
City of Scottsdale Municipal Property Corporation

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



Annual Financial Report

Fiscal Year Ended June 30, 2023

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

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January 2024 Revision – “References to ‘District’ on pages 1 and 2 of the Independent Auditor’s Report were changed to ‘Corporation’.”

City of Scottsdale Municipal Property Corporation

For the Fiscal Year ended June 30, 2023

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City of Scottsdale Municipal Property Corporation

For the Fiscal Year ended June 30, 2023

Board Members

Dennis Robbins	President
Ken Harder	Vice President
Judith Frost	Secretary
David Smith	Treasurer
John Arnold	Director

Independent Auditor's Report

Board of Directors
City of Scottsdale Municipal Property Corporation

Report on Audit of Financial Statements

Opinions

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, 2023, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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, 2023, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of City of Scottsdale Municipal Property Corporation, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 1, the Corporation implemented the provisions of GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, Statement No. 99, *Omnibus 2022*, and Statement No. 100, *Accounting Changes and Error Corrections*—an amendment of GASB Statement No. 62, for the year ended June 30, 2023, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for one year beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 is the responsibility of management and, 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 2, 2023, 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.
Scottsdale, Arizona
October 2, 2023

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2023

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, 2023. The Corporation is a component unit of the City of Scottsdale, Arizona (City).

FINANCIAL HIGHLIGHTS

For the fiscal year ending 2022/23, the Corporation's:

- Total assets and deferred outflows of resources were equal to total liabilities, resulting in an ending fund balance of \$0 (net position).
- Net change in fund balance was \$176,199 due to a decrease in revenue and construction and bond interest costs during the year.
- Debt Service Fund and Capital Projects Fund reported ending fund balances of \$0, 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.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2023

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 equal to total liabilities, resulting in an ending fund balance for the close of the most recent fiscal year of \$0 (net position).

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2023

Net Position

June 30, 2023 and 2022

	Governmental Activities	
	2023	2022
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Assets	\$ 443,328,975	\$ 479,997,584
Deferred Outflows of Resources	13,360,993	14,775,244
Total Assets and Deferred Outflows of Resources	<u>456,689,968</u>	<u>494,772,828</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Long-Term Liabilities Outstanding	415,239,132	452,573,010
Other Liabilities	41,450,836	42,023,619
Total Liabilities	<u>456,689,968</u>	<u>494,596,629</u>
NET POSITION		
Restricted for Capital Projects	-	176,199
Total Net Position	<u>\$ -</u>	<u>\$ 176,199</u>

Over the fiscal year, the Corporation's total net position decreased by \$176,199. Total revenue decreased by \$1,628,086 as a result of lower lease payments. Total expenses decreased by \$2,790,172 primarily due to lower debt and construction expenses.

Changes in Net Position

For the Fiscal Years Ended June 30, 2023 and 2022

	Governmental Activities	
	2023	2022
REVENUES		
Lease Payments	\$ 12,647,925	\$ 14,282,836
Investment Income	7,448	623
Total Revenues	<u>12,655,373</u>	<u>14,283,459</u>
EXPENSES		
General Government	-	1,422,583
Interest and Fiscal Charges	12,831,572	14,199,161
Total Expenses	<u>12,831,572</u>	<u>15,621,744</u>
Increase \ (Decrease) in Net Position	(176,199)	(1,338,285)
Net Position, Beginning of Year	176,199	1,598,166
Cumulative Effect of Prior Period Adjustment	-	(83,682)
Net Position, End of Year	<u>\$ -</u>	<u>\$ 176,199</u>

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2023

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, 2023, the Corporation's governmental funds reported combined ending fund balances of \$0.

Debt Administration

The total net Excise Revenue Debt at June 30, 2023 was \$415,239,132. The Corporation's total long-term debt decreased by \$37,333,878 during the current fiscal year due to the payment of principal on outstanding debt and amortization of deferred amounts.

Outstanding Debt

For the Fiscal Years Ended June 30, 2023 and 2022

	Governmental Activities	
	2023	2022
Excise Revenue Bonds	<u>\$ 415,239,132</u>	<u>\$ 452,573,010</u>

Economic Factors

The City's long-term financial plan considers the uncertainty of the economy and takes a cautious approach.

