

CITY COUNCIL REPORT



Meeting Date: December 2, 2015
 Charter Provision: *Submit the independent audit of the City's annual financial statements to the Council*
 Objective: *Commitment to economic sustainability and transparency*

ACTION

FY 2014/15 Annual Financial Audit. Accept the FY 2014/15 annual financial audit reports submitted by the City's external auditors, Heinfeld, Meech & Co., P.C.

BACKGROUND

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

After performing the annual financial audit, the contracted CPA firm reports on the City's Comprehensive Annual Financial Report (CAFR) and on the annual financial reports of its component units: the Community Facilities Districts (CFDs), the Municipal Property Corporation (MPC), and the Scottsdale Preserve Authority (SPA). For the City to meet its federal funding requirements, the CPA firm also reports on the City's expenditures of federal assistance (called a "Single Audit" report). Further, to meet certain state funding requirements, the CPA firm reports on the City's compliance with its Highway User Revenue Fund (HURF) uses. Later, typically in January, the CPA firm will also report on a Housing and Urban Development (HUD) required financial schedule for the City's federally-supported housing programs and on the City's state-required Annual Expenditure Limitation Report.

The Audit Committee received these FY 2014/15 annual financial audit reports at its November 16, 2015, meeting. After review and discussion with Jill Shaw of Heinfeld, Meech & Co., P.C., the Audit Committee voted 3-0 to recommend the City Council accept the reports.

ANALYSIS & ASSESSMENT

In its *Independent Auditor's Report* on the City's FY 2014/15 comprehensive annual financial report (CAFR), the CPA firm stated the auditors attained reasonable assurance that the financial statements fairly present, in all material respects, the financial position, changes in financial position and cash flows of the specified activities and funds. The Independent Auditor's Report, which is on pages 13 through 15 of the CAFR, also notes in the "Change in Accounting Principle" paragraph that the City adopted a newly applicable accounting standard related to accounting and financial reporting for pensions, but this did not modify the auditor's opinion on the financial statements.

The Independent Auditor's Report describes management's responsibility for the financial statements, the auditors' responsibility in auditing the financial statements, and the level of review the auditors performed on other information contained within the CAFR.

As required, the CPA firm's *Communication with Governance* letter for the CAFR summarizes significant changes in accounting practices, which were required by newly applicable accounting standards; describes sensitive accounting estimates, which the firm found reasonable; and makes other required disclosures. This letter does not identify any matters of concern.

The *Single Audit* reports include the CPA firm's reports on the City's: 1) internal control over financial reporting and compliance based on the financial statement audit and 2) compliance with certain federal funding requirements, internal control over compliance, and the schedule of federal awards expended. The CPA firm did not identify any internal control deficiencies or noncompliance that it considered reportable, and it reported that prior audit findings were corrected. As well, the CPA firm concluded that the City's schedule of expenditures of federal awards, which details federal awards totaling almost \$13.0 million expended during FY 2014/15, was fairly stated.

The CPA firm reported its opinion that the City complied with the state's requirement to use *HURF* monies for authorized transportation purposes.

As with the City's CAFR, the CPA firm issued *unmodified* opinions on the separate annual financial reports of the CFDs, MPC and SPA for FY 2014/15. The firm's *Communication with Governance* letters for each entity did not disclose any matters of concern. In addition, the CPA firm issued an *Independent Auditor's Report* on internal control over financial reporting and compliance based on a financial statement audit for each of these entities, and did not identify any internal control deficiencies or noncompliance that it considered reportable.

OPTIONS & STAFF RECOMMENDATION

Recommended Approach

As recommended by the Council's Audit Committee, accept the FY 2014/15 annual financial audit reports submitted by Heinfeld, Meech & Co., P.C.

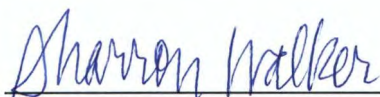
RESPONSIBLE DEPARTMENT(S)

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

STAFF CONTACTS (S)

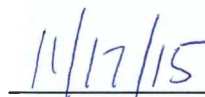
Jeff Nichols, City Treasurer, and Sharron Walker, City Auditor

APPROVED BY



Sharron Walker, City Auditor

(480) 312-7867, SWalker@ScottsdaleAZ.gov



Date

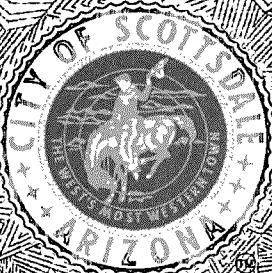
ATTACHMENTS

1. City of Scottsdale Reports

- a. Comprehensive Annual Financial Report (CAFR)
 - i. Communication with Governance
- b. Single Audit Report
- c. State HURF Compliance Report

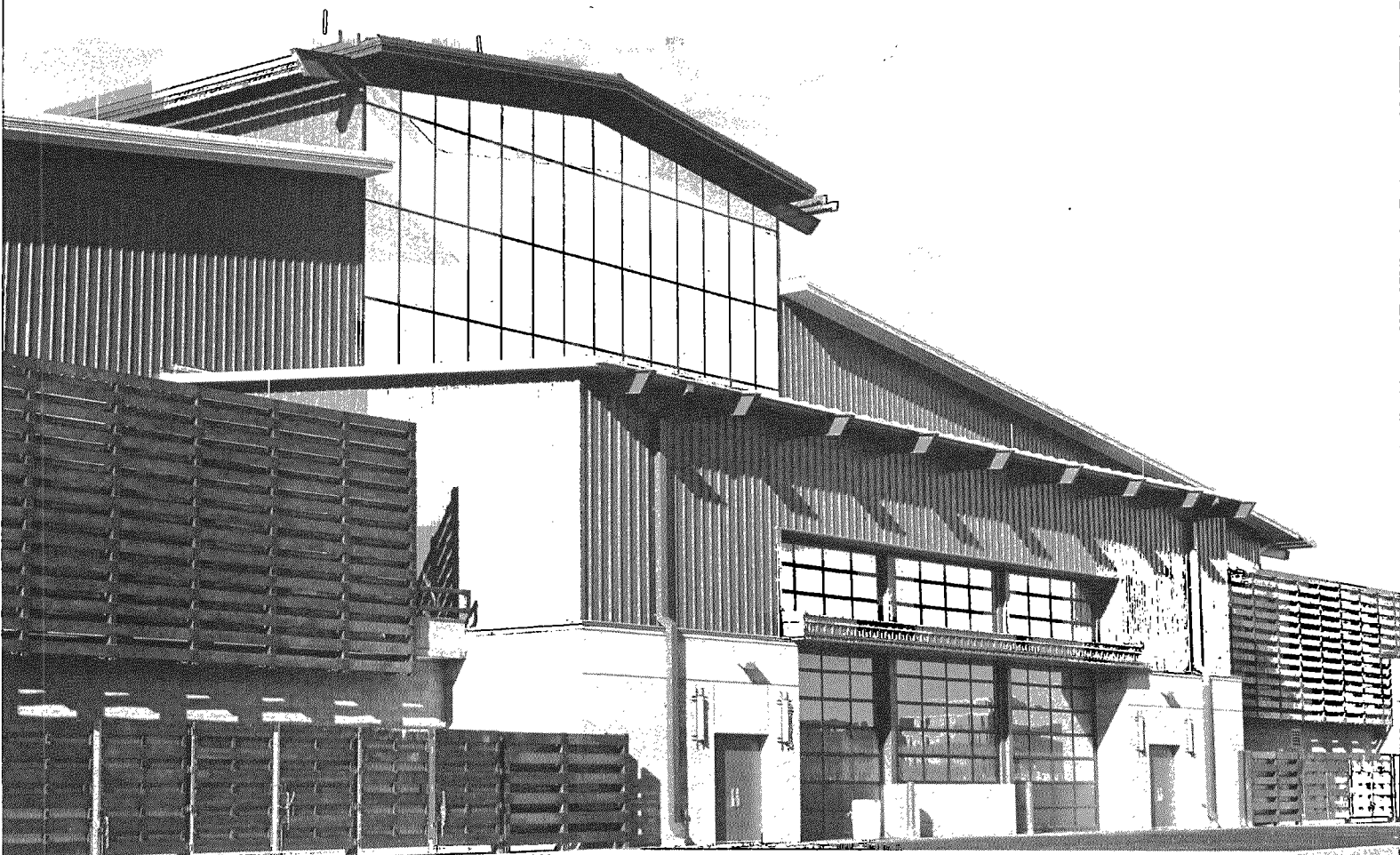
2. CFDs, MPC, and SPA Reports

- a. DC Ranch
 - i. Communication with Governance
 - ii. Report on Internal Control over Financial Reporting and Compliance
- b. McDowell Mountain
 - i. Communication with Governance
 - ii. Report on Internal Control over Financial Reporting and Compliance
- c. Municipal Property Corporation (MPC)
 - i. Communication with Governance
 - ii. Report on Internal Control over Financial Reporting and Compliance
- d. Scottsdale Mountain
 - i. Communication with Governance
 - ii. Report on Internal Control over Financial Reporting and Compliance
- e. Scottsdale Preserve Authority (SPA)
 - i. Communication with Governance
 - ii. Report on Internal Control over Financial Reporting and Compliance
- f. Via Linda
 - i. Communication with Governance
 - ii. Report on Internal Control over Financial Reporting and Compliance
- g. Waterfront
 - i. Communication with Governance
 - ii. Report on Internal Control over Financial Reporting and Compliance



Comprehensive Annual Financial Report

City of Scottsdale, Arizona
For the Fiscal Year Ended June 30, 2015



ATTACHMENT 1a

City of Scottsdale, Arizona



Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015

Prepared by:

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



CITY OF SCOTTSDALE, ARIZONA

Comprehensive Annual Financial Report For the Fiscal Year ended June 30, 2015

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Letter of Transmittal

For the Fiscal Year
Ended June 30, 2015

City of Scottsdale
Scottsdale, Arizona

October 26, 2015

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

The Comprehensive Annual Financial Report of the City of Scottsdale, Arizona, (the City) for the fiscal year ended June 30, 2015 is submitted in accordance with City Charter and state statute. Both the City Charter and state statute require that the City issue annually a report on its financial position and activity, and that this report be audited by certified public accountants independent of the City government. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control established for this purpose. Because the cost of internal control should not exceed anticipated benefits the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements. To the best of our knowledge and belief, the enclosed data is accurate in all material aspects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the City.

The City contracted with Heinfeld, Meech & Co., P.C., a firm of Certified Public Accountants, to perform the annual independent audit. The auditors expressed an opinion that the City's financial statements for the fiscal year ended June 30, 2015 are fairly stated in conformity with accounting principles in the United States. This is the most favorable conclusion and is commonly known as an unmodified or "clean" opinion. The independent auditors' report is located at the front of the financial section of this report. In addition, Heinfeld, Meech & Co., P.C. audited the City's major program expenditures of federal funds for compliance with the Federal Single Audit Act. The report of the Single Audit is published separately from this report and may be obtained upon request.

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

CITY OF SCOTTSDALE PROFILE

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

Current Profile - Scottsdale is centrally located in Maricopa County, Arizona, with its boundaries encompassing 184.5 square miles, stretching 31 miles from north to south, and 11.4 miles at its widest point. The City is bordered on the west by Phoenix, the state capital, by Tempe on the south, and by the Salt River-Pima Maricopa Indian Community on the east. Scottsdale and its neighboring cities form the greater metropolitan Phoenix area, which is the economic, political and population center of the state. The City has experienced significant increases in population, with the 1950 census reporting 2,032 residents, and the 2010 census reporting 217,385. At July 1, 2015 the City's population was estimated at 228,300 residents, making it the sixth largest municipality by population in Arizona.

