primarily to an increase in employee compensation.

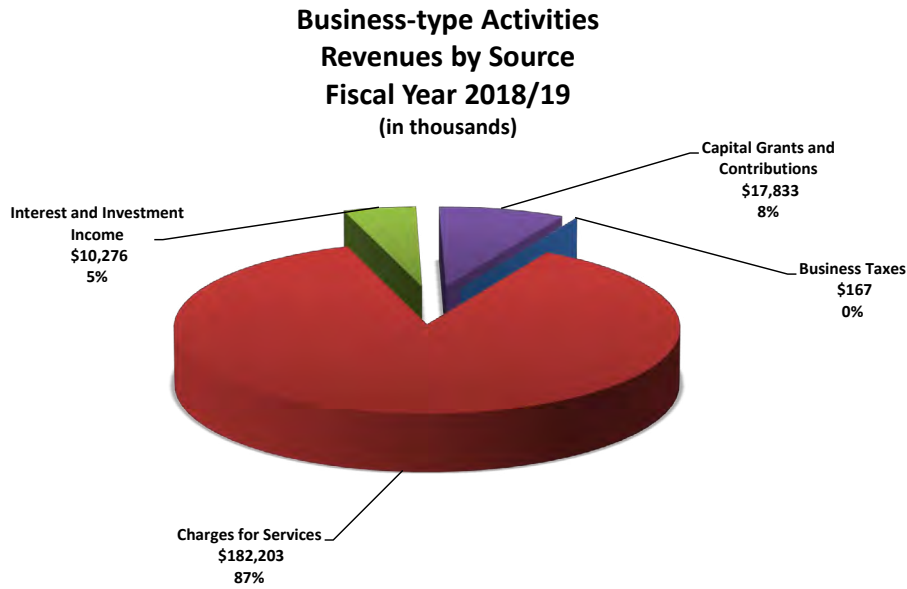
The City's Community Services Division is responsible for improving and maintaining facilities and sponsors services that provide opportunities for family interaction, cultural enrichment, development of lifetime skills, and promoting healthy lifestyles. They also assist those in need through federal, state, local, and private resources. The division consists of: Parks and Recreation, Human Services, Libraries, and Preserve. Expenses were \$2.0 million or 3.7 percent higher than the prior fiscal year due primarily to an increase in employee compensation.

Business-type Activities. Net position for business-type activities increased by \$29.3 million after transfers during fiscal year 2019 compared to \$24.8 million after transfers in fiscal year 2018. Total revenues increased by \$2.0 million or 0.9 percent due primarily to an increase in interest and investment income offset by a decrease in developer contributions and charges for services caused by lower deliveries. Overall, total revenues exceeded expenses resulting in the increase in net position for the fiscal year.

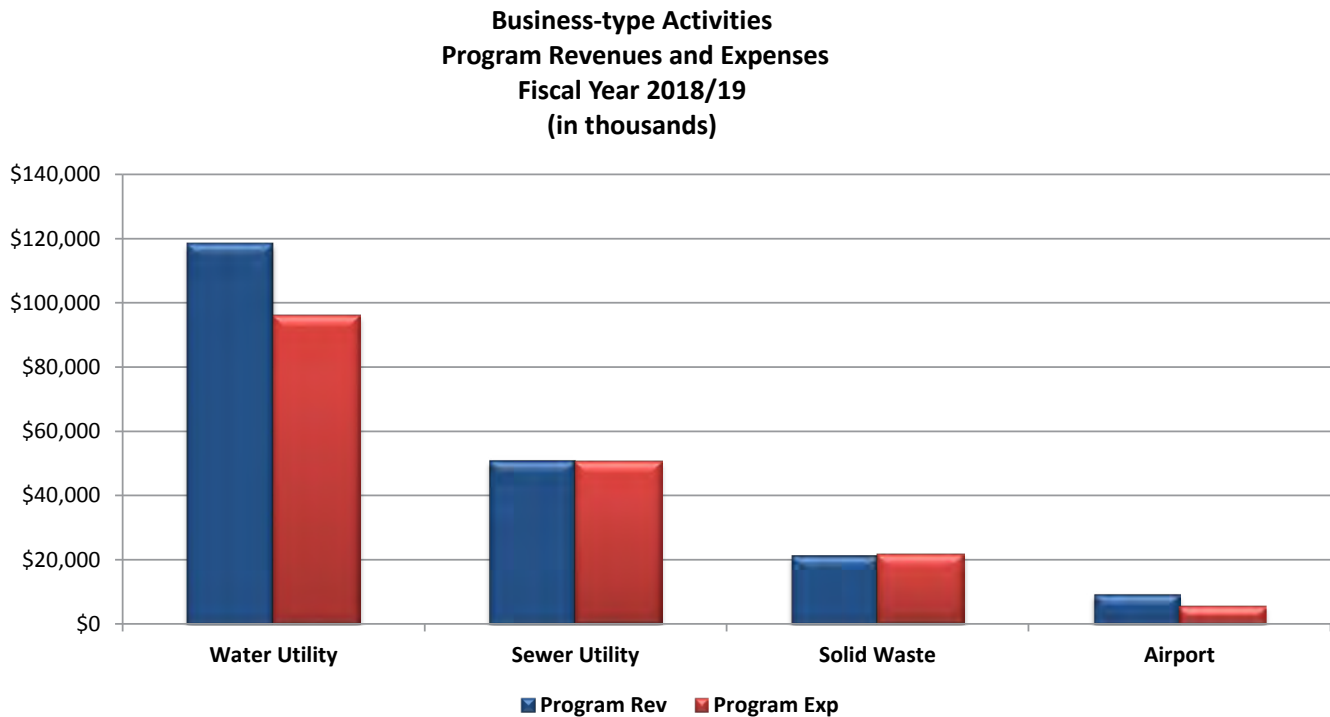
Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

As shown in the *Business-type Activities Revenues by Source* chart, charges for services provided the largest share of revenues (87 percent) followed by capital grants and contributions (8 percent).



As shown below in the *Business-type Activities Program Revenues and Expenses* chart, the largest of the City's business-type activities, water and sewer utilities, had expenses of \$96.0 million and \$50.5 million, respectively, in fiscal year 2019, followed by solid waste with \$21.8 million and airport with \$5.4 million.



Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

The City's Water Resources Department manages and operates a safe, reliable water supply and wastewater reclamation system, and in fiscal year 2019 they provided 91,279 water connections to Scottsdale citizens. The Water and Sewer Utility's combined expenses decreased by 1.5 percent in fiscal year 2019 compared to fiscal year 2018. This was caused primarily by lower electric expenses due to lower water demand and deliveries, and lower purchased water and chemicals, also due to lower water demand and deliveries. The milder weather and ample rain earlier in the year drove a 10.0 percent reduction in deliveries compared to fiscal year 2018.

The Solid Waste Department provided delivery of safe, efficient, and environmentally sound refuse collection services to 82,711 residential customers in fiscal year 2019. Total program expenses increased 10.4 percent or \$2.1 million in fiscal year 2019 compared to fiscal year 2018 due to an increase in employee compensation and landfill contract expenses.

The Aviation Department operates the City's general aviation reliever facility and is home to many of the Valley's corporate aircraft. More than 176,000 take-offs and landings occurred in fiscal year 2019 at Scottsdale Airport. Total program expenses decreased by 29.6 percent or \$2.3 million in fiscal year 2019 compared to fiscal year 2018, driven primarily by a decrease in contractual services due to construction projects.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Funds are created and segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Activity not required to be reported in a separate fund is included in the General Fund. Governmental funds are used to account for tax-supported activities.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable and non-spendable resources. Such information may be useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use, as it represents the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City Council, or the City Treasurer who has been delegated authority to assign resources for use for particular purposes by the City Council. Types of governmental funds reported by the City include the General Fund, Permanent Funds, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$260.9 million, an increase of \$16.6 million from the prior year total of \$244.3 million. Approximately 32 percent or \$82.6 million of the current year amount constitutes unassigned fund balance. The remainder of fund balance is either nonspendable, restricted, or committed to indicate that it is not available for new spending.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Revenues for governmental functions totaled \$492.1 million in fiscal year 2019, an increase of 7.4 percent, or \$34.0 million, from the previous year total of \$458.1 million. In fiscal year 2019, expenditures for governmental functions totaled \$483.4 million, an increase of 4.8 percent, or \$22.3 million, from the fiscal year 2018 total of \$461.1 million. For the current fiscal year, revenues exceeded expenditures for governmental functions by \$8.7 million. This was chiefly due to an increase of \$13.6 million in privilege tax revenues, a \$6.9 million net increase in the fair value of investments, and an increase of \$5.2 million in property taxes over the prior year. These revenues are all indicators of the continued healthy economy experienced by the City and nationally.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$97.1 million, while the total fund balance was \$97.4 million; the unassigned and total balances for the General Fund at the end of fiscal year 2018 were \$72.8 million and \$73.1 million, respectively. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 36.0 percent of the total General Fund expenditures of \$270.1 million in fiscal year 2019 and represented 28.7 percent of the total General Fund expenditures of \$253.4 million in fiscal year 2018. Total fund balance represented 36.1 percent and 28.8 percent of total fund expenditures for fiscal years 2019 and 2018, respectively.

Overall, the General Fund's performance resulted in revenues exceeding expenditures in the fiscal year ended June 30, 2019 by \$38.9 million. Total revenues increased \$25.8 million or 9.1 percent compared to the prior year while expenditures increased \$16.7 million or 6.6 percent.

Key General Fund revenues showing an increase over the prior year included the net increase in the fair value of investments (\$6.9 million), transaction privilege tax (\$6.0 million), and property tax (\$4.5 million), as previously mentioned these are indicators of the strong local and national economy.

Public Safety experienced the largest growth in General Fund expenditures of \$10.0 million due to increased pension costs and salary increases. City Treasurer expenditures increased \$2.6 million over the prior year due to a reorganization that moved the Purchasing Department from Administrative Services to the City Treasurer. Conversely, Administrative services saw a decrease of \$1.0 million in expenditures over the prior year offset by increases in employee compensation, contractual, and commodity purchases. As a result of increased revenues and a nominal increase in expenditures the fund balance of the City's General Fund increased in fiscal year 2019 by \$24.3 million.

The General Obligation Bond Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation debt principal, interest, and related costs. At the end of the current fiscal year, the fund balance of the General Obligation Bond Debt Service Fund was \$1.4 million, a decrease of \$1.1 million from the \$2.5 million balance at June 30, 2018. The decrease in fund balance was due to scheduled debt payments.

The General CIP Construction Capital Projects Fund accounts for the resources used to acquire, construct, and improve major capital facilities from amounts transferred from the City's General Fund. This fund also represents other City Council approved capital programs including transfers for tourism related capital projects, in-lieu parking, and in-lieu stormwater. At the end of the current fiscal year, the fund balance of the General CIP Construction Capital Projects fund was \$42.3 million, an increase of \$4.0 million from the \$38.3 million at June 30, 2018 caused by transfers in exceeding capital expenditures.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal years 2019 and 2018, the unrestricted net position for the Water and Sewer Utility Fund was \$271.0 million and \$256.8 million, respectively; the Airport Fund was \$5.9 million and \$(12.9) million, respectively; and the Solid Waste Fund was \$1.8 million and \$3.4 million, respectively. The Internal Service Funds, which are used to account for certain governmental activities, had unrestricted net position of \$24.4 million and \$20.8 million, respectively.

The total growth in net position for the enterprise funds was \$28.5 million and \$24.0 million for fiscal years 2019 and 2018, respectively. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

General Fund revenues for fiscal year 2019 were \$12.3 million more than projected. Key differences between final estimated revenues and actual revenues were as follows (in thousands):

| Revenue Source | Forecast | Actual | Variance |
|-----------------------------|-----------|-----------|----------|
| Transaction Privilege Taxes | \$126,078 | \$134,126 | \$8,048 |
| Intergovernmental – Misc. | 2,180 | 4,149 | 1,969 |
| Interest Earnings | 3,575 | 4,328 | 753 |

Higher than anticipated transaction privilege tax collections were the result of the strong local economy with automotive, retail, and rental categories leading the way. The intergovernmental-miscellaneous variance was due to the unbudgeted \$1.97 million fire insurance premium credit received in fiscal year 2019. Lastly, the positive variance in interest earnings was due to a to a greater yield on investments than expected due to positive market conditions for the majority of the fiscal year.

General Fund expenditures were \$7.3 million less than the revised fiscal year 2019 budget largely due to the following:

- Employees being promoted or retiring with replacement employees often coming in at a lower salary.
- Jail services and photo enforcement spending less than anticipated.
- Lower need than projected for vehicle maintenance and fuel costs as well as items such as investigative equipment, ballistic vests, library e-materials, furniture, and other miscellaneous operating supplies.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The City's total capital assets for its governmental and business-type activities as of June 30, 2019 and 2018 was \$5.78 billion and \$5.77 billion, respectively (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, streets and storm drains, water and sewer systems, water rights, vehicles, machinery and equipment, furniture and fixtures, and construction in progress. The total increase in the City's capital assets (net of accumulated depreciation) between fiscal years 2019 and 2018 was \$7.8 million or 0.1 percent.

Capital Assets, Net of Depreciation

June 30, 2019 and 2018 (in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|--------------|--------------------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Land | \$ 3,194,486 | \$ 3,177,449 | \$ 50,381 | \$ 50,381 | \$ 3,244,867 | \$ 3,227,830 |
| Buildings and Land Improvements | 357,054 | 368,094 | 57,694 | 25,016 | 414,748 | 393,110 |
| Streets and Storm Drains | 678,581 | 702,507 | - | - | 678,581 | 702,507 |
| Machinery and Equipment | 37,385 | 37,650 | 3,613 | 3,490 | 40,998 | 41,140 |
| Water Rights | - | - | 87,171 | 87,171 | 87,171 | 87,171 |
| Water System | - | - | 754,262 | 752,541 | 754,262 | 752,541 |
| Sewer System | - | - | 392,375 | 398,502 | 392,375 | 398,502 |
| Motor Vehicles | 45,268 | 45,295 | 466 | 550 | 45,734 | 45,845 |
| Furniture, Fixtures, and Office Equipment | - | - | 860 | 453 | 860 | 453 |
| Construction in Progress | 65,512 | 39,926 | 51,781 | 80,108 | 117,293 | 120,034 |
| Total | \$ 4,378,286 | \$ 4,370,921 | \$ 1,398,603 | \$ 1,398,212 | \$ 5,776,889 | \$ 5,769,133 |

Significant capital asset events during fiscal year 2019 included the following:

- Land: \$14.9 million for land donated by developers that coincides with public street improvements for finalized permits, and \$1.9 million for donated easements for streets, sidewalks, and drainage.
- Buildings and Land Improvements:
 - \$28.1 million for airport terminal improvements and \$6.2 for airport runway improvements.
 - \$4.3 million for fire station improvements and \$5.5 million for bridge, facility, underground utility, and park improvements.
- Streets: \$7.5 million for new road improvements donated by developers, \$13.4 million for street preservation, and \$6.2 million related to streets, traffic control, sidewalks and storm drains.
- Vehicles: \$2.7 million for solid waste vehicles, \$2.9 million for public safety vehicles, and \$1.6 million for street and water operation vehicles.

Additional information on the City's capital assets can be found in Note IV.D. on pages 86-88 of this report.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Long-term Debt. At the end of the fiscal years 2019 and 2018, the City had total long-term liabilities of \$1,462.2 million and \$1,571.1 million, respectively. Of these amounts, \$483.2 million and \$525.5 million, for fiscal years 2019 and 2018 respectively, are general obligation bonds backed by the full faith and credit of the City. The remainder includes water and sewer revenue bonds, Municipal Property Corporation bonds, Scottsdale Preserve Authority bonds, certificates of participation, net pension liabilities, and other obligations of \$979.0 million and \$1,045.7 million for fiscal years 2019 and 2018, respectively.

The State constitution imposes debt limitations on the City equal to 6 percent and 20 percent of the assessed valuation of properties within the City. The City's available debt margin at June 30, 2019 and 2018 was \$429.4 million and \$401.3 million, respectively, in the 6 percent capacity and \$955.0 million and \$864.0 million, respectively, in the 20 percent capacity. Additional information on the debt limitations and capacities may be found in Section IV.H. of the Notes to the Financial Statements and also in Tables XVIa and XVIb in the Statistical Section of this report.

Long-term Liabilities

June 30, 2019 and 2018 (in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|--|-------------------------|---------------------|--------------------------|-------------------|---------------------|---------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| General Obligation Bonds | \$ 483,215 | \$ 525,465 | \$ - | \$ - | \$ 483,215 | \$ 525,465 |
| Water and Sewer Revenue Bonds | - | - | 16,175 | 19,715 | 16,175 | 19,715 |
| Municipal Property Corporation Bonds | 173,762 | 187,918 | 290,768 | 306,822 | 464,530 | 494,740 |
| Scottsdale Preserve Authority Bonds | 7,410 | 11,950 | - | - | 7,410 | 11,950 |
| Community Facilities Districts | | | | | | |
| General Obligation Bonds | 2,810 | 2,950 | - | - | 2,810 | 2,950 |
| Certificates of Participation - Direct Borrowing | 2,493 | 4,914 | - | - | 2,493 | 4,914 |
| Community Facilities Districts | | | | | | |
| General Obligation Bonds - Direct Placements | 13,515 | 15,850 | - | - | 13,515 | 15,850 |
| Issuance Premiums | 59,224 | 65,413 | 28,550 | 30,939 | 87,774 | 96,352 |
| Total Bonds Payable | 742,429 | 814,460 | 335,493 | 357,476 | 1,077,922 | 1,171,936 |
| Capital Lease | 219 | 32 | - | - | 219 | 32 |
| Service Concession Arrangements | 2,221 | 2,375 | - | - | 2,221 | 2,375 |
| Risk Management Claims | 22,447 | 22,933 | - | - | 22,447 | 22,933 |
| Compensated Absences | 26,322 | 25,516 | 3,748 | 3,531 | 30,070 | 29,047 |
| Total Other Postemployment Benefit | 2,103 | 2,194 | - | - | 2,103 | 2,194 |
| Net Pension Liabilities | 297,632 | 309,094 | 29,630 | 33,523 | 327,262 | 342,617 |
| Total Long-term Liabilities | \$ 1,093,373 | \$ 1,176,604 | \$ 368,871 | \$ 394,530 | \$ 1,462,244 | \$ 1,571,134 |

During fiscal year 2019, the City's total long-term liabilities decreased overall by \$108.9 million due to the City making scheduled principal payments on its debt, primarily \$42.3 million of general obligation bonds, and \$30.2 million of MPC bonds.

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the City's proportionate share of its unfunded pension liabilities for pension plans in which it participates is included in its outstanding long-term liabilities. The City's net pension liabilities at the end of fiscal years 2019 and 2018 were \$327.3 million and \$342.6 million, respectively. This decrease was due primarily to the change in assumptions and differences between expected and actual experience for the Arizona State Retirement System. Additional information on the City's pensions begin on page 109.

Additional information in the City's long-term liabilities can be found in Section IV.H. of the Notes to the Financial Statements on pages 92-104 of this report.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Together with Arizona's solid economic growth, Scottsdale's economy continues on a strong and stable fiscal path. In June 2019, the City Council approved a \$1,541.8 million budget, which is a 12.8 percent increase over the prior year budget of \$1,366.8 million. The adopted fiscal year 2020 budget includes \$882.1 million for operations, including grants, contingencies and reserves, and \$659.7 million for capital improvements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Scottsdale City Treasurer's Office, 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Or, visit our website at: <http://www.scottsdaleaz.gov/finance>

Basic Financial Statements

Statement of Net Position

June 30, 2019 (in thousands)

| ASSETS | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|------------|
| Cash and Investments | \$ 316,144 | \$ 206,319 | \$ 522,463 |
| Receivables (net of allowance for uncollectibles) | | | |
| Property and Other Local Taxes | 30,305 | 40 | 30,345 |
| Charges for Services | - | 19,630 | 19,630 |
| Fines | 11,050 | - | 11,050 |
| Intergovernmental and Grants | 32,651 | 2,874 | 35,525 |
| Interest | 1,740 | 1,274 | 3,014 |
| Other | 10,892 | 2,886 | 13,778 |
| Internal Balances | (4,057) | 4,057 | - |
| Supplies Inventory | 1,130 | - | 1,130 |
| Prepaid Items | - | 2,211 | 2,211 |
| Prepayments | 26,632 | - | 26,632 |
| Pollution Remediation Recoveries | - | 44,582 | 44,582 |
| Restricted Assets | | | |
| Cash with Fiscal Agent | 80,196 | 48,921 | 129,117 |
| Customer Advances and Deposits | - | 953 | 953 |
| Joint Venture Construction Deposits | - | 6,220 | 6,220 |
| Advanced Construction Payments | - | 3,181 | 3,181 |
| Advanced Lease Payments | - | 1,267 | 1,267 |
| Water and Sewer System Replacement | - | 41,292 | 41,292 |
| Revenue Bond Reserve | - | 4,692 | 4,692 |
| Service Concession Arrangements | 59,731 | - | 59,731 |
| Equity in Joint Ventures | 1,659 | 92,374 | 94,033 |
| Capital Assets Not Being Depreciated | | | |
| Land, Water Rights, and Construction in Progress | 3,259,998 | 189,333 | 3,449,331 |
| Capital Assets, Net of Accumulated Depreciation | | | |
| Facilities, Infrastructure, and Equipment | 1,118,288 | 1,209,270 | 2,327,558 |
| Total Assets | 4,946,359 | 1,881,376 | 6,827,735 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred Amounts on Refundings | 24,158 | 8,683 | 32,841 |
| Pension-Related Amounts | 66,936 | 4,130 | 71,066 |
| OPEB-Related Amounts | 216 | - | 216 |
| Total Deferred Outflows of Resources | \$ 91,310 | \$ 12,813 | \$ 104,123 |

(continued)

Statement of Net Position

June 30, 2019 (in thousands)

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|--------------|
| LIABILITIES | | | |
| Accounts Payable | \$ 25,581 | \$ 14,956 | \$ 40,537 |
| Accrued Payroll and Benefits | 6,066 | 734 | 6,800 |
| Accrued Compensated Absences | 266 | - | 266 |
| Interest Payable | 14,758 | 7,565 | 22,323 |
| Matured Bonds, Loans, and Other Payables | 64,632 | 19,593 | 84,225 |
| Due to Other Governments | 4,927 | - | 4,927 |
| Unearned Revenue | 10,498 | - | 10,498 |
| Liabilities Payable from Restricted Assets | | | |
| Advanced Construction Payments | - | 3,181 | 3,181 |
| Advanced Lease Payments | - | 1,267 | 1,267 |
| Customer Advances & Deposits | 3,242 | 953 | 4,195 |
| Other Liabilities | 3,042 | - | 3,042 |
| Noncurrent Liabilities | | | |
| Due Within One Year | | | |
| Accrued Compensated Absences | 12,491 | 1,767 | 14,258 |
| Bonds, Loans, and Other Payables | 76,868 | 20,703 | 97,571 |
| Due in More Than One Year | | | |
| Accrued Compensated Absences | 13,831 | 1,981 | 15,812 |
| Total Other Postemployment Benefit Liability | 2,103 | - | 2,103 |
| Net Pension Liabilities | 297,632 | 29,630 | 327,262 |
| Bonds, Loans, and Other Payables | 690,448 | 314,790 | 1,005,238 |
| Pollution Remediation Obligation | - | 44,582 | 44,582 |
| Total Noncurrent Liabilities | 1,093,373 | 413,453 | 1,506,826 |
| Total Liabilities | 1,226,385 | 461,702 | 1,688,087 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension-Related Amounts | 20,601 | 3,931 | 24,532 |
| OPEB-Related Amounts | 471 | - | 471 |
| Total Deferred Inflows of Resources | 21,072 | 3,931 | 25,003 |
| NET POSITION | | | |
| Net Investment in Capital Assets | 3,675,567 | 1,093,556 | 4,769,123 |
| Restricted | | | |
| Debt Service | 10,744 | 4,692 | 15,436 |
| Transportation and Preserve Privilege Tax Activities | 54,027 | - | 54,027 |
| Capital Projects | 48,184 | - | 48,184 |
| Grants | 2,735 | - | 2,735 |
| Special Programs | 3,200 | - | 3,200 |
| Streetlight and Services Districts | 11 | - | 11 |
| Community Facilities Districts | 124 | - | 124 |
| Endowments | | | |
| Expendable | 28 | - | 28 |
| Nonexpendable | 604 | - | 604 |
| Repair and Replacement | - | 41,292 | 41,292 |
| Joint Venture Construction Deposits | - | 6,220 | 6,220 |
| Unrestricted | (5,012) | 282,796 | 277,784 |
| Total Net Position | \$ 3,790,212 | \$ 1,428,556 | \$ 5,218,768 |

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

Statement of Activities

For the Fiscal Year Ended June 30, 2019 (in thousands)

| FUNCTIONS/PROGRAMS | Program Revenues | | | | | | Total |
|--------------------------------------|-------------------|----------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|---------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | |
| Governmental Activities | | | | | | | |
| General Government | | | | | | | |
| Mayor and City Council | \$ 704 | \$ 142 | \$ 7 | \$ - | \$ (555) | \$ - | \$ (555) |
| City Clerk | 952 | 171 | - | - | (781) | - | (781) |
| City Attorney | 6,890 | 792 | - | - | (6,098) | - | (6,098) |
| City Auditor | 898 | 203 | - | - | (695) | - | (695) |
| City Court | 5,509 | - | 5 | - | (5,504) | - | (5,504) |
| City Manager | 3,691 | 349 | 1,036 | - | (2,306) | - | (2,306) |
| City Treasurer | 8,209 | 3,036 | - | - | (5,173) | - | (5,173) |
| Public Works | 47,420 | 1,567 | 77 | 3,443 | (42,333) | - | (42,333) |
| Community and Economic Development | 102,680 | 20,562 | 18,009 | 31,383 | (32,726) | - | (32,726) |
| Public Safety | 153,817 | 11,107 | 6,756 | 80 | (135,874) | - | (135,874) |
| Community Services | 56,730 | 7,078 | 7,982 | 714 | (40,956) | - | (40,956) |
| Administrative Services | 17,974 | 2,617 | 361 | - | (14,996) | - | (14,996) |
| Streetlight and Services Districts | 584 | 591 | - | - | 7 | - | 7 |
| Interest on Long-Term Debt | 26,364 | - | - | - | (26,364) | - | (26,364) |
| Total Governmental Activities | <u>432,422</u> | <u>48,215</u> | <u>34,233</u> | <u>35,620</u> | <u>(314,354)</u> | <u>-</u> | <u>(314,354)</u> |
| Business-type Activities | | | | | | | |
| Water Utility | 96,010 | 109,947 | - | 8,476 | - | 22,413 | 22,413 |
| Sewer Utility | 50,462 | 45,419 | - | 5,505 | - | 462 | 462 |
| Airport | 5,370 | 5,493 | - | 3,852 | - | 3,975 | 3,975 |
| Solid Waste | 21,790 | 21,344 | - | - | - | (446) | (446) |
| Total Business-type Activities | <u>173,632</u> | <u>182,203</u> | <u>-</u> | <u>17,833</u> | <u>-</u> | <u>26,404</u> | <u>26,404</u> |
| Total Government | <u>\$ 606,054</u> | <u>\$ 230,418</u> | <u>\$ 34,233</u> | <u>\$ 53,453</u> | <u>(314,354)</u> | <u>26,404</u> | <u>(287,950)</u> |
| General Revenues | | | | | | | |
| Taxes | | | | | | | |
| Property Taxes | | | | | 68,922 | - | 68,922 |
| Sales and Use Taxes | | | | | 224,177 | 167 | 224,344 |
| Franchise Taxes | | | | | 13,175 | - | 13,175 |
| Intergovernmental - Unrestricted | | | | | | | |
| State Shared Sales | | | | | 25,187 | - | 25,187 |
| State Revenue Sharing | | | | | 30,269 | - | 30,269 |
| Other | | | | | 14,924 | - | 14,924 |
| Interest and Investment Income | | | | | 11,860 | 10,276 | 22,136 |
| Other Revenue | | | | | 9,130 | - | 9,130 |
| Transfers | | | | | 7,581 | (7,581) | - |
| Total General Revenues and Transfers | | | | | <u>405,225</u> | <u>2,862</u> | <u>408,087</u> |
| Change in Net Position | | | | | 90,871 | 29,266 | 120,137 |
| Net Position - Beginning | | | | | 3,699,341 | 1,399,290 | 5,098,631 |
| Net Position - Ending | | | | | <u>\$ 3,790,212</u> | <u>\$ 1,428,556</u> | <u>\$ 5,218,768</u> |

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

Balance Sheet

Governmental Funds

June 30, 2019 (in thousands)

| ASSETS | General | General Obligation Bond Debt Service | General CIP Construction Capital Projects | Total Nonmajor Governmental Funds | Total Governmental Funds |
|--|-------------------|---|--|--|---|
| Cash and Investments | \$ 86,327 | \$ 967 | \$ 41,150 | \$ 133,771 | \$ 262,215 |
| Cash with Fiscal Agent | 1,265 | 52,140 | - | 26,791 | 80,196 |
| Receivable (net of allowance for uncollectibles) | | | | | |
| Interest | 1,090 | - | 177 | 473 | 1,740 |
| Privilege Tax | 14,891 | - | - | 8,011 | 22,902 |
| Transient Occupancy Tax | - | - | - | 1,123 | 1,123 |
| Property Tax | 926 | 1,006 | - | 98 | 2,030 |
| State Shared Sales Tax | 855 | - | - | - | 855 |
| Franchise Fee | 2,909 | - | - | 50 | 2,959 |
| Court Receivable | 10,845 | - | - | - | 10,845 |
| Library Receivable | 205 | - | - | - | 205 |
| Highway User Tax | - | - | - | 1,534 | 1,534 |
| Auto Lieu Tax | 436 | - | - | - | 436 |
| Intergovernmental | - | - | - | 29,842 | 29,842 |
| Grants | - | - | - | 1,275 | 1,275 |
| Miscellaneous | 4,030 | - | 2,033 | 4,558 | 10,621 |
| Due from Other Funds | 5,902 | - | - | - | 5,902 |
| Supplies Inventory | 271 | - | - | - | 271 |
| Total Assets | <u>\$ 129,952</u> | <u>\$ 54,113</u> | <u>\$ 43,360</u> | <u>\$ 207,526</u> | <u>\$ 434,951</u> |

(continued)

Balance Sheet

Governmental Funds

June 30, 2019 (in thousands)

| | General | General Obligation Bond Debt Service | General CIP Construction Capital Projects | Total Nonmajor Governmental Funds | Total Governmental Funds |
|---|-------------------|--|---|---|--------------------------------|
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS) | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$ 5,072 | \$ - | \$ 1,055 | \$ 16,579 | \$ 22,706 |
| Accrued Payroll and Benefits | 5,921 | - | 8 | 275 | 6,204 |
| Due to Other Funds | - | - | - | 5,902 | 5,902 |
| Matured Bond Interest Payable | 55 | 9,890 | - | 4,813 | 14,758 |
| Matured Bonds Payable | 1,210 | 42,250 | - | 21,172 | 64,632 |
| Unearned Revenue | | | | | |
| Intergovernmental | - | - | - | 8,606 | 8,606 |
| Other | 962 | - | 3 | 892 | 1,857 |
| Due to Other Governments | 4,922 | - | - | 4 | 4,926 |
| Guaranty and Other Deposits | 3,237 | - | - | 5 | 3,242 |
| Other | 3,036 | - | - | - | 3,036 |
| Total Liabilities | <u>24,415</u> | <u>52,140</u> | <u>1,066</u> | <u>58,248</u> | <u>135,869</u> |
| Deferred Inflows of Resources | | | | | |
| Unavailable Revenues | 8,169 | 579 | 7 | 29,439 | 38,194 |
| Total Liabilities and Deferred Inflows of Resources | <u>32,584</u> | <u>52,719</u> | <u>1,073</u> | <u>87,687</u> | <u>174,063</u> |
| Fund Balances (Deficits) | | | | | |
| Nonspendable | 271 | - | - | 604 | 875 |
| Restricted | - | 1,394 | - | 110,873 | 112,267 |
| Committed | - | - | 42,287 | 22,813 | 65,100 |
| Unassigned | 97,097 | - | - | (14,451) | 82,646 |
| Total Fund Balances (Deficits) | <u>97,368</u> | <u>1,394</u> | <u>42,287</u> | <u>119,839</u> | <u>260,888</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits) | <u>\$ 129,952</u> | <u>\$ 54,113</u> | <u>\$ 43,360</u> | <u>\$ 207,526</u> | <u>\$ 434,951</u> |

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2019 (in thousands)

| | |
|--|---------------------|
| Fund Balances - Total Governmental Funds | \$ 260,888 |
| Amounts reported for governmental activities in the statement of net position are different because (see Note II A): | |
| Capital assets used in governmental activities are not financial resources; therefore, are not reported in the funds. | 4,318,665 |
| Changes in equity in joint venture are not financial resources; therefore, are not reported in the funds. | 1,657 |
| Prepayments and service concession arrangements are not financial resources; therefore, are not reported in the funds. | 86,363 |
| Deferred outflows relating to deferred amounts on refundings, pensions, and other postemployment benefits are not financial resources; therefore, are not reported in the funds. | 90,642 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore are not reported in the funds. | (1,065,719) |
| Deferred inflows relating to pensions and other postemployment benefits represent a future acquisition of net position that is not reported in the funds. Also, because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by unavailable revenue in the funds. | 17,747 |
| Internal Service Funds are used by management to charge the costs of certain activities, such as insurance, computer equipment, and vehicles to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the statement of net position. | <u>79,969</u> |
| Net Position of Governmental Activities | <u>\$ 3,790,212</u> |

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

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| REVENUES | General | General Obligation Bond Debt Service | General CIP Construction Capital Projects | Total Nonmajor Governmental Funds | Total Governmental Funds |
|---|-------------------|--|---|---|--------------------------------|
| Taxes - Local | | | | | |
| Property | \$ 31,383 | \$ 34,087 | \$ - | \$ 3,268 | \$ 68,738 |
| Transaction Privilege | 134,126 | - | - | 69,697 | 203,823 |
| Transient Occupancy | - | - | - | 22,407 | 22,407 |
| Light and Power Franchise | 8,571 | - | - | 261 | 8,832 |
| Cable TV Franchise | 3,293 | - | - | - | 3,293 |
| Salt River Project In-Lieu | 238 | - | - | - | 238 |
| Other Taxes | 3,102 | - | - | - | 3,102 |
| Taxes - Intergovernmental | | | | | |
| State Shared Sales | 25,187 | - | - | - | 25,187 |
| State Revenue Sharing | 30,269 | - | - | - | 30,269 |
| Auto Lieu Tax | 10,791 | - | - | - | 10,791 |
| Highway User Tax | - | - | - | 17,073 | 17,073 |
| Local Transportation Assistance Fund | - | - | - | 642 | 642 |
| Business and Liquor Licenses | 1,866 | - | - | 52 | 1,918 |
| Charges for Current Services | | | | | |
| Building and Related Permits | 15,885 | - | 54 | 40 | 15,979 |
| Recreation Fees | 4,554 | - | - | 2,286 | 6,840 |
| WestWorld Equestrian Facility Fees | 4,863 | - | - | - | 4,863 |
| Fire Fees | 2,092 | - | - | - | 2,092 |
| Fines, Fees, and Forfeitures | | | | | |
| Court | 3,846 | - | - | 146 | 3,992 |
| Parking | 288 | - | - | - | 288 |
| Photo Radar | 2,243 | - | - | - | 2,243 |
| Court Enhancement | - | - | - | 1,764 | 1,764 |
| Library | 426 | - | - | - | 426 |
| Police | - | - | - | 247 | 247 |
| Property Rental | 3,559 | - | - | 2,530 | 6,089 |
| Interest Earnings | 4,328 | - | 547 | 2,081 | 6,956 |
| Net Increase in the Fair Value of Investments | 4,904 | - | - | - | 4,904 |
| Intergovernmental | | | | | |
| Federal Grants | - | - | - | 12,135 | 12,135 |
| State Grants | - | - | - | 410 | 410 |
| Miscellaneous | 4,149 | - | - | 8,785 | 12,934 |
| Developer Contributions | - | - | - | 412 | 412 |
| Streetlight and Services Districts | - | - | - | 591 | 591 |
| Contributions and Donations | - | - | - | 2,575 | 2,575 |
| Reimbursements from Outside Sources | 1,887 | - | - | 528 | 2,415 |
| Indirect Costs | 6,475 | - | - | 424 | 6,899 |
| Other | 670 | - | 3 | 78 | 751 |
| Total Revenues | \$ 308,995 | \$ 34,087 | \$ 604 | \$ 148,432 | \$ 492,118 |

(continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | General | General Obligation Bond Debt Service | General CIP Construction Capital Projects | Total Nonmajor Governmental Funds | Total Governmental Funds |
|---|------------------|--|---|---|--------------------------------|
| EXPENDITURES | | | | | |
| Current | | | | | |
| General Government | | | | | |
| Mayor and City Council | \$ 730 | \$ - | \$ - | \$ 17 | \$ 747 |
| City Clerk | 1,004 | - | - | - | 1,004 |
| City Attorney | 7,471 | - | - | - | 7,471 |
| City Auditor | 948 | - | - | - | 948 |
| City Court | 4,779 | - | - | 1,018 | 5,797 |
| City Manager | 2,708 | - | - | 1,038 | 3,746 |
| City Treasurer | 8,421 | - | - | 172 | 8,593 |
| Public Works | 20,352 | - | - | 14,802 | 35,154 |
| Community and Economic Development | 24,884 | - | - | 23,976 | 48,860 |
| Public Safety | 144,136 | - | - | 2,114 | 146,250 |
| Community Services | 36,145 | - | - | 12,641 | 48,786 |
| Administrative Services | 15,279 | - | - | - | 15,279 |
| Streetlight and Services Districts | - | - | - | 584 | 584 |
| Debt Service | | | | | |
| Principal | 2,631 | 42,250 | - | 21,172 | 66,053 |
| Interest and Fiscal Charges | 321 | 19,786 | - | 9,645 | 29,752 |
| Capital Outlay | 244 | - | 14,973 | 49,178 | 64,395 |
| Total Expenditures | <u>270,053</u> | <u>62,036</u> | <u>14,973</u> | <u>136,357</u> | <u>483,419</u> |
| Excess (Deficiency) of Revenues over (under) Expenditures | <u>38,942</u> | <u>(27,949)</u> | <u>(14,369)</u> | <u>12,075</u> | <u>8,699</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers In | 10,698 | 26,872 | 18,876 | 51,731 | 108,177 |
| Transfers Out | (25,780) | - | (485) | (74,470) | (100,735) |
| Capital Lease Acquisitions | 244 | - | - | - | 244 |
| Sale of General Capital Assets | 191 | - | - | - | 191 |
| Total Other Financing Sources (Uses) | <u>(14,647)</u> | <u>26,872</u> | <u>18,391</u> | <u>(22,739)</u> | <u>7,877</u> |
| Net Change in Fund Balances (Deficits) | 24,295 | (1,077) | 4,022 | (10,664) | 16,576 |
| Fund Balances - Beginning | 73,073 | 2,471 | 38,265 | 130,503 | 244,312 |
| Fund Balances - Ending | <u>\$ 97,368</u> | <u>\$ 1,394</u> | <u>\$ 42,287</u> | <u>\$ 119,839</u> | <u>\$ 260,888</u> |

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | | |
|---|----|----------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | 16,576 |
| <p>Amounts reported for governmental activities in the statement of activities are different because (see Note II B):</p> | | |
| Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. | | (19,322) |
| Donations of capital assets are not capitalized on the governmental fund statements, but are shown in the statement of activities. | | 24,399 |
| Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. | | (33,438) |
| Current-year pension and other postemployment benefit contributions are reclassified from expenditures in the governmental funds to deferred outflows of resources in the government-wide statements. | | 31,430 |
| Current-year joint venture contributions are reclassified from expenditures in the governmental funds to an increase in the investment in the joint venture in the government-wide statements. | | 181 |
| The State Treasurer distributes funding directly to the Public Safety Personnel Retirement System that is used to offset the contribution required to be made by the City. The fund financial statements recognize the current year contribution; however, the government-wide statements recognize the prior year contribution. | | 1,888 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (4,171) |
| Prepayments are expended in the governmental funds when paid, and are capitalized and amortized in the statement of net position. This is the amount of the amortization expense in the current period. | | (967) |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, neither transaction has any effect on net position. This is the amount by which principal retirement exceeded debt proceeds in the current period. | | 65,809 |
| Interest expense in the statement of activities differs from the amount reported in governmental funds because additional interest was calculated for the amortization of deferred amounts on refundings and reductions of interest expense were recognized due to the amortization of bond premiums. | | 3,388 |
| The change in net position of the Internal Service Funds is attributed to governmental activities. | | 5,098 |
| Change in Net Position of Governmental Activities | \$ | 90,871 |

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

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|---|-------------------|-------------------|-----------------------------------|-------------------------------|------------------------------|---|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| Taxes - Local | | | | | | |
| Property | \$ 31,558 | \$ 31,558 | \$ 31,383 | \$ - | \$ 31,383 | \$ (175) |
| Transaction Privilege | 126,078 | 126,078 | 134,126 | - | 134,126 | 8,048 |
| Light and Power Franchise | 8,541 | 8,541 | 8,571 | - | 8,571 | 30 |
| Cable TV Franchise | 4,144 | 4,144 | 3,293 | - | 3,293 | (851) |
| Salt River Project In-Lieu | 218 | 218 | 238 | - | 238 | 20 |
| Other Taxes | 3,103 | 3,103 | 3,102 | - | 3,102 | (1) |
| Taxes - Intergovernmental | | | | | | |
| State Shared Sales | 24,479 | 24,479 | 25,187 | - | 25,187 | 708 |
| State Revenue Sharing | 30,278 | 30,278 | 30,269 | - | 30,269 | (9) |
| Auto Lieu Tax | 10,900 | 10,900 | 10,791 | - | 10,791 | (109) |
| Business and Liquor Licenses | 1,885 | 1,885 | 1,866 | - | 1,866 | (19) |
| Charges for Current Services | | | | | | |
| Building and Related Permits | 15,565 | 15,565 | 15,885 | - | 15,885 | 320 |
| Recreation Fees | 4,307 | 4,307 | 4,554 | - | 4,554 | 247 |
| WestWorld Equestrian Facility Fees | 4,903 | 4,903 | 4,863 | - | 4,863 | (40) |
| Fire Fees | 1,513 | 1,513 | 2,092 | - | 2,092 | 579 |
| Fines, Fees, and Forfeitures | | | | | | |
| Court | 4,169 | 4,169 | 3,846 | - | 3,846 | (323) |
| Parking | 252 | 252 | 288 | - | 288 | 36 |
| Photo Radar | 2,265 | 2,265 | 2,243 | - | 2,243 | (22) |
| Library | 467 | 467 | 426 | - | 426 | (41) |
| Property Rental | 3,373 | 3,373 | 3,559 | - | 3,559 | 186 |
| Interest Earnings | 3,575 | 3,575 | 4,328 | - | 4,328 | 753 |
| Net Increase in the Fair Value of Investments | - | - | - | 4,904 | 4,904 | - |
| Intergovernmental | | | | | | |
| Miscellaneous | 1,820 | 2,180 | 4,149 | - | 4,149 | 1,969 |
| Reimbursements from Outside Sources | 1,181 | 1,181 | 1,887 | - | 1,887 | 706 |
| Indirect Costs | 6,475 | 6,475 | 6,475 | - | 6,475 | - |
| Other | 781 | 421 | 670 | - | 670 | 249 |
| Total Revenues | <u>\$ 291,830</u> | <u>\$ 291,830</u> | <u>\$ 304,091</u> | <u>\$ 4,904</u> | <u>\$ 308,995</u> | <u>\$ 12,261</u> |

(continued)

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| EXPENDITURES | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|---------------------------------------|------------------|------------------|-----------------------------------|-------------------------------|------------------------------|---|
| | Original | Final | | | | |
| Current | | | | | | |
| General Government | | | | | | |
| Mayor and City Council | \$ 664 | \$ 727 | \$ 727 | \$ 3 | \$ 730 | \$ - |
| City Clerk | 1,038 | 1,085 | 1,000 | 4 | 1,004 | 85 |
| City Attorney | 7,063 | 7,698 | 7,299 | 172 | 7,471 | 399 |
| City Auditor | 960 | 1,022 | 944 | 4 | 948 | 78 |
| City Court | 4,785 | 4,818 | 4,763 | 16 | 4,779 | 55 |
| City Manager | 2,580 | 2,749 | 2,696 | 12 | 2,708 | 53 |
| City Treasurer | 8,903 | 8,865 | 8,381 | 40 | 8,421 | 484 |
| Public Works | 20,164 | 20,375 | 20,310 | 42 | 20,352 | 65 |
| Community and Economic Development | 25,442 | 25,573 | 24,812 | 72 | 24,884 | 761 |
| Public Safety | 143,374 | 147,387 | 143,110 | 1,026 | 144,136 | 4,277 |
| Community Services | 36,851 | 37,030 | 36,016 | 129 | 36,145 | 1,014 |
| Administrative Services | 21,091 | 15,290 | 15,223 | 56 | 15,279 | 67 |
| Debt Service | | | | | | |
| Principal | 2,575 | 2,575 | 2,631 | - | 2,631 | (56) |
| Interest and Fiscal Charges | 316 | 316 | 321 | - | 321 | (5) |
| Capital Outlay | 244 | 244 | 244 | - | 244 | - |
| Total Expenditures | <u>276,050</u> | <u>275,754</u> | <u>268,477</u> | <u>1,576</u> | <u>270,053</u> | <u>7,277</u> |
| Excess of Revenues over Expenditures | <u>15,780</u> | <u>16,076</u> | <u>35,614</u> | <u>3,328</u> | <u>38,942</u> | <u>19,538</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers In | 10,298 | 10,298 | 10,698 | - | 10,698 | 400 |
| Transfers Out | (24,135) | (24,135) | (25,780) | - | (25,780) | (1,645) |
| Capital Lease Acquisitions | - | - | 244 | - | 244 | 244 |
| Sale of General Capital Assets | 303 | 303 | 191 | - | 191 | (112) |
| Total Other Financing Sources (Uses) | <u>(13,534)</u> | <u>(13,534)</u> | <u>(14,647)</u> | <u>-</u> | <u>(14,647)</u> | <u>(1,113)</u> |
| Net Change in Fund Balances | 2,246 | 2,542 | 20,967 | 3,328 | 24,295 | 18,425 |
| Fund Balances - Beginning | 50,876 | 81,051 | 81,051 | (7,978) | 73,073 | - |
| Fund Balances - Ending | <u>\$ 53,122</u> | <u>\$ 83,593</u> | <u>\$ 102,018</u> | <u>\$ (4,650)</u> | <u>\$ 97,368</u> | <u>\$ 18,425</u> |

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

General Fund

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

Explanation of Differences:

Items recorded as revenues for GAAP purposes that are not recorded for budget purposes:

| | |
|---|----------|
| Net Increase in the Fair Value of Investments | \$ 4,904 |
|---|----------|

The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:

| | |
|--|-------|
| Payroll Accrual and Compensated Absences | 1,576 |
|--|-------|

Net Increase in Fund Balance - Budget to GAAP

| |
|----------|
| \$ 3,328 |
|----------|

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

Statement of Fund Net Position

Proprietary Funds

June 30, 2019 (in thousands)

| | Water and Sewer Utility | Airport | Solid Waste | Total | Governmental Activities - Internal Service Funds |
|--|----------------------------|---------------|---------------|------------------|---|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and Investments | \$ 190,698 | \$ 7,861 | \$ 7,760 | \$ 206,319 | \$ 53,929 |
| Receivables (net of allowance for uncollectibles) | | | | | |
| Privilege Tax | - | 40 | - | 40 | - |
| Charges for Services | 17,305 | - | 2,325 | 19,630 | - |
| Intergovernmental | - | 982 | - | 982 | - |
| Interest | 1,181 | 39 | 54 | 1,274 | - |
| Miscellaneous | 2,375 | 387 | 124 | 2,886 | 271 |
| Supplies Inventory | - | - | - | - | 859 |
| Restricted Cash, Cash Equivalents, and Investments | | | | | |
| Cash with Fiscal Agent | 47,674 | 1,247 | - | 48,921 | - |
| Customer Advances and Deposits | 863 | 90 | - | 953 | - |
| Prepaid Items | 2,211 | - | - | 2,211 | - |
| Other Restricted Items | | | | | |
| Joint Venture Construction Deposits | 6,220 | - | - | 6,220 | - |
| Total Current Assets | <u>268,527</u> | <u>10,646</u> | <u>10,263</u> | <u>289,436</u> | <u>55,059</u> |
| Noncurrent Assets | | | | | |
| Long-Term Receivables | 1,892 | - | - | 1,892 | - |
| Equity in Joint Ventures | 92,318 | 5 | 51 | 92,374 | 2 |
| Pollution Remediation Recoveries | 44,582 | - | - | 44,582 | - |
| Restricted Cash, Cash Equivalents, and Investments | | | | | |
| Advanced Construction Payments | 3,181 | - | - | 3,181 | - |
| Advanced Lease Payments | - | 1,267 | - | 1,267 | - |
| Water and Sewer System Replacement | 41,292 | - | - | 41,292 | - |
| Revenue Bond Reserve | 4,692 | - | - | 4,692 | - |
| Capital Assets | | | | | |
| Land | 39,706 | 9,564 | 1,111 | 50,381 | - |
| Water Rights | 87,171 | - | - | 87,171 | - |
| Water System | 1,283,992 | - | - | 1,283,992 | - |
| Sewer System | 646,129 | - | - | 646,129 | - |
| Buildings and Improvements | - | 65,274 | 5,587 | 70,861 | 12,887 |
| Motor Vehicles | - | 1,151 | - | 1,151 | 89,310 |
| Machinery and Equipment | 6,432 | 494 | 742 | 7,668 | 4,472 |
| Furniture and Fixtures | 1,155 | 13 | 89 | 1,257 | - |
| Construction in Progress | 47,790 | 2,954 | 1,037 | 51,781 | 1,707 |
| Less Accumulated Depreciation | (787,279) | (11,030) | (3,479) | (801,788) | (48,755) |
| Total Capital Assets (net of accumulated depreciation) | <u>1,325,096</u> | <u>68,420</u> | <u>5,087</u> | <u>1,398,603</u> | <u>59,621</u> |
| Total Noncurrent Assets | <u>1,513,053</u> | <u>69,692</u> | <u>5,138</u> | <u>1,587,883</u> | <u>59,623</u> |
| Total Assets | <u>1,781,580</u> | <u>80,338</u> | <u>15,401</u> | <u>1,877,319</u> | <u>114,682</u> |
| Deferred Outflows of Resources | | | | | |
| Deferred Amounts on Refundings | 8,683 | - | - | 8,683 | - |
| Pension-Related Amounts | 3,007 | 185 | 938 | 4,130 | 668 |
| Total Deferred Outflows of Resources | <u>\$ 11,690</u> | <u>\$ 185</u> | <u>\$ 938</u> | <u>\$ 12,813</u> | <u>\$ 668</u> |

(continued)

Statement of Fund Net Position

Proprietary Funds

June 30, 2019 (in thousands)

| | Water and Sewer Utility | Airport | Solid Waste | Total | Governmental Activities - Internal Service Funds |
|--|----------------------------|-----------|-------------|--------------|---|
| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | | | | | |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Accounts Payable | \$ 12,255 | \$ 1,851 | \$ 850 | \$ 14,956 | \$ 2,875 |
| Accrued Payroll and Benefits | 521 | 34 | 179 | 734 | 127 |
| Accrued Compensated Absences - Current | - | - | - | - | 1 |
| Accrued Compensated Absences - Due within one year | 1,280 | 93 | 394 | 1,767 | 256 |
| Due to Other Governments | - | - | - | - | 1 |
| Customer Advances and Deposits | 863 | 90 | - | 953 | - |
| Interest Payable | 7,093 | 472 | - | 7,565 | - |
| Matured Bonds and Other Payables | 18,818 | 775 | - | 19,593 | - |
| Bonds Payable and Other Payables - Due within one year | 19,888 | 815 | - | 20,703 | 8,764 |
| Unearned Revenue | - | - | - | - | 35 |
| Other Liabilities | - | - | - | - | 6 |
| Total Current Liabilities | 60,718 | 4,130 | 1,423 | 66,271 | 12,065 |
| Noncurrent Liabilities | | | | | |
| Accrued Compensated Absences - Due in more than one year | 1,390 | 130 | 461 | 1,981 | 238 |
| Advanced Construction Payments | 3,181 | - | - | 3,181 | - |
| Advanced Lease Payments | - | 1,267 | - | 1,267 | - |
| Net Pension Liabilities | 21,680 | 1,308 | 6,642 | 29,630 | 4,713 |
| Bonds, Loans, and Other Payables - Due in more than one year | 292,000 | 22,790 | - | 314,790 | 13,683 |
| Pollution Remediation Obligation | 44,582 | - | - | 44,582 | - |
| Total Noncurrent Liabilities | 362,833 | 25,495 | 7,103 | 395,431 | 18,634 |
| Total Liabilities | 423,551 | 29,625 | 8,526 | 461,702 | 30,699 |
| Deferred Inflows of Resources | | | | | |
| Pension-Related Amounts | 2,876 | 173 | 882 | 3,931 | 625 |
| NET POSITION | | | | | |
| Net Investment in Capital Assets | 1,043,654 | 44,815 | 5,087 | 1,093,556 | 59,621 |
| Restricted for Water and Sewer System Replacement | 41,292 | - | - | 41,292 | - |
| Restricted for Debt Service | 4,692 | - | - | 4,692 | - |
| Restricted for Joint Venture Construction Deposits | 6,220 | - | - | 6,220 | - |
| Unrestricted | 270,985 | 5,910 | 1,844 | 278,739 | 24,405 |
| Total Net Position | \$ 1,366,843 | \$ 50,725 | \$ 6,931 | \$ 1,424,499 | \$ 84,026 |

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

Reconciliation of the Proprietary Funds Statement of Fund Net Position to the Statement of Net Position

June 30, 2019 (in thousands)

| | |
|------------------------------------|--------------|
| Total Enterprise Fund Net Position | \$ 1,424,499 |
|------------------------------------|--------------|

Amounts reported for business-type activities in the government-wide statement of net position are different because:

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance, computer equipment, and motor vehicles to individual funds. A look-back adjustment applies to business-type activities and creates an internal balance.

4,057

| | |
|--|----------------------------|
| Net Position of Business-type Activities | <u><u>\$ 1,428,556</u></u> |
|--|----------------------------|

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

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Water and Sewer Utility | Airport | Solid Waste | Total | Governmental Activities - Internal Service Funds |
|--|----------------------------|------------------|-----------------|---------------------|---|
| OPERATING REVENUES | | | | | |
| Charges for Sales and Services | | | | | |
| Water Service Fees | \$ 97,259 | \$ - | \$ - | \$ 97,259 | \$ - |
| Sewer Service Fees | 44,177 | - | - | 44,177 | - |
| Proprietary - Non-potable water fees | 12,337 | - | - | 12,337 | - |
| Solid Waste Fees | - | - | 21,344 | 21,344 | - |
| Airport Fees | - | 5,370 | - | 5,370 | - |
| Other Services | - | - | - | - | 65,288 |
| Other | 1,170 | 103 | - | 1,273 | - |
| Total Operating Revenues | <u>154,943</u> | <u>5,473</u> | <u>21,344</u> | <u>181,760</u> | <u>65,288</u> |
| OPERATING EXPENSES | | | | | |
| Costs for Sales and Services | | | | | |
| Water Operations | 50,646 | - | - | 50,646 | - |
| Sewer Operations | 27,302 | - | - | 27,302 | - |
| Solid Waste Operations | - | - | 20,376 | 20,376 | - |
| Airport Operations | - | 2,388 | - | 2,388 | - |
| Other Services | - | - | - | - | 52,839 |
| Indirect Costs | 4,800 | 590 | 1,509 | 6,899 | - |
| Depreciation | 51,500 | 1,546 | 277 | 53,323 | 8,270 |
| Total Operating Expenses | <u>134,248</u> | <u>4,524</u> | <u>22,162</u> | <u>160,934</u> | <u>61,109</u> |
| Operating Income (Loss) | <u>20,695</u> | <u>949</u> | <u>(818)</u> | <u>20,826</u> | <u>4,179</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | | | |
| Transaction Privilege Tax | - | 167 | - | 167 | - |
| Property Tax | - | - | - | - | 320 |
| Investment Income | 9,544 | 419 | 313 | 10,276 | - |
| Interest Expense | (12,641) | (863) | - | (13,504) | - |
| Gain on Sale of Capital Assets | 423 | 20 | - | 443 | 370 |
| Net Non-Operating Revenue (Expenses) | <u>(2,674)</u> | <u>(257)</u> | <u>313</u> | <u>(2,618)</u> | <u>690</u> |
| Income (Loss) Before Contributions and Transfers | <u>18,021</u> | <u>692</u> | <u>(505)</u> | <u>18,208</u> | <u>4,869</u> |
| Capital Contributions | 13,981 | 3,852 | - | 17,833 | 896 |
| Transfers In | - | - | - | - | 146 |
| Transfers Out | (7,581) | - | - | (7,581) | (7) |
| Change in Net Position | <u>24,421</u> | <u>4,544</u> | <u>(505)</u> | <u>28,460</u> | <u>5,904</u> |
| Total Net Position - Beginning | <u>1,342,422</u> | <u>46,181</u> | <u>7,436</u> | <u>1,396,039</u> | <u>78,122</u> |
| Total Net Position - Ending | <u>\$ 1,366,843</u> | <u>\$ 50,725</u> | <u>\$ 6,931</u> | <u>\$ 1,424,499</u> | <u>\$ 84,026</u> |

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

Reconciliation of the Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position to the Statement of Activities

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | |
|--|-----------|
| Net Change in Total Enterprise Fund Net Position | \$ 28,460 |
|--|-----------|

Amounts reported for business-type activities in the government-wide statement of net position are different because:

Internal Service Funds are used by management to charge the costs of certain activities, such as insurance, computer equipment, and motor vehicles to individual funds. A look-back adjustment applies to business-type activities and creates an internal balance, which reduced the expenses.

| |
|-----|
| 806 |
|-----|

| |
|--|
| Change in Net Position of Business-type Activities |
|--|

| |
|------------------|
| <u>\$ 29,266</u> |
|------------------|

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

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Water and Sewer Utility | Airport | Solid Waste | Total | Governmental Activities - Internal Service Funds |
|--|----------------------------|------------------|-----------------|-------------------|--|
| Cash Flows from Operating Activities | | | | | |
| Cash Received from Customers | \$ 153,168 | \$ 5,206 | \$ 20,881 | \$ 179,255 | \$ 63,387 |
| Cash Payments to Suppliers for Goods/Services | (55,162) | (1,598) | (14,861) | (71,621) | (48,039) |
| Cash Payments to Employees for Services | (23,869) | (1,336) | (7,623) | (32,828) | (5,612) |
| Other Cash Receipts | 1,138 | 103 | - | 1,241 | 1,939 |
| Net Cash Provided by (Used for) Operating Activities | <u>75,275</u> | <u>2,375</u> | <u>(1,603)</u> | <u>76,047</u> | <u>11,675</u> |
| Cash Flows from Non-Capital Financing Activities | | | | | |
| Property Tax | - | - | - | - | 320 |
| Transaction Privilege Tax | - | 167 | - | 167 | - |
| Cash Paid to Other Funds | - | (7,121) | - | (7,121) | - |
| Transfers In | - | - | - | - | 146 |
| Transfers Out | (7,581) | - | - | (7,581) | (7) |
| Net Cash Provided by (Used for) Non-Capital Financing Activities | <u>(7,581)</u> | <u>(6,954)</u> | <u>-</u> | <u>(14,535)</u> | <u>459</u> |
| Cash Flows from Capital and Related Financing Activities | | | | | |
| Capital Contributions from: | | | | | |
| Water and Sewer Development Fees | 4,571 | - | - | 4,571 | - |
| Capital Grants | - | 4,106 | - | 4,106 | - |
| Acquisition and Construction of Property and Equipment | (32,726) | (12,086) | (838) | (45,650) | (10,422) |
| Water and Sewer Development Fee Credit Agreements | (315) | - | - | (315) | - |
| Principal Payments on Capital Debt and Other Payables | (17,815) | (645) | - | (18,460) | - |
| Interest Paid on Capital Debt | (14,629) | (963) | - | (15,592) | - |
| Investment in Joint Venture and CIP Deposit | (9,328) | - | - | (9,328) | - |
| Sale of Capital Assets | 423 | 20 | - | 443 | 588 |
| Net Cash Used for Capital and Related Financing Activities | <u>(69,819)</u> | <u>(9,568)</u> | <u>(838)</u> | <u>(80,225)</u> | <u>(9,834)</u> |
| Cash Flows from Investing Activities | | | | | |
| Income Received on Investments | 9,078 | 401 | 297 | 9,776 | - |
| Net Cash Provided by Investing Activities | <u>9,078</u> | <u>401</u> | <u>297</u> | <u>9,776</u> | <u>-</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 6,953 | (13,746) | (2,144) | (8,937) | 2,300 |
| Cash and Cash Equivalents at Beginning of Year | <u>281,447</u> | <u>24,211</u> | <u>9,904</u> | <u>315,562</u> | <u>51,629</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 288,400</u> | <u>\$ 10,465</u> | <u>\$ 7,760</u> | <u>\$ 306,625</u> | <u>\$ 53,929</u> |

(continued)

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Water and Sewer Utility | Airport | Solid Waste | Total | Governmental Activities - Internal Service Funds |
|---|----------------------------|------------------|-------------------|-------------------|--|
| Cash and Cash Equivalents at End of Year includes: | | | | | |
| Cash and Investments | \$ 190,698 | \$ 7,861 | \$ 7,760 | \$ 206,319 | \$ 53,929 |
| Cash with Fiscal Agent | 47,674 | 1,247 | - | 48,921 | - |
| Restricted Cash and Investments | 50,028 | 1,357 | - | 51,385 | - |
| Total Cash and Cash Equivalents | <u>\$ 288,400</u> | <u>\$ 10,465</u> | <u>\$ 7,760</u> | <u>\$ 306,625</u> | <u>\$ 53,929</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | | | | |
| Cash Flows from Operating Activities | | | | | |
| Operating Income (Loss) | \$ 20,695 | \$ 949 | \$ (818) | \$ 20,826 | \$ 4,179 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities: | | | | | |
| Depreciation/Amortization | 51,500 | 1,546 | 277 | 53,323 | 8,270 |
| Current Year Pension Contributions | (1,835) | (114) | (577) | (2,526) | (413) |
| Change in Equity in Joint Venture RWC | 84 | - | (5) | 79 | - |
| Change in Equity in Joint Venture SROG | 5,380 | - | - | 5,380 | - |
| Change in Accounts Receivable | (218) | (72) | (462) | (752) | - |
| Change in Miscellaneous Receivable | (325) | - | - | (325) | - |
| Change in Inventories | - | - | - | - | 67 |
| Change in Intergovernmental Payable | - | - | - | - | (1) |
| Change in Prepaid Expense | (1,160) | - | - | (1,160) | - |
| Change in Customer Deposits | (63) | 7 | - | (56) | - |
| Change in Accounts Payable | 1,318 | 70 | 69 | 1,457 | (283) |
| Change in Unearned Revenue | - | - | - | - | 35 |
| Change in Accrued Payroll and Compensated Absences | 261 | 37 | 68 | 366 | 89 |
| Change in Claims Payable | - | - | - | - | (487) |
| Change in Advanced Construction Payments | (32) | - | - | (32) | - |
| Change in Advanced Lease Payments | - | (100) | - | (100) | - |
| Change in Net Pension Liability | (2,864) | (103) | (926) | (3,893) | (346) |
| Change in Deferred Outflows of Resources Related to Pensions | 1,755 | 103 | 540 | 2,398 | 368 |
| Change in Deferred Inflows of Resources Related to Pensions | 779 | 52 | 231 | 1,062 | 193 |
| Change in Other Liabilities | - | - | - | - | 4 |
| Total Adjustments | <u>54,580</u> | <u>1,426</u> | <u>(785)</u> | <u>55,221</u> | <u>7,496</u> |
| Net Cash Provided by (Used for) Operating Activities | <u>\$ 75,275</u> | <u>\$ 2,375</u> | <u>\$ (1,603)</u> | <u>\$ 76,047</u> | <u>\$ 11,675</u> |
| Supplemental Disclosure of Non-Cash Financing Activities | | | | | |
| Contributions of Capital Assets from Developers | \$ 9,725 | \$ - | \$ - | \$ 9,725 | \$ - |
| Contributions of Capital Assets from Other Funds | - | 413 | - | 413 | 896 |
| Change in Equity in Joint Venture SROG | (3,140) | - | - | (3,140) | - |
| Total Non-Cash Financing Activities | <u>\$ 6,585</u> | <u>\$ 413</u> | <u>\$ -</u> | <u>\$ 6,998</u> | <u>\$ 896</u> |

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

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2019 (in thousands)

| | <u>Agency Funds</u> |
|---------------------------|---------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 67 |
| Total Assets | <u>\$ 67</u> |
| LIABILITIES | |
| Escrow Payable Vouchers | \$ 67 |
| Total Liabilities | <u>\$ 67</u> |

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

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Scottsdale, Arizona (the City) was incorporated in 1951. The current City Charter was adopted in 1961, which established the Council/Manager form of government. The City provides basic government services to its citizens including roads, water, sewer, solid waste management, public transit, parks and recreation facilities, and public safety.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The financial reporting entity presented in these financial statements consists of the City of Scottsdale, Arizona (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The City has operational responsibility for the component units.

| Component Unit | Description and Criteria for Inclusion | Reporting Method | For Separate Financial Statements |
|---|--|------------------|--|
| City of Scottsdale Municipal Property Corporation (MPC) | <ul style="list-style-type: none"> • Non-profit corporation created in 1967. • Sole purpose is to construct, acquire, and equip buildings, structures, or land improvements for the City. • Governed by Board of Directors confirmed by City Council. • For financial reporting purposes, transactions are included as a governmental and proprietary fund type as if part of the City's operation. | Blended | City of Scottsdale City Treasurer's Office 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251 |
| Scottsdale Preserve Authority (SPA) | <ul style="list-style-type: none"> • Non-profit corporation created in 1997. • Sole purpose is to finance land acquisitions for McDowell Sonoran Preserve. • Governed by a Board of Directors confirmed by City Council. • For financial reporting purposes, transactions are included as a governmental fund type as if part of the City's operation. | Blended | City of Scottsdale City Treasurer's Office 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251 |
| Scottsdale Mountain Community Facilities District (CFD) | <ul style="list-style-type: none"> • Formed by 1992 petition to City Council. • Created to acquire and improve public infrastructure in specified land area. • Able to levy taxes and issue bonds independent of the City. • Property owners within the designated area are assessed for District taxes and costs of operation. • City Council serves as the Board of Directors. • The City has no liability for District debt. • For financial reporting purposes, transactions are included as a governmental fund type as if part of the City's operation. | Blended | City of Scottsdale City Treasurer's Office 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251 |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

| Component Unit | Description and Criteria for Inclusion | Reporting Method | For Separate Financial Statements |
|---|--|------------------|--|
| McDowell Mountain Ranch Community Facilities District (CFD) | <ul style="list-style-type: none"> • Formed by 1994 petition to City Council. • Created to acquire and improve public infrastructure in specified land area. • Able to levy taxes and issue bonds independent of the City. • Property owners within the designated area are assessed for District taxes and costs of operation. • City Council serves as the Board of Directors. • The City has no liability for District debt. • For financial reporting purposes, transactions are included as a governmental fund type as if part of the City's operation. | Blended | City of Scottsdale City Treasurer's Office 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251 |
| DC Ranch Community Facilities District (CFD) | <ul style="list-style-type: none"> • Formed by 1997 petition to City Council. • Created to acquire and improve public infrastructure in specified land area. • Able to levy taxes and issue bonds independent of the City. • Property owners within the designated area are assessed for District taxes and costs of operation. • City Council serves as the Board of Directors. • The City has no liability for District debt. • For financial reporting purposes, transactions are included as a governmental fund type as if part of the City's operation. | Blended | City of Scottsdale City Treasurer's Office 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251 |
| Via Linda Road Community Facilities District (CFD) | <ul style="list-style-type: none"> • Formed by 1998 petition to City Council. • Created to acquire and improve public infrastructure in specified land area. • Able to levy taxes and issue bonds independent of the City. • Property owners within the designated area are assessed for District taxes and costs of operation. • City Council serves as the Board of Directors. • The City has no liability for District debt. • For financial reporting purposes, transactions are included as a governmental fund type as if part of the City's operation. | Blended | City of Scottsdale City Treasurer's Office 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251 |
| Waterfront Commercial Community Facilities District (CFD) | <ul style="list-style-type: none"> • Formed by 2005 petition to City Council. • Created to acquire and improve public infrastructure in specified land area. • Able to levy taxes and issue bonds independent of the City. • Property owners within the designated area are assessed for District taxes and costs of operation. • City Council serves as the Board of Directors. • The City has no liability for District debt. • For financial reporting purposes, transactions are included as a governmental fund type as if part of the City's operation. | Blended | City of Scottsdale City Treasurer's Office 7447 E. Indian School Rd. Ste. 210 Scottsdale, AZ 85251 |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses for a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a function or segment. Taxes and other items not included among program revenues are reported instead as general revenues. Indirect costs incurred by governmental activities and reimbursed by business-type activities are included in the program expense reported by the individual business-type functions.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Agency funds do not have a measurement focus, but utilize the accrual basis of accounting for reporting their assets and liabilities.

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 earned 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. The City considers revenues to be available if they are collected within 31 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 vacation, sick leave, claims, and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in the governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Because different measurement focuses and bases of accounting are used in the government-wide statement of net position and in governmental fund balance sheets, amounts reported as *restricted fund balances* in governmental funds may be different from amounts reported as *restricted net position* in the statement of net position.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Property taxes, other local taxes, and licenses available within the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the same fiscal period in which the revenue is earned. All other revenue items are considered to be measurable and available only when the City receives cash.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund and is used to account for and report all financial resources not accounted for and reported in another fund.

The *General Obligation Bond Debt Service Fund* is used to account for and report the accumulation of financial resources that are restricted to expenditures for the payment of long-term obligation debt principal, interest, and related costs.

The *General CIP Construction Capital Projects Fund* is used to account for and report financial resources that are committed to expenditures for capital outlays including the acquisition, construction, and improvements to major capital facilities or capital equipment from amounts transferred from the City's General Fund in accordance with the City's comprehensive financial policies adopted by the City Council annually. This fund also represents other City Council approved capital programs including committing funds for tourism related capital projects as well as activity for the capital in-lieu parking and in-lieu stormwater.

The government reports the following major proprietary funds:

The *Water and Sewer Utility, Airport, and Solid Waste Funds* account for the operating revenues and expenses of the City's water and sewer utility systems, airport, and sanitation services (solid waste, brush removal, container maintenance, etc.), respectively.

Additionally, the government reports the following fund types:

The *Internal Service Funds* account for fleet management, computer replacements, and self-insurance services provided to other departments or units of the City on a cost-reimbursement basis.

The *Agency Funds* are purely custodial (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds are used to record the Family Self-Sufficiency activity and the AZ Public Service Raintree Underground Utility Improvement District activity.

The *Permanent Funds* account for resources that are legally restricted to the extent that only earnings, not principal, support the City's programs.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are indirect costs, in-lieu franchise fees, and other charges between the City's governmental activities and the Water and Sewer Utility Fund, Airport Fund, and Solid Waste Fund, because elimination of these charges would distort the direct costs and program revenues reported in the statement of activities.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the funds' principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: water, sewer, airport, solid waste, vehicle purchase/maintenance amounts, computer replacement, and risk management charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for specified expenditures, restricted resources are considered spent before unrestricted resources. Within unrestricted resources, committed would be considered spent first (if available), followed by assigned (if available), and then unassigned amounts.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Deposits and Investments

The City considers all highly liquid investments (including restricted assets) in money market mutual funds, demand deposits, certificates of deposit, repurchase agreements, commercial paper, and U.S. Treasury bills with an original maturity of three months or less to be cash equivalents. For the purposes of the statements of cash flows, all pooled cash and investments are considered to be cash equivalents. Maturities in excess of three months when purchased may be deposited or withdrawn by the proprietary funds at any time without prior notice or penalty, therefore having the characteristics of demand deposits.

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* provides that governmental entities may report all investments at fair value or they may elect to report certain money market investments and participating interest-earning investment contracts at amortized cost. The City has elected to report all investments at fair value. The City's policy is to invest in certificates of deposit; repurchase agreements; commercial paper; money market mutual funds; highly rated corporate bonds/notes; obligations of the United States Government, or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities; obligations issued by this state or any political subdivision thereof, or obligations issued by any other municipality and payable from an identified revenue source; or the pooled investment funds established by the Office of the Arizona State Treasurer.

2. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is classified as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

All accounts receivables are shown net of an allowance for uncollectible amounts.

The City's property tax is levied each year on or before the third Monday in August based on the previous January 1 full cash value as determined by the Maricopa County Assessor. Levies are due and payable in two installments, on October 1 and March 1, and become delinquent after November 1 and after May 1, respectively. A lien attaches to the property on the first day of January preceding the assessment and levy of taxes. Delinquent amounts bear interest at the rate of 16 percent. Public auctions of properties which have delinquent real estate taxes are held in February. Maricopa County, at no charge to the taxing entities, bills and collects all property taxes.

Property taxes levied for current operation and maintenance expenses on residential property are limited to one percent of the limited property value of such property. In addition, taxes levied for current operation and maintenance expenses on all types of property are limited to a maximum increase of two percent over the prior year's levy, adjusted for new construction and annexations. Property taxes levied to pay principal and interest on bonded indebtedness are not limited.

3. Inventories, Prepayments, and Prepaid Items

Inventories of the governmental funds are recorded under the consumption method. Inventories are recorded as expenditures when consumed rather than when purchased. Inventories are valued at year-end based on cost, with cost determined using an average cost method.

Prepayments of the governmental funds, which are prepared using the modified accrual basis of accounting, are recorded under the purchases method, and are therefore recorded as expenditures when purchased. Within the government-wide statements, which are prepared using the accrual basis of accounting, prepayments are recorded as assets and amortized over the life of the related agreement.

Prepaid items contain payments made to vendors applicable to future accounting periods in both the government-wide and proprietary fund financial statements. The cost of a prepaid item is recorded as an expense when consumed rather than purchased.

4. Restricted Assets

Certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

The revenue bond reserve and water and sewer replacement accounts are used to report resources set aside to meet unexpected contingencies or to fund asset replacements. The joint venture construction deposits with the City of Phoenix are used for capital expansion, rehabilitation, and expansion of the jointly used facilities. Assets are also restricted in enterprise funds for deposits received from water, sewer, and airport customers, as well as unearned revenues related to cash received in advance of services provided.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Assets contributed (donated) are recorded by reference to historical costs of the donor if recently purchased or constructed, or if such records are not available, at acquisition value. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. The City has elected to exclude the values of the library and art collections held in perpetuity from capitalization as the worth of the collections may change over time and because these collections are maintained in perpetuity to be used for purposes other than financial gain.

Depreciation and amortization of all assets are recorded and calculated using the straight-line method over the following estimated useful lives:

| | |
|--|----------------|
| Water System..... | 10 to 75 Years |
| Sewer System..... | 25 to 50 Years |
| Buildings and Improvements..... | 25 to 50 Years |
| Streets and Storm Drains..... | 30 Years |
| Land Improvements..... | 25 Years |
| Machinery and Equipment..... | 5 to 20 Years |
| Motor Vehicles..... | 3 to 15 Years |
| Furniture, Fixtures, and Office Equipment..... | 5 to 10 Years |

The excess purchase price over fair market value of assets acquired in the Water and Sewer Utility Enterprise Fund is amortized on the straight-line method over 20 to 60 years.

When capital assets are disposed of, the cost and accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in the government-wide and proprietary fund financial statements.

6. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plans' fiduciary net position, and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported within the fair value hierarchy established by generally accepted accounting principles.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

7. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of medical leave earned by employees based on services already rendered. Employees may accumulate up to a maximum number of hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount unused at the calendar year-end are forfeited. The City's policy is to pay employees for unused accumulated vacation hours at termination or retirement. The City's medical leave policy, however, is that only those employees hired full-time before July 1, 1982, receive cash for a portion of unused medical leave at death or retirement. For employees hired after July 1, 1982, the City funds the value of medical leave balances converted to a retiree health savings account for the participant immediately upon retirement. To be eligible for the medical leave conversion, the employee must retire and have accumulated 300 or more hours of medical leave (420 or more hours for shift fire employees) and will be funded at 100 percent for any medical leave hours accrued prior to July 1, 2011. If an employee has not accrued 1,200 hours before July 1, 2011, the employee will be funded the unused medical leave accrued after July 1, 2011, at 50 percent of the employee's hourly base rate at the time of retirement, up to and including 1,200 hours accrued both before and after July 1, 2011. Shift fire employees will have the same rules apply, except their cap is 1,680 medical leave hours.

Vacation pay is calculated based on vacation used and the medical leave conversion is based on an actuarial valuation dated January 1, 2019. The medical leave conversion and vacation pay amounts are accrued in the government-wide and proprietary fund financial statements. A liability for the current amount of compensated absences is recorded as a current liability at June 30, 2019, in the governmental and proprietary funds. The current liability represents compensated absences that have matured but were not paid as of June 30, 2019, that resulted from employee resignations and retirements. The current compensated absences amount in the governmental funds is combined with accrued payroll and other payroll related amounts in the accrued payroll and benefits line item. There is no long-term liability for compensated absences in the governmental funds.

8. Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the governmental activities or business-type activities section, as appropriate, in the statement of net position of the government-wide financial statements, or in the proprietary fund statement of net position in the proprietary fund financial statements. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount and bond issuance costs are expensed when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts 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.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

9. Deferred Outflows/Inflows of Resources

In addition to assets, the government-wide financial statements and the proprietary fund financial statements include a section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has three items that qualify for this category: deferred amounts on refundings, pension-related amounts, and other postemployment benefits (OPEB)-related amounts.

Deferred amounts on refundings 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. The pension and OPEB-related amounts result from differences between expected and actual experience, changes of assumptions or other inputs, and contributions made to the pension/OPEB plan by the employer subsequent to the measurement date of the net pension liability/total OPEB liability and before the end of the reporting period. Additionally, the pension related amounts include the difference between projected and actual investment earnings and changes in proportion and differences between employer contributions and proportionate share of contributions. With the exception of the difference between projected and actual investment earnings and contributions made to the pension/OPEB plan by the employer subsequent to the measurement date of the net pension liability/total OPEB liability and before the end of the reporting period, the pension-and OPEB-related deferred outflows of resources should be recognized in pension/OPEB expense, respectively, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions/OPEB through the pension/OPEB plans (active employees and inactive employees) determined as of the beginning of the measurement period. The deferred outflows of resources relating to the difference between projected and actual investment earnings should be recognized in pension expense using a systematic and rational method over a closed five-year period, beginning in the current reporting period. The deferred outflows of resources relating to contributions made to the pension/OPEB plan by the employer subsequent to the measurement date of the net pension liability/total OPEB liability and before the end of the reporting period will reduce the beginning net pension liability/total OPEB liability in the following fiscal year.