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, 2023

	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	\$ 41,450,836	\$ -	\$ 41,450,836	\$ -	\$ 41,450,836
Amount Due from City of Scottsdale	401,878,139	-	401,878,139	-	401,878,139
Total Assets	<u>443,328,975</u>	<u>-</u>	<u>443,328,975</u>	<u>-</u>	<u>443,328,975</u>
Deferred Outflows of Resources					
Deferred Amounts on Refunding				13,360,993	13,360,993
Total Assets and Deferred Outflows of Resources				<u>13,360,993</u>	<u>456,689,968</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION					
Liabilities					
Accounts Payable	-	-	-	-	-
Bond Interest Payable	7,280,836	-	7,280,836	-	7,280,836
Matured Bonds Payable	34,170,000	-	34,170,000	-	34,170,000
Long-term Liabilities					
Due Within One Year	-	-	-	35,935,000	35,935,000
Due After One Year	-	-	-	379,304,132	379,304,132
Total Liabilities	<u>41,450,836</u>	<u>-</u>	<u>41,450,836</u>	<u>415,239,132</u>	<u>456,689,968</u>
Deferred Inflows of Resources					
Unavailable Revenue	401,878,139	-	401,878,139	(401,878,139)	-
Fund Balances					
Restricted	-	-	-	-	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 443,328,975</u>	<u>\$ -</u>	<u>\$ 443,328,975</u>		
Net Position					
Restricted for Debt Service				-	-
Restricted for Capital Projects				-	-
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, 2023

	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	\$ 48,567,552	\$ -	\$ 48,567,552	\$ (35,919,627)	\$ 12,647,925
Investment Income	5,376	2,072	7,448	-	7,448
Total Revenues	48,572,928	2,072	48,575,000	(35,919,627)	12,655,373
EXPENDITURES/EXPENSES					
Current					
Debt Service		-			
Principal	34,170,000	-	34,170,000	(34,170,000)	-
Interest and Fiscal Charges	14,581,199	-	14,581,199	(1,749,627)	12,831,572
Total Expenditures	48,751,199	-	48,751,199	(35,919,627)	12,831,572
Excess (Deficiency) of Revenues over Expenditures	(178,271)	2,072	(176,199)	-	(176,199)
Other Financing Sources (Uses)					
Operating Transfers In (Out)	178,271	(178,271)	-	-	-
Total Other Financing Sources (Uses)	178,271	(178,271)	-	-	-
Net change in Fund Balances	-	(176,199)	(176,199)	-	(176,199)
Fund Balance/Net Position, Beginning of Year	-	176,199	176,199	-	176,199
Fund Balances/Net Position, End of Year	\$ -	\$ -	\$ -	\$ -	\$ -

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, 2023

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, 2023, the MPC evaluated Governmental Accounting Standards Board Statements No. 94, *Public-Private and Public-public Partnerships and Availability Payment Arrangements*, No. 99, *Omnibus 2022* and No. 100, *Accounting Changes and Error Corrections*-an amendment of GASB 62 and determined that they did not impact the preparation of these financial statements.

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.

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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2023, plus accrued interest, are restricted as to usage.

The Corporation's deposits at June 30, 2023 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, 2023

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. 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.

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, 2023

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.

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, 2023

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	\$	437,797,766	
Debt Service Payments Made		(34,170,000)	
Amortization Amount on Refunding		1,414,251	
Amortization of Premium on Existing Bonds		(3,163,878)	
			\$ 401,878,139

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		(393,990,000)	
Deferred Issuance Premium		(21,249,132)	
			(415,239,132)

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

		13,360,993	13,360,993

Net adjustment to reduce total fund balance in the governmental funds to arrive at net position.

-

Total Fund Balances

-

Total Net Position

\$ -

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2023

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	\$ (34,170,000)	
Amortization Amount on Refunding	1,414,251	
Amortization of Premium on Existing Bonds	(3,163,878)	\$ (35,919,627)

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 of Deferred Amount on Refunding Bonds	(1,414,251)	
Amortization of Premium on Existing Bonds	3,163,878	1,749,627

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	34,170,000	34,170,000
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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		(176,199)
Net Change In Net Position		\$ (176,199)

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2023

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, 2023, the Corporation's deposits consisted of the following:

	<u>Fair Value</u>
Short-Term Investments	<u>\$ 41,450,836</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, 2023, \$40,950,836 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 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 2021A MPC Excise Tax Revenue Refunding Bonds,
- a portion of the 2021B MPC Taxable Refunding 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, 2023

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

In a prior year, the Corporation refinanced 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.