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

Budgetary Controls - The annual budget serves as the foundation for Scottsdale's financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the City's various funds. On or before the second regular Council meeting in May, the City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Three public hearings are held prior to the final budget adoption in order to obtain taxpayer comments. In June, the budget is legally enacted through passage of an ordinance. The ordinance sets the maximum legal expenditure limit for the ensuing fiscal year. Additional expenditures may be authorized if directly necessitated by a natural or man-made disaster as prescribed in the Arizona State Constitution, Article 9, Section 20. During fiscal year 2014/15, there were no such supplemental budgetary appropriations authorized.

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

LOCAL ECONOMY

Business

Scottsdale has a diverse economy built on medical research, high-tech innovation, tourism and corporate headquarters. The Scottsdale Airpark is one of the largest employment centers in the State of Arizona with more than 2,500 businesses and 41,000 employees in over 2 million square feet of commercial space. The high-tech innovation center SkySong, located just a few miles from downtown, is designed to help companies grow through a unique partnership with nearby Arizona State University. Downtown Scottsdale is home to a number of technology and healthcare companies and one of the most successful shopping centers in the southwest United States – Scottsdale Fashion Square. Farther north, the Scottsdale Cure Corridor is a partnership of premier health care providers and biomedical companies seeking to advance medicine and patient care through cutting-edge research.

Tourism

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

Sales Tax

Scottsdale's largest revenue source is sales tax generated from a variety of business categories including automotive, construction, food stores, hotels/motels, department stores, retail stores, restaurants, utilities and rentals. Sales tax is generated directly from the City's own applied tax rate and indirectly as the City receives a share of sales tax generated from the State of Arizona applied tax rate. The City continues to see growth in its municipal sales tax revenues with a year-over-year increase of 5.5 percent in fiscal year 2014/15, with the highest increases occurring in the automotive, restaurant and hotel/motel categories.

The Arizona Legislature passed a bill that required local municipal transaction privilege and affiliated excise taxes to be collected and administered by the Arizona Department of Revenue (ADOR) effective January 1, 2015; however, implementation has been delayed until mid-2016. When this does occur, the change may result in a temporary cash-flow impact to Scottsdale during the transition from Scottsdale's administration and collection of the taxes to the ADOR.

Property Values

The City benefits from a robust assessed valuation of the properties contained within the City boundaries. These strong assessed valuations contribute to Scottsdale residents experiencing lower property tax rates and higher median housing values than many of the surrounding municipalities in the Phoenix metropolitan area. Scottsdale property owners will see a reduction in the City's portion of their property tax bill in the coming year. This reduction is achieved through decreased tort recovery, reduced debt service payments and use of debt service reserves.

LONG-TERM FINANCIAL PLANNING

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

Adopted Comprehensive Financial Policies

Financial policies establish the guidance for Scottsdale's overall fiscal planning and management. They set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. The City has 46 adopted financial policies governing operations, capital management, debt management, reserves and financial reporting. Regular review and refinement of these policies is done in conjunction with financial plan development and policies which are adopted annually by the City Council.

Financial Resources Planning

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

Multi-Year Operating Budget Planning

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

Strategic Capital Improvement Project Planning

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

Debt Management

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

The City has generally issued two types of debt: voter approved General Obligation bonds and non-voter approved Municipal Property Corporation bonds and Certificates of Participation (see Section IV.G. of the Notes to the Financial Statements for further information). The City will hold a special bond election in November 2015 for \$95.96 million in General Obligation bonds to fund 20 projects identified by City Council. The estimated average annual tax rate for the proposed bond authorization is \$0.11 per \$100 of net assessed valuation used for secondary property tax purposes.

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

City of Scottsdale Bonded Debt Ratings

As of June 30, 2015

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

ACCOMPLISHMENTS AND PRIORITIES

Highlights of activities and accomplishments for the fiscal year ended June 30, 2015 include the following:

- Opened Scottsdale's Museum of the West in Downtown Scottsdale
- Replaced 13 diesel garbage trucks with compressed natural gas trucks
- Improved parking, signage and trailhead access in northern Preserve
- Completed bicycle lanes, medians and landscaping on Thomas Road from Scottsdale Road to Indian Bend Wash
- Hosted Super Bowl XLIX events, including Fan Fest Scottsdale, which attracted more than 100,000 visitors
- Opened multi-sensory room at community center that serves persons of all ages with disabilities

The City of Scottsdale's adopted fiscal year 2015/16 budget incorporates the priorities and policy direction expressed by the City Council over the past year. It balances modest projected increases in revenue with additional expenses in priority areas, primarily public safety. Key priorities include:

- Continuing to work with residents, businesses and SkySong to revitalize the McDowell Road corridor
- Providing strategic support of tourism and visitor events
- Carrying out the comprehensive economic development strategy
- Developing a transportation strategy that anticipates future needs
- Preparing and adopting fiscally sustainable operating and capital budgets
- Reinvesting in a high performance organization and work culture

AWARDS AND ACKNOWLEDGEMENTS

Certificates of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a "Certificate of Achievement for Excellence in Financial Reporting" to the City of Scottsdale, Arizona for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2014, marking the forty-second consecutive year the City has achieved this prestigious recognition.

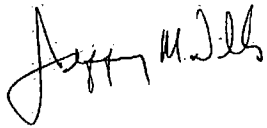
In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. However, we believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another award.

Additionally, the City of Scottsdale received the "Distinguished Budget Presentation Award" for the fiscal year beginning July 1, 2014 from the GFOA for our conformity in budget presentation. We believe that our current budget continues to conform to the program requirements and we expect to receive this award again for the fiscal year beginning July 1, 2015.

Acknowledgments

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jeffery M. Nichols". The signature is fluid and cursive, with the first name "Jeffery" being more prominent than the last name "Nichols".

Jeffery M. Nichols, CPA
City Treasurer/Chief Financial Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Scottsdale
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive, flowing style.

Executive Director/CEO

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**Comprehensive
Annual
Financial
Report**

For the Fiscal Year
Ended June 30, 2015

City of Scottsdale
Scottsdale, Arizona

**City of Scottsdale, Arizona
List of Elected and Appointed Officials**

City Council

W.J. "Jim" Lane, Mayor
Suzanne Klapp
Virginia Korte
Kathy Littlefield
Linda Milhaven
Guy Phillips
David N. Smith

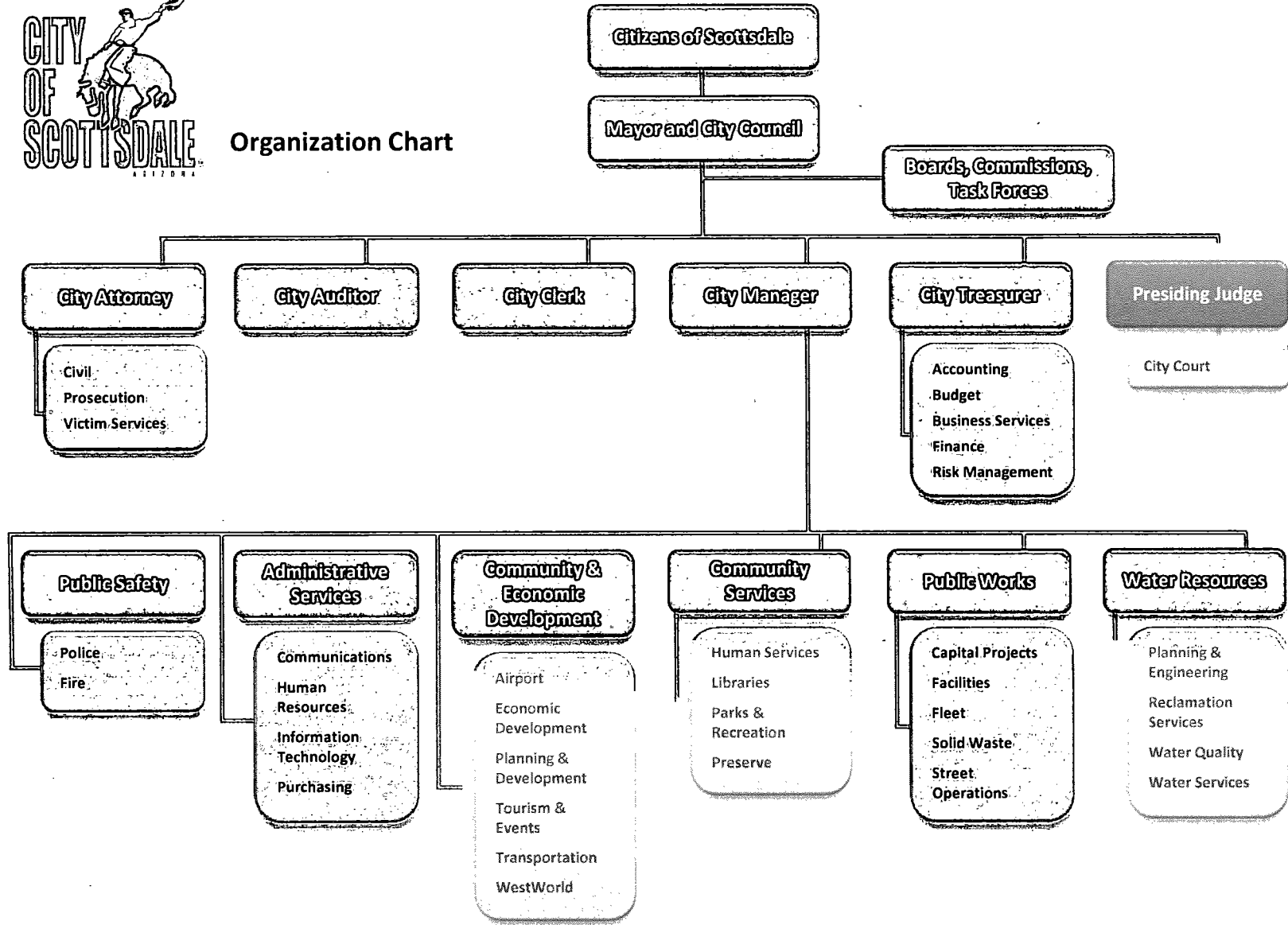
Charter Officers

Fritz Behring, City Manager
Bruce Washburn, City Attorney
Sharron Walker, City Auditor
Carolyn Jagger, City Clerk
Joseph Olcavage, Presiding Judge
Jeffery M. Nichols, City Treasurer/Chief Financial Officer

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Organization Chart





INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Scottsdale, Arizona (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scottsdale, Arizona, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ended June 30, 2015, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and net pension liability and other post employment benefit plan information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Combining and Individual Fund Statements and Schedules, Other Supplementary Information and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining and Individual Fund Statements and Schedules and Other Supplementary Information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Fund Statements and Schedules and Other Supplementary Information are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015, on our consideration of City of Scottsdale, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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, Arizona's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Scottsdale, Arizona's (the City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal years ended June 30, 2015 and 2014. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow, along with the letter of transmittal and other portions of this CAFR.