In addition to liabilities, the government-wide and fund financial statements include a section for deferred inflows of resources. This represents an acquisition of fund balance or net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three items that qualify for this category: unavailable revenue, pension-related amounts, and OPEB-related amounts.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Unavailable revenue, which arises only under the modified accrual basis of accounting, is recognized as an inflow of resources in the period that the related amounts become available. The pension-and OPEB-related amounts result from differences between expected and actual experience and changes of assumptions or other inputs. Additionally, the pension related amounts include the difference between projected and actual investment earnings and changes in proportion and differences between employer contributions and proportionate share of contributions. With the exception of the difference between projected and actual investment earnings, the pension-and OPEB-related deferred inflows of resources should be recognized in pension/OPEB expense, respectively, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions/OPEB through the pension/OPEB plans (active employees and inactive employees) determined as of the beginning of the measurement period. The deferred inflows of resources relating to the difference between projected and actual investment earnings should be recognized in pension expense using a systematic and rational method over a closed five-year period, beginning in the current reporting period.

10. Development Impact Fee Revenue

The City has entered into several agreements whereby it will provide a development fee credit to developers for construction of certain public infrastructure improvements. The funding source for the reimbursements will come from Water and Sewer development fees, which are paid when units of the development are connected to the utility system. The City does not become liable under the agreements until the City has accepted the cost, a development fee has been paid, and a water meter has been set.

11. Fund Balance Policies

In the fund financial statements, governmental funds report the fund balance into classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purpose for which those funds can be spent. The classifications of fund balance are Nonspendable, Restricted, Committed, Assigned, and Unassigned.

Nonspendable fund balances include amounts that cannot be spent because they are not in a spendable form, such as inventory or prepaid items, or because resources legally or contractually must remain intact.

Restricted fund balances are the portion of a fund balance that have externally enforceable limitations on their usage through legislation or limitations imposed by creditors, grantors, laws and regulations of other governments, or enabling legislation.

Committed fund balances are self-imposed limitations by the highest level of decision-making authority, namely City Council, prior to the end of the reporting period. City Council approval is required to commit resources or to rescind the commitment through a City Council resolution.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Assigned fund balances are limitations imposed internally by management based on the intended use of the funds. In June 2011, through City Council Resolution No. 8751, the City Council authorized the City Treasurer to assign fund balances for specific purposes.

Unassigned fund balances represent the residual net resources in excess of the other classifications. The General Fund is the only fund that can report a positive unassigned fund balance and any governmental fund can report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for specified expenditures, restricted resources are considered spent before unrestricted resources. Within unrestricted resources, committed would be considered spent first (if available), followed by assigned (if available), and then unassigned amounts.

12. Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets, including infrastructure and capital-related deferred outflows of resources, into one component of net position. Accumulated depreciation, the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets, and the capital-related deferred inflows of resources reduce the balance in this category.

Restricted Net Position – This category represents net position that has external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents net position of the City not restricted for a specific purpose.

13. Use of Estimates

The preparation of basic 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 reported amount of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenue and expenses/expenditures, and the disclosure of contingent assets and liabilities at the date of the basic financial statements. Actual results could differ from those estimates.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

E. Implementation of New Accounting Principles

1. Governmental Accounting Standards Board Statement No. 83

The City adopted the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations*. The scope of this statement addresses accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This pronouncement did not impact the preparation of these financial statements.

2. Governmental Accounting Standards Board Statement No. 88

The City adopted the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this statement is to improve consistency in the information that is disclosed in notes to financial statements related to debt including direct borrowings and direct placements and to provide financial statement users additional information about debt. This statement requires additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral of debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant acceleration clauses.

3. Governmental Accounting Standards Board Statement No. 89

The City adopted the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The statement improves the comparability of information about the capital assets and the cost of borrowing for a reporting period and simplifies the accounting for interest costs incurred before the end of a construction period.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net position

The City's total governmental fund balances, \$260,888,000, differ from the net position of governmental activities, \$3,790,212,000 reported in the statement of net position. The difference primarily results from the long-term economic focus in the statement of net position versus the current financial resources focus in the governmental funds balance sheet.

Reconciliation of Governmental Funds Balance Sheet to the Government-wide Statement of Net Position
(in thousands)

| | Total Governmental Funds | Long-Term Assets and Deferred Outflows/ Liabilities and Deferred Inflows ⁽¹⁾ | Internal Service Funds ⁽²⁾ | Reclassifications and Eliminations ⁽³⁾ | Statement of Net Position Total |
|---|--------------------------------|---|---|--|---------------------------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Assets | | | | | |
| Cash and Investments | \$ 262,215 | \$ - | \$ 53,929 | \$ - | \$ 316,144 |
| Cash with Fiscal Agent | 80,196 | - | - | - | 80,196 |
| Receivables (net of allowance for uncollectibles) | | | | | |
| Interest | 1,740 | - | - | - | 1,740 |
| Privilege Tax | 22,902 | - | - | - | 22,902 |
| Transient Occupancy Tax | 1,123 | - | - | - | 1,123 |
| Property Tax | 2,030 | - | - | - | 2,030 |
| State Shared Sales Tax | 855 | - | - | - | 855 |
| Franchise Fee | 2,959 | - | - | - | 2,959 |
| Court | 10,845 | - | - | - | 10,845 |
| Library | 205 | - | - | - | 205 |
| Highway User Tax | 1,534 | - | - | - | 1,534 |
| Auto Lieu Tax | 436 | - | - | - | 436 |
| Intergovernmental | 29,842 | - | - | - | 29,842 |
| Grants | 1,275 | - | - | - | 1,275 |
| Miscellaneous | 10,621 | - | 271 | - | 10,892 |
| Due from Other Funds | 5,902 | - | - | (5,902) | - |
| Supplies Inventory | 271 | - | 859 | - | 1,130 |
| Capital Assets (net of accumulated depreciation) | - | 4,318,665 | 59,621 | - | 4,378,286 |
| Equity in Joint Venture | - | 1,657 | 2 | - | 1,659 |
| Prepayments | - | 26,632 | - | - | 26,632 |
| Service Concession Arrangements | - | 59,731 | - | - | 59,731 |
| Total Assets | <u>434,951</u> | <u>4,406,685</u> | <u>114,682</u> | <u>(5,902)</u> | <u>4,950,416</u> |
| Deferred Outflows of Resources | | | | | |
| Deferred Amounts on Refundings | - | 24,158 | - | - | 24,158 |
| Pension-Related Amounts | - | 66,268 | 668 | - | 66,936 |
| OPEB-Related Amounts | - | 216 | - | - | 216 |
| Total Deferred Outflows of Resources | <u>-</u> | <u>90,642</u> | <u>668</u> | <u>-</u> | <u>91,310</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 434,951</u> | <u>\$ 4,497,327</u> | <u>\$ 115,350</u> | <u>\$ (5,902)</u> | <u>\$ 5,041,726</u> |

(continued)

Reconciliation of Governmental Funds Balance Sheet to the Government-wide Statement of Net Position

(in thousands)

| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE/NET POSITION | Total Governmental Funds | Long-Term Assets and Deferred Outflows/ Liabilities and Deferred Inflows⁽¹⁾ | Internal Service Funds⁽²⁾ | Reclassifications and Eliminations⁽³⁾ | Statement of Net Position Total |
|--|---|---|---|---|--|
| Liabilities | | | | | |
| Accounts Payable | \$ 22,706 | \$ - | \$ 2,875 | \$ - | \$ 25,581 |
| Accrued Payroll and Benefits | 6,204 | (265) | 127 | - | 6,066 |
| Due to Other Funds | 5,902 | - | 4,057 | (5,902) | 4,057 |
| Accrued Compensated Absences - Current | - | 265 | 1 | - | 266 |
| Accrued Compensated Absences - Due within one year | - | 12,235 | 256 | - | 12,491 |
| Accrued Compensated Absences - Due in more than one year | - | 13,593 | 238 | - | 13,831 |
| Matured Bond Interest Payable | 14,758 | - | - | - | 14,758 |
| Matured Bonds Payable | 64,632 | - | - | - | 64,632 |
| Unearned Revenue | | | | | |
| Intergovernmental | 8,606 | - | - | - | 8,606 |
| Other | 1,857 | - | 35 | - | 1,892 |
| Due to Other Governments | 4,926 | - | 1 | - | 4,927 |
| Guaranty and Other Deposits | 3,242 | - | - | - | 3,242 |
| Other | 3,036 | - | 6 | - | 3,042 |
| Bonds, Loans, Capital Leases, and Other Payables | - | 1,039,891 | 27,160 | - | 1,067,051 |
| Total Liabilities | <u>135,869</u> | <u>1,065,719</u> | <u>34,756</u> | <u>(5,902)</u> | <u>1,230,442</u> |
| Deferred Inflows of Resources | | | | | |
| Unavailable Revenue | 38,194 | (38,194) | - | - | - |
| Pension-Related Amounts | - | 19,976 | 625 | - | 20,601 |
| OPEB-Related Amounts | - | 471 | - | - | 471 |
| Total Deferred Inflows of Resources | <u>38,194</u> | <u>(17,747)</u> | <u>625</u> | <u>-</u> | <u>21,072</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>174,063</u> | <u>1,047,972</u> | <u>35,381</u> | <u>(5,902)</u> | <u>1,251,514</u> |
| Fund Balances/Net Position | | | | | |
| Total Fund Balances/Net Position | <u>260,888</u> | <u>3,449,355</u> | <u>79,969</u> | <u>-</u> | <u>3,790,212</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances/Net Position | <u>\$ 434,951</u> | <u>\$ 4,497,327</u> | <u>\$ 115,350</u> | <u>\$ (5,902)</u> | <u>\$ 5,041,726</u> |

(continued)

Reconciliation of Governmental Funds Balance Sheet to the Government-wide Statement of Net Position

(in thousands)

(1) When capital assets (land, buildings, equipment, etc.) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds; however, the statement of net position includes those capital assets among the assets of the City as a whole.

| | |
|--------------------------|---------------------|
| Cost of capital assets | \$ 5,867,449 |
| Accumulated depreciation | <u>(1,548,784)</u> |
| | <u>\$ 4,318,665</u> |

Equity in joint ventures that are to be used in governmental activities are reported in the governmental funds as expenditures. These assets are included in the statement of net position for the City as a whole.

\$ 1,657

Certain items that are recognized as assets on the statement of net position are expended in governmental funds when paid such as long-term prepayments, while others arise from the incurrence of long-term liabilities or the receipt of capital assets from elsewhere within the City, such as service concession arrangements (SCAs). These assets are capitalized and amortized over the life of the corresponding agreement.

| | |
|-----------------------------|------------------|
| Prepayments at 7/1/18 | \$ 27,599 |
| Amortization of prepayments | <u>(967)</u> |
| | <u>\$ 26,632</u> |
| SCAs at 7/1/18 | \$ 64,105 |
| Amortization of SCAs | <u>(4,374)</u> |
| | <u>\$ 59,731</u> |

Deferred outflows of resources consist of items that will consume net position in a future reporting period(s) and do not meet the definition of an asset. Deferred amounts on refundings result from the difference between the carrying value of refunded debt and its reacquisition price. The pension- and OPEB-related amounts result from differences between expected and actual experience, changes of assumptions or other inputs, the difference between projected and actual investment earnings, and contributions made to the pension plan by the employer subsequent to the measurement date of the net pension liability and before the end of the reporting period.

| | |
|--------------------------------|------------------|
| Deferred amounts on refundings | \$ 24,158 |
| Pension-related amounts | 66,268 |
| OPEB-related amounts | 216 |
| | <u>\$ 90,642</u> |

(continued)

Reconciliation of Governmental Funds Balance Sheet to the Government-wide Statement of Net Position

(in thousands)

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net position. Balances at June 30, 2019, were:

| | |
|--|-----------------------|
| Capital leases payable | \$ (219) |
| Bonds/Certificate of Participation payable | (683,205) |
| Service concession arrangements | (2,221) |
| Issuance premium | (59,224) |
| Accrued vacation and sick leave pay | (25,828) |
| Total OPEB liability | (2,103) |
| Net pension liabilities | (292,919) |
| | <u>\$ (1,065,719)</u> |

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets (for example, receivables) are offset by unavailable revenues in the governmental funds and thus are not included in fund balance. Certain tax and other revenues that are considered unavailable under modified accrual accounting for governmental fund statements are recognized as revenue under accrual accounting for the government-wide statements.

| | |
|---|------------------|
| Unavailable library revenue | \$ 196 |
| Unavailable court revenue | 3,859 |
| Unavailable property tax revenue | 1,151 |
| Unavailable privilege tax revenue | 1,327 |
| Unavailable transient occupancy tax revenue | - |
| Unavailable intergovernmental revenue | 29,094 |
| Unavailable other revenue | 2,567 |
| | <u>\$ 38,194</u> |

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources related to pensions and OPEB may result from differences between expected and actual experience, changes of assumptions or other inputs, the difference between projected and actual investment earnings, and changes in proportion and differences between employer contributions and proportionate share of contributions.

| | |
|-------------------------|--------------------|
| Pension-related amounts | \$ (19,976) |
| OPEB-related amounts | (471) |
| | <u>\$ (20,447)</u> |

(2) Internal service funds are used by management to charge the costs of certain activities, such as fleet management, computer equipment, and self-insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.

\$ 79,969

(3) When governmental funds have cash timing differences, due to and from balances are established at the fund level. This adjustment eliminates the governmental inter-fund activity.

| | |
|--|-------------------|
| Reduction of amount due from other governmental fund | <u>\$ (5,902)</u> |
| Reduction of amount due to other governmental fund | <u>\$ 5,902</u> |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

B. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The net change in fund balances for governmental funds, \$16,576,000, differs from the change in net position for the governmental activities, \$90,871,000, reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated in the next table.

Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities

(in thousands)

| | Total Governmental Funds | Long-Term Revenue/ Expenses ⁽⁴⁾ | Capital Related Items ⁽⁵⁾ | Internal Service Funds ⁽⁶⁾ | Reclassifications and Eliminations ⁽⁷⁾ | Long-Term Debt Transactions ⁽⁸⁾ | Statement of Activities |
|---|--------------------------------|--|--|---|---|---|----------------------------|
| REVENUES | | | | | | | |
| Taxes - Local | | | | | | | |
| Property | \$ 68,738 | \$ (136) | \$ - | \$ 320 | \$ - | \$ - | \$ 68,922 |
| Transaction Privilege | 203,823 | (2,026) | - | - | - | - | 201,797 |
| Transient Occupancy | 22,407 | (27) | - | - | - | - | 22,380 |
| Light and Power Franchise | 8,832 | - | - | - | - | - | 8,832 |
| Cable TV Franchise | 3,293 | 1,050 | - | - | - | - | 4,343 |
| Salt River Project In-Lieu | 238 | - | - | - | - | - | 238 |
| Other Taxes | 3,102 | 151 | - | - | - | - | 3,253 |
| Taxes - Intergovernmental | | | | | | | |
| State Shared Sales | 25,187 | - | - | - | - | - | 25,187 |
| State Revenue Sharing | 30,269 | - | - | - | - | - | 30,269 |
| Auto Lieu Tax | 10,791 | - | - | - | - | - | 10,791 |
| Highway User Tax | 17,073 | - | - | - | - | - | 17,073 |
| Local Transportation Assistance Fund | 642 | - | - | - | - | - | 642 |
| Business and Liquor Licenses | 1,918 | 17 | - | - | - | - | 1,935 |
| Charges for Current Services | | | | | | | |
| Building and Related Permits | 15,979 | (80) | - | - | (213) | - | 15,686 |
| Recreation Fees | 6,840 | - | - | - | - | - | 6,840 |
| WestWorld Equestrian Facility Fees | 4,863 | 13 | - | - | - | - | 4,876 |
| Fire Fees | 2,092 | (187) | - | - | - | - | 1,905 |
| Fines, Fees, and Forfeitures | | | | | | | |
| Court | 3,992 | 84 | - | - | - | - | 4,076 |
| Parking | 288 | 48 | - | - | - | - | 336 |
| Photo Radar | 2,243 | 3 | - | - | - | - | 2,246 |
| Court Enhancement | 1,764 | - | - | - | - | - | 1,764 |
| Library | 426 | (188) | - | - | - | - | 238 |
| Police | 247 | - | - | - | - | - | 247 |
| Property Rental | 6,089 | (19) | - | - | - | - | 6,070 |
| Interest Earnings | 6,956 | - | - | - | - | - | 6,956 |
| Net Increase in Fair Value of Investments | 4,904 | - | - | - | - | - | 4,904 |
| Intergovernmental | | | | | | | |
| Federal Grants | 12,135 | (2,773) | - | - | - | - | 9,362 |
| State Grants | 410 | 5 | - | - | - | - | 415 |
| Miscellaneous | 12,934 | 1,624 | - | - | - | - | 14,558 |
| Developer Contributions | 412 | 237 | - | - | - | - | 649 |
| Streetlight and Services Districts | 591 | - | - | - | - | - | 591 |
| Contributions and Donations | 2,575 | - | - | - | - | - | 2,575 |
| Reimbursements from Outside Sources | 2,415 | (38) | - | - | - | - | 2,377 |
| Indirect Costs | 6,899 | - | - | - | - | - | 6,899 |
| Other | 751 | (56) | - | - | (12) | - | 683 |
| Total Revenues | \$ 492,118 | \$ (2,298) | \$ - | \$ 320 | \$ (225) | \$ - | \$ 489,915 |

(continued)

Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities

(in thousands)

| | <u>Total Governmental Funds</u> | <u>Long-Term Revenue/ Expenses⁽⁴⁾</u> | <u>Capital Related Items⁽⁵⁾</u> | <u>Internal Service Funds⁽⁶⁾</u> | <u>Reclassifications and Eliminations⁽⁷⁾</u> | <u>Long-Term Debt Transactions⁽⁸⁾</u> | <u>Statement of Activities</u> |
|---|---|--|--|---|---|--|------------------------------------|
| EXPENDITURES/EXPENSES | | | | | | | |
| Current | | | | | | | |
| General Government | | | | | | | |
| Mayor and City Council | \$ 747 | \$ (30) | \$ - | \$ (13) | \$ - | \$ - | \$ 704 |
| City Clerk | 1,004 | (45) | 2 | (9) | - | - | 952 |
| City Attorney | 7,471 | (496) | 15 | (100) | - | - | 6,890 |
| City Auditor | 948 | (42) | - | (8) | - | - | 898 |
| City Court | 5,797 | (314) | 91 | (65) | - | - | 5,509 |
| City Manager | 3,746 | (85) | 51 | (21) | - | - | 3,691 |
| City Treasurer | 8,593 | (417) | 147 | (102) | (12) | - | 8,209 |
| Public Works | 35,154 | (1,041) | 13,651 | (321) | (23) | - | 47,420 |
| Community and Economic Development | 48,860 | 2,868 | 51,472 | (307) | (213) | - | 102,680 |
| Public Safety | 146,250 | 4,431 | 5,027 | (1,840) | (51) | - | 153,817 |
| Community Services | 48,786 | (918) | 9,302 | (440) | - | - | 56,730 |
| Administrative Services | 15,279 | (1,117) | 3,959 | (147) | - | - | 17,974 |
| Streetlight and Services Districts | 584 | - | - | - | - | - | 584 |
| Debt Service | | | | | | | |
| Principal | 66,053 | - | - | - | - | (66,053) | - |
| Interest and Fiscal Charges | 29,752 | - | - | - | - | (3,388) | 26,364 |
| Capital Outlay | 64,395 | - | (64,395) | - | - | - | - |
| Total Expenditures/Expenses | <u>\$ 483,419</u> | <u>\$ 2,794</u> | <u>\$ 19,322</u> | <u>\$ (3,373)</u> | <u>\$ (299)</u> | <u>\$ (69,441)</u> | <u>\$ 432,422</u> |
| OTHER FINANCING SOURCES (USES) / CHANGES IN NET POSITION | | | | | | | |
| Net Transfers from Other Funds | \$ 7,442 | \$ - | \$ - | \$ 139 | \$ - | \$ - | \$ 7,581 |
| Capital Contributions | - | - | 24,399 | 896 | (74) | - | 25,221 |
| Capital Lease Acquisitions | 244 | - | - | - | - | (244) | - |
| Sale of Capital Assets | 191 | 15 | - | 370 | - | - | 576 |
| Total | <u>7,877</u> | <u>15</u> | <u>24,399</u> | <u>1,405</u> | <u>(74)</u> | <u>(244)</u> | <u>33,378</u> |
| Net Change for the Year | <u>\$ 16,576</u> | <u>\$ (5,077)</u> | <u>\$ 5,077</u> | <u>\$ 5,098</u> | <u>\$ -</u> | <u>\$ 69,197</u> | <u>\$ 90,871</u> |

(continued)

Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities

(in thousands)

- (4) Because some property taxes will not be collected for several months after the City's fiscal year-end, they are not considered as "available" revenues in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.

| | |
|-----------------------------------|-------------------|
| Property tax revenue | \$ (136) |
| Court/parking revenue | 132 |
| Library revenue | (188) |
| Transaction privilege tax revenue | (2,026) |
| Transient occupancy tax revenue | (27) |
| Intergovernmental revenue | (3,032) |
| Other receivable revenue | 1,106 |
| | <u>\$ (4,171)</u> |

Some expenditures reported in the governmental funds are related to benefits that are allocable to periods beyond the end of the City's current fiscal year.

| | |
|--|-----------------|
| Amortization of long-term prepaid leases | <u>\$ (967)</u> |
|--|-----------------|

Some expenses reported in the statement of activities do not require the use of current financial resources, and are therefore not reported as expenditures in governmental funds.

| | |
|--|--------------------|
| Accrual for long-term compensated absences | \$ (741) |
| OPEB expense | (296) |
| Pension expense | (27,759) |
| Change in equity interest for joint venture | (268) |
| Amortization of service concession arrangements (SCAs) | (4,374) |
| | <u>\$ (33,438)</u> |

Current-year pension and OPEB contributions are reclassified to deferred outflows of resources on the statement of activities, and are therefore not a reduction of net position.

| | |
|------------------------------------|------------------|
| Current-year pension contributions | \$ 31,314 |
| Current-year OPEB contributions | 116 |
| | <u>\$ 31,430</u> |

Current-year joint venture contributions are reclassified to an increase in the joint venture asset on the statement of net position, and are therefore not a reduction of net position.

| | |
|--|---------------|
| | <u>\$ 181</u> |
|--|---------------|

The State Treasurer distributes funding directly to the Public Safety Personnel Retirement System (PSPRS) that is used to offset the contributions required to be made by the City to the PSPRS. This amount is recognized as revenue by the City although no cash is received directly from the State Treasurer.

| | |
|--|-----------------|
| | <u>\$ 1,888</u> |
|--|-----------------|

- (5) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year and the loss on disposal of capital assets.

| | |
|--|--------------------|
| Capital expenditures | \$ 64,395 |
| Miscellaneous net capital expenditures | (6,500) |
| Depreciation expense | (77,145) |
| Loss on disposal of capital assets | (72) |
| | <u>\$ (19,322)</u> |

(continued)

Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-wide Statement of Activities

(in thousands)

Donations of capital assets are not capitalized on the governmental fund statements, but are included in the assets of the City. On the statement of activities the donations are shown as capital contributions.

| | |
|-----------------------|-----------|
| Capital contributions | \$ 24,399 |
|-----------------------|-----------|

(6) Internal service funds are used by management to charge the costs of certain activities, such as insurance, computer equipment, and fleet management to the individual funds. The adjustments for internal service funds adjust those funds by charging additional amounts to participating governmental activities and recording an amount due to/from the enterprise funds.

| | |
|-------------------------------------|----------|
| Change in net position | \$ 5,904 |
| Internal payable to Enterprise Fund | (806) |
| | \$ 5,098 |

(7) Interfund transactions between governmental activities are eliminated in the consolidation of these activities for the statement of activities. The elimination is reflected as a reduction of revenues and expenditures to eliminate the doubling up effect of these transactions within the governmental activities.

| | |
|--|----------|
| Reduction in revenues/capital contributions - Governmental Funds | \$ (299) |
| Reduction in expenditures/expenses - Governmental Funds | \$ 299 |

(8) Repayment of bond principal is reported as an expenditure in governmental funds. Thus, these payments have the effect of reducing fund balance because current financial resources have been used. For the government-wide statements, however, these payments reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities.

| | |
|---------------------------------|-----------|
| Transferred to the paying agent | |
| Principal payments made | \$ 66,053 |

Interest expense in the statement of activities differs from the amount reported in governmental funds because additional interest was calculated for the amortization of deferred amounts on refundings and reductions of interest expense were recognized due to the amortization of bond premiums.

| | |
|--|------------|
| Amortization of deferred charges on refundings | \$ (2,801) |
| Amortization of bond premium and discounts | 6,189 |
| | \$ 3,388 |

Capital lease acquisitions are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities. Proceeds were received from:

| | |
|----------------------------|----------|
| Capital lease acquisitions | \$ (244) |
|----------------------------|----------|

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budget and Budgetary Accounting

The City prepared an annual budget that covered fiscal year 2019. The fiscal year 2019 budget appropriation is established and reflected in the financial statements as follows:

The City prepares its budget on a basis generally consistent with GAAP, with such exceptions as eliminating the adjustments for fair value of investments, payroll accruals, and compensated absences.

A budgetary comparison statement for the General Fund is presented in the basic financial statements. This statement displays original budget, amended budget, and actual results. Budgetary comparison schedules are also included as supplementary schedules for certain other governmental funds.

The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the General Fund, certain Special Revenue Funds (Transportation, Community Development Block Grant, HOME, Grants, Section 8, Preserve Privilege Tax, Streetlight Districts, Special Programs, and Tourism Development), and Debt Service Funds (except for the Community Facilities Districts Debt Service Funds); therefore, these funds have appropriated budgets, and budget to actual information is presented.

Community Facilities Districts Funds, Capital Projects Funds, Enterprise Funds, Internal Service Funds, Permanent Funds, and Trust and Agency Funds have non-appropriated budgets. Accordingly, no comparison of budget to actual is presented in the financial statements for these funds. Budgets for the Community Development Block Grant, HOME, Grants, and Section 8 Funds are established pursuant to the terms of the related grant awards. Budgets for the Community Facilities Districts are established in accordance with Arizona Revised Statutes, which do not require their inclusion in the City budget or adoption by the City Council. Budgets for Capital Projects Funds are established for individual projects and unexpended funds are re-appropriated each year until the project is completed and capitalized. Budgets for Enterprise Funds and Internal Service Funds are established in order to help departments control operational costs. Budgets for Trust and Agency Funds as well as Permanent Funds are established in accordance with the trust/agency agreements and endowment requirements, respectively.

On or before the second regular Council meeting in May, the City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Three public hearings are held prior to the final budget adoption in order to obtain taxpayer comments.

In June, the budget is legally enacted through the passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. Additional expenditures may be authorized beyond the limit for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20. During fiscal year 2019, there were no supplemental budgetary appropriations to the original budget.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The expenditure appropriations in the adopted budget are by division. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. Divisional appropriations may be amended during the fiscal year.

Upon the recommendation of the City Manager and with the approval of the City Council: 1) transfers may be made from the appropriations for contingencies to divisions; and 2) unexpended appropriations may be transferred from one division to another. Management control of budgets is further maintained at a line-item level within the division.

B. Excess of Expenditures over Appropriations

The Preserve Privilege Tax Special Revenue Fund exceeded its expenditure appropriation by \$3,000. The additional expenditures incurred were funded by available fund balance within the fund.

C. Deficit Fund Equity

The Community Development Block Grant Special Revenue Fund, HOME Special Revenue Fund, Grants Special Revenue Fund, and the External Sources Capital Project Fund had deficit ending fund balances of \$60,000, \$185,000, \$244,000, and \$5,517,000, respectively. These deficits were caused by certain grant reimbursements and pending reimbursements from intergovernmental agreements related to capital projects the City is required to fund, not being available at the end of the fiscal year. Revenue accruals are not recognized in the current fiscal year due to the unavailability of the funds. These reimbursements due will be recognized as revenue when actually received.

The Preserve Privilege Tax Capital Projects Fund had a deficit ending fund balance of \$393,000 primarily due to timing differences of cash transfers for accruals.

The Municipal Property Corporation Bonds Capital Projects Fund had a deficit ending fund balance of \$4,253,000 pending an upcoming bond issuance.

D. Fund Balance Classifications

The following table details the fund balance categories and classifications for Governmental Funds:

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

| (in thousands) | General | General Obligation Bond Debt Service | General CIP Construction Capital Projects | Total Nonmajor Governmental Funds | Total Governmental Funds |
|--|-----------|---|--|--|--------------------------------|
| FUND BALANCES | | | | | |
| Nonspendable | | | | | |
| Inventory | \$ 271 | \$ - | \$ - | \$ - | \$ 271 |
| Endowment Funds | - | - | - | 604 | 604 |
| Total Nonspendable | 271 | - | - | 604 | 875 |
| Restricted | | | | | |
| Property Tax for Debt Service | - | 1,394 | - | - | 1,394 |
| Transaction Privilege and Highway User Tax for Transportation Improvements | - | - | - | 15,569 | 15,569 |
| Federal Grants for the Community Development Block Grant Program | - | - | - | 99 | 99 |
| Federal Grants for Section 8 Housing | - | - | - | 436 | 436 |
| Transaction Privilege Tax for Preserve Land Purchase and Improvements | - | - | - | 38,354 | 38,354 |
| Property Tax for Community Facility Districts | - | - | - | 898 | 898 |
| Property Tax Levy for the Streetlight Districts | - | - | - | 11 | 11 |
| Contributions for Mayor and City Council Special Programs | - | - | - | 6 | 6 |
| Court Fees for City Court Special Programs | - | - | - | 2,174 | 2,174 |
| Donations for City Court Jury Program | - | - | - | 5 | 5 |
| Franchise Capital Recovery Fees for Public Works Special Programs | - | - | - | 50 | 50 |
| APS Improvement District Fees for Public Works Special Programs | - | - | - | 35 | 35 |
| Contributions for Community and Economic Development Special Programs | - | - | - | 90 | 90 |
| Allocation from Crime Laboratory Assessment Fund for Police | - | - | - | 91 | 91 |
| Forensic Laboratory Services Agreement Fees for Police Crime Lab Operations | - | - | - | 280 | 280 |
| Donations for Fire Special Programs | - | - | - | 9 | 9 |
| Donations for Police Special Programs | - | - | - | 77 | 77 |
| Fees for Police Officer Safety Equipment | - | - | - | 158 | 158 |
| Donations for the Scottsdale Cares Program | - | - | - | 166 | 166 |
| Donations Human Services Special Programs | - | - | - | 21 | 21 |
| Facility/Recreation Fees for Senior Center Special Programs | - | - | - | 8 | 8 |
| Donations for Parks and Recreation Special Programs | - | - | - | 22 | 22 |
| Donations for Library Special Programs | - | - | - | 8 | 8 |
| Sales Tax Rebate for District Debt Service | - | - | - | 321 | 321 |
| Stadium Surcharge for Debt Service | - | - | - | 2,373 | 2,373 |
| GO Bond Proceeds for Capital Improvements | - | - | - | 15,771 | 15,771 |
| Transaction Privilege Tax for Transportation Capital Improvements | - | - | - | 30,829 | 30,829 |
| Contributions for Drainage Capital Improvements | - | - | - | 2,495 | 2,495 |
| Contributions for Library Capital Improvements | - | - | - | 100 | 100 |
| Contributions for Transportation Capital Improvements | - | - | - | 26 | 26 |
| Contributions for Stadium Capital Improvements | - | - | - | 363 | 363 |
| Endowment Funds | - | - | - | 28 | 28 |
| Total Restricted | - | 1,394 | - | 110,873 | 112,267 |
| Committed | | | | | |
| General Fund Contribution for Capital Improvements | - | - | 33,352 | - | 33,352 |
| Stadium Surcharge for Stadium Capital Improvements | - | - | 313 | - | 313 |
| In-Lieu Parking Fees for Parking Improvements | - | - | 318 | - | 318 |
| In-Lieu Stormwater Fees for Drainage Improvements | - | - | 491 | - | 491 |
| Transient Occupancy Tax for Tourism Related Capital Improvements | - | - | 5,150 | - | 5,150 |
| Court Enhancement Fees for Court Capital Improvements | - | - | 475 | - | 475 |
| Risk Management Contributions for Technology Infrastructure | - | - | 1 | - | 1 |
| Stormwater Utility Fee for Capital Improvements | - | - | 2,187 | - | 2,187 |
| Contributions for the Court Enhancement Fund | - | - | - | 5,797 | 5,797 |
| Rent Fees for Loloma School Maintenance and Capital Improvements | - | - | - | 257 | 257 |
| Developer Contributions for the Downtown Cultural Trust | - | - | - | 3,040 | 3,040 |
| Developer Contributions for the Airpark Cultural Trust | - | - | - | 74 | 74 |
| Rent Fees for the Community Arts Trust to Support the Loloma School | - | - | - | 245 | 245 |
| Contributions for Historic Preservation and Rehabilitation of Buildings | - | - | - | 489 | 489 |
| License Fees for the Regulation of the Public Safety Pawn Shop Ordinance | - | - | - | 199 | 199 |
| Sponsorship Fees for Senior Center Special Programs | - | - | - | 3 | 3 |
| Sponsorship Fees for Parks and Recreation Special Programs | - | - | - | 17 | 17 |
| Golf Course Surcharge for Silverado Golf Course Improvements | - | - | - | 649 | 649 |
| Retail Sale Revenue for McCormick Stillman Railroad Park Operations | - | - | - | 902 | 902 |
| Allocation of Youth Sports Fee for Maintenance/Improvements of Athletic Fields | - | - | - | 101 | 101 |
| Allocation of Aquatic Fee for Maintenance/Improvements of Aquatic Facilities | - | - | - | 46 | 46 |
| Transient Occupancy Tax for Tourism Development | - | - | - | 6,287 | 6,287 |
| Contributions for Forensic Science Laboratory Equipment and Maintenance | - | - | - | 7 | 7 |
| Excise Tax for Debt Reserve | - | - | - | 4,700 | 4,700 |
| Total Committed | - | - | 42,287 | 22,813 | 65,100 |
| Unassigned | | | | | |
| | 97,097 | - | - | (14,451) | 82,646 |
| Total Fund Balances | \$ 97,368 | \$ 1,394 | \$ 42,287 | \$ 119,839 | \$ 260,888 |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The City Council has established a minimum fund balance policy of 10 percent of annual operating expenditures to be maintained in the General Fund and the Transportation Nonmajor Special Revenue Fund. Additionally, the City Council has adopted a financial policy to hold a minimum of \$5.0 million of excise tax reserve in the Debt Stabilization, Nonmajor Debt Service Fund. The reserves in these funds are to be maintained for unforeseen emergencies or catastrophic impacts to the City.

E. Net Position Restrictions

Only restrictions imposed by external sources are shown as restricted net position on the government-wide financial statements. The following restrictions apply to the Business-type Activities at June 30, 2019:

Net Position Restrictions (in thousands)

Water and Sewer

| | | |
|--|----|---------------|
| Restricted for System Replacement | \$ | 41,292 |
| Restricted for Debt Service | | 4,692 |
| Restricted for Joint Venture Construction Deposits | | 6,220 |
| | \$ | <u>52,204</u> |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

The City maintains a cash and investment pool for use by all funds except the Community Facilities Districts. The City's endowment funds have investments held separately by a trustee.

City Charter, ordinance, and trust agreements authorize the City to invest in certificates of deposit; repurchase agreements; highly rated commercial paper issued by corporations organized and doing business in the United States; money market mutual funds; highly rated corporate bonds/notes denominated in U.S. dollars; obligations issued or guaranteed by the United States government or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities; bonds, notes or other evidences of indebtedness of this state or any of its counties, incorporated cities or towns, school districts or special taxing districts; bonds, notes or evidences of indebtedness of any county, municipal district, municipal utility or special taxing district of any state that are payable from revenues, earnings or a special tax specifically pledged for the payment of the principal and interest on the obligations; bonds, notes or evidences of indebtedness issued by any county improvement district or municipal improvement district of any state to finance local improvements authorized by law, if the principal and interest of the obligations are payable from assessments on real property within the improvement district; and the pooled investment funds established by the Office of the Arizona State Treasurer.

Deposits

At June 30, 2019, the carrying amount of the City's deposits was \$19,559,250 and the bank balance was \$130,412,985. The \$110,853,735 difference represents outstanding checks, deposits in transit, timing differences in transfers between the depository and investment sweep accounts, and other reconciling items.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2019, \$57,664,324 of the City's deposits was exposed to custodial credit risk as follows: \$1,265,353 was uninsured and uncollateralized, and \$56,398,971 was uninsured and collateralized by securities held by the pledging bank's trust department not in the City's name.

The custodial credit risk for investments is the risk that, in the event of the failures of the counterparty (e.g., broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City be conducted on a delivery-versus-payment basis. Securities are to be held by a third-party custodian.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities of less than five years.

The following table summarizes the City's interest rate risk, based on maturity dates of various investments (in thousands):

| Investment Type | Fair Value | Investment Maturities (in Years) | | | |
|------------------------------------|-------------------|----------------------------------|-------------------|-------------------|------------------|
| | | Less than 1 | 1 - 2 | 2 - 3 | 3+ |
| U.S. Government Securities | \$ 228,442 | \$ 51,841 | \$ 41,737 | \$ 121,797 | \$ 13,067 |
| U.S. Government Agencies | 157,610 | 10,053 | 84,846 | 62,711 | - |
| U.S. Government Instrumentalities | 28,992 | - | 28,992 | - | - |
| Corporate Notes | 57,061 | 18,291 | 20,330 | 18,440 | - |
| Negotiable Certificates of Deposit | 46,590 | 17,558 | 29,032 | - | - |
| Money Market Mutual Funds | 164,127 | 164,127 | - | - | - |
| Total Investments | \$ 682,822 | \$ 261,870 | \$ 204,937 | \$ 202,948 | \$ 13,067 |

Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by Nationally Recognized Statistical Rating Organizations (NRSROs). The City's investment policy limits its corporate debt investments to a minimum "A" or better rating, at the time of purchase, from at least two NRSROs; its investments in negotiable certificates of deposit to the top three rating categories by Moody's Investors Service, Standard and Poor's Corporation, or any other NRSRO; its investments in commercial paper to the top two ratings by a NRSRO and to those corporations organized and doing business in the United States; and its investments in money market mutual funds to those funds which are allowed by state law and registered under the Investment Company Act of 1940. The City's investments in the investment types referenced above at June 30, 2019, meet the aforementioned criteria. Presented below are the ratings as of June 30, 2019, for each investment type (in thousands):

| Investment Type | Total | BBB+ | A-1 | A-1+ | A- | A | A+ | AA- | AA | AA+ | AAA | AAA | Exempt from Disclosure |
|------------------------------------|-------------------|-----------------|------------------|-----------------|-----------------|------------------|------------------|------------------|-----------------|------------------|------------------|------------------|------------------------|
| U.S. Government Securities | \$ 228,442 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 228,442 |
| U.S. Government Agencies | 157,610 | - | - | - | - | - | - | - | - | 157,610 | - | - | - |
| U.S. Government Instrumentalities | 28,992 | - | - | - | - | - | - | - | - | - | - | 28,992 | - |
| Corporate Notes | 57,061 | 6,138 | - | - | 9,791 | 15,940 | 5,193 | 14,360 | 1,378 | 4,261 | - | - | - |
| Negotiable Certificates of Deposit | 46,590 | - | 12,490 | 5,068 | - | 7,317 | 9,178 | 12,537 | - | - | - | - | - |
| Money Market Mutual Funds | 164,127 | - | - | - | - | - | - | - | - | - | 164,127 | - | - |
| Total Investments | \$ 682,822 | \$ 6,138 | \$ 12,490 | \$ 5,068 | \$ 9,791 | \$ 23,257 | \$ 14,371 | \$ 26,897 | \$ 1,378 | \$161,871 | \$164,127 | \$ 28,992 | \$ 228,442 |

Note: A-1 and A-1+ are short-term credit ratings. AAAm is a principal stability fund (i.e. money market fund) credit rating.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Concentration of Credit Risk

The City investment guidelines place no limit on the amount that the City may invest in any one issuer of obligations of the United States Government, its agencies, and other instrumentalities; however, the overall percentage of callable securities is monitored. Supranational debt (i.e.: an instrumentality of the United States Government) of an issuer is limited to 3 percent of the aggregate portfolio and investment in this sector class cannot exceed 10 percent of the total portfolio. Negotiable or brokered certificates of deposit and medium-term corporate notes each have a per issuer limit of 5 percent of the aggregate portfolio and investment in each of these sectors is limited to 30 percent of the total portfolio. Commercial paper has a per issuer limit of 3 percent of the aggregate portfolio and investment in this sector is limited to 10 percent of the total portfolio.

The following is a listing by issuer of the City's investments at June 30, 2019:

(dollars in thousands)

| Issuer | Investment Type | Market Value | Percent of Holdings |
|--|------------------------------------|---------------------|----------------------------|
| U.S. Treasury | U.S. Government Securities | \$ 228,442 | 44.05% |
| Federal Home Loan Bank (FHLB) | U.S. Government Agencies | 57,381 | 11.06% |
| Federal Home Loan Mortgage Corporation (FHLMC) | U.S. Government Agencies | 18,388 | 3.55% |
| Federal National Mortgage Association (FNMA) | U.S. Government Agencies | 81,841 | 15.78% |
| African Development Bank | U.S. Government Instrumentalities | 2,419 | 0.47% |
| Asian Development Bank | U.S. Government Instrumentalities | 3,299 | 0.64% |
| Inter-American Development Bank | U.S. Government Instrumentalities | 8,773 | 1.69% |
| International Bank of Reconstruction and Development | U.S. Government Instrumentalities | 6,716 | 1.29% |
| International Finance Corporation | U.S. Government Instrumentalities | 7,785 | 1.50% |
| American Honda Finance | Corporate Notes | 2,571 | 0.50% |
| Apple Inc. | Corporate Notes | 4,261 | 0.82% |
| Bank of America Co. | Corporate Notes | 4,711 | 0.91% |
| Bank of New York Mellon | Corporate Notes | 5,509 | 1.06% |
| BB&T | Corporate Notes | 1,732 | 0.33% |
| Berkshire Hathaway Inc. | Corporate Notes | 1,378 | 0.27% |
| Caterpillar Inc. | Corporate Notes | 2,511 | 0.48% |
| Cisco Systems Inc. | Corporate Notes | 5,904 | 1.14% |
| General Electric Co. | Corporate Notes | 6,138 | 1.18% |
| Home Depot | Corporate Notes | 1,520 | 0.29% |
| Honeywell International | Corporate Notes | 943 | 0.18% |
| JP Morgan Chase & Co. | Corporate Notes | 3,348 | 0.65% |
| Oracle Corp. | Corporate Notes | 4,713 | 0.91% |
| Toyota Motor Credit Corp. | Corporate Notes | 3,743 | 0.72% |
| Unilever Capital Corp. | Corporate Notes | 438 | 0.08% |
| U.S. Bancorp | Corporate Notes | 4,755 | 0.92% |
| Walt Disney Co. | Corporate Notes | 2,886 | 0.56% |
| Bank of Montreal | Negotiable Certificates of Deposit | 5,941 | 1.15% |
| Bank of Nova Scotia | Negotiable Certificates of Deposit | 5,884 | 1.13% |
| Canadian Imperial Bank NY | Negotiable Certificates of Deposit | 3,232 | 0.62% |
| Credit Agricole CIB NY | Negotiable Certificates of Deposit | 3,237 | 0.62% |
| Credit Suisse NY | Negotiable Certificates of Deposit | 3,374 | 0.65% |
| MUFG Bank LTD NY | Negotiable Certificates of Deposit | 3,418 | 0.66% |
| Nordea Bank AB NY | Negotiable Certificates of Deposit | 5,068 | 0.98% |
| Sumitomo Mitsui Bank NY | Negotiable Certificates of Deposit | 3,899 | 0.75% |
| Swedbank NY | Negotiable Certificates of Deposit | 6,710 | 1.29% |
| WestPac Banking Corp. NY | Negotiable Certificates of Deposit | 5,827 | 1.12% |
| | Total Investments | \$ 518,695 | 100.00% |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Investments

Total City cash and investments at fair value are as follows (in thousands):

| | |
|-----------------------------------|---------------------------------|
| Cash on Hand | \$ 19 |
| Carrying Amount of City Deposits | 19,559 |
| Investments | 682,822 |
| Endowments | <u>632</u> |
| Total Cash and Investments | <u><u>\$ 703,032</u></u> |

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The City has the following recurring fair value measurements as of June 30, 2019:

Investments Measured at Fair Value

(in thousands)

| | <u>Fair Value Measurements Using</u> | | |
|------------------------------------|--|---|--|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| U.S. Government Securities | \$ - | \$ 228,442 | \$ - |
| U.S. Government Agencies | - | 157,610 | - |
| U.S. Government Instrumentalities | - | 28,992 | - |
| Corporate Notes | - | 57,061 | - |
| Negotiable Certificates of Deposit | - | 46,590 | - |
| | <u><u>\$ -</u></u> | <u><u>\$ 518,695</u></u> | <u><u>\$ -</u></u> |

The following pricing methodologies are utilized to value the City's investments:

| | |
|------------------------------------|---|
| U.S. Government Securities | Evaluators gather information from market sources and integrate relative credit information, observed market movements, and sector news into the evaluated pricing applications and models. |
| U.S. Government Agencies | A bullet (non-call) spread scale is created for each issuer for maturities going out to forty years; an Option Adjusted Spread (OAS) model is incorporated to adjusted spreads of issues that have early redemption features; and final spreads are added to a U.S Treasury curve. A special cash discounting yield/price routine calculates prices from final yields to accommodate odd coupon payment dates typical of medium-term notes. |
| U.S. Government Instrumentalities | Evaluators gather information from market sources and integrate relative credit information, observed market movements, and sector news into the evaluated pricing applications and models. |
| Corporate Notes | Evaluators gather information from market sources and integrate relative credit information, observed market movements, and sector news into the evaluated pricing applications and models. |
| Negotiable Certificates of Deposit | Multi-dimensional relational model and/or OAS. |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Total City cash and investments are reported as follows (in thousands):

| | |
|-------------------------------------|---------------------------------|
| Primary Government | |
| Cash and Investments | \$ 522,463 |
| Cash with Fiscal Agent | 129,117 |
| Other Restricted Cash | 51,385 |
| Family Self-Sufficiency Agency Fund | <u>67</u> |
| Total Cash and Investments | <u><u>\$ 703,032</u></u> |

Investment income is comprised of the following for the fiscal year ended June 30, 2019 (in thousands):

| | |
|---|--------------------------------|
| Net Interest | \$ 13,181 |
| Net Increase in the Fair Value of Investments | <u>8,955</u> |
| Total Net Investment Income | <u><u>\$ 22,136</u></u> |

The net increase in the fair value of investments for the fiscal year was \$8,954,927. This amount takes into account all changes in fair value (realized and unrealized) that occurred during the year.

B. Endowments

The City is the sole beneficiary of four permanent endowment funds, held and managed by the Arizona Community Foundation (Foundation). The endowment funds are managed in accordance with Arizona Revised Statute 10-11803, which governs the appropriation for expenditure or accumulation of endowment funds. The spending policy of the Foundation is communicated to the City annually. Distribution pursuant to the spending policy shall be based upon recommendation of the City, made by and through the City Council. As of June 30, 2019, the amount of donor-restricted endowment funds available for authorization and expenditure is \$26,500.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

C. Receivables

Receivables as of June 30, 2019, for the government's individual major governmental funds, nonmajor governmental funds, and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows (in thousands):

Governmental and Governmental Activities Internal Service Funds

| | General | General Obligation Bond Debt Service | General CIP Construction Capital Projects | Nonmajor and Other Funds | Total Governmental and Internal Service Funds |
|---------------------------------------|------------------|---|---|-----------------------------|---|
| Receivables | | | | | |
| Property Taxes and Penalties | | | | | |
| Property | \$ 926 | \$ 1,006 | \$ - | \$ 98 | \$ 2,030 |
| Court | 57,772 | - | - | - | 57,772 |
| Subtotal Property Taxes and Penalties | <u>58,698</u> | <u>1,006</u> | <u>-</u> | <u>98</u> | <u>59,802</u> |
| Other Local Taxes | | | | | |
| Privilege | 15,390 | - | - | 8,011 | 23,401 |
| Transient Occupancy | - | - | - | 1,123 | 1,123 |
| State Shared Sales | 855 | - | - | - | 855 |
| Franchise Fee | 2,909 | - | - | 50 | 2,959 |
| Auto Lieu | 436 | - | - | - | 436 |
| Highway User | - | - | - | 1,534 | 1,534 |
| Subtotal Other Local Taxes | <u>19,590</u> | <u>-</u> | <u>-</u> | <u>10,718</u> | <u>30,308</u> |
| Intergovernmental/Grants | <u>-</u> | <u>-</u> | <u>-</u> | <u>31,117</u> | <u>31,117</u> |
| Interest and Other | | | | | |
| Interest | 1,090 | - | 177 | 473 | 1,740 |
| Library | 992 | - | - | - | 992 |
| Miscellaneous | 4,030 | - | 2,033 | 4,829 | 10,892 |
| Subtotal Interest and Other | <u>6,112</u> | <u>-</u> | <u>2,210</u> | <u>5,302</u> | <u>13,624</u> |
| Gross Receivables | 84,400 | 1,006 | 2,210 | 47,235 | 134,851 |
| Less: Allowances for Uncollectibles | <u>(48,213)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(48,213)</u> |
| Net Total Receivables | <u>\$ 36,187</u> | <u>\$ 1,006</u> | <u>\$ 2,210</u> | <u>\$ 47,235</u> | <u>\$ 86,638</u> |

The City has a development agreement relating to biomedical research activities with the Translational Genomics Research Institute (TGen) to repay \$2,040,000 with interest through February 2024.

Through the use of Community Development Block Grant (CDBG) funds, the City issues Green Housing Rehabilitation Program loans to qualified Scottsdale homeowners. As of June 30, 2019, the loan balances totaled \$2,198,249, of which the majority is not expected to be collected within the next year.

The City has an intergovernmental agreement with the Arizona State Land Department to reimburse the City for capital expenditures for street improvements of \$13,921,086 after the land on which the improvements were made is sold. This receivable is not expected to be collected within the next year.

The City has contracts with the Boys and Girls Club to pay a portion of building improvements at the City's recreation center through November 2024, the amount due as of June 30, 2019 is \$127,869.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The City and the Arizona Tourism and Sports Authority, doing business as the Arizona Sports and Tourism Authority (AZSTA), have an intergovernmental agreement for the AZSTA to pay for costs related to the Scottsdale municipal spring training facility renovation project. The balance of \$5,844,313 is estimated to be paid by 2021 contingent upon revenue receipts collected by AZSTA.

In January 2017, the Arizona Department of Revenue took over the administration of the City's privilege tax collection and reporting; therefore, the City could have additional receivables that are unknown and such data is unavailable.

Business-type Activities Enterprise Funds

(in thousands)

| | Water and Sewer Utility | Airport | Solid Waste | Total Enterprise Fund |
|-------------------------------------|----------------------------|-----------------|-----------------|--------------------------|
| Receivables | | | | |
| Privilege Tax | \$ - | \$ 40 | \$ - | \$ 40 |
| Charges for Services | 17,327 | - | 2,326 | 19,653 |
| Intergovernmental | 1,892 | 982 | - | 2,874 |
| Interest | 1,181 | 39 | 54 | 1,274 |
| Miscellaneous | 2,375 | 387 | 124 | 2,886 |
| Gross Receivables | 22,775 | 1,448 | 2,504 | 26,727 |
| Less: Allowances for Uncollectibles | (22) | - | (1) | (23) |
| Net Total Receivables | \$ 22,753 | \$ 1,448 | \$ 2,503 | \$ 26,704 |

The City has an intergovernmental agreement with the Arizona State Land Department to reimburse the City for capital expenditures for water and sewer improvements of \$1,892,003 after the land on which the improvements were made is sold. This receivable is not expected to be collected within the next year.

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

| | Unavailable | Unearned |
|-------------------|------------------|------------------|
| Property Tax | \$ 1,151 | \$ - |
| Court | 3,859 | - |
| Library | 196 | - |
| Privilege Tax | 1,327 | - |
| Intergovernmental | 29,094 | 8,606 |
| Other | 2,567 | 1,857 |
| Total | \$ 38,194 | \$ 10,463 |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019, was as follows (in thousands):

| <u>Governmental Activities</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|--------------------------|------------------|--------------------|-----------------------|
| Capital Assets, not being depreciated | | | | |
| Land | \$ 3,177,449 | \$ 17,037 | \$ - | \$ 3,194,486 |
| Construction in Progress | 39,926 | 65,495 | (39,909) | 65,512 |
| Total Capital Assets, not being depreciated | <u>3,217,375</u> | <u>82,532</u> | <u>(39,909)</u> | <u>3,259,998</u> |
| Capital Assets, being depreciated | | | | |
| Buildings and Land Improvements | 723,561 | 9,796 | (64) | 733,293 |
| Streets and Storm Drains | 1,785,035 | 27,136 | - | 1,812,171 |
| Motor Vehicles | 85,086 | 7,250 | (6,385) | 85,951 |
| Machinery and Equipment | 81,015 | 6,281 | (2,884) | 84,412 |
| Total Capital Assets, being depreciated | <u>2,674,697</u> | <u>50,463</u> | <u>(9,333)</u> | <u>2,715,827</u> |
| Less Accumulated depreciation for | | | | |
| Buildings and Land Improvements | 355,467 | 20,836 | (64) | 376,239 |
| Streets and Storm Drains | 1,082,528 | 51,062 | - | 1,133,590 |
| Motor Vehicles | 39,791 | 7,059 | (6,167) | 40,683 |
| Machinery and Equipment | 43,365 | 6,458 | (2,796) | 47,027 |
| Total Accumulated depreciation | <u>1,521,151</u> | <u>85,415</u> | <u>(9,027)</u> | <u>1,597,539</u> |
| Total Capital Assets, being depreciated, net | <u>1,153,546</u> | <u>(34,952)</u> | <u>(306)</u> | <u>1,118,288</u> |
| Governmental Activities Capital Assets, net | <u>\$ 4,370,921</u> | <u>\$ 47,580</u> | <u>\$ (40,215)</u> | <u>\$ 4,378,286</u> |
| | | | | |
| <u>Business-type Activities</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
| Capital Assets, not being depreciated | | | | |
| Land | \$ 50,381 | \$ - | \$ - | \$ 50,381 |
| Water Rights | 87,171 | - | - | 87,171 |
| Construction in Progress | 80,108 | 53,743 | (82,070) | 51,781 |
| Total Capital Assets, not being depreciated | <u>217,660</u> | <u>53,743</u> | <u>(82,070)</u> | <u>189,333</u> |
| Capital Assets, being depreciated | | | | |
| Water System | 1,248,800 | 35,342 | (150) | 1,283,992 |
| Sewer System | 635,013 | 11,116 | - | 646,129 |
| Buildings and Land Improvements | 37,352 | 34,342 | (833) | 70,861 |
| Machinery and Equipment | 6,966 | 712 | (10) | 7,668 |
| Motor Vehicles | 1,151 | - | - | 1,151 |
| Furniture, Fixtures, and Office Equipment | 729 | 531 | (3) | 1,257 |
| Total Capital Assets, being depreciated | <u>1,930,011</u> | <u>82,043</u> | <u>(996)</u> | <u>2,011,058</u> |
| Less Accumulated depreciation for | | | | |
| Water System | 496,259 | 33,622 | (151) | 529,730 |
| Sewer System | 236,511 | 17,243 | - | 253,754 |
| Buildings and Land Improvements | 12,336 | 1,664 | (833) | 13,167 |
| Machinery and Equipment | 3,476 | 589 | (10) | 4,055 |
| Motor Vehicles | 601 | 84 | - | 685 |
| Furniture, Fixtures, and Office Equipment | 276 | 121 | - | 397 |
| Total Accumulated depreciation | <u>749,459</u> | <u>53,323</u> | <u>(994)</u> | <u>801,788</u> |
| Total Capital Assets, being depreciated, net | <u>1,180,552</u> | <u>28,720</u> | <u>(2)</u> | <u>1,209,270</u> |
| Business-type Activities Capital Assets, net | <u>\$ 1,398,212</u> | <u>\$ 82,463</u> | <u>\$ (82,072)</u> | <u>\$ 1,398,603</u> |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

| <u>Governmental Activities</u> | |
|---|-------------------------|
| City Clerk | \$ 2 |
| City Attorney | 15 |
| City Court | 42 |
| City Manager | 51 |
| Public Works | 9,260 |
| Community and Economic Development | 51,112 |
| Public Safety | 4,516 |
| City Treasurer | 85 |
| Community Services | 8,276 |
| Administrative Services | 3,786 |
| Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on their Usage of the Assets | <u>8,270</u> |
| Total Depreciation Expense - Governmental Activities | <u><u>\$ 85,415</u></u> |

| <u>Business-type Activities</u> | |
|---|-------------------------|
| Water and Sewer System | \$ 51,500 |
| Airport | 1,546 |
| Solid Waste | <u>277</u> |
| Total Depreciation Expense - Business-type Activities | <u><u>\$ 53,323</u></u> |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Construction Commitments

The City has active construction projects as of June 30, 2019. At year end the government's commitments with contractors for specific projects are as follows (in thousands):

| <u>Capital Project Program Classification</u> | <u>Spent to Date</u> | <u>Remaining Commitment</u> |
|--|----------------------|---------------------------------|
| Aviation | \$ 12,347 | \$ 521 |
| Drainage and Flood Control | 3,404 | 913 |
| Fire Protection | 650 | 46 |
| Library/Library Improvements | 363 | 15 |
| Municipal Facilities | 3,665 | 637 |
| Neighborhood and Community | 1,031 | 761 |
| Parks | 8,181 | 20,135 |
| Police | 34 | 242 |
| Preservation | 6,145 | 940 |
| Streets | 15,030 | 3,016 |
| Technology | 1,548 | 351 |
| Traffic | 1,914 | 2,399 |
| Transit | 8,385 | 5,534 |
| Wastewater | 8,879 | 6,534 |
| Water | 21,403 | 12,566 |
| Total Construction Commitments | <u>\$ 92,979</u> | <u>\$ 54,610</u> |
| <u>Governmental Activities</u> | | |
| General CIP Construction Capital Projects Fund | \$ 8,575 | \$ 8,771 |
| Nonmajor Governmental Funds | 39,275 | 25,833 |
| Internal Service Funds | 1,506 | 301 |
| Total Governmental Activities | <u>49,356</u> | <u>34,905</u> |
| <u>Business-type Activities</u> | | |
| Water and Sewer Utility | 30,342 | 19,133 |
| Airport | 12,347 | 521 |
| Solid Waste | 934 | 51 |
| Total Business-type Activities | <u>43,623</u> | <u>19,705</u> |
| Total Construction Commitments | <u>\$ 92,979</u> | <u>\$ 54,610</u> |

E. Interfund Balances and Interfund Transfers

Due To and Due From Other Funds

“Due to” and “Due from” balances have been recorded to address temporary cash flow needs. The composition of interfund balances as of June 30, 2019, is as follows (in thousands):

| <u>Receivable Fund</u> | <u>Amount</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|-----------------|-----------------------------|-----------------|
| General Fund | <u>\$ 5,902</u> | Nonmajor Governmental Funds | <u>\$ 5,902</u> |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The External Sources Capital Project Fund, the Municipal Property Corporation Bonds Capital Project Fund, and the HOME Special Revenue Fund had deficit cash balances of \$4,684,418, \$1,054,065, and \$163,851, respectively, due to pending reimbursements from intergovernmental agreements, bonds, and grants.

Interfund Transfers

Transfers are used to fund capital projects and debt service, to administer other operations, and for indirect administrative cost allocations (including in-lieu franchise fees) charged to Enterprise Funds.

Net Transfers (in thousands)

| | <u>Transfers Out</u> | <u>Transfers In</u> |
|---|--------------------------|--------------------------|
| Governmental Funds | | |
| General | \$ 25,780 | \$ 10,698 |
| Debt Service - General Obligation Bond | - | 26,872 |
| Capital Projects - General CIP Construction | 485 | 18,876 |
| Nonmajor Governmental Funds | 74,470 | 51,731 |
| Total Governmental Funds | <u>100,735</u> | <u>108,177</u> |
| Enterprise Funds | | |
| Water and Sewer Utility | <u>7,581</u> | - |
| Total Enterprise Funds | <u>7,581</u> | - |
| Internal Service Funds | | |
| Self-Insurance | <u>7</u> | 146 |
| Total Internal Service Funds | <u>7</u> | <u>146</u> |
| Total Transfers | <u><u>\$ 108,323</u></u> | <u><u>\$ 108,323</u></u> |

F. Leases

Operating Leases

City as Lessee

The City, as a lessee, has entered into lease agreements involving motor vehicles, a distributed antenna system, and data center facility space. Payments relating to these leases totaled \$655,614, which include \$578,717 of minimum lease payments.

The distributed antenna system's lease increases annually by 3 percent as per the lease agreement's escalation clause and may be renewed by the City for up to five additional years subsequent to the first extension term's ending date of March 31, 2025. The data center facility space's lease increases annually by 5 percent as per the lease agreement's escalation clause and may be renewed annually by agreement between the City and the lessor subsequent to the initial lease term's ending date of September 30, 2021.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The future lease payments under noncancellable operating lease agreements are as follows (in thousands):

| <u>Fiscal Year Ending June 30,</u> | |
|--|----------------------|
| 2020 | \$ 258 |
| 2021 | 270 |
| 2022 | 76 |
| 2023 | 7 |
| 2024 | 8 |
| Thereafter | <u>3</u> |
| Total | <u><u>\$ 622</u></u> |

City as Lessor

The City has agreements in which it conveys the right to use land, airport facilities, and other capital assets that it accounts for as operating leases. Minimum future rentals on noncancellable operating leases at June 30, 2019, are as follows (in thousands):

| <u>Fiscal Year Ending June 30,</u> | |
|--|--------------------------|
| 2020 | \$ 4,191 |
| 2021 | 3,249 |
| 2022 | 2,236 |
| 2023 | 2,297 |
| 2024 | 2,211 |
| Thereafter | <u>100,013</u> |
| Total | <u><u>\$ 114,197</u></u> |

The above amounts do not include contingent rentals, which totaled \$2,612,235 for the fiscal year ended June 30, 2019.

A summary of the assets leased to third parties under the City's operating lease agreements at June 30, 2019, are as follows (in thousands):

| | |
|--------------------------------|-------------------------|
| Cost | \$ 121,993 |
| Less: Accumulated Depreciation | <u>(27,550)</u> |
| Carrying Value | <u><u>\$ 94,443</u></u> |

Capital Leases

The City has entered into a lease agreement as lessee for financing the acquisition of printing and imaging equipment for its administrative operations. This lease agreement qualifies as a capital lease for accounting purposes and is therefore included in the City's governmental capital assets. The equipment acquired through this lease agreement is recorded at a cost of \$244,173, less accumulated amortization of \$30,522. Current year amortization expense was \$30,522.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The present value of net minimum future lease payments under the capital lease agreement are as follows (in thousands):

| Fiscal Year Ending <u>June 30,</u> | | |
|---------------------------------------|----|-------------------|
| 2020 | \$ | 67 |
| 2021 | | 67 |
| 2022 | | 67 |
| 2023 | | 34 |
| Less: Imputed Interest | | <u>(16)</u> |
| Total | \$ | <u><u>219</u></u> |

G. Service Concession Arrangements

In 1983, the City entered into a cost-sharing and land use agreement with the United States Bureau of Reclamation (BOR), under which the City would operate and develop the land where the City's WestWorld operation is located for a period of 50 years (with a mutual option to renew for an additional 25 years). The City entered into this agreement to develop the WestWorld facility for public recreation use and to enhance its revenue stream from rentals, concession sales, and parking fees. Beginning in fiscal year 2001, the BOR required the City to make annual payments for the administration of the agreement, and the present value of those payments as of June 30, 2019, is \$1,039,000. The City has also provided consideration in the form of land improvements with a book value of \$10,502,000 as of June 30, 2013, upon implementation of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* and an additional \$50,929,000 through the fiscal year ended June 30, 2019. These improvements were reclassified from capital assets to an intangible asset. The City has recognized an intangible asset (net of accumulated amortization) in the amount of \$44,414,000 at fiscal year-end pursuant to the service concession arrangement.

In 1985, the City entered into a recreational land use agreement with the BOR, under which the City would develop, operate, and maintain the land where the City's Tournament Players Club (TPC) golf complex is located for a period of 50 years (with a mutual option to renew for an additional 25 years). The City entered into this agreement to develop the TPC complex for public recreation use and to enhance its revenue stream from facility usage fees and rentals. Beginning in fiscal year 1999, the BOR required the City to make annual payments for the administration of the agreement, and the present value of those payments as of June 30, 2019, is \$1,182,000. The City also provided consideration in the form of land improvements with a book value of \$10,127,000 as of June 30, 2013, upon implementation of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* and an additional \$8,746,000 through the fiscal year ended June 30, 2019. These improvements were reclassified from capital assets to an intangible asset. The City has recognized an intangible asset (net of accumulated amortization) in the amount of \$15,317,000 at fiscal year-end pursuant to the service concession arrangement.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

H. Bonds, Loans, and Other Payables

The following are brief descriptions of bonds outstanding at June 30, 2019. The totals shown are the principal amount outstanding, net of the amount due July 1, 2019.

General Obligation Bonds

General Obligation (GO) bonds are issued, after approval by City of Scottsdale voters at an authorized bond election, to finance the construction of water and sewer systems, artificial lighting, parks and open spaces, recreational facilities, and general-purpose improvements. In May 2004, voters authorized \$500,000,000 of additional Preservation GO bonds, as well as an additional 0.15 percent sales tax increase to be used to finance Preserve land acquisitions. As of June 30, 2019, the City has \$256,544,516 of unissued Preservation GO bonds from the May 2004 authorization. Preservation GO bonds are backed by the full faith and credit of the City and are repaid through the Preserve sales tax approved by voters in May 1995 and May 2004 to be used specifically to finance land acquisitions for the McDowell Sonoran Preserve.

Municipal Property Corporation Bonds

The City of Scottsdale Municipal Property Corporation (MPC) is a non-profit corporation created by the City in 1967 to finance the construction or acquisition of certain capital improvement projects. The MPC issues its own bonds, which are repaid through the City's excise tax collections and other unrestricted revenues. The use of property taxes to repay these bonds is specifically prohibited by law. These bonds are recorded as both governmental and business-type activities long-term debt. A portion of the 2006 MPC Excise Tax Revenue Refunding Bonds, the 2010 MPC Excise Tax Revenue Bonds, a portion of the 2015A MPC Excise Tax Revenue Bonds, a portion of the 2015 MPC Excise Tax Revenue Refunding Bonds, the 2017 MPC Excise Tax Revenue Refunding Bonds, and the 2017A MPC Excise Tax Revenue Bonds are recorded in and paid by the Water and Sewer Enterprise Fund. The 2017B MPC Excise Tax Revenue Bonds are recorded in and paid by the Airport Fund.

The City of Scottsdale entered into an Intergovernmental Agreement with the Arizona Tourism and Sports Authority, doing business as the Arizona Sports and Tourism Authority (AZSTA), pertaining to the Scottsdale municipal spring training facility renovation project in March 2005. Per this agreement, City of Scottsdale MPC Excise Tax Revenue Bonds were issued for \$19,945,322 with one-third of the repayments provided by the City from funds received by the Maricopa County Stadium District (MCSD) and two-thirds of the repayments provided to the City by the AZSTA.

The parties acknowledge that the exact amount of revenue accruing to the MCSD or the AZSTA may vary from year to year. Recognizing this, if funds accruing to either are insufficient to cover the estimated finance costs over the term of the bonds, then the parties agree to extend the repayment time as needed until the total amount is repaid. If the repayment time were extended, the City of Scottsdale would utilize excise taxes for the shortfall until such time as the parties fulfilled the full obligation.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The City has pledged to repay \$584,210,000 in MPC Excise Tax Revenue Bonds issued from 2006 through June 30, 2019, payable through 2037. Bonds issued prior to July 1, 2010, were pledged by revenues that included transient occupancy tax while bonds issued after this date exclude transient occupancy tax. The coverage ratio (revenues to debt service) for 2019 for MPC bonds is 4.25 (excluding the transient occupancy tax). The total principal and interest remaining to be paid on all MPC bonds is \$632,597,888. Principal and interest paid for the current year and total excise tax collections (excluding transient occupancy taxes) were \$52,684,075 and \$223,668,464, respectively.

The MPC bond issuances, for both governmental and business-type activities, contain the following provisions that would constitute an event of default by the City:

- Non-punctual payment of principal or interest.
- Default in the performance or observance of any covenant, agreement, or condition in the indenture or in the bonds not cured within 30 days of notice of default. The City is also considered to be in default if the issue is not curable within 30 days and corrective action is not diligently pursued to the satisfaction of the trustee within 30 days.
- Bankruptcy, insolvency, and/or receivership.
- Default on any bonds which are on a parity basis with the bonds in question.

If any of the events of default transpire, the MPC bond trustee may file a suit or suits in equity or at law and appoint a receiver to collect and properly disburse pledged MPC revenues for debt service payments. Any amounts recovered through such proceedings shall be paid first to the costs and expenses incurred by the trustee, its agents, attorneys and counsel, and of all proper expenses, liabilities and advances incurred or made by the trustee or any registered owner(s) of the bonds in question. If a residual amount were to remain, it would be applied to the then-owed or unpaid amount related to the bonds. If insufficient funds were to exist, the residual amount would be allocated on a pro-rata basis to the then-owed or unpaid amount related to the bonds.

Scottsdale Preserve Authority Bonds

The Scottsdale Preserve Authority (SPA) is a non-profit corporation created by the City in 1997 to finance land acquisitions for the McDowell Sonoran Preserve. The SPA issues its own bonds, which are repaid through the 0.2 percent City sales tax approved by voters in May 1995 to be used specifically for this purpose. In May 2004, voters approved an additional 0.15 percent sales tax increase. SPA bonds are recorded as governmental activities long-term debt and are paid out of the SPA Debt Service Fund.

The City has pledged to repay \$44,870,000 in SPA bonds issued in 2010 and 2011. The bonds are payable through 2022. The coverage ratio (revenues to debt service) for 2019 is 8.19. The total principal and interest remaining to be paid on the bonds is \$7,958,875. Principal and interest paid for the current year and total sales tax were \$5,116,875 and \$41,908,703, respectively.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The SPA bond issuances contain the following provisions that would constitute an event of default by the City:

- Non-punctual payment of principal or interest.
- Default in the performance or observance of any covenant, agreement, or condition in the indenture or in the bonds not cured within 60 days of notice of default. The City is also considered to be in default if the issue is not curable within 60 days and corrective action is not diligently pursued to the satisfaction of the trustee within 60 days.
- Bankruptcy, insolvency, and/or receivership.
- Default on any bonds which are on a parity basis with the bonds in question.

If any of the events of default transpire, the SPA bond trustee may file a suit or suits in equity or at law and appoint a receiver to collect and properly disburse pledged SPA revenues for debt service payments. Any amounts recovered through such proceedings shall be paid first to the costs and expenses incurred by the trustee, its agents, attorneys and counsel, and of all proper expenses, liabilities and advances incurred or made by the trustee or any registered owner(s) of the bonds in question. If a residual amount were to remain, it would be applied to the then-owed or unpaid amount related to the bonds. If insufficient funds were to exist, the residual amount would be allocated on a pro-rata basis to the then-owed or unpaid amount related to the bonds.

Water and Sewer Revenue Bonds

Water and sewer revenue bonds are issued and authorized by the voters for the construction, acquisition, furnishing, and equipping of water and sewer facilities and related systems. The water and sewer revenue bonds are collateralized by revenue in excess of operating and maintenance expenses of the City's water and sewer utility system and are repaid via user charges or fees for service. Property taxes cannot be used to pay the debt service on these bonds.

Water and sewer revenue bond covenants require that the City accumulate sufficient reserves to cover the eventual replacement of the water and sewer system. The City has continued to meet this reserve requirement. At June 30, 2019, the funds restricted for this purpose were \$41,291,717.

The City has pledged to repay \$35,290,000 in water and sewer revenue bonds issued in 2008. The bonds are payable through 2023. The coverage ratio (revenues to debt service) for 2019 is 18.83. The total principal and interest remaining to be paid on the bonds is \$18,354,800. Principal and interest for the current year and total customer net revenues were \$4,566,188 and \$85,995,000, respectively.

The Water and Sewer Revenue bond issuance contains the following provisions that would constitute an event of default by the City:

- Non-punctual payment of principal or interest.
- Failure in the performance or observance of any covenants or agreements in the bonds or the authorizing resolution.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

If any of the events of default transpire, any owner of the bonds then outstanding may appoint a receiver which can take possession of the Water and Wastewater Enterprise System (System); set rates, charges, and tolls; and apply all revenues in the same manner as the City might itself do. The receiver would operate the System for the direct benefit of the owners of the bonds and would use proceeds of System revenue to pay principal and interest on the bonds, as well as all costs incurred in the receivership. The receiver would continue to remain in possession and control of the System until all delinquent amounts and costs of the receivership are paid in full.

Certificates of Participation

Certificates of Participation (COPS) are issued to finance acquisition and improvements of real property that is leased to the City. The City's obligation to make lease payments is subject to, and dependent upon, annual appropriations made by the City Council. In the event any such appropriation is not made, the lease will terminate, and the lessor will have legal right to take possession of the property. The City's obligation to make lease payments does not constitute a debt or liability of the City within the meaning of any constitutional or statutory limitation. Neither the full faith and credit nor the general taxing power of the City is pledged to make payments of principal or interest due with respect to the COPS. Such payments will be made solely from amounts derived under the terms of the lease, including lease payments, and amounts from time to time on deposit under the terms of the declaration of trust.

The COPS contain the following provisions that would constitute an event of default by the City:

- Non-punctual payment of a budgeted and appropriated lease payment.
- Failure to pay any other payment required to be paid at the time specified, and the continuation of such failure for a period of five days after notification thereof by the lessor.
- Failure to perform or observe any covenant, agreement, or condition for a period of 30 days after notice. If the issue cannot be corrected within 30 days, the applicable period can be extended, but the extended period may not exceed 60 days.
- Bankruptcy.

If any of the events of default transpire, the lessor, with or without terminating the lease, may retake possession of the leased property and lease or sublease the property for the account of the City. The City would be liable for the difference between the amount due from the City at the end of the lease term and the amount paid by a subsequent purchaser, lessee, or sublessee of the leased property.

Community Facilities Districts General Obligation Bonds

Community Facilities District General Obligation Bonds are issued by Community Facilities Districts (CFDs), which are special purpose districts created specifically to acquire and improve public infrastructure in specified land areas. CFD bonds are repaid by ad valorem taxes levied directly by the districts and collected by the county. Property owners in the districts are assessed for district taxes and thus for all costs associated with the districts. The City has no liability for CFD bonds.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

CFDs are created only by petition to the City Council by property owners within the district areas. As the Board of Directors for the CFDs, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the unimproved district property to the proposed district debt is a minimum of 3 to 1, and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the CFD and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's secondary assessed valuation.

The CFD bond issuances contain the following provisions that would constitute an event of default by the City:

- Failure to pay the principal and interest when due and payable.
- Default in the performance or observance of any covenant, agreement, or obligation not cured within 30 days of notice of default. No event of default will be deemed to have occurred so long as a course of action has been commenced within 30 days and is diligently prosecuted to completion (applies only to the 2007 Waterfront Commercial CFD bonds).

If any non-punctual payment of principal or interest occurs, the CFD bond trustee may recover the costs and expenses of administration and collection related to the unpaid amounts (applies only to the 2007 Waterfront Commercial CFD bonds).