<u>Refunded in Prior Years</u>	
2015A MPC Excise Tax Revenue Bonds	\$ 1,725,000
2015 MPC Excise Tax Revenue Refunding Bonds	36,435,000
2017 MPC Excise Tax Revenue Refunding Bonds	38,350,000
	<u>\$ 76,510,000</u>

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2023

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Bonds payable at June 30, 2023 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.	\$ 38,510,000
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.	9,275,000
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. On February 17, 2021, \$685,000 due in 2027 was refunded. Original issue amount \$12,200,000.	7,390,000
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.	9,395,000
2019A Municipal Property Corporation Excise Tax Revenue Bonds (issued October 23, 2019) due in annual installments of \$205,000 to \$645,000 through July 1, 2039; interest at 3 percent to 5 percent. Original issue amount \$9,275,000.	8,095,000
2019B Municipal Property Corporation Taxable Excise Tax Revenue Bonds (issued October 23, 2019) due in annual installments of \$940,000 to \$2,125,000 through July 1, 2039; interest at 1.85 percent to 2.9 percent. Original issue amount \$33,275,000.	28,105,000
2021B Municipal Property Corporation Taxable Excise Tax Revenue Refunding Bonds (issued February 17, 2021) due in annual installments of \$330,000 to \$9,410,000 through July 1, 2035; interest at 0.14 percent to 1.91 percent. Original issue amount \$71,325,000.	<u>66,680,000</u>
Total Municipal Property Corporation Bonds Outstanding-General Government	<u>\$ 167,450,000</u>

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2023

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Classified in Debt Service Fund - Water and Sewer Purposes Municipal Property Corporation Bonds	<u>Bonds Outstanding</u>
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.	\$ 43,135,000
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. On February 17, 2021, \$1,040,000 due in 2027 was refunded. Original issue amount \$18,485,000.	11,195,000
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. On February 17, 2021, \$11,257,479 due 2027 through 2028 was refunded. Original issue amount \$46,811,731.	14,865,000
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. On February 17, 2021, \$38,350,000 due 2031 through 2033 and 2035 through 2036 was defeased. Original issue amount \$79,970,000.	39,605,000
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.	30,810,000
2021A Municipal Property Corporation Excise Tax Revenue Refunding Bonds (issued February 17, 2021) due in a single installment of \$7,920,000 on July 1, 2030; interest at 5 percent. Original issue amount \$7,920,000.	7,920,000
2021B Municipal Property Corporation Taxable Excise Tax Revenue Refunding Bonds (issued February 17, 2021) due in annual installments of \$145,000 to \$12,750,000 through July 1, 2036; interest at 0.14 percent to 1.96 percent. Original issue amount \$63,860,000.	<u>60,420,000</u>
Total Municipal Property Corporation Bonds Outstanding-Water and Sewer	<u>\$ 207,950,000</u>
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>18,590,000</u>
Total Municipal Property Corporation Bonds Outstanding-Aviation	<u>\$ 18,590,000</u>
Total bonds outstanding	<u><u>\$ 393,990,000</u></u>

The bonds 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, 2023

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 to maintain three-times the debt service, as security for bonds issued by the Corporation. 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 \$472,532,860.

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.

C. Interfund Transfers

Interfund transfers occurred to move residual amounts from completed construction projects in the Construction Fund to the Debt Service Fund to be used for future debt service interest payments.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2023

NOTE 5 – CHANGES IN LONG TERM DEBT

A. Summary of Changes

The Corporation made principal payments of \$34,170,000 amortized deferred issuance premiums of \$3,163,878 and deferred amount on refundings of \$1,414,251 during the current fiscal year.

The following is a summary of changes in long-term debt:

	<u>Municipal</u>	<u>Deferred</u>	<u>Long Term</u>
Beginning Balances	\$ 428,160,000	\$ 24,413,010	\$ 452,573,010
Decreases:			
Existing Bonds	(34,170,000)	(3,163,878)	(37,333,878)
Ending Balances	<u>\$ 393,990,000</u>	<u>\$ 21,249,132</u>	<u>\$ 415,239,132</u>
Amounts Due Within One Year	\$ 35,935,000		
Amounts Due in More than One Year	\$ 358,055,000		

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2023

NOTE 5 – CHANGES IN LONG TERM DEBT (CONTINUED)

The following is a summary of annual debt service requirements to maturity as of June 30, 2023:

Fiscal Year	Principal	Interest	Total
2024	\$ 35,935,000	\$ 13,060,708	\$ 48,995,708
2025	31,895,000	11,638,486	43,533,486
2026	33,460,000	10,384,897	43,844,897
2027	35,145,000	9,092,992	44,237,992
2028	36,895,000	7,985,581	44,880,581
2029-2033	157,205,000	22,024,065	179,229,065
2034-2038	60,685,000	4,275,156	64,960,156
2039	2,770,000	80,975	2,850,975
Total	<u>\$ 393,990,000</u>	<u>\$ 78,542,860</u>	<u>\$ 472,532,860</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.

**Independent Auditor’s 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**

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, 2023, 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 2, 2023. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, Statement No. 99, *Omnibus 2022*, and Statement No. 100, *Accounting Changes and Error Corrections*—an amendment of GASB Statement No. 62.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

Report on 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 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.
Scottsdale, Arizona
October 2, 2023