FINANCIAL HIGHLIGHTS

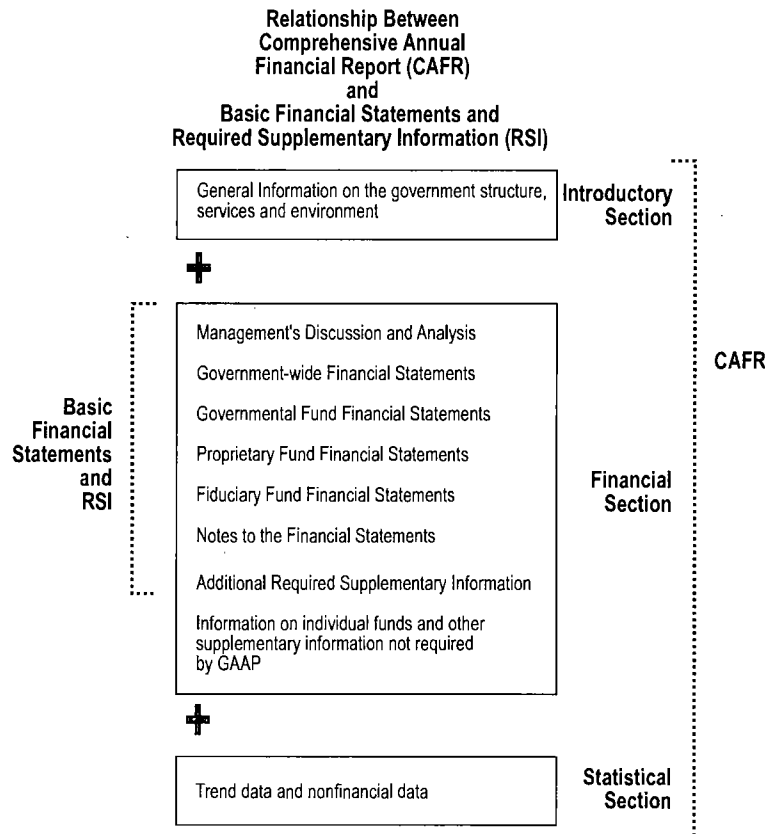
- The City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources at the close of fiscal years 2015 and 2014 by \$4.10 billion and \$4.34 billion (*net position*), respectively. Of these amounts, \$233.6 million and \$454.3 million respectively, represent unrestricted net position which may be used to meet the government's ongoing obligations to citizens and creditors. The City's unrestricted net position was negatively impacted this fiscal year with the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which required the City to record its proportionate share of unfunded pension liabilities for pension plans in which it participates. More information on the City's pension plans can be found in Note V. G. on pages 103-118 of this report.
- The City's total net position decreased in fiscal year 2015 by \$16.9 million compared to an increase in net position of \$15.8 million during fiscal year 2014. Total expenses exceeded total revenues in the current year primarily due to the pension expense recorded as required for implementation of GASB 68 and a reduction in capital grants and contributions received.
- As of June 30, 2015 and 2014, the City's governmental funds reported combined ending fund balances of \$213.2 million and \$185.5 million, respectively. Approximately 24 percent of the current year amount (\$50.2 million) is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unrestricted fund balance (*the total of the committed and unassigned components of fund balance*) for the General Fund was \$56.0 million or approximately 24 percent of total General Fund expenditures of \$235.2 million.
- The City's total long-term liabilities increased by \$274.2 million to \$1.62 billion during the fiscal year. This increase is due primarily to the net pension liability of \$272.1 million the City was required to record with the implementation of GASB 68.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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



Government-wide Financial Statements

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

The **statement of net position** presents financial information on all of the City's assets/deferred outflows of resources and liabilities/deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that are expected to result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and earned but unused vacation and medical leave.

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

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

The government-wide financial statements can be found on pages 36-38 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, and provide the balances of spendable resources available at the end of the fiscal year. Such information reflects financial resources available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison highlights the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

The basic governmental fund financial statements can be found on pages 39-47 of this report.

Proprietary Funds

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

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

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

The basic proprietary fund financial statements can be found on pages 48-54 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City has one private-purpose trust fund and two agency funds, which are reported under the fiduciary funds. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 55-56 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 57-121 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City's portion of the net pension liability, schedule of contributions to the pension plans and progress in funding its obligation to provide other post-employment benefits (OPEB). Required supplementary information and notes to this section can be found on pages 122-131 of this report.

Combining Statements

The combining statements referred to earlier in connection with nonmajor governmental funds, internal service funds and fiduciary funds are presented on pages 133-164.

Other Supplementary Information

The supplemental schedule of changes in long-term debt provides a comprehensive overview of the City's total debt and can be found on pages 165-168.

Statistical Information

The statistical section, found on pages 169-198, presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information indicates about the City's overall financial health.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

Analysis of Net Position

As noted earlier, net position may serve as a useful indicator of a government's financial position. For the City, total assets and deferred outflows of resources exceeded liabilities by \$4.10 billion and \$4.34 billion at the close of the fiscal years 2015 and 2014, respectively.

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

Net Position

June 30, 2015 and 2014 (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
Current and other assets	\$ 489,053	\$ 470,224	\$ 425,957	\$ 409,555	\$ 915,010	\$ 879,779
Capital assets	3,574,505	3,609,808	1,358,970	1,373,850	4,933,475	4,983,658
Total assets	4,063,558	4,080,032	1,784,927	1,783,405	5,848,485	5,863,437
Total deferred outflows of resources	75,785	19,872	11,043	3,660	86,828	23,532
Total assets and deferred outflows of resources	4,139,343	4,099,904	1,795,970	1,787,065	5,935,313	5,886,969
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES						
Long-term liabilities outstanding	1,170,661	943,451	405,677	375,287	1,576,338	1,318,738
Other liabilities	175,711	180,791	48,243	45,011	223,954	225,802
Total liabilities	1,346,372	1,124,242	453,920	420,298	1,800,292	1,544,540
Total deferred inflows of resources	31,681	-	5,390	-	37,071	-
Total liabilities and deferred inflows of resources	1,378,053	1,124,242	459,310	420,298	1,837,363	1,544,540
NET POSITION						
Net investment in capital assets	2,663,269	2,685,105	1,036,650	1,046,345	3,699,919	3,731,450
Restricted	117,485	109,615	46,901	47,101	164,386	156,716
Unrestricted	(19,464)	180,942	253,109	273,321	233,645	454,263
Total net position	\$ 2,761,290	\$ 2,975,662	\$ 1,336,660	\$ 1,366,767	\$ 4,097,950	\$ 4,342,429

The largest portion (90.3 percent) of the City's net position reflects its net investment in capital assets (such as land, buildings, water and sewer system, and streets and storm drains) less any related outstanding debt used to acquire those assets. These amounted to \$3.70 billion and \$3.73 billion at June 30, 2015 and 2014, respectively. Although the City's investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources because the City uses these assets to provide services to citizens and therefore cannot liquidate them.

An additional portion (4.0 percent) of the City's net position (\$164.4 million at June 30, 2015 and \$156.7 million at June 30, 2014) represents resources that are subject to external restrictions on how they may be used. Unrestricted net position (5.7 percent of the City's total net position at June 30, 2015 and 10.5 percent at June 30, 2014), \$233.6 million and \$454.3 million, respectively, may be used to meet the government's ongoing obligations to its citizens and creditors.

Analysis of Changes in Net Position

The City restated fiscal year 2015 beginning net position for both governmental and business-type activities due to GASB 68 and various capital asset adjustments. More information on these adjustments can be found on page 67 of this report.

The City's total net position decreased in fiscal year 2015 by \$16.9 million compared to an increase in net position of \$15.8 million during fiscal year 2014. Total expenses exceeded total revenues in the current year primarily due to the pension expense recorded as required for implementation of GASB 68 and a reduction in capital grants and contributions received.

The reasons for this overall decrease are discussed in the governmental and business-type activities discussion herein, and are primarily a result of a decrease in charges for service and capital grants and contributions received and higher expenses than the prior fiscal year. Such amounts are included in the table that follows:

Changes in Net Position

For the fiscal years ended June 30, 2015 and 2014 (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
REVENUES						
Program revenues:						
Charges for services	\$ 45,656	\$ 43,315	\$ 162,288	\$ 168,436	\$ 207,944	\$ 211,751
Operating grants and contributions	28,397	27,710	-	-	28,397	27,710
Capital grants and contributions	14,831	38,817	11,726	22,019	26,557	60,836
General revenues:						
Property taxes	66,229	64,770	-	-	66,229	64,770
Business taxes	191,631	183,872	169	154	191,800	184,026
Intergovernmental - taxes	46,183	43,152	-	-	46,183	43,152
Intergovernmental - other	10,133	9,563	-	-	10,133	9,563
Interest and investment income	1,372	1,274	1,346	964	2,718	2,238
Other	13,829	8,422	-	-	13,829	8,422
Total revenues	418,261	420,895	175,529	191,573	593,790	612,468
EXPENSES						
General government:						
Mayor and City Council	790	840	-	-	790	840
City Clerk	927	1,042	-	-	927	1,042
City Attorney	6,103	5,810	-	-	6,103	5,810
City Auditor	792	754	-	-	792	754
City Court	5,682	5,705	-	-	5,682	5,705
City Manager	1,828	864	-	-	1,828	864
City Treasurer	5,088	6,069	-	-	5,088	6,069
Public Works	40,631	43,597	-	-	40,631	43,597
Community and Economic Development	138,899	134,626	-	-	138,899	134,626
Public Safety	135,647	127,026	-	-	135,647	127,026
Community Services	55,134	55,190	-	-	55,134	55,190
Administrative Services	17,849	17,552	-	-	17,849	17,552
Streetlight and Services Districts	583	576	-	-	583	576
Interest on Long-Term Debt	34,134	35,486	-	-	34,134	35,486
Bond Issuance Costs	1,643	998	-	-	1,643	998
Water Utility	-	-	95,958	91,496	95,958	91,496
Sewer Utility	-	-	44,352	45,421	44,352	45,421
Airport	-	-	3,703	4,014	3,703	4,014
Solid Waste	-	-	20,911	19,608	20,911	19,608
Total expenses	445,730	436,135	164,924	160,539	610,654	596,674
Increase (decrease) in net position before transfers	(27,469)	(15,240)	10,605	31,034	(16,864)	15,794
Transfers	6,579	6,202	(6,579)	(6,202)	-	-
Change in net position	(20,890)	(9,038)	4,026	24,832	(16,864)	15,794
Net position - beginning	2,975,662	2,990,555	1,366,767	1,343,188	4,342,429	4,333,743
Net effect of prior period adjustments	(193,482)	(5,855)	(34,133)	(1,253)	(227,615)	(7,108)
Net position - beginning restated	2,782,180	2,984,700	1,332,634	1,341,935	4,114,814	4,326,635
Net position - ending	\$ 2,761,290	\$ 2,975,662	\$ 1,336,660	\$ 1,366,767	\$ 4,097,950	\$ 4,342,429