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Bonds payable at June 30, 2019, consisted of the following:

Classified in Governmental Activities on the Government-wide Financial Statements:

| General Obligation Bonds | Bonds Outstanding (in thousands) |
|--|---|
| 2010 Various Purpose Bonds (issued April 7, 2010) due in annual installments of \$950,000 to \$4,800,000 through July 1, 2030; interest at 2 percent to 4 percent. On May 17, 2017, \$28,250,000 due 2022 through 2029 was refunded. Original issue amount \$50,800,000. | \$ 9,500 |
| 2011 Preservation Bonds (issued February 9, 2011) due in annual installments of \$740,000 to \$1,705,000 through July 1, 2034; interest at 3 percent to 5 percent. On May 17, 2017, \$14,255,000 due 2023 through 2034 was refunded. Original issue amount \$22,525,000. | 2,725 |
| 2011 Refunding Bonds (issued April 6, 2011) due in annual installments of \$640,000 to \$7,265,000 through July 1, 2024; interest at 1 percent to 5 percent. Original issue amount \$43,115,000. | 15,575 |
| 2012 Preservation Bonds (issued February 2, 2012) due in annual installments of \$1,400,000 to \$18,000,000 through July 1, 2034; interest at 2 percent to 4 percent. Original issue amount \$50,000,000. | 48,600 |
| 2012 Refunding Bonds (issued July 11, 2012) due in annual installments of \$205,000 to \$30,045,000 through July 1, 2025; interest at 2 percent to 5 percent. Original issue amount \$83,025,000. | 53,505 |
| 2013 Preservation Bonds (issued February 13, 2013) due in annual installments of \$1,000,000 to \$8,665,000 through July 1, 2034; interest at 2 percent to 4 percent. Original issue amount \$75,000,000. | 73,000 |
| 2014 Preservation Bonds (issued May 7, 2014) due in annual installments of \$465,000 to \$945,000 through July 1, 2034; interest at 1.75 percent to 4 percent. Original issue amount \$14,000,000. | 11,285 |
| 2014 Refunding Bonds (issued May 7, 2014) due in annual installments of \$3,845,000 to \$12,230,000 through July 1, 2023; interest at 2 percent to 5 percent. Original issue amount \$83,150,000. | 46,630 |
| 2015 Refunding Bonds (issued April 2, 2015) due in annual installments of \$500,000 to \$30,565,000 through July 1, 2034; interest at 3 percent to 4 percent. Original issue amount \$160,415,000. | 129,495 |
| 2017A Preservation Bonds (issued March 8, 2017) due in annual installments of \$1,825,000 to \$2,545,000 through July 1, 2034; interest at 4 percent to 5 percent. Original issue amount \$17,410,000. | 17,410 |
| 2017B Preserve Acquisition Refinancing Bonds (issued May 17, 2017) due in annual installments of \$3,510,000 to \$5,790,000 through July 1, 2024; interest at 5 percent. Original issue amount \$18,495,000. | 18,495 |
| 2017 Refunding Bonds (issued May 17, 2017) due in annual installments of \$1,055,000 to \$5,525,000 through July 1, 2034; interest at 3 percent to 5 percent. Original issue amount \$39,985,000. | 39,985 |

(continued)

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

| General Obligation Bonds (continued) | Bonds Outstanding (in thousands) |
|--|---|
| 2017C Various Purpose Bonds (issued December 6, 2017) due in annual installments of \$1,690,000 to \$6,800,000 through July 1, 2027; interest at 5 percent. Original issue amount \$25,500,000. | \$ 17,010 |
| Total General Obligation Bonds Outstanding | <u>\$ 483,215</u> |
| <p>Some of the above General Obligation Bonds are paid from the .2 percent and .15 percent Preservation Sales Taxes.</p> | |
| Municipal Property Corporation Bonds | |
| 2006 Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued November 29, 2006) due in annual installments of \$1,200,000 to \$4,975,000 through July 1, 2034; interest at 5 percent. Original issue amount \$55,450,000. | \$ 50,640 |
| 2013A Municipal Property Corporation Excise Tax Revenue Bonds (issued February 13, 2013) due in annual installments of \$830,000 to \$2,920,000 through July 1, 2028; interest at 3 percent to 5 percent. Original issue amount \$26,295,000. | 19,775 |
| 2013B Municipal Property Corporation Excise Tax Revenue Bonds (issued February 13, 2013) due in annual installments of \$45,000 to \$100,000 through July 1, 2033; interest at 3 percent to 5 percent. Original issue amount \$1,440,000. | 1,135 |
| 2013C Municipal Property Corporation Excise Tax Revenue Bonds (issued February 13, 2013) due in annual installments of \$1,210,000 to \$2,855,000 through July 1, 2033; interest at 3 percent to 5 percent. Original issue amount \$37,265,000. | 29,445 |
| 2014 Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued May 29, 2014) due in annual installments of \$1,730,000 to \$3,040,000 through July 1, 2027; interest at 1.75 percent to 5 percent. Original issue amount \$22,735,000. | 16,760 |
| 2015A Municipal Property Corporation Excise Tax Revenue Bonds (issued January 6, 2015) due in annual installments of \$205,000 to \$865,000 through July 1, 2034; interest at 3 percent to 5 percent. Original issue amount \$12,200,000. | 10,195 |
| 2015A Municipal Property Corporation Taxable Excise Tax Revenue Bonds (issued January 6, 2015) due in annual installments of \$275,000 to \$1,025,000 through July 1, 2034; interest at 2 percent to 4 percent. Original issue amount \$14,615,000. | 11,995 |
| 2015 Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued March 26, 2015) due in annual installments of \$1,460,000 to \$6,877,488 through July 1, 2035; interest at 3 percent to 5 percent. Original issue amount \$46,758,269. | <u>33,817</u> |
| Total Municipal Property Corporation Bonds Outstanding | <u>\$ 173,762</u> |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

| | Bonds Outstanding (in thousands) |
|---|---|
| Scottsdale Preserve Authority Bonds | |
| 2010 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds (issued October 20, 2010) due in annual installments of \$3,110,000 to \$6,090,000 through July 1, 2024; interest at 3 percent to 5.25 percent. On May 17, 2017, \$19,535,000 due 2021 through 2024 was refunded. Original issue amount \$32,855,000. | \$ 3,565 |
| 2011 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds (issued on April 6, 2011) due in annual installments of \$920,000 to \$1,350,000 through July 1, 2022; interest at 2 percent to 5 percent. Original issue amount \$12,015,000. | <u>3,845</u> |
| Total Scottsdale Preserve Authority Bonds | <u>\$ 7,410</u> |
| Community Facilities Districts General Obligation Bonds | |
| 2007 Waterfront Commercial Community Facilities District General Obligation Bonds (issued December 11, 2007) due in annual installments of \$25,000 to \$300,000 beginning July 15, 2009 through July 15, 2032; interest at 4.85 percent to 6.05 percent. Original issue amount \$3,805,000. | <u>\$ 2,810</u> |
| Certificates of Participation - Direct Borrowing | |
| 2010 Certificates of Participation (issued August 24, 2010) due in semi-annual installments of \$984,651 to \$1,246,573 beginning January 1, 2012, through July 1, 2020; interest at 2.97 percent. Original issue amount \$20,000,000. | <u>\$ 2,493</u> |
| Community Facilities Districts General Obligation Bonds - Direct Placements | |
| 2012 DC Ranch Community Facilities District General Obligation Refunding Bonds (issued September 18, 2012) due in annual installments of \$555,000 to \$1,245,000 beginning July 15, 2013 through July 15, 2027; interest at 3.41 percent. Original issue amount \$14,670,000. | \$ 8,870 |
| 2012 McDowell Mountain Ranch Community Facilities District General Obligation Refunding Bonds (issued September 18, 2012) due in annual installments of \$1,020,000 to \$1,335,000 beginning July 15, 2013 through July 15, 2022; interest at 2.84 percent. Original issue amount \$11,555,000. | 3,845 |
| 2012 Via Linda Community Facilities District General Obligation Refunding Bonds (issued September 18, 2012) due in annual installments of \$135,000 to \$210,000 beginning July 15, 2013 through July 15, 2023; interest at 2.60 percent. Original issue amount \$2,000,000. | <u>800</u> |
| Total Community Facilities Districts General Obligation Bonds - Direct Placements | <u>\$ 13,515</u> |
| Total Bonds Payable Recorded in Governmental Activities | <u>\$ 683,205</u> |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Classified in Business-type Activities on the Government-wide Financial Statements:

| | Bonds Outstanding (in thousands) |
|---|---|
| Water and Sewer Revenue Bonds | |
| 2008 Water and Sewer Revenue Refunding Bonds (issued February 6, 2008) due in annual installments of \$190,000 to \$4,375,000 through July 1, 2023; interest at 3.25 percent to 5.25 percent. Original issue amount \$35,290,000. | <u>\$ 16,175</u> |
| Municipal Property Corporation Bonds | |
| 2006 Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued November 29, 2006) due in annual installments of \$3,600,000 to \$10,140,000 through July 1, 2030; interest at 5 percent. Original issue amount \$110,510,000. | \$ 79,600 |
| 2010 Municipal Property Corporation Excise Tax Revenue Bonds (issued April 7, 2010) due in annual installments of \$180,000 to \$7,800,000 through July 1, 2036; interest at 3 percent to 5 percent. On March 1, 2017, \$55,510,000 due 2023 through 2028 and 2031 through 2036 was refunded. Original issue amount \$75,000,000. | 13,940 |
| 2015A Municipal Property Corporation Excise Tax Revenue Bonds (issued January 6, 2015) due in annual installments of \$310,000 to \$1,305,000 through July 1, 2034; interest at 3 percent to 5 percent. Original issue amount \$18,485,000. | 15,450 |
| 2015 Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued March 26, 2015) due in annual installments of \$3,788,459 to \$5,822,479 through July 1, 2028; interest at 5 percent. Original issue amount \$46,811,731. | 43,023 |
| 2017 Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued March 1, 2017) due in annual installments of \$2,015,000 to \$12,630,000 through July 1, 2036; interest at 3 percent to 5 percent. Original issue amount \$79,970,000. | 79,970 |
| 2017A Municipal Property Corporation Excise Tax Revenue Bonds (issued May 24, 2017) due in annual installments of \$1,080,000 to \$2,730,000 through July 1, 2037; interest at 3 percent to 5 percent. Original issue amount \$39,065,000. | 36,685 |
| 2017B Municipal Property Corporation Excise Tax Revenue Bonds (issued May 24, 2017) due in annual installments of \$645,000 to \$1,655,000 through July 1, 2037; interest at 3 percent to 5 percent. Original issue amount \$23,520,000. | <u>22,100</u> |
| Total Municipal Property Corporation Bonds Outstanding | <u>\$ 290,768</u> |
| Total Bonds Payable Recorded in Business-type Activities | <u>\$ 306,943</u> |
| Total Long-Term Bonds Payable | <u><u>\$ 990,148</u></u> |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Statutory Debt Limitation

Under the provisions of Article 9, section 8 of the Arizona Constitution, outstanding General Obligation (GO) bonded debt (including outstanding “excess premium,” as defined in Arizona Revised Statutes 35-457, 35-471, and 35-473.01) issued for water, sewers, artificial light, parks, playgrounds and recreational facilities, open space preserves, public safety, and streets and transportation facilities may not exceed 20 percent of a city’s assessed valuation. Outstanding GO bonded debt for all other purposes may not exceed 6 percent of a city’s assessed valuation. GO bonds of community facilities districts are not subject to or included in this calculation. The following summarizes the City’s legal GO bonded debt borrowing capacity at June 30, 2019:

| General Obligation Bonds Issued to Provide Water, Sewers, Artificial Light, Parks, Playgrounds and Recreational Facilities, Open Space Preserves, Public Safety, and Streets and Transportation Facilities | | General Obligation Bonds Issued for All Other Purposes | |
|---|------------------------------|---|------------------------------|
| 20% Constitutional Limit | \$ 1,444,653,719 | 6% Constitutional Limit | \$ 433,396,115 |
| Less General Obligation | | Less General Obligation | |
| 20% Bonds Outstanding | (479,265,000) | 6% Bonds Outstanding | (3,950,000) |
| Excess Premium | <u>(10,415,231)</u> | Excess Premium | <u>-</u> |
| Available 20% Limitation Borrowing Capacity | \$ <u>954,973,488</u> | Available 6% Limitation Borrowing Capacity | \$ <u>429,446,115</u> |

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986, is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax-exempt bond proceeds which exceed related interest expenditures on the bonds must be remitted to the Federal government on every fifth anniversary of each bond issue. The City used an independent consultant to evaluate the City’s outstanding tax-exempt debt for arbitrage liability and determined that there is no arbitrage liability due as of June 30, 2019.

Advance Refundings and Defeasances

In prior years, the City refinanced other bond issues through the issuance of refunding bonds. The proceeds from the refunding bonds have been deposited in irrevocable trusts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future redemption or payment of principal and interest of the issues refunded. As a result, the refunded bonds are considered defeased and the liability has been removed from the governmental activities column of the financial statements.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The following table reflects refunded debt outstanding at June 30, 2019, net of any amounts to be paid or retired by the trustee on July 1, 2019 (in thousands):

| Refunded Debt Outstanding | |
|---|------------|
| 2010 MPC Excise Tax Revenue Bonds | \$ 55,510 |
| 2010 Various Purpose GO Bonds | 28,250 |
| 2010 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds | 19,535 |
| 2011 Preservation GO Bonds | 14,255 |
| | \$ 117,550 |

Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the fiscal year ended June 30, 2019 (in thousands):

| Governmental Activities | Beginning Balance | Additional Obligations and Net Increases | Current Maturities, Retirements, and Net Decreases | Ending Balance | Amounts Due Within One Year |
|---|---------------------|--|--|---------------------|-----------------------------|
| Bonds Payable | | | | | |
| General Obligation Bonds | \$ 525,465 | \$ - | \$ (42,250) | \$ 483,215 | \$ 42,515 |
| Municipal Property Corporation Bonds | 187,918 | - | (14,156) | 173,762 | 15,552 |
| Scottsdale Preserve Authority Bonds | 11,950 | - | (4,540) | 7,410 | 4,780 |
| Community Facilities Districts General Obligation Bonds | 2,950 | - | (140) | 2,810 | 150 |
| Certificates of Participation - Direct Borrowing | 4,914 | - | (2,421) | 2,493 | 2,493 |
| Community Facilities Districts General Obligation Bonds - Direct Placements | 15,850 | - | (2,335) | 13,515 | 2,400 |
| Add Issuance Premiums | 65,413 | - | (6,189) | 59,224 | - |
| Total Bonds Payable | 814,460 | - | (72,031) | 742,429 | 67,890 |
| Capital Lease | 32 | 244 | (57) | 219 | 60 |
| Service Concession Arrangements | 2,375 | - | (154) | 2,221 | 154 |
| Risk Management Claims | 22,933 | 35,051 | (35,537) | 22,447 | 8,764 |
| Compensated Absences | 25,516 | 12,306 | (11,500) | 26,322 | 12,491 |
| Total Other Postemployment Benefit Liability | 2,194 | - | (91) | 2,103 | - |
| Net Pension Liabilities | 309,094 | - | (11,462) | 297,632 | - |
| Governmental Activities Long-Term Liabilities | \$ 1,176,604 | \$ 47,601 | \$ (130,832) | \$ 1,093,373 | \$ 89,359 |

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the governmental activities. For the fiscal year ended June 30, 2019, \$495,000 of accrued compensated absences is included in the above amount for Internal Service Funds. For the governmental activities, the General Fund, Special Revenue Funds, Capital Projects Funds, and Internal Service Funds generally liquidate accrued compensated absences, the total OPEB liability, and the net pension liabilities. The compensated absences presented in this note are net of the current liability of \$265,000 in the governmental funds and \$1,000 in the Internal Service funds.

| Business-type Activities | Beginning Balance | Additional Obligations and Net Increases | Current Maturities, Retirements, and Net Decreases | Ending Balance | Amounts Due Within One Year |
|---|-------------------|--|--|-------------------|-----------------------------|
| Bonds Payable | | | | | |
| Water and Sewer Revenue Bonds | \$ 19,715 | \$ - | \$ (3,540) | \$ 16,175 | \$ 3,725 |
| Municipal Property Corporation Bonds | 306,822 | - | (16,054) | 290,768 | 16,978 |
| Add Issuance Premiums | 30,939 | - | (2,389) | 28,550 | - |
| Total Bonds Payable | 357,476 | - | (21,983) | 335,493 | 20,703 |
| Compensated Absences | 3,531 | 1,728 | (1,511) | 3,748 | 1,767 |
| Net Pension Liabilities | 33,523 | - | (3,893) | 29,630 | - |
| Business-type Activities Long-Term Liabilities | \$ 394,530 | \$ 1,728 | \$ (27,387) | \$ 368,871 | \$ 22,470 |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Debt Service Requirements to Maturity

The following is a summary of debt service requirements to maturity for long-term liabilities at June 30, 2019:

Governmental Activities
(in thousands)

| Fiscal Year | General Obligation Bonds Issued to Provide Water, Sewers, Artificial Light, Parks, Playgrounds and Recreational Facilities, Open Space Preserves, Public Safety, and Streets and Transportation Facilities 20% Limitation | | | General Obligation Bonds Issued For All Other Purposes 6% Limitation | | | Total General Obligation Bonds | | |
|-------------|--|------------|------------|---|----------|----------|--------------------------------|------------|------------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| | 2020 | \$ 40,265 | \$ 18,143 | \$ 58,408 | \$ 2,250 | \$ 123 | \$ 2,373 | \$ 42,515 | \$ 18,266 |
| 2021 | 44,925 | 16,512 | 61,437 | 1,700 | 55 | 1,755 | 46,625 | 16,567 | 63,192 |
| 2022 | 45,020 | 14,621 | 59,641 | - | - | - | 45,020 | 14,621 | 59,641 |
| 2023 | 48,780 | 12,728 | 61,508 | - | - | - | 48,780 | 12,728 | 61,508 |
| 2024 | 52,235 | 11,013 | 63,248 | - | - | - | 52,235 | 11,013 | 63,248 |
| 2025-2029 | 162,340 | 30,817 | 193,157 | - | - | - | 162,340 | 30,817 | 193,157 |
| 2030-2034 | 85,700 | 8,756 | 94,456 | - | - | - | 85,700 | 8,756 | 94,456 |
| 2035-2039 | - | - | - | - | - | - | - | - | - |
| Total | \$ 479,265 | \$ 112,590 | \$ 591,855 | \$ 3,950 | \$ 178 | \$ 4,128 | \$ 483,215 | \$ 112,768 | \$ 595,983 |

| Fiscal Year | Municipal Property Corporation Bonds | | | Scottsdale Preserve Authority Excise Tax Revenue Bonds | | | Capital Leases | | |
|-------------|--------------------------------------|-----------|------------|--|----------|----------|----------------|----------|--------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 2020 | \$ 15,552 | \$ 7,773 | \$ 23,325 | \$ 4,780 | \$ 350 | \$ 5,130 | \$ 59 | \$ 8 | \$ 67 |
| 2021 | 10,952 | 7,042 | 17,994 | 1,280 | 131 | 1,411 | 62 | 5 | 67 |
| 2022 | 9,770 | 6,518 | 16,288 | 1,350 | 68 | 1,418 | 65 | 3 | 68 |
| 2023 | 10,345 | 6,042 | 16,387 | - | - | - | 33 | - | 33 |
| 2024 | 10,970 | 5,532 | 16,502 | - | - | - | - | - | - |
| 2025-2029 | 62,183 | 19,499 | 81,682 | - | - | - | - | - | - |
| 2030-2034 | 50,785 | 6,841 | 57,626 | - | - | - | - | - | - |
| 2035-2039 | 3,205 | 160 | 3,365 | - | - | - | - | - | - |
| Total | \$ 173,762 | \$ 59,407 | \$ 233,169 | \$ 7,410 | \$ 549 | \$ 7,959 | \$ 219 | \$ 16 | \$ 235 |

| Fiscal Year | Community Facilities Districts General Obligation Bonds | | | Certificates of Participation - Direct Borrowing | | | Community Facilities Districts General Obligation Bonds - Direct Placements | | |
|-------------|---|----------|----------|--|----------|----------|---|----------|-----------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 2020 | \$ 150 | \$ 168 | \$ 318 | \$ 2,493 | \$ 56 | \$ 2,549 | \$ 2,400 | \$ 433 | \$ 2,833 |
| 2021 | 160 | 160 | 320 | - | - | - | 2,490 | 359 | 2,849 |
| 2022 | 165 | 150 | 315 | - | - | - | 2,590 | 283 | 2,873 |
| 2023 | 175 | 141 | 316 | - | - | - | 1,295 | 204 | 1,499 |
| 2024 | 185 | 130 | 315 | - | - | - | 1,125 | 162 | 1,287 |
| 2025-2029 | 1,125 | 469 | 1,594 | - | - | - | 3,615 | 249 | 3,864 |
| 2030-2034 | 850 | 105 | 955 | - | - | - | - | - | - |
| 2035-2039 | - | - | - | - | - | - | - | - | - |
| Total | \$ 2,810 | \$ 1,323 | \$ 4,133 | \$ 2,493 | \$ 56 | \$ 2,549 | \$ 13,515 | \$ 1,690 | \$ 15,205 |

(continued)

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Governmental Activities (in thousands)

| Fiscal Year | Service Concession Arrangements | | | Total Governmental Activities | | |
|-------------|---------------------------------|----------|----------|-------------------------------|------------|------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| | 2020 | \$ 154 | \$ 205 | \$ 359 | \$ 68,103 | \$ 27,259 |
| 2021 | 154 | 223 | 377 | 61,723 | 24,487 | 86,210 |
| 2022 | 154 | 242 | 396 | 59,114 | 21,885 | 80,999 |
| 2023 | 154 | 262 | 416 | 60,782 | 19,377 | 80,159 |
| 2024 | 154 | 283 | 437 | 64,669 | 17,120 | 81,789 |
| 2025-2029 | 769 | 1,764 | 2,533 | 230,032 | 52,798 | 282,830 |
| 2030-2034 | 608 | 1,930 | 2,538 | 137,943 | 17,632 | 155,575 |
| 2035-2039 | 74 | 299 | 373 | 3,279 | 459 | 3,738 |
| Total | \$ 2,221 | \$ 5,208 | \$ 7,429 | \$ 685,645 | \$ 181,017 | \$ 866,662 |

Business-type Activities (in thousands)

| Fiscal Year | Water and Sewer Revenue Bonds | | | Municipal Property Corporation Bonds | | |
|-------------|-------------------------------|----------|-----------|--------------------------------------|------------|------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2020 | \$ 3,725 | \$ 849 | \$ 4,574 | \$ 16,978 | \$ 13,315 | \$ 30,293 |
| 2021 | 3,930 | 654 | 4,584 | 17,843 | 12,481 | 30,324 |
| 2022 | 4,145 | 447 | 4,592 | 18,765 | 11,622 | 30,387 |
| 2023 | 4,375 | 230 | 4,605 | 19,595 | 10,703 | 30,298 |
| 2024 | - | - | - | 20,675 | 9,764 | 30,439 |
| 2025-2029 | - | - | - | 91,382 | 35,238 | 126,620 |
| 2030-2034 | - | - | - | 78,610 | 13,626 | 92,236 |
| 2035-2039 | - | - | - | 26,920 | 1,912 | 28,832 |
| Total | \$ 16,175 | \$ 2,180 | \$ 18,355 | \$ 290,768 | \$ 108,661 | \$ 399,429 |

| Fiscal Year | Total Business-type Activities | | |
|-------------|--------------------------------|------------|------------|
| | Principal | Interest | Total |
| 2020 | \$ 20,703 | \$ 14,164 | \$ 34,867 |
| 2021 | 21,773 | 13,135 | 34,908 |
| 2022 | 22,910 | 12,069 | 34,979 |
| 2023 | 23,970 | 10,933 | 34,903 |
| 2024 | 20,675 | 9,764 | 30,439 |
| 2025-2029 | 91,382 | 35,238 | 126,620 |
| 2030-2034 | 78,610 | 13,626 | 92,236 |
| 2035-2039 | 26,920 | 1,912 | 28,832 |
| Total | \$ 306,943 | \$ 110,841 | \$ 417,784 |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to public and aviation premises liability, self-insured benefits, property, and workers' compensation. Public liability includes public officials' errors and omissions, law enforcement liability, and automobile and general liability. The City is self-insured for the first \$2,000,000 of public liability, the first \$100,000 of property coverage, the first \$325,000 of health benefits claims for an individual in a fiscal year, and the first \$1,000,000 of workers' compensation. Coverage in excess of these respective amounts is provided through the purchase of commercial insurance. As for claim expenditures, settlements for each of the past three fiscal years have not exceeded the City's excess insurance coverage amounts for any claims.

The City reports its self-insurance activity in the Self-Insurance Internal Service Fund. Claims liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated.

The liability claims amount recorded in the accompanying financial statements is based on reported pending claims and an actuarial analysis and projection of the accrued liability amounts necessary to fund the claims. At June 30, 2019, the general liability claims payable totaled \$20,252,000 and the self-insured benefits claims payable totaled \$2,195,000.

| | Fiscal Year Ended June 30 (in thousands) | |
|--------------------------------|---|-------------------------|
| | 2019 | 2018 |
| Claims Payable, July 1 | \$ 22,933 | \$ 20,351 |
| Current Year Claims Incurred | 35,051 | 37,315 |
| Current Year Claim Payments | <u>(35,537)</u> | <u>(34,733)</u> |
| Claims Payable, June 30 | <u>\$ 22,447</u> | <u>\$ 22,933</u> |

B. Contingent Liabilities

The City is subject to a number of lawsuits, investigations, and other claims that are incidental to its normal operations. Although the outcome of these lawsuits is not presently determinable, in the opinion of City management, based on advice of the City Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City. The City is self-insured for the first \$2,000,000 of public liability; coverage in excess of this amount is provided through the purchase of commercial insurance. For more information on the City's self-insurance, refer to Note V.A. above.

In January 2013, the City entered into a settlement agreement with Scottsdale Fashion Square LLC to prepay an existing lease. In addition to a cash payment, the settlement included a provision for a waiver of \$2.5 million against future City fees associated with the development of the Scottsdale Fashion Square parcel plus any property acquired in the future that is contiguous to the property. The eligible fees to be waived include water and sewer development fees. Per Arizona Revised Statute 9-463.05, "If a municipality agrees to waive any of the development fees assessed on a development, the municipality shall reimburse the appropriate development fee accounts for the amount that was waived." As of June 30, 2019, \$2,106,317 in fee waivers have been applied.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The City has entered into several agreements whereby it will reimburse developers a portion of development costs and interest or sales tax generated on their site for a period of time and up to a maximum dollar amount. The funding source for the reimbursements will come from sales tax collected on the site over the life of the agreements. The City does not become liable under the agreements until a certificate of occupancy is issued or sales tax is generated, collected, and remitted to the City. As of June 30, 2019, these requirements have not been met under any of the agreements. The City's estimated contingent liability related to the agreements at June 30, 2019, is \$21,391,364.

C. Subsequent Events

In August 2019, the City initiated the financial defeasance of \$6.8 million of Series 2010 G.O. Bonds (2021 & 2030 maturities). U.S. Treasury State and Local Government Series securities were purchased with the funds and are held by the trustee for future debt service.

In September 2019, the City Council approved the issuance of bonds by the Scottsdale Municipal Property Corporation in an amount not to exceed \$43.5 million. Approximately \$33.5 million of taxable bonds will be used to renovate Scottsdale Stadium, and \$10.0 million of non-taxable bonds were approved for flood control improvements.

D. Tax Abatement Agreements

The City enters into transaction privilege tax abatement agreements on an individual basis. The privilege taxes abated consist of a rebate of part of the 1 percent unrestricted portion of the City's privilege tax rate. These abatement agreements are authorized through City Council resolution. There are no specific criteria against which such agreements are evaluated. Rather, the City Council, exercising the authority granted to it by law, and weighing the projected forsaken tax revenues against the potential benefits that would accrue to the City as a result of a particular tax abatement agreement, concludes whether or not the proposed tax abatement would be sufficiently advantageous to the City to warrant such an accord.

For the fiscal year ended June 30, 2019, the City abated eligible privilege taxes totaling \$181,552 in connection with the following tax abatement agreements, which comprise the entirety of the City's tax abatement agreements:

- A rebate of 70 percent of eligible privilege taxes generated by subject property, less \$2,500 per quarter, to a developer for construction of public infrastructure and in recognition of the lost development opportunities occasioned by the preservation of historic features on the property. The City receives the conveyance of a Deed of Restrictive Covenant and Conservation (Historic Preservation) Easement over the subject property and the economic development benefits anticipated from the rehabilitation of the subject property. The amount of taxes abated during the fiscal year was \$181,552.
- A rebate of 2/3 of eligible privilege taxes to a developer for constructing and operating facilities for the sale and service of three or more premium brand-new car dealerships. The applicable privilege taxes are derived from:
 - Prime contracting activities relating to the construction of the dealerships.
 - Activity transpiring at the dealerships.
 - Activity transpiring at another location owned by the developer, contingent upon the location remaining a motorized vehicle sales facility.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

No tax has been abated as of June 30, 2019, as the developer has yet to construct and commence the initial operation of the dealerships. As part of the agreement, the City also agreed to waive any City fees related to the initial design and construction of, or the issuance of a certificate of occupancy for, the dealerships.

E. Joint Ventures

Sub-Regional Operating Group (SROG)

The City participates with the cities of Phoenix, Glendale, Mesa, and Tempe in the multi-city Sub-Regional Operating Group (SROG). SROG was formed pursuant to the Joint Exercise of Powers Agreement (JEPA) in order to govern the construction, operation, and maintenance of jointly used sewage treatment and transportation facilities. The facilities include the 91st Avenue Wastewater Treatment Plant, the Salt River Outfall Sewer, the Southern Avenue Interceptor, and related transportation facilities. The City of Phoenix acts as lead agency and is responsible for the planning, budgeting, construction, operation, and maintenance of the facilities. In addition, the City of Phoenix provides all management, personnel, financing arrangements, and accepts federal grants on behalf of the participants. The JEPA requires each city to pay for its share of the actual cash costs of operating and maintaining the facilities based on relative sewage flows and strengths.

The City records its share of SROG's cash operating expenses and its equity in the joint venture in the City's Water and Sewer Fund. For the fiscal year ended June 30, 2018, (the latest audited information available from SROG), the City's net investment in SROG was \$92,960,000. SROG's net cash operating expenses for the fiscal year ended June 30, 2018, were \$37,656,149, of which the City's share was \$3,523,567, or 9.4 percent. For the fiscal year ended June 30, 2019, the City paid \$4,739,081 for SROG capital contributions and \$4,209,593 for SROG operating expenses, including adjustments to the operating and replacement reserves and prior year settlement.

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, for the multi-city Sub-Regional Operating Group (the latest SROG CAFR available) may be obtained from the Arizona Municipal Water Users Association, 4041 N. Central Avenue, Suite 900, Phoenix, AZ 85012.

Regional Wireless Cooperative (RWC)

The City participates in the Regional Wireless Cooperative (RWC), an association of municipalities formed in 2008 to oversee the administration, operation, management, and maintenance of an expanding regional communications network. The RWC was formed through a governance structure founded on the principles of cooperation for the mutual benefit of all members and has expanded to serve a still-growing list of cities, towns, and fire districts, along with many other area entities who serve public safety needs. A regional radio communications network was built to seamlessly serve the interoperable communication needs of first responders and other municipal radio users in and around the Phoenix Metropolitan Region. Financial responsibilities are shared by all members based on their relative size and is measured by the number of subscriber units (radios) on the network. The City of Phoenix is responsible for the day-to-day operations and maintenance of the network, as well as the management of the RWC's organization and finances.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The City records its share of contributions to the RWC, third party contributions paid to the RWC for the benefit of the City, and equity in the joint venture in the City's proprietary funds and government-wide financial statements. The equity balance as of June 30, 2018, (the latest audited information available from RWC), was \$1,845,805 or 2.5 percent of the RWC's total net position. The City contributed \$218,383 for the fiscal year ended June 30, 2019 and shared in estimated depreciation expenses of \$257,562, resulting in an estimated equity balance as of June 30, 2019, of \$1,806,626. The RWC Comprehensive Annual Financial Statement is available from the Regional Wireless Cooperative, 200 West Washington Street, 12th Floor, Phoenix, Arizona, 85003-1611.

F. Pollution Remediation

In the proprietary funds financial statements, a long-term pollution remediation obligation is recognized for the remaining remediation period. In 1981, groundwater contamination was discovered when elevated levels of trichloroethylene (TCE) and other volatile organic chemicals were detected in two active City wells and three future wells. The City immediately shut down the affected wells. Following an investigation by the Environmental Protection Agency (EPA), the North Indian Bend Wash Site which includes the five wells above was placed on the federal Superfund list in 1983.

The Superfund law was enacted in order to provide funding and regulatory authority for the study and cleanup of contaminated sites. The EPA, in conjunction with the State of Arizona, directs the cleanup of the North Indian Bend Wash (NIBW) Site that encompasses a groundwater contamination plume in Scottsdale.

Following its investigation, the EPA identified three companies, Motorola Solutions Inc. (MSI), SMI Holdings, LLC, formerly Siemens Corporation, and GlaxoSmithKline Corporation, as the primary parties potentially responsible for causing the contamination and directed the companies to pay the costs associated with the cleanup. In 1991, the City, EPA, State of Arizona, Salt River Project (SRP), and the above-referenced participating companies entered into a Consent Decree in order to begin the containment and remediation of the contaminated groundwater plume and provide Scottsdale citizens with a potable water source. The companies agreed to pay for the construction and operation of the Central Groundwater Treatment Facility (CGTF), an air stripping plant that removes contaminants from the affected wells. As the CGTF operator and drinking water provider, the City ensures the water produced by the plant meets all federal and state water quality standards before water is delivered into the City's distribution system. An Amended Consent Decree was signed by all parties in 2003 to capture additional voluntary and required work at the NIBW Site. No additional obligations were identified for the City.

To facilitate groundwater sustainability and plume management, in 2012 the City voluntarily entered into an agreement with MSI to operate an additional groundwater treatment facility that would be designed and constructed to deliver treated water to the Chaparral Water Treatment Plant (CWTP). The North Indian Bend Wash Granular Activated Carbon Treatment Facility (NGTF) was completed in late 2013 and began delivery of water to the CWTP in August 2014. The facility is a granular activated carbon plant that is owned by MSI but operated and maintained by the City to treat a well owned by SRP. The type of treatment chosen was due to the lower concentration of contaminants in the well. All costs are reimbursed to the City by MSI.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The measurement of the City's pollution remediation obligation liability includes all remediation work that the City expects to perform, including work expected to be performed for the participating companies. In order to estimate the CGTF liability, twelve projected cash flows, based on the prior twelve years of historical costs and weighted equally, were used to calculate an average annual cost. In order to estimate the NGTF liability, six projected cash flows, based on the prior six years of historical costs and weighted equally, were used to calculate an average annual cost. These average costs were then projected over the remaining remediation period of 55 years for CGTF and the NGTF. The EPA estimated in its September 2011 review that future remediation will be required for approximately 50-70 years at each site; the most recent five-year EPA review, approved in September 2016, was silent on the number of required remediation years.

Improvements in technology and changes in laws or regulations did not impact the average annual cost. The liability is revalued annually. The fiscal year 2019 reimbursable outlays for operating and monitoring the CGTF were \$581,976 and for the NGTF were \$116,346. The City has a reimbursement agreement with the responsible parties and the total liability is expected to be fully recovered by the participating companies and therefore a corresponding pollution remediation recoveries receivable has been accrued.

G. Related Organization

The Industrial Development Authority (IDA) is a non-profit corporation established by the City and granted incorporation by the Arizona Corporation Commission in 1984. The primary function of the IDA is to promote the retention, expansion, and attraction of businesses and commercial enterprises in Scottsdale. The City Council appoints the Board of Directors of the IDA and is also involved in granting and denying IDA bond applications.

H. Retirement and Pension Plans

All eligible employees of the City, including the Mayor and the City Council, are covered by one of four pension plans. All full-time City employees, except public safety personnel (police officers and firefighters) and the Mayor and City Council, participate in the Arizona State Retirement System, a cost-sharing multiple-employer defined benefit pension plan. All public safety personnel participate in the Public Safety Personnel Retirement System, which consists of both an agent multiple-employer defined benefit pension plan and a defined contribution plan. The Mayor and City Council participate in either the Elected Officials' Retirement Plan (a cost-sharing multiple-employer defined benefit pension plan) or the Elected Officials' Defined Contribution Retirement System (a defined contribution plan). The City contributes to the Elected Officials' Retirement Plan; however, the plan is not described below because of its relative insignificance to the financial statements. All plans are component units of the State of Arizona.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Arizona State Retirement System

General Information about the Pension Plan

Plan Description

All eligible City employees, except public safety personnel and the Mayor and City Council, participate in the Arizona State Retirement System (ASRS). ASRS administers a cost-sharing multiple-employer defined benefit pension plan. ASRS was established by the State of Arizona to provide pension benefits for employees of both the state and participating political subdivisions and school districts. ASRS is administered in accordance with Title 38, Chapter 5, Articles 2 and 2.1 of the Arizona Revised Statutes (ARS). ASRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ASRS Financial Services Division, 3300 North Central Avenue, Phoenix, AZ 85012, or by visiting <https://www.azasrs.gov/content/annual-reports>.

Benefits Provided

ASRS provides retirement and survivor benefits. State statute establishes benefits terms. A member may retire upon meeting the following age and service requirements:

| <u>Initial Membership Date</u> | | | |
|------------------------------------|-------------------------|-------------------------------|-------------------------|
| <u>Pre-July 1, 2011</u> | | <u>July 1, 2011 and after</u> | |
| <u>Age</u> | <u>Years of Service</u> | <u>Age</u> | <u>Years of Service</u> |
| 65 | N/A | 65 | N/A |
| 62 | 10 | 62 | 10 |
| Age plus years of service total 80 | | 60 | 25 |
| | | 55 | 30 |

The retirement benefit is based on a percentage of average monthly compensation multiplied by the years of credited service. The compensation generally does not include lump sum payments on termination of employment for accumulated vacation or annual leave, sick leave, compensatory time, or any other form of termination pay (see discussion of pre-January 1, 1984 members below). The multiplier percentage and average monthly compensation are defined in the following schedules:

| <u>Years of Service</u> | <u>Multiplier</u> | <u>Membership Date</u> | <u>Average Monthly Compensation</u> |
|-------------------------|-------------------|------------------------|--|
| 0.00-19.99 years | 2.10% | Pre-July 1, 2011 | 36 consecutive months of highest compensation within final 120 months of service |
| 20.00-24.99 years | 2.15% | | |
| 25.00-29.99 years | 2.20% | | |
| 30.00 or more years | 2.30% | July 1, 2011 and after | 60 consecutive months of highest compensation within final 120 months of service |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Members who began participation in the Plan prior to January 1, 1984, may choose to have average monthly compensation determined based upon the period of 60 consecutive months during which the member receives the highest compensation within the last 120 months of service, including lump sum payments as described above. Members who attain age 50 with at least five years of total credited service may take an early retirement; however, the amount of their retirement benefit is actuarially reduced.

Survivor benefits are applicable if death occurs prior to retirement, and are payable, at the option of the beneficiary, by either of the following methods:

1. A lump sum equal to the sum of (a) and (b):
 - a. the sum of the member's employee and employer balance plus any service purchase payments, and
 - b. the sum of the member's employee and employer balance plus any supplemental credits, if any, transferred from the System (closed portion of ASRS) to the Plan, with interest
2. The beneficiary may elect to receive a monthly income, in the single life form, which is actuarially equivalent to the amount in 1. above at 7.5 percent.

Retirees who have been retired one year are eligible for a permanent benefit increase (PBI) up to a maximum of a 4 percent increase. The PBI is paid from a reserve of "Excess Investment Earnings." If there are no "Excess Investment Earnings" in reserve, then no PBI is paid. Further, PBI enhancements (EPBI) provide retired members with at least ten years of service who have been retired five or more years an additional benefit. For each complete 5-year period the member has been retired, an incremental benefit is paid if monies to pay the benefit are available. This benefit is funded by an interest credit of 8 percent of the reserve for future PBIs. Due to legislation enacted in the 2013 legislative session, PBIs and EPBIs will not be awarded to members hired after September 13, 2013.

Contributions

The ARS provide statutory authority for determining the employees' and employers' contribution amounts as a percentage of the City's covered payroll. Although the statutes prescribe the basis of making the actuarial calculation, the Arizona legislature is authorized to approve a contribution rate other than the actuarially determined rate. Employees were required to contribute 11.64 percent of their annual pay for the fiscal year ended June 30, 2019, and the City's required contribution rate was 11.18 percent during the same time period. In addition, the City was required by statute to contribute at the actuarially determined rate of 10.41 percent of annual covered payroll of retired members who worked for the City in positions that would typically be filled by an employee who contributes to the ASRS. The required contribution rate for the fiscal year ended June 30, 2019, was actuarially determined to yield contribution amounts sufficient to finance costs earned by employees during the year and to amortize the Plan's unfunded actuarially accrued liability over the period specified in the statutes. Contributions to the pension plan from the City were \$12,384,000 for the fiscal year ended June 30, 2019.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the City reported a liability of \$147,206,499 for its proportionate share of the collective net pension liability of the ASRS. The collective net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of June 30, 2017. Update procedures were used to roll forward the total pension liability to the measurement date. The City's proportion of the collective net pension liability was based on the City's proportionate share of accrued contributions to the pension plan relative to the contributions of all participating entities for the fiscal year ended June 30, 2018. At June 30, 2018, the City's proportion was 1.05551 percent, which was a decrease of 0.00131 percent from its proportion measured as of June 30, 2017.

For the fiscal year ended June 30, 2019, the City recognized a collective pension expense of \$(140,291). At June 30, 2019, the City reported a collective deferred outflow of resources and a collective deferred inflow of resources related to pensions from the following sources (in thousands):

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 4,056 | \$ 812 |
| Changes in assumptions | 3,895 | 13,052 |
| Net difference between projected and actual earnings on pension plan investments | - | 3,540 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | - | 2,126 |
| City contributions subsequent to the measurement date | 12,384 | - |
| Total | <u>\$ 20,335</u> | <u>\$ 19,530</u> |

The \$12,384,000 reported as a collective deferred outflow of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the collective net pension liability in the fiscal year ending June 30, 2020. Other amounts reported as a collective deferred outflow of resources and a collective deferred inflow of resources related to pensions will be recognized in pension expense as follows (in thousands):

Fiscal year ending June 30:

| | |
|------------|----------|
| 2020 | \$ (579) |
| 2021 | (4,043) |
| 2022 | (5,370) |
| 2023 | (1,587) |
| 2024 | - |
| Thereafter | - |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|------------------------------|
| Actuarial valuation date | June 30, 2017 |
| Measurement date | June 30, 2018 |
| Actuarial cost method | Entry age normal |
| Amortization method | |
| Plan amendments | Immediate |
| Investment gain/loss | Five years |
| Assumption gain/loss | Average future service lives |
| Experience gain/loss | Average future service lives |
| Proportionation/proportionate share gain/loss | Average future service lives |
| Asset valuation | Fair value |
| Discount rate | 7.5% |
| Projected salary increases | 2.7-7.2% |
| Inflation | 2.3% |
| Permanent benefit increase | Included |
| Mortality rates | 2017 SRA Scale U-MP |

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2016.

The long-term expected rate of return on ASRS pension plan investments was determined to be 5.07 percent (excluding any expected inflation) using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, excluding any expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Real Return Geometric Basis</u> | <u>Long-Term Contribution to Expected Real Return</u> |
|--------------------|--------------------------|--|---|
| Equity | 50% | 5.50% | 2.75% |
| Fixed income | 30% | 3.83% | 1.15% |
| Real estate | 20% | 5.85% | 1.17% |
| Total | <u>100%</u> | | <u>5.07%</u> |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made at the actuarially determined rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the collective net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

| | <u>1% Decrease</u> <u>(6.5%)</u> | <u>Discount Rate</u> <u>(7.5%)</u> | <u>1% Increase</u> <u>(8.5%)</u> |
|--|-------------------------------------|---------------------------------------|-------------------------------------|
| City's proportionate share of the collective net pension liability | \$ 209,846,251 | \$ 147,206,499 | \$ 94,871,999 |

Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position has been determined on the same basis used by the pension plan. The financial statements of ASRS are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America that apply to government accounting of fiduciary funds issued by the Governmental Accounting Standards Board (GASB). Benefits and refunds are recognized when due and payable. Fair value measurements are categorized 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 and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. Cash and short-term investments generally include cash, foreign currencies, short-term investment funds, and U.S. Treasury bills that mature within 1 year. These funds are reported at cost, or cost plus accrued interest, which approximates fair value. Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Public Safety Personnel Retirement System

General Information about the Pension Plan

Plan Descriptions

All of the City's sworn public safety personnel participate in Public Safety Personnel Retirement System (PSPRS). PSPRS administers both an agent multiple-employer defined benefit pension plan and a defined contribution plan. The defined contribution plan is only available to police department members who became a member on or after July 1, 2017, and fire department members who became a member on or after January 1, 2012. The defined benefit and defined contribution pension plans are administered in accordance with Title 38, Chapter 5, Articles 4 and 4.1, respectively, of the Arizona Revised Statutes (ARS). PSPRS acts as a common investment and administrative agent that is jointly administered by the Board of Trustees (the Board) and 229 local boards. PSPRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to PSPRS, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016, calling (602) 255-5575, or by visiting: <http://www.psprs.com/investments--financials/annual-reports>.

Benefits Provided

PSPRS provides retirement, disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits for employees who became a member on or before December 31, 2011 (Tier 1 members) commence the first day of the month following termination of employment and are calculated based upon the following:

1. 20 years of credited service: 50 percent of the average monthly benefit compensation for the first 20 years of credited service.
2. Age 62 with 15 years of service, or 20 years of service with less than 20 years of credited service: 50 percent of the average monthly benefit compensation for the first 20 years of credited service. The pension is reduced by 4 percent per year for each year of credited service under 20 years.
3. 20 to 24.99 years of credited service: 50 percent of the average monthly benefit compensation for the first 20 years of credited service plus 2 percent of the average monthly benefit compensation for each year of credited service between 20 and 24.99.
4. 25 or more years of credited service: 50 percent of the average monthly benefit compensation for the first 20 years of credited service plus 2.5 percent of the average monthly benefit compensation for each year of credited service above 20 years - up to a maximum of 80 percent of the average monthly benefit compensation.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Retirement benefits for employees who became a member on or after January 1, 2012, and on or before June 30, 2017, (Tier 2 members) commence the first day of the month following termination of employment and are calculated based upon the following:

1. Age 52.5 with 15 years of credited service but less than 25 years: average monthly benefit compensation multiplied by a multiplier that varies by years of service, from 1.5 percent to 2.5 percent per year of service, multiplied by the number of years of service.
2. Age 52.5 with 25 years of service: 62.5 percent of the average monthly benefit compensation. Benefits will be reduced by 4 percent for each year of credited service under 25 years.
3. 25 or more years of service: 62.5 percent of the average monthly benefit compensation for the first 25 years of credited service plus 2.5 percent of the average monthly benefit compensation for each year over 25 years of credited service - up to a maximum of 80 percent of the average monthly benefit compensation. The pension is reduced by 4 percent per year for each year of credited service under 25 years with a pro-rata reduction for any fractional years.

Retirement benefits for employees who became a member on or after July 1, 2017, (Tier 3 members) are contingent upon which retirement plan is chosen by a member. This group of members has an irrevocable choice of enrolling in either the defined benefit plan (police employees) or a hybrid plan, which has elements of both a defined benefit and defined contribution plan (fire employees), or a defined contribution plan in lieu of the respective choices listed above (both police and fire employees). If enrolling in the defined benefit plan or hybrid plan, benefits (defined benefit portion only for the hybrid plan) commence the first day of the month following termination of employment and are based upon the following:

1. Age 55 with 15 or more years of credited service: average monthly benefit compensation times a multiplier that varies by years of service, from 1.5 percent to 2.5 percent per year of service, times the number of years of service - up to a maximum of 80 percent of the average monthly benefit compensation.
2. An individual who became a member on or after July 1, 2017, and reaches age 52.5 with at least 15 years of credited service may take an early retirement; however, the amount of his or her retirement benefit is actuarially reduced.

The phrase “average monthly benefit compensation,” as it is used in the above discussion, is defined in the following schedule:

| <u>Membership Tier</u> | <u>Average Monthly Compensation</u> |
|------------------------|--|
| Tier 1 | 36 consecutive months of highest covered payroll within the last 20 years of service |
| Tier 2 | 60 consecutive months of highest covered payroll within the last 20 years of service |
| Tier 3 | 60 consecutive months of highest compensation within the last 15 years of service |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Disability benefits are calculated as follows:

| | |
|-------------------------------------|--|
| Accidental Disability Retirement: | 50% of average monthly compensation, or normal pension amount, whichever is greater. |
| Catastrophic Disability Retirement: | 90% of average monthly compensation for the first 60 months. Thereafter, the benefit is the greater of 62.5% of average monthly compensation or the member's accrued normal pension. |
| Ordinary Disability Retirement: | A percentage of normal pension on employee's credited service (maximum of 20 years divided by 20). |

Survivor benefits are paid on behalf of an active member in the amount of 80 percent of the pension based on the calculation for an accidental disability retirement. If the member was killed in the line of duty, the benefit is 100 percent of the member's average compensation. The benefit amount is allocated to the surviving spouse and, if applicable, eligible children. If there is no surviving spouse, and there is at least one eligible child, the guardian of the eligible child(ren) and the eligible child(ren) are the recipients of the benefit. If there is no surviving spouse or eligible child(ren), the member's named beneficiary on file will receive the member's accumulated contributions. Benefits are paid on behalf of an inactive, non-retired member to the member's named beneficiary in the amount of the member's accumulated contributions. Death benefits are paid on behalf of a retired member in a manner similar to an active member. The surviving spouse (if married for at least two consecutive years at the time of the member's death) will receive 80 percent of the member's pension benefit for lifetime. The surviving children and guardian provisions are the same as those regarding active members, with the exception that the percentages received are based upon the pension amount as opposed to the amounts referenced above for active members.

A retired member or survivor of a retired member may be eligible for a Cost of Living Adjustment (COLA) from the System if monies are available. COLA eligibility and calculation is contingent upon the member's hire date.

Members, or survivors of retired members, who were hired before July 1, 2017, are eligible to receive a compounding COLA in the base benefit of up to 2 percent per year. The COLA will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Members, or survivors of retired members, who were hired on or after July 1, 2017, are eligible to receive a compounding COLA in the base benefit, beginning at the earlier of the first calendar year after the seventh anniversary of the retired member's retirement or when the retired member is or would have been sixty years of age. The COLA will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. COLA adjustments will be received for this cohort if the following conditions are met:

| Ratio of Actuarial Value of Assets to Liabilities | Maximum increase |
|---|---------------------|
| 70-80% | 1.00% |
| 80-90% | 1.50% |
| >90% | 2.00% |

Employees Covered by Benefit Terms

At June 30, 2019, the following employees were covered by the benefit terms:

| | |
|--|-------------------|
| Inactive employees or beneficiaries currently receiving benefits | 269 |
| Inactive employees entitled to, but not yet receiving benefits | 112 |
| Active Employees | <u>604</u> |
| Total | <u><u>985</u></u> |

Contributions

ARS Title 38, Chapter 5, Article 4, Section 38-843 provides the authority for determining the City and active employee contribution requirements to the PSPRS pension plan. The contribution rates for employers are based on an actuarially determined rate recommended by an independent actuary contracted by the Board. The contribution rates for employees are prescribed by the ARS Section referenced above. For Tier 1 and Tier 2 employees, the actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned during the year by these employees, with an additional amount to finance any unfunded accrued liability. The unfunded accrued liability portion of the rate is paid by the City as a percentage of the pay of all of the City's active PSPRS members, regardless of start date. For Tier 3 employees, each employer shall make contributions sufficient to pay fifty percent of both the normal cost plus the actuarially determined amount required to amortize the total unfunded accrued liability attributable only to those members hired on or after July 1, 2017. As noted above, the City will also pay an amount to finance any unfunded accrued liability relating to employees hired before July 1, 2017.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The City's contribution rates for fiscal year ended June 30, 2019 were:

| Police | Tier 1 | | Tier 2 | | Tier 3 | |
|----------------------------|-------------------------|--------------------------|----------------------|--------------------|-------------------------|--|
| Membership date | 7/19/2011 or earlier | On or after 7/20/2011 | 1/1/2012 or later | 7/1/2017 or later | | |
| Plan type | Defined benefit | Defined benefit | Defined benefit | Defined benefit | Defined contribution | |
| Employee contribution rate | 7.65% | 11.65% | 11.65% | 9.73% | 9.00% | |
| Employer contribution rate | 51.85% | 51.85% | 51.85% | 46.53% | 45.80% | |

| Fire | Tier 1 | | Tier 2 | | Tier 3 | | |
|----------------------------|-------------------------|--------------------------|--------------------------------|-------------------------------------|--------------------------------|-------------------------------------|-------------------------|
| Membership date | 7/19/2011 or earlier | On or after 7/20/2011 | 1/1/2012 or later | | 7/1/2017 or later | | |
| Plan type | Defined benefit | Defined benefit | Defined benefit (hybrid) | Defined contribution (hybrid) | Defined benefit (hybrid) | Defined contribution (hybrid) | Defined contribution |
| Employee contribution rate | 7.65% | 11.65% | 11.65% | 3.00% | 10.33% | 3.00% | 9.00% |
| Employer contribution rate | 19.17% | 19.17% | 19.17% | 4.00% | 14.56% | 3.00% | 13.23% |

Participants' defined contributions and the earnings on those contributions are immediately vested. A participant is fully vested in employer contributions after ten years of service; the vesting occurs at a rate of ten percent per year. If a participant dies before completing ten years of service, the employer contributions are immediately fully vested. In addition, the City was required by statute to contribute an actuarially determined rate (36.80 percent for police employees and 8.00 percent for fire employees) of annual covered payroll of retired members who worked for the City in positions that would typically be filled by an employee who contributes to PSPRS. The City's contributions to the pension plan for the fiscal year ended June 30, 2019, were \$19,951,784.

ARS Title 9, Chapter 8, Article 3, Section 9-952 requires the state treasurer to distribute a fire insurance premium tax to the respective incorporated cities and towns and legally organized fire districts in proportion to the full cash value of the real property and improvements in each incorporated city and town and legally organized fire district which procures the services of a private fire company and in each area served by a fire department or legally organized fire district. The warrant issued by the state treasurer is identified as the "fire fighters' relief and pension fund," to cover the firefighting personnel deposit into the pension plan. The annual tax provided by law is based on a portion of the premiums received on policies and contracts of fire insurance covering property within the state. In June 2018, PSPRS received \$1,920,977 of fire insurance premium tax for the City's fire pension plan related to the fiscal year ended June 30, 2019. PSPRS accounts for the fire insurance premium tax collected for the City as employer contributions.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Net Pension Liability

The City's net pension liability of \$180,055,082 was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total pension liability in the June 30, 2018, measurement was determined using the following actuarial assumptions:

| | |
|------------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Asset Valuation Method | Fair Value of Assets |
| Payroll Growth | 3.50% |
| Inflation | 2.50% |
| Salary Increases | 3.50%-7.50%, including inflation |
| Tier 1/2 Investment Rate of Return | 7.40%, net of investment and administrative expenses |
| Tier 3 Investment Rate of Return | 7.00%, net of investment and administrative expenses |
| Mortality rates | RP-2014 mortality tables projected backwards 1 year to 2013 with MP-2014 (110% of female healthy annuitant mortality table). Future mortality improvements are assumed each year using 75% of scale MP-2016. |

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study of the period July 1, 2011 to June 30, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2018, these best estimates are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return*</u> |
|------------------------|--------------------------|--|
| U.S. Equity | 16.00% | 7.60% |
| Non-U.S. Equity | 14.00% | 8.70% |
| Private Equity | 12.00% | 5.83% |
| Fixed Income | 5.00% | 1.25% |
| Private Credit | 16.00% | 6.75% |
| GTS | 12.00% | 3.96% |
| Real Assets | 9.00% | 4.52% |
| Real Estate | 10.00% | 3.75% |
| Risk Parity | 4.00% | 5.00% |
| Short Term Investments | 2.00% | 0.25% |
| | <u>100.00%</u> | |

* Geometric Real Rate of Return. Based on inflation assumption of 2.75%.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Discount Rate

The discount rate used to measure the total pension liability was 7.40 percent for Tier 1/2 members and 7.00 percent for Tier 3 members. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the PSPRS plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

Public Safety Personnel Retirement System (Police)
Changes in the Net Pension Liability
(in thousands)

| | Increase (Decrease) | | |
|---|-----------------------------------|---------------------------------------|-------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
| Balances at 6/30/18 | \$ 328,685 | \$ 162,427 | \$ 166,258 |
| Changes for the year: | | | |
| Service cost | 7,103 | - | 7,103 |
| Interest | 24,013 | - | 24,013 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | 4,880 | - | 4,880 |
| Changes of assumptions/other inputs | - | - | - |
| Contributions-employer | - | 15,491 | (15,491) |
| Contributions-employee | - | 3,438 | (3,438) |
| Net investment income | - | 11,537 | (11,537) |
| Benefit payments, including refunds of employee contributions | (15,475) | (15,475) | - |
| Administrative expense | - | (176) | 176 |
| Other changes | - | (34) | 34 |
| Net changes | 20,521 | 14,781 | 5,740 |
| Balances at 6/30/19 | \$ 349,206 | \$ 177,208 | \$ 171,998 |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Public Safety Personnel Retirement System (Fire) Changes in the Net Pension Liability (in thousands)

| | Increase (Decrease) | | |
|---|----------------------------|--------------------------------|--------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| | (a) | (b) | (a)-(b) |
| Balances at 6/30/18 | \$ 88,908 | \$ 77,181 | \$ 11,727 |
| Changes for the year: | | | |
| Service cost | 5,098 | - | 5,098 |
| Interest | 6,729 | - | 6,729 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | (2,004) | - | (2,004) |
| Changes of assumptions/other inputs | - | - | - |
| Contributions-employer | - | 6,061 | (6,061) |
| Contributions-employee | - | 1,981 | (1,981) |
| Net investment income | - | 5,520 | (5,520) |
| Benefit payments, including refunds of employee contributions | (1,047) | (1,047) | - |
| Administrative expense | - | (85) | 85 |
| Other changes | - | 16 | (16) |
| Net changes | 8,776 | 12,446 | (3,670) |
| Balances at 6/30/19 | \$ 97,684 | \$ 89,627 | \$ 8,057 |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.40 percent for Tier 1/2 members and 7.00 percent for Tier 3 members, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.40/6.00 percent) or 1-percentage-point higher (8.40/8.00 percent) than the current rate (in thousands):

| | 1% Decrease (6.40%/6.00%) | Discount Rate (7.40%/7.00%) | 1% Increase (8.40%/8.00%) |
|--------------------------------------|------------------------------|--------------------------------|------------------------------|
| Police net pension liability (asset) | \$ 220,481 | \$ 171,998 | \$ 132,604 |
| Fire net pension liability (asset) | 24,768 | 8,057 | (5,464) |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position has been determined on the same basis used by the pension plan. PSPRS financial statements are prepared using the accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of PSPRS. Refunds are due and payable by state law within 20 days of receipt of a written application for a refund. Refunds are recorded when paid. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. PSPRS investments are reported at fair value. Fair value measurements are categorized 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 and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. Market values are determined as follows: Short-term investments are reported at cost plus accrued interest. Level 1 debt and equity securities are valued based on prices quoted in active markets for those securities. Level 2 securities are valued using a matrix pricing technique that values securities based on their relationship to benchmark quoted prices. Level 3 securities, whose stated market prices are unobservable by the marketplace, are priced by the investment manager or General Partner using discounted cash flow techniques. The fair value of alternative investments is based on the investments' net asset value (NAV) per share. These are investments for which exchange quotations are not readily available and are valued at estimated fair value, as determined in good faith by the General Partner of each fund or by the investment manager responsible for that sector. Detailed information about the pension plan's fiduciary net position is available in the separately issued PSPRS financial report.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2019, the City recognized pension expense of \$27,684,845 related to the defined benefit plan and the defined benefit portion of the hybrid plan and \$212,876 related to the defined contribution plan and the defined contribution portion of the hybrid plan. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 5,955 | \$ 5,003 |
| Change of assumptions or other inputs | 21,698 | - |
| Net difference between projected and actual earnings on pension plan investments | 3,126 | - |
| City contributions subsequent to the measurement date | 19,952 | - |
| Total | <u>\$ 50,731</u> | <u>\$ 5,003</u> |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

City contributions subsequent to the measurement date of \$19,951,784 were reported as deferred outflows and will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Fiscal year ending June 30:

| | | |
|------------|----|--------|
| 2020 | \$ | 10,301 |
| 2021 | | 7,028 |
| 2022 | | 2,375 |
| 2023 | | 3,510 |
| 2024 | | 1,466 |
| Thereafter | | 1,096 |

Elected Officials' Defined Contribution Retirement System

The City contributes to the Elected Officials' Defined Contribution Retirement System (EODCRS), which includes a defined contribution pension plan for elected officials and judges of certain state, county and local governments. Participants in this plan include only those elected officials who began service subsequent to December 31, 2013, and had no relationship to ASRS or EORP at the inception of service. The Board of Trustees of the PSPRS is also the administrator for the EODCRS.

Benefit terms, including contribution requirements, for EODCRS are established by Title 38, Chapter 5, Article 3.1 of the Arizona Revised Statutes (ARS) and may be amended by the State of Arizona. For each member of EODCRS, the City is required to contribute 6 percent of gross compensation to an individual member retirement account. Members are required to contribute 8 percent of gross compensation to their retirement account. Members are immediately vested in both their and the City's contributions and earnings on those contributions. For the fiscal year ended June 30, 2019, the City recognized pension expense of \$1,579.

I. Other Postemployment Benefits

In addition to the pension benefits described in the previous section (H), the City provides an option of post-retirement healthcare benefits, in accordance with Chapter 14 of the City Code. Employees hired before July 1, 1982, receive cash equal to 50 percent of the first 520 hours of unused medical leave plus 25 percent of all hours in excess of 520. The conversion rate is the employee's average hourly base pay rate for the five years immediately preceding retirement. The medical leave not paid out in cash is applied to a retirement health savings account at the employee's hourly rate of pay at the time of retirement. For shift fire employees with 420 or more hours and all other retirees with 300 or more hours of accumulated medical leave hired on or after July 1, 1982, the City will apply the value of the medical leave to a retirement health savings account. Medical leave balances accumulated through June 30, 2011, will be paid at 100 percent of the employee's hourly rate at the time of retirement. Medical leave balances accumulated July 1, 2011, or after will be paid out at 50 percent of the employee's hourly rate at retirement. Additionally, the payout is limited to the value of 1,200 combined hours for all retirees, except shift fire employees, who are limited to 1,680 hours earned both before and after July 1, 2011, unless more than 1,200 or 1,680 hours, respectively, were accrued prior to July 1, 2011. Total hours accrued before July 1, 2011, will be paid without limitation.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

The projected liability for active employees, as of June 30, 2019, was \$15,684,444. The projected liability was considered payable within one year or greater and all but the current portion of \$182,287 was therefore considered non-current and included in both the proprietary fund and government-wide financial statements. Significant actuarial assumptions of the January 1, 2019, actuarial valuation include: a) mortality rates based on the RPH-2018 Total Dataset Mortality Table fully generational using scale MP 2018; b) interest compounded 4.0 percent annually; c) salary increases at a rate of 3 percent to 4 percent based on years of service; and d) Traditional Unit Credit cost method based on participant data as of January 1, 2019.

J. Postemployment Benefits Other Than Pensions (OPEB)

The cost of postemployment healthcare benefits, from an accrual accounting perspective, should be associated with the periods in which the future costs are earned rather than in the future years when they will be paid (similar to the cost of pension benefits). GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* requires the City to recognize the entire OPEB liability and a comprehensive measure of OPEB expense. The comprehensive measure of OPEB expense includes immediate recognition in OPEB expense of the effects of changes of benefit terms, as well as the incorporation of the amortization of deferred inflows of resources and deferred outflows of resources related to OPEB over a defined, closed period.

Plan Description

The City's defined benefit OPEB plan ("the Plan") provides OPEB for eligible retired employees through a single-employer defined benefit medical plan administered by the City. The City Council, by way of resolution, grants itself the authority, on an annual basis, to reestablish and amend the benefit terms and financing requirements of the Plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Benefits Provided

The Plan offers medical benefits to its eligible retirees and their dependents through the City's self-insured health plan. An eligible retiree is a Public Safety Personnel Retirement System accidental disability retired employee. Eligible retirees can enroll in a City plan up to 60 days after they retire; after that their eligibility for this benefit ceases. The benefit terms are the same as those afforded to active employees; however, retirees participating in the Plan are required to pay 100 percent of the blended actuarial rate, while employees pay less than the full amount. Upon a retiree reaching 65 years of age, the retiree and related dependents are no longer eligible for City coverage.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Employees Covered by Benefit Terms

The following employees were covered by the benefit terms:

As of June 30, 2019, Membership Consisted of:

| | |
|--|-------------------|
| Inactive Employees or Beneficiaries Currently Receiving Benefits | 20 |
| Inactive Employees Entitled to but Not Yet Receiving Benefits | - |
| Active Employees | <u>664</u> |
| Total | <u><u>684</u></u> |

Total OPEB Liability

The City's total OPEB liability of \$2,103,379 was measured as of July 1, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|--|---|
| Inflation | 2.5% |
| Salary Increases | 3.5% wage inflation plus merit and longevity increases ranging from 0.0% to 4.0% |
| Discount Rate | 3.87% |
| Healthcare Cost Trend Rates* | 6.83% for 2020, 8.00% for 2021, and then decreasing 0.5% per year to an ultimate rate of 5.00% for 2027 and later years |
| Retirees' Share of Benefit-Related Costs | 100% |

*The initial trend rate reflects the City's actual projected cost increases from fiscal year 2019 to 2020.

The discount rate was based on the Bond Buyer GO 20- Bond Municipal Bond Index.

Mortality rates were based on the RPH-2018 Total Dataset Mortality Table fully generational using scale MP-2018 for current actives and the RPH-2018 Disabled Mortality Table fully generational using scale MP-2018 for disabled retirees.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Changes in the Total OPEB Liability

| (in thousands) | <u>Total OPEB Liability</u> |
|--|---------------------------------|
| Balance at 6/30/18 | <u>\$ 2,194</u> |
| Changes for the year: | |
| Service cost | 241 |
| Interest | 85 |
| Differences between expected and actual experience | (278) |
| Changes of assumptions/other inputs | (38) |
| Benefit payments | <u>(101)</u> |
| Net changes | <u>(91)</u> |
| Balance at 6/30/19 | <u><u>\$ 2,103</u></u> |

Changes in assumptions reflect the following:

1. Change in the discount rate from 3.56 percent as of the beginning of the year to 3.87 percent as of the end of the year.
2. Mortality table has been updated from RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017 to RPH-2018 Total Dataset Mortality Table fully generational using Scale MP-2018 for current actives.
3. Mortality table has been updated from RPH-2017 Disabled Mortality Table fully generational using Scale MP-2017 to RPH-2018 Disabled Mortality Table fully generational using Scale MP-2018 for disabled retirees.
4. Healthcare trend rates have been updated to reflect actual premium increases from fiscal year 2019 to fiscal year 2020, followed by an annual trend of 8.0 percent decreasing by 0.5 percent annually to an ultimate rate of 5.0 percent.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage-point higher (4.87 percent) than the current discount rate (in thousands):

| | 1% Decrease (2.87%) | Discount Rate (3.87%) | 1% Increase (4.87%) |
|----------------------|---------------------------|-----------------------------|------------------------|
| Total OPEB Liability | \$ 2,198 | \$ 2,103 | \$ 2,005 |

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2019

Sensitivity of the Total OPEB liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.83 percent decreasing to 4.00 percent) or 1-percentage-point higher (7.83 percent decreasing to 6.00 percent) than the current healthcare cost trend rates (in thousands):

| | 1% Decrease (5.83% decreasing to 4.00%) | Healthcare Cost Trend Rates (6.83% decreasing to 5.00%) | 1% Increase (7.83% decreasing to 6.00%) |
|----------------------|---|--|--|
| Total OPEB Liability | \$ 1,885 | \$ 2,103 | \$ 2,354 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the City recognized OPEB expense of \$296,560. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

| | <u>Deferred Outflows of Resources</u> | | <u>Deferred Inflows of Resources</u> |
|---|---|---|--|
| Differences between expected and actual experience | \$ - | - | \$ 437 |
| Change of assumptions or other inputs | 100 | - | 34 |
| City contributions subsequent to the measurement date | 116 | - | - |
| Total | <u>\$ 216</u> | - | <u>\$ 471</u> |

The \$115,803 reported as a deferred outflow of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the fiscal year ending June 30, 2020. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Fiscal year ending June 30:

| | |
|------------|---------|
| 2020 | \$ (39) |
| 2021 | (39) |
| 2022 | (39) |
| 2023 | (39) |
| 2024 | (40) |
| Thereafter | (175) |

Required Supplementary Information

For the Fiscal Year Ended June 30, 2019

Proportionate Share of Collective Net Pension Liability for Cost-Sharing Pension Plan

Schedule of the City's Proportionate Share of the Collective Net Pension Liability
Arizona State Retirement System
Last Five Fiscal Years (dollars in thousands)

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| City's proportion of the net collective pension liability | 1.055510% | 1.056820% | 1.086990% | 1.099760% | 1.102563% |
| City's proportionate share of the collective net pension liability | \$147,206 | \$164,632 | \$175,451 | \$171,304 | \$163,142 |
| City's covered payroll | \$105,097 | \$107,259 | \$101,917 | \$101,962 | \$99,077 |
| City's proportionate share of the collective net pension liability as a percentage of its covered payroll | 140.07% | 153.49% | 172.15% | 168.01% | 164.66% |
| Plan fiduciary net position as a percentage of the total pension liability | 73.40% | 69.92% | 67.06% | 68.35% | 69.49% |

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* for the fiscal year ended June 30, 2015. Information prior to fiscal year 2015 is not available.

Required Supplementary Information

For the Fiscal Year Ended June 30, 2019

Changes in the City's Net Pension Liability (Asset) and Related Ratios for Agent Pension Plan

Public Safety Personnel Retirement System (Police)
Schedule of Changes in the City's Net Pension Liability and Related Ratios
Last Five Fiscal Years (dollars in thousands)

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total pension liability | | | | | |
| Service cost | \$ 7,103 | \$ 7,841 | \$ 6,603 | \$ 6,537 | \$ 6,363 |
| Interest | 24,013 | 22,479 | 20,570 | 19,640 | 16,898 |
| Changes of benefit terms | - | 2,584 | 17,206 | - | 3,987 |
| Differences between expected and actual experience | 4,880 | (921) | (3,203) | 87 | (896) |
| Changes of assumptions or other inputs | - | 9,028 | 11,023 | - | 22,122 |
| Benefit payments, including refunds of employee contributions | (15,475) | (16,239) | (14,059) | (14,835) | (12,411) |
| Net change in total pension liability | 20,521 | 24,772 | 38,140 | 11,429 | 36,063 |
| Total pension liability-beginning | 328,685 | 303,913 | 265,773 | 254,344 | 218,281 |
| Total pension liability-ending (a) | <u>\$ 349,206</u> | <u>\$ 328,685</u> | <u>\$ 303,913</u> | <u>\$ 265,773</u> | <u>\$ 254,344</u> |
| Plan fiduciary net position | | | | | |
| Contributions-employer | \$ 15,491 | \$ 11,888 | \$ 11,710 | \$ 8,970 | \$ 7,997 |
| Contributions-employee | 3,438 | 3,983 | 4,230 | 3,944 | 3,495 |
| Net investment income | 11,537 | 17,104 | 842 | 5,113 | 17,047 |
| Benefit payments, including refunds of employee contributions | (15,475) | (16,239) | (14,059) | (14,835) | (12,411) |
| Administrative expense | (176) | (152) | (122) | (125) | (137) |
| Other changes | (34) | (134) | (36) | (243) | (50) |
| Net change in plan fiduciary net position | 14,781 | 16,450 | 2,565 | 2,824 | 15,941 |
| Plan fiduciary net position-beginning | 162,427 | 145,977 | 143,412 | 140,588 | 124,647 |
| Plan fiduciary net position-ending (b) | <u>\$ 177,208</u> | <u>\$ 162,427</u> | <u>\$ 145,977</u> | <u>\$ 143,412</u> | <u>\$ 140,588</u> |
| City's net pension liability-ending ((a) - (b)) | <u>\$ 171,998</u> | <u>\$ 166,258</u> | <u>\$ 157,936</u> | <u>\$ 122,361</u> | <u>\$ 113,756</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 50.75% | 49.42% | 48.03% | 53.96% | 55.27% |
| Covered payroll | \$ 34,869 | \$ 33,896 | \$ 33,073 | \$ 33,075 | \$ 31,438 |
| City's net pension liability as a percentage of covered payroll | 493.27% | 490.49% | 477.54% | 369.95% | 361.84% |

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* for the fiscal year ended June 30, 2015. Information for the prior years is not available.

Required Supplementary Information

For the Fiscal Year Ended June 30, 2019

Public Safety Personnel Retirement System (Fire)
Schedule of Changes in the City's Net Pension Liability (Asset) and Related Ratios
Last Five Fiscal Years (dollars in thousands)

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|-------------------------|-------------------------|-------------------------|--------------------------|--------------------------|
| Total pension liability | | | | | |
| Service cost | \$ 5,098 | \$ 5,009 | \$ 4,077 | \$ 3,720 | \$ 3,509 |
| Interest | 6,729 | 5,797 | 4,655 | 4,037 | 3,449 |
| Changes of benefit terms | - | 639 | 7,546 | - | (448) |
| Differences between expected and actual experience | (2,004) | 1,264 | (877) | 994 | 462 |
| Changes of assumptions or other inputs | - | 1,881 | 3,303 | - | 1,157 |
| Benefit payments, including refunds of employee contributions | (1,047) | (932) | (1,430) | (691) | (780) |
| Net change in total pension liability | <u>8,776</u> | <u>13,658</u> | <u>17,274</u> | <u>8,060</u> | <u>7,349</u> |
| Total pension liability-beginning | <u>88,908</u> | <u>75,250</u> | <u>57,976</u> | <u>49,916</u> | <u>42,567</u> |
| Total pension liability-ending (a) | <u><u>\$ 97,684</u></u> | <u><u>\$ 88,908</u></u> | <u><u>\$ 75,250</u></u> | <u><u>\$ 57,976</u></u> | <u><u>\$ 49,916</u></u> |
| Plan fiduciary net position | | | | | |
| Contributions-employer | \$ 6,061 | \$ 2,737 | \$ 2,974 | \$ 2,247 | \$ 2,392 |
| Contributions-employee | 1,981 | 2,551 | 2,693 | 2,337 | 2,629 |
| Net investment income | 5,520 | 7,822 | 358 | 2,046 | 6,294 |
| Benefit payments, including refunds of employee contributions | (1,047) | (932) | (1,430) | (691) | (780) |
| Administrative expense | (85) | (70) | (52) | (50) | (51) |
| Other changes | 16 | 1 | (53) | 12 | (60) |
| Net change in plan fiduciary net position | <u>12,446</u> | <u>12,109</u> | <u>4,490</u> | <u>5,901</u> | <u>10,424</u> |
| Plan fiduciary net position-beginning | <u>77,181</u> | <u>65,072</u> | <u>60,582</u> | <u>54,681</u> | <u>44,257</u> |
| Plan fiduciary net position-ending (b) | <u><u>\$ 89,627</u></u> | <u><u>\$ 77,181</u></u> | <u><u>\$ 65,072</u></u> | <u><u>\$ 60,582</u></u> | <u><u>\$ 54,681</u></u> |
| City's net pension liability (asset)-ending ((a) - (b)) | <u><u>\$ 8,057</u></u> | <u><u>\$ 11,727</u></u> | <u><u>\$ 10,178</u></u> | <u><u>\$ (2,606)</u></u> | <u><u>\$ (4,765)</u></u> |
| Plan fiduciary net position as a percentage of the total pension liability | 91.75% | 86.81% | 86.47% | 104.49% | 109.55% |
| Covered payroll | \$ 23,192 | \$ 23,500 | \$ 21,498 | \$ 20,420 | \$ 19,336 |
| City's net pension liability as a percentage of covered payroll | 34.74% | 49.90% | 47.34% | 0.00% | 0.00% |

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* for the fiscal year ended June 30, 2015. Information for the prior years is not available.

Required Supplementary Information

For the Fiscal Year Ended June 30, 2019

**Schedule of City Contributions
Arizona State Retirement System
Last Seven Fiscal Years (dollars in thousands)**

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------------|
| Statutorily required contribution | \$ 12,384 | \$ 11,437 | \$ 11,540 | \$ 11,049 | \$ 11,092 | \$ 10,635 | \$ 9,949 |
| Employer contributions in relation to the statutorily required contribution | <u>(12,384)</u> | <u>(11,437)</u> | <u>(11,540)</u> | <u>(11,049)</u> | <u>(11,092)</u> | <u>(10,635)</u> | <u>(9,949)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 110,748 | \$ 105,097 | \$ 107,259 | \$ 101,917 | \$ 101,962 | \$ 99,077 | \$ 97,257 |
| Contributions as a percentage of covered payroll | 11.18% | 10.88% | 10.76% | 10.84% | 10.88% | 10.73% | 10.23% |

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* for the fiscal year ended June 30, 2015. Information prior to fiscal year 2013 is not available.

Required Supplementary Information

For the Fiscal Year Ended June 30, 2019

Schedule of City Contributions
Public Safety Personnel Retirement System (Police)
Last Six Fiscal Years (dollars in thousands)

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-----------------|-----------------|-----------------|-----------------|----------------|----------------|
| Actuarially determined contribution | \$ 17,296 | \$ 15,341 | \$ 12,328 | \$ 11,635 | \$ 8,921 | \$ 7,997 |
| Employer contributions in relation to the actuarially determined contribution | <u>(17,296)</u> | <u>(15,341)</u> | <u>(12,328)</u> | <u>(11,635)</u> | <u>(8,921)</u> | <u>(7,997)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 31,628 | \$ 34,869 | \$ 33,896 | \$ 33,073 | \$ 33,075 | \$ 31,438 |
| Contributions as a percentage of covered payroll | 54.69% | 44.00% | 36.37% | 35.18% | 26.97% | 25.44% |

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* for the fiscal year ended June 30, 2015. Information prior to fiscal year 2014 is not available.

Required Supplementary Information

For the Fiscal Year Ended June 30, 2019

Schedule of City Contributions
Public Safety Personnel Retirement System (Fire)
Last Six Fiscal Years (dollars in thousands)

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Actuarially determined contribution | \$ 4,577 | \$ 3,924 | \$ 2,840 | \$ 2,626 | \$ 2,276 | \$ 2,392 |
| Employer contributions in relation to the actuarially determined contribution | <u>(4,577)</u> | <u>(3,924)</u> | <u>(2,840)</u> | <u>(2,626)</u> | <u>(2,276)</u> | <u>(2,392)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 24,376 | \$ 23,192 | \$ 23,500 | \$ 21,498 | \$ 20,420 | \$ 19,336 |
| Contributions as a percentage of covered payroll | 18.78% | 16.92% | 12.09% | 12.22% | 11.15% | 12.37% |

The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* for the fiscal year ended June 30, 2015. Information prior to fiscal year 2014 is not available.

Required Supplementary Information

For the Fiscal Year Ended June 30, 2019

Changes in the City's Total OPEB Liability and Related Ratios

**Total OPEB Liability and Related Ratios
Last Two Fiscal Years (dollars in thousands)**

| | <u>2019</u> | <u>2018</u> |
|---|------------------------|------------------------|
| Total OPEB liability | | |
| Service cost | \$ 241 | \$ 260 |
| Interest | 85 | 67 |
| Differences between expected and actual experience | (278) | (230) |
| Changes of assumptions/other inputs | (38) | 125 |
| Benefit payments | <u>(101)</u> | <u>(111)</u> |
| Net change in total OPEB liability | (91) | 111 |
| Total OPEB liability-beginning | <u>2,194</u> | <u>2,083</u> |
| Total OPEB liability-ending | <u><u>\$ 2,103</u></u> | <u><u>\$ 2,194</u></u> |
| Covered-employee payroll | \$ 52,970 | \$ 51,137 |
| Total OPEB liability as a percentage of covered-employee payroll | 3.97% | 4.29% |

The City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the fiscal year ended June 30, 2018. Information for the prior years is not available.

Note: No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are established to finance particular activities and are created out of receipts from specific taxes, grant awards, contributions received, or other earmarked revenue. All funds in the Special Revenue Funds have either legal restrictions stipulated by an external party or are committed to a specific purpose through formal action from the City Council.

Transportation Fund. This fund receives and expends the City's allocation of the Arizona Highway User Revenue tax, 0.2 percent of privilege tax for transportation improvements, and 0.1 percent of privilege tax dedicated to the Arterial Life Cycle Program. The amount of Arizona Highway User Revenue available to each city is allocated on a population basis, which is determined by the latest federal census and must be used for street construction, reconstruction, maintenance, or transit.

Community Development Block Grant Fund. This fund receives and expends the City's Community Development Block Grant revenues. The amount of the grant is awarded annually by the U.S. Department of Housing and Urban Development (HUD). Community Development Block Grant revenues may be used only for those projects approved in the grant budget and are subject to agency expenditure guidelines.

HOME Fund. This fund receives and expends monies from the Maricopa County Home Consortium. Expenditures are made to provide affordable housing, expand the capacity of non-profit housing providers, strengthen the ability of local governments to provide housing, and leverage private-sector participation in housing.

