
City of Scottsdale Municipal Property Corporation

(A Component Unit of the City of Scottsdale, Arizona)



Annual Financial Report

Fiscal Year Ended June 30, 2016

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For the Fiscal Year ended June 30, 2016

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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, 2016, 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, 2016, 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, 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 27, 2016, 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 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 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., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 27, 2016

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

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, 2016. The Corporation is a component unit of the City of Scottsdale, Arizona (City).

FINANCIAL HIGHLIGHTS

- In the Statement of Net Position, the liabilities of the Corporation are less than its assets and deferred outflows of resources at the close of the most recent fiscal year by \$4,709,062 (net position).
- The Corporation's total net position decreased by \$5,627,121 due to a decreased revenues and increased construction costs during the year.
- As of June 30, 2016, the Corporation's Debt Service Fund and Capital Projects Fund reported ending fund balances of \$0 and \$4,709,062, respectively.

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 assets changed during the most recent fiscal year. All 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, 2016

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 of Scottsdale, Arizona 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, changes in net position may serve over time as useful indicators of a government's financial position. The liabilities and deferred inflows of resources of the Corporation are less than its assets and deferred outflows of resources at the close of the most recent fiscal year by \$4,709,062 (net position).

Net Position

June 30, 2016 and 2015

	Governmental Activities 2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current and Other Assets	\$ 554,121,543	\$ 578,862,304
Total Assets	554,121,543	578,862,304
Deferred Outflows of Resources	11,767,950	12,590,528
Total Assets and Deferred Outflows of Resources	565,889,493	591,452,832
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Long-Term Liabilities Outstanding	528,777,273	552,193,593
Other Liabilities	32,403,158	28,923,056
Total Liabilities	561,180,431	581,116,649
NET POSITION		
Restricted	-	5,615
Unrestricted	4,709,062	10,330,568
Total Net Position	\$ 4,709,062	\$ 10,336,183

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Over the fiscal year, the Corporation's total net position decreased by \$5,627,121. Total revenue decreased by \$48,728,898 as a result of lower lease payments driven by new debt issued in the prior fiscal year and not applicable in the current fiscal year and total expenses decreased by \$13,608,097 primarily due to lower capital project expenses.

Changes in Net Position

For the Fiscal Years Ended June 30, 2016 and 2015

	Governmental Activities	
	2016	2015
REVENUES		
Lease Payments	\$ 20,862,396	\$ 69,591,235
Investment Income	40	9
Other Revenue	-	90
Total Revenues	<u>20,862,436</u>	<u>69,591,334</u>
EXPENSES		
General Government	5,621,538	18,391,353
Interest and Fiscal Charges	20,868,019	21,706,301
Total Expenses	<u>26,489,557</u>	<u>40,097,654</u>
Increase\Decrease in Net Position	(5,627,121)	29,493,680
Net Position, Beginning of Year	10,336,183	(19,157,497)
Net Position, End of Year	<u>\$ 4,709,062</u>	<u>\$ 10,336,183</u>

Financial Analysis of the Corporation's Funds

As noted earlier, the Corporation uses fund accounting to ensure and demonstrate compliance with legal requirements related to special purpose corporations and revenue bonds. 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.

As of June 30, 2016, the Corporation's governmental funds reported combined ending fund balances of \$4,709,062. The fund balance for the Debt Service Fund was \$0 and \$4,709,062 which represents unspent bond funds subsequent to a debt issuance in the prior fiscal year.

Debt Administration

The total net Excise Revenue Debt at June 30, 2016 was \$528,777,273.

Outstanding Debt

For the Fiscal Years Ended June 30, 2016 and 2015

	Governmental Activities	
	2016	2015
Excise Revenue Bonds	<u>\$ 528,777,273</u>	<u>\$ 552,193,593</u>

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Economic Factors

The City's long-term financial plan remains one of conservative economic growth as Scottsdale's economy continues to improve. City revenues are forecast to increase by modest amounts again in fiscal year 2016/17, combined with a focus on efficient spending continues the trend from the past two years.