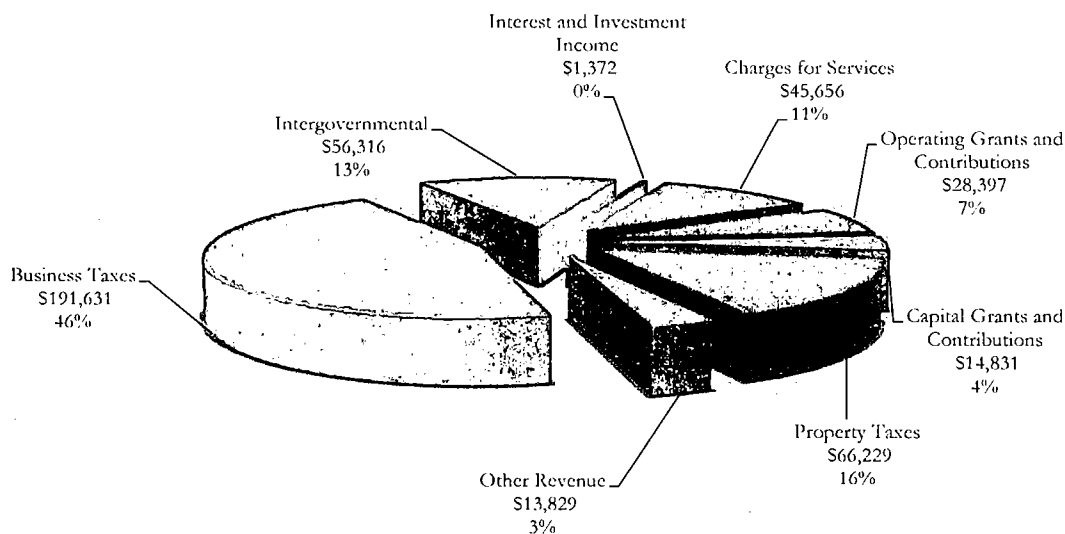
Governmental Activities

Net position for governmental activities decreased \$20.9 million after transfers during fiscal year 2015 compared to a decrease of \$9.0 million after transfers in fiscal year 2014. Total revenues decreased \$2.6 million or 0.63 percent from the prior fiscal year and expenses increased \$9.6 million or 2.2 percent. Overall, expenses exceeded revenues resulting in a decrease in net position. A significant element of the decrease in net position before transfers for governmental activities from June 30, 2014 to June 30, 2015 was the current year pension expense for Public Safety and amortization of service concession arrangements recorded in Community and Economic Development. Also contributing were lower program revenues, specifically capital grants and contributions posting a year-over-year decrease of \$24.0 million, or approximately 62 percent. This was the result of a reduction of \$14.2 million in grants due to fewer projects funded by regional transportation sales taxes; receiving \$8.0 million in state grant funding for Preserve land purchases in the prior year and no funding this year, and a decrease of approximately \$2.0 million in capital contributions.

General revenues such as property, franchise and privilege taxes are not shown by program, but are used to support program activities citywide. Total general revenues were \$18.3 million or 5.9 percent higher in fiscal year 2015 compared with fiscal year 2014. Property taxes were slightly higher in fiscal year 2015 at \$66.2 million compared to \$64.8 million in fiscal year 2014. Business taxes, which include sales, use and franchise taxes, increased \$7.8 million or 4.2 percent from the previous year. Sales and use tax revenue posted year-over-year growth of 4.4 percent in fiscal year 2015 indicating a sustained economic recovery. Sales tax categories with the largest increases over the prior year include automotive, restaurant and hotel/motel categories.

For governmental activities overall, without regard to program, business taxes, which includes sales and use taxes and franchise taxes (46 percent), are the largest single source of funds, followed by property taxes (16 percent), intergovernmental revenues (including state shared revenues) (13 percent), and charges for services (11 percent).

**Governmental Activities Revenues
Fiscal Year 2014/15
(in thousands)**



The Community and Economic Development Division is the largest expense function (31 percent) followed by the Scottsdale Police and Fire Departments, which together comprise the Public Safety Division (30 percent), and Community Services Division (12 percent).

The Community and Economic Development Division is charged with stimulating economic activity and offering a diverse range of value-added programs to build, revitalize and sustain Scottsdale's unique lifestyle and character. The division has six departments: Aviation, Economic Development, Planning & Development, Tourism & Events, Transportation and WestWorld. Overall, expenses increased by \$4.3 million or 3.2 percent during fiscal year 2015, due primarily to additional personnel and other Super Bowl XLIX related costs for events that took place in the City, amortization cost and depreciation expense for streets.

The Public Safety Division provides police and fire/emergency services throughout the City. The division confronts community crime, responds to community needs, and reduces the incidence and severity of emergencies through timely and skilled all-hazard services. Expenses increased by \$8.6 million or 6.8 percent during fiscal year 2015 due primarily to pension expense exceeding current year pension contributions by \$6.2 million and increased personnel services costs in both the fire and police departments.

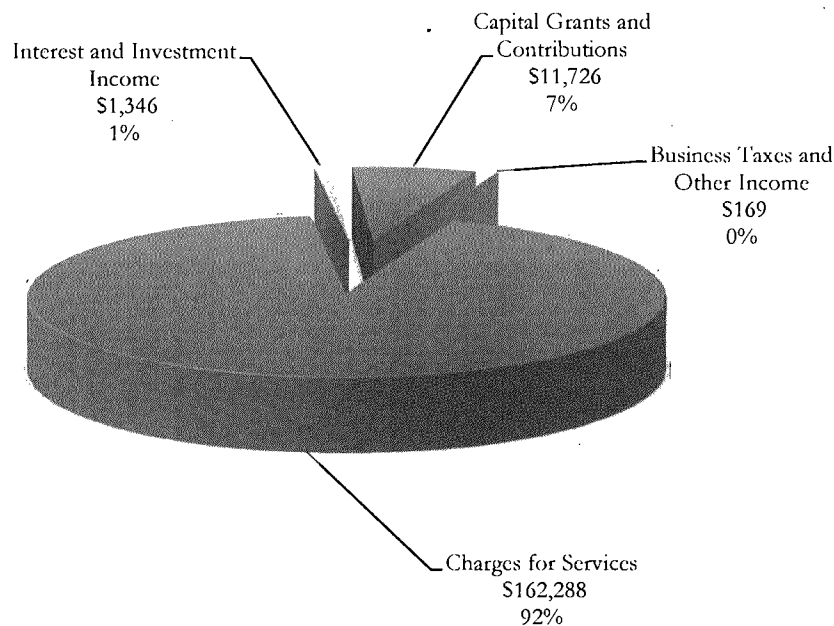
The City's Community Services Division is responsible for improving and maintaining facilities and sponsors services that provide opportunities for family interaction, cultural enrichment, development of lifetime skills, promoting healthy lifestyles and serving as a catalyst for community involvement. They also provide assistance and guidance to those in need through federal, state, local and private resources. The division has five departments: Parks & Recreation, Human Services, Library Systems, Community Services Planning/Administration and Preserve Management. Overall, expenses were relatively flat with the prior fiscal year.

Business-Type Activities

Net position for business-type activities increased by \$4.0 million after transfers during fiscal year 2015 compared to \$24.8 million after transfers in fiscal year 2014. Total revenues decreased by 8.4 percent or \$16.0 million due to less revenue from charges for service and capital grants and contributions received over the prior year. Capital contributions are chiefly made up of utility development fees and contributed capital from developers. The significant reduction of 46.7 percent in this category was primarily due to a 65 percent decrease in development fee revenue; fees were significantly decreased in fiscal year 2015 due a shorter growth-related capital expansion planning period and less system growth-related capital improvement infrastructure. Additionally, contributed capital from developers decreased by 12 percent due to less general development. Overall, total revenues continue to exceed expenses resulting in an increase in net position for the fiscal year.

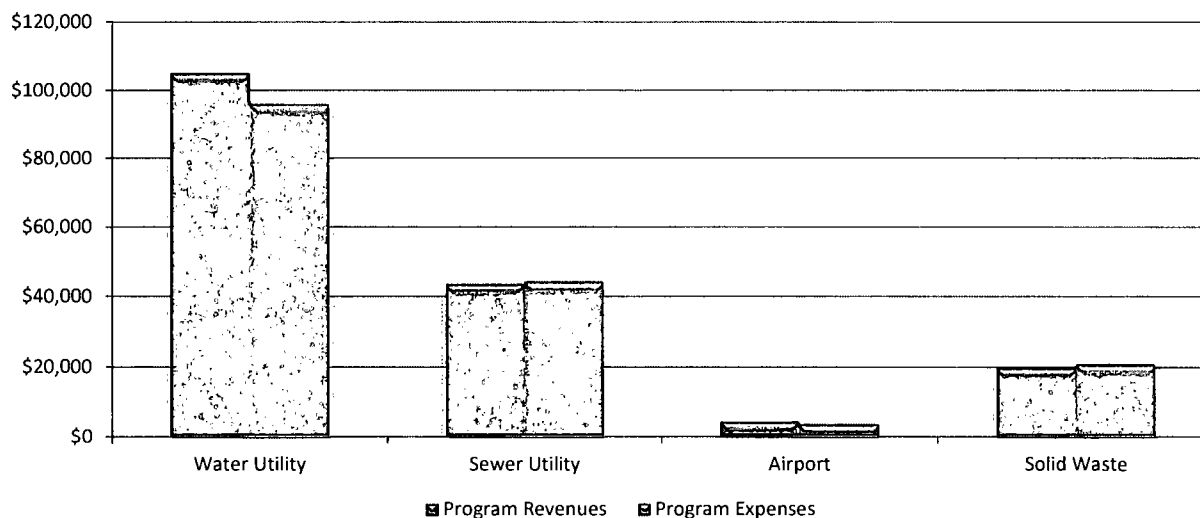
As shown in the "Business-type Activities Revenues by Source" chart, charges for services provided the largest share of revenues (92 percent) followed by capital grants and contributions (7 percent), which are principally developer contributions and development fees.

Business-type Activities Revenues by Source
Fiscal Year 2014/15
(in thousands)



As shown in the “Business-type Activities Program Revenues and Expenses” chart, the largest of Scottsdale’s business-type activities, water and sewer utilities, had expenses of \$96.0 million and \$44.4 million, respectively, in fiscal year 2015, followed by solid waste with operating expenses of \$20.9 million and airport \$3.7million.

Business-type Activities Program Revenues and Expenses
Fiscal Year 2014/15
(in thousands)



The Water and Sewer Fund's total expenses increased by 2.5 percent in fiscal year 2015 compared to fiscal year 2014. The increase was primarily driven by higher personnel services and fringe benefit costs and increased capital improvement project expenses offset by lower chemical, maintenance, advanced water treatment reverse osmosis and effluent costs. The City's Water Resources Department plans, manages and operates a safe, reliable water supply and wastewater reclamation system and provides efficient, high quality customer service to Scottsdale citizens. The Water Resources Department provided 88,905 water service connections to customers in fiscal year 2015.

The Solid Waste Fund's total expenses increased by 6.6 percent in fiscal year 2015 compared to fiscal year 2014. The increase was primarily driven by higher personnel services and fringe benefit costs, fleet replacement, landfill contract and refuse container costs. The Solid Waste Department provided delivery of safe, efficient and environmentally sound refuse collection services to 80,785 residential customers in fiscal year 2015.

The Airport Fund's total expenses decreased by 7.7 percent in fiscal year 2015 compared to fiscal year 2014. The decrease was primarily driven by an asset loss in fiscal year 2014 that was not repeated in fiscal year 2015 offset by higher personnel services and fringe benefit costs and increased capital improvement project expenses. The Aviation Department operates the City's general aviation reliever facility with no commercial commuter or airline service and is home to many of the Valley's corporate aircraft. More than 153,000 take-offs and landings occurred last year at Scottsdale Airport.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$213.2 million, an increase of \$27.7 million in comparison to the balance at June 30, 2014 of \$185.5 million. Approximately 24 percent or \$50.2 million of this amount at June 30, 2015 constitutes unassigned fund balance. The remainder of fund balance is either nonspendable, restricted or committed to indicate that it is not available for new spending.