Grants Fund. This fund receives and expends the City's grant revenues not accounted for in other funds. The amount of grants received is generally based on applications to granting agencies by the City and on availability of funding by the grantors. Grant revenues may be used only for the stated purpose in the approved grant agreement and are subject to grantor expenditure guidelines.

Section 8 Fund. This fund receives and expends the City's Section 8 Housing revenues. Funding is awarded by the U.S. Department of Housing and Urban Development (HUD) to provide rental housing assistance. Budgets are approved annually by HUD. Section 8 Housing revenues may be used only for assistance approved by HUD and are subject to agency expenditure guidelines.

Preserve Privilege Tax Fund. This fund receives voter approved Preservation Privilege (Sales) Tax of 0.2 percent 1995 and 0.15 percent 2004. Revenues are transferred to the Preserve Privilege Tax Capital Projects Funds for land purchases and improvements in the McDowell Sonoran Preserve or are transferred to the Scottsdale Preserve Authority Debt Service Fund to be used for related debt service payments.

NONMAJOR GOVERNMENTAL FUNDS (Continued)

Community Facilities Districts (CFD) Funds. These funds account for the non-debt or non-capital related expenditures incurred by community facilities districts.

Scottsdale Mountain CFD

McDowell Mountain Ranch CFD

DC Ranch CFD

Via Linda Road CFD

Waterfront Commercial CFD

Streetlight Districts Fund. This fund accounts for the property tax revenues received from the streetlight districts generated through the annual streetlight district levy. These funds are restricted for electricity expenditures of each streetlight district.

Special Programs Fund. This fund receives monies from a variety of sources. The monies are either restricted by an outside source or committed by City Council and are required to be expended for specific purposes related to the intention of the source of the revenue.

Tourism Development Fund. This fund receives revenues generated through transient occupancy taxes and certain lease agreements. The use of these funds has been committed by the City Council for tourism related purposes.

Debt Service Funds

Debt Service Funds record the accumulation of resources for, and the payment of, long-term debt principal and interest not serviced by the proprietary funds.

Municipal Property Corporation Fund. This fund accounts for the principal and interest requirements of the City's Municipal Property Corporation bonds. Financing is provided primarily by transaction privilege tax.

Debt Service Stabilization Fund. This fund accounts for revenues received for future debt payments from the Arizona Sports and Tourism Authority, the Maricopa County Stadium District, and the San Francisco Giants. This fund also includes commitments by the City Council to be used for repayment of debt.

Community Facilities Districts (CFD) Funds. These funds account for the principal and interest of general obligation bonds issued by community facilities districts. Although these bonds are not obligations of the City, generally accepted accounting principles indicate that the bonds should be disclosed herein.

Scottsdale Mountain CFD

McDowell Mountain Ranch CFD

DC Ranch CFD

Via Linda Road CFD

Waterfront Commercial CFD

NONMAJOR GOVERNMENTAL FUNDS (Continued)

Scottsdale Preserve Authority Fund. This fund accounts for the principal and interest requirements of excise tax revenue bonds issued by the Scottsdale Preserve Authority. Financing is provided by a 0.35 percent Preservation Privilege (Sales) Tax revenue approved by the voters in 1995 (0.2 percent) and 2004 (0.15 percent).

Capital Projects Funds

Capital Projects Funds account for the resources used to acquire, construct, and improve major capital assets other than those financed by proprietary funds. Capital Projects Funds allow the City to compile project cost data and demonstrate that legal or contractual requirements regarding the use of the resources are fully satisfied.

General Obligation Bonds Fund. This fund accounts for the proceeds and interest of the sale of voter approved general obligation bonds that are used for authorized capital improvements.

Transportation Privilege Tax Fund. This fund accounts for the portion of Transportation Privilege (Sales) Tax dedicated to transportation capital improvements. Resources are provided by the 0.2 percent 1989 and 0.1 percent 2018 voter approved privilege tax.

Preserve Privilege Tax Fund. This fund accounts for the resources used to acquire and improve land within the McDowell Sonoran Preserve. Resources are provided by the 0.2 percent 1995 and 0.15 percent 2004 voter approved Preserve Privilege Tax.

Municipal Property Corporation Bonds Fund. This fund accounts for the activity related to the Municipal Property Corporation bond proceeds and authorized capital improvements.

External Sources Fund. This fund accounts for the activity related to monies received from a variety of external sources including federal and state grants and contributions. The revenues are restricted for specific types of capital improvements.

Permanent Funds

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used to support City programs.

Rassner Memorial Scottsdale Library Endowment. This fund requires the interest to be used exclusively to support library and literacy programs benefiting the citizens of Scottsdale.

Scottsdale Community Endowment. This fund requires the interest to be used exclusively for community projects and programs for the public good within the City.

Scottsdale Employee Endowment. This fund requires the interest to be used exclusively to support 501(c)(3) tax-exempt organizations serving the Scottsdale area and City programs.

Herbert R. Drinkwater Youth Services Endowment. This fund requires the interest to be used exclusively to support City youth programs.

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2019 (in thousands)

| | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Permanent Funds | Total Nonmajor Governmental Funds |
|---|-----------------------------|-----------------------|------------------------------|--------------------|---|
| ASSETS | | | | | |
| Cash and Investments | \$ 73,605 | \$ 5,187 | \$ 54,343 | \$ 636 | \$ 133,771 |
| Cash with Fiscal Agent | 62 | 26,729 | - | - | 26,791 |
| Receivables (net of allowance for uncollectibles) | | | | | |
| Interest | 241 | - | 232 | - | 473 |
| Privilege Tax | 8,011 | - | - | - | 8,011 |
| Transient Occupancy Tax | 1,123 | - | - | - | 1,123 |
| Property Tax | 20 | 78 | - | - | 98 |
| Franchise Fee | 50 | - | - | - | 50 |
| Highway User Tax | 1,534 | - | - | - | 1,534 |
| Intergovernmental | 4,176 | 5,844 | 19,822 | - | 29,842 |
| Grants | 722 | - | 553 | - | 1,275 |
| Miscellaneous | 2,940 | 1,618 | - | - | 4,558 |
| Total Assets | <u>\$ 92,484</u> | <u>\$ 39,456</u> | <u>\$ 74,950</u> | <u>\$ 636</u> | <u>\$ 207,526</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS) | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$ 4,277 | \$ - | \$ 12,298 | \$ 4 | \$ 16,579 |
| Accrued Payroll and Benefits | 262 | - | 13 | - | 275 |
| Due to Other Funds | 164 | - | 5,738 | - | 5,902 |
| Matured Bond Interest Payable | - | 4,813 | - | - | 4,813 |
| Matured Bonds Payable | - | 21,172 | - | - | 21,172 |
| Unearned Revenue | | | | | |
| Intergovernmental | 8,606 | - | - | - | 8,606 |
| Other | 692 | - | 200 | - | 892 |
| Due to Other Governments | 4 | - | - | - | 4 |
| Guaranty and Other Deposits | 5 | - | - | - | 5 |
| Total Liabilities | <u>14,010</u> | <u>25,985</u> | <u>18,249</u> | <u>4</u> | <u>58,248</u> |
| Deferred Inflows of Resources | | | | | |
| Unavailable Revenues | 3,301 | 5,874 | 20,264 | - | 29,439 |
| Total Liabilities and Deferred Inflows of Resources | <u>17,311</u> | <u>31,859</u> | <u>38,513</u> | <u>4</u> | <u>87,687</u> |
| Fund Balances (Deficits) | | | | | |
| Nonspendable | - | - | - | 604 | 604 |
| Restricted | 57,775 | 3,486 | 49,584 | 28 | 110,873 |
| Committed | 18,106 | 4,700 | 7 | - | 22,813 |
| Unassigned | (708) | (589) | (13,154) | - | (14,451) |
| Total Fund Balances (Deficits) | <u>75,173</u> | <u>7,597</u> | <u>36,437</u> | <u>632</u> | <u>119,839</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits) | <u>\$ 92,484</u> | <u>\$ 39,456</u> | <u>\$ 74,950</u> | <u>\$ 636</u> | <u>\$ 207,526</u> |

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| REVENUES | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Permanent Funds | Total Nonmajor Governmental Funds |
|---|-----------------------------|-----------------------|------------------------------|--------------------|---|
| Taxes - Local | | | | | |
| Property | \$ 126 | \$ 3,142 | \$ - | \$ - | \$ 3,268 |
| Transaction Privilege | 69,697 | - | - | - | 69,697 |
| Transient Occupancy | 22,407 | - | - | - | 22,407 |
| Light and Power Franchise | 261 | - | - | - | 261 |
| Taxes - Intergovernmental | | | | | |
| Highway User Tax | 17,073 | - | - | - | 17,073 |
| Local Transportation Assistance Fund | 642 | - | - | - | 642 |
| Business and Liquor Licenses | 52 | - | - | - | 52 |
| Charges for Current Services | | | | | |
| Building and Related Permits | 13 | - | 27 | - | 40 |
| Recreation Fees | 2,286 | - | - | - | 2,286 |
| Fines, Fees, and Forfeitures | | | | | |
| Court | 146 | - | - | - | 146 |
| Court Enhancement | 1,764 | - | - | - | 1,764 |
| Police | 247 | - | - | - | 247 |
| Property Rental | 2,390 | 140 | - | - | 2,530 |
| Interest Earnings | 1,076 | 11 | 978 | 16 | 2,081 |
| Intergovernmental | | | | | |
| Federal Grants | 8,112 | - | 4,023 | - | 12,135 |
| State Grants | 410 | - | - | - | 410 |
| Miscellaneous | 759 | 4,226 | 3,800 | - | 8,785 |
| Developer Contributions | 412 | - | - | - | 412 |
| Streetlight and Services Districts | 591 | - | - | - | 591 |
| Contributions and Donations | 1,774 | - | 783 | 18 | 2,575 |
| Reimbursements from Outside Sources | 523 | - | 5 | - | 528 |
| Indirect Costs | 424 | - | - | - | 424 |
| Other | 78 | - | - | - | 78 |
| Total Revenues | <u>131,263</u> | <u>7,519</u> | <u>9,616</u> | <u>34</u> | <u>148,432</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| General Government | | | | | |
| Mayor and City Council | 17 | - | - | - | 17 |
| City Court | 1,018 | - | - | - | 1,018 |
| City Manager | 1,038 | - | - | - | 1,038 |
| City Treasurer | 172 | - | - | - | 172 |
| Public Works | 14,802 | - | - | - | 14,802 |
| Community and Economic Development | 23,976 | - | - | - | 23,976 |
| Public Safety | 2,114 | - | - | - | 2,114 |
| Community Services | 12,586 | - | - | 55 | 12,641 |
| Streetlight and Services Districts | 584 | - | - | - | 584 |
| Debt Service | | | | | |
| Principal | - | 21,172 | - | - | 21,172 |
| Interest and Fiscal Charges | - | 9,645 | - | - | 9,645 |
| Capital Outlay | 128 | - | 49,050 | - | 49,178 |
| Total Expenditures | <u>56,435</u> | <u>30,817</u> | <u>49,050</u> | <u>55</u> | <u>136,357</u> |
| Excess (Deficiency) of Revenues over (under) Expenditures | <u>74,828</u> | <u>(23,298)</u> | <u>(39,434)</u> | <u>(21)</u> | <u>12,075</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers In | 967 | 27,654 | 23,110 | - | 51,731 |
| Transfers Out | (67,796) | (6,646) | (28) | - | (74,470) |
| Total Other Financing Sources (Uses) | <u>(66,829)</u> | <u>21,008</u> | <u>23,082</u> | <u>-</u> | <u>(22,739)</u> |
| Net Change in Fund Balances | 7,999 | (2,290) | (16,352) | (21) | (10,664) |
| Fund Balances - Beginning | 67,174 | 9,887 | 52,789 | 653 | 130,503 |
| Fund Balances - Ending | <u>\$ 75,173</u> | <u>\$ 7,597</u> | <u>\$ 36,437</u> | <u>\$ 632</u> | <u>\$ 119,839</u> |

Combining Balance Sheet
Nonmajor Special Revenue Governmental Funds

June 30, 2019 (in thousands)

| | Transportation | Community Development Block Grant | HOME | Grants | Section 8 | Preserve Privilege Tax | Scottsdale Mountain CFD | McDowell Mountain Ranch CFD |
|---|------------------|-----------------------------------|---------------|---------------|---------------|------------------------|-------------------------|-----------------------------|
| ASSETS | | | | | | | | |
| Cash and Investments | \$ 13,112 | \$ 50 | \$ - | \$ 315 | \$ 446 | \$ 33,925 | \$ 42 | \$ - |
| Cash with Fiscal Agent | - | - | - | - | - | - | - | - |
| Receivables (net of allowance for uncollectibles) | | | | | | | | |
| Interest | - | - | - | - | - | 216 | - | - |
| Privilege Tax | 3,523 | - | - | - | - | 4,271 | - | - |
| Transient Occupancy Tax | - | - | - | - | - | - | - | - |
| Property Tax | - | - | - | - | - | - | 18 | - |
| Franchise Fee | - | - | - | - | - | - | - | - |
| Highway User Tax | 1,534 | - | - | - | - | - | - | - |
| Intergovernmental | - | - | - | - | - | - | - | - |
| Grants | - | 159 | 185 | 378 | - | - | - | - |
| Miscellaneous | 105 | 2,198 | - | 16 | - | - | - | - |
| Total Assets | <u>\$ 18,274</u> | <u>\$ 2,407</u> | <u>\$ 185</u> | <u>\$ 709</u> | <u>\$ 446</u> | <u>\$ 38,412</u> | <u>\$ 60</u> | <u>\$ -</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS) | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts Payable | \$ 2,434 | \$ 45 | \$ 11 | \$ 42 | \$ 3 | \$ 58 | \$ - | \$ - |
| Accrued Payroll and Benefits | 167 | 9 | - | 30 | 5 | - | - | - |
| Due to Other Funds | - | - | 164 | - | - | - | - | - |
| Unearned Revenue | | | | | | | | |
| Intergovernmental | - | 46 | 10 | 5 | - | - | - | - |
| Other | - | 4 | - | 632 | - | - | - | - |
| Due to Other Governments | - | 1 | - | - | 2 | - | - | - |
| Guaranty and Other Deposits | - | 5 | - | - | - | - | - | - |
| Total Liabilities | <u>2,601</u> | <u>110</u> | <u>185</u> | <u>709</u> | <u>10</u> | <u>58</u> | <u>-</u> | <u>-</u> |
| Deferred Inflows of Resources | | | | | | | | |
| Unavailable Revenues | 104 | 2,357 | 185 | 244 | - | - | 18 | - |
| Total Liabilities and Deferred Inflows of Resources | <u>2,705</u> | <u>2,467</u> | <u>370</u> | <u>953</u> | <u>10</u> | <u>58</u> | <u>18</u> | <u>-</u> |
| Fund Balances (Deficits) | | | | | | | | |
| Restricted | 15,569 | 99 | - | - | 436 | 38,354 | 42 | - |
| Committed | - | - | - | - | - | - | - | - |
| Unassigned | - | (159) | (185) | (244) | - | - | - | - |
| Total Fund Balances (Deficits) | <u>15,569</u> | <u>(60)</u> | <u>(185)</u> | <u>(244)</u> | <u>436</u> | <u>38,354</u> | <u>42</u> | <u>-</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits) | <u>\$ 18,274</u> | <u>\$ 2,407</u> | <u>\$ 185</u> | <u>\$ 709</u> | <u>\$ 446</u> | <u>\$ 38,412</u> | <u>\$ 60</u> | <u>\$ -</u> |

(continued)

Combining Balance Sheet
Nonmajor Special Revenue Governmental Funds

June 30, 2019 (in thousands)

| <u>ASSETS</u> | <u>DC Ranch CFD</u> | <u>Via Linda Road CFD</u> | <u>Waterfront Commercial CFD</u> | <u>Streetlight Districts</u> | <u>Special Programs</u> | <u>Tourism Development</u> | <u>Total</u> |
|---|---------------------|-------------------------------|--------------------------------------|----------------------------------|-------------------------|--------------------------------|------------------|
| Cash and Investments | \$ - | \$ - | \$ - | \$ 5 | \$ 19,742 | \$ 5,968 | \$ 73,605 |
| Cash with Fiscal Agent | 49 | - | 13 | - | - | - | 62 |
| Receivables (net of allowance for uncollectibles) | | | | | | | |
| Interest | - | - | - | - | 25 | - | 241 |
| Privilege Tax | - | - | - | - | 5 | 212 | 8,011 |
| Transient Occupancy Tax | - | - | - | - | - | 1,123 | 1,123 |
| Property Tax | 2 | - | - | - | - | - | 20 |
| Franchise Fee | - | - | - | - | 50 | - | 50 |
| Highway User Tax | - | - | - | - | - | - | 1,534 |
| Intergovernmental | - | - | - | - | 4,176 | - | 4,176 |
| Grants | - | - | - | - | - | - | 722 |
| Miscellaneous | - | - | - | 6 | 490 | 125 | 2,940 |
| Total Assets | <u>\$ 51</u> | <u>\$ -</u> | <u>\$ 13</u> | <u>\$ 11</u> | <u>\$ 24,488</u> | <u>\$ 7,428</u> | <u>\$ 92,484</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS) | | | | | | | |
| <u>Liabilities</u> | | | | | | | |
| Accounts Payable | \$ - | \$ - | \$ - | \$ - | \$ 548 | \$ 1,136 | \$ 4,277 |
| Accrued Payroll and Benefits | - | - | - | - | 46 | 5 | 262 |
| Due to Other Funds | - | - | - | - | - | - | 164 |
| Unearned Revenue | | | | | | | |
| Intergovernmental | - | - | - | - | 8,545 | - | 8,606 |
| Other | - | - | - | - | 56 | - | 692 |
| Due to Other Governments | - | - | - | - | 1 | - | 4 |
| Guaranty and Other Deposits | - | - | - | - | - | - | 5 |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>9,196</u> | <u>1,141</u> | <u>14,010</u> |
| <u>Deferred Inflows of Resources</u> | | | | | | | |
| Unavailable Revenues | - | - | - | - | 393 | - | 3,301 |
| Total Liabilities and Deferred Inflows of Resources | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>9,589</u> | <u>1,141</u> | <u>17,311</u> |
| <u>Fund Balances (Deficits)</u> | | | | | | | |
| Restricted | 51 | - | 13 | 11 | 3,200 | - | 57,775 |
| Committed | - | - | - | - | 11,819 | 6,287 | 18,106 |
| Unassigned | - | - | - | - | (120) | - | (708) |
| Total Fund Balances (Deficits) | <u>51</u> | <u>-</u> | <u>13</u> | <u>11</u> | <u>14,899</u> | <u>6,287</u> | <u>75,173</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits) | <u>\$ 51</u> | <u>\$ -</u> | <u>\$ 13</u> | <u>\$ 11</u> | <u>\$ 24,488</u> | <u>\$ 7,428</u> | <u>\$ 92,484</u> |

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Governmental Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Transportation | Community Development Block Grant | HOME | Grants | Section 8 | Preserve Privilege Tax | Scottsdale Mountain CFD | McDowell Mountain Ranch CFD |
|---|------------------|---|-----------------|-----------------|---------------|---------------------------|----------------------------|-----------------------------------|
| REVENUES | | | | | | | | |
| Taxes - Local | | | | | | | | |
| Property | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 24 | \$ 11 |
| Transaction Privilege | 27,788 | - | - | - | - | 41,909 | - | - |
| Transient Occupancy | - | - | - | - | - | - | - | - |
| Light and Power Franchise | - | - | - | - | - | - | - | - |
| Taxes - Intergovernmental | | | | | | | | |
| Highway User Tax | 17,073 | - | - | - | - | - | - | - |
| Local Transportation Assistance Fund | 642 | - | - | - | - | - | - | - |
| Business and Liquor Licenses | - | - | - | - | - | - | - | - |
| Charges for Current Services | | | | | | | | |
| Building and Related Permits | - | - | - | - | - | - | - | - |
| Recreation Fees | - | - | - | - | - | - | - | - |
| Fines, Fees, and Forfeitures | | | | | | | | |
| Court | - | - | - | - | - | - | - | - |
| Court Enhancement | - | - | - | - | - | - | - | - |
| Police | - | - | - | - | - | - | - | - |
| Property Rental | - | 62 | - | - | - | - | - | - |
| Interest Earnings | - | - | - | - | - | 925 | - | - |
| Intergovernmental | | | | | | | | |
| Federal Grants | - | 1,304 | 234 | 942 | 5,632 | - | - | - |
| State Grants | - | - | - | 410 | - | - | - | - |
| Miscellaneous | 113 | - | - | - | - | - | - | - |
| Developer Contributions | - | - | - | - | - | - | - | - |
| Streetlight and Services Districts | - | - | - | - | - | - | - | - |
| Contributions and Donations | - | - | - | 1,560 | - | - | - | - |
| Reimbursements from Outside Sources | 265 | - | - | - | 4 | - | - | - |
| Indirect Costs | 424 | - | - | - | - | - | - | - |
| Other | - | - | - | - | 13 | - | - | - |
| Total Revenues | <u>46,305</u> | <u>1,366</u> | <u>234</u> | <u>2,912</u> | <u>5,649</u> | <u>42,834</u> | <u>24</u> | <u>11</u> |
| EXPENDITURES | | | | | | | | |
| Current | | | | | | | | |
| General Government | | | | | | | | |
| Mayor and City Council | - | - | - | 5 | - | - | - | - |
| City Court | - | - | - | - | - | - | - | - |
| City Manager | - | - | - | 1,038 | - | - | - | - |
| City Treasurer | 55 | - | - | - | - | 5 | 9 | 11 |
| Public Works | 14,644 | - | - | - | - | - | - | - |
| Community and Economic Development | 8,110 | - | - | 129 | - | - | - | - |
| Public Safety | - | - | - | 928 | - | - | - | - |
| Community Services | 1,778 | 1,374 | 234 | 701 | 5,684 | - | - | - |
| Streetlight and Services Districts | - | - | - | - | - | - | - | - |
| Capital Outlay | - | - | - | - | - | - | - | - |
| Total Expenditures | <u>24,587</u> | <u>1,374</u> | <u>234</u> | <u>2,801</u> | <u>5,684</u> | <u>5</u> | <u>9</u> | <u>11</u> |
| Excess (Deficiency) of Revenues over (under) Expenditures | <u>21,718</u> | <u>(8)</u> | <u>-</u> | <u>111</u> | <u>(35)</u> | <u>42,829</u> | <u>15</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Transfers In | 459 | - | - | - | - | - | 27 | - |
| Transfers Out | (16,353) | (12) | - | (33) | - | (38,569) | - | - |
| Total Other Financing Sources (Uses) | <u>(15,894)</u> | <u>(12)</u> | <u>-</u> | <u>(33)</u> | <u>-</u> | <u>(38,569)</u> | <u>27</u> | <u>-</u> |
| Net Change in Fund Balances (Deficits) | 5,824 | (20) | - | 78 | (35) | 4,260 | 42 | - |
| Fund Balances (Deficits) - Beginning | 9,745 | (40) | (185) | (322) | 471 | 34,094 | - | - |
| Fund Balances (Deficits) - Ending | <u>\$ 15,569</u> | <u>\$ (60)</u> | <u>\$ (185)</u> | <u>\$ (244)</u> | <u>\$ 436</u> | <u>\$ 38,354</u> | <u>\$ 42</u> | <u>\$ -</u> |

(continued)

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Special Revenue Governmental Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | DC Ranch CFD | Via Linda Road CFD | Waterfront Commercial CFD | Streetlight Districts | Special Programs | Tourism Development | Total |
|---|--------------|-----------------------|------------------------------|-----------------------|------------------|------------------------|------------------|
| REVENUES | | | | | | | |
| Taxes - Local | | | | | | | |
| Property | \$ 68 | \$ 11 | \$ 12 | \$ - | \$ - | \$ - | \$ 126 |
| Transaction Privilege | - | - | - | - | - | - | 69,697 |
| Transient Occupancy | - | - | - | - | - | 22,407 | 22,407 |
| Light and Power Franchise | - | - | - | - | 261 | - | 261 |
| Taxes - Intergovernmental | | | | | | | |
| Highway User Tax | - | - | - | - | - | - | 17,073 |
| Local Transportation Assistance Fund | - | - | - | - | - | - | 642 |
| Business and Liquor Licenses | - | - | - | - | 52 | - | 52 |
| Charges for Current Services | | | | | | | |
| Building and Related Permits | - | - | - | - | 13 | - | 13 |
| Recreation Fees | - | - | - | - | 2,286 | - | 2,286 |
| Fines, Fees, and Forfeitures | | | | | | | |
| Court | - | - | - | - | 146 | - | 146 |
| Court Enhancement | - | - | - | - | 1,764 | - | 1,764 |
| Police | - | - | - | - | 247 | - | 247 |
| Property Rental | - | - | - | - | 304 | 2,024 | 2,390 |
| Interest Earnings | - | - | - | - | 151 | - | 1,076 |
| Intergovernmental | | | | | | | |
| Federal Grants | - | - | - | - | - | - | 8,112 |
| State Grants | - | - | - | - | - | - | 410 |
| Miscellaneous | - | - | - | - | 646 | - | 759 |
| Developer Contributions | - | - | - | - | 412 | - | 412 |
| Streetlight and Services Districts | - | - | - | 591 | - | - | 591 |
| Contributions and Donations | - | - | - | - | 214 | - | 1,774 |
| Reimbursements from Outside Sources | - | - | - | - | 239 | 15 | 523 |
| Indirect Costs | - | - | - | - | - | - | 424 |
| Other | - | - | - | - | 55 | 10 | 78 |
| Total Revenues | <u>68</u> | <u>11</u> | <u>12</u> | <u>591</u> | <u>6,790</u> | <u>24,456</u> | <u>131,263</u> |
| EXPENDITURES | | | | | | | |
| Current | | | | | | | |
| General Government | | | | | | | |
| Mayor and City Council | - | - | - | - | 12 | - | 17 |
| City Court | - | - | - | - | 1,018 | - | 1,018 |
| City Manager | - | - | - | - | - | - | 1,038 |
| City Treasurer | 71 | 11 | 10 | - | - | - | 172 |
| Public Works | - | - | - | - | 158 | - | 14,802 |
| Community and Economic Development | - | - | - | - | 286 | 15,451 | 23,976 |
| Public Safety | - | - | - | - | 1,186 | - | 2,114 |
| Community Services | - | - | - | - | 2,815 | - | 12,586 |
| Streetlight and Services Districts | - | - | - | 584 | - | - | 584 |
| Capital Outlay | - | - | - | - | 128 | - | 128 |
| Total Expenditures | <u>71</u> | <u>11</u> | <u>10</u> | <u>584</u> | <u>5,603</u> | <u>15,451</u> | <u>56,435</u> |
| Excess (Deficiency) of Revenues over (under) Expenditures | <u>(3)</u> | <u>-</u> | <u>2</u> | <u>7</u> | <u>1,187</u> | <u>9,005</u> | <u>74,828</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Transfers In | - | - | - | - | 10 | 471 | 967 |
| Transfers Out | - | - | - | - | (971) | (11,858) | (67,796) |
| Total Other Financing Sources and (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(961)</u> | <u>(11,387)</u> | <u>(66,829)</u> |
| Net Change in Fund Balances (Deficits) | <u>(3)</u> | <u>-</u> | <u>2</u> | <u>7</u> | <u>226</u> | <u>(2,382)</u> | <u>7,999</u> |
| Fund Balances - Beginning | <u>54</u> | <u>-</u> | <u>11</u> | <u>4</u> | <u>14,673</u> | <u>8,669</u> | <u>67,174</u> |
| Fund Balances - Ending | <u>\$ 51</u> | <u>\$ -</u> | <u>\$ 13</u> | <u>\$ 11</u> | <u>\$ 14,899</u> | <u>\$ 6,287</u> | <u>\$ 75,173</u> |

Transportation – Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|---------------------------------------|------------------|------------------|-----------------------------------|-------------------------------|------------------------------|---|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| Taxes - Local | | | | | | |
| Transaction Privilege | \$ 21,726 | \$ 21,726 | \$ 27,788 | \$ - | \$ 27,788 | \$ 6,062 |
| Taxes - Intergovernmental | | | | | | |
| Highway User Tax | 15,496 | 15,496 | 17,073 | - | 17,073 | 1,577 |
| Local Transportation Assistance Fund | 655 | 655 | 642 | - | 642 | (13) |
| Intergovernmental | | | | | | |
| Miscellaneous | 150 | 150 | 113 | - | 113 | (37) |
| Reimbursements from Outside Sources | 175 | 175 | 265 | - | 265 | 90 |
| Indirect Costs | 424 | 424 | 424 | - | 424 | - |
| Other | 5 | 5 | - | - | - | (5) |
| Total Revenues | <u>38,631</u> | <u>38,631</u> | <u>46,305</u> | <u>-</u> | <u>46,305</u> | <u>7,674</u> |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| General Government | | | | | | |
| City Treasurer | 54 | 57 | 55 | - | 55 | 2 |
| Public Works | 15,546 | 15,575 | 14,629 | 15 | 14,644 | 946 |
| Community and Economic Development | 9,771 | 9,564 | 8,095 | 15 | 8,110 | 1,469 |
| Community Services | 1,856 | 1,856 | 1,778 | - | 1,778 | 78 |
| Total Expenditures | <u>27,227</u> | <u>27,052</u> | <u>24,557</u> | <u>30</u> | <u>24,587</u> | <u>2,495</u> |
| Excess of Revenues over Expenditures | <u>11,404</u> | <u>11,579</u> | <u>21,748</u> | <u>(30)</u> | <u>21,718</u> | <u>10,169</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers In | 300 | 300 | 459 | - | 459 | 159 |
| Transfers Out | (10,941) | (10,941) | (16,353) | - | (16,353) | (5,412) |
| Sale of General Capital Assets | 10 | 10 | - | - | - | (10) |
| Total Other Financing Sources (Uses) | <u>(10,631)</u> | <u>(10,631)</u> | <u>(15,894)</u> | <u>-</u> | <u>(15,894)</u> | <u>(5,263)</u> |
| Net Change in Fund Balance | 773 | 948 | 5,854 | (30) | 5,824 | 4,906 |
| Fund Balance - Beginning | 6,177 | 9,686 | 9,686 | 59 | 9,745 | - |
| Fund Balance - Ending | <u>\$ 6,950</u> | <u>\$ 10,634</u> | <u>\$ 15,540</u> | <u>\$ 29</u> | <u>\$ 15,569</u> | <u>\$ 4,906</u> |

Explanation of Differences:

The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:

| | |
|------------------|--------------|
| Payroll Accruals | <u>\$ 30</u> |
|------------------|--------------|

Community Development Block Grant – Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|---|------------------|----------------|-----------------------------------|-------------------------------|------------------------------|---|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| Property Rental | \$ 39 | \$ 39 | \$ 62 | \$ - | \$ 62 | \$ 23 |
| Intergovernmental | | | | | | |
| Federal Grants | 2,465 | 2,465 | 1,304 | - | 1,304 | (1,161) |
| Total Revenues | <u>2,504</u> | <u>2,504</u> | <u>1,366</u> | <u>-</u> | <u>1,366</u> | <u>(1,138)</u> |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| Community Services | 2,504 | 2,378 | 1,373 | 1 | 1,374 | 1,005 |
| Total Expenditures | <u>2,504</u> | <u>2,378</u> | <u>1,373</u> | <u>1</u> | <u>1,374</u> | <u>1,005</u> |
| Excess (Deficiency) of Revenues over (under) Expenditures | - | 126 | (7) | (1) | (8) | (133) |
| OTHER FINANCING USES | | | | | | |
| Transfers Out | - | (147) | (12) | - | (12) | 135 |
| Total Other Financing Uses | <u>-</u> | <u>(147)</u> | <u>(12)</u> | <u>-</u> | <u>(12)</u> | <u>135</u> |
| Net Change in Fund Balance | - | (21) | (19) | (1) | (20) | 2 |
| Fund Balance (Deficit) - Beginning | - | (33) | (33) | (7) | (40) | - |
| Fund Balance (Deficit) - Ending | <u>\$ -</u> | <u>\$ (54)</u> | <u>\$ (52)</u> | <u>\$ (8)</u> | <u>\$ (60)</u> | <u>\$ 2</u> |

Explanation of Differences:

The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:

 Payroll Accruals \$ 1

HOME – Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|---|------------------|----------|-----------------------------------|-------------------------------|------------------------------|---|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| Intergovernmental | | | | | | |
| Federal Grants | \$ 923 | \$ 923 | \$ 234 | \$ - | \$ 234 | \$ (689) |
| Total Revenues | 923 | 923 | 234 | - | 234 | (689) |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| Community Services | 923 | 924 | 234 | - | 234 | 690 |
| Total Expenditures | 923 | 924 | 234 | - | 234 | 690 |
| Deficiency of Revenues under Expenditures | - | (1) | - | - | - | 1 |
| Fund Balance (Deficit) - Beginning | - | (185) | (185) | - | (185) | - |
| Fund Balance (Deficit) - Ending | \$ - | \$ (186) | \$ (185) | \$ - | \$ (185) | \$ 1 |

Grants – Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|--------------------------------------|------------------|-----------------|-----------------------------------|-------------------------------|------------------------------|---|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| Intergovernmental | | | | | | |
| Federal Grants | \$ 2,673 | \$ 2,667 | \$ 942 | \$ - | \$ 942 | \$ (1,725) |
| State Grants | 475 | 475 | 410 | - | 410 | (65) |
| Miscellaneous | 14 | 14 | - | - | - | (14) |
| Contributions and Donations | 4,296 | 4,296 | 1,560 | - | 1,560 | (2,736) |
| Total Revenues | <u>7,458</u> | <u>7,452</u> | <u>2,912</u> | <u>-</u> | <u>2,912</u> | <u>(4,540)</u> |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| General Government | | | | | | |
| Mayor and City Council | 5 | 5 | 5 | - | 5 | - |
| City Manager | 1,200 | 1,038 | 1,038 | - | 1,038 | - |
| Community and Economic Development | 169 | 119 | 129 | - | 129 | (10) |
| Public Safety | 2,087 | 1,303 | 915 | 13 | 928 | 388 |
| Community Services | 3,997 | 2,232 | 700 | 1 | 701 | 1,532 |
| Total Expenditures | <u>7,458</u> | <u>4,697</u> | <u>2,787</u> | <u>14</u> | <u>2,801</u> | <u>1,910</u> |
| Excess of Revenues over Expenditures | <u>-</u> | <u>2,755</u> | <u>125</u> | <u>(14)</u> | <u>111</u> | <u>(2,630)</u> |
| OTHER FINANCING USES | | | | | | |
| Transfers Out | - | - | (33) | - | (33) | (33) |
| Total Other Financing Uses | <u>-</u> | <u>-</u> | <u>(33)</u> | <u>-</u> | <u>(33)</u> | <u>(33)</u> |
| Net Change in Fund Balance | - | 2,755 | 92 | (14) | 78 | (2,663) |
| Fund Balance (Deficit) - Beginning | - | (315) | (315) | (7) | (322) | - |
| Fund Balance (Deficit) - Ending | <u>\$ -</u> | <u>\$ 2,440</u> | <u>\$ (223)</u> | <u>\$ (21)</u> | <u>\$ (244)</u> | <u>\$ (2,663)</u> |

Explanation of Differences:

The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:

| | |
|------------------|--------------|
| Payroll Accruals | <u>\$ 14</u> |
|------------------|--------------|

Section 8 – Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Original | Final | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|---|--------------|---------------|-----------------------------------|-------------------------------|------------------------------|---|
| REVENUES | | | | | | |
| Intergovernmental | | | | | | |
| Federal Grants | \$ 5,974 | \$ 5,974 | \$ 5,632 | \$ - | \$ 5,632 | \$ (342) |
| Reimbursements from Outside Sources | - | - | 4 | - | 4 | 4 |
| Other | - | - | 13 | - | 13 | 13 |
| Total Revenues | <u>5,974</u> | <u>5,974</u> | <u>5,649</u> | <u>-</u> | <u>5,649</u> | <u>(325)</u> |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| Community Services | 5,974 | 5,993 | 5,686 | (2) | 5,684 | 307 |
| Total Expenditures | <u>5,974</u> | <u>5,993</u> | <u>5,686</u> | <u>(2)</u> | <u>5,684</u> | <u>307</u> |
| Deficiency of Revenues under Expenditures | - | (19) | (37) | 2 | (35) | (18) |
| Fund Balance - Beginning | - | 470 | 470 | 1 | 471 | - |
| Fund Balance - Ending | <u>\$ -</u> | <u>\$ 451</u> | <u>\$ 433</u> | <u>\$ 3</u> | <u>\$ 436</u> | <u>\$ (18)</u> |

Explanation of Differences:

The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:

 Payroll Accruals \$ (2)

Preserve Privilege Tax – Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|--------------------------------------|------------------|------------------|-----------------------------------|-------------------------------|------------------------------|---|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| Taxes - Local | | | | | | |
| Transaction Privilege | \$ 39,437 | \$ 39,437 | \$ 41,909 | \$ - | \$ 41,909 | \$ 2,472 |
| Interest Earnings | 686 | 686 | 925 | - | 925 | 239 |
| Total Revenues | <u>40,123</u> | <u>40,123</u> | <u>42,834</u> | <u>-</u> | <u>42,834</u> | <u>2,711</u> |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| General Government | | | | | | |
| City Treasurer | - | - | 5 | - | 5 | (5) |
| Community Services | 2 | 2 | - | - | - | 2 |
| Total Expenditures | <u>2</u> | <u>2</u> | <u>5</u> | <u>-</u> | <u>5</u> | <u>(3)</u> |
| Excess of Revenues over Expenditures | <u>40,121</u> | <u>40,121</u> | <u>42,829</u> | <u>-</u> | <u>42,829</u> | <u>2,708</u> |
| OTHER FINANCING USES | | | | | | |
| Transfers Out | (42,644) | (42,644) | (38,569) | - | (38,569) | 4,075 |
| Total Other Financing Uses | <u>(42,644)</u> | <u>(42,644)</u> | <u>(38,569)</u> | <u>-</u> | <u>(38,569)</u> | <u>4,075</u> |
| Net Change in Fund Balance | (2,523) | (2,523) | 4,260 | - | 4,260 | 6,783 |
| Fund Balance - Beginning | 26,066 | 34,900 | 34,900 | (806) | 34,094 | - |
| Fund Balance - Ending | <u>\$ 23,543</u> | <u>\$ 32,377</u> | <u>\$ 39,160</u> | <u>\$ (806)</u> | <u>\$ 38,354</u> | <u>\$ 6,783</u> |

Streetlight Districts – Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|--------------------------------------|------------------|--------|-----------------------------------|-------------------------------|------------------------------|---|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| Streetlight and Services Districts | \$ 610 | \$ 610 | \$ 591 | \$ - | \$ 591 | \$ (19) |
| Total Revenues | 610 | 610 | 591 | - | 591 | (19) |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| Streetlight and Services Districts | 610 | 610 | 584 | - | 584 | 26 |
| Total Expenditures | 610 | 610 | 584 | - | 584 | 26 |
| Excess of Revenues over Expenditures | - | - | 7 | - | 7 | 7 |
| Fund Balance - Beginning | - | 4 | 4 | - | 4 | - |
| Fund Balance - Ending | \$ - | \$ 4 | \$ 11 | \$ - | \$ 11 | \$ 7 |

Special Programs – Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|---|------------------|------------------|-----------------------------------|-------------------------------|------------------------------|---|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| Taxes - Local | | | | | | |
| Light and Power Franchise | \$ 243 | \$ 243 | \$ 261 | \$ - | \$ 261 | \$ 18 |
| Business and Liquor Licenses | 57 | 57 | 52 | - | 52 | (5) |
| Charges for Current Services | | | | | | |
| Building and Related Permits | - | - | 13 | - | 13 | 13 |
| Recreation Fees | 2,053 | 2,053 | 2,286 | - | 2,286 | 233 |
| Fines, Fees, and Forfeitures | | | | | | |
| Court | 158 | 158 | 146 | - | 146 | (12) |
| Court Enhancement | 1,735 | 1,735 | 1,764 | - | 1,764 | 29 |
| Police | 428 | 428 | 247 | - | 247 | (181) |
| Property Rental | 365 | 365 | 304 | - | 304 | (61) |
| Interest Earnings | 114 | 114 | 151 | - | 151 | 37 |
| Intergovernmental | | | | | | |
| Miscellaneous | 1,395 | 1,395 | 646 | - | 646 | (749) |
| Developer Contributions | - | - | 412 | - | 412 | 412 |
| Contributions and Donations | 317 | 317 | 214 | - | 214 | (103) |
| Reimbursements from Outside Sources | 90 | 90 | 239 | - | 239 | 149 |
| Other | 57 | 57 | 55 | - | 55 | (2) |
| Total Revenues | <u>7,012</u> | <u>7,012</u> | <u>6,790</u> | <u>-</u> | <u>6,790</u> | <u>(222)</u> |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| General Government | | | | | | |
| Mayor and City Council | 8 | 12 | 12 | - | 12 | - |
| City Court | 1,320 | 1,353 | 1,010 | 8 | 1,018 | 343 |
| Public Works | 250 | 250 | 158 | - | 158 | 92 |
| Community and Economic Development | 1,886 | 1,886 | 286 | - | 286 | 1,600 |
| Public Safety | 2,638 | 2,658 | 1,185 | 1 | 1,186 | 1,473 |
| Community Services | 3,149 | 3,065 | 2,812 | 3 | 2,815 | 253 |
| Capital Outlay | - | - | 128 | - | 128 | (128) |
| Total Expenditures | <u>9,251</u> | <u>9,224</u> | <u>5,591</u> | <u>12</u> | <u>5,603</u> | <u>3,633</u> |
| Excess (Deficiency) of Revenues over (under) Expenditures | <u>(2,239)</u> | <u>(2,212)</u> | <u>1,199</u> | <u>(12)</u> | <u>1,187</u> | <u>3,411</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers In | 10 | 10 | 10 | - | 10 | - |
| Transfers Out | (975) | (975) | (971) | - | (971) | 4 |
| Total Other Financing Sources (Uses) | <u>(965)</u> | <u>(965)</u> | <u>(961)</u> | <u>-</u> | <u>(961)</u> | <u>4</u> |
| Net Change in Fund Balance | (3,204) | (3,177) | 238 | (12) | 226 | 3,415 |
| Fund Balance - Beginning | 12,550 | 14,728 | 14,728 | (55) | 14,673 | - |
| Fund Balance - Ending | <u>\$ 9,346</u> | <u>\$ 11,551</u> | <u>\$ 14,966</u> | <u>\$ (67)</u> | <u>\$ 14,899</u> | <u>\$ 3,415</u> |

Explanation of Differences:

The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:

| | |
|------------------|--------------|
| Payroll Accruals | <u>\$ 12</u> |
|------------------|--------------|

Tourism Development – Special Revenue Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|---------------------------------------|------------------|-----------------|-----------------------------------|-------------------------------|------------------------------|---|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| Taxes - Local | | | | | | |
| Transient Occupancy Tax | \$ 20,413 | \$ 20,413 | \$ 22,407 | \$ - | \$ 22,407 | \$ 1,994 |
| Property Rental | 1,910 | 1,910 | 2,024 | - | 2,024 | 114 |
| Reimbursements from Outside Sources | 20 | 20 | 15 | - | 15 | (5) |
| Other | - | - | 10 | - | 10 | 10 |
| Total Revenues | <u>22,343</u> | <u>22,343</u> | <u>24,456</u> | <u>-</u> | <u>24,456</u> | <u>2,113</u> |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| Community and Economic Development | 16,425 | 16,402 | 15,450 | 1 | 15,451 | 952 |
| Total Expenditures | <u>16,425</u> | <u>16,402</u> | <u>15,450</u> | <u>1</u> | <u>15,451</u> | <u>952</u> |
| Excess of Revenues over Expenditures | <u>5,918</u> | <u>5,941</u> | <u>9,006</u> | <u>(1)</u> | <u>9,005</u> | <u>3,065</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers In | - | - | 471 | - | 471 | 471 |
| Transfers Out | (6,443) | (6,443) | (11,858) | - | (11,858) | (5,415) |
| Total Other Financing Sources (Uses) | <u>(6,443)</u> | <u>(6,443)</u> | <u>(11,387)</u> | <u>-</u> | <u>(11,387)</u> | <u>(4,944)</u> |
| Net Change in Fund Balance | (525) | (502) | (2,381) | (1) | (2,382) | (1,879) |
| Fund Balances - Beginning | 8,363 | 8,671 | 8,671 | (2) | 8,669 | - |
| Fund Balances - Ending | <u>\$ 7,838</u> | <u>\$ 8,169</u> | <u>\$ 6,290</u> | <u>\$ (3)</u> | <u>\$ 6,287</u> | <u>\$ (1,879)</u> |

Explanation of Differences:

The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:

| | |
|------------------|------|
| Payroll Accruals | \$ 1 |
|------------------|------|

Combining Balance Sheet
Nonmajor Debt Service Governmental Funds
June 30, 2019 (in thousands)

| | Municipal Property Corporation | Debt Service Stabilization | Scottsdale Mountain CFD | McDowell Mountain Ranch CFD | DC Ranch CFD | Via Linda Road CFD | Waterfront Commercial CFD | Scottsdale Preserve Authority | Total |
|---|--------------------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------|--------------------------|---------------------------------|-------------------------------------|------------------|
| ASSETS | | | | | | | | | |
| Cash and Investments | \$ - | \$ 5,187 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,187 |
| Cash with Fiscal Agent | 18,341 | - | - | 1,457 | 1,249 | 238 | 615 | 4,829 | 26,729 |
| Receivables (net of allowance for uncollectibles) | | | | | | | | | |
| Property Tax | - | - | - | 27 | 46 | 4 | 1 | - | 78 |
| Intergovernmental | - | 5,844 | - | - | - | - | - | - | 5,844 |
| Miscellaneous | - | 1,618 | - | - | - | - | - | - | 1,618 |
| Total Assets | <u>\$ 18,341</u> | <u>\$ 12,649</u> | <u>\$ -</u> | <u>\$ 1,484</u> | <u>\$ 1,295</u> | <u>\$ 242</u> | <u>\$ 616</u> | <u>\$ 4,829</u> | <u>\$ 39,456</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS) | | | | | | | | | |
| Liabilities | | | | | | | | | |
| Matured Bond Interest Payable | \$ 4,184 | \$ - | \$ - | \$ 73 | \$ 166 | \$ 13 | \$ 88 | \$ 289 | \$ 4,813 |
| Matured Bonds Payable | 14,157 | - | - | 1,195 | 950 | 190 | 140 | 4,540 | 21,172 |
| Total Liabilities | <u>18,341</u> | <u>-</u> | <u>-</u> | <u>1,268</u> | <u>1,116</u> | <u>203</u> | <u>228</u> | <u>4,829</u> | <u>25,985</u> |
| Deferred Inflows of Resources | | | | | | | | | |
| Unavailable Revenues | - | 5,844 | - | 10 | 18 | 2 | - | - | 5,874 |
| Total Liabilities and Deferred Inflows of Resources | <u>18,341</u> | <u>5,844</u> | <u>-</u> | <u>1,278</u> | <u>1,134</u> | <u>205</u> | <u>228</u> | <u>4,829</u> | <u>31,859</u> |
| Fund Balances (Deficits) | | | | | | | | | |
| Restricted | - | 2,694 | - | 206 | 161 | 37 | 388 | - | 3,486 |
| Committed | - | 4,700 | - | - | - | - | - | - | 4,700 |
| Unassigned | - | (589) | - | - | - | - | - | - | (589) |
| Total Fund Balances (Deficits) | <u>-</u> | <u>6,805</u> | <u>-</u> | <u>206</u> | <u>161</u> | <u>37</u> | <u>388</u> | <u>-</u> | <u>7,597</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits) | <u>\$ 18,341</u> | <u>\$ 12,649</u> | <u>\$ -</u> | <u>\$ 1,484</u> | <u>\$ 1,295</u> | <u>\$ 242</u> | <u>\$ 616</u> | <u>\$ 4,829</u> | <u>\$ 39,456</u> |

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Debt Service Governmental Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Municipal Property Corporation | Debt Service Stabilization | Scottsdale Mountain CFD | McDowell Mountain Ranch CFD | DC Ranch CFD | Via Linda Road CFD | Waterfront Commercial CFD | Scottsdale Preserve Authority | Total |
|---|--------------------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------|-----------------------|---------------------------------|-------------------------------------|-----------------|
| REVENUES | | | | | | | | | |
| Taxes - Local | | | | | | | | | |
| Property | \$ - | \$ - | \$ 1 | \$ 1,342 | \$ 1,293 | \$ 216 | \$ 290 | \$ - | \$ 3,142 |
| Property Rental | - | 140 | - | - | - | - | - | - | 140 |
| Interest Earnings | 2 | - | - | - | - | - | 9 | - | 11 |
| Intergovernmental | | | | | | | | | |
| Miscellaneous | - | 4,226 | - | - | - | - | - | - | 4,226 |
| Total Revenues | <u>2</u> | <u>4,366</u> | <u>1</u> | <u>1,342</u> | <u>1,293</u> | <u>216</u> | <u>299</u> | <u>-</u> | <u>7,519</u> |
| EXPENDITURES | | | | | | | | | |
| Debt Service | | | | | | | | | |
| Principal | 14,157 | - | - | 1,195 | 950 | 190 | 140 | 4,540 | 21,172 |
| Interest and Fiscal Charges | 8,377 | - | - | 144 | 336 | 26 | 180 | 582 | 9,645 |
| Total Expenditures | <u>22,534</u> | <u>-</u> | <u>-</u> | <u>1,339</u> | <u>1,286</u> | <u>216</u> | <u>320</u> | <u>5,122</u> | <u>30,817</u> |
| Excess (Deficiency) of Revenues over (under) Expenditures | <u>(22,532)</u> | <u>4,366</u> | <u>1</u> | <u>3</u> | <u>7</u> | <u>-</u> | <u>(21)</u> | <u>(5,122)</u> | <u>(23,298)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | |
| Transfers In | 22,532 | - | - | - | - | - | - | 5,122 | 27,654 |
| Transfers Out | - | (6,619) | (27) | - | - | - | - | - | (6,646) |
| Total Other Financing Sources (Uses) | <u>22,532</u> | <u>(6,619)</u> | <u>(27)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,122</u> | <u>21,008</u> |
| Net Change in Fund Balances | - | (2,253) | (26) | 3 | 7 | - | (21) | - | (2,290) |
| Fund Balances - Beginning | - | 9,058 | 26 | 203 | 154 | 37 | 409 | - | 9,887 |
| Fund Balances - Ending | <u>\$ -</u> | <u>\$ 6,805</u> | <u>\$ -</u> | <u>\$ 206</u> | <u>\$ 161</u> | <u>\$ 37</u> | <u>\$ 388</u> | <u>\$ -</u> | <u>\$ 7,597</u> |

General Obligation Bond Debt Service Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|---|------------------|-----------|-----------------------------------|-------------------------------|------------------------------|---|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| Taxes - Local | | | | | | |
| Property | \$ 34,215 | \$ 34,215 | \$ 34,087 | \$ - | \$ 34,087 | \$ (128) |
| Total Revenues | 34,215 | 34,215 | 34,087 | - | 34,087 | (128) |
| EXPENDITURES | | | | | | |
| Debt Service | | | | | | |
| Principal | 42,250 | 42,250 | 42,250 | - | 42,250 | - |
| Interest and Fiscal Charges | 19,788 | 19,788 | 19,786 | - | 19,786 | 2 |
| Total Expenditures | 62,038 | 62,038 | 62,036 | - | 62,036 | 2 |
| Deficiency of Revenues under Expenditures | (27,823) | (27,823) | (27,949) | - | (27,949) | (126) |
| OTHER FINANCING SOURCES | | | | | | |
| Transfers In | 26,873 | 26,873 | 26,872 | - | 26,872 | (1) |
| Total Other Financing Sources | 26,873 | 26,873 | 26,872 | - | 26,872 | (1) |
| Net Change in Fund Balance | (950) | (950) | (1,077) | - | (1,077) | (127) |
| Fund Balance - Beginning | 2,761 | 2,471 | 2,471 | - | 2,471 | - |
| Fund Balance - Ending | \$ 1,811 | \$ 1,521 | \$ 1,394 | \$ - | \$ 1,394 | \$ (127) |

Municipal Property Corporation Debt Service Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Budgeted Amounts | | | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|---|------------------|----------|--------------------------------|----------------------------|---------------------------|--|
| | Original | Final | Actual Amounts Budgetary Basis | | | |
| REVENUES | | | | | | |
| Interest Earnings | \$ - | \$ - | \$ 2 | \$ - | \$ 2 | \$ 2 |
| Total Revenues | - | - | 2 | - | 2 | 2 |
| EXPENDITURES | | | | | | |
| Debt Service | | | | | | |
| Principal | 14,157 | 14,157 | 14,157 | - | 14,157 | - |
| Interest and Fiscal Charges | 8,378 | 8,378 | 8,377 | - | 8,377 | 1 |
| Total Expenditures | 22,535 | 22,535 | 22,534 | - | 22,534 | 1 |
| Deficiency of Revenues under Expenditures | (22,535) | (22,535) | (22,532) | - | (22,532) | 3 |
| OTHER FINANCING SOURCES | | | | | | |
| Transfers In | 22,535 | 22,535 | 22,532 | - | 22,532 | (3) |
| Total Other Financing Sources | 22,535 | 22,535 | 22,532 | - | 22,532 | (3) |
| Net Change in Fund Balance | - | - | - | - | - | - |
| Fund Balance - Beginning | - | - | - | - | - | - |
| Fund Balance - Ending | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

Debt Service Stabilization Debt Service Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|--------------------------------------|------------------|----------|-----------------------------------|-------------------------------|------------------------------|---|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| Property Rental | \$ 170 | \$ 170 | \$ 140 | \$ - | \$ 140 | \$ (30) |
| Intergovernmental | | | | | | |
| Miscellaneous | 7,121 | 7,120 | 4,226 | - | 4,226 | (2,894) |
| Total Revenues | 7,291 | 7,290 | 4,366 | - | 4,366 | (2,924) |
| EXPENDITURES | | | | | | |
| Total Expenditures | - | - | - | - | - | - |
| Excess of Revenues over Expenditures | 7,291 | 7,290 | 4,366 | - | 4,366 | (2,924) |
| OTHER FINANCING USES | | | | | | |
| Transfers Out | (6,618) | (6,618) | (6,619) | - | (6,619) | (1) |
| Total Other Financing Uses | (6,618) | (6,618) | (6,619) | - | (6,619) | (1) |
| Net Change in Fund Balance | 673 | 672 | (2,253) | - | (2,253) | (2,925) |
| Fund Balance - Beginning | 10,550 | 9,058 | 9,058 | - | 9,058 | - |
| Fund Balance - Ending | \$ 11,223 | \$ 9,730 | \$ 6,805 | \$ - | \$ 6,805 | \$ (2,925) |

Scottsdale Preserve Authority Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Budget to GAAP Differences | Actual Amounts GAAP Basis | Variance Between Final Budget and Actual Amounts Budgetary Basis |
|---|------------------|---------|-----------------------------------|-------------------------------|------------------------------|---|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| Total Revenues | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| EXPENDITURES | | | | | | |
| Debt Service | | | | | | |
| Principal | 4,540 | 4,540 | 4,540 | - | 4,540 | - |
| Interest and Fiscal Charges | 582 | 582 | 582 | - | 582 | - |
| Total Expenditures | 5,122 | 5,122 | 5,122 | - | 5,122 | - |
| Deficiency of Revenues under Expenditures | (5,122) | (5,122) | (5,122) | - | (5,122) | - |
| OTHER FINANCING SOURCES | | | | | | |
| Transfers In | 5,122 | 5,122 | 5,122 | - | 5,122 | - |
| Total Other Financing Sources | 5,122 | 5,122 | 5,122 | - | 5,122 | - |
| Net Change in Fund Balance | - | - | - | - | - | - |
| Fund Balance - Beginning | - | - | - | - | - | - |
| Fund Balance - Ending | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

Combining Balance Sheet
Nonmajor Capital Projects Governmental Funds
 June 30, 2019 (in thousands)

| | General Obligation Bonds | Transportation Privilege Tax | Preserve Privilege Tax | Municipal Property Corporation Bonds | External Sources | Total |
|---|-----------------------------|---------------------------------|---------------------------|---|---------------------|------------------|
| ASSETS | | | | | | |
| Cash and Investments | \$ 19,557 | \$ 34,467 | \$ 319 | \$ - | \$ - | \$ 54,343 |
| Receivables (net of allowance for uncollectibles) | | | | | | |
| Interest | 84 | 147 | - | - | 1 | 232 |
| Intergovernmental | - | 13,921 | - | - | 5,901 | 19,822 |
| Grants | - | - | - | - | 553 | 553 |
| Total Assets | <u>\$ 19,641</u> | <u>\$ 48,535</u> | <u>\$ 319</u> | <u>\$ -</u> | <u>\$ 6,455</u> | <u>\$ 74,950</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (DEFICITS) | | | | | | |
| Liabilities | | | | | | |
| Accounts Payable | \$ 3,869 | \$ 3,778 | \$ 707 | \$ 3,199 | \$ 745 | \$ 12,298 |
| Accrued Payroll and Benefits | 1 | 7 | 5 | - | - | 13 |
| Due to Other Funds | - | - | - | 1,054 | 4,684 | 5,738 |
| Unearned Revenue | | | | | | |
| Other | - | - | - | - | 200 | 200 |
| Total Liabilities | <u>3,870</u> | <u>3,785</u> | <u>712</u> | <u>4,253</u> | <u>5,629</u> | <u>18,249</u> |
| Deferred Inflows of Resources | | | | | | |
| Unavailable Revenues | - | 13,921 | - | - | 6,343 | 20,264 |
| Total Liabilities and Deferred Inflows of Resources | <u>3,870</u> | <u>17,706</u> | <u>712</u> | <u>4,253</u> | <u>11,972</u> | <u>38,513</u> |
| Fund Balances (Deficits) | | | | | | |
| Restricted | 15,771 | 30,829 | - | - | 2,984 | 49,584 |
| Committed | - | - | - | - | 7 | 7 |
| Unassigned | - | - | (393) | (4,253) | (8,508) | (13,154) |
| Total Fund Balances (Deficits) | <u>15,771</u> | <u>30,829</u> | <u>(393)</u> | <u>(4,253)</u> | <u>(5,517)</u> | <u>36,437</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits) | <u>\$ 19,641</u> | <u>\$ 48,535</u> | <u>\$ 319</u> | <u>\$ -</u> | <u>\$ 6,455</u> | <u>\$ 74,950</u> |

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Capital Projects Governmental Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | General Obligation Bonds | Transportation Privilege Tax | Preserve Privilege Tax | Municipal Property Corporation Bonds | External Sources | Total |
|---|-----------------------------|---------------------------------|---------------------------|---|-------------------|------------------|
| REVENUES | | | | | | |
| Charges for Current Services | | | | | | |
| Building and Related Permits | \$ - | \$ - | \$ - | \$ - | \$ 27 | \$ 27 |
| Interest Earnings | 409 | 564 | - | - | 5 | 978 |
| Intergovernmental | | | | | | |
| Federal Grants | - | - | - | - | 4,023 | 4,023 |
| Miscellaneous | - | - | - | - | 3,800 | 3,800 |
| Contributions and Donations | - | - | - | - | 783 | 783 |
| Reimbursements from Outside Sources | - | 5 | - | - | - | 5 |
| Total Revenues | <u>409</u> | <u>569</u> | <u>-</u> | <u>-</u> | <u>8,638</u> | <u>9,616</u> |
| EXPENDITURES | | | | | | |
| Current | | | | | | |
| Capital Outlay | 5,313 | 22,608 | 6,963 | 4,253 | 9,913 | 49,050 |
| Total Expenditures | <u>5,313</u> | <u>22,608</u> | <u>6,963</u> | <u>4,253</u> | <u>9,913</u> | <u>49,050</u> |
| Deficiency of Revenues under Expenditures | <u>(4,904)</u> | <u>(22,039)</u> | <u>(6,963)</u> | <u>(4,253)</u> | <u>(1,275)</u> | <u>(39,434)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers In | - | 16,353 | 6,575 | - | 182 | 23,110 |
| Transfers Out | - | - | - | - | (28) | (28) |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>16,353</u> | <u>6,575</u> | <u>-</u> | <u>154</u> | <u>23,082</u> |
| Net Change in Fund Balances (Deficits) | (4,904) | (5,686) | (388) | (4,253) | (1,121) | (16,352) |
| Fund Balances (Deficits) - Beginning | 20,675 | 36,515 | (5) | - | (4,396) | 52,789 |
| Fund Balances (Deficits) - Ending | <u>\$ 15,771</u> | <u>\$ 30,829</u> | <u>\$ (393)</u> | <u>\$ (4,253)</u> | <u>\$ (5,517)</u> | <u>\$ 36,437</u> |

Combining Balance Sheet
Nonmajor Permanent Governmental Funds
 June 30, 2019 (in thousands)

| | Rassner Memorial Scottsdale Library Endowment | Scottsdale Community Endowment | Scottsdale Employee Endowment | Herbert R. Drinkwater Youth Services Endowment | Total |
|--|--|---|--|---|---------------|
| ASSETS | | | | | |
| Cash and Investments | \$ 428 | \$ 134 | \$ 41 | \$ 33 | \$ 636 |
| Total Assets | <u>\$ 428</u> | <u>\$ 134</u> | <u>\$ 41</u> | <u>\$ 33</u> | <u>\$ 636</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$ 4 | \$ - | \$ - | \$ - | \$ 4 |
| Total Liabilities | <u>4</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4</u> |
| Fund Balances | | | | | |
| Nonspendable | 404 | 128 | 40 | 32 | 604 |
| Restricted | 20 | 6 | 1 | 1 | 28 |
| Total Fund Balances | <u>424</u> | <u>134</u> | <u>41</u> | <u>33</u> | <u>632</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 428</u> | <u>\$ 134</u> | <u>\$ 41</u> | <u>\$ 33</u> | <u>\$ 636</u> |

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Permanent Governmental Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Rassner Memorial Scottsdale Library Endowment | Scottsdale Community Endowment | Scottsdale Employee Endowment | Herbert R. Drinkwater Youth Services Endowment | Total |
|---|---|--------------------------------------|-------------------------------------|---|---------------|
| REVENUES | | | | | |
| Interest Earnings | \$ 10 | \$ 4 | \$ 1 | \$ 1 | \$ 16 |
| Contributions and Donations | 18 | - | - | - | 18 |
| Total Revenues | <u>28</u> | <u>4</u> | <u>1</u> | <u>1</u> | <u>34</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Community Services | 49 | 4 | 1 | 1 | 55 |
| Total Expenditures | <u>49</u> | <u>4</u> | <u>1</u> | <u>1</u> | <u>55</u> |
| Deficiency of Revenues under Expenditures | <u>(21)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(21)</u> |
| Net Change in Fund Balances | (21) | - | - | - | (21) |
| Fund Balances - Beginning | 445 | 134 | 41 | 33 | 653 |
| Fund Balances - Ending | <u>\$ 424</u> | <u>\$ 134</u> | <u>\$ 41</u> | <u>\$ 33</u> | <u>\$ 632</u> |

INTERNAL SERVICE FUNDS

Internal Service Funds are used to report activities that provide goods or services to other funds, departments, or agencies of the primary government and its component units on a cost-reimbursement basis.

Fleet Management Fund

This fund accounts for the expenses associated with purchasing and maintaining the City's motor vehicles.

Self-Insurance Fund

This fund accounts for the administration of the City's self-insurance program. This fund provides coverage of unemployment, self-insured benefits, workers' compensation, and property and liability claims.

Computer Replacement Fund

This fund accounts for the expenses associated with purchasing the City's computers, monitors, and printers.

Combining Statement of Fund Net Position

Internal Service Funds

June 30, 2019 (in thousands)

| | Fleet Management | Self-Insurance | Computer Replacement | Total |
|--|---------------------|------------------|-------------------------|------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Assets | | | | |
| Current Assets | | | | |
| Cash and Investments | \$ 14,795 | \$ 37,136 | \$ 1,998 | \$ 53,929 |
| Receivables (net of allowance for uncollectibles) | | | | |
| Miscellaneous | 140 | 131 | - | 271 |
| Supplies Inventory | 859 | - | - | 859 |
| Total Current Assets | <u>15,794</u> | <u>37,267</u> | <u>1,998</u> | <u>55,059</u> |
| Noncurrent Assets | | | | |
| Equity in Joint Venture | 2 | - | - | 2 |
| Capital Assets | | | | |
| Buildings and Improvements | 12,887 | - | - | 12,887 |
| Motor Vehicles | 89,310 | - | - | 89,310 |
| Machinery and Equipment | 1,075 | 8 | 3,389 | 4,472 |
| Construction in Progress | 1,707 | - | - | 1,707 |
| Less Accumulated Depreciation | <u>(47,722)</u> | <u>(2)</u> | <u>(1,031)</u> | <u>(48,755)</u> |
| Total Capital Assets (net of accumulated depreciation) | <u>57,257</u> | <u>6</u> | <u>2,358</u> | <u>59,621</u> |
| Total Noncurrent Assets | <u>57,259</u> | <u>6</u> | <u>2,358</u> | <u>59,623</u> |
| Total Assets | <u>73,053</u> | <u>37,273</u> | <u>4,356</u> | <u>114,682</u> |
| Deferred Outflows of Resources | | | | |
| Pension-Related Amounts | <u>549</u> | <u>119</u> | <u>-</u> | <u>668</u> |
| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | | | | |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accounts Payable | 1,685 | 1,180 | 10 | 2,875 |
| Accrued Payroll and Benefits | 102 | 25 | - | 127 |
| Accrued Compensated Absences - Current | 1 | - | - | 1 |
| Accrued Compensated Absences - Due within one year | 203 | 53 | - | 256 |
| Due to Other Governments | 1 | - | - | 1 |
| Other Payables - Due within one year | - | 8,764 | - | 8,764 |
| Unearned Revenue | - | 35 | - | 35 |
| Other Liabilities | - | 6 | - | 6 |
| Total Current Liabilities | <u>1,992</u> | <u>10,063</u> | <u>10</u> | <u>12,065</u> |
| Noncurrent Liabilities | | | | |
| Accrued Compensated Absences - Due in more than one year | 180 | 58 | - | 238 |
| Net Pension Liabilities | 3,909 | 804 | - | 4,713 |
| Other Payables - Due in more than one year | - | 13,683 | - | 13,683 |
| Total Noncurrent Liabilities | <u>4,089</u> | <u>14,545</u> | <u>-</u> | <u>18,634</u> |
| Total Liabilities | <u>6,081</u> | <u>24,608</u> | <u>10</u> | <u>30,699</u> |
| Deferred Inflows of Resources | | | | |
| Pension-Related Amounts | <u>518</u> | <u>107</u> | <u>-</u> | <u>625</u> |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 57,257 | 6 | 2,358 | 59,621 |
| Unrestricted | <u>9,746</u> | <u>12,671</u> | <u>1,988</u> | <u>24,405</u> |
| Total Net Position | <u>\$ 67,003</u> | <u>\$ 12,677</u> | <u>\$ 4,346</u> | <u>\$ 84,026</u> |

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

Internal Service Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Fleet Management | Self-Insurance | Computer Replacement | Total |
|---|---------------------|------------------|-------------------------|------------------|
| Operating Revenues | | | | |
| Charges for Sales and Services | | | | |
| Billings to User Programs | \$ 20,881 | \$ 33,191 | \$ 1,027 | \$ 55,099 |
| Self-Insurance Contributions - Employee | - | 7,901 | - | 7,901 |
| Self-Insurance Contributions - Retiree | - | 231 | - | 231 |
| State Contributions | - | 122 | - | 122 |
| Other | 551 | 1,376 | 8 | 1,935 |
| Total Operating Revenues | <u>21,432</u> | <u>42,821</u> | <u>1,035</u> | <u>65,288</u> |
| Operating Expenses | | | | |
| Costs of Sales and Services | | | | |
| Fleet Management Operations | 12,935 | - | - | 12,935 |
| Self-Insurance Administration | - | 2,286 | - | 2,286 |
| Self-Insurance Claims | - | 6,672 | - | 6,672 |
| Self-Insurance Benefits | - | 28,379 | - | 28,379 |
| Insurance and Bond Premiums | - | 2,567 | - | 2,567 |
| Depreciation | 7,762 | 1 | 507 | 8,270 |
| Total Operating Expenses | <u>20,697</u> | <u>39,905</u> | <u>507</u> | <u>61,109</u> |
| Operating Income | <u>735</u> | <u>2,916</u> | <u>528</u> | <u>4,179</u> |
| Non-Operating Revenues | | | | |
| Property Tax | - | 320 | - | 320 |
| Gain (Loss) on Sale of Capital Assets | 386 | - | (16) | 370 |
| Net Non-Operating Revenues (Expenses) | <u>386</u> | <u>320</u> | <u>(16)</u> | <u>690</u> |
| Income Before Contributions and Transfers | 1,121 | 3,236 | 512 | 4,869 |
| Capital Contributions | 896 | - | - | 896 |
| Transfers In | - | 146 | - | 146 |
| Transfers Out | - | (7) | - | (7) |
| Change in Net Position | 2,017 | 3,375 | 512 | 5,904 |
| Total Net Position - Beginning | 64,986 | 9,302 | 3,834 | 78,122 |
| Total Net Position - Ending | <u>\$ 67,003</u> | <u>\$ 12,677</u> | <u>\$ 4,346</u> | <u>\$ 84,026</u> |

Combining Statement of Cash Flows

Internal Service Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Fleet Management | Self-Insurance | Computer Replacement | Total |
|---|---------------------|------------------|-------------------------|------------------|
| Cash Flows from Operating Activities | | | | |
| Cash Received from Customers | \$ 20,880 | \$ 41,480 | \$ 1,027 | \$ 63,387 |
| Cash Payments to Suppliers for Goods/Services | (8,712) | (39,327) | - | (48,039) |
| Cash Payments to Employees for Services | (4,247) | (1,365) | - | (5,612) |
| Other Cash Receipts | 551 | 1,380 | 8 | 1,939 |
| Net Cash Provided by Operating Activities | <u>8,472</u> | <u>2,168</u> | <u>1,035</u> | <u>11,675</u> |
| Cash Flows from Non-Capital Financing Activities | | | | |
| Property Tax | - | 320 | - | 320 |
| Transfers In | - | 146 | - | 146 |
| Transfers Out | - | (7) | - | (7) |
| Net Cash Provided by Non-Capital Financing Activities | <u>-</u> | <u>459</u> | <u>-</u> | <u>459</u> |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Acquisition of Capital Assets | (9,462) | - | (960) | (10,422) |
| Sale of Capital Assets | 588 | - | - | 588 |
| Net Cash Used for Capital and Related Financing Activities | <u>(8,874)</u> | <u>-</u> | <u>(960)</u> | <u>(9,834)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (402) | 2,627 | 75 | 2,300 |
| Cash and Cash Equivalents at Beginning of Year | 15,197 | 34,509 | 1,923 | 51,629 |
| Cash and Cash Equivalents at End of Year | <u>\$ 14,795</u> | <u>\$ 37,136</u> | <u>\$ 1,998</u> | <u>\$ 53,929</u> |
| Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities | | | | |
| Operating Income | \$ 735 | \$ 2,916 | \$ 528 | \$ 4,179 |
| Income Provided by (Used for) Operating Activities | | | | |
| Depreciation | 7,762 | 1 | 507 | 8,270 |
| Current Year Pension Contributions | (338) | (75) | - | (413) |
| Change in Inventories | 67 | - | - | 67 |
| Change in Intergovernmental Payable | (1) | - | - | (1) |
| Change in Accounts Payable | (41) | (242) | - | (283) |
| Change in Unearned Revenue | - | 35 | - | 35 |
| Change in Accrued Payroll | 19 | 4 | - | 23 |
| Change in Compensated Absences Payable | 53 | 13 | - | 66 |
| Change in Claims Payable | - | (487) | - | (487) |
| Change in Net Pension Liability | (250) | (96) | - | (346) |
| Change in Deferred Outflows of Resources Related to Pensions | 303 | 65 | - | 368 |
| Change in Deferred Inflows of Resources Related to Pensions | 163 | 30 | - | 193 |
| Change in Other Liabilities | - | 4 | - | 4 |
| Total Adjustments | <u>7,737</u> | <u>(748)</u> | <u>507</u> | <u>7,496</u> |
| Net Cash Provided by Operating Activities | <u>\$ 8,472</u> | <u>\$ 2,168</u> | <u>\$ 1,035</u> | <u>\$ 11,675</u> |
| Supplemental Disclosure of Non-Cash Financing Activities | | | | |
| Additions to Property, Plant, and Equipment | | | | |
| Contributions of Capital Assets from Other Funds | <u>\$ 896</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 896</u> |

FIDUCIARY FUNDS

Agency Funds administer resources received and held by the City as the agent for others. Use of these funds facilitates the discharge of responsibilities placed on the governmental unit by virtue of law or other similar authority.

Family Self-Sufficiency Agency Fund

This fund accounts for monies in escrow for Section 8 Housing Program participants.

AZ Public Service Raintree Underground Utility Improvement District Agency Fund

This fund accounts for monies received pursuant to a development agreement which required assessments to be paid by District property owners to reimburse Arizona Public Service for the undergrounding of utility lines.

Combining Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2019 (in thousands)

| | Agency Funds | | |
|---------------------------|-------------------------------------|---|-------|
| | Family Self-Sufficiency Agency Fund | AZ Public Service Raintree UUID Agency Fund | Total |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 67 | \$ - | \$ 67 |
| Total Assets | 67 | - | 67 |
| LIABILITIES | | | |
| Escrow Payable Vouchers | 67 | - | 67 |
| Total Liabilities | \$ 67 | \$ - | \$ 67 |

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | Family Self-Sufficiency | | | | AZ Public Service Raintree UUID | | | |
|---------------------------|-------------------------|--------------|--------------|--------------------------|---------------------------------|---------------|---------------|--------------------------|
| | Balance July 1, 2018 | Additions | Deductions | Balance June 30, 2019 | Balance July 1, 2018 | Additions | Deductions | Balance June 30, 2019 |
| ASSETS | | | | | | | | |
| Cash and Cash Equivalents | \$ 92 | \$ 36 | \$ 61 | \$ 67 | \$ - | \$ 178 | \$ 178 | \$ - |
| Receivables | - | - | - | - | - | 180 | 180 | - |
| Total Assets | <u>\$ 92</u> | <u>\$ 36</u> | <u>\$ 61</u> | <u>\$ 67</u> | <u>\$ -</u> | <u>\$ 358</u> | <u>\$ 358</u> | <u>\$ -</u> |
| LIABILITIES | | | | | | | | |
| Escrow Payable Vouchers | \$ 92 | \$ 36 | \$ 61 | \$ 67 | \$ - | \$ - | \$ - | \$ - |
| UUID I-6002 Assessments | - | - | - | - | - | 179 | 179 | - |
| Total Liabilities | <u>\$ 92</u> | <u>\$ 36</u> | <u>\$ 61</u> | <u>\$ 67</u> | <u>\$ -</u> | <u>\$ 179</u> | <u>\$ 179</u> | <u>\$ -</u> |

OTHER SUPPLEMENTARY INFORMATION

Debt Requirements

The Schedule of Changes in Long-Term Debt for the current fiscal year presents the City's debt by type without regard to fund classification.

Debt issued by community facilities districts is included for full disclosure although such debt is not legally an obligation of the City.

Schedule of Changes in Long-Term Debt*

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | July 1, 2018 | Issued | Retired | Refunding Bonds Issued | Bonds Defeased | Amortizations and Contract Adjustments | June 30, 2019 | Governmental Activities | Business-type Activities | Final Payment Date |
|---|--------------|--------|-----------|------------------------------|-------------------|--|---------------|----------------------------|-----------------------------|-----------------------|
| GENERAL OBLIGATION BONDS | | | | | | | | | | |
| Governmental Activities | | | | | | | | | | |
| 2002 GO Refunding Preservation | \$ 1,725 | \$ - | \$ 1,725 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | 07/01/19 |
| 2010 GO Various Purpose | 11,550 | - | 2,050 | - | - | - | 9,500 | 9,500 | - | 07/01/30 |
| 2011 GO Preservation | 3,580 | - | 855 | - | - | - | 2,725 | 2,725 | - | 07/01/22 |
| 2011 GO Refunding Preservation | 18,685 | - | 3,110 | - | - | - | 15,575 | 15,575 | - | 07/01/24 |
| 2012 GO Preservation | 48,600 | - | - | - | - | - | 48,600 | 48,600 | - | 07/01/34 |
| 2012 GO Refunding Various Purpose | 16,780 | - | 7,295 | - | - | - | 9,485 | 9,485 | - | 07/01/21 |
| 2012 GO Refunding Preservation | 44,020 | - | - | - | - | - | 44,020 | 44,020 | - | 07/01/25 |
| 2013 GO Preservation | 74,000 | - | 1,000 | - | - | - | 73,000 | 73,000 | - | 07/01/34 |
| 2014 GO Preservation | 11,870 | - | 585 | - | - | - | 11,285 | 11,285 | - | 07/01/34 |
| 2014 GO Refunding Various Purpose | 50,682 | - | 9,694 | - | - | - | 40,988 | 40,988 | - | 07/01/23 |
| 2014 GO Refunding Preservation | 6,918 | - | 1,276 | - | - | - | 5,642 | 5,642 | - | 07/01/23 |
| 2015 GO Refunding Various Purpose | 86,400 | - | 6,080 | - | - | - | 80,320 | 80,320 | - | 07/01/28 |
| 2015 GO Refunding Preservation | 56,065 | - | 6,890 | - | - | - | 49,175 | 49,175 | - | 07/01/34 |
| 2017A GO Preservation | 17,410 | - | - | - | - | - | 17,410 | 17,410 | - | 07/01/34 |
| 2017B GO Preservation Acquisition Refinancing | 18,495 | - | - | - | - | - | 18,495 | 18,495 | - | 07/01/24 |
| 2017 GO Refunding Various Purpose | 26,826 | - | - | - | - | - | 26,826 | 26,826 | - | 07/01/29 |
| 2017 GO Refunding Preservation | 13,159 | - | - | - | - | - | 13,159 | 13,159 | - | 07/01/34 |
| 2017C GO Various Purpose | 18,700 | - | 1,690 | - | - | - | 17,010 | 17,010 | - | 07/01/27 |
| 2010 GO Bonds Issuance Premium | 174 | - | - | - | - | (15) | 159 | 159 | - | - |
| 2011 GO Preserve Series Issuance Premium | 48 | - | - | - | - | (3) | 45 | 45 | - | - |
| 2011 GO Refunding Series Issuance Premium | 1,712 | - | - | - | - | (285) | 1,427 | 1,427 | - | - |
| 2012 GO Preserve Issuance Premium | 1,739 | - | - | - | - | (109) | 1,630 | 1,630 | - | - |
| 2012 GO Refunding Series Issuance Premium | 4,291 | - | - | - | - | (613) | 3,678 | 3,678 | - | - |
| 2013 GO Preserve Issuance Premium | 2,312 | - | - | - | - | (144) | 2,168 | 2,168 | - | - |
| 2014 GO Preserve Issuance Premium | 454 | - | - | - | - | (28) | 426 | 426 | - | - |
| 2014 GO Refunding Series Issuance Premium | 5,185 | - | - | - | - | (1,037) | 4,148 | 4,148 | - | - |
| 2015 GO Refunding Series Issuance Premium | 11,833 | - | - | - | - | (739) | 11,094 | 11,094 | - | - |
| 2017A GO Preserve Series Issuance Premium | 2,589 | - | - | - | - | (162) | 2,427 | 2,427 | - | - |
| 2017B GO Preserve Acquisition Refinancing Series Issuance Premium | 2,909 | - | - | - | - | (485) | 2,424 | 2,424 | - | - |
| 2017 GO Refunding Series Issuance Premium | 6,259 | - | - | - | - | (392) | 5,867 | 5,867 | - | - |
| 2017C GO Various Purpose Issuance | 3,289 | - | - | - | - | (365) | 2,924 | 2,924 | - | - |
| Total General Obligation Bonds | \$ 568,259 | \$ - | \$ 42,250 | \$ - | \$ - | \$ (4,377) | \$ 521,632 | \$ 521,632 | \$ - | - |
| REVENUE BONDS | | | | | | | | | | |
| Business-type Activities | | | | | | | | | | |
| 2008 Utility Revenue Series Refunding | \$ 19,715 | \$ - | \$ 3,540 | \$ - | \$ - | \$ - | \$ 16,175 | \$ - | \$ 16,175 | 07/01/23 |
| 2008 Refunding Series Issuance Premium | 1,354 | - | - | - | - | (271) | 1,083 | - | 1,083 | - |
| Total Revenue Bonds | \$ 21,069 | \$ - | \$ 3,540 | \$ - | \$ - | \$ (271) | \$ 17,258 | \$ - | \$ 17,258 | - |

*This exhibit includes both Governmental Activities and Business-type Activities debt (paid out of Enterprise Funds).