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, 2016

	Debt Service Fund	Capital Projects Fund	Total Governmental Funds	Adjustments (see Note 2.A.)	Statement of Net Position
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Current Assets					
Cash and Short-term Investments	\$ 31,825,231	\$ 5,286,989	\$ 37,112,220	\$ -	\$ 37,112,220
Total Current Assets	\$ 31,825,231	\$ 5,286,989	\$ 37,112,220	\$ -	\$ 37,112,220
Noncurrent Assets					
Amount Due from City of Scottsdale	\$ 517,009,323	\$ -	\$ 517,009,323	\$ -	\$ 517,009,323
Total Noncurrent Assets	\$ 517,009,323	\$ -	\$ 517,009,323	\$ -	\$ 517,009,323
Total Assets	\$ 548,834,554	\$ 5,286,989	\$ 554,121,543	\$ -	\$ 554,121,543
Deferred Outflows of Resources					
Deferred Amounts on Refunding				\$ 11,767,950	\$ 11,767,950
Total Assets and Deferred Outflows of Resources				\$ 11,767,950	\$ 565,889,493
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION					
Liabilities					
Accounts Payable	\$ -	\$ 577,927	\$ 577,927	\$ -	\$ 577,927
Bond Interest Payable	11,610,231	-	11,610,231	-	11,610,231
Matured Bonds Payable	20,215,000	-	20,215,000	-	20,215,000
Long-term Liabilities					
Due Within One Year	-	-	-	22,471,067	22,471,067
Due After One Year	-	-	-	506,306,206	506,306,206
Total Liabilities	\$ 31,825,231	\$ 577,927	\$ 32,403,158	\$ 528,777,273	\$ 561,180,431
Deferred Inflows of Resources					
Unavailable Revenue	\$ 517,009,323	\$ -	\$ 517,009,323	\$ (517,009,323)	\$ -
Fund Balances					
Restricted	\$ -	\$ 4,709,062	\$ 4,709,062	\$ (4,709,062)	\$ -
Total Fund Balances	\$ -	\$ 4,709,062	\$ 4,709,062	\$ (4,709,062)	\$ -
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 548,834,554	\$ 5,286,989	\$ 554,121,543		
Net Position					
Restricted for Capital Projects				\$ 4,709,062	\$ 4,709,062
Total Net Position				\$ 4,709,062	\$ 4,709,062

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, 2016

	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	\$ 43,456,138	\$ -	\$ 43,456,138	\$ (22,593,742)	\$ 20,862,396
Investment Income	8	32	40	-	40
Total Revenues	43,456,146	32	43,456,178	(22,593,742)	20,862,436
EXPENDITURES/EXPENSES					
Current					
General Government	-	-	-	5,621,538	5,621,538
Capital Improvements	-	5,621,538	5,621,538	(5,621,538)	-
Debt Service					
Principal	20,215,000	-	20,215,000	(20,215,000)	-
Interest and Fiscal Charges	23,246,761	-	23,246,761	(2,378,742)	20,868,019
Total Expenditures	43,461,761	5,621,538	49,083,299	(22,593,742)	26,489,557
Net Change in Fund Balances	(5,615)	(5,621,506)	(5,627,121)	-	(5,627,121)
Fund Balances/Net Position, Beginning of Year	5,615	10,330,568	10,336,183	-	10,336,183
Fund Balances/Net Position, End of Year	\$ -	\$ 4,709,062	\$ 4,709,062	\$ -	\$ 4,709,062

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, 2016

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.

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 appointed by the City. For financial reporting purposes, transactions of the Corporation are included as if the Corporation were part of the City's operations. Furthermore, there are no component units combined with the Corporation for financial statement presentation purposes.

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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease payments from the City of Scottsdale, Arizona and interest associated with the current fiscal period are considered to be susceptible to accrual and so 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 government.