Revenues for governmental functions totaled \$412.0 million in fiscal year 2015, an increase of 1.3 percent (\$5.2 million) from the previous year total of \$406.8 million. In fiscal year 2015, expenditures for governmental functions totaled \$480.7 million, an increase of 2.0 percent (\$9.4 million) from the fiscal year 2014 total of \$471.3 million. In the fiscal years ended June 30, 2015 and 2014, expenditures for governmental functions exceeded revenues by approximately \$68.7 million and \$64.5 million, respectively. The current year deficit is offset by a net \$96.4 million from other financing sources and uses.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$56.0 million, while the total fund balance was \$56.2 million; the unassigned and total balances for the General Fund at the end of fiscal year 2014 were \$52.4 million and \$52.6 million, respectively. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 23.8 percent of the total General Fund expenditures of \$235.2 million in fiscal year 2015 and represented 22.9 percent of the total General Fund expenditures of \$229.1 million in fiscal year 2014. Total fund balance represented 23.9 percent and 23.0 percent of total fund expenditures for fiscal years 2015 and 2014, respectively.

Overall, the General Fund's performance resulted in revenues exceeding expenditures in the fiscal year ended June 30, 2015 by \$19.1 million. Key contributors to the positive variance were increases in privilege tax, building permit fees and state shared revenues. The General Fund's fund balance increased in fiscal year 2015 by \$3.6 million. The higher revenues received this fiscal year was the primary reason for the increase.

The General Obligation Bond Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation debt principal, interest and related costs. At the end of the current fiscal year, the fund balance of the General Obligation Bond Debt Service Fund was \$12.2 million, an increase of \$2.8 million from the \$9.4 million as of June 30, 2014. The increase in fund balance was primarily due to other financing sources received on refunding of bonds.

The General CIP Construction Capital Project Fund accounts for the resources used to acquire, construct and improve major capital facilities, other than those financed by proprietary funds, community facility districts, MPC and preservation/transportation privilege taxes. At the end of the current fiscal year, the fund balance of the General CIP Construction Capital Projects fund was \$26.2 million, an increase of \$16.7 million from the \$9.5 million at June 30, 2014. Lower capital outlay and higher transfers in were the primary contributors to the increase. Capital outlay expenditures in 2015 and 2014 were \$18.2 million and \$64.6 million, respectively.

Proprietary Funds

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

At the end of the fiscal years 2015 and 2014, the unrestricted net position for the Water and Sewer Utility Fund was \$238.7 million and \$250.1 million, respectively; the Airport Fund was \$8.0 million and \$8.6 million, respectively; and the Solid Waste Fund was \$5.4 million and \$14.2 million, respectively. The internal service funds, which are used to account for certain governmental activities, had unrestricted net position of \$14.0 million and \$17.4 million, respectively.

The total growth in net position for the enterprise funds was \$3.4 million and \$24.4 million for fiscal years 2015 and 2014, respectively. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

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

The City's final year-end budget differs from the original adopted budget primarily due to the following City Council approved contingency budget transfers:

- Citywide expenditures related to Super Bowl XLIX
- Preparation for the sale of city buildings
- Citywide staff relocations
- Unfavorable variance in Fire overtime
- Unfavorable variance in Police photo enforcement

Revenues were \$10.3 million more than projected. The largest drivers of the greater than anticipated revenues were: 1) \$3.7 million in privilege sales tax due to increased activity for construction (both single family and multi-family building projects) and increased sales of new and used motor vehicles. Additionally, privilege sales tax activity in the dining/entertainment category performed better than expected due in part to the Super Bowl and Pro Bowl events held in the Phoenix metro area; and 2) \$2.4 million in building and related permit charges, which include building permits, right-of-way fees, plan review fees and engineering plan review fees, due to high valuation of building projects (mostly multi-family) and projects that had been approved in previous years but were just recently permitted. In addition, single family residential development activity increased.

Expenses were \$2.6 million less than the revised budget largely due to newly hired positions within the Police Department at rates lower than the previous incumbents, which also created a favorable variance in Police retirement. Community Services had significant savings in full and part-time wages which was also due to employees being hired at lower rates than budgeted and due to seasonal jobs being used more efficiently allowing for other positions to remain vacant. Finally, banking services and fuel for fleet were less than the revised budget.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2015 and 2014 totaled to \$4.93 billion and \$4.98 billion, respectively (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, streets and storm drains, water and sewer systems, water rights, vehicles, machinery and equipment, furniture and fixtures, and construction in progress. The total decrease in the City's capital assets (net of accumulated depreciation) between fiscal years 2015 and 2014 was 1.0 percent and was due primarily to lower construction in progress.

Capital Assets, Net of Depreciation

June 30, 2015 and 2014 (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 1,858,868	\$ 1,839,212	\$ 50,325	\$ 48,821	\$ 1,909,193	\$ 1,888,033
Buildings and Land Improvements	414,435	363,158	15,813	16,871	430,248	380,029
Streets and Storm Drains	1,209,597	1,251,032	-	-	1,209,597	1,251,032
Machinery and Equipment	38,602	26,234	2,946	14,390	41,548	40,624
Water Rights	-	-	87,171	87,171	87,171	87,171
Water System	-	-	774,006	791,540	774,006	791,540
Sewer System	-	-	405,116	404,607	405,116	404,607
Motor Vehicles and Equipment Maintained by Fleet	34,696	24,107	157	199	34,853	24,306
Furniture, Fixtures, and Office Equipment	-	-	29	94	29	94
Construction in Progress	18,307	106,065	23,407	10,157	41,714	116,222
Total	<u>\$ 3,574,505</u>	<u>\$ 3,609,808</u>	<u>\$ 1,358,970</u>	<u>\$ 1,373,850</u>	<u>\$ 4,933,475</u>	<u>\$ 4,983,658</u>

Major capital asset events during the current fiscal year included the following:

- The Scottsdale's Museum of the West project constructed a 40,000 square-foot museum and sculpture garden. Expenditures totaled \$9.7 million this year. As of June 30, 2015, the inception to date expenditures for the project totaled \$13.6 million against a budget of \$13.6 million, leaving no remaining balance.
- The TPC Clubhouse and Stadium Course Renovation project includes an expansion to the men's bathroom, the current patio and meeting room areas, resurfacing the greens, irrigation system and lake bank repair. Expenditures totaled \$4.9 million this year. As of June 30, 2015, the inception to date expenditures for the completed project totaled \$13.8 million against a budget of \$14.1 million, leaving a balance of \$0.3 million.
- The Pavement Overlay Program project consists of an on-going program that completed street pavement overlays. Expenditures totaled \$3.5 million this year against a budget of \$3.3 million leaving a remaining negative budget balance of (\$0.2) million. The negative budget balance will be replenished during Fiscal Year 2015/16 by transferring budget from a contingency fund.
- The Thomas Road Bicycle Lanes and Enhanced Sidewalks project includes the addition of bicycle lanes, shade, landscaping, site furnishings and widening of sidewalks. Expenditures totaled \$3.2 million this year. As of June 30, 2015, the inception to date expenditures totaled \$6.3 million for the project against a budget of \$6.9 million, leaving a balance of \$0.6 million.
- The Public Safety Radio System – Phase I project purchased a new radio system to provide better coverage, interoperability with other public agencies and increased bandwidth to handle growth in radio voice traffic. Expenditures totaled \$1.7 million this year against a budget of \$22.1 million. As of June 30, 2015, the inception to date expenditures for Phase I totaled \$20.7 million, leaving a balance of \$1.4 million.
- The Upper Camelback Wash Watershed project has a goal to reduce flooding for this major wash corridor. Expenditures totaled \$1.2 million this year. As of June 30, 2015, the inception to date expenditures totaled \$15.6 million against a budget of \$17.7 million, leaving a balance of \$2.1 million.
- The Facilities Repair and Maintenance Program project provided protection of the city's infrastructure through systematic and rational repair and maintenance to major municipal facilities. Expenditures totaled \$1.6 million this year against a budget of \$2.1 million, leaving a balance of \$0.5 million.

- The City's water and sewer 5-year capital improvement plan includes significant cost impacts from "unfunded" federal water quality mandates for treatment of arsenic and disinfection by-product requirements, in addition to plant and infrastructure expansion to accommodate growth. The most significant CIP cash expenditures include:
 - Water Distribution System Improvements – Provides for water distribution system improvements needed due to age of the system and increasing demand. Includes replacement of mains, meters and valves, as well as design and construction of new water mains at various locations throughout the distribution system to improve service and to reduce operating costs. The project's budget totals \$18.6 million. As of June 30, 2015, the inception to date expenditures total \$8.2 million, leaving a balance of \$10.4 million.
 - Wastewater Collection System Improvements – Design and construction of sewer lines and rehabilitation of sewer manholes in the aging sewer system per the Asset Management Program. The project's budget totals \$16.6 million. As of June 30, 2015, the inception to date expenditures total \$5.9 million, leaving a balance of \$10.7 million.

Additional information on the City's capital assets can be found in Note IV.C. on pages 83-85 of this report.

Debt Administration

At the end of the fiscal years 2015 and 2014, the City had total long-term liabilities of \$1,616.8 million and \$1,342.6 million, respectively. Of these amounts, \$586.9 million and \$619.1 million, for fiscal years 2015 and 2014 respectively, are General Obligation Bonds backed by the full faith and credit of the City. The remainder includes water and sewer revenue bonds, Municipal Property Corporation (MPC) bonds, Scottsdale Preserve Authority (SPA) bonds, certificates of participation, and other obligations of \$1,029.9 million and \$723.5 million for fiscal years 2015 and 2014, respectively.

Long-Term Liabilities

June 30, 2015 and 2014 (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
General Obligation Bonds	\$ 586,910	\$ 619,065	\$ -	\$ -	\$ 586,910	\$ 619,065
Water and Sewer Revenue Bonds	-	-	29,335	32,275	29,335	32,275
Municipal Property Corporation Bonds	217,483	200,840	286,442	280,795	503,925	481,635
Scottsdale Preserve Authority Bonds	44,365	48,505	-	-	44,365	48,505
Certificates of Participation	11,762	13,914	-	-	11,762	13,914
Community Facilities Districts General						
Obligation Bonds	26,805	29,395	-	-	26,805	29,395
Issuance Premiums	67,810	52,186	24,891	18,095	92,701	70,281
Total Bonds Payable	955,135	963,905	340,668	331,165	1,295,803	1,295,070
Capital Lease	229	329	-	-	229	329
Service Concession Arrangements	2,837	2,990	-	-	2,837	2,990
Risk Management Claims	15,939	15,663	-	-	15,939	15,663
Compensated Absences	25,690	24,881	3,298	3,085	28,988	27,966
Net Other Postemployment Benefit	915	627	-	-	915	627
Net Pension Liabilities	241,311	-	30,821	-	272,132	-
Total Long-Term Liabilities	\$ 1,242,056	\$ 1,008,395	\$ 374,787	\$ 334,250	\$ 1,616,843	\$ 1,342,645

During fiscal year 2015, the City's total long-term liabilities increased by \$274.2 million. This is due primarily to the net pension liability of \$272.1 million the City was required to record for the implementation of GASB 68. Other contributing factors include the City making \$67.0 million of scheduled and early redemption principal payments offset by issuing \$45.3 million of Municipal Property Corporation (MPC) new bonds and increased issuance premium of \$22.4 million. As part of the new issuance process, the City's ratings on its uninsured General Obligation bonds and MPC bonds were affirmed by the Rating Agencies in February 2015 (see the Letter of Transmittal page 1 for more information).