(continued)

Schedule of Changes in Long-Term Debt*

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | July 1, 2018 | Issued | Retired | Refunding Bonds Issued | Bonds Defeased | Amortizations and Contract Adjustments | June 30, 2019 | Governmental Activities | Business-type Activities | Final Payment Date |
|---|--------------|--------|-----------|------------------------|----------------|--|---------------|-------------------------|--------------------------|--------------------|
| MUNICIPAL PROPERTY CORPORATION BONDS | | | | | | | | | | |
| Governmental Activities | | | | | | | | | | |
| 2006 MPC Refunding | \$ 51,940 | \$ - | \$ 1,300 | \$ - | \$ - | \$ - | \$ 50,640 | \$ 50,640 | \$ - | 07/01/34 |
| 2013A MPC | 21,155 | - | 1,380 | - | - | - | 19,775 | 19,775 | - | 07/01/28 |
| 2013B MPC | 1,190 | - | 55 | - | - | - | 1,135 | 1,135 | - | 07/01/33 |
| 2013C MPC | 30,855 | - | 1,410 | - | - | - | 29,445 | 29,445 | - | 07/01/33 |
| 2014 MPC Refunding | 19,800 | - | 3,040 | - | - | - | 16,760 | 16,760 | - | 07/01/27 |
| 2015A MPC | 10,670 | - | 475 | - | - | - | 10,195 | 10,195 | - | 07/01/34 |
| 2015A MPC Taxable | 12,600 | - | 605 | - | - | - | 11,995 | 11,995 | - | 07/01/34 |
| 2015 MPC Refunding | 39,708 | - | 5,891 | - | - | - | 33,817 | 33,817 | - | 07/01/35 |
| 2006 Refunding Series Issuance Premium | 3,953 | - | - | - | - | (247) | 3,706 | 3,706 | - | |
| 2013A MPC Series Issuance Premium | 3,211 | - | - | - | - | (322) | 2,889 | 2,889 | - | |
| 2013B MPC Series Issuance Premium | 147 | - | - | - | - | (10) | 137 | 137 | - | |
| 2013C MPC Series Issuance Premium | 3,699 | - | - | - | - | (246) | 3,453 | 3,453 | - | |
| 2014 Refunding Series Issuance Premium | 1,829 | - | - | - | - | (203) | 1,626 | 1,626 | - | |
| 2015A Series Issuance Premium | 940 | - | - | - | - | (59) | 881 | 881 | - | |
| 2015A Taxable Series Issuance Premium | 221 | - | - | - | - | (14) | 207 | 207 | - | |
| 2015 Refunding Series Issuance Premium | 6,910 | - | - | - | - | (406) | 6,504 | 6,504 | - | |
| Subtotal Governmental Activities | 208,828 | - | 14,156 | - | - | (1,507) | 193,165 | 193,165 | - | |
| Business-type Activities | | | | | | | | | | |
| 2006 MPC Refunding | 87,785 | - | 8,185 | - | - | - | 79,600 | - | 79,600 | 07/01/30 |
| 2010 MPC Bonds Water/Sewer | 15,230 | - | 1,290 | - | - | - | 13,940 | - | 13,940 | 07/01/30 |
| 2015A MPC Bonds Water/Sewer | 16,165 | - | 715 | - | - | - | 15,450 | - | 15,450 | 07/01/34 |
| 2015 MPC Refunding | 46,812 | - | 3,789 | - | - | - | 43,023 | - | 43,023 | 07/01/28 |
| 2017 MPC Refunding | 79,970 | - | - | - | - | - | 79,970 | - | 79,970 | 07/01/36 |
| 2017A MPC Bonds Water | 37,985 | - | 1,300 | - | - | - | 36,685 | - | 36,685 | 07/01/37 |
| 2017B MPC Bonds Aviation | 22,875 | - | 775 | - | - | - | 22,100 | - | 22,100 | 07/01/37 |
| 2006 Refunding Series Issuance Premium | 6,762 | - | - | - | - | (563) | 6,199 | - | 6,199 | |
| 2010 Water/Sewer Issuance Premium | 545 | - | - | - | - | (45) | 500 | - | 500 | |
| 2015A Series Issuance Premium | 1,424 | - | - | - | - | (89) | 1,335 | - | 1,335 | |
| 2015 Refunding Series Issuance Premium | 6,223 | - | - | - | - | (623) | 5,600 | - | 5,600 | |
| 2017 Refunding Series Issuance Premium | 9,933 | - | - | - | - | (551) | 9,382 | - | 9,382 | |
| 2017A Series Issuance Premium | 3,109 | - | - | - | - | (163) | 2,946 | - | 2,946 | |
| 2017B Series Issuance Premium | 1,589 | - | - | - | - | (84) | 1,505 | - | 1,505 | |
| Subtotal Business-type Activities | 336,407 | - | 16,054 | - | - | (2,118) | 318,235 | - | 318,235 | |
| Total Municipal Property Corporation Bonds | \$ 545,235 | \$ - | \$ 30,210 | \$ - | \$ - | \$ (3,625) | \$ 511,400 | \$ 193,165 | \$ 318,235 | |
| SCOTTSDALE PRESERVE AUTHORITY BONDS | | | | | | | | | | |
| Governmental Activities | | | | | | | | | | |
| 2010 Excise Tax Refunding | \$ 6,950 | \$ - | \$ 3,385 | \$ - | \$ - | \$ - | \$ 3,565 | \$ 3,565 | \$ - | 07/01/20 |
| 2011 Excise Tax Refunding | 5,000 | - | 1,155 | - | - | - | 3,845 | 3,845 | - | 07/01/22 |
| 2010 Excise Tax Revenue Issuance Premium | 876 | - | - | - | - | (146) | 730 | 730 | - | |
| 2011 Excise Tax Revenue Issuance Premium | 389 | - | - | - | - | (97) | 292 | 292 | - | |
| Total Scottsdale Preserve Authority Bonds | \$ 13,215 | \$ - | \$ 4,540 | \$ - | \$ - | \$ (243) | \$ 8,432 | \$ 8,432 | \$ - | |

*This exhibit includes both Governmental Activities and Business-type Activities debt (paid out of Enterprise Funds).

(continued)

Schedule of Changes in Long-Term Debt*

For the Fiscal Year Ended June 30, 2019 (in thousands)

| | July 1, 2018 | Issued | Retired | Refunding Bonds Issued | Bonds Defeased | Amortizations and Contract Adjustments | June 30, 2019 | Governmental Activities | Business-type Activities | Final Payment Date |
|---|--------------|--------|-----------|------------------------------|-------------------|--|---------------|----------------------------|-----------------------------|-----------------------|
| CERTIFICATES OF PARTICIPATION | | | | | | | | | | |
| Governmental Activities | | | | | | | | | | |
| Series 2010-Public Safety Communications Project | \$ 4,914 | \$ - | \$ 2,421 | \$ - | \$ - | \$ - | 2,493 | \$ 2,493 | \$ - | 07/01/20 |
| Total Certificates of Participation | \$ 4,914 | \$ - | \$ 2,421 | \$ - | \$ - | \$ - | 2,493 | \$ 2,493 | \$ - | |
| COMMUNITY FACILITIES DISTRICT BONDS | | | | | | | | | | |
| Governmental Activities | | | | | | | | | | |
| Waterfront Commercial Series 2007 | \$ 2,950 | \$ - | \$ 140 | \$ - | \$ - | \$ - | 2,810 | \$ 2,810 | \$ - | 07/15/32 |
| DC Ranch Refunding Series 2012 | 9,820 | - | 950 | - | - | - | 8,870 | 8,870 | - | 07/15/27 |
| McDowell Mtn Ranch Refunding Series 2012 | 5,040 | - | 1,195 | - | - | - | 3,845 | 3,845 | - | 07/15/22 |
| Via Linda Road Refunding Series 2012 | 990 | - | 190 | - | - | - | 800 | 800 | - | 07/15/23 |
| DC Ranch 2012 Issuance Premium | 354 | - | - | - | - | (39) | 315 | 315 | - | |
| McDowell Mtn Ranch 2012 Issuance Premium | 90 | - | - | - | - | (23) | 67 | 67 | - | |
| Total Community Facilities District Bonds | \$ 19,244 | \$ - | \$ 2,475 | \$ - | \$ - | \$ (62) | \$ 16,707 | \$ 16,707 | \$ - | |
| Total Bonds | \$ 1,171,936 | \$ - | \$ 85,436 | \$ - | \$ - | \$ (8,578) | \$ 1,077,922 | \$ 742,429 | \$ 335,493 | |
| CAPITAL LEASES | | | | | | | | | | |
| Governmental Activities | | | | | | | | | | |
| Copier Equipment - City Treasurer | \$ 32 | \$ 244 | \$ 57 | \$ - | \$ - | \$ - | 219 | \$ 219 | \$ - | 12/31/22 |
| Total Capital Leases | \$ 32 | \$ 244 | \$ 57 | \$ - | \$ - | \$ - | 219 | \$ 219 | \$ - | |
| SERVICE CONCESSION ARRANGEMENTS | | | | | | | | | | |
| Governmental Activities | | | | | | | | | | |
| Bureau of Reclamation\Westworld | \$ 1,119 | \$ - | \$ 80 | \$ - | \$ - | \$ - | 1,039 | \$ 1,039 | \$ - | 2032 |
| Bureau of Reclamation\IPC | 1,256 | - | 74 | - | - | - | 1,182 | 1,182 | - | 2035 |
| Total Service Concession Arrangements | \$ 2,375 | \$ - | \$ 154 | \$ - | \$ - | \$ - | 2,221 | \$ 2,221 | \$ - | |
| TOTAL BONDS, CAPITAL LEASES, AND SERVICE CONCESSION ARRANGEMENTS | \$ 1,174,343 | \$ 244 | \$ 85,647 | \$ - | \$ - | \$ (8,578) | \$ 1,080,362 | \$ 744,869 | \$ 335,493 | |
| Compensated Absences | | | | | | | | \$ 26,322 | \$ 3,748 | |
| Total Other Postemployment Benefit Liability | | | | | | | | 2,103 | - | |
| Net Pension Liabilities | | | | | | | | 297,632 | 29,630 | |
| Risk Management Claims | | | | | | | | 22,447 | - | |
| Total Long-Term Debt | | | | | | | | \$ 1,093,373 | \$ 368,871 | |

*This exhibit includes both Governmental Activities and Business-type Activities debt (paid out of Enterprise Funds).

Statistical Section

| | Page |
|--|-------------|
| Contents | |
| Financial Trends | 176 |
| These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time. | |
| Revenue Capacity | 185 |
| These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax, and sales and use taxes. | |
| Debt Capacity | 192 |
| These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future. | |
| Demographic and Economic Information | 198 |
| These schedules offer economic and demographic indicators to help the reader understand the environment within which the City's financial activities take place. | |
| Operating Information | 200 |
| These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs. | |

City of Scottsdale, Arizona
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(in thousands)

Table I

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---------------------|---------------------|---------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|---------------------|------------------------------------|---------------------|
| Governmental Activities | | | | | | | | | | |
| Net Investment in Capital Assets | \$ 2,729,334 | \$ 2,704,433 | \$ 2,800,451 | \$ 2,756,186 | \$ 2,685,105 | \$ 2,663,269 | \$ 3,406,976 | \$ 3,530,134 | \$ 3,604,063 | \$ 3,675,567 |
| Restricted | 97,950 | 91,862 | 100,275 | 100,472 | 109,615 | 117,485 | 122,932 | 125,366 | 123,057 | 119,657 |
| Unrestricted | 87,698 | 108,799 | 74,124 | 133,897 | 180,942 | (19,464) | (3,679) | (43,632) | (27,779) | (5,012) |
| Total Governmental Activities Net Position | <u>\$ 2,914,982</u> | <u>\$ 2,905,094</u> | <u>\$ 2,974,850</u> | <u>\$ 2,990,555</u> ⁽¹⁾ | <u>\$ 2,975,662</u> ⁽²⁾ | <u>\$ 2,761,290</u> ⁽³⁾ | <u>\$ 3,526,229</u> ⁽⁵⁾ | <u>\$ 3,611,868</u> | <u>\$ 3,699,341</u> ⁽⁷⁾ | <u>\$ 3,790,212</u> |
| Business-type Activities | | | | | | | | | | |
| Net Investment in Capital Assets | \$ 941,884 | \$ 1,009,973 | \$ 1,036,985 | \$ 1,058,880 | \$ 1,046,345 | \$ 1,036,650 | \$ 1,059,001 | \$ 1,069,475 | \$ 1,099,864 | \$ 1,093,556 |
| Restricted | 32,244 | 36,287 | 38,576 | 41,545 | 47,101 | 46,901 | 47,521 | 48,911 | 48,926 | 52,204 |
| Unrestricted | 307,279 | 258,395 | 243,067 | 242,763 | 273,321 | 253,109 | 255,503 | 256,129 | 250,500 | 282,796 |
| Total Business-type Activities Net Position | <u>\$ 1,281,407</u> | <u>\$ 1,304,655</u> | <u>\$ 1,318,628</u> | <u>\$ 1,343,188</u> | <u>\$ 1,366,767</u> ⁽²⁾ | <u>\$ 1,336,660</u> ⁽⁴⁾ | <u>\$ 1,362,025</u> ⁽⁶⁾ | <u>\$ 1,374,515</u> | <u>\$ 1,399,290</u> | <u>\$ 1,428,556</u> |
| Primary Government | | | | | | | | | | |
| Net Investment in Capital Assets | \$ 3,671,218 | \$ 3,714,406 | \$ 3,837,436 | \$ 3,815,066 | \$ 3,731,450 | \$ 3,699,919 | \$ 4,465,977 | \$ 4,599,609 | \$ 4,703,927 | \$ 4,769,123 |
| Restricted | 130,194 | 128,149 | 138,851 | 142,017 | 156,716 | 164,386 | 170,453 | 174,277 | 171,983 | 171,861 |
| Unrestricted | 394,977 | 367,194 | 317,191 | 376,660 | 454,263 | 233,645 | 251,824 | 212,497 | 222,721 | 277,784 |
| Total Primary Government Net Position | <u>\$ 4,196,389</u> | <u>\$ 4,209,749</u> | <u>\$ 4,293,478</u> | <u>\$ 4,333,743</u> | <u>\$ 4,342,429</u> | <u>\$ 4,097,950</u> | <u>\$ 4,888,254</u> | <u>\$ 4,986,383</u> | <u>\$ 5,098,631</u> | <u>\$ 5,218,768</u> |

⁽¹⁾In fiscal year 2013, beginning net position was restated due to the implementation of GASB Statements No. 60 and 62.

⁽²⁾In fiscal year 2014, beginning net position was restated due to the implementation of GASB Statement No. 65.

⁽³⁾In fiscal year 2015, beginning net position was restated due to the implementation of GASB Statement No. 68 and an adjustment to capital assets.

⁽⁴⁾In fiscal year 2015, beginning net position was restated due to the implementation of GASB Statement No. 68 and an adjustment involving prior-year revenue.

⁽⁵⁾In fiscal year 2016, beginning net position was restated due to an adjustment to capital assets and the recognition of the City's involvement in a joint venture.

⁽⁶⁾In fiscal year 2016, beginning net position was restated due to the recognition of the City's involvement in a joint venture.

⁽⁷⁾In fiscal year 2018, beginning net position was restated due to the implementation of GASB Statement No. 75 and to record the City's endowment funds.

City of Scottsdale, Arizona
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(in thousands)

Table IIa

| | 2010 | 2011 ⁽¹⁾ | 2012 ⁽²⁾ | 2013 | 2014 ⁽³⁾ | 2015 | 2016 | 2017 ⁽⁴⁾ | 2018 ⁽⁵⁾ | 2019 |
|--|-------------------|---------------------|---------------------|-------------------|---------------------|-------------------|-------------------|---------------------|---------------------|-------------------|
| Expenses | | | | | | | | | | |
| Governmental Activities | | | | | | | | | | |
| General Government | \$ 24,351 | \$ 21,495 | \$ 18,964 | \$ 20,985 | \$ 21,084 | \$ 21,210 | \$ 22,252 | \$ 22,477 | \$ 23,282 | \$ 26,853 |
| Public Works | 37,143 | 35,605 | 34,416 | 36,405 | 43,597 | 40,631 | 38,291 | 40,035 | 42,205 | 47,420 |
| Community and Economic Development | - | 134,221 | 126,622 | 147,514 | 134,626 | 138,899 | 102,892 | 102,813 | 102,153 | 102,680 |
| Public Safety | 116,155 | 111,227 | 115,740 | 118,033 | 127,026 | 135,647 | 136,261 | 172,452 | 153,256 | 153,817 |
| Human Resources | 3,717 | 3,047 | - | - | - | - | - | - | - | - |
| Community Services | 53,596 | 51,974 | 54,442 | 56,382 | 55,190 | 55,134 | 53,322 | 54,155 | 54,710 | 56,730 |
| Information Technology | 14,876 | 13,491 | - | - | - | - | - | - | - | - |
| Administrative Services | 1,917 | 2,905 | 17,318 | 16,863 | 17,552 | 17,849 | 20,264 | 19,326 | 21,173 | 17,974 |
| Economic Vitality | 20,676 | - | - | - | - | - | - | - | - | - |
| Finance and Accounting | 5,848 | - | - | - | - | - | - | - | - | - |
| Planning, Neighborhood, and Transportation | 114,530 | - | - | - | - | - | - | - | - | - |
| Streetlight and Service Districts | 538 | 578 | 572 | 569 | 576 | 583 | 589 | 589 | 605 | 584 |
| Gain on In-Substance Defeasance of Debt | - | - | - | - | - | - | - | (32) | - | - |
| Interest on Long-Term Debt | 39,405 | 40,358 | 40,647 | 38,389 | 35,486 | 34,134 | 31,665 | 28,462 | 28,724 | 26,364 |
| Bond Issuance Costs | - | - | - | - | 998 | 1,643 | - | 672 | - | - |
| Total Governmental Activities Expenses | <u>432,752</u> | <u>414,901</u> | <u>408,721</u> | <u>435,140</u> | <u>436,135</u> | <u>445,730</u> | <u>405,536</u> | <u>440,949</u> | <u>426,108</u> | <u>432,422</u> |
| Business-type Activities | | | | | | | | | | |
| Water Utility | 76,178 | 83,888 | 90,829 | 90,205 | 91,496 | 95,958 | 100,854 | 95,745 | 96,493 | 96,010 |
| Sewer Utility | 33,274 | 34,533 | 41,218 | 43,169 | 45,421 | 44,352 | 42,058 | 50,535 | 52,142 | 50,462 |
| Airport | 3,120 | 3,680 | 3,681 | 3,785 | 4,014 | 3,703 | 3,894 | 4,151 | 7,624 | 5,370 |
| Solid Waste | 18,889 | 18,853 | 17,671 | 19,146 | 19,608 | 20,911 | 20,786 | 20,181 | 19,735 | 21,790 |
| Total Business-type Activities Expenses | <u>131,461</u> | <u>140,954</u> | <u>153,399</u> | <u>156,305</u> | <u>160,539</u> | <u>164,924</u> | <u>167,592</u> | <u>170,612</u> | <u>175,994</u> | <u>173,632</u> |
| Total Primary Government Expenses | <u>\$ 564,213</u> | <u>\$ 555,855</u> | <u>\$ 562,120</u> | <u>\$ 591,445</u> | <u>\$ 596,674</u> | <u>\$ 610,654</u> | <u>\$ 573,128</u> | <u>\$ 611,561</u> | <u>\$ 602,102</u> | <u>\$ 606,054</u> |

⁽¹⁾In fiscal year 2011, Economic Vitality merged with Planning, Neighborhood, and Transportation to become the Community and Economic Development division. In addition, Finance and Accounting was absorbed into General Government.

⁽²⁾In fiscal year 2012, Human Resources and Information Technology were absorbed into the Administrative Services division.

⁽³⁾In fiscal year 2014, the City adopted GASB Statement No. 65, which mandated the expensing of bond issuance costs as opposed to the previous practice of capitalizing such costs.

⁽⁴⁾In fiscal year 2017, the City adopted GASB Statement No. 86, which requires the recognition of a gain/loss when bonds are defeased in-substance using existing resources.

⁽⁵⁾In fiscal year 2018, the City instituted the practice of allocating bond issuance costs amongst the relevant functions.

City of Scottsdale, Arizona
Changes in Net Position
Last Ten Fiscal Years
 (accrual basis of accounting)
 (in thousands)

Table IIb

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Program Revenue | | | | | | | | | | |
| Governmental Activities | | | | | | | | | | |
| Charges for Services: | | | | | | | | | | |
| General Government | \$ 13,982 | \$ 4,777 | \$ 3,965 | \$ 4,340 | \$ 4,282 | \$ 4,279 | \$ 3,970 | \$ 3,999 | \$ 4,676 | \$ 4,693 |
| Public Works | - | 4,666 | 3,543 | 1,498 | 1,580 | 1,861 | 6,149 | 2,041 | 1,569 | 1,567 |
| Community and Economic Development | - | 9,604 | 10,958 | 14,736 | 17,981 | 19,474 | 17,464 | 18,455 | 19,503 | 20,562 |
| Public Safety | 12,655 | 9,917 | 10,102 | 9,139 | 10,268 | 10,350 | 11,459 | 11,739 | 11,203 | 11,107 |
| Human Resources | - | 973 | - | - | - | - | - | - | - | - |
| Community Services | 5,773 | 4,617 | 5,573 | 5,523 | 5,914 | 6,334 | 6,269 | 6,268 | 6,820 | 7,078 |
| Information Technology | - | 2,485 | - | - | - | - | - | - | - | - |
| Administrative Services | - | 635 | 2,549 | 3,155 | 2,890 | 2,827 | 2,926 | 3,096 | 3,094 | 2,617 |
| Planning, Neighborhood, and Transportation | 6,837 | - | - | - | - | - | - | - | - | - |
| Economic Vitality | 2,552 | - | - | - | - | - | - | - | - | - |
| Streetlight and Services Districts | 289 | 478 | 551 | 551 | 400 | 531 | 577 | 602 | 584 | 591 |
| Operating Grants and Contributions | 29,319 | 32,205 | 28,144 | 31,255 | 27,710 | 28,397 | 29,708 | 29,724 | 30,760 | 34,233 |
| Capital Grants and Contributions | 190,279 | 41,072 | 112,163 | 66,917 | 38,817 | 14,831 | 82,162 | 107,334 | 60,819 | 35,620 |
| Total Governmental Activities Program Revenues | <u>261,686</u> | <u>111,429</u> | <u>177,548</u> | <u>137,114</u> | <u>109,842</u> | <u>88,884</u> | <u>160,684</u> | <u>183,258</u> | <u>139,028</u> | <u>118,068</u> |
| Business-type Activities | | | | | | | | | | |
| Charges for Services: | | | | | | | | | | |
| Water Utility | 94,199 | 94,056 | 97,944 | 100,615 | 104,722 | 98,495 | 110,560 | 107,031 | 117,537 | 109,947 |
| Sewer Utility | 35,027 | 34,533 | 36,032 | 36,939 | 39,917 | 39,541 | 39,741 | 40,434 | 40,666 | 45,419 |
| Airport | 2,879 | 2,816 | 3,248 | 3,552 | 3,635 | 4,020 | 4,404 | 4,390 | 4,335 | 5,493 |
| Solid Waste | 20,269 | 20,940 | 20,744 | 20,458 | 20,162 | 20,232 | 20,120 | 20,269 | 19,687 | 21,344 |
| Capital Grants and Contributions | 9,268 | 17,889 | 8,607 | 25,638 | 22,019 | 11,726 | 22,545 | 17,539 | 23,865 | 17,833 |
| Total Business-type Activities Revenues | <u>161,642</u> | <u>170,234</u> | <u>166,575</u> | <u>187,202</u> | <u>190,455</u> | <u>174,014</u> | <u>197,370</u> | <u>189,663</u> | <u>206,090</u> | <u>200,036</u> |
| Total Primary Government Revenues | <u>\$ 423,328</u> | <u>\$ 281,663</u> | <u>\$ 344,123</u> | <u>\$ 324,316</u> | <u>\$ 300,297</u> | <u>\$ 262,898</u> | <u>\$ 358,054</u> | <u>\$ 372,921</u> | <u>\$ 345,118</u> | <u>\$ 318,104</u> |
| Net (Expense)/Revenue | | | | | | | | | | |
| Governmental Activities | \$ (171,066) | \$ (303,472) | \$ (231,173) | \$ (298,026) | \$ (326,293) | \$ (356,846) | \$ (244,852) | \$ (257,691) | \$ (287,080) | \$ (314,354) |
| Business-type Activities | 30,181 | 29,280 | 13,176 | 30,897 | 29,916 | 9,090 | 29,778 | 19,051 | 30,096 | 26,404 |
| Total Primary Government Net Expense | <u>\$ (140,885)</u> | <u>\$ (274,192)</u> | <u>\$ (217,997)</u> | <u>\$ (267,129)</u> | <u>\$ (296,377)</u> | <u>\$ (347,756)</u> | <u>\$ (215,074)</u> | <u>\$ (238,640)</u> | <u>\$ (256,984)</u> | <u>\$ (287,950)</u> |

City of Scottsdale, Arizona
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)
(in thousands)

Table IIc

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|-------------------|-------------------|
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| Governmental Activities | | | | | | | | | | |
| Taxes | \$ 208,083 | \$ 222,118 | \$ 227,963 | \$ 234,582 | \$ 248,642 | \$ 257,860 | \$ 265,416 | \$ 262,144 | \$ 287,456 | \$ 306,274 |
| Intergovernmental - Unrestricted | 56,830 | 49,190 | 44,035 | 49,054 | 52,715 | 56,316 | 57,630 | 61,851 | 66,299 | 70,380 |
| Interest and Investment Income | 1,368 | 248 | 1,063 | 985 | 1,274 | 1,372 | 2,955 | 1,132 | 2,218 | 11,860 |
| Miscellaneous and Special Items | 6,730 | 11,849 | 20,502 | 12,557 | 8,422 | 13,829 | 9,987 | 10,568 | 10,548 | 9,130 |
| Transfers | 10,690 | 10,179 | 7,366 | 7,244 | 6,202 | 6,579 | 7,174 | 7,635 | 7,756 | 7,581 |
| Total Governmental Activities | <u>283,701</u> | <u>293,584</u> | <u>300,929</u> | <u>304,422</u> | <u>317,255</u> | <u>335,956</u> | <u>343,162</u> | <u>343,330</u> | <u>374,277</u> | <u>405,225</u> |
| Business-type Activities | | | | | | | | | | |
| Taxes | 130 | 134 | 132 | 144 | 154 | 169 | 145 | 158 | 144 | 167 |
| Interest and Investment Income | 4,295 | 2,658 | 421 | 763 | 964 | 1,346 | 2,531 | 916 | 2,291 | 10,276 |
| Miscellaneous | 430 | 1,355 | 7,610 | - | - | - | - | - | - | - |
| Transfers | (10,690) | (10,179) | (7,366) | (7,244) | (6,202) | (6,579) | (7,174) | (7,635) | (7,756) | (7,581) |
| Total Business-type Activities | <u>(5,835)</u> | <u>(6,032)</u> | <u>797</u> | <u>(6,337)</u> | <u>(5,084)</u> | <u>(5,064)</u> | <u>(4,498)</u> | <u>(6,561)</u> | <u>(5,321)</u> | <u>2,862</u> |
| Total Primary Government | <u>\$ 277,866</u> | <u>\$ 287,552</u> | <u>\$ 301,726</u> | <u>\$ 298,085</u> | <u>\$ 312,171</u> | <u>\$ 330,892</u> | <u>\$ 338,664</u> | <u>\$ 336,769</u> | <u>\$ 368,956</u> | <u>\$ 408,087</u> |
| Change in Net Position | | | | | | | | | | |
| Governmental Activities | \$ 112,635 | \$ (9,888) | \$ 69,756 | \$ 6,396 | \$ (9,038) | \$ (20,890) | \$ 98,310 | \$ 85,639 | \$ 87,197 | \$ 90,871 |
| Business-type Activities | 24,346 | 23,248 | 13,973 | 24,560 | 24,832 | 4,026 | 25,280 | 12,490 | 24,775 | 29,266 |
| Total Primary Government | <u>\$ 136,981</u> | <u>\$ 13,360</u> | <u>\$ 83,729</u> | <u>\$ 30,956</u> | <u>\$ 15,794</u> | <u>\$ (16,864)</u> | <u>\$ 123,590</u> | <u>\$ 98,129</u> | <u>\$ 111,972</u> | <u>\$ 120,137</u> |

City of Scottsdale, Arizona
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table III

| | 2010 | 2011 ⁽¹⁾ | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 ⁽²⁾ | 2019 |
|------------------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|-------------------|
| General Fund | | | | | | | | | | |
| Nonspendable | | \$ 247 | \$ 264 | \$ 265 | \$ 266 | \$ 227 | \$ 249 | \$ 269 | \$ 264 | \$ 271 |
| Restricted | | 281 | 260 | - | - | - | - | - | - | - |
| Committed | | - | - | - | - | - | - | - | - | - |
| Assigned | | - | - | - | - | - | - | - | - | - |
| Unassigned | | 53,199 | 52,105 | 48,679 | 52,354 | 56,017 | 65,347 | 58,518 | 72,809 | 97,097 |
| Reserved | \$ 586 | | | | | | | | | |
| Unreserved | 51,518 | | | | | | | | | |
| Total General Fund | <u>\$ 52,104</u> | <u>\$ 53,727</u> | <u>\$ 52,629</u> | <u>\$ 48,944</u> | <u>\$ 52,620</u> | <u>\$ 56,244</u> | <u>\$ 65,596</u> | <u>\$ 58,787</u> | <u>\$ 73,073</u> | <u>\$ 97,368</u> |
| All Other Governmental Funds | | | | | | | | | | |
| Nonspendable | | \$ 3,000 | \$ 2,980 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 619 | \$ 604 |
| Restricted | | 104,284 | 108,073 | 114,676 | 105,837 | 113,237 | 116,847 | 105,777 | 115,391 | 112,267 |
| Committed | | 6,221 | 7,345 | 16,298 | 20,848 | 49,554 | 52,508 | 58,644 | 62,867 | 65,100 |
| Assigned | | 36,609 | 37,183 | 39,666 | 7,362 | - | - | - | - | - |
| Unassigned, Reported in: | | | | | | | | | | |
| Special Revenue Funds | | (640) | (447) | (1,394) | (1,194) | (1,083) | (1,010) | (2,175) | (681) | (708) |
| Debt Service Funds | | - | - | - | - | - | - | - | - | (589) |
| Capital Project Funds | | - | - | - | - | (4,770) | (4,720) | (11,205) | (6,957) | (13,154) |
| Reserved | \$ 20,193 | | | | | | | | | |
| Unreserved, Reported in: | | | | | | | | | | |
| Special Revenue Funds | | 30,963 | | | | | | | | |
| Capital Project Funds | | 102,490 | | | | | | | | |
| Total All Other Governmental Funds | <u>\$ 153,646</u> | <u>\$ 149,474</u> | <u>\$ 155,134</u> | <u>\$ 169,246</u> | <u>\$ 132,853</u> | <u>\$ 156,938</u> | <u>\$ 163,625</u> | <u>\$ 151,041</u> | <u>\$ 171,239</u> | <u>\$ 163,520</u> |

⁽¹⁾In fiscal year 2011, fund balances were stated in classifications required by GASB Statement No. 54.

⁽²⁾In fiscal year 2018, beginning fund balance was restated due to the recognition of the City's endowment funds.

City of Scottsdale, Arizona
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table IVa

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 ⁽¹⁾ | 2017 | 2018 | 2019 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
| Revenues | | | | | | | | | | |
| Taxes - Local | \$ 204,040 | \$ 221,236 | \$ 228,823 | \$ 236,652 | \$ 249,289 | \$ 258,851 | \$ 264,414 | \$ 264,299 | \$ 288,335 | \$ 310,433 |
| Taxes - Intergovernmental | 69,336 | 61,754 | 53,834 | 59,813 | 63,816 | 68,603 | 70,526 | 75,978 | 81,197 | 83,962 |
| Business and Liquor Licenses | 1,787 | 1,745 | 1,805 | 1,763 | 1,782 | 1,925 | 1,894 | 1,861 | 1,768 | 1,918 |
| Charges for Current Services | 15,322 | 15,119 | 16,985 | 20,870 | 24,078 | 25,855 | 24,404 | 25,225 | 27,063 | 29,774 |
| Fines, Fees, and Forfeitures | 11,637 | 8,579 | 9,133 | 8,472 | 8,343 | 10,000 | 10,617 | 10,532 | 10,387 | 8,960 |
| Special Assessments | 765 | 733 | 719 | 591 | - | - | - | - | - | - |
| Property Rental | 3,353 | 4,204 | 4,630 | 4,232 | 4,270 | 5,282 | 4,922 | 5,854 | 5,859 | 6,089 |
| Interest Earnings | 5,014 | 2,705 | 2,837 | 2,624 | 2,974 | 1,934 | 2,373 | 2,634 | 4,224 | 6,956 |
| Net Increase (Decrease) in the Fair Value of Investments | (4,696) | (3,397) | (1,403) | (1,639) | (1,700) | (562) | 582 | (1,502) | (2,006) | 4,904 |
| Intergovernmental | 17,756 | 52,300 | 67,725 | 53,462 | 40,116 | 19,846 | 16,070 | 20,725 | 27,335 | 25,479 |
| Developer Contributions | 2,518 | 254 | 101 | 203 | 64 | 653 | 319 | 498 | 835 | 412 |
| Streetlight and Services Districts | 289 | 478 | 551 | 551 | 400 | 531 | 577 | 602 | 584 | 591 |
| Contributions and Donations | 1,275 | 1,157 | 2,521 | 2,813 | 2,178 | 3,558 | 2,268 | 2,589 | 2,333 | 2,575 |
| Reimbursements from Outside Sources | 2,852 | 4,673 | 12,642 | 5,934 | 2,446 | 3,445 | 1,942 | 2,266 | 1,840 | 2,415 |
| Indirect Costs | 14,159 | 14,800 | 9,096 | 7,595 | 7,102 | 6,987 | 6,501 | 6,993 | 7,455 | 6,899 |
| Other | 644 | 1,892 | 3,265 | 2,438 | 1,652 | 5,134 | 954 | 1,110 | 869 | 751 |
| Total Revenues | \$ 346,051 | \$ 388,232 | \$ 413,264 | \$ 406,374 | \$ 406,810 | \$ 412,042 | \$ 408,363 | \$ 419,664 | \$ 458,078 | \$ 492,118 |

⁽¹⁾In fiscal year 2016, moved sales of assets from "Other" within the "Revenues" section to "Proceeds from Sale of Assets" within the "Other Financing Sources (Uses)" section.

City of Scottsdale, Arizona
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table IVb

| | 2010 | 2011 ⁽¹⁾ | 2012 ⁽²⁾ | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-------------------|---------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Expenditures | | | | | | | | | | |
| General Government | \$ 17,030 | \$ 19,783 | \$ 18,523 | \$ 19,695 | \$ 19,730 | \$ 20,815 | \$ 22,623 | \$ 22,397 | \$ 23,716 | \$ 28,306 |
| Public Works | 31,391 | 31,463 | 27,307 | 29,658 | 33,381 | 34,518 | 32,850 | 33,636 | 35,013 | 35,154 |
| Community and Economic Development | - | 42,357 | 38,369 | 70,351 | 41,063 | 44,550 | 42,735 | 46,320 | 47,696 | 48,860 |
| Public Safety | 111,459 | 108,003 | 107,934 | 111,960 | 119,159 | 123,761 | 128,527 | 137,304 | 136,075 | 146,250 |
| Human Resources | 3,657 | 3,013 | - | - | - | - | - | - | - | - |
| Community Services | 45,655 | 43,967 | 44,762 | 45,346 | 45,035 | 44,998 | 45,508 | 46,224 | 47,056 | 48,786 |
| Information Technology | 9,469 | 9,357 | - | - | - | - | - | - | - | - |
| Administrative Services | 1,859 | 3,031 | 14,450 | 14,141 | 14,950 | 15,050 | 15,648 | 15,919 | 16,309 | 15,279 |
| Finance and Accounting | 6,059 | - | - | - | - | - | - | - | - | - |
| Economic Vitality | 17,110 | - | - | - | - | - | - | - | - | - |
| Planning, Neighborhood, and Transportation | 27,447 | - | - | - | - | - | - | - | - | - |
| Streetlight and Services Districts | 538 | 578 | 572 | 569 | 576 | 583 | 589 | 589 | 605 | 584 |
| Debt Service | | | | | | | | | | |
| Principal | 33,701 | 37,677 | 44,700 | 63,234 | 59,387 | 105,930 | 53,313 | 57,956 | 68,017 | 66,053 |
| Interest and Fiscal Charges | 38,782 | 40,091 | 40,487 | 38,789 | 37,323 | 36,706 | 34,664 | 31,285 | 32,052 | 29,752 |
| Bond Issuance Costs | 497 | 1,057 | 774 | 1,915 | 998 | 1,643 | - | 672 | 241 | - |
| Capital Outlay | 77,929 | 107,448 | 129,025 | 181,189 | 99,722 | 52,164 | 26,674 | 75,099 | 54,311 | 64,395 |
| Total Expenditures | \$ 422,583 | \$ 447,825 | \$ 466,903 | \$ 576,847 | \$ 471,324 | \$ 480,718 | \$ 403,131 | \$ 467,401 | \$ 461,091 | \$ 483,419 |
| Excess (Deficiency) of Revenues over (under) Expenditures | \$ (76,532) | \$ (59,593) | \$ (53,639) | \$ (170,473) | \$ (64,514) | \$ (68,676) | \$ 5,232 | \$ (47,737) | \$ (3,013) | \$ 8,699 |

⁽¹⁾In fiscal year 2011, Economic Vitality merged with Planning, Neighborhood, and Transportation to become the Community and Economic Development division. In addition, Finance and Accounting was absorbed into General Government.

⁽²⁾In fiscal year 2012, Human Resources and Information Technology were absorbed into the Administrative Services division.

City of Scottsdale, Arizona
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table IVc

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 ⁽¹⁾ | 2017 | 2018 | 2019 |
|--|--------------------|-------------------|-----------------|------------------|--------------------|------------------|---------------------|--------------------|------------------|------------------|
| Other Financing Sources (Uses) | | | | | | | | | | |
| Transfers In | \$ 108,066 | \$ 79,592 | \$ 81,579 | \$ 78,171 | \$ 89,669 | \$ 89,806 | \$ 85,080 | \$ 101,427 | \$ 103,926 | \$ 108,177 |
| Transfers Out | (98,693) | (69,378) | (75,826) | (70,919) | (82,696) | (83,211) | (79,079) | (94,074) | (96,272) | (100,735) |
| Capital Lease Acquisitions | - | - | - | - | 296 | - | - | - | - | 244 |
| Proceeds of Refunding Bonds | - | 87,985 | - | 111,250 | 105,885 | 207,173 | - | 58,480 | - | - |
| Issuance of Long-Term Capital-Related Debt | 50,800 | 42,525 | 50,000 | 140,000 | 14,000 | 26,815 | - | 17,410 | 25,500 | - |
| Premium on Long-Term Debt Issued | 843 | 10,047 | 2,448 | 22,082 | 12,742 | 23,871 | - | 12,955 | 3,496 | - |
| Payment to Refunded Bonds Escrow Agent | - | (94,818) | - | (99,684) | (108,099) | (168,069) | - | (68,105) | - | - |
| Sale of Capital Assets | - | 1,091 | - | - | - | - | 4,806 | 251 | 214 | 191 |
| Total Other Financing Sources (Uses) | 61,016 | 57,044 | 58,201 | 180,900 | 31,797 | 96,385 | 10,807 | 28,344 | 36,864 | 7,877 |
| Net Change in Fund Balances | \$ (15,516) | \$ (2,549) | \$ 4,562 | \$ 10,427 | \$ (32,717) | \$ 27,709 | \$ 16,039 | \$ (19,393) | \$ 33,851 | \$ 16,576 |
| Debt Service as a Percentage of Non-capital Expenditures | 21.0% | 22.8% | 25.2% | 25.8% | 26.0% | 33.3% | 23.4% | 22.7% | 24.3% | 22.5% |

⁽¹⁾In fiscal year 2016, moved "Sale of Capital Assets" from "Other" within the "Revenues" section to "Sale of Capital Assets" within the "Other Financing Sources (Uses)" section.

City of Scottsdale, Arizona
Tax Revenues By Source
Last Ten Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table V

| Fiscal Year | Sales and Use Taxes | | | | | |
|-------------|---------------------|--------------------------------|---|---------------------------------------|--------------------------------------|------------------------|
| | Property | Privilege and Use - General | Privilege and Use - McDowell Mtn Preserve | Privilege and Use - Transportation | Privilege and Use - Public Safety | Transient Occupancy |
| 2010 | \$ 58,354 | \$ 77,878 | \$ 26,416 | \$ 14,608 | \$ 7,541 | \$ 7,113 |
| 2011 | 65,970 | 80,119 | 27,199 | 15,042 | 7,765 | 13,126 ⁽¹⁾ |
| 2012 | 65,089 | 84,633 | 28,809 | 15,985 | 8,231 | 13,430 |
| 2013 | 64,908 | 89,002 | 30,376 | 16,852 | 8,679 | 13,852 |
| 2014 | 64,914 | 95,604 | 32,655 | 18,116 | 9,330 | 15,303 |
| 2015 | 64,272 | 100,560 | 34,429 | 19,097 | 9,837 | 17,047 |
| 2016 | 61,956 | 104,995 | 36,029 | 19,938 | 10,294 | 17,397 |
| 2017 | 63,320 | 103,081 | 35,489 | 19,615 | 10,140 | 18,951 |
| 2018 | 63,577 | 116,679 | 40,089 | 22,044 | 11,454 | 19,837 |
| 2019 | 68,738 | 122,152 | 41,909 | 27,788 ⁽²⁾ | 11,974 | 22,407 |

| Fiscal Year | Franchise Taxes | | Intergovernmental | | |
|-------------|-----------------------|------------------------------|--------------------|--------------------------|--------|
| | Cable TV Franchise | Light and Power Franchise | State Shared Sales | State Revenue Sharing | Other |
| 2010 | \$ 3,317 | \$ 7,834 | \$ 17,227 | \$ 30,309 | \$ 979 |
| 2011 | 3,163 | 7,842 | 17,844 | 22,849 | 1,010 |
| 2012 | 3,445 | 8,115 | 16,987 | 18,347 | 1,086 |
| 2013 | 3,461 | 8,424 | 17,793 | 22,205 | 838 |
| 2014 | 3,722 | 8,477 | 18,922 | 24,230 | 900 |
| 2015 | 3,748 | 8,691 | 19,867 | 26,316 | 906 |
| 2016 | 3,816 | 8,826 | 20,647 | 26,173 | 913 |
| 2017 | 3,896 | 8,655 | 21,755 | 28,976 | 921 |
| 2018 | 4,391 | 9,106 | 23,719 | 30,549 | 931 |
| 2019 | 3,293 | 8,832 | 25,187 | 30,269 | 3,102 |

⁽¹⁾The Transient Occupancy tax rate increased from 3% to 5%, effective July 1, 2010.

⁽²⁾The Privilege and Use-Transportation tax rate increased from 0.2% to 0.3%, effective February 1, 2019.

City of Scottsdale, Arizona
Taxable Sales Subject to Privilege (Sales) Tax by Category
Last Ten Fiscal Years
(dollars in thousands)

Table VI

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017⁽¹⁾</u> | <u>2018</u> | <u>2019⁽²⁾</u> |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------------|----------------------|---------------------------|
| Automotive | \$ 818,517 | \$ 862,091 | \$ 950,450 | \$ 1,074,591 | \$ 1,209,388 | \$ 1,335,511 | \$ 1,403,834 | \$ 1,489,632 | \$ 1,558,428 | \$ 1,792,335 |
| Construction | 754,583 | 718,652 | 786,402 | 861,934 | 1,073,279 | 1,057,986 | 969,281 | 901,684 | 962,050 | 997,164 |
| Food Stores | 611,083 | 611,825 | 626,883 | 639,362 | 655,787 | 690,837 | 713,187 | 677,978 | 763,117 | 796,551 |
| Hotel/Motel | 395,229 | 401,413 | 420,494 | 440,522 | 488,117 | 525,421 | 543,121 | 641,146 | 682,078 | 730,329 |
| Major Department Stores | 865,614 | 882,376 | 897,617 | 907,857 | 917,406 | 937,370 | 927,469 | 888,674 | 966,996 | 970,656 |
| Miscellaneous Retail Stores | 1,107,272 | 1,194,790 | 1,299,083 | 1,321,572 | 1,450,611 | 1,612,954 | 1,708,411 | 1,785,097 | 2,010,364 | 2,200,161 |
| Other Taxable Activity | 449,455 | 502,739 | 525,480 | 626,171 | 666,504 | 695,566 | 728,596 | 756,718 | 926,445 | 1,059,397 |
| Rentals | 1,144,939 | 1,113,821 | 1,134,785 | 1,189,304 | 1,210,218 | 1,315,545 | 1,417,607 | 1,380,366 | 1,644,191 | 1,719,075 |
| Restaurants | 670,311 | 713,420 | 799,231 | 794,034 | 844,186 | 925,948 | 961,340 | 957,757 | 1,065,825 | 1,144,395 |
| Utilities | 436,010 | 429,035 | 430,169 | 432,356 | 435,579 | 435,879 | 497,773 | 451,318 | 467,609 | 455,118 |
| Total | \$ 7,253,013 | \$ 7,430,162 | \$ 7,870,594 | \$ 8,287,703 | \$ 8,951,075 | \$ 9,533,017 | \$ 9,870,619 | \$ 9,930,370 | \$ 11,047,103 | \$ 11,865,181 |
| City Sales Tax | 1.65% | 1.65% | 1.65% | 1.65% | 1.65% | 1.65% | 1.65% | 1.65% | 1.65% | 1.75% |

⁽¹⁾ Effective January 1, 2017, the Arizona Department of Revenue took over all collection and administration of privilege, use, jet fuel, and bed taxes.

⁽²⁾ Effective February 1, 2019, the transaction privilege tax rate increased to 1.75% and the use tax rate increased to 1.55%.

City of Scottsdale, Arizona
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

Table VII

| Privilege (Sales) Tax Rates | | | | Use Tax Rates | | | |
|-----------------------------|----------------------|-------------|----------------------|---------------|----------------------|-------------|----------------------|
| Fiscal Year | City Direct Rate | County Rate | State Rate | Fiscal Year | City Direct Rate | County Rate | State Rate |
| 2010 | 1.65% | 0.70% | 6.60% ⁽¹⁾ | 2010 | 1.45% | 0.00% | 6.60% ⁽¹⁾ |
| 2011 | 1.65% | 0.70% | 6.60% | 2011 | 1.45% | 0.00% | 6.60% |
| 2012 | 1.65% | 0.70% | 6.60% | 2012 | 1.45% | 0.00% | 6.60% |
| 2013 | 1.65% | 0.70% | 5.60% ⁽³⁾ | 2013 | 1.45% | 0.00% | 5.60% ⁽³⁾ |
| 2014 | 1.65% | 0.70% | 5.60% | 2014 | 1.45% | 0.00% | 5.60% |
| 2015 | 1.65% | 0.70% | 5.60% | 2015 | 1.45% | 0.00% | 5.60% |
| 2016 | 1.65% | 0.70% | 5.60% | 2016 | 1.45% | 0.00% | 5.60% |
| 2017 | 1.65% | 0.70% | 5.60% | 2017 | 1.45% | 0.00% | 5.60% |
| 2018 | 1.65% | 0.70% | 5.60% | 2018 | 1.45% | 0.00% | 5.60% |
| 2019 | 1.75% ⁽⁵⁾ | 0.70% | 5.60% | 2019 | 1.55% ⁽⁵⁾ | 0.00% | 5.60% |

| Transient Occupancy Tax Rates | | | | Jet Fuel Tax Rates (cents per gallon) | | | |
|-------------------------------|----------------------|-------------|----------------------|---------------------------------------|------------------|-------------|------------|
| Fiscal Year | City Direct Rate | County Rate | State Rate | Fiscal Year | City Direct Rate | County Rate | State Rate |
| 2010 | 3.00% ⁽²⁾ | 1.77% | 6.50% ⁽¹⁾ | 2010 | 0.0180 | 0.0031 | 0.0305 |
| 2011 | 5.00% | 1.77% | 6.50% | 2011 | 0.0180 | 0.0031 | 0.0305 |
| 2012 | 5.00% | 1.77% | 6.50% | 2012 | 0.0180 | 0.0031 | 0.0305 |
| 2013 | 5.00% | 1.77% | 5.50% ⁽³⁾ | 2013 | 0.0180 | 0.0031 | 0.0305 |
| 2014 | 5.00% | 1.77% | 5.50% | 2014 | 0.0180 | 0.0031 | 0.0305 |
| 2015 | 5.00% | 1.77% | 5.50% | 2015 | 0.0180 | 0.0031 | 0.0305 |
| 2016 | 5.00% | 1.77% | 5.50% | 2016 | 0.0180 | 0.0031 | 0.0305 |
| 2017 | 5.00% | 1.77% | 5.50% | 2017 | 0.0180 | 0.0031 | 0.0305 |
| 2018 | 5.00% | 1.77% | 5.50% | 2018 ⁽⁴⁾ | 0.0180 | 0.0031 | 0.0305 |
| 2019 | 5.00% | 1.77% | 5.50% | 2019 | 0.0180 | 0.0031 | 0.0305 |

Source: City Tax Audit Section

Note: The following gives a general description of each tax. Complete details for each tax can be found in Appendix C of the Scottsdale Revised City Code.

Privilege (Sales) Tax applies to the sale, lease, license for use, and/or rental transactions.

Use Tax applies to the storage or use of items within the City on which no privilege tax has been paid.

Transient Occupancy Tax applies to transactions involving transient lodging.

Jet Fuel Tax applies to transactions involving the sale of jet fuel.

⁽¹⁾The state tax rate increased, with the exception of jet fuel, on June 1, 2010, due to approval from the voters in the May 2010 election.

⁽²⁾The transient occupancy tax rate increased from 3% to 5%, effective July 1, 2010.

⁽³⁾The state tax rate decreased, with the exception of jet fuel, on June 1, 2013, due to approval from the voters in the May 2010 election.

⁽⁴⁾ Effective August 9, 2017, the City can only tax the first 10 million gallons by each purchaser in a calendar year.

⁽⁵⁾ Effective February 1, 2019, the City transaction privilege tax rate increased to 1.75% and the use tax rate increased to 1.55%.

City of Scottsdale, Arizona
Sales Tax Revenue Payers by Industry
Current Year and Nine Years Ago
(dollars in thousands)

Table VIII

| | Fiscal Year 2019 | | | | Fiscal Year 2010 | | | |
|-----------------------------|------------------|---------------------|-------------------|---------------------|------------------|---------------------|-------------------|---------------------|
| | Number of Filers | Percentage of Total | Tax Revenue | Percentage of Total | Number of Filers | Percentage of Total | Tax Revenue | Percentage of Total |
| Automotive | 645 | 2.16% | \$ 30,319 | 14.86% | 497 | 2.28% | \$ 13,868 | 11.04% |
| Construction | 3,683 | 12.32% | 17,071 | 8.37% | 7,653 | 35.19% | 13,168 | 10.48% |
| Food Stores | 222 | 0.74% | 13,465 | 6.60% | 170 | 0.78% | 10,101 | 8.04% |
| Hotel/Motel | 256 | 0.86% | 12,321 | 6.04% | 65 | 0.30% | 6,622 | 5.27% |
| Major Department Stores | 61 | 0.20% | 16,255 | 7.97% | 30 | 0.14% | 14,802 | 11.79% |
| Miscellaneous Retail Stores | 7,151 | 23.91% | 37,497 | 18.38% | 4,740 | 21.80% | 19,892 | 15.84% |
| Other Taxable Activity | 7,645 | 25.56% | 20,890 | 10.24% | 3,717 | 17.09% | 8,948 | 7.12% |
| Rentals | 8,719 | 29.16% | 29,099 | 14.27% | 3,765 | 17.31% | 19,565 | 15.58% |
| Restaurants | 1,099 | 3.68% | 19,450 | 9.53% | 843 | 3.88% | 11,272 | 8.98% |
| Utilities | 423 | 1.41% | 7,622 | 3.74% | 267 | 1.23% | 7,365 | 5.86% |
| Total | 29,904 | 100.00% | \$ 203,989 | 100.00% | 21,747 | 100.00% | \$ 125,603 | 100.00% |

Note: Due to confidentiality issues, the names of the ten largest revenue payers cannot be disclosed. The categories are intended to provide alternative information regarding the sources of the City's revenue. Transient Occupancy taxes are not included in the Tax Revenue for this table. The "Other Taxable Activity" category includes all license fees, penalties, and interest. Beginning January 1, 2017, the Arizona Department of Revenue took over all collection and administration of privilege, use, and jet fuel taxes. Due to the changes in the source of the data and the tax law, the number and classification of filers for the two years above may have differences. Effective February 1, 2019, the transaction privilege tax rate increased to 1.75% and the use tax rate increased to 1.55%.

City of Scottsdale, Arizona
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

Table IX

| Fiscal Year | City Direct Rate | | | Overlapping Rates | | | |
|-------------|------------------|--------------|------------|------------------------------------|--------------|-----------|--------------|
| | Operating | Debt Service | Total City | Scottsdale Unified School District | | | |
| | | | | Operating | Debt Service | EVIT | Total School |
| 2010 | \$ 0.3650 | \$ 0.3782 | \$ 0.7432 | \$ 2.4447 | \$ 1.3382 | \$ 0.0500 | \$ 3.8329 |
| 2011 | 0.3836 | 0.5140 | 0.8976 | 2.4017 | 1.3529 | 0.0500 | 3.8046 |
| 2012 | 0.4412 | 0.6503 | 1.0915 | 2.7498 | 1.2503 | 0.0500 | 4.0501 |
| 2013 | 0.5027 | 0.7225 | 1.2252 | 3.0875 | 1.3390 | 0.0500 | 4.4765 |
| 2014 | 0.5342 | 0.7604 | 1.2946 | 3.3548 | 1.2239 | 0.0500 | 4.6287 |
| 2015 | 0.5580 | 0.6869 | 1.2449 | 3.1091 | 1.0045 | 0.0500 | 4.1636 |
| 2016 | 0.5293 | 0.6244 | 1.1537 | 2.8332 | 1.0263 | 0.0500 | 3.9095 |
| 2017 | 0.5071 | 0.6219 | 1.1290 | 2.8566 | 1.0033 | 0.0500 | 3.9099 |
| 2018 | 0.4956 | 0.5889 | 1.0845 | 2.7463 | 0.9864 | 0.0500 | 3.7827 |
| 2019 | 0.5316 | 0.5705 | 1.1021 | 2.5675 | 1.1364 | 0.0500 | 3.7539 |

| Fiscal Year | County-Wide Jurisdictions | | | | | | | | | |
|-------------|---------------------------|-------------------|--------------|-------------------------------|--------------------------|--------------------|---------------------|----------------------------|--------------|------------------------------|
| | County Operating | Community College | County Flood | County Education Equalization | Fire District Assistance | Central AZ Project | County Free Library | County Special Health Care | Total County | Total Direct and Overlapping |
| 2010 | \$ 0.9909 | \$ 0.8844 | \$ 0.1367 | \$ 0.3306 | \$ 0.0057 | \$ 0.1000 | \$ 0.0353 | \$ 0.0914 | \$ 2.5750 | \$ 7.1511 |
| 2011 | 1.0508 | 0.9728 | 0.1489 | 0.3564 | 0.0066 | 0.1000 | 0.0412 | 0.1122 | 2.7889 | 7.4911 |
| 2012 | 1.2407 | 1.2082 | 0.1780 | 0.4259 | 0.0084 | 0.1000 | 0.0492 | 0.1494 | 3.3598 | 8.5014 |
| 2013 | 1.2407 | 1.3778 | 0.1780 | 0.4717 | 0.0110 | 0.1000 | 0.0492 | 0.1683 | 3.5967 | 9.2984 |
| 2014 | 1.2807 | 1.5340 | 0.1392 | 0.5123 | 0.0121 | 0.1400 | 0.0438 | 0.1939 | 3.8560 | 9.7793 |
| 2015 | 1.3209 | 1.5187 | 0.1392 | 0.5089 | 0.0113 | 0.1400 | 0.0556 | 0.1856 | 3.8802 | 9.2887 |
| 2016 | 1.3609 | 1.4940 | 0.1592 | 0.5054 | 0.0116 | 0.1400 | 0.0556 | 0.3021 | 4.0288 | 9.0920 |
| 2017 | 1.4009 | 1.4651 | 0.1792 | 0.5010 | 0.0112 | 0.1400 | 0.0556 | 0.3053 | 4.0583 | 9.0972 |
| 2018 | 1.4009 | 1.4096 | 0.1792 | 0.4875 | 0.0102 | 0.1400 | 0.0556 | 0.2851 | 3.9681 | 8.8353 |
| 2019 | 1.4009 | 1.3754 | 0.1792 | 0.4741 | 0.0107 | 0.1400 | 0.0556 | 0.2941 | 3.9300 | 8.7860 |

Source: Maricopa County Department of Finance Publications On-Line "Tax Rate 2018".

Note: The City has Community Facilities Districts (CFDs) that levy property taxes independent of the City to property owners within a designated area. For fiscal year 2019 the rates were as follows: DC Ranch CFD - \$0.4325, McDowell Mountain Ranch CFD - \$0.7004, Scottsdale Mountain CFD - \$0.0620, Via Linda Road CFD - \$1.1188, and the Waterfront Commercial CFD - \$5.6925.

City of Scottsdale, Arizona
Principal Property Taxpayers
Current Year and Nine Years Ago
(dollars in thousands)

Table X

| Taxpayer | 2019 | | | 2010 | | |
|--|------------------------|------|--|------------------------|------|--|
| | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value |
| Arizona Public Service Company | \$ 59,713 | 1 | 0.996% | \$ 61,193 | 2 | 0.728% |
| Scottsdale Fashion Square LLC | 39,210 | 2 | 0.654% | 66,131 | 1 | 0.787% |
| SDQ FEE LLC | 19,552 | 3 | 0.326% | - | - | - |
| XHR Scottsdale Ranch LLC | 15,721 | 4 | 0.262% | - | - | - |
| Excel Promenade LLC | 14,358 | 5 | 0.239% | - | - | - |
| Portales Corporate Center LLC ⁽¹⁾ | 14,324 | 6 | 0.239% | 25,786 | 5 | 0.307% |
| Qwest Corporation | 12,417 | 7 | 0.207% | 26,730 | 4 | 0.318% |
| Stockdale Galleria LLC | 11,418 | 8 | 0.190% | - | - | - |
| Henkel Corporation | 10,835 | 9 | 0.181% | - | - | - |
| Southwest Gas Corporation | 10,821 | 10 | 0.180% | - | - | - |
| Gainey Drive Associates | - | - | - | 26,771 | 3 | 0.318% |
| JEMB Scottsdale LLC | - | - | - | 22,213 | 6 | 0.264% |
| Blackwell Robert L/Etal | - | - | - | 22,152 | 7 | 0.264% |
| Pacific Promenade LLC | - | - | - | 17,576 | 8 | 0.209% |
| DC Ranch LLC | - | - | - | 17,529 | 9 | 0.209% |
| Scottsdale Fiesta Retail Center LLC | - | - | - | 16,079 | 10 | 0.191% |
| Total | \$ 208,369 | | 3.474% | \$ 302,160 | | 3.595% |

Source: The Maricopa County Assessor's Office.

Note: The Salt River Project Agricultural Improvement and Power District's (SRP) assessed valuation is not reflected in the total assessed valuation of the City. SRP is subject to a "voluntary contribution" in-lieu of ad valorem taxation. The fiscal year 2018 assessed valuation of the SRP within the City is \$21,596,981 as provided by SRP.

⁽¹⁾Portales Corporate Center LLC/Etal was renamed Portales Corporate Center LLC in 2016.

City of Scottsdale, Arizona
Assessed Value of Taxable Property
Last Ten Fiscal Years
(dollars in thousands, excluding the Total Direct Tax Rate)

Table XI

| Fiscal Year Ended June 30th | Real Property | | | | Personal Property | Less Tax Exempt Property | Total Taxable Assessed Value | Total Direct Tax Rate |
|--------------------------------|-------------------------|------------------------|--------------|-----------------------------|----------------------|--------------------------------|---------------------------------|--------------------------|
| | Residential Property | Commercial Property | Vacant Land | Historic and Special Use | Assessed Value | | | |
| 2010 P | \$ 4,409,444 | \$ 1,879,139 | \$ 1,177,944 | \$ 1,845 | \$ 259,145 | \$ (717,210) | \$ 7,010,307 | \$ 0.36 |
| 2010 S | 4,989,883 | 2,436,470 | 1,765,907 | 2,070 | 259,145 | (1,047,474) | 8,406,001 | 0.38 |
| 2011 P | 4,212,414 | 1,980,853 | 1,170,054 | 4,822 | 242,654 | (724,635) | 6,886,162 | 0.38 |
| 2011 S | 4,261,972 | 2,312,814 | 1,458,512 | 5,622 | 242,654 | (906,165) | 7,375,409 | 0.51 |
| 2012 P | 3,521,958 | 1,615,176 | 969,618 | 4,217 | 224,822 | (665,901) | 5,669,890 | 0.44 |
| 2012 S | 3,524,902 | 1,623,645 | 1,021,533 | 4,300 | 224,822 | (707,211) | 5,691,991 | 0.65 |
| 2013 P | 3,232,809 | 1,402,569 | 845,953 | 3,133 | 228,843 | (643,724) | 5,069,583 | 0.50 |
| 2013 S | 3,236,951 | 1,405,867 | 856,609 | 3,133 | 228,843 | (651,408) | 5,079,995 | 0.72 |
| 2014 P | 3,179,924 | 1,234,395 | 763,038 | 2,810 | 213,781 | (591,625) | 4,802,323 | 0.53 |
| 2014 S | 3,190,808 | 1,238,888 | 793,269 | 2,852 | 214,245 | (612,212) | 4,827,850 | 0.76 |
| 2015 P | 3,400,223 | 1,211,532 | 731,585 | 2,849 | 208,844 | (569,038) | 4,985,995 | 0.56 |
| 2015 S | 3,542,585 | 1,228,899 | 792,839 | 2,986 | 209,029 | (599,560) | 5,176,778 | 0.69 |
| 2016 P | 3,608,260 | 1,197,395 | 759,840 | 3,143 | 196,631 | (603,538) | 5,161,731 | 0.53 |
| 2016 S | 4,210,065 | 1,306,932 | 912,980 | 3,541 | 196,972 | (674,098) | 5,956,392 | 0.62 |
| 2017 P | 3,842,636 | 1,209,059 | 723,452 | 1,075 | 217,238 | (594,547) | 5,398,913 | 0.51 |
| 2017 S | 4,510,655 | 1,451,267 | 996,458 | 1,488 | 217,243 | (757,790) | 6,419,321 | 0.62 |
| 2018 P | 4,071,866 | 1,268,544 | 747,981 | 1,155 | 223,277 | (614,085) | 5,698,738 | 0.50 |
| 2018 S | 4,794,346 | 1,650,245 | 1,135,084 | 1,716 | 223,276 | (876,231) | 6,928,436 | 0.59 |
| 2019 P | 4,301,223 | 1,335,470 | 737,727 | 1,187 | 221,801 | (600,412) | 5,996,996 | 0.53 |
| 2019 S | 5,014,035 | 1,726,614 | 1,137,771 | 1,816 | 229,030 | (885,997) | 7,223,269 | 0.57 |

Source: Arizona Department of Revenue Abstract of the Assessment Roll.

City of Scottsdale, Arizona
Property Tax Levies and Collections
Last Ten Fiscal Years
(dollars in thousands)

Table XII

| Fiscal Year Ended June 30 | Total Tax Levy for Fiscal Year | Collected within the Fiscal Year of the Levy | | Collections in Subsequent Years | Total Collections to Date | |
|------------------------------|-----------------------------------|---|--------------------|------------------------------------|---------------------------|--------------------|
| | | Amount | Percentage of Levy | | Amount | Percentage of Levy |
| 2010 | \$ 57,380 | \$ 55,221 | 96.2% | \$ 1,622 | \$ 56,843 | 99.1% |
| 2011 | 64,327 | 62,237 | 96.8% | 737 | 62,974 | 97.9% |
| 2012 | 62,033 | 60,309 | 97.2% | 672 | 60,981 | 98.3% |
| 2013 | 62,187 | 60,630 | 97.5% | 791 | 61,421 | 98.8% |
| 2014 | 62,367 | 61,227 | 98.2% | 598 | 61,825 | 99.1% |
| 2015 | 63,380 | 62,233 | 98.2% | 574 | 62,807 | 99.1% |
| 2016 | 59,553 | 58,714 | 98.6% | 545 | 59,259 | 99.5% |
| 2017 | 60,954 | 60,056 | 98.5% | 607 | 60,663 | 99.5% |
| 2018 | 61,803 | 60,721 | 98.2% | 817 | 61,538 | 99.6% |
| 2019 | 66,092 | 64,982 | 98.3% | - | 64,982 | 98.3% |

Source: "Total Tax Levy for Fiscal Year" amounts = Maricopa County Tax Levy Reports on County Finance website. "Collections" amounts = Maricopa County Finance Office Secured Tax Levy Report. Amounts represent property taxes recorded in the General, Debt Service, and Self-Insurance Funds.

City of Scottsdale, Arizona
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(dollars in thousands, except for Per Capita)

Table XIII

| Governmental Activities | | | | | | | | | |
|--------------------------------------|---|---|--|---|--|--|------------------------------|---------------------------|--|
| Fiscal Year Ended June 30 | General Obligation Bonds | Municipal Property Corporation Bonds | Scottsdale Preserve Authority Bonds | Special Assessment Bonds | Certificates of Participation | Community Facilities District Bonds | Contracts Payable | Capital Leases | Service Concession Arrangements |
| 2010 | \$ 583,071 | \$ 153,582 | \$ 67,567 | \$ 2,250 | \$ 4,194 | \$ 38,725 | \$ 15,732 | \$ - | \$ - |
| 2011 | 579,972 | 152,578 | 64,309 | 1,500 | 23,409 | 36,762 | 14,582 | - | - |
| 2012 | 603,426 | 149,983 | 60,304 | 750 | 18,031 | 34,685 | 13,375 | - | - |
| 2013 | 651,224 | 222,403 | 56,154 | - | 16,003 | 32,083 | 2,570 | 183 | 3,144 |
| 2014 | 647,859 | 218,942 | 53,100 | - | 13,914 | 30,090 | - | 329 | 2,990 |
| 2015 | 624,616 | 243,044 | 48,276 | - | 11,762 | 27,437 | - | 229 | 2,837 |
| 2016 | 585,931 | 232,970 | 43,489 | - | 9,546 | 24,694 | - | 156 | 2,683 |
| 2017 | 590,910 | 221,535 | 17,823 | - | 7,264 | 21,860 | - | 95 | 2,529 |
| 2018 | 568,259 | 208,828 | 13,215 | - | 4,914 | 19,244 | - | 32 | 2,375 |
| 2019 | 521,632 | 193,165 | 8,432 | - | 2,493 | 16,707 | - | 219 | 2,221 |

| Business-type Activities | | | | | | |
|--------------------------------------|--------------------------|---|-----------------------|-------------------------------------|--|-------------------|
| Fiscal Year Ended June 30 | Revenue Bonds | Municipal Property Corporation Bonds | Capital Leases | Total Primary Government | Percentage of Personal Income | Per Capita |
| 2010 | \$ 48,250 | \$ 332,216 | \$ 7 | \$ 1,245,594 | 11.62% | \$ 5,691 |
| 2011 | 44,776 | 323,107 | - | 1,240,995 | 11.77% | 5,709 |
| 2012 | 41,157 | 313,505 | - | 1,235,216 | 11.09% | 5,667 |
| 2013 | 37,803 | 303,793 | - | 1,325,360 | 11.63% | 5,965 |
| 2014 | 34,747 | 296,418 | - | 1,298,389 | 11.43% | 5,776 |
| 2015 | 31,518 | 309,150 | - | 1,298,869 | 11.26% | 5,689 |
| 2016 | 28,176 | 295,807 | - | 1,223,452 | 10.26% | 5,292 |
| 2017 | 24,710 | 353,773 | - | 1,240,499 | 9.98% | 5,212 |
| 2018 | 21,069 | 336,407 | - | 1,174,343 | 8.96% | 4,843 |
| 2019 | 17,258 | 318,235 | - | 1,080,362 | 7.45% | 4,232 |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
See Table XVIII - Schedule of Demographic and Economic Statistics for personal income and population data.

City of Scottsdale, Arizona
Ratios of Net General Bonded Debt Outstanding
Last Ten Fiscal Years
(dollars in thousands, except Per Capita)

Table XIV

| <u>Fiscal Year Ended June 30</u> | <u>Governmental Activities - General Obligation Bonds</u> | <u>Less: Amounts Available in Debt Service Fund</u> | <u>Net General Bonded Debt</u> | <u>Percentage of Total Taxable Assessed Value of Property ⁽¹⁾</u> | <u>Per Capita</u> |
|--------------------------------------|---|---|------------------------------------|--|-------------------|
| 2010 | \$ 583,071 | \$ 4,932 | \$ 578,139 | 6.9% | \$ 2,641 |
| 2011 | 579,972 | 6,787 | 573,185 | 7.8% | 2,637 |
| 2012 | 603,426 | 5,789 | 597,637 | 10.5% | 2,742 |
| 2013 | 651,224 | 10,105 | 641,119 | 12.6% | 2,885 |
| 2014 | 647,859 | 9,369 | 638,490 | 13.2% | 2,840 |
| 2015 | 624,616 | 12,172 | 612,444 | 11.8% | 2,683 |
| 2016 | 585,931 | 11,529 | 574,402 | 9.6% | 2,484 |
| 2017 | 590,910 | 11,516 | 579,394 | 9.0% | 2,434 |
| 2018 | 568,259 | 2,471 | 565,788 | 8.2% | 2,333 |
| 2019 | 521,632 | 1,394 | 520,238 | 7.2% | 2,038 |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

See the Schedule of Assessed Value of Taxable Property on Table XI for property value data.

See the Schedule of Demographic and Economic Statistics on Table XVIII for population data.

⁽¹⁾Percentage of Total Taxable Assessed Value of Property was corrected using the information from table XI for fiscal year 2010.

City of Scottsdale, Arizona
Direct and Overlapping Governmental Activities Debt
As of June 30, 2019
(dollars in thousands)

Table XV

| <u>Governmental Unit</u> | <u>Debt Outstanding</u> | <u>Estimated Percentage Applicable</u> | <u>Estimated Share of Overlapping Debt</u> |
|--|-------------------------|--|--|
| Debt repaid with property taxes | | | |
| Maricopa County Community College District | \$ 312,450 | 15.6423% | \$ 48,874 |
| Maricopa County Special Healthcare District | 459,125 | 15.6423% | 71,818 |
| Tempe Elementary School District No. 3 | 153,535 | 0.0003% | - |
| Balsz Elementary School District No. 31 | 30,550 | 6.1717% | 1,885 |
| Scottsdale Unified School District No. 48 | 278,536 | 69.7880% | 194,385 |
| Paradise Valley Unified School District No. 69 | 319,053 | 29.9232% | 95,471 |
| Cave Creek Unified School District No. 93 | 32,255 | 62.5073% | 20,162 |
| Fountain Hills Unified School District No. 98 | 8,800 | 3.6110% | 318 |
| Phoenix Union High School District No. 210 | 389,120 | 0.3678% | 1,431 |
| Tempe Union High School District No. 213 | 82,925 | 0.0001% | - |
| Western Maricopa Education Center District No. 402 | 116,510 | 6.7946% | 7,916 |
| Subtotal, overlapping debt | | | 442,260 |
| City direct debt | 744,869 | 100.0000% | 744,869 |
| Total direct and overlapping debt | | | <u><u>\$ 1,187,129</u></u> |

Sources: Arizona Tax Research Association, State and County Abstract of the Assessment Roll, and Arizona Department of Revenue.

Notes:

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

The percentage of overlapping debt applicable to the City is computed on the ratio of 2018-19 net limited assessed property valuation for the overlapping jurisdiction within the City to the total net limited assessed property valuation of the overlapping jurisdiction.

City of Scottsdale, Arizona
Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)

Table XVIa

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 ⁽¹⁾ | 2017 ⁽²⁾ | 2018 | 2019 |
|--|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|-------------------|-------------------|
| 20% Limitation | | | | | | | | | | |
| Debt Limit Equal to 20% of Assessed Valuation | \$ 1,681,200 | \$ 1,475,082 | \$ 1,138,398 | \$ 1,015,999 | \$ 965,570 | \$ 1,035,356 | \$ 1,191,278 | \$ 1,283,864 | \$ 1,385,687 | \$ 1,444,654 |
| Total Net Debt Applicable to 20% Limit | 499,945 | 498,490 | 524,675 | 561,126 | 553,121 | 532,888 | 513,768 | 521,179 | 511,046 | 479,265 |
| Excess Premium | | | | | | | | 8,180 | 10,637 | 10,415 |
| Legal 20% Debt Margin (Available Borrowing Capacity) | <u>\$ 1,181,255</u> | <u>\$ 976,592</u> | <u>\$ 613,723</u> | <u>\$ 454,873</u> | <u>\$ 412,449</u> | <u>\$ 502,468</u> | <u>\$ 677,510</u> | <u>\$ 754,505</u> | <u>\$ 864,004</u> | <u>\$ 954,974</u> |
| Total Net Debt Applicable to the 20% Limit as a Percentage of 20% Debt Limit | 29.74% | 33.79% | 46.09% | 55.23% | 57.28% | 51.47% | 43.13% | 41.23% | 37.65% | 33.90% |
| 6% Limitation | | | | | | | | | | |
| Debt Limit Equal to 6% of Assessed Valuation | \$ 504,360 | \$ 442,524 | \$ 341,519 | \$ 304,799 | \$ 289,671 | \$ 310,606 | \$ 357,384 | \$ 385,159 | \$ 415,706 | \$ 433,396 |
| Total Net Debt Applicable to 6% Limit | 78,245 | 74,250 | 69,750 | 78,009 | 65,944 | 54,022 | 37,747 | 26,116 | 14,419 | 3,950 |
| Excess Premium | | | | | | | | - | - | - |
| Legal 6% Debt Margin (Available Borrowing Capacity) | <u>\$ 426,115</u> | <u>\$ 368,274</u> | <u>\$ 271,769</u> | <u>\$ 226,790</u> | <u>\$ 223,727</u> | <u>\$ 256,584</u> | <u>\$ 319,637</u> | <u>\$ 359,043</u> | <u>\$ 401,287</u> | <u>\$ 429,446</u> |
| Total Net Debt Applicable to the 6% Limit as a Percentage of 6% Debt Limit | 15.51% | 16.78% | 20.42% | 25.59% | 22.77% | 17.39% | 10.56% | 6.78% | 3.47% | 0.91% |

⁽¹⁾ Restated fiscal year 2016 debt limit and debt margin amounts to reflect the usage of the secondary, as opposed to the primary, valuation amount.

⁽²⁾ Beginning in fiscal year 2017, a change in state law requires the "Excess Premium" to be included with the debt subject to the legal debt margin limitations.

City of Scottsdale, Arizona
Legal Debt Margin Information
As of June 30, 2019
(in thousands)

Table XVIb

Legal Debt Margin Calculation for Fiscal Year 2019

| | | |
|--|----|-----------|
| Assessed Valuation as of June 30, 2019 | \$ | 7,223,269 |
|--|----|-----------|

20% Limitation

| | | |
|---|----|-----------|
| Debt Limit Equal to 20% of Assessed Valuation | \$ | 1,444,654 |
|---|----|-----------|

Debt applicable to limit:

| | | |
|--------------------------|--|---------|
| General Obligation Bonds | | 479,265 |
|--------------------------|--|---------|

| | | |
|----------------|--|--------|
| Excess Premium | | 10,415 |
|----------------|--|--------|

| | | |
|--|----|---------|
| Legal 20% Debt Margin (Available Borrowing Capacity) | \$ | 954,974 |
|--|----|---------|

6% Limitation

| | | |
|--|----|---------|
| Debt Limit Equal to 6% of Assessed Valuation | \$ | 433,396 |
|--|----|---------|

Debt applicable to limit:

| | | |
|--------------------------|--|-------|
| General Obligation Bonds | | 3,950 |
|--------------------------|--|-------|

| | | |
|----------------|--|---|
| Excess Premium | | - |
|----------------|--|---|

| | | |
|---|----|---------|
| Legal 6% Debt Margin (Available Borrowing Capacity) | \$ | 429,446 |
|---|----|---------|

Source: City of Scottsdale City Treasurer

Notes:

Under Arizona law, cities can issue general obligation bonds for purposes of water, sewer, artificial light, parks, playgrounds and recreational facilities, open space preserves, public safety, and streets and transportation facilities, but outstanding bonds issued for such purposes may not exceed 20 percent of the City's net assessed valuation. Outstanding general obligation bonded debt for all other purposes may not exceed 6 percent of the City's net assessed valuation.

General obligation bonds of community facilities districts are not subject to or included in this computation since they are not bonds of the City of Scottsdale, Arizona.