The Corporation reports the following major governmental funds:

- The *Debt Service Fund* is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.
- The *Capital Projects Fund* is used to account for financial resources used in the acquisition or construction of major capital facilities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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 as they are needed. 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.

The use of cash and investments held by a trustee at June 30, 2016, plus accrued interest, is restricted.

The Corporation's deposits at June 30, 2016 were collateralized with securities held by the pledging financial institution's trust department or agency in the Corporation's name.

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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Per GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, 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 financial position will sometimes 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 government only has 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 either, the life of the refunded debt or refunding debt.

In addition to liabilities, the statement of financial 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 government 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 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 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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 of Scottsdale for retirement of debt are long-term in nature and are deferred inflows in the governmental funds.

Prior Year Receivable	\$	539,603,065	
Debt Service Payments Made		(20,215,000)	
Amortization Amount on Refunding		822,578	
Amortization of Premium on Existing Bonds		<u>(3,201,320)</u>	\$ 517,009,323

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	(483,710,000)	
Deferred Issuance Premium	<u>(45,067,273)</u>	(528,777,273)

Deferred Amount on Refunding are long-term in nature and are not reported as deferred outflows of resources in the governmental funds.

<u>11,767,950</u>	<u>11,767,950</u>
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Net adjustment to reduce total fund balance in the governmental funds to arrive at net position.

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Total Fund Balances

4,709,062

Total Net Position

\$ 4,709,062

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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	\$	(20,215,000)	
Amortization Amount on Refunding		822,578	
Amortization of Premium on Existing Bonds		<u>(3,201,320)</u>	\$ (22,593,742)

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	(822,578)	
Amortization of Premium on Existing Bonds	<u>3,201,320</u>	2,378,742

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>20,215,000</u>	20,215,000
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Net Adjustment To Reduce Net Change In Fund Balances To Arrive At Net Change In Net Position

Net Change In Fund Balances	<u>(5,627,121)</u>	
Net Change In Net Position	<u>\$ (5,627,121)</u>	

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Corporation does not have a General Fund or any Special Revenue Funds and 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, 2016, the Corporation's deposits consisted of the following:

	Fair Value
Accounts With Trustee	<u>\$ 37,112,220</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2016, in accordance with the Corporation's policy, \$250,000 of the Corporation's deposits were covered by federal depository insurance and \$36,862,220 were collateralized by collateral held by the Corporation's agent or pledging financial institution's trust department or agent in the name of the Corporation, and thus had no deposits that were 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 2005E MPC Excise Tax Revenue Bonds, a portion of the 2006 MPC Excise Tax Revenue Refunding Bonds, the 2008A MPC Excise Tax Revenue Bonds, 2010 MPC Excise Tax Revenue Bonds and the 2015A MPC Excise Tax Revenue Bonds are paid out of the City's Water and Sewer Fund.

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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

The table below reflects defeased debt outstanding at June 30, 2016, net of any amounts to be paid or retired by the trustee on July 1, 2016:

Refunded in Prior Years	
2005C MPC Excise Tax Revenue Bonds	\$ 18,555,000
2008A MPC Excise Tax Revenue Bonds	49,100,000
	<u>\$ 67,655,000</u>

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Bonds payable at June 30, 2016 consisted of the outstanding bonds presented below:

Classified in Debt Service Fund - General Government Purposes Municipal Property Corporation Bonds	Bonds Outstanding
2005 Municipal Property Corporation Excise Tax Revenue Bonds (issued June 15, 2005) due in annual installments of \$35,026 to \$4,925,019 through July 1, 2021; interest at 3.22 percent to 5 percent. On March 26, 2015, \$22,630,000 due 2016 through 2021 were refunded. Original issue amount \$19,945,322.	\$ 275,000
2006 Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued November 29, 2006) due in annual installments of \$1,105,000 to \$2,730,000 through July 1, 2034; interest at 5 percent. Original issue amount \$55,450,000.	55,450,000
2006A Municipal Property Corporation Excise Tax Revenue Bonds (issued November 29, 2006) due in annual installments of \$240,000 to \$625,000 through July 1, 2031; interest at 4 percent to 5 percent. On May 29, 2014, \$4,385,000 due 2018 through 2027 were refunded. On March 26, 2015, \$2,350,000 due 2028 through 2031 were refunded. Original issue amount \$10,000,000.	340,000
2006B Municipal Property Corporation Excise Tax Revenue Bonds (issued November 29, 2006) due in annual installments of \$950,000 to \$2,475,000 through July 1, 2031; interest at 4 percent to 5 percent. On May 29, 2014, \$16,725,000 due 2018 through 2027 were refunded. On March 26, 2015, \$9,300,000 of 2028 through 2023 were refunded. Original issue amount \$32,500,000.	1,225,000
2013A Municipal Property Corporation Excise Tax Revenue Bonds (issued February 13, 2013) due in annual installments of \$830,000 to \$1,995,000 through July 1, 2028; interest at 3 percent to 5 percent. Original issue amount \$26,295,000.	23,535,000
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.	1,295,000
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.	33,535,000
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.	22,735,000
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.	11,570,000
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.	13,770,000
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.	45,298,269
Total Municipal Property Corporation Bonds Outstanding	\$ 209,028,269

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

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.	\$ 103,165,000
2008A Municipal Property Corporation Excise Tax Revenue Bonds (issued May 13, 2008) due in annual installments of \$1,800,000 to \$7,250,000 through July 1, 2032; interest at 4 percent to 5 percent. On March 26, 2015, \$49,100,000 due 2019 through 2028 were refunded. Original issue amount \$105,875,000.	34,425,000
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. Original issue amount \$75,000,000.	72,750,000
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.	17,530,000
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.	46,811,731
Total Municipal Property Corporation Bonds Outstanding-Water and Sewer	\$ 274,681,731
Total bonds outstanding	\$ 483,710,000

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 properties 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.

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 as 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 \$695,364,344.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 5 – CHANGES IN LONG TERM DEBT

A. Summary of Changes

The Corporation made principal payments of \$20,215,000, amortized deferred issuance premiums of \$3,201,320 and deferred amount on refundings of \$822,578 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	\$ 503,925,000	\$ 48,268,593	\$ 552,193,593
Decreases:			
Existing Bonds	(20,215,000)	(3,201,320)	(23,416,320)
Ending Balances	<u>\$ 483,710,000</u>	<u>\$ 45,067,273</u>	<u>\$ 528,777,273</u>
Amounts Due Within One Year	\$ 22,471,067		
Amounts Due in More than One Year	\$ 461,160,000		

The following is a summary of annual debt service requirements to maturity as of June 30, 2016:

Fiscal Year	Principal	Interest	Total
2017	\$ 22,471,067	\$ 22,367,796	\$ 44,838,863
2018	24,565,000	21,245,825	45,810,825
2019	28,135,000	20,161,575	48,296,575
2020	30,350,000	18,878,625	49,228,625
2021	26,510,000	17,423,125	43,933,125
2022-2026	134,945,000	67,533,075	202,478,075
2027-2031	142,945,000	35,456,906	178,401,906
2032-2036	73,710,000	8,666,350	82,376,350
Capital Appreciation	78,933	(78,933)	-
Total	<u>\$ 483,710,000</u>	<u>\$ 211,654,344</u>	<u>\$ 695,364,344</u>

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

The Corporation has evaluated the tax positions taken, or expected to be taken, if any, on its exempt organization filings and the likelihood that upon examination those positions would be sustained. Currently, the IRS is conducting an examination of the Excise Tax Revenue and Refunding Bonds, Series 2013. The IRS is expected to challenge the allocation of a portion of the proceeds of the bonds to refinance the initial lease term of the existing municipal Scottsdale Fashion Square Partnership Garage Lease Agreement. The Corporation disagrees with the position of the IRS and continues to discuss this matter with the IRS and will respond to any further notices from the IRS as necessary.