The State constitution imposes debt limitations on the City equal to 6 percent and 20 percent of the assessed valuation of properties within the City. The City's available debt margin at June 30, 2015 and 2014 is \$256.6 million and \$223.7 million, respectively, in the 6 percent capacity and \$502.5 million and \$412.4 million, respectively, in the 20 percent capacity. Additional information on the debt limitations and capacities may be found in Section IV.G. of the Notes to the Financial Statements and also in Tables XVIa and XVIb in the Statistical Section of this report.

In accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the Net Other Postemployment Benefit Obligation (NOPEBO) included in the Outstanding Long-Term Liabilities represents the City's unfunded Annual Required Contributions (ARC) pursuant to the actuarial calculations for the accrued cost of eligible retiree health insurance as of June 30, 2015. The NOPEBO at the end of the fiscal years 2015 and 2014 was \$0.9 million and \$0.6 million, respectively.

Additional information in the City's long-term liabilities can be found in Section IV.G. of the Notes to the Financial Statements on pages 88-99 of this report.

Economic Factors and Next Year's Budget and Rates

The City remains on solid financial ground and its long-term financial plan remains one of conservative fiscal growth as the economy continues to improve. The fiscal year 2015/16 budget includes the following priorities and policy given by City Council:

- Continue working with residents, businesses and SkySong to revitalize the McDowell Road corridor
- Provide strategic support of tourism and visitor events
- Carry out the comprehensive economic development strategy
- Develop a transportation strategy that anticipates future needs
- Prepare and adopt fiscally sustainable operating and capital budgets
- Reinvest in a high performance organization and work culture

A separate, key component of the annual financial plan is the City's five-year Capital Improvement Plan for infrastructure and public facilities including roads, water and sewer improvements, parks, buildings and information technology. The City is projecting to spend up to \$254.6 million for capital improvements in fiscal year 2015/16. Some notable projects include:

- Granite Reef Watershed Drainage Improvements
 - FY 2015/16: \$13.5 million (\$51.0 million total project budget)
- Pima/Dynamite Trailhead
 - FY 2015/16: \$3.5 million (\$4.0 million total project budget)
- Facilities Repair and Maintenance Program
 - FY 2015/16: \$3.2 million (\$11.0 million total project budget)
- Traffic Signal Systems Upgrades
 - FY 2015/16: \$2.6 million (\$3.7 million total project budget)
- Water Distribution System Improvements
 - FY 2015/16: \$22.8 million (\$62.0 million total project budget)
- Wastewater Collection System Improvements
 - FY 2015/16: \$21.3 million (\$42.7 million total project budget)

In fiscal year 2015/16 citizen tax bills will reflect an estimated combined property tax rate of \$1.1537 which is \$0.0912 less than the adopted combined fiscal year 2014/15 rate of \$1.2449.

The City adopted a water surcharge of 10 percent, effective July 2015, for customers located outside City limits and an increase of \$0.10 per month was added to the stormwater quality charge to support expanded permit compliance costs. The City determined that existing rates and fees for sanitation and aviation services are sufficient to cover forecasted costs and fund operating reserves.

Requests for Information

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

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

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Basic Financial Statements

Statement of Net Position

June 30, 2015 (in thousands)

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Investments	\$ 252,022	\$ 177,577	\$ 429,599
Cash with Fiscal Agent	63,968	32,041	96,009
Receivables (net of uncollectible amounts of \$38,843)			
Property Taxes and Penalties	12,164	-	12,164
Other Local Taxes	24,439	15	24,454
Charges for Services	-	15,191	15,191
Intergovernmental	23,525	96	23,621
Interest and Other	8,027	3,313	11,340
Internal Balances	(1,048)	1,048	-
Supplies Inventory	1,039	-	1,039
Prepaid Items	-	1,063	1,063
Restricted Cash, Cash Equivalents, and Investments			
Customer Advances and Deposits	-	1,251	1,251
Other Restricted Assets			
Joint Venture Construction Deposits	-	4,295	4,295
Total Current Assets	384,136	235,890	620,026
Noncurrent Assets			
Equity in Joint Venture	-	100,329	100,329
Prepayments	30,500	-	30,500
Pollution Remediation Recoveries	-	44,865	44,865
Service Concession Arrangements	74,417	-	74,417
Restricted Cash, Cash Equivalents, and Investments			
Advanced Construction Payments	-	600	600
Advanced Lease Payments	-	1,667	1,667
Water and Sewer System Replacement	-	37,914	37,914
Revenue Bond Reserve	-	4,692	4,692
Capital Assets			
Land, Water Rights, and Construction in Progress	1,877,175	160,903	2,038,078
Facilities, Infrastructure, and Equipment (net of accumulated depreciation)	1,697,330	1,198,067	2,895,397
Total Capital Assets (net of accumulated depreciation)	3,574,505	1,358,970	4,933,475
Total Noncurrent Assets	3,679,422	1,549,037	5,228,459
Total Assets	4,063,558	1,784,927	5,848,485
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts on Refundings	29,561	7,105	36,666
Pensions	46,224	3,938	50,162
Total Deferred Outflows of Resources	\$ 75,785	\$ 11,043	\$ 86,828

(continued)

Statement of Net Position

June 30, 2015 (in thousands)

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 13,924	\$ 8,679	\$ 22,603
Accrued Payroll and Benefits	9,062	1,272	10,334
Accrued Compensated Absences - Current	143	1	144
Accrued Compensated Absences - Due within one year	11,462	1,427	12,889
Claims Payable	6,620	-	6,620
Due to Other Governments	4,327	-	4,327
Customer Advances and Deposits	2,330	1,251	3,581
Matured Bonds, Loans, and Other Payables	46,361	13,490	59,851
Matured Bonds, Loans, and Other Interest Payable	16,253	7,308	23,561
Bonds, Loans, and Other Payables - Due within one year	53,313	14,815	68,128
Unearned Revenue	8,522	-	8,522
Other Liabilities	3,394	-	3,394
Total Current Liabilities	175,711	48,243	223,954
Noncurrent Liabilities			
Accrued Compensated Absences - Due in more than one year	14,228	1,871	16,099
Advanced Construction Payments	-	600	600
Advanced Lease Payments	-	1,667	1,667
Net Other Post Employment Benefit	915	-	915
Net Pension Liabilities	241,311	30,821	272,132
Bonds, Loans, and Other Payables - Due in more than one year	914,207	325,853	1,240,060
Pollution Remediation Obligation	-	44,865	44,865
Total Noncurrent Liabilities	1,170,661	405,677	1,576,338
Total Liabilities	1,346,372	453,920	1,800,292
DEFERRED INFLOWS OF RESOURCES			
Pensions	31,681	5,390	37,071
NET POSITION			
Net Investment in Capital Assets	2,663,269	1,036,650	3,699,919
Restricted			
Debt Service	37,432	4,692	42,124
Transportation and Preserve Privilege Tax Activities	45,951	-	45,951
Capital Projects	30,203	-	30,203
Grants	370	-	370
Special Programs	3,505	-	3,505
Streetlight and Service District	24	-	24
Repair and Replacement	-	37,914	37,914
Joint Venture Construction Deposits	-	4,295	4,295
Unrestricted	(19,464)	253,109	233,645
Total Net Position	\$ 2,761,290	\$ 1,336,660	\$ 4,097,950

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

Statement of Activities

For the Fiscal Year Ended June 30, 2015 (in thousands)

FUNCTIONS/PROGRAMS	Program Revenues						Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities							
General Government							
Mayor and City Council	\$ 790	\$ 176	\$ 1	\$ -	\$ (613)	\$ -	\$ (613)
City Clerk	927	227	-	-	(700)	-	(700)
City Attorney	6,103	737	2	-	(5,364)	-	(5,364)
City Auditor	792	188	-	-	(604)	-	(604)
City Court	5,682	-	37	-	(5,645)	-	(5,645)
City Manager	1,828	232	855	-	(741)	-	(741)
City Treasurer	5,088	2,719	-	-	(2,369)	-	(2,369)
Public Works	40,631	1,861	70	840	(37,860)	-	(37,860)
Community and Economic Development	138,899	19,474	14,785	13,270	(91,370)	-	(91,370)
Public Safety	135,647	10,350	3,747	299	(121,251)	-	(121,251)
Community Services	55,134	6,334	8,900	325	(39,575)	-	(39,575)
Administrative Services	17,849	2,827	-	97	(14,925)	-	(14,925)
Streetlight and Services Districts	583	531	-	-	(52)	-	(52)
Interest on Long-Term Debt	34,134	-	-	-	(34,134)	-	(34,134)
Bond Issuance Costs	1,643	-	-	-	(1,643)	-	(1,643)
Total Governmental Activities	<u>445,730</u>	<u>45,656</u>	<u>28,397</u>	<u>14,831</u>	<u>(356,846)</u>	<u>-</u>	<u>(356,846)</u>
Business-Type Activities							
Water Utility	95,958	98,495	-	6,783	-	9,320	9,320
Sewer Utility	44,352	39,541	-	4,297	-	(514)	(514)
Airport	3,703	4,020	-	646	-	963	963
Solid Waste	20,911	20,232	-	-	-	(679)	(679)
Total Business-Type Activities	<u>164,924</u>	<u>162,288</u>	<u>-</u>	<u>11,726</u>	<u>-</u>	<u>9,090</u>	<u>9,090</u>
Total Government	<u>\$ 610,654</u>	<u>\$ 207,944</u>	<u>\$ 28,397</u>	<u>\$ 26,557</u>	<u>(356,846)</u>	<u>9,090</u>	<u>(347,756)</u>
General Revenues							
Taxes							
Property Taxes					66,229	-	66,229
Sales and Use Taxes					179,192	169	179,361
Franchise Taxes					12,439	-	12,439
Intergovernmental							
State Shared Sales					19,867	-	19,867
State Revenue Sharing					26,316	-	26,316
Other					10,133	-	10,133
Interest and Investment Income					1,372	1,346	2,718
Other Revenue					13,829	-	13,829
Transfers					6,579	(6,579)	-
Total General Revenues and Transfers					<u>335,956</u>	<u>(5,064)</u>	<u>330,892</u>
Change in Net Position					(20,890)	4,026	(16,864)
Net Position - Beginning, restated					<u>2,782,180</u>	<u>1,332,634</u>	<u>4,114,814</u>
Net Position - Ending					<u>\$ 2,761,290</u>	<u>\$ 1,336,660</u>	<u>\$ 4,097,950</u>

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

Balance Sheet

Governmental Funds

June 30, 2015 (in thousands)