City of Scottsdale, Arizona
Pledged-Revenue Coverage
Last Ten Fiscal Years
(dollars in thousands)

Table XVII

| Fiscal Year Ended June 30 | Water and Sewer Revenue Bonds | | | | | | Municipal Property Corporation Bonds | | | | | |
|---------------------------------|-------------------------------------|--------------------------------|-----------------------------|----------------------------|----------------|----------|--------------------------------------|---|--|----------|--|--|
| | Operating Revenue ⁽¹⁾ | Less: Operating Expenses | Net Operating Revenue | Development Fee Revenue | Net Revenue | Coverage | Excise Tax ⁽⁴⁾⁽⁵⁾⁽⁶⁾ | Debt Service Principal ⁽⁷⁾ | Debt Service Interest ⁽⁷⁾ | Coverage | | |
| 2010 | \$ 133,624 | \$ 70,165 | \$ 63,459 | \$ 3,126 | \$ 66,585 | 12.18 | \$ 170,638 | \$ 9,715 | \$ 18,415 | 6.07 | | |
| 2011 | 132,441 | 77,456 | 54,985 | 3,859 | 58,844 | 10.86 | 155,515 | 9,785 | 22,185 | 4.86 | | |
| 2012 | 134,336 | 78,837 | 55,499 | 3,073 | 58,572 | 10.77 | 157,645 | 11,841 | 21,141 | 4.78 | | |
| 2013 | 138,224 | 73,647 | 64,577 | 12,213 | 76,790 | 15.34 | 170,227 | 12,355 | 21,480 | 5.03 | | |
| 2014 | 142,066 | 77,891 | 64,175 | 15,139 | 79,314 | 15.93 | 183,376 | 18,200 | 22,994 | 4.45 | | |
| 2015 | 139,242 | 79,154 | 60,088 | 5,326 | 65,414 | 14.41 | 195,037 | 16,950 | 22,299 | 4.97 | | |
| 2016 | 152,612 | 81,586 | 71,026 | 5,156 | 76,182 | 16.77 | 194,560 | 20,215 | 23,220 | 4.48 | | |
| 2017 | 148,310 | 85,909 | 62,401 | 6,072 | 68,473 | 15.05 | 196,729 | 22,550 | 21,599 | 4.46 | | |
| 2018 | 160,161 | 87,130 | 73,031 | 6,525 | 79,556 | 17.43 | 216,643 | 26,290 | 23,908 | 4.32 | | |
| 2019 | 164,487 | 82,748 | 81,739 | 4,256 | 85,995 | 18.83 | 223,668 | 30,210 | 22,474 | 4.25 | | |

Special Assessment Bonds

Scottsdale Preserve Authority Bonds

| Fiscal Year Ended June 30 | Special Assessment Collections | Debt Service Principal | Debt Service Interest | Coverage ⁽²⁾ | 0.2% and 0.15% Sales Tax ⁽³⁾ | | Debt Service Principal | Debt Service Interest | Coverage |
|---------------------------------|--------------------------------------|------------------------------|-----------------------------|-------------------------|--|----------|------------------------------|-----------------------------|----------|
| | | | | | | | | | |
| 2010 | \$ 765 | \$ 757 | \$ 121 | 0.87 | \$ 26,416 | \$ 3,365 | \$ 3,374 | 3.92 | |
| 2011 | 733 | 757 | 86 | 0.87 | 27,199 | 3,470 | 2,471 | 4.58 | |
| 2012 | 719 | 755 | 52 | 0.89 | 28,809 | 3,655 | 2,835 | 4.44 | |
| 2013 | 591 | 755 | 17 | 0.77 | 30,376 | 3,800 | 2,680 | 4.69 | |
| 2014 | - | - | - | N/A | 32,655 | 3,960 | 2,508 | 5.05 | |
| 2015 | - | - | - | N/A | 34,429 | 4,140 | 2,330 | 5.32 | |
| 2016 | - | - | - | N/A | 36,029 | 4,340 | 2,143 | 5.56 | |
| 2017 | - | - | - | N/A | 35,489 | 4,175 | 1,423 | 6.34 | |
| 2018 | - | - | - | N/A | 40,089 | 4,365 | 734 | 7.86 | |
| 2019 | - | - | - | N/A | 41,909 | 4,540 | 577 | 8.19 | |

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

⁽¹⁾Includes investment income.

⁽²⁾Coverage ratio is less than 1.0 due to prepayment of amounts that were in fund balance.

⁽³⁾In May 2004, the City of Scottsdale, Arizona citizens approved an additional 0.15% preservation privilege tax. This tax was effective July 1, 2004.

⁽⁴⁾In fiscal year 2010, excise tax was recalculated for prior years using correct items from Table V and the statement of revenue, expenditures, and changes in fund balances for the governmental funds.

⁽⁵⁾Starting in fiscal year 2011, transient occupancy taxes are no longer pledged revenues for MPC bonds issued on or after July 1, 2010, and are excluded from this table from that date forward.

⁽⁶⁾A de minimis amount of the excise taxes are pledged to specific purposes per various resolutions adopted by the City Council. Due to the immateriality of these amounts, they are not deducted from the pledged revenue calculation above.

⁽⁷⁾Includes debt service payments paid out of revenue from the water and sewer fund and the tourism development fund.

**City of Scottsdale, Arizona
Demographic and Economic Statistics
Last Ten Fiscal Years**

Table XVIII

| Fiscal Year | Population⁽¹⁾ | Personal Income⁽²⁾ (in thousands) | Per Capita Personal Income⁽³⁾ | Median Age⁽⁴⁾ | Charter and Public School Enrollment⁽⁵⁾ | Fiscal Year End Average Unemployment Rate⁽⁶⁾ |
|--------------------|---------------------------------|---|---|-------------------------------------|---|--|
| 2010 | 218,888 | \$ 10,715,662 | \$ 48,955 | 45.4 | 27,093 | 6.8% |
| 2011 | 217,365 | 10,542,637 | 48,502 | 45.4 | 27,116 | 6.5% |
| 2012 | 217,965 | 11,135,832 | 51,090 | 45.4 | 28,177 | 6.8% |
| 2013 | 222,200 | 11,393,527 | 51,276 | 45.4 | 27,816 | 5.7% |
| 2014 | 224,800 | 11,358,020 | 50,525 | 45.1 | 27,191 | 5.4% |
| 2015 | 228,300 | 11,536,227 | 50,531 | 45.4 | 26,233 | 4.7% |
| 2016 | 231,200 | 11,921,597 | 51,564 | 46.1 | 25,979 | 4.2% |
| 2017 | 238,000 | 12,428,360 | 52,220 | 46.3 | 25,847 | 3.8% |
| 2018 | 242,500 | 13,109,550 | 54,060 | 46.3 | 25,598 | 3.5% |
| 2019 | 255,300 | 14,499,508 | 56,794 | 46.9 | 25,598 | 3.5% |

Data Sources and Notes:

⁽¹⁾July 1 Population Estimate U.S. Census 2018. Since 2013, estimates have been rounded to the nearest hundred.

⁽²⁾Calculated by multiplying Per Capita Personal Income by Total Population divided by 1,000.

⁽³⁾Sites USA (estimate) 2008-2010; U.S. Census, American Community Survey, 5-Year Estimates used for fiscal year 2011-2019 estimates.

⁽⁴⁾U.S. Census; fiscal years 2008-2009 based on Census 2000; fiscal years 2010-2012 based on Census 2010; fiscal years 2013-2019 based on U.S. Census, American Community Survey, 5-Year Estimates.

⁽⁵⁾Arizona Department of Education; 2019 data updated to reflect 9 charter and 29 public schools located within Scottsdale city boundaries. At the time of reporting, information for 2019 is not available. 2018 updated based on information received in November 2018.

⁽⁶⁾State of Arizona Office of Economic Opportunity, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics. The data is from 2018 calendar year that ended within the 2019 fiscal year.

**City of Scottsdale, Arizona
Principal Employers
Current Year and Nine Years Ago**

Table XIX

| Employer | 2019 | | | 2010 | | |
|---|------------------|-------------|--|------------------|-------------|--|
| | Employees | Rank | Percentage of Total City Employment⁽¹⁾ | Employees | Rank | Percentage of Total City Employment⁽¹⁾ |
| HonorHealth ⁽²⁾ | 6,841 | 1 | 4.68% | 6,650 | 1 | 3.64% |
| Vanguard ⁽³⁾ | 3,300 | 2 | 2.26% | 1,899 | 8 | 1.04% |
| CVS Health ⁽⁴⁾ | 3,012 | 3 | 2.06% | 2,048 | 6 | 1.12% |
| City of Scottsdale | 2,727 | 4 | 1.87% | 2,538 | 5 | 1.39% |
| General Dynamics Mission Systems ⁽⁵⁾ | 2,500 | 5 | 1.71% | 3,600 | 3 | 1.97% |
| Mayo Clinic | 2,427 | 6 | 1.66% | 4,900 | 2 | 2.68% |
| Scottsdale Unified School District ⁽⁶⁾ | 2,149 | 7 | 1.47% | 3,126 | 4 | 1.71% |
| Nationwide Specialty ⁽⁷⁾ | 1,462 | 8 | 1.00% | 1,400 | 10 | 0.77% |
| Yelp | 1,300 | 9 | 0.89% | | | |
| Go Daddy Group | 719 | 10 | 0.49% | 1,915 | 7 | 1.05% |
| Troon Golf LLC | | | | 1,539 | 9 | 0.84% |
| Total | 26,437 | | 18.09% | 29,615 | | 16.21% |

Source: City of Scottsdale, Economic Development Department communications with employers, June 2019.

⁽¹⁾Annual Employment according to the Arizona Office of Economic Opportunity (June 2019) was 146,072; it was reported in the fiscal year 2010 CAFR as 182,771.

⁽²⁾Scottsdale Healthcare was renamed HonorHealth in 2015.

⁽³⁾The Vanguard Group was renamed Vanguard Insurance in 2013 and was then renamed Vanguard in 2014.

⁽⁴⁾CVS Caremark was renamed CVS Health in 2014.

⁽⁵⁾General Dynamics was renamed General Dynamics C4 Systems in 2011 and was then renamed General Dynamics Mission Systems in 2016.

⁽⁶⁾Scottsdale Unified School District has administrative offices and some schools outside of Scottsdale city limits. 2019 numbers only report Scottsdale-based employees. 2010 included all employees.

⁽⁷⁾Scottsdale Insurance was renamed Nationwide Specialty in 2015.

City of Scottsdale, Arizona
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Table XX

| Function | 2010 | 2011 | 2012⁽¹⁾ | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019⁽²⁾ |
|--|----------------|----------------|---------------------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------------------|
| Administrative Services | 35.0 | 35.0 | 138.8 | 124.6 | 127.4 | 120.9 | 123.6 | 125.1 | 124.1 | 102.1 |
| Aviation | 14.0 | 14.0 | 14.0 | 14.0 | 14.0 | 14.5 | 14.5 | 14.5 | 15.5 | 15.5 |
| City Treasurer | 92.5 | 95.5 | 83.5 | 93.0 | 93.0 | 89.7 | 89.8 | 86.7 | 86.7 | 101.7 |
| Community and Economic Development | | 214.5 | 188.5 | 175.5 | 176.5 | 173.0 | 185.1 | 186.6 | 179.6 | 182.2 |
| Community Services | 489.3 | 487.6 | 459.5 | 454.2 | 454.2 | 448.3 | 469.6 | 474.6 | 476.7 | 476.9 |
| Economic Vitality | 47.0 | | | | | | | | | |
| General Government | 155.0 | 153.0 | 141.0 | 140.0 | 140.0 | 140.4 | 142.2 | 142.2 | 151.2 | 162.7 |
| Human Resources | 30.0 | 30.5 | | | | | | | | |
| Information Technology | 78.8 | 75.8 | | | | | | | | |
| Planning, Neighborhood, and Transportation | 167.5 | | | | | | | | | |
| Public Safety | 953.6 | 957.6 | 933.6 | 924.6 | 934.6 | 930.6 | 942.7 | 936.7 | 937.7 | 952.7 |
| Public Works | 197.0 | 206.0 | 205.0 | 204.0 | 204.0 | 205.0 | 205.8 | 206.8 | 210.8 | 210.8 |
| Solid Waste | 89.0 | 89.0 | 89.0 | 89.0 | 90.0 | 90.0 | 90.8 | 92.8 | 92.8 | 96.8 |
| Water Resources | 189.0 | 189.0 | 202.0 | 204.0 | 204.0 | 205.0 | 211.3 | 213.3 | 214.5 | 215.9 |
| Total | 2,537.7 | 2,547.5 | 2,454.9 | 2,422.9 | 2,437.7 | 2,417.4 | 2,475.4 | 2,479.3 | 2,489.6 | 2,517.3 |

Source: The City of Scottsdale's Budget Department.

⁽¹⁾Effective fiscal year 2012, Human Resources and Information Technology were absorbed into the Administrative Services division, and the Meter Reading department was moved from Water Resources to City Treasurer.

⁽²⁾Effective fiscal year 2019, Purchasing was moved from Administrative Services to City Treasurer.

City of Scottsdale, Arizona
Operating Indicators by Division⁽¹⁾
Last Ten Fiscal Years

Table XXI

| Division | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|----------------------|----------------------|---------------------|-------------------|-------------------|-------------------|--------------------|--------------------|-------------------|-------------------|
| General Government | | | | | | | | | | |
| <i>City Attorney</i> | | | | | | | | | | |
| % of cases resolved at first court appearance (arraignment) | 32% | 40% | 37% | 37% | 34% | 39% | 39% | 35% | 35% | 35% |
| <i>City Auditor</i> | | | | | | | | | | |
| # of reports performed | 16 | 17 | 14 | 14 | 14 | 16 | 13 | 13 | 15 | 14 |
| <i>City Clerk</i> | | | | | | | | | | |
| # of legal postings | 1,301 | 1,241 | 1,185 | 1,124 | 1,080 | 1,005 | 1,000 | 1,067 | 1,033 | 946 |
| # of minutes | 87 | 66 | 63 | 63 | 65 | 57 | 61 | 56 | 70 | 63 |
| <i>City Court</i> | | | | | | | | | | |
| Charges filed/ charges adjudicated (resolved) | 107,720 / 113,382 | 104,301 / 108,003 | 102,953/ 100,929 | 93,306/ 90,016 | 99,063/ 83,441 | 96,741/ 91,200 | 100,920/ 92,993 | 100,092/ 85,295 | 95,301/ 84,602 | 83,471/ 78,390 |
| <i>City Treasurer</i> | | | | | | | | | | |
| # of Accounts Payable checks issued | 33,620 | 45,592 | 45,112 | 33,599 | 32,865 | 32,491 | 31,648 | 31,268 | 32,074 | 30,401 |
| # of customer contacts (utilities, taxes, and licensing) | 175,918 | 255,124 | 246,319 | 254,992 | 209,325 | 196,549 | 190,422 | 195,819 | 256,784 | 140,915 |
| # of Purchasing purchase orders ⁽²⁾ | 5,748 | 5,310 | 5,018 | 4,678 | 5,019 | 5,064 | 5,078 | 5,143 | 4,989 | 4,984 |
| <i>City Manager</i> | | | | | | | | | | |
| % of survey respondents rating the "Overall Quality of Life in Scottsdale" as good to excellent ⁽³⁾ | No Survey | 94% | No Survey | No Survey | 98% | No Survey | No Survey | 96% | No Survey | 96% |
| News releases, media updates, traffic alerts, construction updates released to news media | 240 | 281 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Total ad value equivalency generated ⁽⁴⁾ | N/A | N/A | \$20,000 | \$78,861 | \$64,931 | \$34,863 | N/A | N/A | N/A | N/A |
| Acres of land acquired for inclusion in the McDowell Sonoran Preserve | 399 | 2,001 | 4,419 | 6,400 | 2,365 | 0 | 0 | 420 | 0 | 0 |
| % increase of Neighborhood Watch groups annually | 5% | 5% | 5% | 5% | 2% | 0% | 5% | 5% | 2% | 7% |
| Administrative Services | | | | | | | | | | |
| <i>Communications</i> | | | | | | | | | | |
| % of survey respondents rating "Your Neighborhood as a Place to Live" as good to excellent ⁽³⁾ | No Survey | 91% | No Survey | No Survey | 93% | No Survey | No Survey | 93% | No Survey | 97% |
| <i>Human Resources</i> | | | | | | | | | | |
| Citywide turnover | 9.5% | 7.3% | 7.1% | 7.3% | 6.0% | 7.8% | 9.6% | 8.1% | 9.8% | 9.3% |
| HR operating cost as a % of City payroll | 1.6% | 1.8% | 1.3% | 1.7% | 1.4% | 1.4% | 1.1% | 1.2% | 1.3% | 1.2% |
| <i>Information Technology</i> | | | | | | | | | | |
| # of SPAM emails blocked (monthly) from being delivered to the City (An average of 30 seconds per email is expended by staff) | 2,100,000 | 1,775,000 | 1,870,000 | 1,588,935 | 1,335,869 | 1,395,338 | 2,686,000 | 2,117,633 | 1,512,355 | 1,026,016 |
| Annual disk storage size (DAS, NAS, and SAN) (Terabytes) | 170.0 | 266.0 | 266.0 | 167.3 | 45.8 | 51.4 | 58.6 | 67.2 | 82.8 | 86.9 |
| Community Services | | | | | | | | | | |
| McDowell Sonoran Preserve Annual Visitors – All trailheads | 104,290 | 148,639 | 177,922 | 223,538 | 325,023 | 659,882 | 706,682 | 698,090 | 732,510 | 747,000 |
| # of square feet of medians and rights of way maintained | 17,000,000 | 23,168,510 | 23,475,510 | 22,726,329 | 22,502,626 | 22,832,327 | 22,913,730 | 22,827,842 | 22,968,631 | 22,897,463 |

(continued)

City of Scottsdale, Arizona
Operating Indicators by Division⁽¹⁾
Last Ten Fiscal Years

Table XXI

| Division | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|-----------|-----------|-----------|------------|------------|------------|-----------|------------|------------|-----------|
| Community and Economic Development | | | | | | | | | | |
| <i>Planning and Development</i> | | | | | | | | | | |
| Customer wait-time (in minutes) at One Stop Shop | 7 | 6 | 6 | 12 | 15 | 12 | 12 | 15 | 13 | 14 |
| Provide applicant with pre-application meeting within 30 days of submitting request. | 100% | 100% | 100% | 100% | 100% | 100% | 95% | 100% | 99% | 99% |
| % of inspections performed within 24 hours of the request | 100% | 100% | 100% | 100% | 100% | 100% | 98% | 98% | 98% | 98% |
| # of new Code Enforcement cases processed per year | 16,452 | 16,000 | 16,500 | 15,603 | 14,222 | 15,514 | 13,781 | 13,797 | 12,594 | 13,676 |
| <i>Transportation</i> | | | | | | | | | | |
| Total citywide transit ridership | 3,103,185 | 2,539,744 | 2,499,000 | 2,599,557 | 2,589,218 | 2,635,739 | 2,297,323 | 2,186,424 | 2,178,152 | 1,933,249 |
| <i>Economic Development</i> | | | | | | | | | | |
| Targeted job creation - number of companies/number of jobs ⁽⁶⁾ | 10 / 731 | 7 / 450 | 8 / 1,595 | 36 / 1,593 | 16 / 1,069 | 13 / 1,180 | 9 / 1,183 | 14 / 1,019 | 12 / 1,852 | 14 / 1531 |
| <i>Tourism</i> | | | | | | | | | | |
| Hotel/Motel average occupancy rate | 58.0% | 58.8% | 61.5% | 63.0% | 65.6% | 67.8% | 67.9% | 75.1% | 69.1% | 70.2% |
| Bed Tax growth (% annual change) | -6% | 8% | 5% | 3% | 10% | 12% | 1% | 11% | 5% | 12% |
| # of Downtown special events coordinated | 110 | 95 | 119 | 126 | 275 | 325 | 277 | 174 | 173 | 155 |
| <i>Aviation</i> | | | | | | | | | | |
| Scottsdale Airport - takeoffs and landings | 156,896 | 136,089 | 146,058 | 137,333 | 148,971 | 153,285 | 162,535 | 164,622 | 166,425 | 176,677 |
| <i>WestWorld</i> | | | | | | | | | | |
| # of special events at WestWorld | 28 | 20 | 20 | 27 | 24 | 52 | 51 | 55 | 49 | 46 |
| Public Safety | | | | | | | | | | |
| <i>Police</i> | | | | | | | | | | |
| Scottsdale Uniform Crime Report, Part 1 (crimes per thousand) ⁽⁶⁾ | 29.6 | 31.9 | 32.8 | 29.1 | 27.8 | 25.5 | 25.6 | 26.3 | 24.7 | 25.2 |
| Achieve the standard of six minutes or less for response to emergency calls for service (includes medical and accident related calls) | 5:01 | 4:57 | 5:11 | 4:54 | 5:04 | 5:25 | 5:12 | 4:48 | 4:57 | 5:05 |
| Provide initial contact to 100% of citizen traffic concerns within seven days | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| <i>Fire</i> | | | | | | | | | | |
| Total incidents | 23,996 | 25,586 | 26,344 | 27,075 | 28,544 | 32,425 | 35,098 | 36,407 | 36,877 | 37,750 |
| Responses per capita | 0.10 | 0.10 | 0.10 | 0.12 | 0.13 | 0.14 | 0.15 | 0.16 | 0.15 | 0.15 |
| Travel time (en-route to on-scene) | 4:28 | 4:22 | 4:18 | 4:26 | 4:27 | 4:33 | 4:32 | 4:37 | 4:46 | 4:52 |

(continued)

City of Scottsdale, Arizona
Operating Indicators by Division⁽¹⁾
Last Ten Fiscal Years

Table XXI

| Division | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Public Works and Water Resources | | | | | | | | | | |
| <i>Public Works</i> | | | | | | | | | | |
| Facility inventory maintained (square feet) ⁽⁷⁾ | 2,929,802 | 3,006,106 | 3,029,606 | 3,322,968 | 3,313,468 | 3,348,774 | 2,925,697 | 2,925,697 | 2,925,697 | 2,961,661 |
| # of active Capital Projects | 168 | 183 | 162 | 186 | 150 | 120 | 155 | 150 | 161 | 180 |
| # of homes serviced by Residential Refuse Collection | 79,006 | 79,508 | 79,787 | 80,013 | 80,354 | 80,785 | 81,187 | 81,665 | 82,236 | 82,711 |
| # of citizens serviced annually by Household Hazardous Waste collection program ⁽⁸⁾ | 1,497 | 2,573 | 2,591 | 2,691 | 2,905 | 2,362 | 3,345 | 2,770 | 2,509 | 2,629 |
| Actions to improve safety and efficiency of traffic flow (signal timing changes and traffic control and speed limit studies) ⁽⁹⁾ | 8,578 | 10,397 | 10,500 | 5,043 | 3,687 | 4,252 | 6,638 | 9,737 | 8,697 | 4,748 |
| <i>Water Resources</i> | | | | | | | | | | |
| Water Service Connections | 87,409 | 87,458 | 87,577 | 87,851 | 88,348 | 88,905 | 89,596 | 90,172 | 90,817 | 91,279 |
| Drinking Water Supplied (million gallons per day) | 68.4 | 67.9 | 69.2 | 67.6 | 70.2 | 63.9 | 67.5 | 67.0 | 70.9 | 66.3 |
| Reclaimed Water Supplied (million gallons per day) | 11.2 | 8.7 | 6.9 | 8.9 | 9.7 | 9.2 | 9.1 | 11.6 | 12.2 | 11.9 |
| Sewer Service Connections | 77,605 | 77,850 | 78,018 | 78,269 | 79,014 | 79,588 | 80,202 | 80,704 | 81,306 | 81,841 |
| Sewage Treated (million gallons per day) | 21.0 | 21.1 | 20.9 | 20.7 | 20.9 | 21.2 | 20.5 | 21.4 | 22.1 | 22.1 |
| # of water meters read annually ⁽¹⁰⁾ | 1,050,067 | 1,051,089 | 1,043,335 | 1,055,230 | 1,059,738 | 1,066,385 | 1,078,500 | 1,085,590 | 1,072,498 | 1,099,164 |

Source: The City of Scottsdale's Budget department and applicable City divisions.

⁽¹⁾This presentation is consistent with the organizational structure approved as part of the fiscal year 2019 Budget. It has been noted where changes were approved by the City Council mid-year.

⁽²⁾Effective fiscal year 2019 the # of Purchasing purchase orders was moved from Administrative Services to City Treasurer to align with an organizational change made by the City Manager.

⁽³⁾The complete results for the most recent survey, as well as archived copies of prior year surveys can be found at <http://www.scottsdaleaz.gov>, search "citizen survey"

⁽⁴⁾Effective fiscal year 2012 established more appropriate performance measures for the Communications Department activities and products (ad value equivalency). City ceased tracking this statistic effective fiscal year 2016.

⁽⁵⁾Effective fiscal year 2014, only jobs verified through employer to be created or retained within the first 12 months were counted in annual metrics; total announced job creation is significantly higher.

⁽⁶⁾In fiscal year 2012, the crime per thousand increase reflects a recalculation in population with the Census 2010 as a basepoint, rather than an increase in crime. In addition, crime stats are for the prior calendar year end, rather than fiscal year end.

⁽⁷⁾3.4 million square feet from fiscal year 2015 was calculated manually. The City hired a consultant who completed a building inventory in fiscal year 2016. Square footage was recalculated based on actual measurements.

⁽⁸⁾The statistic for "# of citizens serviced annually by Household Hazardous Waste Collection program" number of events was restored in fiscal year 2011. During fiscal year 2010 the number of events was reduced as a budget savings initiative.

⁽⁹⁾The statistic for "Actions to improve safety and efficiency of traffic flow (signal timing changes and traffic control and speed limit studies)" has decreased due to implementation of predefined special timing plans in response to special events, construction, and accidents. Prior to fiscal year 2019, signal timing was changed from cycle to cycle when needed during special events, construction, or accidents based on observations.

⁽¹⁰⁾Effective fiscal year 2012, the City Council approved placing Meter Reading under the control of the Water Resources Division.

City of Scottsdale, Arizona
Capital Asset Statistics by Function
Last Ten Fiscal Years

Table XXII

| Function | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Public Safety | | | | | | | | | | |
| Police | | | | | | | | | | |
| Stations | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Police Vehicles | 357 | 352 | 352 | 351 | 359 | 347 | 344 | 344 | 343 | 343 |
| Fire Stations | 14 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| Highways and Streets | | | | | | | | | | |
| Square Yards of Pavement | 20,873,951 | 20,828,414 | 20,852,234 | 20,859,993 | 20,748,525 | 20,827,420 | 21,036,767 | 21,023,295 | 21,046,327 | 20,071,109 |
| Equivalent 12' Wide Lane Miles | 2,965 | 2,959 | 2,962 | 2,963 | 2,947 | 2,958 | 2,877 | 2,846 | 2,990 | 2,851 |
| Traffic Signals | 289 | 289 | 300 | 303 | 297 | 304 | 307 | 295 | 296 | 296 |
| Culture and Recreation | | | | | | | | | | |
| Parks | 41 | 41 | 42 | 42 | 42 | 42 | 42 | 42 | 42 | 42 |
| Parks Acreage | 941 | 941 | 974 | 975 | 975 | 975 | 975 | 975 | 975 | 975 |
| Swimming Pools | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Tennis Courts | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 53 | 53 |
| Community Centers | 5 | 5 | 5 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Water | | | | | | | | | | |
| Water Mains (miles) | 2,061 | 2,059 | 2,064 | 2,070 | 2,079 | 2,079 | 2,094 | 2,102 | 2,117 | 2,124 |
| Fire Hydrants | 10,664 | 10,687 | 10,729 | 10,779 | 10,874 | 10,941 | 11,052 | 11,135 | 11,213 | 11,301 |
| Sewer | | | | | | | | | | |
| Sanitary Sewers (miles) | 1,421.0 | 1,421.0 | 1,422.0 | 1,424.0 | 1,429.0 | 1,441.0 | 1,452.0 | 1,456.0 | 1,468.0 | 1,483.0 |
| Storm Sewers (miles) | 164.0 | 163.0 | 168.0 | 169.0 | 187.7 | 275.0 | 285.0 | 309.0 | 316.0 | 325.0 |

Source: City of Scottsdale's divisions.

City of Scottsdale, Arizona
City Treasurer's Office
(480) 312-2437

Visit our website
www.ScottsdaleAZ.gov/Finance

October 21, 2019

To the Honorable Mayor and Members of the City Council
City of Scottsdale, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Scottsdale, Arizona (City) for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Scottsdale, Arizona are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

As described in Note 1 of the financial statements, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, and Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, for the year ended June 30, 2019. GASB Statement No. 88 improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB Statement No. 89 improves the comparability of information about the capital assets and the cost of borrowing for a reporting period and simplifies the accounting for interest costs incurred before the end of a construction period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments.

The most sensitive estimates affecting the financial statements are:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time management estimates those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on leave rates and the City's policies regarding payment of unused vested leave.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.
- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.
- Management's estimate of the pollution remediation liability is based on projected cash flows of future remediation expenses.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements as a whole and each applicable opinion unit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the City's auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the "Independence Rule" of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper "tone at the top", increases the likelihood that fraud will be prevented, deterred and detected.

Additional Reports Issued

In addition to the auditor's report on the financial statements we will also issue the following documents related to this audit. These reports are typically issued within 90 days of the date of this letter.

- Single Audit Reporting Package
- Independent Accountant's Report on compliance of Highway User Revenue Fund expenditures in accordance with Arizona Revised Statutes 9-481(B)(2)
- Report on HUD Financial Data Schedules
- Examination report on the Annual Expenditure Limitation Report

Other Important Communications Related to the Audit

Attached to this letter are a copy of the signed engagement letter provided to us at the initiation of the audit, and a copy of the management representation letter provided to us at the conclusion of the audit. If there are any questions on the purpose or content of these letters please contact the engagement partner identified in the attached engagement letter.

Restriction on Use

This information is intended solely for the use of the members of the City Council and management of City of Scottsdale, Arizona and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona

**CITY OF SCOTTSDALE, ARIZONA
PASSED ADJUSTING JOURNAL ENTRIES
JUNE 30, 2019**

| PAJE # | Description | DR | CR |
|---------------|--|-----------|-----------|
| 001 | Sales Tax Receivable | 4,184,655 | |
| 001 | DIR - Unavailable Revenue | | 4,184,655 |
| | To record August TPT collections. | | |
| 002 | DIR - Unavailable Revenue | 4,184,655 | |
| 002 | Sales Tax Revenue | | 4,184,655 |
| | GW Reclassification for PAJE 001 | | |
| | | | |

Fraud Prevention Checklist

The most cost-effective way to limit fraud losses is to prevent fraud from occurring. This checklist is designed to help organizations test the effectiveness of their fraud prevention measures.

1. Is ongoing anti-fraud training provided to all employees of the organization?

- Do employees understand what constitutes fraud?
- Have the costs of fraud to the company and everyone in it — including lost profits, adverse publicity, job loss and decreased morale and productivity — been made clear to employees?
- Do employees know where to seek advice when faced with uncertain ethical decisions, and do they believe that they can speak freely?
- Has a policy of zero-tolerance for fraud been communicated to employees through words and actions?

2. Is an effective fraud reporting mechanism in place?

- Have employees been taught how to communicate concerns about known or potential wrongdoing?
- Is there an anonymous reporting channel available to employees, such as a third-party hotline?
- Do employees trust that they can report suspicious activity anonymously and/or confidentially and without fear of reprisal?
- Has it been made clear to employees that reports of suspicious activity will be promptly and thoroughly evaluated?
- Do reporting policies and mechanisms extend to vendors, customers and other outside parties?

3. To increase employees' perception of detection, are the following proactive measures taken and publicized to employees?

- Is possible fraudulent conduct aggressively sought out, rather than dealt with passively?
- Does the organization send the message that it actively seeks out fraudulent conduct through fraud assessment questioning by auditors?
- Are surprise fraud audits performed in addition to regularly scheduled audits?
- Is continuous auditing software used to detect fraud and, if so, has the use of such software been made known throughout the organization?

- 4. Is the management climate/tone at the top one of honesty and integrity?**
 - Are employees surveyed to determine the extent to which they believe management acts with honesty and integrity?
 - Are performance goals realistic?
 - Have fraud prevention goals been incorporated into the performance measures against which managers are evaluated and which are used to determine performance-related compensation?
 - Has the organization established, implemented and tested a process for oversight of fraud risks by the board of directors or others charged with governance (e.g., the audit committee)?
- 5. Are fraud risk assessments performed to proactively identify and mitigate the company's vulnerabilities to internal and external fraud?**
- 6. Are strong anti-fraud controls in place and operating effectively, including the following?**
 - Proper separation of duties
 - Use of authorizations
 - Physical safeguards
 - Job rotations
 - Mandatory vacations
- 7. Does the internal audit department, if one exists, have adequate resources and authority to operate effectively and without undue influence from senior management?**
- 8. Does the hiring policy include the following (where permitted by law)?**
 - Past employment verification
 - Criminal and civil background checks
 - Credit checks
 - Drug screening
 - Education verification
 - References check
- 9. Are employee support programs in place to assist employees struggling with addictions, mental/ emotional health, family or financial problems?**
- 10. Is an open-door policy in place that allows employees to speak freely about pressures, providing management the opportunity to alleviate such pressures before they become acute?**
- 11. Are anonymous surveys conducted to assess employee morale?**

May 1, 2019

Honorable Mayor and Members of the City Council
City of Scottsdale
3939 Drinkwater Blvd.
Scottsdale, AZ 85251

We are pleased to confirm our understanding of the services we are to provide for City of Scottsdale, Arizona (City) for the year ended June 30, 2019. We encourage you to read this letter carefully as it includes important information regarding the services we will be providing to the City. If there are any questions on the content of the letter, or the services we will be providing, we would welcome the opportunity to meet with you to discuss this information further.

We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements of City of Scottsdale, Arizona as of and for the year ended June 30, 2019. We have also been engaged to report on supplementary information that accompanies the City's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the basic financial statements as a whole:

1. Schedule of expenditures of federal awards
2. Combining and individual fund statements and schedules
3. Schedule of changes in long-term debt
4. HUD Financial Data Schedules

Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI) to supplement the City's basic financial statements. Such information, although not 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. As part of our engagement, we will apply certain limited procedures to the City's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding 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 will 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. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's discussion and analysis
2. Other postemployment benefit plan schedules
3. Net pension liability and pension contributions schedules

The following other information accompanying the basic financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that information.

1. Other information included with the audited financial statements such as the Introductory and Statistical Sections of the Comprehensive Annual Financial Report

In addition, we will examine the following and issue an accountant's report based on our examination for the year ended June 30, 2019.

1. The Annual Expenditure Limitation Report

We will also audit the following and issue an audit opinion (or disclaimer of opinion) based on our audit for the year ended June 30, 2019.

2. Municipal Property Corporation Annual Financial Report
3. Scottsdale Preserve Authority Annual Financial Report
4. Scottsdale Mountain Community Facilities District Annual Financial Report
5. McDowell Mountain Ranch Community Facilities District Annual Financial Report
6. DC Ranch Community Facilities District Annual Financial Report
7. Via Linda Road Community Facilities District Annual Financial Report
8. Waterfront Commercial Community Facilities District Annual Financial Report

We will also provide the necessary services to prepare a report on Highway User Revenue Fund (HURF) expenditures in accordance with ARS §9-481(B)(2).

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We will also report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the basic financial statements taken as a whole. Our responsibility in the expression of opinions is to plan and perform the audit to obtain reasonable assurance, but not absolute assurance, that the financial statements are free from material misstatements.

An important aspect to our expression of opinions on the financial statements is understanding the concept of materiality. Our determination of materiality is a matter of professional judgment and is affected by our perception of the financial information needs of users of the financial statements. In this context, it is reasonable for us to assume that users –

1. have a reasonable knowledge of business and economic activities and accounting principles, and a willingness to study the information in the financial statements with reasonable diligence;
2. understand that financial statements are prepared, presented, and audited to levels of materiality;
3. recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
4. make reasonable economic decisions on the basis of the information in the financial statements.

The objective of our audit also includes reporting on –

- Internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of accounting records, a determination of major programs in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon completion of our Single Audit. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue reports, or may withdraw from this engagement.

Audit Procedures - General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our tests will not include a detailed check of all of the City's transactions for the period. 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 will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry.

At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Audit Procedures - Internal Controls

Our audit will include obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards* and the Uniform Guidance.

Audit Procedures - Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the City has complied with federal statutes, regulations and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Uniform Guidance Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the City's major programs. The purpose of these procedures will be to express an opinion on the City's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

Management Responsibilities

Management is responsible for the basic financial statements, schedule of expenditures of federal awards, and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, including the preparation of the schedule of expenditures of federal awards in accordance with the requirements of the Uniform Guidance.

Management is responsible for (1) designing, implementing, establishing and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including internal controls over federal awards, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with accounting principles generally accepted in the United States of America; and for compliance with applicable laws and regulations (including federal statutes) and the provisions of contracts and grant agreements (including award agreements). Your responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information for which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the Uniform Guidance, (3) additional information that we may request for the purpose of the audit, and (4) unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence.

Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is also responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the City involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, grantors, regulators, or others. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. In addition, you are responsible for identifying and ensuring that the City complies with applicable laws, regulations, contracts, agreements and grants. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a summary schedule of prior audit findings and a separate corrective action plan. The summary schedule of prior audit findings should be available for our review prior to issuance of our reports.

Management is responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in conformity with the Uniform Guidance. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon or make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

Management is also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with accounting principles generally accepted in the United States of America. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or to make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon.

Your responsibilities include acknowledging to us in a written representation letter that (1) you are responsible for presentation of supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our tests will not include a detailed check of all transactions for the period.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

We expect to begin our audit in May 2019 and conclude audit procedures and date our report in October 2019.

Use of Third-Party Service Providers

We maintain internal policies, procedures, and safeguards to protect the confidentiality of your information. We may, depending on the circumstances, use third-party service providers in providing our professional services. The following service providers may be utilized in the completion of our engagement:

- Capital Confirmation, Inc. – electronic bank and account balance confirmation service
- Wolters Kluwer – web-based application service to transfer files
- Harvest Investments, Ltd. – investment portfolio valuation service

You hereby consent and authorize us to use the above service providers, if deemed necessary, to complete the professional services outlined in this letter.

Engagement Administration, Fees and Other

We understand that your employees will prepare and provide us with the items listed in our request for audit information and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to electronically submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the Federal Audit Clearinghouse. We will coordinate with you the electronic submission and certification. The Data Collection Form and the reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditors' reports or nine months after the end of the audit period. The Data Collection Form and the reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's reports or nine months after the end of the audit period.

We will provide copies, which may include electronic copies, of the reports to the City. It is management's responsibility to submit the reporting package, if appropriate, to pass-through entities and any other agencies that request or require the reports. Unless restricted by law or regulation, or containing privileged or confidential information, copies of our audit reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Heinfeld, Meech & Co., P.C., and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to a cognizant or oversight agency or its designee, a federal agency providing direct or indirect funding, the U.S. Government Accountability Office, or other authorized governmental agency for the purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Heinfeld, Meech & Co., P.C., personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release or for any additional period requested by governmental agencies. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the parties contesting the audit finding for guidance prior to destroying the audit documentation.

Jill Shaw is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Our fee for these services will be at the amount outlined in our proposal. Our fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. We exercised care in estimating the fee and believe it accurately indicates the scope of the work. Our fee does not include factors beyond our control, such as new GASB requirements, consultation and assistance in correcting errors in City-prepared information, or rescheduling of the audit when the City is not prepared. It will be necessary for you to complete the requested information by certain timelines in order to meet the applicable filing deadlines for your audit reports. Not completing the requested information on time will jeopardize meeting the applicable filing deadlines. Additional fees incurred for factors beyond our control will be billed at the following hourly rates: Partner - \$253; Manager - \$168; Senior - \$135; Staff - \$106. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2018 peer review report accompanies this letter.

We appreciate the opportunity to be of service to City of Scottsdale, Arizona and believe that this letter accurately summarizes the significant terms of our engagement. Please feel free to contact us at any time if you have questions or concerns. If you have any questions regarding this letter, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona

cc: Sharron E. Walker, CPA, CFE, CLEA, City Auditor

RESPONSE

This letter correctly sets forth the understanding of City of Scottsdale, Arizona.

Printed Name: Kathleen Susan Littlefield

Title: Audit Committee Chair

Signature: Kathleen Susan Littlefield

Date: May 8, 2019

Grant Bennett Associates

A PROFESSIONAL CORPORATION

Report on the Firm's System of Quality Control

August 16, 2018

To the Shareholders of Heinfeld, Meech & Co., P. C. and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Heinfeld, Meech & Co., P. C. (the firm) in effect for the year ended May 31, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act and an audit of an employee benefit plan.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Heinfeld, Meech & Co., P. C. in effect for the year ended May 31, 2018, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Heinfeld, Meech & Co., P. C. has received a peer review rating of *pass*.

Grant Bennett Associates

GRANT BENNETT ASSOCIATES
A PROFESSIONAL CORPORATION
Certified Public Accountants



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May 1, 2019

Honorable Mayor and Members of the City Council
City of Scottsdale
3939 Drinkwater Blvd.
Scottsdale, AZ 85251

We are pleased to confirm our understanding of the services we are to provide for the City of Scottsdale, Arizona (City).

We will examine the Annual Expenditure Limitation Report (AELR) of the City for the year ended June 30, 2019. The objective of our examination is to obtain reasonable assurance about whether the AELR is presented, in all material respects, in accordance with the Uniform Expenditure Reporting System.

Our examination will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Accordingly, it will include examining, on a test basis, your records and other procedures to obtain evidence necessary to enable us to express our opinion. We will issue a written report upon completion of our examination. Our report will be addressed to the Auditor General of the State of Arizona, Honorable Mayor, Members of the City Council, and Management of the City. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion. If our opinion is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the examination or are unable to form or have not formed an opinion, we may decline to express an opinion or may withdraw from this engagement.

Because of the inherent limitations of an examination engagement, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the examination is properly planned and performed in accordance with the attestation standards.

We will plan and perform the examination to obtain reasonable assurance about whether the AELR is free from material misstatement, based on the Uniform Expenditure Reporting System. Our engagement will not include a detailed inspection of every transaction and cannot be relied on to disclose all material errors, or known and suspected fraud or noncompliance with laws or regulations, or internal control deficiencies that may exist. However, we will inform you of any known and suspected fraud and noncompliance with laws or regulations, internal control deficiencies identified during the engagement, and uncorrected misstatements that come to our attention unless clearly trivial.

We understand that you will provide us with the information required for our examination and that you are responsible for the accuracy and completeness of that information. We may advise you about appropriate criteria, but the responsibility for the subject matter remains with you.

You are responsible for the presentation of AELR in accordance with the Uniform Expenditure Reporting System and for selecting the criteria and determining that such criteria are appropriate for your purposes. You are responsible for, and agree to provide us with, a written assertion about whether AELR is presented in accordance with the Uniform Expenditure Reporting System. Failure to provide such an assertion will result in our withdrawal from the engagement. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the measurement, evaluation, or disclosure of the subject matter; (2) additional information that we may request for the purpose of the examination; and (3) unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

At the conclusion of the engagement, you agree to provide us with certain written representations in the form of a representation letter.

We maintain internal policies, procedures, and safeguards to protect the confidentiality of your information. We may, depending on the circumstances, use third-party service providers in providing our professional services. You hereby consent and authorize us to use service providers, if deemed necessary, to complete the professional services outlined in this letter.

Jill Shaw is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our fee for these services will be at the amount outlined in our proposal. Our fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. We exercised care in estimating the fee and believe it accurately indicates the scope of the work. Subsequent review of documentation and additional meetings will be billed at the hourly rates indicated below. Our fee does not include factors beyond our control, such as consultation and assistance in correcting errors in City prepared information, or rescheduling when the City is not prepared. Not completing the requested information on time will jeopardize meeting the applicable filing deadlines. Additional fees incurred for factors beyond our control will be billed at the following hourly rates: Partner - \$253; Manager - \$168; Senior - \$135; Staff - \$106. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona

RESPONSE:

cc: Sharron E. Walker, CPA, CFE, CLEA, City Auditor

This letter correctly sets forth the understanding of City of Scottsdale, Arizona.

By: *Kathleen Susan Littlefield*

Title: *Audit Committee Chair*

Date: *May 8, 2019*

May 1, 2019

Honorable Mayor and Members of the City Council
 City of Scottsdale
 3939 Drinkwater Blvd.
 Scottsdale, AZ 85251

We are pleased to confirm our understanding of the nature and limitations of the services we are to provide for City of Scottsdale, Arizona (City).

We will apply agreed-upon procedures, which were agreed to by the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC) and management of the City for the year ended June 30, 2019. This engagement is solely to assist the U.S. Department of Housing and Urban Development, REAC and management of the City in determining whether the electronic submission of certain information agrees with the related hard copy documents (listed in the chart below). Our engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the report and we will require an acknowledgment in writing of that responsibility. Consequently, we make no representation regarding the sufficiency of the procedures described either for the purpose for which this report has been requested or for any other purpose.

Schedule of Agreed-Upon Procedures

We will compare the electronic submission of the items listed in the “Element Description” column with the corresponding hard copy documents listed in the “Hard Copy Documents” column as shown in the chart below.

| Element Description | Hard Copy Documents |
|--|--|
| Balance Sheet and Income Statement (data line items 111-11210) | Financial Data Schedules |
| Footnotes (data element G5000-010) | Footnotes to audited basic financial statements of the reporting entity |
| Type of opinion on Financial Data Schedule (data element G3100-040 and G5100-010) | Auditor’s supplemental report on Financial Data Schedules |
| Financial Statement Results (data element G3000-010 through 080) | Summary of Findings and Questioned Costs in the Single Audit Reporting Package |
| Federal Award Results (data elements G4000-020 through 080 and G4100-040) | Summary of Findings and Questioned Costs in the Single Audit Reporting Package |
| Federal Awards Expended Details (data elements G4100-030, G4100-050 and G4200-010 through G4200-120) | Summary of Findings and Questioned Costs in the Single Audit Reporting Package |

Because the agreed-upon procedures do not constitute an examination, we will not express an opinion on the information listed in the chart above. In addition, we have no obligation to perform any procedures beyond those listed in the chart above.

We will submit a report listing the procedures performed and our findings. If, for any reason, we are unable to complete the procedures, we will describe any restrictions on the performance of the procedures in our report, or will not issue a report as a result of this engagement. You understand that the report is intended solely for the use of the U.S. Department of Housing and Urban Development, REAC and management of the City, and should not be used by anyone other than these specified parties. Our report will contain a paragraph indicating that we have not performed additional procedures, other matters might have come to our attention that would have been reported to you. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

An agreed-upon procedures engagement is not designed to detect instances of fraud or noncompliance with laws or regulations; however, we will communicate to you any known and suspected fraud and noncompliance with laws or regulations affecting the HUD REAC submission that come to our attention. In addition, if in connection with this engagement, matters come to our attention that contradict the HUD REAC submission, we will disclose those matters in our report.

Management is responsible for the presentation of the electronic submission and related hard copy documents listed in the chart above of the City for the year ended June 30, 2019, in accordance with the agreed-upon procedures the U.S. Department of Housing and Urban Development, REAC has specified; and for selecting the criteria and determining that such criteria are appropriate for your purposes. You are responsible for, and agree to provide us with a written assertion acknowledging that responsibility. In addition, you are responsible for providing us with 1) access to all information of which you are aware that is relevant to the performance of the agreed-upon procedures on the subject matter, (2) additional information that we may request for the purpose of performing the agreed-upon procedures, and (3) unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence relating to performing those procedures.

At the conclusion of our engagement, we will require a representation letter from management that, among other things, will confirm management's responsibility for the presentation of the electronic submission and related hard copy documents (listed in the chart above) in accordance with the U.S. Department of Housing and Urban Development, REAC requirements

Jill Shaw is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. We plan to begin our procedures in January 2020 and, unless unforeseeable problems are encountered, the engagement will be completed by the end of January 2020.

Our fee for these services is included in the fee for the financial statement audit as outlined in our audit proposal. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

We appreciate the opportunity to be of service to City of Scottsdale, Arizona and believe that this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy of this letter and return it to our office.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona

cc: Sharron E. Walker, CPA, CFE, CLEA, City Auditor

RESPONSE

This letter correctly sets forth the understanding of City of Scottsdale, Arizona.

Printed Name: *Kathleen Susan Littlefield*

Title: *Audit Committee Chair*

Signature: *Kathleen Susan Littlefield*

Date: *5/8/2019*



City Treasurer's Office

7447 E. Indian School Road, Suite 210
Scottsdale, AZ 85251

PHONE 480-312-2437
FAX 480-312-7897
WEB www.ScottsdaleAZ.gov

Heinfeld, Meech & Co., P.C.
3033 N. Central Ave. Suite 300
Phoenix, AZ 85012

This representation letter is provided in connection with your audit of the financial statements of City of Scottsdale, Arizona (City), which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows for the period then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.
8. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
9. The effects of all known actual or possible litigation, claims, and assessments have been evaluated, and if necessary, have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14. We have no knowledge of any fraud or suspected fraud that affects the City and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, grantors, regulators, or others.
16. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
18. We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
20. If applicable, we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
21. We have a process to track the status of audit findings and recommendations.
22. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
23. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
24. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.
25. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.

26. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
27. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
28. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
29. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
30. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
31. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
32. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
33. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
34. The financial statements properly classify all funds and activities in accordance with U.S. GAAP.
35. All funds that meet the quantitative criteria for presentation as a major fund are identified and presented as such and all other funds that are presented as a major fund are particularly important to financial statement users.
36. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
37. Investments are properly valued.

38. With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
39. If applicable, provisions for uncollectible receivables have been properly identified and recorded.
40. All payroll information and the individual employment data have been properly submitted to the state retirement systems, and the employer contributions have been properly submitted to the retirement systems.
41. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
42. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
43. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
44. Special and extraordinary items, if any, are appropriately classified and reported.
45. Deposits and investment securities are properly classified as to risk and are properly disclosed.
46. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.
47. We have identified and disclosed to you all programs, agreements, and transactions that result in a tax abatement for financial reporting purposes. Tax abatement agreements and programs have been properly disclosed in the notes to the financial statements.
48. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
49. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

50. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
51. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
52. With respect to the supplementary information presented, such as the combining and individual fund statements and schedules and the schedule of expenditures of federal awards.
 - a. We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
53. With respect to federal award programs:
 - a. We are responsible for understanding and complying with and have complied with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).
 - b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
 - c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.

- d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e. We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g. We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards, if any.
- j. We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR Part 200, Subpart E).
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

- n. We have made available to you all documentation related to compliance with the direct material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report.
- r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t. If applicable, we have monitored subrecipients to determine that they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.
- u. If applicable, we have issued management decisions for audit findings that relate to federal awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient.
- v. If applicable, we have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- w. We have charged costs to federal awards in accordance with applicable cost principles.
- x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- y. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.

- z. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- aa. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.
- bb. If applicable, we have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

We understand that at the conclusion of the audit, Heinfeld, Meech & Co., P.C. will submit to the City Auditor a communication to those charged with governance that will include a copy of this representation letter.

Jeffery M. Nichols
Jeffery M. Nichols (Oct 16, 2019)

Jeffery M. Nichols, CPA
City Treasurer/Chief Financial Officer
City of Scottsdale, Arizona

Oct 16, 2019

Date

Joyce Gilbride
Joyce Gilbride (Oct 16, 2019)

Joyce L. Gilbride, CPA
Accounting Director
City of Scottsdale, Arizona

Oct 16, 2019

Date

**CITY OF SCOTTSDALE, ARIZONA
PASSED ADJUSTING JOURNAL ENTRIES
JUNE 30, 2019**

| PAJE # | Description | DR | CR |
|---------------|--|-----------|-----------|
| 001 | Sales Tax Receivable | 4,184,655 | |
| 001 | DIR - Unavailable Revenue | | 4,184,655 |
| | To record August TPT collections. | | |
| | | | |
| 002 | DIR - Unavailable Revenue | 4,184,655 | |
| 002 | Sales Tax Revenue | | 4,184,655 |
| | GW Reclassification for PAJE 001 | | |
| | | | |



City of Scottsdale, Arizona
Single Audit Reporting Package
Year Ended June 30, 2019

**CITY OF SCOTTSDALE, ARIZONA
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2019**

| <u>CONTENTS</u> | <u>Page</u> |
|---|--------------------|
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 1 |
| Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance | 3 |
| Schedule of Expenditures of Federal Awards | 6 |
| Notes to Schedule of Expenditures of Federal Awards | 8 |
| Schedule of Findings and Questioned Costs | 9 |
| Auditee Response | |
| Cover Letter | 10 |
| Summary Schedule of Prior Audit Findings | 11 |

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of Scottsdale, Arizona

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City of Scottsdale, Arizona's basic financial statements, and have issued our report thereon dated October 18, 2019. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement Nos. 88 and 89.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Scottsdale, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Scottsdale, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Scottsdale, Arizona's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Scottsdale, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 18, 2019

**Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and
Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance**

Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of Scottsdale, Arizona

Report on Compliance for Each Major Federal Program

We have audited City of Scottsdale, Arizona's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Scottsdale, Arizona's major federal programs for the year ended June 30, 2019. City of Scottsdale, Arizona's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Scottsdale, Arizona's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Scottsdale, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Scottsdale, Arizona's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Scottsdale, Arizona complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of City of Scottsdale, Arizona is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Scottsdale, Arizona's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Scottsdale, Arizona's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Scottsdale, Arizona as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City of Scottsdale, Arizona's basic financial statements. We issued our report thereon dated October 18, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 18, 2019

CITY OF SCOTTSDALE, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2019

| Federal Grantor Agency/Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor (See Notes) | Federal Grant / Pass-Through Number | FY 18/19 Expenditures | Payments to Subrecipients | Total FY 18/19 Expenditures |
|--|---------------------------|--|--|--------------------------|------------------------------|--------------------------------|
| Department of Housing and Urban Development | | | | | | |
| CDBG - Entitlement Grants Cluster: | | | | | | |
| Assistant Secretary for Community Planning and Development: Community Development Block Grants/Entitlement Grants | 14.218 | N/A | B-15-MC-04-0503 | 95,469 | - | 95,469 |
| Assistant Secretary for Community Planning and Development: Community Development Block Grants/Entitlement Grants | 14.218 | N/A | B-16-MC-04-0503 | 189,246 | - | 189,246 |
| Assistant Secretary for Community Planning and Development: Community Development Block Grants/Entitlement Grants | 14.218 | N/A | B-17-MC-04-0503 | 403,650 | 121,121 | 524,771 |
| Assistant Secretary for Community Planning and Development: Community Development Block Grants/Entitlement Grants | 14.218 | N/A | B-18-MC-04-0503 | 542,790 | 183,142 | 725,932 |
| | | | | <u>1,231,155</u> | <u>304,263</u> | <u>1,535,418</u> |
| Assistant Secretary for Community Planning and Development: Home Investment Partnerships Program | 14.239 | MCHC | M-15-DC-04-0227 | 4,833 | 14,699 | 19,532 |
| Assistant Secretary for Community Planning and Development: Home Investment Partnerships Program | 14.239 | MCHC | M-16-DC-04-0227 | 1,958 | 212,710 | 214,668 |
| | | | | <u>6,791</u> | <u>227,409</u> | <u>234,200</u> |
| Housing Voucher Cluster: | | | | | | |
| Assistant Secretary for Public and Indian Housing: Section 8 Housing Choice Vouchers | 14.871 | N/A | AZ032AF | 439,906 | - | 439,906 |
| Assistant Secretary for Public and Indian Housing: Section 8 Housing Choice Vouchers | 14.871 | N/A | AZ032VO | 5,181,259 | - | 5,181,259 |
| Total Housing Voucher Cluster: | | | | <u>5,621,165</u> | <u>-</u> | <u>5,621,165</u> |
| Assistant Secretary for Public and Indian Housing: Family Self- Sufficiency Program | 14.896 | N/A | AZ032FSH | 63,342 | - | 63,342 |
| Total Department of Housing and Urban Development | | | | <u>\$ 6,922,453</u> | <u>\$ 531,672</u> | <u>\$ 7,454,125</u> |
| Department of Justice | | | | | | |
| Office of Justice Programs: National Criminal History Improvement Program (NCHIP) | 16.554 | ACJC | NCP 17-18-006 | 34,727 | - | 34,727 |
| Office of Justice Programs: Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | MARICOPA | 2016-DJ-BX-0706 | 2,136 | - | 2,136 |
| Office of Justice Programs: Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | MARICOPA | 2017-DJ-BX-0023 | 26,954 | - | 26,954 |
| | | | | <u>29,090</u> | <u>-</u> | <u>29,090</u> |
| Office of Justice Programs: DNA Backlog Reduction Program | 16.741 | MARICOPA | 2017-DN-BX-0131 | 5,789 | - | 5,789 |
| Office of Justice Programs: Paul Coverdell Forensic Sciences Improvement Grant Program | 16.742 | ACJC | CV 17-18-004 | 4,727 | - | 4,727 |
| Office of Justice Programs: Paul Coverdell Forensic Sciences Improvement Grant Program | 16.742 | ACJC | CV 18-19-004 | 2,412 | - | 2,412 |
| | | | | <u>7,139</u> | <u>-</u> | <u>7,139</u> |
| Total Department of Justice | | | | <u>\$ 76,745</u> | <u>\$ -</u> | <u>\$ 76,745</u> |
| Department of Transportation | | | | | | |
| Federal Aviation Administration: Airport Improvement Program | 20.106 | N/A | 3-04-0032-034-2017 | 32,222 | - | 32,222 |
| Federal Aviation Administration: Airport Improvement Program | 20.106 | N/A | 3-04-0032-035-2017 | 981,187 | - | 981,187 |
| Federal Aviation Administration: Airport Improvement Program | 20.106 | N/A | 3-04-0032-036-2018 | 2,099,060 | - | 2,099,060 |
| Federal Aviation Administration: Airport Improvement Program | 20.106 | N/A | 3-04-0032-037-2019 | 73,408 | - | 73,408 |
| | | | | <u>3,185,877</u> | <u>-</u> | <u>3,185,877</u> |
| Highway Planning and Construction Cluster: | | | | | | |
| Federal Highway Administration: Highway Planning and Construction | 20.205 | ADOT | CMAQ SCT-0(231)D | 678,919 | - | 678,919 |
| Federal Highway Administration: Highway Planning and Construction | 20.205 | ADOT | CM-SCT-0(218)D | 14,196 | - | 14,196 |
| Federal Highway Administration: Highway Planning and Construction | 20.205 | ADOT | HSIP-SCT-0(217)D | 314,219 | - | 314,219 |
| Total Highway Planning Cluster: | | | | <u>1,007,334</u> | <u>-</u> | <u>1,007,334</u> |
| Federal Transit Cluster: | | | | | | |
| Federal Transit Administration: Federal Transit Formula Grants | 20.507 | COP | AZ-2018-009-00 | 118,542 | - | 118,542 |
| Federal Transit Administration: Federal Transit Formula Grants | 20.507 | COP | AZ-90-X136 | 76,585 | - | 76,585 |
| Total Federal Transit Cluster: | | | | <u>195,127</u> | <u>-</u> | <u>195,127</u> |

CITY OF SCOTTSDALE, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2019

| Federal Grantor Agency/Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor (See Notes) | Federal Grant / Pass-Through Number | FY 18/19 Expenditures | Payments to Subrecipients | Total FY 18/19 Expenditures |
|--|---------------------------|--|--|--------------------------|------------------------------|--------------------------------|
| Department of Transportation (cont'd) | | | | | | |
| Highway Safety Cluster: | | | | | | |
| National Highway Traffic Safety Administration: State and Community Highway Safety | 20.600 | GOHS | 2019-AI-010 | 15,439 | - | 15,439 |
| National Highway Traffic Safety Administration: National Priority Safety Programs | 20.616 | GOHS | 2019-405d-037 | 52,882 | - | 52,882 |
| National Highway Traffic Safety Administration: National Priority Safety Programs | 20.616 | GOHS | 2019-405h-023 | 13,618 | - | 13,618 |
| National Highway Traffic Safety Administration: National Priority Safety Programs | 20.616 | GOHS | 2019-CIOT-023 | 8,242 | - | 8,242 |
| Total Highway Safety Cluster: | | | | 90,181 | - | 90,181 |
| National Highway Traffic Safety Administration: (NHTSA) Discretionary Safety Grants and Cooperative Agreements | 20.614 | GOHS | 2018-PB-007 | 14,517 | - | 14,517 |
| Total Department of Transportation | | | | \$ 4,493,036 | \$ - | \$ 4,493,036 |
| Institute of Museum and Library Services | | | | | | |
| Grants to States | 45.310 | ASLAPR | 2017-0010-M-00 | 1,064 | - | 1,064 |
| Grants to States | 45.310 | ASLAPR | 2017-0170-13 | 16,068 | - | 16,068 |
| Grants to States | 45.310 | ASLAPR | 2017-0260-14 | 23,057 | - | 23,057 |
| Total Institute of Museum and Library Services | | | | \$ 40,189 | \$ - | \$ 40,189 |
| Department of Homeland Security | | | | | | |
| Federal Emergency Management Agency: Assistance to Firefighters Grant | 97.044 | N/A | EMW-2017-FO-04170 | 132,446 | - | 132,446 |
| Federal Emergency Management Agency: Assistance to Firefighters Grant | 97.044 | COM | EMW-2017-FR-00143 | 132,505 | - | 132,505 |
| | | | | 264,951 | - | 264,951 |
| Federal Emergency Management Agency: Homeland Security Grant Program | 97.067 | AZDOHS | 170819-01 | 4,809 | - | 4,809 |
| Federal Emergency Management Agency: Homeland Security Grant Program | 97.067 | AZDOHS | 170820-01 | 4,675 | - | 4,675 |
| Federal Emergency Management Agency: Homeland Security Grant Program | 97.067 | AZDOHS | 170820-02 | 831 | - | 831 |
| Federal Emergency Management Agency: Homeland Security Grant Program | 97.067 | AZDOHS | 180212-01 | 25,913 | - | 25,913 |
| Federal Emergency Management Agency: Homeland Security Grant Program | 97.067 | AZDOHS | 180214-01 | 5,686 | - | 5,686 |
| Federal Emergency Management Agency: Homeland Security Grant Program | 97.067 | AZDOHS | 180818-01 | 10,222 | - | 10,222 |
| Federal Emergency Management Agency: Homeland Security Grant Program | 97.067 | AZDOHS | 180818-02 | 625 | - | 625 |
| Federal Emergency Management Agency: Homeland Security Grant Program | 97.067 | AZDOHS | 180819-01 | 34,294 | - | 34,294 |
| Federal Emergency Management Agency: Homeland Security Grant Program | 97.067 | AZDOHS | 180819-02 | 6,119 | - | 6,119 |
| | | | | 93,174 | - | 93,174 |
| Federal Emergency Management Agency: Staffing for Adequate Fire and Emergency Response (SAFER) | 97.083 | N/A | EMW-2017-FH-00439 | 169,470 | - | 169,470 |
| Total Department of Homeland Security | | | | \$ 527,595 | \$ - | \$ 527,595 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | | \$ 12,060,018 | \$ 531,672 | \$ 12,591,690 |

(See Notes to Schedule of Expenditures of Federal Awards)

**CITY OF SCOTTSDALE, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDING JUNE 30, 2019**

1. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Scottsdale, Arizona (City) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with requirements of Title 2 of the U.S. Code of Federal Regulations - Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. Federal awards provided to sub-recipients are treated as expenditures when paid to the sub-recipient.

2. THE REPORTING ENTITY

The City, for purposes of the Schedule of Expenditures of Federal Awards, includes all the funds of the primary government as defined by Government Accounting Standards Board (GASB).

The City administers certain federal financial assistance programs through sub-recipients. Those sub-recipients are not considered part of the City reporting entity.

3. PASS-THROUGH GRANTOR'S REFERENCE

The City receives certain federal awards from the following non-Federal agencies. The amounts received are commingled by the state with other funds and cannot be separately identified. The total amount of such pass-through awards is included on the Schedule of Expenditures of Federal Awards.

- ACJC Arizona Criminal Justice Commission
- ADOT Arizona Department of Transportation
- ASLAPR Arizona State Library, Archives and Public Records
- AZDOHS Arizona Department of Homeland Security
- COP City of Phoenix
- COM City of Maricopa
- GOHS Governor's Office of Highway Safety
- MARICOPA Maricopa County
- MCHC Maricopa County Home Consortium

4. INDIRECT COST RATE

The City has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF SCOTTSDALE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: No

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516 of Uniform Guidance: No

Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|---------------------|---|
| 14.218 | CDBG – Entitlement Grants Cluster |
| 20.106 | Airport Improvement Program |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee: Yes

Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*: No

Findings and Questioned Costs Related to Federal Awards: No

Summary Schedule of Prior Audit Findings required to be reported: Yes



City Treasurer's Office

7447 E. Indian School Road, Suite 210
Scottsdale, AZ 85251

PHONE 480-312-2437
FAX 480-312-7897
WEB www.ScottsdaleAZ.gov

October 18, 2019

To Whom It May Concern:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Uniform Guidance. The status for each finding included in the prior year audit's Schedule of Findings and Questioned Costs has been provided.

Sincerely,

A handwritten signature in cursive script that reads "Joyce Gilbride".

Joyce Gilbride, CPA
Accounting Director

**CITY OF SCOTTSDALE, ARIZONA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**

**Status of Findings Related to Financial Statements Reported in Accordance with
*Government Auditing Standards***

Finding Number: FS-2018-001
Status: Fully corrected.

Finding Number: FS-2018-002
Status: Fully corrected.

Status of Findings and Questioned Costs Related to Federal Awards

Finding Number: 2018-001
Program Name/CFDA Title: Airport Improvement Program
CFDA Number: 20.106
Status: Fully corrected.

INDEPENDENT ACCOUNTANT'S REPORT

Honorable Mayor and Members of the City Council
City of Scottsdale, Arizona

We have examined the City of Scottsdale, Arizona's (City) compliance as to whether highway user revenue fund monies received by the City pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the City, were used solely for authorized transportation purposes during the year ended June 30, 2019. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City of Scottsdale, Arizona's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about the City's compliance with the requirements referred to above, in all material respects. An examination involves performing procedures to obtain evidence about the City's compliance with the requirements referred to above. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance of the report, whether due to fraud or error. We believe the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City of Scottsdale, Arizona complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2019.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 18, 2019

DC Ranch Community Facilities District
(A Component Unit of the City of Scottsdale, Arizona)



Annual Financial Report
Fiscal Year Ended June 30, 2019

DC Ranch Community Facilities District
(A Component Unit of the City of Scottsdale, Arizona)

Annual Financial Report

Fiscal Year Ended June 30, 2019

DC Ranch Community Facilities District

For the Fiscal Year ended June 30, 2019

Table of Contents

| | |
|--|----|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 3 |
| BASIC FINANCIAL STATEMENTS | |
| Statement of Net Position and Governmental Funds Balance Sheet | 9 |
| Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances..... | 10 |
| Notes to the Basic Financial Statements | 11 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund | 21 |
| SUPPLEMENTARY INFORMATION | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund | 23 |

INDEPENDENT AUDITOR'S REPORT

Board of Directors
DC Ranch Community Facilities District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of DC Ranch Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District'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 and each major fund of the DC Ranch Community Facilities District, as of June 30, 2019, 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.

Change in Accounting Principle

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, for the year ended June 30, 2019, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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 District’s basic financial statements. The supplementary budget comparison information for the Debt Service Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary budget comparison information of the Debt Service Fund is the responsibility of management and was derived from and relates 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 supplementary budget comparison information of the Debt Service Fund is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, on our consideration of DC Ranch Community Facilities District’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 DC Ranch Community Facilities District’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 DC Ranch Community Facilities District’s internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 18, 2019

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

As management of the DC Ranch Community Facilities District (District), we offer readers a narrative overview and analysis of the financial activities for the District. The District is one of the City of Scottsdale, Arizona's component units for financial reporting purposes for the fiscal year ended June 30, 2019.

Formed in 1997, the District is a special purpose taxing district and separate political subdivision under Arizona statutes. As such, the District can levy taxes and issue bonds, independent of the City of Scottsdale, Arizona (City). Property owners within the District boundaries pay for District infrastructure and functions through secondary property tax assessments. City staff administers the District and the costs of their services are reimbursed by District funds. The Scottsdale City Council also serves as the District Board of Directors.

FINANCIAL HIGHLIGHTS

For the year ending 2018/19, the District's:

- Tax collections and beginning fund balances were sufficient to pay debt service.
- Tax rate continued to comply with the City-imposed assessment limit of \$3.00 per \$100 assessed valuation; the tax rate was \$0.43 per \$100 assessed valuation.
- Governmental funds reported a combined ending fund balance of \$211,268. Of this amount, \$50,452 was in the General Fund and \$160,816 was in the Debt Service Fund.
- Governmental fund revenues were greater than expenditures by \$3,726, the tax rate decreased from \$0.46 in fiscal year 2017/18 to \$0.43.
- Total long-term debt decreased by \$950,000 due to scheduled principal payments.
- Significant bond indentures were in compliance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the District's basic financial statements. Because of its limited purpose, the District's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance and (2) Notes to the Basic Financial Statements.

Because the District has only one governmental program, the government-wide and fund financial statements are combined.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Government-wide Financial Statements

The *Statement of Net Position* is designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. Changes in net position are reported when 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, such as revenues pertaining to uncollected taxes and expenses related to accrued interest.

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 District, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Debt Service funds are restricted as to use, and the General funds are unassigned.

The District maintains two governmental funds, general and debt service. Information is presented in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Debt Service Fund.

The District adopts an annual budget for its General Fund and Debt Service Fund. Supplementary budgetary schedules have been provided to demonstrate compliance with these budgets.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to acquire a full understanding of the data provided in the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents as required supplementary information a comparison between budgeted and actual amounts within the General Fund.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The liabilities of the District exceeded its assets and deferred outflows at the close of the most recent fiscal year by approximately \$8.6 million (net position). The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and a separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes to pay the debt service over the life of the bonds. The City Council serves as the Board of Directors. However, the City has no liability for the District's debt. For financial reporting purposes, transactions of the District are combined together and included as if they were part of the City's operations and the assets financed through the District are combined with the infrastructure of the City. Because the capital assets are recorded in the City's basic financial statements, the Statement of Net Position for the District reflects a large liability without an offsetting asset.

Net Position

June 30, 2019 and 2018

| | Governmental Activities | |
|---|-------------------------|----------------|
| | 2019 | 2018 |
| ASSETS | | |
| Current Assets | \$ 97,037 | \$ 89,826 |
| Noncurrent Assets | 1,249,342 | 1,243,675 |
| Total Assets | 1,346,379 | 1,333,501 |
| Deferred Outflows of Resources | 319,939 | 359,931 |
| Total Assets and Deferred Outflows of Resources | 1,666,318 | 1,693,432 |
| LIABILITIES | | |
| Current Liabilities | 1,117,431 | 1,103,117 |
| Noncurrent Liabilities | 9,184,884 | 10,174,244 |
| Total Liabilities | 10,302,315 | 11,277,361 |
| NET POSITION | | |
| Restricted | 178,496 | 176,850 |
| Unrestricted | (8,814,493) | (9,760,779) |
| Total Net Position | \$ (8,635,997) | \$ (9,583,929) |

During the fiscal year, the District's total net position increased by \$947,932.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Changes in Net Position

For the Fiscal Years Ended June 30, 2019 and 2018

| | Governmental Activities | |
|---------------------------------|-------------------------|----------------|
| | 2019 | 2018 |
| REVENUES | | |
| Taxes | \$ 1,356,017 | \$ 1,335,035 |
| EXPENSES | | |
| General Government | 71,141 | 70,387 |
| Debt Service | 336,944 | 368,315 |
| Total Expenses | 408,085 | 438,702 |
| Change in Net Position | 947,932 | 896,333 |
| Net Position, Beginning of Year | (9,583,929) | (10,480,262) |
| Net Position, End of Year | \$ (8,635,997) | \$ (9,583,929) |

Revenues increased in fiscal year 2018/19 due to an increase in the taxes levied and expenses decreased due to the reduction in interest on long-term debt, increasing the District's net position.

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with legal requirements related to special purpose districts and general obligation bonds.

Financial Analysis of the District's Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the District's ability to pay the debt service on the general obligation bonds it issues to fund construction or acquisition of public infrastructure.

As of the end of fiscal year 2018/19, the District's governmental funds reported revenues greater than expenditures by \$3,726 and an ending fund balance of \$211,268. Of the total ending fund balance, \$50,452 is in the General Fund and \$160,816 is in the Debt Service Fund.

All revenues collected represented property taxes and totaled \$1,361,179 for the fiscal year ended June 30, 2019.

Capital Assets and Debt Administration

The District was formed to finance and acquire or construct amenities that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Since formation, District bonds have been issued, and the proceeds used to acquire or construct parks, paths, trails, roads, athletic fields and related athletic field infrastructure.

The District has issued all of the authorized \$20,000,000 in District general obligation bonds.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

The District general obligation bonds have a 25-year term. In the event that the District Board decides at a future time to dissolve the District, State statute provides that all taxable property in the District will remain subject to the lien for the payment of the bonds until all bonds have been defeased.

The District is not engaged in any significant activities other than providing for the levy of secondary property taxes to pay debt service and administrative fees.

Outstanding Debt

June 30, 2019 and 2018

| | Governmental Activities | |
|--------------------------|-------------------------|---------------------|
| | 2019 | 2018 |
| General Obligation Bonds | <u>\$ 8,870,000</u> | <u>\$ 9,820,000</u> |

The District's total long-term debt decreased by \$950,000 during the current fiscal year due to payment of principal on the refunding bonds.

Next Year's Budget and Rates

The fiscal year 2019/20 District budget includes a \$0.41 tax rate per \$100 of assessed value. This is a \$0.02 decrease from the rate used for the fiscal year 2018/19 budget.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2019

| | General Fund | Debt Service Fund | Total | Adjustments | Statement of Net Position |
|---|------------------|----------------------|---------------------|-----------------------|------------------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Assets | | | | | |
| Current Assets | | | | | |
| Cash | \$ 48,931 | \$ - | \$ 48,931 | \$ - | \$ 48,931 |
| Taxes Receivable | 1,521 | 46,585 | 48,106 | - | 48,106 |
| Total Current Assets | 50,452 | 46,585 | 97,037 | - | 97,037 |
| NonCurrent Assets | | | | | |
| Restricted Cash | - | 1,249,342 | 1,249,342 | - | 1,249,342 |
| Total Assets | <u>\$ 50,452</u> | <u>\$ 1,295,927</u> | <u>\$ 1,346,379</u> | <u>\$ -</u> | <u>\$ 1,346,379</u> |
| Deferred Outflows of Resources | | | | | |
| Deferred Amounts on Refunding | | | | 319,939 | 319,939 |
| Total Assets and Deferred Outflows of Resources | | | | <u>\$ 319,939</u> | <u>\$ 1,666,318</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION | | | | | |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Matured Bonds Payable | \$ - | \$ 950,000 | \$ 950,000 | \$ - | \$ 950,000 |
| Interest Payable | - | 167,431 | 167,431 | - | 167,431 |
| Total Current Liabilities | - | 1,117,431 | 1,117,431 | - | 1,117,431 |
| Noncurrent Liabilities | | | | | |
| Due Within One Year | - | - | - | 980,000 | 980,000 |
| Due After One Year | - | - | - | 8,204,884 | 8,204,884 |
| Total Noncurrent Liabilities | - | - | - | 9,184,884 | 9,184,884 |
| Total Liabilities | - | 1,117,431 | 1,117,431 | 9,184,884 | 10,302,315 |
| Deferred Inflows of Resources | | | | | |
| Unavailable Revenues | - | 17,680 | 17,680 | (17,680) | - |
| Total Liabilities and Deferred Inflows of Resources | - | 1,135,111 | 1,135,111 | 9,167,204 | 10,302,315 |
| Fund Balances/Net Position | | | | | |
| Fund Balances | | | | | |
| Restricted | - | 160,816 | 160,816 | (160,816) | - |
| Unassigned | 50,452 | - | 50,452 | (50,452) | - |
| Total Fund Balances | 50,452 | 160,816 | 211,268 | (211,268) | - |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 50,452</u> | <u>\$ 1,295,927</u> | <u>\$ 1,346,379</u> | | |
| Net Position | | | | | |
| Restricted for Debt Service | | | | 178,496 | 178,496 |
| Unrestricted | | | | (8,814,493) | (8,814,493) |
| Total Net Position | | | | <u>\$ (8,635,997)</u> | <u>\$ (8,635,997)</u> |

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

Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances
 For the Fiscal Year Ended June 30, 2019

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|---|---------------------|--------------------------|--------------|--------------------|--------------------------------|
| REVENUES | | | | | |
| Taxes | \$ 68,059 | \$ 1,293,120 | \$ 1,361,179 | \$ (5,162) | \$ 1,356,017 |
| EXPENDITURES/EXPENSES | | | | | |
| Current | | | | | |
| General Government | | | | | |
| City Treasurer - Finance and Accounting | \$ 71,141 | \$ - | \$ 71,141 | \$ - | \$ 71,141 |
| Debt Service | | | | | |
| Principal Retirement | - | 950,000 | 950,000 | (950,000) | - |
| Interest and Fiscal Charges | - | 336,312 | 336,312 | 632 | 336,944 |
| Total Expenditures/Expenses | 71,141 | 1,286,312 | 1,357,453 | (949,368) | 408,085 |
| Change in Fund Balances/Net Position | (3,082) | 6,808 | 3,726 | 944,206 | 947,932 |
| Fund Balances/Net Position, Beginning of Year | 53,534 | 154,008 | 207,542 | (9,791,471) | (9,583,929) |
| Fund Balances/Net Position, End of Year | \$ 50,452 | \$ 160,816 | \$ 211,268 | \$ (8,847,265) | \$ (8,635,997) |

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the DC Ranch Community Facilities District (District), a component unit of the City of Scottsdale, Arizona (City), conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the District follows.

During the year ended June 30, 2019, the District implemented the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement requires enhanced note disclosures and clarifies which liabilities governments should include when disclosing information related to debt.

A. Reporting Entity

The DC Ranch Community Facilities District was formed by petition to the City of Scottsdale City Council in March 1997. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the District. The City Council serves as the Board of Directors; however, the City has no liability for the District's debt. For financial reporting purposes, transactions of the DC Ranch Community Facilities District are included as if the District were part of the City'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) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year.

Financial statements are provided for major governmental funds, with an adjustments column to arrive at government-wide statement amounts.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both earned 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 District considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the current fiscal period when the revenue is earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* accounts for resources accumulated and used for the payment of other operating expenses for the District, which may include insurance, legal fees and administration costs.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of governmental long-term debt including principal, interest and related costs.

The spending order for the District is to use restricted funds and then unassigned funds as they are needed. Currently the District has unassigned funds and does not have any nonspendable, committed or assigned funds.

D. Assets, Liabilities, Deferred Outflows/Inflow of Resources, and Net Position/Fund Balance

1. Cash and Investments

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; or bonds of the State of Arizona counties, cities, towns, school districts or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 100 percent of all deposits not covered by federal depository insurance.

A portion of cash and investments held by trustee at June 30, 2019, plus accrued interest, are restricted as to usage.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Restricted Assets

Cash and investments held by the District's trustee are classified as restricted on the statement of net position because their use is limited by applicable bond covenants.

3. Capital Assets

Capital assets acquired or construction of infrastructure assets by the District are dedicated to the City of Scottsdale, Arizona to maintain and operate. As a result, the District owns no capital assets.

4. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts 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.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements report a separate section for deferred outflows of resources. This 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 District only has one item, deferred amount on refunding, that qualifies for reporting in this category. A deferred amount on refunding results from the difference in 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 addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent 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. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Directors. The Board of Directors passed a resolution authorizing the City of Scottsdale City Treasurer to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

In the government-wide financial statements, net position is reported in two categories: restricted and unrestricted. Restricted accounts for the portion of net position restricted by bond covenant. Unrestricted is the remaining net position not included in the previous category.

E. 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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Amounts reported in the statement of net position are different because:

| | |
|--|------------------------------|
| Tax revenues not available to pay current-period expenditures are deferred inflows in the funds. | \$ 17,680 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore, are not reported in the funds. | (9,184,884) |
| Deferred amounts on refunding are long-term in nature and not reported in the funds. | <u>319,939</u> |
| Net adjustment to reduce total fund balance to arrive at net position. | (8,847,265) |
| Total Fund Balance | <u>211,268</u> |
| Total Net Position | <u><u>\$ (8,635,997)</u></u> |

B. Amounts reported in the statement of activities are different because:

| | |
|---|--------------------------|
| Tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | \$ (5,162) |
| The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, it has no effect on net position. | 950,000 |
| Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. | <u>(632)</u> |
| Net adjustments to reconcile net changes in fund balances to change in net position. | 944,206 |
| Net change in Fund Balance | <u>3,726</u> |
| Change in Net Position | <u><u>\$ 947,932</u></u> |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The District adopts an annual operating budget for revenues and expenditures for the General Fund and Debt Service Fund on essentially the same modified accrual basis of accounting used to record actual expenditures. Budgetary control over expenditures is exercised at the fund level.

B. Deficit Net Position

As described in Note 1, the District was formed to finance and acquire or construct infrastructure assets that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Therefore, the Statement of Net Position reflects a large liability without an offsetting asset.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

Deposits – At June 2019, the carrying amount of the District’s deposits and bank balance were \$1,298,273.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Districts deposits may not be returned to it. As of June 30, 2019, all of the District’s deposits were uninsured and collateralized by securities held by the pledging bank’s trust department not in the District’s name, and therefore exposed to custodial credit risk.

2. Restricted Assets

Restricted cash at June 30, 2019, as follows:

| | Debt Service Fund |
|-----------------|------------------------------|
| Restricted Cash | \$ 1,249,342 |

3. Property Taxes Receivable

The Maricopa County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business days in November and May. During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding the assessment levy.

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund financial statements. In the fund financial statements, property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 31 days subsequent to fiscal year-end. Property taxes not collected within 31 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred inflows.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer’s Office, and at June 30, 2019, were as follows:

| | General Fund | Debt Service Fund |
|------------------|-------------------------|------------------------------|
| Taxes Receivable | \$ 1,521 | \$ 46,585 |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

At the end of the current fiscal year, unavailable revenue reported in the governmental fund was as follows:

| | Debt Service Fund |
|---|------------------------------|
| Delinquent Property Taxes Receivable (Unavailable) | \$ 17,680 |

B. Liabilities

Obligations Under Long-term Debt

General Obligation Bonds

The District issues general obligation bonds to provide funds to acquire and improve public infrastructure in specified areas. General obligation bonds have been issued for governmental activities only. The bonds are generally callable with interest payable semiannually. Bonds payable at June 30, 2019, consisted of the outstanding general obligation bonds presented below:

| Purpose | Interest Rates (%) | Amount |
|--|--------------------|--------------|
| 2012 DC Ranch Community Facilities District General Obligation Refunding Bonds due in annual installments of \$555,000 to \$1,245,000 beginning July 15, 2013 through July 15, 2027. Original issue amount \$14,670,000. | 3.41 | \$ 8,870,000 |

Community facilities districts (CFDs) are created only by petition to the City Council by property owners within the District areas. As board of directors for the District, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the District property (prior to improvements being installed), when compared to proposed District debt, is a minimum of 3 to 1 prior to issuance of debt and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the District and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's full cash valuation.

The District's bond issuance contains the following provisions that would constitute an event of default by the District:

- Failure to pay the principal and interest when due and payable.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Changes in Long-Term Liabilities

| | | | | | |
|--|---------------|------|--------------|--------------|------------|
| Private Placement General Obligation Bonds | \$ 9,820,000 | \$ - | \$ (950,000) | \$ 8,870,000 | \$ 980,000 |
| Plus Issuance Premium | 354,245 | - | (39,361) | 314,884 | - |
| Total | \$ 10,174,245 | \$ - | \$ (989,361) | \$ 9,184,884 | \$ 980,000 |

Annual debt service requirements to maturity for general obligation bonds are as follows:

| Fiscal Year Ending June 30, | Principal | Interest |
|-----------------------------|--------------|--------------|
| 2020 | \$ 980,000 | \$ 302,467 |
| 2021 | 1,015,000 | 269,049 |
| 2022 | 1,050,000 | 234,438 |
| 2023 | 1,085,000 | 198,633 |
| 2024 | 1,125,000 | 161,634 |
| 2025-2027 | 3,615,000 | 249,271 |
| Total | \$ 8,870,000 | \$ 1,415,492 |

NOTE 5 – OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss. The District carries commercial insurance for \$1,000,000 per occurrence and \$3,000,000 aggregate covering general liability exposures. The District also carries public entity management liability insurance for \$1,000,000 each wrongful act and \$3,000,000 aggregate to cover damages resulting from the conduct of duties by or for a public entity or its boards. There have been no known losses in any of the past three fiscal years.

Required Supplementary Information

**Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – General Fund**

For the Fiscal Year Ended June 30, 2019

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---|--------------------------------------|---------------|-----------------|
| REVENUES | | | |
| Taxes | \$ 73,646 | \$ 68,059 | \$ (5,587) |
| EXPENDITURES/EXPENSES | | | |
| Current | | | |
| General Government | | | |
| City Treasurer - Finance and Accounting | 72,000 | 71,141 | 859 |
| Total Expenditures | 72,000 | 71,141 | 859 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,646 | (3,082) | (4,728) |
| Fund Balance, Beginning of Year | 48,635 | 53,534 | 4,899 |
| Fund Balance, End of Year | \$ 50,281 | \$ 50,452 | \$ 171 |

Supplementary Information

**Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – Debt Service Fund**

For the Fiscal Year Ended June 30, 2019

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------------------------------|--------------------------------------|-------------------|-----------------|
| REVENUES | | | |
| Taxes | \$ 1,283,319 | \$ 1,293,120 | \$ 9,801 |
| EXPENDITURES/EXPENSES | | | |
| Debt Service | | | |
| Principal Retirement | 950,000 | 950,000 | - |
| Interest and Fiscal Charges | 337,862 | 336,312 | 1,550 |
| Total Expenditures | <u>1,287,862</u> | <u>1,286,312</u> | <u>1,550</u> |
| Excess of Revenues Over Expenditures | (4,543) | 6,808 | 11,351 |
| Fund Balance, Beginning of Year | <u>158,990</u> | <u>154,008</u> | <u>(4,982)</u> |
| Fund Balance, End of Year | <u>\$ 154,447</u> | <u>\$ 160,816</u> | <u>\$ 6,369</u> |

October 21, 2019

Board of Directors
DC Ranch Community Facilities District

We have audited the financial statements of the governmental activities and each major fund of DC Ranch Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by DC Ranch Community Facilities District are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

As described in Note 1 of the financial statements, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, for the year ended June 30, 2019. GASB Statement No. 88 improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the DC Ranch Community Facilities District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the District’s auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the “Independence Rule” of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Additional Reports Issued

In addition to the auditor’s report on the financial statements we have also issued the following documents related to this audit.

- Report on internal control over financial reporting and on compliance in accordance with *Government Auditing Standards*

Other Important Communications Related to the Audit

Attached to this letter is a copy of the management representation letter provided to us at the conclusion of the audit. If there are any questions on the purpose or content of these letters please contact the engagement partner.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of DC Ranch Community Facilities District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona

Fraud Prevention Checklist

The most cost-effective way to limit fraud losses is to prevent fraud from occurring. This checklist is designed to help organizations test the effectiveness of their fraud prevention measures.

1. Is ongoing anti-fraud training provided to all employees of the organization?

- Do employees understand what constitutes fraud?
- Have the costs of fraud to the company and everyone in it — including lost profits, adverse publicity, job loss and decreased morale and productivity — been made clear to employees?
- Do employees know where to seek advice when faced with uncertain ethical decisions, and do they believe that they can speak freely?
- Has a policy of zero-tolerance for fraud been communicated to employees through words and actions?

2. Is an effective fraud reporting mechanism in place?

- Have employees been taught how to communicate concerns about known or potential wrongdoing?
- Is there an anonymous reporting channel available to employees, such as a third-party hotline?
- Do employees trust that they can report suspicious activity anonymously and/or confidentially and without fear of reprisal?
- Has it been made clear to employees that reports of suspicious activity will be promptly and thoroughly evaluated?
- Do reporting policies and mechanisms extend to vendors, customers and other outside parties?

3. To increase employees' perception of detection, are the following proactive measures taken and publicized to employees?

- Is possible fraudulent conduct aggressively sought out, rather than dealt with passively?
- Does the organization send the message that it actively seeks out fraudulent conduct through fraud assessment questioning by auditors?
- Are surprise fraud audits performed in addition to regularly scheduled audits?
- Is continuous auditing software used to detect fraud and, if so, has the use of such software been made known throughout the organization?

- 4. Is the management climate/tone at the top one of honesty and integrity?**
 - Are employees surveyed to determine the extent to which they believe management acts with honesty and integrity?
 - Are performance goals realistic?
 - Have fraud prevention goals been incorporated into the performance measures against which managers are evaluated and which are used to determine performance-related compensation?
 - Has the organization established, implemented and tested a process for oversight of fraud risks by the board of directors or others charged with governance (e.g., the audit committee)?
- 5. Are fraud risk assessments performed to proactively identify and mitigate the company's vulnerabilities to internal and external fraud?**
- 6. Are strong anti-fraud controls in place and operating effectively, including the following?**
 - Proper separation of duties
 - Use of authorizations
 - Physical safeguards
 - Job rotations
 - Mandatory vacations
- 7. Does the internal audit department, if one exists, have adequate resources and authority to operate effectively and without undue influence from senior management?**
- 8. Does the hiring policy include the following (where permitted by law)?**
 - Past employment verification
 - Criminal and civil background checks
 - Credit checks
 - Drug screening
 - Education verification
 - References check
- 9. Are employee support programs in place to assist employees struggling with addictions, mental/ emotional health, family or financial problems?**
- 10. Is an open-door policy in place that allows employees to speak freely about pressures, providing management the opportunity to alleviate such pressures before they become acute?**
- 11. Are anonymous surveys conducted to assess employee morale?**



City Treasurer's Office

7447 E. Indian School Road, Suite 210
Scottsdale, AZ 85251

PHONE 480-312-2437
FAX 480-312-7897
WEB www.ScottsdaleAZ.gov

Heinfeld, Meech & Co., P.C.
3033 N. Central Ave. Suite 300
Phoenix, AZ 85012

This representation letter is provided in connection with your audit of the financial statements of DC Ranch Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, which comprise the respective financial position of the governmental activities and each major fund, as of June 30, 2019, and the respective changes in financial position for the period then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
8. The effects of all known actual or possible litigation, claims, and assessments have been evaluated, and if necessary, have been accounted for and disclosed in accordance with U.S. GAAP.
9. Guarantees, whether written or oral, under which the District is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the District and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.

14. We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements communicated by employees, former employees, grantors, regulators, or others.
15. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. We have disclosed to you the identity of the District's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. If applicable we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
20. We have a process to track the status of audit findings and recommendations.
21. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
23. The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.
24. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
25. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

26. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
27. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
28. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
29. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
30. The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
33. The financial statements properly classify all funds and activities in accordance with U.S. GAAP.
34. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
35. If applicable, investments are properly valued.
36. If applicable, provisions for uncollectible receivables have been properly identified and recorded.
37. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
38. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
39. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

40. Special and extraordinary items, if any, are appropriately classified and reported.
41. Deposits and investment securities are properly classified as to risk and are properly disclosed.
42. We have appropriately disclosed the District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
43. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
44. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
45. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
46. With respect to the supplementary budget comparison information presented for the Debt Service Fund.
 - a. We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

We understand that at the conclusion of the audit, Heinfeld, Meech & Co., P.C. will submit to the City Auditor's office a communication to those charged with governance that will include a copy of this representation letter.

Jeffery M. Nichols
Jeffery M. Nichols (Oct 18, 2019)

Jeffery M. Nichols, CPA
City Treasurer/Chief Financial Officer
City of Scottsdale, Arizona

10/18/19

Date

Gina Kirklin
Gina Kirklin (Oct 17, 2019)

Gina Kirklin
Enterprise and Finance Director
City of Scottsdale, Arizona

10/18/19

Date

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
DC Ranch Community Facilities District

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of DC Ranch Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise DC Ranch Community Facilities District's basic financial statements and have issued our report thereon dated October 18, 2019. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 88.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DC Ranch Community Facilities District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DC Ranch Community Facilities District's internal control. Accordingly, we do not express an opinion on the effectiveness of DC Ranch Community Facilities District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DC Ranch Community Facilities District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.

Phoenix, Arizona

October 18, 2019

McDowell Mountain Ranch Community Facilities District

(A Component Unit of the City of Scottsdale, Arizona)



Annual Financial Report

Fiscal Year Ended June 30, 2019

McDowell Mountain Ranch Community Facilities District
(A Component Unit of the City of Scottsdale, Arizona)

Annual Financial Report

Fiscal Year Ended June 30, 2019

McDowell Mountain Ranch Community Facilities District

For the Fiscal Year ended June 30, 2019

Table of Contents

Independent Auditor's Report 1

Management's Discussion and Analysis 3

BASIC FINANCIAL STATEMENTS

Statement of Net Position and Governmental Funds Balance Sheet 9

Statement of Activities and Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances..... 10

Notes to the Basic Financial Statements 11

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – General Fund 21

SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – Debt Service Fund 23

INDEPENDENT AUDITOR'S REPORT

Board of Directors
McDowell Mountain Ranch Community Facilities District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of McDowell Mountain Ranch Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District'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 and each major fund of the McDowell Mountain Ranch Community Facilities District, as of June 30, 2019, 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.

Change in Accounting Principle

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, for the year ended June 30, 2019, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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 District’s basic financial statements. The supplementary budget comparison information for the Debt Service Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary budget comparison information of the Debt Service Fund is the responsibility of management and was derived from and relates 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 supplementary budget comparison information of the Debt Service Fund is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, on our consideration of McDowell Mountain Ranch Community Facilities District’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 McDowell Mountain Ranch Community Facilities District’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 McDowell Mountain Ranch Community Facilities District’s internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 18, 2019

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

As management of the McDowell Mountain Ranch Community Facilities District (District), we offer readers a narrative overview and analysis of the financial activities for the District. The District is one of the City of Scottsdale, Arizona's component units for financial reporting purposes for the fiscal year ended June 30, 2019.

Formed in 1994, the District is a special purpose taxing district and separate political subdivision under Arizona statutes. As such, the District can levy taxes and issue bonds, independent of the City of Scottsdale, Arizona (City). Property owners within the District boundaries pay for District infrastructure and functions through secondary property tax assessments. City staff administers the District and the costs of their services are reimbursed by District funds. The Scottsdale City Council also serves as the District Board of Directors.

FINANCIAL HIGHLIGHTS

For the year ending 2018/19, the District's:

- Tax collections and beginning fund balances were sufficient to pay debt service.
- Tax rate continued to comply with the City-imposed assessment limit of \$3.00 per \$100 assessed valuation; the tax rate was \$0.70 per \$100 assessed valuation.
- Governmental funds reported an ending fund balance of \$206,696; the entire amount was restricted for debt service.
- Governmental fund revenues were greater than expenditures by \$3,650, the tax rate decreased from \$0.72 in fiscal year 2017/18 to \$0.70.
- Total long-term debt decreased by \$1,195,000 due to scheduled principal payments.
- Significant bond indentures were in compliance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the District's basic financial statements. Because of its limited purpose, the District's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance and (2) Notes to the Basic Financial Statements.

Because the District has only one governmental program, the government-wide and fund financial statements are combined.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Government-wide Financial Statements

The *Statement of Net Position* is designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. Changes in net position are reported when 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, such as revenues pertaining to uncollected taxes and expenses related to accrued interest.

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 District, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Debt Service funds are restricted as to use, and the General funds are unassigned.

The District maintains two governmental funds, general and debt service. Information is presented in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Debt Service Fund.

The District adopts an annual budget for its General Fund and Debt Service Fund. Supplementary budgetary schedules have been provided to demonstrate compliance with these budgets.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to acquire a full understanding of the data provided in the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents as required supplementary information a comparison between budgeted and actual amounts within the General Fund.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The liabilities of the District exceeded its assets at the close of the most recent fiscal year by approximately \$3.7 million (net position). The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and a separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes to pay the debt service over the life of the bonds. The City Council serves as the Board of Directors. However, the City has no liability for the District's debt. For financial reporting purposes, transactions of the District are combined together and included as if they were part of the City's operations and the assets financed through the District are combined with the infrastructure of the City. Because the capital assets are recorded in the City's basic financial statements, the Statement of Net Position for the District reflects a large liability without an offsetting asset.

Net Position

June 30, 2019 and 2018

| | Governmental Activities | |
|------------------------|-------------------------|-----------------------|
| | 2019 | 2018 |
| ASSETS | | |
| Current Assets | \$ 26,613 | \$ 21,520 |
| Noncurrent Assets | 1,456,542 | 1,436,301 |
| Total Assets | <u>1,483,155</u> | <u>1,457,821</u> |
| LIABILITIES | | |
| Current Liabilities | 1,266,568 | 1,242,969 |
| Noncurrent Liabilities | 3,911,512 | 5,128,683 |
| Total Liabilities | <u>5,178,080</u> | <u>6,371,652</u> |
| NET POSITION | | |
| Restricted | 216,587 | 214,852 |
| Unrestricted | <u>(3,911,512)</u> | <u>(5,128,683)</u> |
| Total Net Position | <u>\$ (3,694,925)</u> | <u>\$ (4,913,831)</u> |

During the fiscal year, the District's total net position increased by \$1,218,906.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Changes in Net Position

For the Fiscal Years Ended June 30, 2019 and 2018

| | Governmental Activities | |
|---------------------------------|-------------------------|----------------|
| | 2019 | 2018 |
| REVENUES | | |
| Taxes | \$ 1,351,141 | \$ 1,328,650 |
| Total Revenues | 1,351,141 | 1,328,650 |
| EXPENSES | | |
| General Government | 10,820 | 10,073 |
| Debt Service | 121,415 | 154,217 |
| Total Expenses | 132,235 | 164,290 |
| Change in Net Position | 1,218,906 | 1,164,360 |
| Net Position, Beginning of Year | (4,913,831) | (6,078,191) |
| Net Position, End of Year | \$ (3,694,925) | \$ (4,913,831) |

Revenues increased in fiscal year 2018/19 due to an increase in taxes levied and expenses decreased due to the reduction in long-term debt interest, increasing the District's net position.

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with legal requirements related to special purpose districts and general obligation bonds.

Financial Analysis of the District's Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the District's ability to pay the debt service on the general obligation bonds it issues to fund construction or acquisition of public infrastructure.

As of the end of fiscal year 2018/19, the District's governmental funds reported revenues in excess of expenditures by \$3,650 and an ending fund balance of \$206,696. The entire fund balance is restricted for debt service.

All revenues collected represented property taxes and totaled \$1,353,056 for the fiscal year ended June 30, 2019.

Capital Assets and Debt Administration

The District was formed to finance and acquire or construct amenities that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Since formation, District bonds have been issued, and the proceeds used for the completion of Thompson Peak Parkway and other infrastructure, such as water and sewer lines necessary for the McDowell Mountain Ranch development.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

The District has issued \$18,860,000 of the \$20,000,000 authorized bonds. In fiscal years 1998/99 and 2012/2013, the City Council and the District Board approved the issuance of refunding bonds to consolidate and reduce the costs of the District debt. Refunding bonds totaling \$11,555,000 were issued.

The District general obligation bonds have a 25-year term. In the event that the District Board decides at a future time to dissolve the District, State statute provides that all taxable property in the District will remain subject to the lien for the payment of the bonds until all bonds have been defeased.

The District is not engaged in any significant activities other than providing for the levy of secondary property taxes to pay debt service and administrative fees.

Outstanding Debt

June 30, 2019 and 2018

| | Governmental Activities | |
|--------------------------|-------------------------|---------------------|
| | 2019 | 2018 |
| General Obligation Bonds | <u>\$ 3,845,000</u> | <u>\$ 5,040,000</u> |

The District's total long-term debt decreased by \$1,195,000 during the current fiscal year due to the payment of principal on the refunding bonds.

Next Year's Budget and Rates

The fiscal year 2019/20 District budget includes a \$0.67 tax rate per \$100 of assessed value. This is a \$0.03 decrease from the rate used in the fiscal year 2018/19 budget.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2019

| ASSETS | General Fund | Debt Service Fund | Total | Adjustments | Statement of Net Position |
|---|-----------------|----------------------|---------------------|-----------------------|------------------------------|
| Assets | | | | | |
| Current Assets | | | | | |
| Taxes Receivable | \$ - | \$ 26,613 | \$ 26,613 | \$ - | \$ 26,613 |
| Noncurrent Assets | | | | | |
| Restricted Cash | - | 1,456,542 | 1,456,542 | - | 1,456,542 |
| Total Assets | <u>\$ -</u> | <u>\$ 1,483,155</u> | <u>\$ 1,483,155</u> | <u>\$ -</u> | <u>\$ 1,483,155</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION | | | | | |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Matured Bonds Payable | \$ - | \$ 1,195,000 | \$ 1,195,000 | \$ - | \$ 1,195,000 |
| Interest Payable | - | 71,568 | 71,568 | - | 71,568 |
| Total Current Liabilities | <u>-</u> | <u>1,266,568</u> | <u>1,266,568</u> | <u>-</u> | <u>1,266,568</u> |
| Noncurrent Liabilities | | | | | |
| Due Within One Year | - | - | - | 1,230,000 | 1,230,000 |
| Due After One Year | - | - | - | 2,681,512 | 2,681,512 |
| Total Noncurrent Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,911,512</u> | <u>3,911,512</u> |
| Total Liabilities | <u>-</u> | <u>1,266,568</u> | <u>1,266,568</u> | <u>3,911,512</u> | <u>5,178,080</u> |
| Deferred Inflows of Resources | | | | | |
| Unavailable Revenues | - | 9,891 | 9,891 | (9,891) | - |
| Total Liabilities and Deferred Inflows of Resources | <u>-</u> | <u>1,276,459</u> | <u>1,276,459</u> | <u>3,901,621</u> | <u>5,178,080</u> |
| Fund Balances/Net Position | | | | | |
| Fund Balances | | | | | |
| Restricted | - | 206,696 | 206,696 | (206,696) | - |
| Total Fund Balances | <u>-</u> | <u>206,696</u> | <u>206,696</u> | <u>(206,696)</u> | <u>-</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ -</u> | <u>\$ 1,483,155</u> | <u>\$ 1,483,155</u> | | |
| Net Position | | | | | |
| Restricted for Debt Service | | | | 216,587 | 216,587 |
| Unrestricted | | | | (3,911,512) | (3,911,512) |
| Total Net Position | | | | <u>\$ (3,694,925)</u> | <u>\$ (3,694,925)</u> |

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

Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances
 For the Fiscal Year Ended June 30, 2019

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|---|-------------------------|------------------------------|-------------------|-----------------------|------------------------------------|
| REVENUES | | | | | |
| Taxes | \$ 10,820 | \$ 1,342,236 | \$ 1,353,056 | \$ (1,915) | \$ 1,351,141 |
| EXPENDITURES/EXPENSES | | | | | |
| Current | | | | | |
| General Government | | | | | |
| City Treasurer - Finance and Accounting | \$ 10,820 | \$ - | \$ 10,820 | \$ - | \$ 10,820 |
| Debt Service | | | | | |
| Principal Retirement | - | 1,195,000 | 1,195,000 | (1,195,000) | - |
| Interest and Fiscal Charges | - | 143,586 | 143,586 | (22,171) | 121,415 |
| Total Expenditures/Expenses | <u>10,820</u> | <u>1,338,586</u> | <u>1,349,406</u> | <u>(1,217,171)</u> | <u>132,235</u> |
| Change in Fund Balances/Net Position | - | 3,650 | 3,650 | 1,215,256 | 1,218,906 |
| Fund Balances/Net Position, Beginning of Year | <u>-</u> | <u>203,046</u> | <u>203,046</u> | <u>(5,116,877)</u> | <u>(4,913,831)</u> |
| Fund Balances/Net Position, End of Year | <u>\$ -</u> | <u>\$ 206,696</u> | <u>\$ 206,696</u> | <u>\$ (3,901,621)</u> | <u>\$ (3,694,925)</u> |

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the McDowell Mountain Ranch Community Facilities District (District), a component unit of the City of Scottsdale, Arizona (City), conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the District follows.

During the year ended June 30, 2019, the District implemented the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement requires enhanced note disclosures and clarifies which liabilities governments should include when disclosing information related to debt.

A. Reporting Entity

The McDowell Mountain Ranch Community Facilities District was formed by petition to the City of Scottsdale City Council in January 1994. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the District. The City Council serves as the Board of Directors; however, the City has no liability for the District's debt. For financial reporting purposes, transactions of the McDowell Mountain Ranch Community Facilities District are included as if the District were part of the City'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) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year.

Financial statements are provided for major governmental funds, with an adjustments column to arrive at government-wide statement amounts.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both earned 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 District considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the current fiscal period when the revenue is earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* accounts for resources accumulated and used for the payment of other operating expenses for the District, which may include insurance, legal fees and administration costs.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of governmental long-term debt including principal, interest and related costs.

The spending order for the District is to use restricted funds and then unassigned funds as they are needed. Currently the District does not have any unassigned, nonspendable, committed or assigned funds.

D. Assets, Liabilities, Deferred Outflows/Inflow of Resources, and Net Position/Fund Balance

1. Cash and Investments

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; or bonds of the State of Arizona counties, cities, towns, school districts or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 100 percent of all deposits not covered by federal depository insurance.

Cash and investments held by trustee at June 30, 2019, plus accrued interest, are restricted as to usage.

2. Restricted Assets

Cash and investments held by the District's trustee are classified as restricted on the statement of net position because their use is limited by applicable bond covenants.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Capital Assets

Capital assets acquired or construction of infrastructure assets by the District are dedicated to the City of Scottsdale, Arizona to maintain and operate. As a result, the District owns no capital assets.

4. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts 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.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements report a separate section for deferred outflows of resources. This 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 District has no items that qualify as a deferred outflow of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent 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. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet.

6. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Directors. The Board of Directors passed a resolution authorizing the City of Scottsdale City Treasurer to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the government-wide financial statements, net position is reported in two categories: restricted and unrestricted. Restricted accounts for the portion of net position restricted by bond covenant. Unrestricted is the remaining net position not included in the previous category.

E. 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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Amounts reported in the statement of net position are different because:

| | |
|--|------------------------------|
| Tax revenues not available to pay current-period expenditures are deferred inflows in the funds. | \$ 9,891 |
| Issuance premium is long-term in nature to be amortized over the life of the bonds, therefore, is not reported in the funds. | (66,512) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore, are not reported in the funds. | <u>(3,845,000)</u> |
| Net adjustment to reduce total fund balance to arrive at net position. | (3,901,621) |
| Total Fund Balance | <u>206,696</u> |
| Total Net Position | <u><u>\$ (3,694,925)</u></u> |

B. Amounts reported in the statement of activities are different because:

| | |
|---|----------------------------|
| Tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | \$ (1,915) |
| The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, it has no effect on net position. | 1,195,000 |
| Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. | <u>22,171</u> |
| Net adjustments to reconcile net changes in fund balances to change in net position. | 1,215,256 |
| Net change in Fund Balance | <u>3,650</u> |
| Change in Net Position | <u><u>\$ 1,218,906</u></u> |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The District adopts an annual operating budget for revenues and expenditures for the General Fund and Debt Service Fund on essentially the same modified accrual basis of accounting used to record actual expenditures. Budgetary control over expenditures is exercised at the fund level.

B. Deficit Net Position

As described in Note 1, the District was formed to finance and acquire or construct infrastructure assets that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Therefore, the Statement of Net Position reflects a large liability without an offsetting asset.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

Deposits – At June 30, 2019, the carrying amount of the District’s deposits and bank balance were \$1,456,542.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2019, all of the District’s deposits were uninsured and collateralized by securities held by the pledging bank’s trust department not in the District’s name, and therefore exposed to custodial credit risk.

2. Restricted Assets

Restricted cash at June 30, 2019, as follows:

| | <u>Debt Service Fund</u> |
|-----------------|------------------------------|
| Restricted Cash | <u>\$ 1,456,542</u> |

3. Property Taxes Receivable

The Maricopa County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business days in November and May. During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding the assessment levy.

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund financial statements. In the fund financial statements, property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 31 days subsequent to fiscal year-end. Property taxes not collected within 31 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred inflows.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer’s Office, and at June 30, 2019, were as follows:

| | <u>Debt Service Fund</u> |
|------------------|------------------------------|
| Taxes Receivable | <u>\$ 26,613</u> |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

At the end of the current fiscal year, unavailable revenue reported in the governmental fund was as follows:

| | Debt Service Fund |
|---|----------------------|
| Delinquent Property Taxes Receivable (Unavailable) | \$ 9,891 |

B. Liabilities

Obligations Under Long-term Debt

General Obligation Bonds

The District issues general obligation bonds to provide funds to acquire and improve public infrastructure in specified areas. General obligation bonds have been issued for governmental activities only. The bonds are generally callable with interest payable semiannually. Bonds payable at June 30, 2019, consisted of the outstanding general obligation bonds presented below:

| Purpose | Interest Rates (%) | Amount |
|--|--------------------|--------------|
| 2012 McDowell Mountain Ranch Refunding Bonds due in annual installments of \$1,020,000 to \$1,335,000 beginning July 15, 2013 through July 15, 2022. Original issue amount \$11,555,000. | 2.84 | \$ 3,845,000 |

Community facilities districts (CFDs) are created only by petition to the City Council by property owners within the District areas. As board of directors for the District, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the District property (prior to improvements being installed), when compared to proposed District debt, is a minimum of 3 to 1 prior to issuance of debt and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the District and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's full cash valuation.

The District's bond issuance contains the following provisions that would constitute an event of default by the District:

- Failure to pay the principal and interest when due and payable.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Changes in Long-Term Liabilities

| <u>Governmental Activities</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|------------------|-----------------------|---------------------------|--------------------------------|
| Private Placement General Obligation Bonds | \$ 5,040,000 | \$ - | \$ (1,195,000) | \$ 3,845,000 | \$ 1,230,000 |
| Plus Issuance Premium | 88,683 | - | (22,171) | 66,512 | - |
| Total | <u>\$ 5,128,683</u> | <u>\$ -</u> | <u>\$ (1,217,171)</u> | <u>\$ 3,911,512</u> | <u>\$ 1,230,000</u> |

Annual debt service requirements to maturity for general obligation bonds are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|---------------------|-------------------|
| 2020 | \$ 1,230,000 | \$ 109,198 |
| 2021 | 1,280,000 | 74,266 |
| 2022 | 1,335,000 | 37,914 |
| Total | <u>\$ 3,845,000</u> | <u>\$ 221,378</u> |

NOTE 5 – OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss. The District carries commercial insurance for \$1,000,000 per occurrence and \$3,000,000 aggregate covering general liability exposures. The District also carries public entity management liability insurance for \$1,000,000 each wrongful act and \$3,000,000 aggregate to cover damages resulting from the conduct of duties by or for a public entity or its boards. There have been no known losses in any of the past three fiscal years.

Required Supplementary Information

**Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – General Fund**

For the Fiscal Year Ended June 30, 2019

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---|--------------------------------------|--------------------|--------------------|
| REVENUES | | | |
| Taxes | \$ 11,000 | \$ 10,820 | \$ (180) |
| EXPENDITURES/EXPENSES | | | |
| Current | | | |
| General Government | | | |
| City Treasurer - Finance and Accounting | 11,000 | 10,820 | 180 |
| Total Expenditures | <u>11,000</u> | <u>10,820</u> | <u>180</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | - | - | - |
| Fund Balance, Beginning of Year | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance, End of Year | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

Supplementary Information

**Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – Debt Service Fund**

For the Fiscal Year Ended June 30, 2019

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------------------------------|--------------------------------------|-------------------|-----------------|
| REVENUES | | | |
| Taxes | \$ 1,340,303 | \$ 1,342,236 | \$ 1,933 |
| EXPENDITURES/EXPENSES | | | |
| Debt Service | | | |
| Principal Retirement | 1,195,000 | 1,195,000 | - |
| Interest and Fiscal Charges | 144,136 | 143,586 | 550 |
| Total Expenditures | <u>1,339,136</u> | <u>1,338,586</u> | <u>550</u> |
| Excess of Revenues Over Expenditures | 1,167 | 3,650 | 2,483 |
| Fund Balance, Beginning of Year | <u>201,515</u> | <u>203,046</u> | <u>1,531</u> |
| Fund Balance, End of Year | <u>\$ 202,682</u> | <u>\$ 206,696</u> | <u>\$ 4,014</u> |

October 21, 2019

Board of Directors
McDowell Mountain Ranch Community Facilities District

We have audited the financial statements of the governmental activities and each major fund of McDowell Mountain Ranch Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by McDowell Mountain Ranch Community Facilities District are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

As described in Note 1 of the financial statements, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, for the year ended June 30, 2019. GASB Statement No. 88 improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the McDowell Mountain Ranch Community Facilities District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the District’s auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the “Independence Rule” of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Additional Reports Issued

In addition to the auditor’s report on the financial statements we have also issued the following documents related to this audit.

- Report on internal control over financial reporting and on compliance in accordance with *Government Auditing Standards*

Other Important Communications Related to the Audit

Attached to this letter is a copy of the management representation letter provided to us at the conclusion of the audit. If there are any questions on the purpose or content of these letters please contact the engagement partner.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of McDowell Mountain Ranch Community Facilities District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona



City Treasurer's Office

7447 E. Indian School Road, Suite 210
Scottsdale, AZ 85251

PHONE 480-312-2437
FAX 480-312-7897
WEB www.ScottsdaleAZ.gov

Heinfeld, Meech & Co., P.C.
3033 N. Central Ave. Suite 300
Phoenix, AZ 85012

This representation letter is provided in connection with your audit of the financial statements of McDowell Mountain Ranch Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, which comprise the respective financial position of the governmental activities and each major fund, as of June 30, 2019, and the respective changes in financial position for the period then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
8. The effects of all known actual or possible litigation, claims, and assessments have been evaluated, and if necessary, have been accounted for and disclosed in accordance with U.S. GAAP.
9. Guarantees, whether written or oral, under which the District is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the District and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements communicated by employees, former employees, grantors, regulators, or others.

15. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. We have disclosed to you the identity of the District's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. If applicable we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
20. We have a process to track the status of audit findings and recommendations.
21. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
23. The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.
24. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
25. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

26. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
27. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
28. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
29. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
30. The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
33. The financial statements properly classify all funds and activities in accordance with U.S. GAAP.
34. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
35. If applicable, investments are properly valued.
36. If applicable, provisions for uncollectible receivables have been properly identified and recorded.
37. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
38. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
39. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
40. Special and extraordinary items, if any, are appropriately classified and reported.

41. Deposits and investment securities are properly classified as to risk and are properly disclosed.
42. We have appropriately disclosed the District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
43. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
44. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
45. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
46. With respect to the supplementary budget comparison information presented for the Debt Service Fund.
 - a. We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

We understand that at the conclusion of the audit, Heinfeld, Meech & Co., P.C. will submit to the City Auditor a communication to those charged with governance that will include a copy of this representation letter.

Jeffery M. Nichols
Jeffery M. Nichols (Oct 17, 2019)

Jeffery M. Nichols, CPA
City Treasurer/Chief Financial Officer
City of Scottsdale, Arizona

10/17/2019

Date

Gina Kirklin
Gina Kirklin (Oct 16, 2019)

Gina Kirklin
Enterprise and Finance Director
City of Scottsdale, Arizona

10/17/2019

Date

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
McDowell Mountain Ranch Community Facilities District

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of McDowell Mountain Ranch Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise McDowell Mountain Ranch Community Facilities District's basic financial statements and have issued our report thereon dated October 18, 2019. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 88.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered McDowell Mountain Ranch Community Facilities District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McDowell Mountain Ranch Community Facilities District's internal control. Accordingly, we do not express an opinion on the effectiveness of McDowell Mountain Ranch Community Facilities District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McDowell Mountain Ranch Community Facilities District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.

Phoenix, Arizona

October 18, 2019

City of Scottsdale Municipal Property Corporation

(A Component Unit of the City of Scottsdale, Arizona)



Annual Financial Report

Fiscal Year Ended June 30, 2019

City of Scottsdale Municipal Property Corporation
(A Component Unit of the City of Scottsdale, Arizona)

Annual Financial Report

Fiscal Year Ended June 30, 2019

City of Scottsdale Municipal Property Corporation

For the Fiscal Year ended June 30, 2019

Table of Contents

| | |
|--|----|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 3 |
| BASIC FINANCIAL STATEMENTS | |
| Statement of Net Position and Governmental Funds Balance Sheet | 8 |
| Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances..... | 9 |
| Notes to the Basic Financial Statements | 10 |

City of Scottsdale Municipal Property Corporation

For the Fiscal Year ended June 30, 2019

Board Members

Fredda Bisman

Judith Frost

Kenneth Harder

James Jenkins

Dennis Robbins

William Schrader

INDEPENDENT AUDITOR'S REPORT

Board of Directors
City of Scottsdale Municipal Property Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of City of Scottsdale Municipal Property Corporation (Corporation), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Corporation'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 and each major fund of the City of Scottsdale Municipal Property Corporation, as of June 30, 2019, 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.

Change in Accounting Principle

As described in Note 1, the Corporation implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, and Statement No. 89, *Accounting for Interest Cost Before the End of a Construction Period*, for the year ended June 30, 2019, which represent changes in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, on our consideration of City of Scottsdale Municipal Property Corporation’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 City of Scottsdale Municipal Property Corporation’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 City of Scottsdale Municipal Property Corporation’s internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 18, 2019

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

As management of the City of Scottsdale Municipal Property Corporation (Corporation) we offer readers of the City of Scottsdale Municipal Property Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended June 30, 2019. The Corporation is a component unit of the City of Scottsdale, Arizona (City).

FINANCIAL HIGHLIGHTS

For the fiscal year ending 2018/19, the Corporation's:

- Total assets and deferred outflows of resources were greater than total liabilities, resulting in an ending fund balance of \$20,347,257 (net position).
- Total net position decreased by \$7,434,872 due to decreased revenues and decreased construction costs during the year.
- Debt Service Fund and Capital Projects Fund reported ending fund balances of \$0 and \$20,347,257, respectively.
- Significant bond indentures were in compliance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the Corporation's basic financial statements. Because of its limited purpose, the Corporation's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and (2) Notes to the Basic Financial Statements. Because the Corporation only has one governmental program, the government-wide and fund financial statements are combined.

Government-wide Financial Statements

The *Statement of Net Position* is designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the Corporation's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the Corporation is improving or deteriorating.

The *Statement of Activities* presents information showing how the Corporation's net position changed during the most recent fiscal year. Changes in net position are reported when 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, such as expenses related to accrued interest.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

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 Corporation, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Corporation maintains two governmental funds, a debt service fund and a capital projects fund. Information is presented on the Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances.

The Corporation does not adopt an annual appropriated budget for its revenues and expenditures. The debt service payments are budgeted as part of the City's annual budget.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Government-wide Financial Analysis

As noted earlier, net position over time, may serve as useful indicators of a Corporation's financial position. The total assets and deferred outflows of resources were greater than total liabilities, resulting in an ending fund balance for the close of the most recent fiscal year of \$20,347,257 (net position).

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Net Position

June 30, 2019 and 2018

| | Governmental Activities | |
|--|--------------------------------|----------------------|
| | 2019 | 2018 |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| Assets | \$ 561,410,674 | \$ 604,494,304 |
| Deferred Outflows of Resources | 13,022,228 | 14,060,407 |
| Total Assets and Deferred Outflows of Resources | <u>574,432,902</u> | <u>618,554,711</u> |
| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | | |
| Long-Term Liabilities Outstanding | 511,399,211 | 545,235,335 |
| Other Liabilities | 42,686,434 | 45,537,247 |
| Total Liabilities | <u>554,085,645</u> | <u>590,772,582</u> |
| NET POSITION | | |
| Restricted for Debt Service | - | - |
| Restricted for Capital Projects | 20,347,257 | 27,782,129 |
| Total Net Position | <u>\$ 20,347,257</u> | <u>\$ 27,782,129</u> |

Over the fiscal year, the Corporation's total net position decreased by \$7,434,872. Total revenue decreased by \$1,259,834 as a result of lower lease payments. Total expenses decreased by \$26,437,248 primarily due to less capital project expenses and debt service.

Changes in Net Position

For the Fiscal Years Ended June 30, 2019 and 2018

| | Governmental Activities | |
|--------------------------------------|--------------------------------|----------------------|
| | 2019 | 2018 |
| REVENUES | | |
| Lease Payments | \$ 19,900,734 | \$ 21,083,623 |
| Investment Income | 545,116 | 617,592 |
| Other Revenue | - | 4,469 |
| Total Revenues | <u>20,445,850</u> | <u>21,705,684</u> |
| EXPENSES | | |
| General Government | 7,975,090 | 33,109,521 |
| Interest and Fiscal Charges | 19,905,632 | 21,208,449 |
| Total Expenses | <u>27,880,722</u> | <u>54,317,970</u> |
| Increase\ (Decrease) in Net Position | (7,434,872) | (32,612,286) |
| Net Position, Beginning of Year | 27,782,129 | 60,394,415 |
| Net Position, End of Year | <u>\$ 20,347,257</u> | <u>\$ 27,782,129</u> |

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Financial Analysis of the Corporation's Funds

The focus of the Corporation's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the Corporation's ability to pay the debt service on the bonds it issues to fund construction or acquisition of public infrastructure.

As of June 30, 2019, the Corporation's governmental funds reported combined ending fund balances of \$20,347,257. The fund balance for the Debt Service Fund was \$0. The fund balance for the Capital Projects Fund was \$20,347,257 which represents unspent bond funds subsequent to a debt issuance in the prior fiscal years.

Debt Administration

The total net Excise Revenue Debt at June 30, 2019 was \$511,399,211. The Corporation's total long-term debt decreased by \$33,836,124 during the current fiscal year due to the payment of principal on outstanding debt.

Outstanding Debt

For the Fiscal Years Ended June 30, 2019 and 2018

| | Governmental Activities | |
|----------------------|-------------------------|-----------------------|
| | 2019 | 2018 |
| Excise Revenue Bonds | <u>\$ 511,399,211</u> | <u>\$ 545,235,335</u> |

Economic Factors

The City's long-term financial plan remains one of conservative economic growth. The City continues to focus on efficient spending and revenues are forecasted to increase by modest amounts again in fiscal year 2019/20.

Requests for Information

This financial report is designed to provide a general overview of the Corporation's finances for all of those with an interest. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2019

| | Debt Service Fund | Capital Projects Fund | Total Governmental Funds | Adjustments (see Note 2.A.) | Statement of Net Position |
|---|-------------------------|-----------------------------|--------------------------------|--------------------------------|---------------------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Assets | | | | | |
| Restricted Cash and Short-term Investments | \$ 41,447,038 | \$ 21,586,653 | \$ 63,033,691 | \$ - | \$ 63,033,691 |
| Amount Due from City of Scottsdale | 498,376,983 | - | 498,376,983 | - | 498,376,983 |
| Total Assets | <u>539,824,021</u> | <u>21,586,653</u> | <u>561,410,674</u> | <u>-</u> | <u>561,410,674</u> |
| Deferred Outflows of Resources | | | | | |
| Deferred Amounts on Refunding | | | | 13,022,228 | 13,022,228 |
| Total Assets and Deferred Outflows of Resources | | | | <u>13,022,228</u> | <u>574,432,902</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION | | | | | |
| Liabilities | | | | | |
| Accounts Payable | - | 1,239,396 | 1,239,396 | - | 1,239,396 |
| Bond Interest Payable | 11,237,038 | - | 11,237,038 | - | 11,237,038 |
| Matured Bonds Payable | 30,210,000 | - | 30,210,000 | - | 30,210,000 |
| Long-term Liabilities | | | | | |
| Due Within One Year | - | - | - | 32,530,000 | 32,530,000 |
| Due After One Year | - | - | - | 478,869,211 | 478,869,211 |
| Total Liabilities | <u>41,447,038</u> | <u>1,239,396</u> | <u>42,686,434</u> | <u>511,399,211</u> | <u>554,085,645</u> |
| Deferred Inflows of Resources | | | | | |
| Unavailable Revenue | 498,376,983 | - | 498,376,983 | (498,376,983) | - |
| Fund Balances | | | | | |
| Restricted | - | 20,347,257 | 20,347,257 | (20,347,257) | - |
| Total Fund Balances | <u>-</u> | <u>20,347,257</u> | <u>20,347,257</u> | <u>(20,347,257)</u> | <u>-</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 539,824,021</u> | <u>\$ 21,586,653</u> | <u>\$ 561,410,674</u> | | |
| Net Position | | | | | |
| Restricted for Debt Service | | | | - | - |
| Restricted for Capital Projects | | | | 20,347,257 | 20,347,257 |
| Total Net Position | | | | <u>\$ 20,347,257</u> | <u>\$ 20,347,257</u> |

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

Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2019

| | Debt Service Fund | Capital Projects Fund | Total Governmental Funds | Adjustments (see Note 2.B.) | Statement of Activities |
|---|----------------------|-----------------------|--------------------------------|--------------------------------|----------------------------|
| REVENUES | | | | | |
| Lease Payments Received from the City of Scottsdale | \$ 52,698,679 | \$ - | \$ 52,698,679 | \$ (32,797,945) | \$ 19,900,734 |
| Investment Income | 4,345 | 540,771 | 545,116 | - | 545,116 |
| Total Revenues | <u>52,703,024</u> | <u>540,771</u> | <u>53,243,795</u> | <u>(32,797,945)</u> | <u>20,445,850</u> |
| EXPENDITURES/EXPENSES | | | | | |
| Current | | | | | |
| General Government | - | - | - | 7,975,090 | 7,975,090 |
| Capital Improvements | - | 7,975,090 | 7,975,090 | (7,975,090) | - |
| Debt Service | - | - | - | - | - |
| Principal | 30,210,000 | - | 30,210,000 | (30,210,000) | - |
| Interest and Fiscal Charges | 22,493,577 | - | 22,493,577 | (2,587,945) | 19,905,632 |
| Total Expenditures | <u>52,703,577</u> | <u>7,975,090</u> | <u>60,678,667</u> | <u>(32,797,945)</u> | <u>27,880,722</u> |
| Excess (Deficiency) of Revenues over Expenditures | (553) | (7,434,319) | (7,434,872) | - | (7,434,872) |
| Other Financing Sources (Uses) | | | | | |
| Operating Transfers In (Out) | 553 | (553) | - | - | - |
| Total Other Financing Sources (Uses) | <u>553</u> | <u>(553)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | - | (7,434,872) | (7,434,872) | - | (7,434,872) |
| Fund Balances/Net Position, Beginning of Year | - | 27,782,129 | 27,782,129 | - | 27,782,129 |
| Fund Balances/Net Position, End of Year | <u>\$ -</u> | <u>\$ 20,347,257</u> | <u>\$ 20,347,257</u> | <u>\$ -</u> | <u>\$ 20,347,257</u> |

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Scottsdale Municipal Property Corporation (Corporation) a component unit of the City of Scottsdale, Arizona (City) conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the Corporation follows.

During the year ended June 30, 2019, the MPC implemented the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement requires enhanced note disclosures and clarifies which liabilities governments should include when disclosing information related to debt.

During the year ended June 30, 2019, the MPC implemented the provisions of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The Statement improves the comparability information about the capital assets and the cost of borrowing for a reporting period and simplifies the accounting for interest costs incurred before the end of a construction period.

A. Reporting Entity

The City of Scottsdale Municipal Property Corporation, a nonprofit corporation, was incorporated in February 1967 under the laws of the State of Arizona, for the purpose of constructing or otherwise acquiring or equipping buildings, structures or improvements on land owned by the City of Scottsdale, Arizona for the benefit, common good and general welfare of the City and its inhabitants. Upon dissolution, any remaining assets are to be distributed to the City. The Corporation is governed by a Board of Directors approved by the City. For financial reporting purposes, transactions of the Corporation are included as if the Corporation were part of the City'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) report information on all of the nonfiduciary activities of the Corporation. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on rates, fees and charges for support. The Corporation had no business-type activities during the fiscal year.

Financial statements are provided for major governmental funds, with an adjustment column to arrive at government-wide financial statement amounts.

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

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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both earned 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 Corporation considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Lease payments from the City and interest associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Corporation.

The Corporation reports the following major governmental funds:

- The *Debt Service Fund* accounts for the resources accumulated and used for the payment of long-term debt including principal, interest and related costs.
- The *Capital Projects Fund* accounts for resources accumulated and used for the acquisition or construction of major capital facilities.

When both restricted and unrestricted funds are available for use, it is the Corporation's policy to use restricted funds first, and then unrestricted funds. Currently, the Corporation does not have any nonspendable, committed or assigned fund balance.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Investments

Arizona Revised Statutes authorize the Corporation to invest public monies in the State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories, bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government, or bonds of the State of Arizona counties, cities, towns, school districts or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 100 percent of all deposits not covered by federal depository insurance. This policy is in compliance with the Corporation's by-laws and trust agreements.

Cash and investments held by a trustee at June 30, 2019, plus accrued interest, are restricted as to usage.

The Corporation's deposits at June 30, 2019 were collateralized with securities held by the pledging financial institution's trust department or agency in the Corporation's name.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Capital Assets

Capital assets acquired or constructed by the Corporation are dedicated to the City of Scottsdale, Arizona to maintain and operate. As a result, the Corporation owns no capital assets.

3. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts 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.

4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This 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 Corporation has only one item that qualifies for reporting in this category. It is the deferred amount on refunding. A deferred amount on refunding results from the difference in 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 addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent 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. The Corporation has only one type of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Directors. The Board of Directors has not authorized anyone to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. The Corporation has not formally adopted a spending priority policy and therefore use the spending priority indicated in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, GASB 54 indicates to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, GASB 54 indicates to use committed first, then assigned, and finally unassigned amounts.

In the government-wide financial statements, net position is reported in two categories: restricted net position and unrestricted net position. Restricted net position accounts for the portion of net position restricted by bond covenants. Unrestricted net position is the remaining net position not included in the previous category. An unrestricted net position did not occur as of the end of the fiscal year.

E. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America may require 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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Amounts Reported in the Statement of Net Position are Different Because:

Amounts due from the City of Scottsdale for retirement of debt are long-term in nature and are deferred inflows in the governmental funds.

| | | | |
|---|----|--------------------|----------------|
| Prior Year Receivable | \$ | 531,174,928 | |
| Debt Service Payments Made | | (30,210,000) | |
| Amortization Amount on Refunding | | 1,038,179 | |
| Amortization of Premium on Existing Bonds | | <u>(3,626,124)</u> | \$ 498,376,983 |

Long-term liabilities applicable to the Corporation's governmental activities are not due and payable in the current period and accordingly are not reported as fund payables in the governmental funds.

| | | |
|---------------------------|---------------------|---------------|
| Bonds Payable | (464,530,000) | |
| Deferred Issuance Premium | <u>(46,869,211)</u> | (511,399,211) |

Deferred Amount on Refunding are long-term in nature and are not reported as deferred outflows of resources in the governmental funds.

| | |
|-------------------|-------------------|
| <u>13,022,228</u> | <u>13,022,228</u> |
|-------------------|-------------------|

Net adjustment to reduce total fund balance in the governmental funds to arrive at net position.

-

Total Fund Balances

20,347,257

Total Net Position

\$ 20,347,257

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Amounts Reported in the Statement of Activities are Different Because:

Contractual agreement provides for repayment of debt by the City to the Corporation; thus, in the statement of activities revenues are recorded at the inception of the agreement rather than as received. Revenues recognized in the fund statements are those that provide current financial resources. Changes in the total debt outstanding will result in adjustments to the revenue in the statement of activities.

| | | | |
|---|----|--------------------|-----------------|
| Debt Service Payments Made | \$ | (30,210,000) | |
| Amortization Amount on Refunding | | 1,038,179 | |
| Amortization of Premium on Existing Bonds | | <u>(3,626,124)</u> | \$ (32,797,945) |

Interest expense in the statement of activities differs from the amount reported in governmental funds because additional accrued and accreted interest was calculated for bonds payable and additional interest expense was recognized on the amortization of amount on refunding and premiums which are expended within the funds statements.

| | | | |
|---|--|------------------|-----------|
| Amortization Amount on Refunding | | (1,038,179) | |
| Amortization of Premium on Existing Bonds | | <u>3,626,124</u> | 2,587,945 |

Repayment of bond principal is reported as an expenditure in governmental funds, and thus, has the effect of reducing fund balance because current financial resources have been used. For the statement of activities, however, the principal payments reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities.

| | | | |
|-------------------------|--|-------------------|------------|
| Principal Payments Made | | <u>30,210,000</u> | 30,210,000 |
|-------------------------|--|-------------------|------------|

Net Adjustment To Reduce Net Change In Fund Balances To Arrive At Net Change In Net Position

| | | | |
|-----------------------------|--|-----------------------|--|
| Net Change In Fund Balances | | <u>(7,434,872)</u> | |
| Net Change In Net Position | | <u>\$ (7,434,872)</u> | |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The Corporation does not adopt an annual appropriation budget. However, debt service payments are budgeted as part of the City's annual budget.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Assets

Deposits and Investments

Deposits – At June 30, 2019, the Corporation's deposits consisted of the following:

| | <u>Fair Value</u> |
|-----------------------|-----------------------|
| Accounts With Trustee | <u>\$ 63,033,691</u> |

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. As of June 30, 2019, \$24,517,925 of the Corporation's deposits was uninsured and collateralized by securities held by the pledging bank's trust department not in the Corporation's name, and therefore exposed to custodial credit risk.

B. Liabilities

Obligations Under Long-term Debt

The Corporation issues bonds which are repaid through the City's excise tax collections and other unrestricted revenues. The use of property taxes to repay these bonds is specifically prohibited by law. The following bonds, or portions thereof, are paid out of the City's Water and Sewer Fund:

- a portion of the 2006 MPC Excise Tax Revenue Refunding Bonds,
- the 2010 MPC Excise Tax Revenue Bonds,
- a portion of the 2015 MPC Excise Tax Revenue Refunding Bonds,
- a portion of the 2015A MPC Excise Tax Revenue Bonds,
- the 2017 MPC Excise Tax Revenue Refunding Bonds,
- the 2017A MPC Excise Tax Revenue Bonds.

The 2017B MPC Excise Tax Revenue Bonds are paid out of the City's Aviation Fund.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

In a prior year, the Corporation refinanced other bond issues through the issuance of refunding bonds. The proceeds from the issuance of the bonds were used to purchase U.S. government securities that were placed in an irrevocable trust with an escrow agent to provide debt service payments on the bonds being refunded. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the Corporation's financial statements.

The table below reflects defeased debt outstanding at June 30, 2019, net of any amounts to be paid or retired by the trustee on July 1, 2019:

| Refunded in Prior Years | |
|-----------------------------------|---------------|
| 2010 MPC Excise Tax Revenue Bonds | \$ 55,510,000 |

Bonds payable at June 30, 2019 consisted of the outstanding bonds presented below:

| Classified in Debt Service Fund - General Government Purposes Municipal Property Corporation Bonds | Bonds Outstanding |
|--|------------------------------|
| 2006 Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued November 29, 2006) due in annual installments of \$1,200,000 to \$4,975,000 through July 1, 2034; interest at 5 percent. Original issue amount \$55,450,000. | \$ 50,640,000 |
| 2013A Municipal Property Corporation Excise Tax Revenue Bonds (issued February 13, 2013) due in annual installments of \$830,000 to \$2,920,000 through July 1, 2028; interest at 3 percent to 5 percent. Original issue amount \$26,295,000. | 19,775,000 |
| 2013B Municipal Property Corporation Excise Tax Revenue Bonds (issued February 13, 2013) due in annual installments of \$45,000 to \$100,000 through July 1, 2033; interest at 3 percent to 5 percent. Original issue amount \$1,440,000. | 1,135,000 |
| 2013C Municipal Property Corporation Excise Tax Revenue Bonds (issued February 13, 2013) due in annual installments of \$1,210,000 to \$2,855,000 through July 1, 2033; interest at 3 percent to 5 percent. Original issue amount \$37,265,000. | 29,445,000 |
| 2014 Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued May 29, 2014) due in annual installments of \$1,730,000 to \$3,040,000 through July 1, 2027; interest at 1.75 percent to 5 percent. Original issue amount \$22,735,000. | 16,760,000 |
| 2015A Municipal Property Corporation Excise Tax Revenue Bonds (issued January 6, 2015) due in annual installments of \$205,000 to \$865,000 through July 1, 2034; interest at 3 percent to 5 percent. Original issue amount \$12,200,000. | 10,195,000 |
| 2015A Municipal Property Corporation Taxable Revenue Bonds (issued January 6, 2015) due in annual installments of \$275,000 to \$1,025,000 through July 1, 2034; interest at 2 percent to 4 percent. Original issue amount \$14,615,000. | 11,995,000 |
| 2015 Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued March 26, 2015) due in annual installments of \$1,460,000 to \$6,877,488 through July 1, 2035; interest at 3 percent to 5 percent. Original issue amount \$46,758,269. | 33,816,729 |
| Total Municipal Property Corporation Bonds Outstanding-General Fund | \$ 173,761,729 |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

**Classified in Debt Service Fund - Water and Sewer Purposes
Municipal Property Corporation Bonds**

| | Bonds Outstanding |
|---|------------------------------|
| 2006 Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued November 29, 2006) due in annual installments of \$3,600,000 to \$10,140,000 through July 1, 2030; interest at 5 percent. Original issue amount \$110,510,000. | \$ 79,600,000 |
| 2010 Municipal Property Corporation Excise Tax Revenue Bonds (issued April 7, 2010) due in annual installments of \$180,000 to \$7,800,000 through July 1, 2036; interest at 3 percent to 5 percent. On March 1, 2017, \$55,510,000 due 2023 through 2028 and 2031 through 2036 was refunded. Original issue amount \$75,000,000. | 13,940,000 |
| 2015A Municipal Property Corporation Excise Tax Revenue Bonds (issued January 6, 2015) due in annual installments of \$310,000 to \$1,305,000 through July 1, 2034; interest at 3 percent to 5 percent. Original issue amount \$18,485,000. | 15,450,000 |
| 2015 Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued March 26, 2015) due in annual installments of \$3,788,459 to \$5,822,479 through July 1, 2028; interest at 5 percent. Original issue amount \$46,811,731. | 43,023,271 |
| 2017 Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued March 1, 2017) due in annual installments of \$2,015,000 to \$12,630,000 through July 1, 2036; interest at 3 percent to 5 percent. Original issue amount \$79,970,000. | 79,970,000 |
| 2017A Municipal Property Corporation Excise Tax Revenue Bonds (issued May 24, 2017) due in annual installments of \$1,080,000 to \$2,730,000 through July 1, 2037; interest at 3 percent to 5 percent. Original issue amount \$39,065,000. | 36,685,000 |
| Total Municipal Property Corporation Bonds Outstanding-Water and Sewer | \$ 268,668,271 |
| 2017B Municipal Property Corporation Excise Tax Revenue Bonds (issued May 24, 2017) due in annual installments of \$645,000 to \$1,655,000 through July 1, 2037; interest at 3 percent to 5 percent. Original issue amount \$23,520,000. | 22,100,000 |
| Total Municipal Property Corporation Bonds Outstanding-Aviation | \$ 22,100,000 |
| Total bonds outstanding | \$ 464,530,000 |

The bonds, which mature 8 to 30 years after their respective date of issuance, may be redeemed in whole or in part on any interest payment date, at redemption prices reflecting a premium above par, plus accrued interest to the date of redemptions.

The City is obligated under contracts to pay the Corporation amounts sufficient to retire the Corporation's bonds and related interest in exchange for the assets acquired or constructed in connection with the issuance of bonds. The City has collateralized the bonds of the Corporation by (1) a first lien pledge of all excise, transaction privilege, and franchise taxes collected by the City, except those taxes required by law to be expended for specific purposes, and (2) a pledge of all net revenue derived by the City from the facilities constructed or acquired with the bonds proceeds. The Corporation retains legal title to the properties until the amounts due from the City are paid in full. The City has the sole right to the use of the facilities and is responsible for all operating and maintenance costs.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

The contract lease agreements mentioned above are, in substance, long-term sales contracts for an amount equal to the Corporation's bonded debt and interest thereon. Accordingly, the accompanying balance sheet reflects a receivable from the City the present value of the amounts due thereunder, which corresponds to the principal portion plus premium and deferred amount on refunding of the bonded debt payable.

The City has pledged, as security for bonds issued by the Corporation, a portion of the City's excise tax revenues. The City has committed to make lease payments to the Corporation each year sufficient to cover the principal and interest requirements on the Corporation's bonds. The Corporation has pledged, as sole security for the bonds, the annual lease payments from the City. Total principal and interest remaining on the debt is \$632,597,888.

The MPC bond issuances, for both governmental and business-type activities, contain the following provisions that would constitute an event of default by the MPC:

- Non-punctual payment of principal or interest.
- Default in the performance or observance of any covenant, agreement, or condition in the indenture or in the bonds not cured within 30 days of notice of default. The MPC is also considered to be in default if the issue is not curable within 30 days and corrective action is not diligently pursued to the satisfaction of the trustee within 30 days.
- Bankruptcy, insolvency, and/or receivership.
- Default on any bonds which are on a parity basis with the bonds in question.

If any of the events of default transpire, the MPC bond trustee may file a suit or suits in equity or at law and appoint a receiver to collect and properly disburse pledged MPC revenues for debt service payments. Any amounts recovered through such proceedings shall be paid first to the costs and expenses incurred by the trustee, its agents, attorneys and counsel, and of all proper expenses, liabilities and advances incurred or made by the trustee or any registered owner(s) of the bonds in question. If a residual amount were to remain, it would be applied to the then-owed or unpaid amount related to the bonds. If insufficient funds were to exist, the residual amount would be allocated on a pro-rata basis to the then-owed or unpaid amount related to the bonds.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 5 – CHANGES IN LONG TERM DEBT

A. Summary of Changes

The Corporation made principal payments of \$30,210,000, amortized deferred issuance premiums of \$3,626,124 and deferred amount on refundings of \$1,038,179 during the current fiscal year.

The following is a summary of changes in long-term debt:

| | Municipal Property Corporation Bonds Payable | Deferred Issuance Premium | Long Term Liabilities |
|-----------------------------------|---|---------------------------------|--------------------------|
| Beginning Balances | \$ 494,740,000 | \$ 50,495,335 | \$ 545,235,335 |
| Decreases: | | | |
| Existing Bonds | (30,210,000) | (3,626,124) | (33,836,124) |
| Ending Balances | \$ 464,530,000 | \$ 46,869,211 | \$ 511,399,211 |
| Amounts Due Within One Year | \$ 32,530,000 | | |
| Amounts Due in More than One Year | \$ 432,000,000 | | |

The following is a summary of annual debt service requirements to maturity as of June 30, 2019:

| Fiscal Year | Principal | Interest | Total |
|-------------|----------------|----------------|----------------|
| 2020 | \$ 32,530,000 | \$ 21,087,375 | \$ 53,617,375 |
| 2021 | 28,795,000 | 19,522,875 | 48,317,875 |
| 2022 | 28,535,000 | 18,139,425 | 46,674,425 |
| 2023 | 29,940,000 | 16,745,575 | 46,685,575 |
| 2024 | 31,645,000 | 15,295,675 | 46,940,675 |
| 2025-2029 | 153,565,000 | 54,736,394 | 208,301,394 |
| 2030-2034 | 129,395,000 | 20,467,831 | 149,862,831 |
| 2035-2037 | 30,125,000 | 2,072,738 | 32,197,738 |
| Total | \$ 464,530,000 | \$ 168,067,888 | \$ 632,597,888 |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 6 – OTHER INFORMATION

A. Risk Management

The Corporation 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 Corporation does not have separate insurance coverage but is included under the City of Scottsdale, Arizona's self-insured risk management program. The City is self-insured for the first \$2,000,000 of public liability; coverage in excess of this amount is provided through the purchase of commercial insurance. For more information on the City's self-insurance, please see the City's Comprehensive Annual Financial Report, Note V.A.

B. Notice of Event

In September 2019, the City Council approved the issuance of bonds by the Scottsdale Municipal Property Corporation in an amount not to exceed \$43.5 million. Approximately \$33.5 million of taxable bonds will be used to renovate Scottsdale Stadium and \$10.0 million of non-taxable bonds were approved for flood control improvements.

October 21, 2019

Board of Directors
City of Scottsdale Municipal Property Corporation

We have audited the financial statements of the governmental activities and each major fund of City of Scottsdale Municipal Property Corporation, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Scottsdale Municipal Property Corporation are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

As described in Note 1 of the financial statements, the City of Scottsdale Municipal Property Corporation implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, and Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, for the year ended June 30, 2019. GASB Statement No. 88 improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB Statement No. 89 improves the comparability of information about the capital assets and the cost of borrowing for a reporting period and simplifies the accounting for interest costs incurred before the end of a construction period.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Scottsdale Municipal Property Corporation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the Corporation's auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the "Independence Rule" of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper "tone at the top", increases the likelihood that fraud will be prevented, deterred and detected.

Additional Reports Issued

In addition to the auditor's report on the financial statements we have also issued the following documents related to this audit.

- Report on internal control over financial reporting and on compliance in accordance with *Government Auditing Standards*

Other Important Communications Related to the Audit

Attached to this letter is a copy of the management representation letter provided to us at the conclusion of the audit. If there are any questions on the purpose or content of these letters please contact the engagement partner.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of Scottsdale Municipal Property Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona



City Treasurer's Office

7447 E. Indian School Road, Suite 210
Scottsdale, AZ 85251

PHONE 480-312-2437
FAX 480-312-7897
WEB www.ScottsdaleAZ.gov

Heinfeld, Meech & Co., P.C.
3033 N. Central Ave. Suite 300
Phoenix, AZ 85012

This representation letter is provided in connection with your audit of the financial statements of City of Scottsdale Municipal Property Corporation (Corporation), a component unit of the City of Scottsdale, Arizona, which comprise the respective financial position of the governmental activities and each major fund, as of June 30, 2019, and the respective changes in financial position for the period then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
8. The effects of all known actual or possible litigation, claims, and assessments have been evaluated, and if necessary, have been accounted for and disclosed in accordance with U.S. GAAP.
9. Guarantees, whether written or oral, under which the Corporation is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the Corporation from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the Corporation and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.

14. We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation's financial statements communicated by employees, former employees, grantors, regulators, or others.
15. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. We have disclosed to you the identity of the Corporation's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. If applicable we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
20. We have a process to track the status of audit findings and recommendations.
21. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
23. The Corporation has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.
24. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
25. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

26. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
27. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
28. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
29. The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
30. The Corporation has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
33. The financial statements properly classify all funds and activities in accordance with U.S. GAAP.
34. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
35. If applicable, investments are properly valued.
36. If applicable, provisions for uncollectible receivables have been properly identified and recorded.
37. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
38. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
39. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

40. Special and extraordinary items, if any, are appropriately classified and reported.
41. Deposits and investment securities are properly classified as to risk and are properly disclosed.
42. We have appropriately disclosed the Corporation's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
43. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
44. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
45. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

We understand that at the conclusion of the audit, Heinfeld, Meech & Co., P.C. will submit to the City Auditor a communication to those charged with governance that will include a copy of this representation letter.

Jeffery M. Nichols
Jeffery M. Nichols (Oct 18, 2019)

Jeffery M. Nichols, CPA
City Treasurer/Chief Financial Officer
City of Scottsdale, Arizona

10/18/2019

Date

Gina Kirklin
Gina Kirklin (Oct 16, 2019)

Gina Kirklin
Enterprise and Finance Director
City of Scottsdale, Arizona

10/16/2019

Date

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
City of Scottsdale Municipal Property Corporation

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of City of Scottsdale Municipal Property Corporation, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City of Scottsdale Municipal Property Corporation's basic financial statements and have issued our report thereon dated October 18, 2019. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement Nos. 88 and 89.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Scottsdale Municipal Property Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Scottsdale Municipal Property Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Scottsdale Municipal Property Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Scottsdale Municipal Property Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.

Phoenix, Arizona

October 18, 2019

Scottsdale Mountain Community Facilities District

(A Component Unit of the City of Scottsdale, Arizona)



Annual Financial Report

Fiscal Year Ended June 30, 2019

Scottsdale Mountain Community Facilities District
(A Component Unit of the City of Scottsdale, Arizona)

Annual Financial Report

Fiscal Year Ended June 30, 2019

Scottsdale Mountain Community Facilities District

For the Fiscal Year ended June 30, 2019

Table of Contents

Independent Auditors' Report..... 1

Management's Discussion and Analysis 3

BASIC FINANCIAL STATEMENTS

Statement of Net Position and Governmental Funds Balance Sheet 9

Statement of Activities and Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances 10

Notes to the Basic Financial Statements 11

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund 19

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Scottsdale Mountain Community Facilities District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Scottsdale Mountain Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District'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 and each major fund of the Scottsdale Mountain Community Facilities District, as of June 30, 2019, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, on our consideration of Scottsdale Mountain Community Facilities District'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 Scottsdale Mountain Community Facilities District'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 Scottsdale Mountain Community Facilities District's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 18, 2019

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

As management of the Scottsdale Mountain Community Facilities District (District), we offer readers a narrative overview and analysis of the financial activities for the District. The District is one of the City of Scottsdale, Arizona's component units for financial reporting purposes for the fiscal year ended June 30, 2019.

Formed in 1992, the District is a special purpose taxing district and separate political subdivision under Arizona statutes. As such, the District can levy taxes and issue bonds, independent of the City of Scottsdale, Arizona (City). Property owners within the District boundaries pay for District infrastructure and functions through secondary property tax assessments. City staff administers the District and the costs of their services are reimbursed by District funds. The Scottsdale City Council also serves as the District Board of Directors.

FINANCIAL HIGHLIGHTS

For the year ending 2018/19, the District's:

- Tax collections and beginning fund balances were sufficient to pay expenses.
- Tax rate continued to comply with the City-imposed assessment limit of \$3.00 per \$100 assessed valuation; the tax rate was \$0.06 per \$100 assessed valuation.
- Governmental funds reported an ending fund balance of \$42,017.
- Governmental fund revenues were greater than expenditures by \$15,862, the tax rate decreased from \$0.38 in fiscal year 2017/18 to \$0.06.
- Significant bond indentures were satisfied and no longer applicable; debt service was paid in full June 30, 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the District's basic financial statements. Because of its limited purpose, the District's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance and (2) Notes to the Basic Financial Statements.

Because the District has only one governmental program, the government-wide and fund financial statements are combined.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Government-wide Financial Statements

The *Statement of Net Position* is designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. Changes in net position are reported when 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, such as revenues pertaining to uncollected taxes and expenses related to accrued interest.

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 District, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the General funds are unassigned.

The District maintains two governmental funds, general and debt service. Information is presented in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Debt Service Fund.

The District adopts an annual budget for its General Fund. A supplementary budgetary schedule has been provided to demonstrate compliance with this budget.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to acquire a full understanding of the data provided in the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents as required supplementary information a comparison between budgeted and actual amounts within the General Fund.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$60,024 (net position). The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and a separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes to pay the debt service over the life of the bonds. The City Council serves as the Board of Directors. However, the City has no liability for the District's debt. For financial reporting purposes, transactions of the District are combined together and included as if they were part of the City's operations and the assets financed through the District are combined with the infrastructure of the City.

Net Position

June 30, 2019 and 2018

| | Governmental Activities | |
|---------------------|-------------------------|-----------|
| | 2019 | 2018 |
| ASSETS | | |
| Current Assets | \$ 60,024 | \$ 22,290 |
| Noncurrent Assets | - | 187,801 |
| Total Assets | 60,024 | 210,091 |
| LIABILITIES | | |
| Current Liabilities | - | 163,760 |
| Total Liabilities | - | 163,760 |
| NET POSITION | | |
| Restricted | - | 46,331 |
| Unrestricted | 60,024 | - |
| Total Net Position | \$ 60,024 | \$ 46,331 |

During the fiscal year, the District's total net position increased by \$13,693.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Changes in Net Position

For the Fiscal Years Ended June 30, 2019 and 2018

| | Governmental Activities | |
|---------------------------------|-------------------------|------------------|
| | 2019 | 2018 |
| REVENUES | | |
| Taxes | \$ 23,160 | \$ 157,755 |
| Interest | 54 | - |
| Total Revenues | <u>23,214</u> | <u>157,755</u> |
| EXPENSES | | |
| General Government | 9,521 | 10,815 |
| Debt Service | - | 9,330 |
| Total Expenses | <u>9,521</u> | <u>20,145</u> |
| Change in Net Position | 13,693 | 137,610 |
| Net Position, Beginning of Year | 46,331 | (91,279) |
| Net Position, End of Year | <u>\$ 60,024</u> | <u>\$ 46,331</u> |

Revenues decreased in fiscal year 2018/19 due to a decrease in the tax rate and expenses decreased due to the reduction of long-term debt resulting in an increase in the District's net position.

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with legal requirements related to special purpose districts and general obligation bonds.

Financial Analysis of the District's Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending.

As of the end of fiscal year 2018/19, the District's governmental funds reported revenues greater than expenditures by \$15,862 and an ending fund balance of \$42,017. The entire fund balance is unassigned.

Revenues totaled \$25,383 for the fiscal year ended June 30, 2019, of which \$25,329 was property tax and \$54 was interest.

Capital Assets and Debt Administration

The District was formed to finance and acquire or construct amenities that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Since formation, District bonds have been issued, and the proceeds used to acquire land included in the Scottsdale Mountain Preserve, to construct water and sewer lines and related infrastructure, and to address drainage within this district.

The District issued \$5,450,000 of the \$7,000,000 authorized bonds. In fiscal year 2001/02, the District Board approved the issuance of bonds to refund outstanding District general obligation bonds. Refunding bonds totaling \$5,375,000 were issued. All outstanding bonds were paid in full as of June 30, 2018.

The District is not engaged in any significant activities other than providing for the levy of secondary property taxes to pay administrative fees.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Next Year's Budget and Rates

The fiscal year 2018/19 District budget included a \$0.06 tax rate per \$100 of assessed value. The District will no longer levy taxes since all debt has been satisfied. The fiscal year 2019/20 budget includes estimated ongoing expenses until the District is dissolved.

Future Discontinuance of District

The District has no further long-term obligations; as of fiscal year ending June 30, 2018, all debt was paid in full. Per Arizona Revised Statutes § 48-724 (Dissolution of District), unless qualified electors of the District vote to dissolve the District sooner, the District will remain open until the District Board determines the District has been inactive for at least five years and has no future purpose, and the District Board adopts and records a resolution dissolving the District.

Until the District is dissolved, the ongoing planned activities for the District will be administrative and may include payment of annual audit fees, annual tax preparation and filing fees, preparation of the resolution fees, insurance, publication/advertising costs, budget preparation costs, etc.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2019

| <u>ASSETS</u> | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Net Position</u> |
|---|---------------------|------------------------------|------------------|--------------------|--------------------------------------|
| Assets | | | | | |
| Current Assets | | | | | |
| Cash | \$ 41,614 | \$ - | \$ 41,614 | \$ - | \$ 41,614 |
| Taxes Receivable | 18,410 | - | 18,410 | - | 18,410 |
| Total Assets | <u>\$ 60,024</u> | <u>\$ -</u> | <u>\$ 60,024</u> | <u>\$ -</u> | <u>\$ 60,024</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION | | | | | |
| Liabilities | \$ - | \$ - | \$ - | \$ - | \$ - |
| Deferred Inflows of Resources | | | | | |
| Unavailable Revenues | 18,007 | - | 18,007 | (18,007) | - |
| Total Liabilities and Deferred Inflows of Resources | <u>18,007</u> | <u>-</u> | <u>18,007</u> | <u>(18,007)</u> | <u>-</u> |
| Fund Balances/Net Position | | | | | |
| Fund Balances | | | | | |
| Unassigned | 42,017 | - | 42,017 | (42,017) | - |
| Total Fund Balances | <u>42,017</u> | <u>-</u> | <u>42,017</u> | <u>(42,017)</u> | <u>-</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 60,024</u> | <u>\$ -</u> | <u>\$ 60,024</u> | | |
| Net Position | | | | | |
| Unrestricted | | | | 60,024 | 60,024 |
| Total Net Position | | | | <u>\$ 60,024</u> | <u>\$ 60,024</u> |

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

Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances
 For the Fiscal Year Ended June 30, 2019

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|---|---------------------|--------------------------|------------------|--------------------|--------------------------------|
| REVENUES | | | | | |
| Taxes | \$ 24,258 | \$ 1,071 | \$ 25,329 | \$ (2,169) | \$ 23,160 |
| Interest | 54 | - | 54 | - | 54 |
| Total Revenues | <u>24,312</u> | <u>1,071</u> | <u>25,383</u> | <u>(2,169)</u> | <u>23,214</u> |
| EXPENDITURES/EXPENSES | | | | | |
| Current | | | | | |
| General Government | | | | | |
| City Treasurer - Finance and Accounting | \$ 9,520 | \$ 1 | \$ 9,521 | \$ - | \$ 9,521 |
| Total Expenditures/Expenses | <u>9,520</u> | <u>1</u> | <u>9,521</u> | <u>-</u> | <u>9,521</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 14,792 | 1,070 | 15,862 | (2,169) | 13,693 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers In (Out) | <u>27,225</u> | <u>(27,225)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>27,225</u> | <u>(27,225)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in Fund Balances/Net Position | 42,017 | (26,155) | 15,862 | (2,169) | 13,693 |
| Fund Balances/Net Position, Beginning of Year | <u>-</u> | <u>26,155</u> | <u>26,155</u> | <u>20,176</u> | <u>46,331</u> |
| Fund Balances/Net Position, End of Year | <u>\$ 42,017</u> | <u>\$ -</u> | <u>\$ 42,017</u> | <u>\$ 18,007</u> | <u>\$ 60,024</u> |

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Scottsdale Mountain Community Facilities District (District), a component unit of the City of Scottsdale, Arizona (City), conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the District follows.

A. Reporting Entity

The Scottsdale Mountain Community Facilities District was formed by petition to the City of Scottsdale City Council in February 1992. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the District. The City Council serves as the Board of Directors; however, the City has no liability for the District's debt. For financial reporting purposes, transactions of the Scottsdale Mountain Community Facilities District are included as if the District were part of the City'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) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year.

Financial statements are provided for major governmental funds, with an adjustments column to arrive at government-wide statement amounts.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both earned 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 District considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the current fiscal period when the revenue is earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* accounts for resources accumulated and used for the payment of other operating expenses for the District, which may include insurance, legal fees and administration costs.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of governmental long-term debt including principal, interest and related costs.

The spending order for the District is to use restricted funds and then unassigned funds as they are needed. Currently the District does not have any restricted, nonspendable, committed or assigned funds.

D. Assets, Liabilities, Deferred Outflows/Inflow of Resources, and Net Position/Fund Balance

1. Cash and Investments

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; or bonds of the State of Arizona counties, cities, towns, school districts or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 100 percent of all deposits not covered by federal depository insurance.

Cash and investments held by trustee at June 30, 2019, plus accrued interest, are unrestricted as to usage.

2. Capital Assets

Capital assets acquired or construction of infrastructure assets by the District are dedicated to the City of Scottsdale, Arizona to maintain and operate. As a result, the District owns no capital assets.

3. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts 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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements report a separate section for deferred outflows of resources. This 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 District has no items that qualify as a deferred outflow of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent 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. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet.

5. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Directors. The Board of Directors passed a resolution authorizing the City of Scottsdale City Treasurer to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

In the government-wide financial statements, net position is reported in two categories: restricted and unrestricted. Restricted accounts for the portion of net position restricted by bond covenant. Unrestricted is the remaining net position not included in the previous category.

E. 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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Amounts reported in the statement of net position are different because:

| | |
|--|-------------------------|
| Tax revenues not available to pay current-period expenditures are deferred inflows in the funds. | \$ 18,007 |
| Net adjustment to reduce total fund balance to arrive at net position. | 18,007 |
| Total Fund Balance | <u>42,017</u> |
| Total Net Position | <u><u>\$ 60,024</u></u> |

B. Amounts reported in the statement of activities are different because:

| | |
|--|-------------------------|
| Tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | \$ (2,169) |
| Net adjustments to reconcile net changes in fund balances to change in net position. | (2,169) |
| Net change in Fund Balance | <u>15,862</u> |
| Change in Net Position | <u><u>\$ 13,693</u></u> |

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The District adopts an annual operating budget for revenues and expenditures for the General Fund on essentially the same modified accrual basis of accounting used to record actual expenditures. Budgetary control over expenditures is exercised at the fund level.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

Deposits – At June 30, 2019, the carrying amount of the District’s deposits and bank balance were \$41,614.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District’s deposits may not be returned. As of June 30, 2019, the District had no deposits that were exposed to custodial credit risk.

2. Property Taxes Receivable

The Maricopa County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business days in November and May. During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding the assessment levy.

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund financial statements. In the fund financial statements, property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 31 days subsequent to fiscal year-end. Property taxes not collected within 31 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred inflows.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer’s Office, and at June 30, 2019, were as follows:

| | <u>General Fund</u> |
|------------------|---------------------|
| Taxes Receivable | \$ 18,410 |

At the end of the current fiscal year, unavailable revenue reported in the governmental fund was as follows:

| | <u>General Fund</u> |
|---|---------------------|
| Delinquent Property Taxes Receivable (Unavailable) | \$ 18,007 |

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

Obligations Under Long-term Debt

General Obligation Bonds

The District issued general obligation bonds to provide funds to acquire and improve public infrastructure in specified areas. General obligation bonds were issued for governmental activities only. The bonds are generally callable with interest payable semiannually. All District bonds have been paid in full.

Community facilities districts (CFDs) are created only by petition to the City Council by property owners within the District areas. As board of directors for the District, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the District property (prior to improvements being installed), when compared to proposed District debt, is a minimum of 3 to 1 prior to issuance of debt and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the District and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's full cash valuation.

Changes in Long-term Liabilities

Since all debt service obligations were satisfied on June 30, 2018, there were no changes in Long-term Liabilities.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 5 – TRANSFERS

A transfer was made to move the remaining Debt Service Fund cash balance to the General Fund since the debt service has been paid in full.

NOTE 6 – OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss. The District carries commercial insurance for \$1,000,000 per occurrence and \$2,000,000 aggregate covering general liability exposures. The District also carries public entity management liability insurance for \$1,000,000 each wrongful act and \$1,000,000 aggregate to cover damages resulting from the conduct of duties by or for a public entity or its boards. There have been no known losses in any of the past three fiscal years.

B. Future Discontinuance of District

The District has no further long-term obligations; as of fiscal year ending June 30, 2018, all debt was paid in full. Per Arizona Revised Statutes § 48-724 (Dissolution of District), unless qualified electors of the District vote to dissolve the District sooner, the District will remain open until the District Board determines the District has been inactive for at least five years and has no future purpose, and the District Board adopts and records a resolution dissolving the District.

Until the District is dissolved, the ongoing planned activities for the District will be administrative and may include payment of annual audit fees, annual tax preparation and filing fees, preparation of the resolution fees, insurance, publication/advertising costs, budget preparation costs, etc.

Required Supplementary Information

**Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – General Fund**

For the Fiscal Year Ended June 30, 2019

| | Original and Final Budget | Actual | Variance |
|---|--------------------------------------|-------------------------|-------------------------|
| REVENUES | | | |
| Taxes | \$ 23,727 | \$ 24,258 | \$ 531 |
| Interest | - | 54 | 54 |
| Total Revenues | <u>23,727</u> | <u>24,312</u> | <u>585</u> |
| EXPENDITURES/EXPENSES | | | |
| Current | | | |
| General Government | | | |
| City Treasurer - Finance and Accounting | <u>50,004</u> | <u>9,520</u> | <u>40,484</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (26,277) | 14,792 | 41,069 |
| Other Financing Sources (Uses) | | | |
| Transfers In | - | 27,225 | 27,225 |
| Fund Balance, Beginning of Year | <u>26,277</u> | <u>-</u> | <u>(26,277)</u> |
| Fund Balance, End of Year | <u><u>\$ -</u></u> | <u><u>\$ 42,017</u></u> | <u><u>\$ 42,017</u></u> |

October 21, 2019

Board of Directors
Scottsdale Mountain Community Facilities District

We have audited the financial statements of the governmental activities and each major fund of Scottsdale Mountain Community Facilities District, a component unit of the City of Scottsdale, Arizona, for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Scottsdale Mountain Community Facilities District are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Scottsdale Mountain Community Facilities District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the District’s auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the “Independence Rule” of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Additional Reports Issued

In addition to the auditor’s report on the financial statements we have also issued the following documents related to this audit.

- Report on internal control over financial reporting and on compliance in accordance with *Government Auditing Standards*

Other Important Communications Related to the Audit

Attached to this letter is a copy of the management representation letter provided to us at the conclusion of the audit. If there are any questions on the purpose or content of these letters please contact the engagement partner.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of Scottsdale Mountain Community Facilities District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona



City Treasurer's Office

7447 E. Indian School Road, Suite 210
Scottsdale, AZ 85251

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WEB www.ScottsdaleAZ.gov

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3033 N. Central Ave. Suite 300
Phoenix, AZ 85012

This representation letter is provided in connection with your audit of the financial statements of Scottsdale Mountain Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, which comprise the respective financial position of the governmental activities and each major fund, as of June 30, 2019, and the respective changes in financial position for the period then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
8. The effects of all known actual or possible litigation, claims, and assessments have been evaluated, and if necessary, have been accounted for and disclosed in accordance with U.S. GAAP.
9. Guarantees, whether written or oral, under which the District is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the District and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements communicated by employees, former employees, grantors, regulators, or others.

15. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. We have disclosed to you the identity of the District's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. If applicable we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
20. We have a process to track the status of audit findings and recommendations.
21. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
23. The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.
24. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
25. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

26. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
27. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
28. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
29. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
30. The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
33. The financial statements properly classify all funds and activities in accordance with U.S. GAAP.
34. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
35. If applicable, investments are properly valued.
36. If applicable, provisions for uncollectible receivables have been properly identified and recorded.
37. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
38. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
39. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
40. Special and extraordinary items, if any, are appropriately classified and reported.

41. Deposits and investment securities are properly classified as to risk and are properly disclosed.
42. We have appropriately disclosed the District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
43. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
44. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
45. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

We understand that at the conclusion of the audit, Heinfeld, Meech & Co., P.C. will submit to the City Auditor a communication to those charged with governance that will include a copy of this representation letter.

Jeffery M. Nichols
Jeffery M. Nichols (Oct 17, 2019)

Jeffery M. Nichols, CPA
City Treasurer/Chief Financial Officer
City of Scottsdale, Arizona

10/17/2019

Date

Gina Kirklin
Gina Kirklin (Oct 16, 2019)

Gina Kirklin
Enterprise and Finance Director
City of Scottsdale, Arizona

10/16/2019

Date

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Scottsdale Mountain Community Facilities District

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Scottsdale Mountain Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Scottsdale Mountain Community Facilities District's basic financial statements and have issued our report thereon dated October 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Scottsdale Mountain Community Facilities District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Scottsdale Mountain Community Facilities District's internal control. Accordingly, we do not express an opinion on the effectiveness of Scottsdale Mountain Community Facilities District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Scottsdale Mountain Community Facilities District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.

Phoenix, Arizona

October 18, 2019

Scottsdale Preserve Authority
(A Component Unit of the City of Scottsdale, Arizona)



Annual Financial Report
Fiscal Year Ended June 30, 2019

Scottsdale Preserve Authority
(A Component Unit of the City of Scottsdale, Arizona)

Annual Financial Report

Fiscal Year Ended June 30, 2019

Scottsdale Preserve Authority

For the Fiscal Year ended June 30, 2019

Table of Contents

| | |
|--|----|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 3 |
| BASIC FINANCIAL STATEMENTS | |
| Statement of Net Position and Governmental Funds Balance Sheet | 8 |
| Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances..... | 9 |
| Notes to the Basic Financial Statements | 10 |

Scottsdale Preserve Authority

For the Fiscal Year ended June 30, 2019

Board Members

Fredda Bisman

Judith Frost

Kenneth Harder

James Jenkins

Dennis Robbins

William Schrader

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Scottsdale Preserve Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Scottsdale Preserve Authority (SPA), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the SPA'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 and each major fund of the Scottsdale Preserve Authority, as of June 30, 2019, 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.

Change in Accounting Principle

As described in Note 1, the SPA implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, for the year ended June 30, 2019, which represents a change in accounting principle. Our opinion is not modified with respect to this matter

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, on our consideration of Scottsdale Preserve Authority’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 Scottsdale Preserve Authority’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 Scottsdale Preserve Authority’s internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 18, 2019

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

As management of the Scottsdale Preserve Authority (SPA), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the SPA for the fiscal year ended June 30, 2019. The SPA is a component unit of the City of Scottsdale, Arizona (City).

FINANCIAL HIGHLIGHTS

For the fiscal year ending 2018/19, the SPA's:

- Total assets and deferred outflows of resources were equal to total liabilities, resulting in an ending fund balance of \$0 (net position).
- Debt Service Fund reported an ending fund balance of \$0.
- Total long-term debt decreased by \$4,540,000 due to the payment of principal on outstanding debt.
- Significant bond indentures were in compliance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the SPA's basic financial statements. Because of its limited purpose, the SPA's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and (2) Notes to the Basic Financial Statements.

Because the SPA only has one governmental program, the government-wide and fund financial statements are combined.

Government-wide Financial Statements

The *Statement of Net Position* is designed to provide readers with a broad overview of the SPA's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the SPA's assets and liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the SPA is improving or deteriorating.

The *Statement of Activities* presents information showing how the SPA's net position changed during the most recent fiscal year. Changes in net position are reported when 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 result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses related to accrued interest.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

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 SPA, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Debt Service funds are restricted as to use, and the General funds are unassigned.

The SPA maintains two governmental funds, general fund and debt service fund. Information is presented on the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances.

The SPA does not adopt an annual appropriated budget for its revenues and expenses. The debt service payments are budgeted as part of the City's annual budget.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to acquire a full understanding of the data provided in the basic financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as useful indicators of a government's financial position. Total assets and deferred outflows of resources and total liabilities of the SPA were equal at the close of the most recent fiscal year with a balance of \$0 (net position).

Net Position

June 30, 2019 and 2018

| | Governmental Activities | |
|---|-------------------------|---------------|
| | 2019 | 2018 |
| ASSETS | | |
| Noncurrent Assets | \$ 12,964,779 | \$ 17,566,765 |
| Total Assets | 12,964,779 | 17,566,765 |
| Deferred Outflows of Resources | 295,291 | 380,299 |
| Total Assets and Deferred Outflows of Resources | 13,260,070 | 17,947,064 |
| LIABILITIES | | |
| Current Liabilities | 4,828,438 | 4,732,188 |
| Noncurrent Liabilities | 8,431,632 | 13,214,876 |
| Total Liabilities | 13,260,070 | 17,947,064 |
| NET POSITION | | |
| Unrestricted | - | - |
| Total Net Position | \$ - | \$ - |

The SPA's total net position for fiscal year 2018/19 remains the same as the prior fiscal year at \$0.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Changes in Net Position

For the Fiscal Years Ended June 30, 2019 and 2018

| | Governmental Activities | |
|---|-------------------------|------------|
| | 2019 | 2018 |
| REVENUES | | |
| Payments Received from City of Scottsdale | \$ 428,089 | \$ 587,004 |
| Total Revenues | 428,089 | 587,004 |
| EXPENSES | | |
| General Government | 4,440 | 5,855 |
| Debt Service | 423,649 | 581,149 |
| Total Expenses | 428,089 | 587,004 |
| Change in Net Position | - | - |
| Net Position, Beginning of Year | - | - |
| Net Position, End of Year | \$ - | \$ - |

Revenues and expenses decreased compared to the previous fiscal year due to the reduction in interest on long-term debt.

Financial Analysis of the SPA's Funds

The focus of the SPA's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the SPA's ability to pay the debt service on the revenue bonds it issues to fund acquisition of preserve land or construction of land improvements.

As of the end of the fiscal year 2018/19, the SPA's governmental funds reported revenues equal to expenses and an ending fund balance of \$0. The Debt Service Fund and the General Fund each had a fund balance of \$0. The General Fund is used to pay administration expenses related to the SPA revenue bonds.

Debt Administration

The SPA's total long-term debt decreased by \$4,540,000 during the current fiscal year due to the payment of principal on outstanding debt. The total Excise Revenue Debt at June 30, 2019, was \$7,410,000.

Outstanding Debt

June 30, 2019 and 2018

| | Governmental Activities | |
|--------------------------|-------------------------|---------------|
| | 2019 | 2018 |
| Excise Tax Revenue Bonds | \$ 7,410,000 | \$ 11,950,000 |

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Economic Factors

The City's long-term financial plan remains one of conservative economic growth. The City continues to focus on efficient spending and revenues are forecasted to increase by modest amounts again in fiscal year 2019/20.

Requests for Information

This financial report is designed to provide a general overview of the SPA's finances for all of those with an interest. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2019

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Net Position</u> |
|---|---------------------|------------------------------|----------------------|--------------------|--------------------------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Assets | | | | | |
| Noncurrent Assets | | | | | |
| Cash, Restricted | \$ - | \$ 4,828,438 | \$ 4,828,438 | \$ - | \$ 4,828,438 |
| Long-term Receivable from City of Scottsdale | - | 8,136,341 | 8,136,341 | - | 8,136,341 |
| Total Assets | <u>\$ -</u> | <u>\$ 12,964,779</u> | <u>\$ 12,964,779</u> | <u>-</u> | <u>12,964,779</u> |
| Deferred Outflows of Resources | | | | | |
| Deferred Amounts on Refunding | | | | 295,291 | 295,291 |
| Total Assets and Deferred Outflows of Resources | | | | <u>295,291</u> | <u>13,260,070</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION | | | | | |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Matured Interest Payable | \$ - | \$ 288,438 | \$ 288,438 | \$ - | \$ 288,438 |
| Matured Bonds Payable | - | 4,540,000 | 4,540,000 | - | 4,540,000 |
| Total Current Liabilities | <u>-</u> | <u>4,828,438</u> | <u>4,828,438</u> | <u>-</u> | <u>4,828,438</u> |
| Noncurrent Liabilities | | | | | |
| Due Within One Year | - | - | - | 4,780,000 | 4,780,000 |
| Due After One Year | - | - | - | 3,651,632 | 3,651,632 |
| Total Noncurrent Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>8,431,632</u> | <u>8,431,632</u> |
| Total Liabilities | <u>-</u> | <u>4,828,438</u> | <u>4,828,438</u> | <u>8,431,632</u> | <u>13,260,070</u> |
| Deferred Inflows of Resources | | | | | |
| Unavailable Revenue | - | 8,136,341 | 8,136,341 | (8,136,341) | - |
| Total Liabilities and Deferred Inflows of Resources | | <u>12,964,779</u> | <u>12,964,779</u> | <u>295,291</u> | <u>13,260,070</u> |
| Fund Balances/Net Position | | | | | |
| Fund Balances | | | | | |
| Restricted | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Fund Balances | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | <u>\$ -</u> | <u>\$ 12,964,779</u> | <u>\$ 12,964,779</u> | | |
| Net Position | | | | | |
| Unrestricted | | | | <u>-</u> | <u>-</u> |
| Total Net Position | | | | <u>\$ -</u> | <u>\$ -</u> |

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

Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances
 For the Fiscal Year Ended June 30, 2019

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|---|---------------------|--------------------------|------------------|--------------------|--------------------------------|
| REVENUES | | | | | |
| Payments Received from City of Scottsdale | \$ 4,440 | \$ 5,121,885 | \$ 5,126,325 | \$ (4,698,236) | \$ 428,089 |
| Total Revenues | <u>4,440</u> | <u>5,121,885</u> | <u>5,126,325</u> | <u>(4,698,236)</u> | <u>428,089</u> |
| EXPENDITURES/EXPENSES | | | | | |
| General Government | | | | | |
| City Treasurer - Finance and Accounting | 4,440 | - | 4,440 | - | 4,440 |
| Debt Service | | | | | |
| Principal Retirement | - | 4,540,000 | 4,540,000 | (4,540,000) | - |
| Interest and Fiscal Charges | - | 581,885 | 581,885 | (158,236) | 423,649 |
| Total Expenditures/Expenses | <u>4,440</u> | <u>5,121,885</u> | <u>5,126,325</u> | <u>(4,698,236)</u> | <u>428,089</u> |
| Net Change in Fund Balances/Net Position | - | - | - | - | - |
| Fund Balances/Net Position, Beginning of Year | - | - | - | - | - |
| Fund Balances/Net Position, End of Year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Scottsdale Preserve Authority (SPA), a 501c3 nonprofit corporation, a component unit of the City of Scottsdale, conform to the accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the SPA follows.

During the year ended June 30, 2019, the SPA implemented the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement requires enhanced note disclosures and clarifies which liabilities governments should include when disclosing information related to debt.

A. Reporting Entity

The Scottsdale Preserve Authority is a nonprofit corporation created by the City in 1996 to finance land acquisitions for the McDowell Sonoran Preserve (Preserve). The Preserve was created by the City to protect the McDowell Mountains and related Sonoran desert lands and is supported by six public votes. For financial reporting purposes, transactions of the SPA are included as if the SPA were part of the City's operations. The SPA issues its own bonds which are repaid through the two-tenths of one percent City sales tax approved by voters. A timeline of events for the SPA follows:

- May 23, 1995, voters approved proposition 400 which stated that funds collected by a sales tax increase (0.2 percent) can be used for 4,000 acres of land acquisition only, within Scottsdale's city boundaries.
- July 1, 1995, sales tax increase went into effect.
- September 10, 1996, voters approved proposition 404 for the use of revenue bonds to acquire land, using proceeds from the sales tax increase.
- November 10, 1998, voters approved proposition 411, expanding the boundary in which the Preserve tax could be used for land acquisition to include an additional 19,940 acres.
- May 18, 2004, voters approved question 1 for a sales tax increase (0.15 percent) to be used for Preserve land acquisition and constructing land improvements.
- July 1, 2004, the additional sales tax increase went into effect.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the SPA. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The SPA had no business-type activities during the fiscal year.

Financial statements are provided for the major governmental funds, with an adjustments column to arrive at government-wide financial statement amounts.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are earned 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 SPA considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Installment payments from the City associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the current fiscal period when the revenue is earned. All other revenue items are considered to be measurable and available only when cash is received.

The SPA reports the following major governmental funds:

The *General Fund* accounts for resources accumulated and used for the payment of other operating expenses for the SPA, which may include insurance, legal fees and administration costs.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of governmental long-term debt including principal, interest and related costs.

The spending order for the SPA is to use restricted funds and then unassigned funds as they are needed. Currently the SPA does not have any unassigned, nonspendable, committed or assigned funds.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Investments

As a 501c3 non-profit corporation, investments are not restricted by the Arizona Revised Statutes. The City of Scottsdale's investment policy authorizes the SPA to invest public monies in certificates of deposit, repurchase agreements, commercial paper (A-1, P-1), highly rated corporate bonds/notes, obligations of the U.S. Treasury, U.S. Government agencies, bankers' acceptances, mutual funds consisting of the foregoing, and the State of Arizona Local Government Investment Pool (LGIP).

Cash and investments held by trustee at June 30, 2019, plus accrued interest, is restricted as to usage.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Restricted Assets

Cash and investments held by the SPA's trustee are classified as a restricted asset on the Statement of Net Position because its use is limited by applicable bond covenants.

3. Capital Assets

Land acquired and construction of land improvements by the SPA is dedicated to the City of Scottsdale, Arizona to maintain and operate. As a result, the SPA owns no capital assets.

4. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing source. 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.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements report a separate section for deferred outflows of resources. This 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 SPA has one item that qualifies for reporting in this category. It is the deferred amounts on refunding. A deferred amount on refunding results from the difference in 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 addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent 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. The SPA has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Directors. The Board of Directors has not authorized anyone to assign fund balances. Unassigned fund balances are considered the remaining amounts. The SPA has not formally adopted a spending priority policy and therefore uses the spending priority indicated in GASB Statement 54. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the SPA's practice to use restricted resources first, then unrestricted resources. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, GASB Statement 54 indicates to use committed first, then assigned, and finally unassigned amounts.

In the government-wide financial statements, net position is reported in two categories: restricted and unrestricted. Restricted accounts for the portion of net position restricted by bond covenant. Unrestricted is the remaining net position not included in the previous category.

E. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America may require 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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Amounts Reported in the Statement of Net Position are Different Because:

| | |
|---|--------------|
| Amounts receivable from the City for retirement of debts are reported as deferred inflows of resources as they are not considered available. | \$ 8,136,341 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore, are not reported in the funds. | (7,410,000) |
| Deferred Issuance Premiums are long-term liabilities and are not due and payable in the current period; therefore, are not reported in the funds. | (1,021,632) |
| Deferred amounts on refunding are long-term in nature and not reported in the funds. | 295,291 |
| Net adjustment to reduce total fund balance to arrive at net position | - |
| Total Fund Balance | - |
| Total Net Position | \$ - |

B. Amounts Reported in the Statement of Activities are Different Because:

The contractual agreement provides for repayment of debt by the City to the SPA. Thus, in the statement of activities, revenues are recorded at the inception of the agreement rather than as received. Revenues in the fund statements that provide current financial resources for payment of principal have been previously recognized as revenues in the statement of activities resulting in the following adjustments to the revenue

| | |
|---|----------------|
| Principal and premium and deferred refunding cost payment from City of Scottsdale | \$ (4,698,236) |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, neither transaction has any effect on net position | 4,540,000 |
| Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities | 158,236 |
| Net Adjustments to Change in net position | - |
| Net Change in Fund Balance | - |
| Change in Net Position | \$ - |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The SPA does not adopt an annual appropriation budget. However, debt service payments are budgeted as part of the City's annual budget.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

Deposits – At June 30, 2019, the carrying amount of the SPA's deposits and bank balance were \$4,828,438.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the SPA's deposits may not be returned to it. As of June 30, 2019, \$4,828,438 of the SPA's deposits was uninsured and collateralized by securities held by the pledging bank's trust department not in the SPA's name, and therefore exposed to custodial credit risk.

2. Restricted Assets

Restricted assets at June 30, 2019, as follows:

| | <u>Debt Service Fund</u> |
|-----------------|------------------------------|
| Restricted Cash | <u>\$ 4,828,438</u> |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

Obiligations Under Long-term Debt

Revenue Bonds

The SPA issues excise tax revenue bonds to provide funds to acquire land for the McDowell Sonoran Preserve. Revenue bonds have been issued for governmental activities only. The bonds are generally callable with interest payable semiannually. Bonds payable at June 30, 2019, consisted of the outstanding revenue bonds presented below.

| <u>Purpose</u> | <u>Bonds Outstanding</u> |
|--|------------------------------|
| 2010 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued October 20, 2010, due in annual installments of \$3,110,000 to \$6,090,000 through July 1, 2024; interest at 3 percent to 5.25 percent. On May 17, 2017, \$19,535,000 due 2021 through 2024 was refunded. Original issue amount \$32,855,000. | \$ 3,565,000 |
| 2011 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued on April 6, 2011, due in annual installments of \$920,000 to \$1,350,000 through July 1, 2022; interest at 2 percent to 5 percent. Original issue amount \$12,015,000. | <u>3,845,000</u> |
| Total Scottsdale Preserve Authority Bonds | <u><u>\$ 7,410,000</u></u> |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

The City is obligated under agreements to pay the SPA amounts sufficient to retire the SPA's bonds and related interest in exchange for the properties acquired in connection with the issuance of the bonds. The City has collateralized the SPA bonds by a pledge of the Preserve Excise Tax, which is a two-tenths (.2) of one percent (1%) transaction privilege and use tax, and a one and one half-tenths (.15) of one percent (1%) transaction privilege and use tax of the City approved by the qualified electors of the City on May 23, 1995 and May 18, 2004, respectively. The revenues generated by the Preserve Excise Tax have consistently been greater than 150 percent of the annual debt service payments on the SPA bonds as required in the agreements.

The agreements mentioned above are, in substance, long-term sales contracts for an amount equal to the SPA's bonded debt and interest thereon. Accordingly, the accompanying balance sheet reflects a receivable from the City for the present value of the amounts due, which corresponds to the principal portion of the bonded debt payable.

The SPA bond issuances contain the following provisions that would constitute an event of default.

- Non-punctual payment of principal or interest.
- Default in the performance or observance of any covenant, agreement, or condition in the indenture or in the bonds not cured within 60 days of notice of default. The SPA is also considered to be in default if the issue is not curable within 60 days and corrective action is not diligently pursued to the satisfaction of the trustee within 60 days.
- Bankruptcy, insolvency, and/or receivership.
- Default on any bonds which are on a parity basis with the bonds in question.

If any of the events of default transpire, the SPA bond trustee may file a suit or suits in equity or at law and appoint a receiver to collect and properly disburse pledged SPA revenues for debt service payments. Any amounts recovered through such proceedings shall be paid first to the costs and expenses incurred by the trustee, its agents, attorneys and counsel, and of all proper expenses, liabilities and advances incurred or made by the trustee or any registered owner(s) of the bonds in question. If a residual amount were to remain, it would be applied to the then-owed or unpaid amount related to the bonds. If insufficient funds were to exist, the residual amount would be allocated on a pro-rata basis to the then-owed or unpaid amount related to the bonds.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Changes in Long-term Liabilities

| <u>Governmental Activities</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--------------------------------|------------------------------|------------------|-----------------------|---------------------------|--------------------------------|
| Excise Tax Revenue Bonds | \$ 11,950,000 | \$ - | \$ (4,540,000) | \$ 7,410,000 | \$ 4,780,000 |
| Issuance Premium | 1,264,876 | - | (243,244) | 1,021,632 | - |
| Total | <u>\$ 13,214,876</u> | <u>\$ -</u> | <u>\$ (4,783,244)</u> | <u>\$ 8,431,632</u> | <u>\$ 4,780,000</u> |

Annual debt service requirements to maturity for revenue bonds are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|---------------------|-------------------|
| 2020 | 4,780,000 | 349,875 |
| 2021 | 1,280,000 | 131,500 |
| 2022 | 1,350,000 | 67,500 |
| Total | <u>\$ 7,410,000</u> | <u>\$ 548,875</u> |

NOTE 5 – OTHER INFORMATION

A. Risk Management

The SPA 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 SPA does not have separate insurance coverage but is included under the City of Scottsdale, Arizona's risk management.

October 21, 2019

Board of Directors
Scottsdale Preserve Authority

We have audited the financial statements of the governmental activities and each major fund of Scottsdale Preserve Authority, a component unit of the City of Scottsdale, Arizona, for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Scottsdale Preserve Authority are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

As described in Note 1 of the financial statements, the Scottsdale Preserve Authority implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, for the year ended June 30, 2019. GASB Statement No. 88 improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Scottsdale Preserve Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the Authority’s auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the “Independence Rule” of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Additional Reports Issued

In addition to the auditor’s report on the financial statements we have also issued the following documents related to this audit.

- Report on internal control over financial reporting and on compliance in accordance with *Government Auditing Standards*

Other Important Communications Related to the Audit

Attached to this letter is a copy of the management representation letter provided to us at the conclusion of the audit. If there are any questions on the purpose or content of these letters please contact the engagement partner.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of Scottsdale Preserve Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona



City Treasurer's Office

7447 E. Indian School Road, Suite 210
Scottsdale, AZ 85251

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Heinfeld, Meech & Co., P.C.
3033 N. Central Ave. Suite 300
Phoenix, AZ 85012

This representation letter is provided in connection with your audit of the financial statements of Scottsdale Preserve Authority (SPA), a component unit of the City of Scottsdale, Arizona, which comprise the respective financial position of the governmental activities and each major fund, as of June 30, 2019, and the respective changes in financial position for the period then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
8. The effects of all known actual or possible litigation, claims, and assessments have been evaluated, and if necessary, have been accounted for and disclosed in accordance with U.S. GAAP.
9. Guarantees, whether written or oral, under which the SPA is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the SPA from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the SPA and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the SPA's financial statements communicated by employees, former employees, grantors, regulators, or others.

15. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. We have disclosed to you the identity of the SPA's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. If applicable we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
20. We have a process to track the status of audit findings and recommendations.
21. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
23. The SPA has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.
24. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
25. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

26. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
27. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
28. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
29. The SPA has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
30. The SPA has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
33. The financial statements properly classify all funds and activities in accordance with U.S. GAAP.
34. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
35. If applicable, investments are properly valued.
36. If applicable, provisions for uncollectible receivables have been properly identified and recorded.
37. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
38. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
39. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

40. Special and extraordinary items, if any, are appropriately classified and reported.
41. Deposits and investment securities are properly classified as to risk and are properly disclosed.
42. We have appropriately disclosed the SPA's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
43. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
44. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
45. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

We understand that at the conclusion of the audit, Heinfeld, Meech & Co., P.C. will submit to the City Auditor a communication to those charged with governance that will include a copy of this representation letter.

Jeffery M. Nichols
Jeffery M. Nichols (Oct 17, 2019)

Jeffery M. Nichols, CPA
City Treasurer/Chief Financial Officer
City of Scottsdale, Arizona

10/17/2019

Date

Gina Kirklin
Gina Kirklin (Oct 16, 2019)

Gina Kirklin
Enterprise and Finance Director
City of Scottsdale, Arizona

10/16/2019

Date

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Scottsdale Preserve Authority

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Scottsdale Preserve Authority, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Scottsdale Preserve Authority's basic financial statements and have issued our report thereon dated October 18, 2019. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 88.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Scottsdale Preserve Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Scottsdale Preserve Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Scottsdale Preserve Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Scottsdale Preserve Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.

Phoenix, Arizona

October 18, 2019

Via Linda Road Community Facilities District
(A Component Unit of the City of Scottsdale, Arizona)



Annual Financial Report
Fiscal Year Ended June 30, 2019

Via Linda Road Community Facilities District
(A Component Unit of the City of Scottsdale, Arizona)

Annual Financial Report

Fiscal Year Ended June 30, 2019

Via Linda Road Community Facilities District

For the Fiscal Year ended June 30, 2019

Table of Contents

Independent Auditor's Report 1

Management's Discussion and Analysis 3

BASIC FINANCIAL STATEMENTS

Statement of Net Position and Governmental Funds Balance Sheet 9

Statement of Activities and Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances..... 10

Notes to the Basic Financial Statements 11

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – General Fund 21

SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – Debt Service Fund 23

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Via Linda Road Community Facilities District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Via Linda Road Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District'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 and each major fund of the Via Linda Road Community Facilities District, as of June 30, 2019, 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.

Change in Accounting Principle

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, for the year ended June 30, 2019, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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 District's basic financial statements. The supplementary budget comparison information for the Debt Service Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary budget comparison information for the Debt Service Fund is the responsibility of management and was derived from and relates 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 supplementary budget comparison information for the Debt Service Fund is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, on our consideration of Via Linda Road Community Facilities District'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 Via Linda Road Community Facilities District'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 Via Linda Road Community Facilities District's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 18, 2019

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

As management of the Via Linda Road Community Facilities District (District), we offer readers a narrative overview and analysis of the financial activities for the District. The District is one of the City of Scottsdale, Arizona's component units for financial reporting purposes for the fiscal year ended June 30, 2019.

Formed in 1998, the District is a special purpose taxing district and separate political subdivision under Arizona statutes. As such, the District can levy taxes and issue bonds, independent of the City of Scottsdale, Arizona (City). Property owners within the District boundaries pay for District infrastructure and functions through secondary property tax assessments. City staff administers the District and the costs of their services are reimbursed by District funds. The Scottsdale City Council also serves as the District Board of Directors.

FINANCIAL HIGHLIGHTS

For the year ending 2018/19, the District's:

- Tax collections and beginning fund balances were sufficient to pay debt service.
- Tax rate continued to comply with the City-imposed assessment limit of \$3.00 per \$100 assessed valuation; the tax rate was \$1.12 per \$100 assessed valuation.
- Governmental funds reported an ending fund balance of \$37,056; the entire amount was restricted for debt service.
- Governmental fund revenues were greater than expenditures by \$20, the tax rate remained the same as in fiscal year 2017/18 at \$1.12.
- Total long-term debt decreased by \$190,000 due to scheduled principal payments.
- Significant bond indentures were in compliance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the District's basic financial statements. Because of its limited purpose, the District's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance and (2) Notes to the Basic Financial Statements.

Because the District has only one governmental program, the government-wide and fund financial statements are combined.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Government-wide Financial Statements

The *Statement of Net Position* is designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. Changes in net position are reported when 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, such as revenues pertaining to uncollected taxes and expenses related to accrued interest.

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 District, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Debt Service funds are restricted as to use, and the General funds are unassigned.

The District maintains two governmental funds, general and debt service. Information is presented in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Debt Service Fund.

The District adopts an annual budget for its General Fund and Debt Service Fund. Supplementary budgetary schedules have been provided to demonstrate compliance with these budgets.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to acquire a full understanding of the data provided in the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents as required supplementary information a comparison between budgeted and actual amounts within the General Fund.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The liabilities of the District exceeded its assets at the close of the most recent fiscal year by approximately \$800,000 (net position). The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and a separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes to pay the debt service over the life of the bonds. The City Council serves as the Board of Directors. However, the City has no liability for the District's debt. For financial reporting purposes, transactions of the District are combined together and included as if they were part of the City's operations and the assets financed through the District are combined with the infrastructure of the City. Because the capital assets are recorded in the City's basic financial statements, the Statement of Net Position for the District reflects a large liability without an offsetting asset.

Net Position

June 30, 2019 and 2018

| | Governmental Activities | |
|------------------------|-------------------------|--------------|
| | 2019 | 2018 |
| ASSETS | | |
| Current Assets | \$ 3,936 | \$ 4,779 |
| Noncurrent Assets | 237,957 | 233,384 |
| Total Assets | 241,893 | 238,163 |
| LIABILITIES | | |
| Current Liabilities | 202,870 | 200,275 |
| Noncurrent Liabilities | 800,000 | 990,000 |
| Total Liabilities | 1,002,870 | 1,190,275 |
| NET POSITION | | |
| Restricted | 39,023 | 37,888 |
| Unrestricted | (800,000) | (990,000) |
| Total Net Position | \$ (760,977) | \$ (952,112) |

During the fiscal year, the District's total net position increased by \$191,135.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Changes in Net Position

For the Fiscal Years Ended June 30, 2019 and 2018

| | Governmental Activities | |
|---------------------------------|-------------------------|--------------|
| | 2019 | 2018 |
| REVENUES | | |
| Taxes | \$ 228,145 | \$ 219,375 |
| EXPENSES | | |
| General Government | 10,820 | 10,070 |
| Debt Service | 26,190 | 31,000 |
| Total Expenses | 37,010 | 41,070 |
| Change in Net Position | 191,135 | 178,305 |
| Net Position, Beginning of Year | (952,112) | (1,130,417) |
| Net Position, End of Year | \$ (760,977) | \$ (952,112) |

Revenues increased in fiscal year 2018/19 and expenses decreased due to the reduction in interest on long-term debt, increasing the District's net position.

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with legal requirements related to special purpose districts and general obligation bonds.

Financial Analysis of the District's Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the District's ability to pay the debt service on the general obligation bonds it issues to fund construction or acquisition of public infrastructure.

As of the end of fiscal year 2018/19 the District's governmental funds reported revenues in excess of expenditures by \$20 and an ending fund balance of \$37,056. This entire fund balance is restricted for debt service.

All revenues collected represent property taxes and totaled \$227,030 for the fiscal year ended June 30, 2019.

Capital Assets and Debt Administration

The District was formed to finance and acquire or construct amenities that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Since formation, District bonds have been issued, and the proceeds used to acquire or construct an extension of Via Linda Road eastward and the development of trailheads.

The District has issued \$3,225,000 of the \$3,500,000 authorized bonds. In fiscal year 2012/13, the City Council and the District Board approved the issuance of \$2,000,000 refunding bonds to reduce the total debt service payments over the next 11 years.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

The District general obligation bonds have a 25-year term. In the event that the District Board decides at a future time to dissolve the District, State statute provides that all taxable property in the District will remain subject to the lien for the payment of the bonds until all bonds have been defeased.

The District is not engaged in any significant activities other than providing for the levy of secondary property taxes to pay debt service and administrative fees.

Outstanding Debt

June 30, 2019 and 2018

| | Governmental Activities | |
|--------------------------|-------------------------|-------------------|
| | 2019 | 2018 |
| General Obligation Bonds | <u>\$ 800,000</u> | <u>\$ 990,000</u> |

The District's total long-term debt decreased by \$190,000 during the current fiscal year due to the payment of principal on the general obligation refunding bonds.

Next Year's Budget and Rates

The fiscal year 2019/20 District budget includes a \$1.03 tax rate per \$100 of assessed value. This is a .09 decrease from the rate used in the fiscal year 2018/19 budget.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2019

| | General Fund | Debt Service Fund | Total | Adjustments | Statement of Net Position |
|---|--------------|----------------------|-------------------|---------------------|------------------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Assets | | | | | |
| Current Assets | | | | | |
| Taxes Receivable | \$ - | \$ 3,936 | \$ 3,936 | \$ - | \$ 3,936 |
| Noncurrent Assets | | | | | |
| Restricted Cash | - | 237,957 | 237,957 | - | 237,957 |
| Total Assets | <u>\$ -</u> | <u>\$ 241,893</u> | <u>\$ 241,893</u> | <u>\$ -</u> | <u>\$ 241,893</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION | | | | | |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Matured Bonds Payable | \$ - | \$ 190,000 | \$ 190,000 | \$ - | \$ 190,000 |
| Matured Interest Payable | - | 12,870 | 12,870 | - | 12,870 |
| Total Current Liabilities | <u>-</u> | <u>202,870</u> | <u>202,870</u> | <u>-</u> | <u>202,870</u> |
| Noncurrent Liabilities | | | | | |
| Due Within One Year | - | - | - | 190,000 | 190,000 |
| Due After One Year | - | - | - | 610,000 | 610,000 |
| Total Noncurrent Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>800,000</u> | <u>800,000</u> |
| Total Liabilities | <u>-</u> | <u>202,870</u> | <u>202,870</u> | <u>800,000</u> | <u>1,002,870</u> |
| Deferred Inflows of Resources | | | | | |
| Unavailable Revenues | - | 1,967 | 1,967 | (1,967) | - |
| Total Liabilities and Deferred Inflows of Resources | <u>-</u> | <u>204,837</u> | <u>204,837</u> | <u>798,033</u> | <u>1,002,870</u> |
| Fund Balances/Net Position | | | | | |
| Fund Balances | | | | | |
| Restricted | - | 37,056 | 37,056 | (37,056) | - |
| Total Fund Balances | <u>-</u> | <u>37,056</u> | <u>37,056</u> | <u>(37,056)</u> | <u>-</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ -</u> | <u>\$ 241,893</u> | <u>\$ 241,893</u> | | |
| Net Position | | | | | |
| Restricted for Debt Service | | | | 39,023 | 39,023 |
| Unrestricted | | | | (800,000) | (800,000) |
| Total Net Position | | | | <u>\$ (760,977)</u> | <u>\$ (760,977)</u> |

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

Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances
 For the Fiscal Year Ended June 30, 2019

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|---|---------------------|--------------------------|--------------|--------------------|--------------------------------|
| REVENUES | | | | | |
| Taxes | \$ 10,820 | \$ 216,210 | \$ 227,030 | \$ 1,115 | \$ 228,145 |
| EXPENDITURES/EXPENSES | | | | | |
| Current | | | | | |
| General Government | | | | | |
| City Treasurer - Finance and Accounting | \$ 10,820 | \$ - | \$ 10,820 | \$ - | \$ 10,820 |
| Debt Service | | | | | |
| Principal Retirement | - | 190,000 | 190,000 | (190,000) | - |
| Interest and Fiscal Charges | - | 26,190 | 26,190 | - | 26,190 |
| Total Expenditures/Expenses | 10,820 | 216,190 | 227,010 | (190,000) | 37,010 |
| Change in Fund Balances/Net Position | - | 20 | 20 | 191,115 | 191,135 |
| Fund Balances/Net Position, Beginning of Year | - | 37,036 | 37,036 | (989,148) | (952,112) |
| Fund Balances/Net Position, End of Year | \$ - | \$ 37,056 | \$ 37,056 | \$ (798,033) | \$ (760,977) |

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Via Linda Road Community Facilities District (District), a component unit of the City of Scottsdale, Arizona (City), conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the District follows.

During the year ended June 30, 2019, the District implemented the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement requires enhanced note disclosures and clarifies which liabilities governments should include when disclosing information related to debt.

A. Reporting Entity

The Via Linda Road Community Facilities District was formed by petition to the City of Scottsdale City Council in April 1998. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the District. The City Council serves as the Board of Directors; however, the City has no liability for the District's debt. For financial reporting purposes, transactions of the Via Linda Road Community Facilities District are included as if the District were part of the City'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) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year.

Financial statements are provided for major governmental funds, with an adjustments column to arrive at government-wide statement amounts.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both earned 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 District considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the current fiscal period when the revenue is earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* accounts for resources accumulated and used for the payment of other operating expenses for the District, which may include insurance, legal fees and administration costs.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of governmental long-term debt including principal, interest and related costs.

The spending order for the District is to use restricted funds and then unassigned funds as they are needed. Currently the District does not have any unassigned, nonspendable, committed or assigned funds.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Investments

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; or bonds of the State of Arizona counties, cities, towns, school districts or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 100 percent of all deposits not covered by federal depository insurance.

Cash and investments held by trustee at June 30, 2019, plus accrued interest, are restricted as to usage.

2. Restricted Assets

Cash and investments held by the District's trustee are classified as restricted on the statement of net position because their use is limited by applicable bond covenants.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Capital Assets

Capital assets acquired or construction of infrastructure assets by the District are dedicated to the City of Scottsdale, Arizona to maintain and operate. As a result, the District owns no capital assets.

4. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts 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.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements report a separate section for deferred outflows of resources. This 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 District has no items that qualify as a deferred outflow of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent 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. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet.

6. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Directors. The Board of Directors passed a resolution authorizing the City of Scottsdale City Treasurer to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the government-wide financial statements, net position is reported in two categories: restricted and unrestricted. Restricted accounts for the portion of net position restricted by bond covenant. Unrestricted is the remaining net position not included in the previous category.

E. 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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Amounts reported in the statement of net position are different because:

| | |
|--|-----------------------------------|
| Tax revenues not available to pay current-period expenditures are deferred inflows in the funds. | \$ 1,967 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore, are not reported in the funds. | <u>(800,000)</u> |
| Net adjustment to reduce total fund balance to arrive at net position. | (798,033) |
| Total Fund Balance | <u>37,056</u> |
| Total Net Position | <u><u>\$ (760,977)</u></u> |

B. Amounts reported in the statement of activities are different because:

| | |
|---|---------------------------------|
| Tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | \$ 1,115 |
| The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, it has no effect on net position. | <u>190,000</u> |
| Net adjustments to reconcile net changes in fund balances to change in net position. | 191,115 |
| Net change in Fund Balance | <u>20</u> |
| Change in Net Position | <u><u>\$ 191,135</u></u> |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The District adopts an annual operating budget for revenues and expenditures for the General Fund and Debt Service Fund on essentially the same modified accrual basis of accounting used to record actual expenditures. Budgetary control over expenditures is exercised at the fund level.

B. Deficit Net Position

As described in Note 1, the District was formed to finance and acquire or construct infrastructure assets that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Therefore, the Statement of Net Position reflects a large liability without an offsetting asset.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

Deposits – At June 30, 2019, the carrying amount of the District’s deposits and bank balance were \$237,957.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2019, all of the District’s deposits were uninsured and collateralized by securities held by the pledging bank’s trust department not in the District’s name, and therefore exposed to custodial credit risk.

2. Restricted Assets

Restricted cash at June 30, 2019, as follows:

| | <u>Debt Service Fund</u> |
|-----------------|------------------------------|
| Restricted Cash | <u>\$ 237,957</u> |

3. Property Taxes Receivable

The Maricopa County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business days in November and May. During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding the assessment levy.

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund financial statements. In the fund financial statements, property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 31 days subsequent to fiscal year-end. Property taxes not collected within 31 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred inflows.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer’s Office, and at June 30, 2019, were as follows:

| | <u>Debt Service Fund</u> |
|------------------|------------------------------|
| Taxes Receivable | <u>\$ 3,936</u> |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

At the end of the current fiscal year, unavailable revenue reported in the governmental fund was as follows:

| | Debt Service Fund |
|---|------------------------------|
| Delinquent Property Taxes Receivable (Unavailable) | \$ 1,967 |

B. Liabilities

Obligations Under Long-term Debt

General Obligation Bonds

The District issues general obligation bonds to provide funds to acquire and improve public infrastructure in specified areas. General obligation bonds have been issued for governmental activities only. The bonds are generally callable with interest payable semiannually. Bonds payable at June 30, 2019, consisted of the outstanding general obligation bonds presented below:

| Purpose | Interest Rates (%) | Amount |
|---|--------------------|------------|
| 2012 Via Linda Refunding Bonds due in annual installments of \$135,000 to \$210,000 beginning July 15, 2013 through July 15, 2023. Original issue amount \$2,000,000. | 2.60 | \$ 800,000 |

Community facilities districts (CFDs) are created only by petition to the City Council by property owners within the District areas. As board of directors for the District, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the District property (prior to improvements being installed), when compared to proposed District debt, is a minimum of 3 to 1 prior to issuance of debt and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the District and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's full cash valuation.

The District's bond issuance contains the following provisions that would constitute an event of default by the District:

- Failure to pay the principal and interest when due and payable.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Changes in Long-term Liabilities

| <u>Governmental Activities</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| Private Placement General Obligation Bonds | \$ 990,000 | \$ - | \$ (190,000) | \$ 800,000 | \$ 190,000 |
| Total | <u>\$ 990,000</u> | <u>\$ -</u> | <u>\$ (190,000)</u> | <u>\$ 800,000</u> | <u>\$ 190,000</u> |

Annual debt service requirements to maturity for general obligation bonds are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|-------------------|------------------|
| 2020 | \$ 190,000 | \$ 20,800 |
| 2021 | 195,000 | 15,860 |
| 2022 | 205,000 | 10,790 |
| 2023 | 210,000 | 5,460 |
| Total | <u>\$ 800,000</u> | <u>\$ 52,910</u> |

NOTE 5 – OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss. The District carries commercial insurance for \$1,000,000 per occurrence and \$2,000,000 aggregate covering general liability exposures. The District also carries public entity management liability insurance for \$1,000,000 each wrongful act and \$1,000,000 aggregate to cover damages resulting from the conduct of duties by or for a public entity or its boards. There have been no known losses in any of the past three fiscal years.

Required Supplementary Information

**Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – General Fund**

For the Fiscal Year Ended June 30, 2019

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---|--------------------------------------|---------------|-----------------|
| REVENUES | | | |
| Taxes | \$ 11,000 | \$ 10,820 | \$ (180) |
| EXPENDITURES/EXPENSES | | | |
| Current | | | |
| General Government | | | |
| City Treasurer - Finance and Accounting | 11,000 | 10,820 | 180 |
| Total Expenditures | 11,000 | 10,820 | 180 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | - | - | - |
| Fund Balance, Beginning of Year | - | - | - |
| Fund Balance, End of Year | \$ - | \$ - | \$ - |

Supplementary Information

**Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – Debt Service Fund**

For the Fiscal Year Ended June 30, 2019

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------------------------------|--------------------------------------|------------------|-----------------|
| REVENUES | | | |
| Taxes | \$ 216,484 | \$ 216,210 | \$ (274) |
| EXPENDITURES/EXPENSES | | | |
| Debt Service | | | |
| Principal Retirement | 190,000 | 190,000 | - |
| Interest and Fiscal Charges | 26,740 | 26,190 | 550 |
| Total Expenditures | <u>216,740</u> | <u>216,190</u> | <u>550</u> |
| Excess of Revenues Over Expenditures | (256) | 20 | 276 |
| Fund Balance, Beginning of Year | <u>34,452</u> | <u>37,036</u> | <u>2,584</u> |
| Fund Balance, End of Year | <u>\$ 34,196</u> | <u>\$ 37,056</u> | <u>\$ 2,860</u> |

October 21, 2019

Board of Directors
Via Linda Road Community Facilities District

We have audited the financial statements governmental activities and each major fund of Via Linda Road Community Facilities District, a component unit of the City of Scottsdale, Arizona, for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Via Linda Road Community Facilities District are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

As described in Note 1 of the financial statements, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, for the year ended June 30, 2019. GASB Statement No. 88 improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Via Linda Road Community Facilities District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the District’s auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the “Independence Rule” of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Additional Reports Issued

In addition to the auditor’s report on the financial statements we have also issued the following documents related to this audit.

- Report on internal control over financial reporting and on compliance in accordance with *Government Auditing Standards*

Other Important Communications Related to the Audit

Attached to this letter is a copy of the management representation letter provided to us at the conclusion of the audit. If there are any questions on the purpose or content of these letters please contact the engagement partner.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of Via Linda Road Community Facilities District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona



City Treasurer's Office

7447 E. Indian School Road, Suite 210
Scottsdale, AZ 85251

PHONE 480-312-2437
FAX 480-312-7897
WEB www.ScottsdaleAZ.gov

Heinfeld, Meech & Co., P.C.
3033 N. Central Ave. Suite 300
Phoenix, AZ 85012

This representation letter is provided in connection with your audit of the financial statements of Via Linda Road Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, which comprise the respective financial position of the governmental activities and each major fund, as of June 30, 2019, and the respective changes in financial position for the period then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
8. The effects of all known actual or possible litigation, claims, and assessments have been evaluated, and if necessary, have been accounted for and disclosed in accordance with U.S. GAAP.
9. Guarantees, whether written or oral, under which the District is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the District and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements communicated by employees, former employees, grantors, regulators, or others.

15. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. We have disclosed to you the identity of the District's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. If applicable we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
20. We have a process to track the status of audit findings and recommendations.
21. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
23. The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.
24. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
25. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

26. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
27. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
28. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
29. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
30. The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
33. The financial statements properly classify all funds and activities in accordance with U.S. GAAP.
34. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
35. If applicable, investments are properly valued.
36. If applicable, provisions for uncollectible receivables have been properly identified and recorded.
37. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
38. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
39. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

40. Special and extraordinary items, if any, are appropriately classified and reported.
41. Deposits and investment securities are properly classified as to risk and are properly disclosed.
42. We have appropriately disclosed the District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
43. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
44. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
45. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
46. With respect to the supplementary budget comparison information presented for the Debt Service Fund.
 - a. We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

We understand that at the conclusion of the audit, Heinfeld, Meech & Co., P.C. will submit to the City Auditor a communication to those charged with governance that will include a copy of this representation letter.

Jeffery M. Nichols
Jeffery M. Nichols (Oct 17, 2019)

Jeffery M. Nichols, CPA
City Treasurer/Chief Financial Officer
City of Scottsdale, Arizona

10/17/2019

Date

Gina Kirklin
Gina Kirklin (Oct 16, 2019)

Gina Kirklin
Enterprise and Finance Director
City of Scottsdale, Arizona

10/16/2019

Date

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Via Linda Road Community Facilities District

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Via Linda Road Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Via Linda Road Community Facilities District's basic financial statements and have issued our report thereon dated October 18, 2019. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 88.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Via Linda Road Community Facilities District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Via Linda Road Community Facilities District's internal control. Accordingly, we do not express an opinion on the effectiveness of Via Linda Road Community Facilities District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Via Linda Road Community Facilities District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.

Phoenix, Arizona

October 18, 2019

Waterfront Commercial Community Facilities District

(A Component Unit of the City of Scottsdale, Arizona)



Annual Financial Report

Fiscal Year Ended June 30, 2019

Waterfront Commercial Community Facilities District
(A Component Unit of the City of Scottsdale, Arizona)

Annual Financial Report

Fiscal Year Ended June 30, 2019

Waterfront Commercial Community Facilities District

For the Fiscal Year ended June 30, 2019

Table of Contents

| | |
|--|----|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 3 |
| BASIC FINANCIAL STATEMENTS | |
| Statement of Net Position and Governmental Funds Balance Sheet | 9 |
| Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances..... | 10 |
| Notes to the Basic Financial Statements | 11 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund | 21 |
| SUPPLEMENTARY INFORMATION | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund | 23 |

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Waterfront Commercial Community Facilities District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Waterfront Commercial Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District'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 and each major fund of the Waterfront Commercial Community Facilities District, as of June 30, 2019, 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.

Change in Accounting Principle

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, for the year ended June 30, 2019, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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 District's basic financial statements. The supplementary budget comparison information for the Debt Service Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary budget comparison information of the Debt Service Fund is the responsibility of management and was derived from and relates 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 supplementary budget comparison information of the Debt Service Fund is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, on our consideration of Waterfront Commercial Community Facilities District'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 Waterfront Commercial Community Facilities District'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 Waterfront Commercial Community Facilities District's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 18, 2019

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

As management of the Waterfront Commercial Community Facilities District (District), we offer readers a narrative overview and analysis of the financial activities for the District. The District is one of the City of Scottsdale, Arizona's component units for financial reporting purposes for the fiscal year ended June 30, 2019.

Formed in 2005, the District is a special purpose taxing district and separate political subdivision under Arizona statutes. As such, the District can levy taxes and issue bonds, independent of the City of Scottsdale, Arizona (City). Property owners within the District boundaries pay for District infrastructure and functions through secondary property tax assessments. City staff administers the District and the costs of their services are reimbursed by District funds. The Scottsdale City Council also serves as the District Board of Directors.

FINANCIAL HIGHLIGHTS

For fiscal year ending 2018/19, the District's:

- Tax collections and beginning fund balances were sufficient to pay debt service.
- The tax rate was \$5.69 per \$100 assessed valuation.
- Governmental funds reported a combined ending fund balance of \$400,876. Of this amount, \$12,904 was in the General Fund and \$387,972 was in the Debt Service Fund.
- Governmental fund revenues were less than expenditures by \$19,207; the tax rate decreased from \$6.68 in fiscal year 2017/18 to \$5.69.
- Total long-term debt decreased by \$140,000 due to scheduled principal payments.
- Significant bond indentures were in compliance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the District's basic financial statements. Because of its limited purpose, the District's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance and (2) Notes to the Basic Financial Statements.

Because the District has only one governmental program, the government-wide and fund financial statements are combined.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Government-wide Financial Statements

The *Statement of Net Position* is designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. Changes in net position are reported when 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, such as revenues pertaining to uncollected taxes and expenses related to accrued interest.

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 District, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Debt Service funds are restricted as to use, and the General funds are unassigned.

The District maintains two governmental funds, general and debt service. Information is presented in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Debt Service Fund.

The District adopts an annual budget for its General Fund and Debt Service Fund. Supplementary budgetary schedules have been provided to demonstrate compliance with these budgets.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to acquire a full understanding of the data provided in the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents as required supplementary information a comparison between budgeted and actual amounts within the General Fund.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The liabilities of the District exceeded its assets at the close of the most recent fiscal year by approximately \$2.4 million (net position). The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and a separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes to pay the debt service over the life of the bonds. The City Council serves as the Board of Directors. However, the City has no liability for the District's debt. For financial reporting purposes, transactions of the District are combined together and included as if they were part of the City's operations and the assets financed through the District are combined with the infrastructure of the City. Because the capital assets are recorded in the City's basic financial statements, the Statement of Net Position for the District reflects a large liability without an offsetting asset.

Net Position

June 30, 2019 and 2018

| | Governmental Activities | |
|------------------------|-------------------------|-----------------------|
| | 2019 | 2018 |
| ASSETS | | |
| Current Assets | \$ 13,686 | \$ 34,030 |
| Noncurrent Assets | 615,286 | 613,031 |
| Total Assets | <u>628,972</u> | <u>647,061</u> |
| LIABILITIES | | |
| Current Liabilities | 228,066 | 226,948 |
| Noncurrent Liabilities | 2,810,664 | 2,950,715 |
| Total Liabilities | <u>3,038,730</u> | <u>3,177,663</u> |
| NET POSITION | | |
| Restricted | 388,002 | 408,651 |
| Unrestricted | <u>(2,797,760)</u> | <u>(2,939,253)</u> |
| Total Net Position | <u>\$ (2,409,758)</u> | <u>\$ (2,530,602)</u> |

During the fiscal year, the District's total net position increased by \$120,844.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Changes in Net Position

For the Fiscal Years Ended June 30, 2019 and 2018

| | Governmental Activities | |
|---------------------------------|-------------------------|----------------|
| | 2019 | 2018 |
| REVENUES | | |
| Taxes | \$ 301,415 | \$ 335,022 |
| Interest | 9,347 | 4,029 |
| Total Revenues | 310,762 | 339,051 |
| EXPENSES | | |
| General Government | 10,845 | 10,076 |
| Debt Service | 179,073 | 186,876 |
| Total Expenses | 189,918 | 196,951 |
| Change in Net Position | 120,844 | 142,100 |
| Net Position, Beginning of Year | (2,530,602) | (2,672,702) |
| Net Position, End of Year | \$ (2,409,758) | \$ (2,530,602) |

Revenues decreased in fiscal year 2018/19 due to a decrease in taxes levied and expenses decreased due to the reduction in long-term debt interest, increasing the District's net position.

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with legal requirements related to special purpose districts and general obligation bonds.

Financial Analysis of the District's Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the District's ability to pay the debt service on the general obligation bonds it issues to fund construction or acquisition of public infrastructure.

As of the end of fiscal year 2018/19 the District's governmental funds reported revenues less than expenditures by \$19,207 and an ending fund balance of \$400,876. Of the total ending fund balance, \$12,904 is in the General Fund and \$387,972 is in the Debt Service Fund.

Revenues totaled \$310,762 for the fiscal year ended June 30, 2019, of which \$301,415 was property tax and \$9,347 was interest.

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

Capital Assets and Debt Administration

The District was formed to finance and acquire or construct amenities that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Since formation, District bonds have been issued, and the proceeds used to acquire or construct public amenities including retail space and permanent parking easement.

The District has issued \$3,805,000 of the \$9,000,000 authorized bonds.

The District general obligation bonds have a 25-year term. In the event that the District Board decides at a future time to dissolve the District, State statute provides that all taxable property in the District will remain subject to the lien for the payment of the bonds until all bonds have been defeased.

The District is not engaged in any significant activities other than providing for the levy of secondary property taxes to pay debt service and administrative fees.

Outstanding Debt

June 30, 2019 and 2018

| | Governmental Activities | |
|--------------------------|-------------------------|---------------------|
| | 2019 | 2018 |
| General Obligation Bonds | <u>\$ 2,810,000</u> | <u>\$ 2,950,000</u> |

The District's total long-term debt decreased by \$140,000 during the current fiscal year due to the payment of principal on the general obligation bonds.

Next Year's Budget and Rates

The fiscal year 2019/20 District budget includes a \$5.75 tax rate per \$100 of assessed value. This is a \$0.06 increase from the rate used in the fiscal year 2018/19 budget.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2019

| | General Fund | Debt Service Fund | Total | Adjustments | Statement of Net Position |
|---|------------------|-------------------|-------------------|-----------------------|---------------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | | | | |
| Assets | | | | | |
| Current Assets | | | | | |
| Cash | \$ 12,873 | \$ - | \$ 12,873 | \$ - | \$ 12,873 |
| Taxes Receivable | 31 | 782 | 813 | - | 813 |
| Total Current Assets | 12,904 | 782 | 13,686 | - | 13,686 |
| Noncurrent Assets | | | | | |
| Restricted Cash | - | 615,286 | 615,286 | - | 615,286 |
| Total Assets | <u>\$ 12,904</u> | <u>\$ 616,068</u> | <u>\$ 628,972</u> | <u>\$ -</u> | <u>\$ 628,972</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION | | | | | |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Matured Bonds Payable | \$ - | \$ 140,000 | \$ 140,000 | \$ - | \$ 140,000 |
| Matured Interest Payable | - | 88,066 | 88,066 | - | 88,066 |
| Total Current Liabilities | - | 228,066 | 228,066 | - | 228,066 |
| Noncurrent Liabilities | | | | | |
| Due Within One Year | - | - | - | 150,000 | 150,000 |
| Due After One Year | - | - | - | 2,660,664 | 2,660,664 |
| Total Noncurrent Liabilities | - | - | - | 2,810,664 | 2,810,664 |
| Total Liabilities | - | 228,066 | 228,066 | 2,810,664 | 3,038,730 |
| Deferred Inflows of Resources | | | | | |
| Unavailable Revenues | - | 30 | 30 | (30) | - |
| Total Liabilities and Deferred Inflows of Resources | - | 228,096 | 228,096 | 2,810,634 | 3,038,730 |
| Fund Balances/Net Position | | | | | |
| Fund Balances | | | | | |
| Restricted | - | 387,972 | 387,972 | (387,972) | - |
| Unassigned | 12,904 | - | 12,904 | (12,904) | - |
| Total Fund Balances | 12,904 | 387,972 | 400,876 | (400,876) | - |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 12,904</u> | <u>\$ 616,068</u> | <u>\$ 628,972</u> | | |
| Net Position | | | | | |
| Restricted for Debt Service | | | | 388,002 | 388,002 |
| Unrestricted | | | | (2,797,760) | (2,797,760) |
| Total Net Position | | | | <u>\$ (2,409,758)</u> | <u>\$ (2,409,758)</u> |

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

Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2019

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Total</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|---|---------------------|--------------------------|-------------------|-----------------------|--------------------------------|
| REVENUES | | | | | |
| Taxes | \$ 12,056 | \$ 289,359 | \$ 301,415 | \$ - | \$ 301,415 |
| Interest | 231 | 9,116 | 9,347 | - | 9,347 |
| Total Revenues | <u>12,287</u> | <u>298,475</u> | <u>310,762</u> | <u>-</u> | <u>310,762</u> |
| EXPENDITURES/EXPENSES | | | | | |
| Current | | | | | |
| General Government | | | | | |
| City Treasurer - Finance and Accounting | \$ 10,845 | \$ - | \$ 10,845 | \$ - | \$ 10,845 |
| Debt Service | | | | | |
| Principal Retirement | - | 140,000 | 140,000 | (140,000) | - |
| Interest and Fiscal Charges | - | 179,124 | 179,124 | (51) | 179,073 |
| Total Expenditures/Expenses | <u>10,845</u> | <u>319,124</u> | <u>329,969</u> | <u>(140,051)</u> | <u>189,918</u> |
| Change in Fund Balances/Net Position | 1,442 | (20,649) | (19,207) | 140,051 | 120,844 |
| Fund Balances/Net Position, Beginning of Year | <u>11,462</u> | <u>408,621</u> | <u>420,083</u> | <u>(2,950,685)</u> | <u>(2,530,602)</u> |
| Fund Balances/Net Position, End of Year | <u>\$ 12,904</u> | <u>\$ 387,972</u> | <u>\$ 400,876</u> | <u>\$ (2,810,634)</u> | <u>\$ (2,409,758)</u> |

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Waterfront Commercial Community Facilities District (District), a component unit of the City of Scottsdale, Arizona (City), conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the District follows.

During the year ended June 30, 2019, the District implemented the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement requires enhanced note disclosures and clarifies which liabilities governments should include when disclosing information related to debt.

A. Reporting Entity

The Waterfront Commercial Community Facilities District was formed by petition to the City of Scottsdale City Council in September 2005. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the District. The City Council serves as the Board of Directors; however, the City has no liability for the District's debt. For financial reporting purposes, transactions of the Waterfront Commercial Community Facilities District are included as if the District were part of the City'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) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year.

Financial statements are provided for major governmental funds, with an adjustments column to arrive at government-wide statement amounts.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both earned 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 District considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the current fiscal period when the revenue is earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* accounts for resources accumulated and used for the payment of other operating expenses for the District, which may include insurance, legal fees and administration costs.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of governmental long-term debt including principal, interest and related costs.

The spending order for the District is to use restricted funds and then unassigned funds as they are needed. Currently the District has unassigned funds and does not have any nonspendable, committed or assigned funds.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Investments

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; or bonds of the State of Arizona counties, cities, towns, school districts or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit, and repurchase agreements at 100 percent of all deposits not covered by federal depository insurance.

A portion of cash and investments held by trustee at June 30, 2019, plus accrued interest, are restricted as to usage.

2. Restricted Assets

Cash and investments held by the District's trustee are classified as restricted on the statement of net position because their use is limited by applicable bond covenants.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Capital Assets

Capital assets acquired or construction of infrastructure assets by the District are dedicated to the City of Scottsdale, Arizona to maintain and operate. As a result, the District owns no capital assets.

4. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts 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.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements report a separate section for deferred outflows of resources. This 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 District has no items that qualify as a deferred outflow of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent 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. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet.

6. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Directors. The Board of Directors passed a resolution authorizing the City of Scottsdale City Treasurer to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the District's policy to use restricted resources first, then unrestricted resources. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the government-wide financial statements, net position is reported in two categories: restricted and unrestricted. Restricted accounts for the portion of net position restricted by bond covenant. Unrestricted is the remaining net position not included in the previous category.

E. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America may require 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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Amounts reported in the statement of net position are different because:

| | |
|--|------------------------------|
| Tax revenues not available to pay current-period expenditures are deferred inflows in the funds. | \$ 30 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore, are not reported in the funds. | <u>(2,810,664)</u> |
| Net adjustment to reduce total fund balance to arrive at net position. | (2,810,634) |
| Total Fund Balance | <u>400,876</u> |
| Total Net Position | <u><u>\$ (2,409,758)</u></u> |

B. Amounts reported in the statement of activities are different because:

| | |
|---|--------------------------|
| The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, it has no effect on net position. | \$ 140,000 |
| Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. | <u>51</u> |
| Net adjustments to reconcile net changes in fund balances to change in net position. | 140,051 |
| Net change in Fund Balance | <u>(19,207)</u> |
| Change in Net Position | <u><u>\$ 120,844</u></u> |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The District adopts an annual operating budget for revenues and expenditures for the General Fund and Debt Service Fund on essentially the same modified accrual basis of accounting used to record actual expenditures. Budgetary control over expenditures is exercised at the fund level.

B. Deficit Net Position

As described in Note 1, the District was formed to finance and acquire or construct infrastructure assets that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Therefore, the Statement of Net Position reflects a large liability without an offsetting asset.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits

Deposits – At June 30, 2019, the carrying amount of the District’s deposits and bank balance were \$628,159.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2019, all of the District’s deposits were uninsured and collateralized by securities held by the pledging bank’s trust department not in the District’s name, and therefore exposed to custodial credit risk.

2. Restricted Assets

Restricted cash at June 30, 2019, as follows:

| | <u>Debt Service Fund</u> |
|-----------------|------------------------------|
| Restricted Cash | <u>\$ 615,286</u> |

3. Property Taxes Receivable

The Maricopa County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business days in November and May. During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding the assessment levy.

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund financial statements. In the fund financial statements, property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 31 days subsequent to fiscal year-end. Property taxes not collected within 31 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred inflows.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer’s Office, and at June 30, 2019, were as follows:

| | <u>General Fund</u> | <u>Debt Service Fund</u> |
|------------------|-------------------------|------------------------------|
| Taxes Receivable | <u>\$ 31</u> | <u>\$ 782</u> |

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

At the end of the current fiscal year, unavailable revenue reported in the governmental fund was as follows:

| | Debt Service Fund |
|---|----------------------|
| Delinquent Property Taxes Receivable (Unavailable) | \$ 30 |

B. Liabilities

Obligations Under Long-term Debt

General Obligation Bonds

The District issues general obligation bonds to provide funds to acquire and improve public infrastructure in specified areas. General obligation bonds have been issued for governmental activities only. The bonds are generally callable with interest payable semiannually. Bonds payable at June 30, 2019, consisted of the outstanding general obligation bonds presented below:

| Purpose | Interest Rates (%) | Amount |
|--|--------------------|---------------------|
| 2007 Waterfront District General Obligation Bonds (issued December 11, 2007) due in annual installments of \$25,000 to \$300,000 beginning July 15, 2009 through July 15, 2032. Original issue amount \$3,805,000. | 4.85 - 6.05 | \$ <u>2,810,000</u> |

Community facilities districts (CFDs) are created only by petition to the City Council by property owners within the District areas. As board of directors for the District, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the District property (prior to improvements being installed), when compared to proposed District debt, is a minimum of 3 to 1 prior to issuance of debt and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the District and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's full cash valuation.

The District's bond issuance contains the following provisions that would constitute an event of default by the District:

- Failure to pay the principal and interest when due and payable.
- Default in the performance or observance of any covenant, agreement, or obligation not cured within 30 days of notice of default. No event of default will be deemed to have occurred so long as a course of action has been commenced within 30 days and is diligently prosecuted to completion.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

If any non-punctual payment of principal or interest occurs, the CFD bond trustee may recover the costs and expenses of administration and collection related to the unpaid amounts.

Changes in Long-term Liabilities

| Governmental Activities | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------|----------------------|-------------|---------------------|---------------------|------------------------|
| General Obligation Bonds | \$ 2,950,000 | \$ - | \$ (140,000) | \$ 2,810,000 | \$ 150,000 |
| Plus Issuance Premium | 715 | - | (51) | 664 | - |
| Total | <u>\$ 2,950,715</u> | <u>\$ -</u> | <u>\$ (140,051)</u> | <u>\$ 2,810,664</u> | <u>\$ 150,000</u> |

Annual debt service requirements to maturity for general obligation bonds are as follows:

| Fiscal Year Ending June 30, | Principal | Interest |
|-----------------------------|---------------------|---------------------|
| 2020 | \$ 150,000 | \$ 168,083 |
| 2021 | 160,000 | 159,458 |
| 2022 | 165,000 | 150,258 |
| 2023 | 175,000 | 140,770 |
| 2024 | 185,000 | 130,270 |
| 2025-2029 | 1,125,000 | 468,530 |
| 2030-2034 | 850,000 | 104,968 |
| Total | <u>\$ 2,810,000</u> | <u>\$ 1,322,335</u> |

NOTE 5 – OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss. The District carries commercial insurance for \$1,000,000 per occurrence and \$3,000,000 aggregate covering general liability exposures. The District also carries public entity management liability insurance for \$1,000,000 each wrongful act and \$3,000,000 aggregate to cover damages resulting from the conduct of duties by or for a public entity or its boards. There have been no known losses in any of the past three fiscal years.

B. Concentration Information

The District has one major taxpayer that accounts for approximately fifty percent of full cash valuation. Delinquent payments by this taxpayer could result in a significant loss of revenue.

Required Supplementary Information

**Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – General Fund**

For the Fiscal Year Ended June 30, 2019

| | Original and Final Budget | Actual | Variance |
|---|--------------------------------------|-------------------------|------------------------|
| REVENUES | | | |
| Taxes | \$ 12,989 | \$ 12,056 | \$ (933) |
| Interest | 25 | 231 | 206 |
| Total Revenues | <u>13,014</u> | <u>12,287</u> | <u>(727)</u> |
| EXPENDITURES/EXPENSES | | | |
| Current | | | |
| General Government | | | |
| City Treasurer - Finance and Accounting | 11,000 | 10,845 | 155 |
| Total Expenditures | <u>11,000</u> | <u>10,845</u> | <u>155</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 2,014 | 1,442 | (572) |
| Fund Balance, Beginning of Year | <u>10,992</u> | <u>11,462</u> | <u>470</u> |
| Fund Balance, End of Year | <u><u>\$ 13,006</u></u> | <u><u>\$ 12,904</u></u> | <u><u>\$ (102)</u></u> |

Supplementary Information

**Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – Debt Service Fund**

For the Fiscal Year Ended June 30, 2019

| | Original and Final Budget | Actual | Variance |
|--------------------------------------|--------------------------------------|--------------------------|--------------------------|
| REVENUES | | | |
| Taxes | \$ 288,064 | \$ 289,359 | \$ 1,295 |
| Interest Income | 100 | 9,116 | 9,016 |
| Total Revenues | <u>288,164</u> | <u>298,475</u> | <u>10,311</u> |
| EXPENDITURES/EXPENSES | | | |
| Debt Service | | | |
| Principal Retirement | 140,000 | 140,000 | - |
| Interest and Fiscal Charges | <u>179,133</u> | <u>179,124</u> | <u>9</u> |
| Total Expenditures | 319,133 | 319,124 | 9 |
| Excess of Revenues Over Expenditures | (30,969) | (20,649) | 10,320 |
| Fund Balance, Beginning of Year | <u>74,071</u> | <u>408,621</u> | <u>334,550</u> |
| Fund Balance, End of Year | <u><u>\$ 43,102</u></u> | <u><u>\$ 387,972</u></u> | <u><u>\$ 344,870</u></u> |

October 21, 2019

To the Governing Board
Waterfront Commercial Community Facilities District

We have audited the financial statements of the governmental activities and each major fund of Waterfront Commercial Community Facilities District, a component unit of the City of Scottsdale, Arizona, for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Waterfront Commercial Community Facilities District are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

As described in Note 1 of the financial statements, the District implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, for the year ended June 30, 2019. GASB Statement No. 88 improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Waterfront Commercial Community Facilities District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the District’s auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the “Independence Rule” of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Additional Reports Issued

In addition to the auditor’s report on the financial statements we have also issued the following documents related to this audit.

- Report on internal control over financial reporting and on compliance in accordance with *Government Auditing Standards*

Other Important Communications Related to the Audit

Attached to this letter is a copy of the management representation letter provided to us at the conclusion of the audit. If there are any questions on the purpose or content of these letters please contact the engagement partner.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of Waterfront Commercial Community Facilities District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona



City Treasurer's Office

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WEB www.ScottsdaleAZ.gov

Heinfeld, Meech & Co., P.C.
3033 N. Central Ave. Suite 300
Phoenix, AZ 85012

This representation letter is provided in connection with your audit of the financial statements of Waterfront Commercial Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, which comprise the respective financial position of the governmental activities and each major fund, as of June 30, 2019, and the respective changes in financial position for the period then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
8. The effects of all known actual or possible litigation, claims, and assessments have been evaluated, and if necessary, have been accounted for and disclosed in accordance with U.S. GAAP.
9. Guarantees, whether written or oral, under which the District is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13. We have no knowledge of any fraud or suspected fraud that affects the District and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements communicated by employees, former employees, grantors, regulators, or others.
15. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. We have disclosed to you the identity of the District's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. If applicable we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.
20. We have a process to track the status of audit findings and recommendations.
21. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
23. The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.
24. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.

25. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
26. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
27. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
28. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
29. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
30. The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
32. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
33. The financial statements properly classify all funds and activities in accordance with U.S. GAAP.
34. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
35. If applicable, investments are properly valued.
36. If applicable, provisions for uncollectible receivables have been properly identified and recorded.
37. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

38. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
39. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
40. Special and extraordinary items, if any, are appropriately classified and reported.
41. Deposits and investment securities are properly classified as to risk and are properly disclosed.
42. We have appropriately disclosed the District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
43. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
44. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
45. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
46. With respect to the supplementary budget comparison information presented for the Debt Service Fund.
 - a. We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

We understand that at the conclusion of the audit, Heinfeld, Meech & Co., P.C. will submit to the City Auditor a communication to those charged with governance that will include a copy of this representation letter.

Jeffery M. Nichols
Jeffery M. Nichols (Oct 17, 2019)

Jeffery M. Nichols, CPA
City Treasurer/Chief Financial Officer
City of Scottsdale, Arizona

10/17/2019

Date

Gina Kirklin
Gina Kirklin (Oct 16, 2019)

Gina Kirklin
Enterprise and Finance Director
City of Scottsdale, Arizona

10/16/2019

Date

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Waterfront Commercial Community Facilities District

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of Waterfront Commercial Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Waterfront Commercial Community Facilities District's basic financial statements and have issued our report thereon dated October 18, 2019. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 88.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Waterfront Commercial Community Facilities District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Waterfront Commercial Community Facilities District's internal control. Accordingly, we do not express an opinion on the effectiveness of Waterfront Commercial Community Facilities District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waterfront Commercial Community Facilities District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.

Phoenix, Arizona

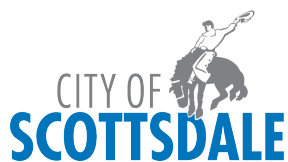
October 18, 2019

City Auditor's Office

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Audit Committee

Vice Mayor Kathy Littlefield, Chair
Councilmember Virginia Korte
Councilwoman Solange Whitehead

City Auditor's Office

Kyla Anderson, Senior Auditor
Paul Christiansen, Senior Auditor
Lai Cluff, Senior Auditor
Cathleen Davis, Senior Auditor
Brad Hubert, Senior Auditor
Sharron Walker, City Auditor

The City Auditor's Office conducts audits to promote operational efficiency, effectiveness, accountability and integrity.