	General	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 57,863	\$ 11,731	\$ 24,518	\$ 121,813	\$ 215,925
Cash with Fiscal Agent	1,266	42,109	-	20,593	63,968
Receivable (net of allowance for uncollectibles \$38,804)					
Interest	296	-	74	123	493
Privilege Tax	14,064	-	-	4,267	18,331
Transient Occupancy Tax	-	-	-	752	752
Property Tax	827	1,047	-	86	1,960
State Shared Sales Tax	1,730	-	-	-	1,730
Franchise Fee	1,964	-	-	58	2,022
Court Receivable	10,204	-	-	-	10,204
Library Receivable	741	-	-	-	741
Highway User Tax	-	-	-	1,257	1,257
Auto Lieu Tax	347	-	-	-	347
Intergovernmental	-	-	538	21,037	21,575
Grants	-	-	880	1,070	1,950
Miscellaneous	3,101	-	2,710	503	6,314
Due from Other Funds	43	-	-	-	43
Supplies Inventory	227	-	-	-	227
Total Assets	<u>\$ 92,673</u>	<u>\$ 54,887</u>	<u>\$ 28,720</u>	<u>\$ 171,559</u>	<u>\$ 347,839</u>

(continued)

Balance Sheet

Governmental Funds

June 30, 2015 (in thousands)

	General	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 4,800	\$ -	\$ 1,052	\$ 6,100	\$ 11,952
Accrued Payroll and Benefits	8,522	-	15	479	9,016
Due to Other Funds	-	-	-	43	43
Matured Bond Interest Payable	191	9,954	-	6,108	16,253
Matured Bonds Payable	1,076	32,155	-	13,130	46,361
Unearned Revenue					
Intergovernmental	-	-	-	6,998	6,998
Other	419	-	4	1,101	1,524
Due to Other Governments	4,326	-	-	1	4,327
Guaranty and Other Deposits	2,325	-	-	5	2,330
Other	3,374	-	-	20	3,394
Total Liabilities	<u>25,033</u>	<u>42,109</u>	<u>1,071</u>	<u>33,985</u>	<u>102,198</u>
Deferred Inflows of Resources					
Unavailable Revenues	11,396	606	1,418	19,039	32,459
Total Liabilities and Deferred Inflows of Resources	<u>36,429</u>	<u>42,715</u>	<u>2,489</u>	<u>53,024</u>	<u>134,657</u>
Fund Balances					
Nonspendable	227	-	-	-	227
Restricted	-	12,172	2,807	98,258	113,237
Committed	-	-	28,178	21,376	49,554
Unassigned	56,017	-	(4,754)	(1,099)	50,164
Total Fund Balances	<u>56,244</u>	<u>12,172</u>	<u>26,231</u>	<u>118,535</u>	<u>213,182</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 92,673</u>	<u>\$ 54,887</u>	<u>\$ 28,720</u>	<u>\$ 171,559</u>	<u>\$ 347,839</u>

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

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

June 30, 2015 (in thousands)

Fund Balances - Total Governmental Funds	\$	213,182
Amounts reported for governmental activities in the statement of net position are different because (see Note II A):		
Capital assets used in governmental activities are not financial resources; therefore, are not reported in the funds.		3,529,371
Prepayments and service concession arrangements are not financial resources; therefore, are not reported in the funds.		104,917
Deferred outflows relating to deferred amounts on refunding and pensions are not financial resources; therefore are not reported in the funds.		75,188
Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore, are not reported in the funds.		(1,221,039)
Deferred inflows relating to pensions represent a future acquisition of net position that is not reported in the funds. Also, because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by unavailable revenue in the funds.		1,597
Internal Service Funds are used by management to charge the costs of certain activities, such as insurance, computer equipment, and vehicles to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the statement of net position.		58,074
Net Position of Governmental Activities	\$	<u>2,761,290</u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

	General	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes - Local					
Property	\$ 25,466	\$ 35,253	\$ -	\$ 3,553	\$ 64,272
Transaction Privilege	110,397	-	-	53,526	163,923
Transient Occupancy	-	-	-	17,047	17,047
Light and Power Franchise	8,401	-	-	290	8,691
Cable TV Franchise	3,748	-	-	-	3,748
Salt River Project In-Lieu	264	-	-	-	264
Other Taxes	906	-	-	-	906
Taxes - Intergovernmental					
State-Shared Sales	19,867	-	-	-	19,867
State Revenue Sharing	26,316	-	-	-	26,316
Auto Lieu Tax	8,307	-	-	-	8,307
Highway User Tax	-	-	-	13,461	13,461
Local Transportation Assistance Fund	-	-	-	652	652
Business and Liquor Licenses	1,872	-	-	53	1,925
Charges for Current Services					
Building and Related Permits	14,779	-	116	315	15,210
Recreation Fees	3,851	-	-	1,700	5,551
WestWorld Equestrian Facility Fees	4,176	-	-	-	4,176
Fire Fees	918	-	-	-	918
Fines, Fees, and Forfeitures					
Court	4,148	-	-	173	4,321
Parking	243	-	-	-	243
Photo Radar	2,883	-	-	-	2,883
Court Enhancement	-	-	-	1,753	1,753
Library	340	-	-	-	340
Police Fees	-	-	-	460	460
Property Rental	2,864	-	-	2,418	5,282
Interest Earnings	1,214	-	73	647	1,934
Investment Income	(355)	-	(42)	(165)	(562)
Intergovernmental					
Federal Grants	-	-	204	9,939	10,143
State Grants	-	-	-	360	360
Miscellaneous	1,173	-	2,288	5,882	9,343
Developer Contributions	-	-	169	484	653
Streetlight and Services Districts	-	-	-	531	531
Contributions and Donations	1	-	1,490	2,067	3,558
Reimbursements from Outside Sources	1,836	-	5	1,604	3,445
Indirect Costs	6,463	-	-	524	6,987
Other	4,271	-	795	68	5,134
Total Revenues	\$ 254,349	\$ 35,253	\$ 5,098	\$ 117,342	\$ 412,042

(continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

EXPENDITURES	General	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
Current					
General Government					
Mayor and City Council	\$ 709	\$ -	\$ -	\$ 75	\$ 784
City Clerk	917	-	-	-	917
City Attorney	6,012	-	-	-	6,012
City Auditor	782	-	-	-	782
City Court	3,948	-	-	1,636	5,584
City Manager	977	-	-	855	1,832
City Treasurer	4,790	-	-	114	4,904
Public Works	19,559	-	-	14,959	34,518
Community and Economic Development	23,806	-	-	20,744	44,550
Public Safety	121,876	-	-	1,885	123,761
Community Services	33,877	-	-	11,121	44,998
Administrative Services	15,050	-	-	-	15,050
Streetlight and Services Districts	-	-	-	583	583
Debt Service					
Principal	2,405	90,395	-	13,130	105,930
Interest and Fiscal Charges	536	23,752	-	12,418	36,706
Bond Issuance Costs	-	966	-	677	1,643
Capital Outlay	-	-	18,161	34,003	52,164
Total Expenditures	<u>235,244</u>	<u>115,113</u>	<u>18,161</u>	<u>112,200</u>	<u>480,718</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>19,105</u>	<u>(79,860)</u>	<u>(13,063)</u>	<u>5,142</u>	<u>(68,676)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	10,012	21,461	22,782	35,551	89,806
Transfers Out	(25,493)	-	(2,014)	(55,704)	(83,211)
Issuance of Refunding Bonds	-	160,415	-	46,758	207,173
Issuance of Long-Term Capital-Related Debt	-	-	-	26,815	26,815
Premium on Long-Term Debt Issued	-	14,230	-	9,641	23,871
Payment to Refunded Bonds Escrow Agent	-	(113,443)	-	(54,626)	(168,069)
Total Other Financing Sources (Uses)	<u>(15,481)</u>	<u>82,663</u>	<u>20,768</u>	<u>8,435</u>	<u>96,385</u>
Net Change in Fund Balances	<u>3,624</u>	<u>2,803</u>	<u>7,705</u>	<u>13,577</u>	<u>27,709</u>
Fund Balances - Beginning*	<u>52,620</u>	<u>9,369</u>	<u>18,526</u>	<u>104,958</u>	<u>185,473</u>
Fund Balances - Ending	<u>\$ 56,244</u>	<u>\$ 12,172</u>	<u>\$ 26,231</u>	<u>\$ 118,535</u>	<u>\$ 213,182</u>

*The General CIP Construction Capital Projects beginning fund balance was increased by \$9,043,000 due to the reclassification of the MPC Bonds from no longer being reported in this fund and moved to a separate fund in the Nonmajor Capital Projects.

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

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

Net Change in Fund Balances - Total Governmental Funds	\$	27,709
Amounts reported for governmental activities in the statement of activities are different because (see Note II B):		
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		(62,018)
Donations of capital assets are not capitalized on the governmental fund statements, but are shown in the statement of activities.		8,703
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		(29,493)
Current-year pension contributions are reclassified to deferred outflows of resources, and therefore are not reported as expenditures in governmental funds.		18,169
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(5,016)
Prepayments are expended in the governmental funds when paid, and are capitalized and amortized in the statement of net position. This is the amount of the amortization expense in the current period.		(967)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, neither transaction has any affect on net position. This is the amount by which principal retirement exceeded debt proceeds in the current period.		16,140
Additional interest accretion calculated on bonds and notes payable and amortization of bond premium and deferred amounts on refunding.		2,572
The change in net position of the Internal Service Funds attributed to governmental activities.		3,311
Change in Net Position of Governmental Activities	\$	(20,890)

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

General Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Budgeted Amounts								Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis				
REVENUES									
Taxes - Local									
Property	\$ 25,744	\$ 25,744	\$ 25,466	\$ -	\$ 25,466	\$		(278)	
Transaction Privilege	106,706	106,706	110,397	-	110,397			3,691	
Light and Power Franchise	8,444	8,444	8,401	-	8,401			(43)	
Cable TV Franchise	3,395	3,395	3,748	-	3,748			353	
Salt River Project In-Lieu	267	267	264	-	264			(3)	
Other Taxes	898	898	906	-	906			8	
Taxes - Intergovernmental									
State-Shared Sales	19,642	19,642	19,867	-	19,867			225	
State Revenue Sharing	26,314	26,314	26,316	-	26,316			2	
Auto Lieu Tax	7,687	7,687	8,307	-	8,307			620	
Business and Liquor Licenses	1,805	1,805	1,872	-	1,872			67	
Charges for Current Services									
Building and Related Permits	12,332	12,332	14,779	-	14,779			2,447	
Recreation Fees	3,538	3,538	3,851	-	3,851			313	
WestWorld Equestrian Facility Fees	3,921	3,921	4,176	-	4,176			255	
Fire Fees	664	664	918	-	918			254	
Fines, Fees, and Forfeitures									
Court	4,529	4,829	4,148	-	4,148			(681)	
City Attorney Service Enhancement	300	-	-	-	-			-	
Parking	238	238	243	-	243			5	
Photo Radar	2,110	2,110	2,883	-	2,883			773	
Library	369	369	340	-	340			(29)	
Property Rental	1,836	1,836	2,864	-	2,864			1,028	
Interest Earnings	575	575	1,214	-	1,214			639	
Investment Income	-	-	-	(355)	(355)			-	
Intergovernmental									
Miscellaneous	1,024	1,024	1,173	-	1,173			149	
Contributions and Donations	-	-	1	-	1			1	
Reimbursements from Outside Sources	1,247	1,247	1,836	-	1,836			589	
Indirect Costs	6,439	6,439	6,463	-	6,463			24	
Other	4,381	4,381	4,271	-	4,271			(110)	
Total Revenues	\$ 244,405	\$ 244,405	\$ 254,704	\$ (355)	\$ 254,349	\$		10,299	

(continued)

General Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

EXPENDITURES	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
Current						
General Government						
Mayor and City Council	\$ 762	\$ 725	\$ 711	\$ (2)	\$ 709	\$ 14
City Clerk	1,000	1,018	916	1	917	102
City Attorney	5,924	6,087	5,997	15	6,012	90
City Auditor	849	866	779	3	782	87
City Court	4,044	3,950	3,935	13	3,948	15
City Manager	1,047	1,056	978	(1)	977	78
City Treasurer	5,315	5,238	4,820	(30)	4,790	418
Public Works	18,309	19,260	19,528	31	19,559	(268)
Community and Economic Development	23,252	24,325	23,848	(42)	23,806	477
Public Safety	119,050	122,371	121,580	296	121,876	791
Community Services	34,039	34,344	33,891	(14)	33,877	453
Administrative Services	18,044	15,500	15,016	34	15,050	484
Debt Service						
Principal	2,305	2,305	2,405	-	2,405	(100)
Interest and Fiscal Charges	525	525	536	-	536	(11)
Total Expenditures	234,465	237,570	234,940	304	235,244	2,630
Excess (Deficiency) of Revenues over Expenditures	9,940	6,835	19,764	(659)	19,105	12,929
OTHER FINANCING SOURCES (USES)						
Transfers In	9,990	9,990	10,012	-	10,012	22
Transfers Out	(25,461)	(25,461)	(25,493)	-	(25,493)	(32)
Total Other Financing Sources (Uses)	(15,471)	(15,471)	(15,481)	-	(15,481)	(10)
Net Change in Fund Balances	(5,531)	(8,636)	4,283	(659)	3,624	12,919
Fund Balances - Beginning	39,989	61,654	61,654	(9,034)	52,620	-
Fund Balances - Ending	\$ 34,458	\$ 53,018	\$ 65,937	\$ (9,693)	\$ 56,244	\$ 12,919

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

General Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

Explanation of Differences:

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

Investment Income	\$ (355)
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The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:

Payroll Accrual and Compensated Absences	304
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Net Decrease in Fund Balance - Budget to GAAP	<u>\$ (659)</u>
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The notes to the financial statements are an integral part of this statement.

Statement of Fund Net Position

Proprietary Funds

June 30, 2015 (in thousands)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Assets					
Current Assets					
Cash and Investments	\$ 155,248	\$ 9,660	\$ 12,669	\$ 177,577	\$ 36,097
Cash with Fiscal Agent	32,041	-	-	32,041	-
Receivables (net of uncollectible amounts of \$39)	-	15	-	15	-
Privilege Tax	-	-	-	-	-
Charges for Services	13,351	-	1,840	15,191	-
Intergovernmental	-	96	-	96	-
Interest	179	5	12	196	-
Miscellaneous	2,814	221	82	3,117	479
Supplies Inventory	-	-	-	-	812
Restricted Cash, Cash Equivalents, and Investments					
Customer Advances and Deposits	1,197	54	-	1,251	-
Prepaid Expenses	1,063	-	-	1,063	-
Other Restricted Assets					
Joint Venture Construction Deposits	4,295	-	-	4,295	-
Total Current Assets	210,188	10,051	14,603	234,842	37,388
Noncurrent Assets					
Equity in Joint Venture	100,329	-	-	100,329	-
Pollution Remediation Recoveries	44,865	-	-	44,865	-
Restricted Cash, Cash Equivalents, and Investments					
Advanced Construction Payments	600	-	-	600	-
Advanced Lease Payments	-	1,667	-	1,667	-
Water and Sewer System Replacement	37,914	-	-	37,914	-
Revenue Bond Reserve	4,692	-	-	4,692	-
Capital Assets					
Land	39,650	9,564	1,111	50,325	-
Water Rights	87,171	-	-	87,171	-
Water System	1,171,519	-	-	1,171,519	-
Sewer System	592,262	-	-	592,262	-
Buildings and Improvements	-	25,813	4,771	30,584	12,447
Motor Vehicles	-	628	-	628	72,134
Machinery and Equipment	4,492	861	-	5,353	1,020
Furniture and Fixtures	613	-	-	613	-
Construction in Progress	17,906	4,823	678	23,407	367
Less Accumulated Depreciation	(586,832)	(13,539)	(2,521)	(602,892)	(40,834)
Total Capital Assets (net of accumulated depreciation)	1,326,781	28,150	4,039	1,358,970	45,134
Total Noncurrent Assets	1,515,181	29,817	4,039	1,549,037	45,134
Total Assets	1,725,369	39,868	18,642	1,783,879	82,522
Deferred Outflows of Resources					
Deferred Amounts on Refunding	7,105	-	-	7,105	-
Pensions	2,817	175	946	3,938	597
Total Deferred Outflows of Resources	9,922	175	946	11,043	597
Total Assets and Deferred Outflows of Resources	\$ 1,735,291	\$ 40,043	\$ 19,588	\$ 1,794,922	\$ 83,119

(continued on next page)

Statement of Fund Net Position

Proprietary Funds

June 30, 2015 (in thousands)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
LIABILITIES					
Current Liabilities					
Accounts Payable	\$ 7,923	\$ 385	\$ 371	\$ 8,679	\$ 1,972
Accrued Payroll and Benefits	922	54	296	1,272	189
Accrued Compensated Absences - Current	-	-	1	1	-
Accrued Compensated Absences - Due within one year	1,043	64	320	1,427	175
Claims Payable - Due within one year	-	-	-	-	6,620
Customer Advances and Deposits	1,197	54	-	1,251	-
Matured Bonds Payable	13,490	-	-	13,490	-
Matured Bond Interest Payable	7,308	-	-	7,308	-
Bonds Payable and Other Payables - Due within one year	14,815	-	-	14,815	-
Total Current Liabilities	46,698	557	988	48,243	8,956
Noncurrent Liabilities					
Accrued Compensated Absences - Due in more than one year	1,339	92	440	1,871	217
Advanced Construction Payments	600	-	-	600	-
Advanced Lease Payments	-	1,667	-	1,667	-
Net Pension Liabilities	22,004	1,377	7,440	30,821	4,686
Bonds, Loans, and Other Payables - Due in more than one year	325,853	-	-	325,853	9,319
Pollution Remediation Obligation	44,865	-	-	44,865	-
Total Noncurrent Liabilities	394,661	3,136	7,880	405,677	14,222
Total Liabilities	441,359	3,693	8,868	453,920	23,178
Deferred Inflows of Resources					
Pensions	3,848	241	1,301	5,390	819
Total Liabilities and Deferred Inflows of Resources	445,207	3,934	10,169	459,310	23,997
NET POSITION					
Net Investment in Capital Assets	1,004,461	28,150	4,039	1,036,650	45,134
Restricted for Water and Sewer System Replacement	37,914	-	-	37,914	-
Restricted for Debt Service	4,692	-	-	4,692	-
Restricted for Joint Venture Construction Deposits	4,295	-	-	4,295	-
Unrestricted	238,722	7,959	5,380	252,061	13,988
Total Net Position	\$ 1,290,084	\$ 36,109	\$ 9,419	\$ 1,335,612	\$ 59,122

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

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

June 30, 2015 (in thousands)

Total Enterprise Fund Net Position	\$ 1,335,612
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Amounts reported for business-type activities in the government-wide statement of net position are different because:

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

1,048

Net Position of Business-Type Activities
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<u>\$ 1,336,660</u>

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

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

Proprietary Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
OPERATING REVENUES					
Charges for Sales and Services					
Water Service Fees	\$ 85,623	\$ -	\$ -	\$ 85,623	\$ -
Sewer Service Fees	38,715	-	-	38,715	-
Proprietary - Non-potable water fees	11,349	-	-	11,349	-
Solid Waste Fees	-	-	20,232	20,232	-
Airport Fees	-	3,822	-	3,822	-
Other Services	-	-	-	-	55,403
Other	2,349	198	-	2,547	1,260
Total Operating Revenues	138,036	4,020	20,232	162,288	56,663
OPERATING EXPENSES					
Costs for Sales and Services					
Water Operations	52,270	-	-	52,270	-
Sewer Operations	22,019	-	-	22,019	-
Solid Waste Operations	-	-	19,005	19,005	-
Airport Operations	-	2,231	-	2,231	-
Other Services	-	-	-	-	49,566
Indirect Costs	4,865	477	1,646	6,988	-
Depreciation	48,262	1,000	245	49,507	5,767
Total Operating Expenses	127,416	3,708	20,896	152,020	55,333
Operating Income (Loss)	10,620	312	(664)	10,268	1,330
NON-OPERATING REVENUES (EXPENSES)					
Transaction Privilege Tax	-	169	-	169	-
Property Tax	-	-	-	-	2,077
Investment Income	1,206	64	76	1,346	-
Interest Expense	(12,984)	-	-	(12,984)	-
Gain(Loss) on Sale of Capital Assets	(43)	-	(487)	(530)	479
Net Non-Operating Revenue (Expenses)	(11,821)	233	(411)	(11,999)	2,556
Income Before Contributions and Transfers	(1,201)	545	(1,075)	(1,731)	3,886
Capital Contributions	11,080	646	-	11,726	51
Transfers In	229	-	-	229	-
Transfers Out	(6,800)	(4)	(4)	(6,808)	(16)
Change in Net Position	3,308	1,187	(1,079)	3,416	3,921
Total Net Position - Beginning as Restated	1,286,776	34,922	10,498	1,332,196	55,201
Total Net Position - Ending	\$ 1,290,084	\$ 36,109	\$ 9,419	\$ 1,335,612	\$ 59,122

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

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

Net Change in Total Enterprise Fund Net Position	\$ 3,416
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Amounts reported for business-type activities in the government-wide statement of net position are different because:

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

610

Change in Net Position of Business-Type Activities

\$ 4,026

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

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities					
Cash Received from Customers	\$ 136,859	\$ 3,769	\$ 20,245	\$ 160,873	\$ 55,270
Cash Payments to Suppliers for Goods/Services	(54,357)	(1,194)	(13,599)	(69,150)	(45,189)
Cash Payments to Employees for Services	(20,385)	(1,175)	(7,099)	(28,659)	(4,458)
Other Cash Receipts	(28)	198	-	170	1,259
Net Cash Provided by (Used for) Operating Activities	62,089	1,598	(453)	63,234	6,882
Cash Flows from Non-Capital Financing Activities					
Financing Activities					
Property Tax	-	-	-	-	2,077
Transaction Privilege Tax	-	169	-	169	-
Transfers In	229	-	-	229	-
Transfers Out	(6,800)	(4)	(4)	(6,808)	(16)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(6,571)	165	(4)	(6,410)	2,061
Cash Flows from Capital and Related Financing Activities					
Bond Proceeds	20,000	-	-	20,000	-
Capital Contributions from:					
Water and Sewer Development Fees	5,591	-	-	5,591	-
Capital Grants	-	562	-	562	-
Acquisition and Construction of Property and Equipment	(27,421)	(1,341)	(642)	(29,404)	(9,222)
Water and Sewer Development Fee Credit Agreements	(265)	-	-	(265)	-
Principal Payments on Capital Debt and Other Payables	(15,288)	-	-	(15,288)	-
Interest Paid on Capital Debt	(11,721)	-	-	(11,721)	-
Investment in Joint Venture and CIP deposit	1,190	-	-	1,190	-
Sale of Capital Assets	-	-	-	-	777
Net Cash (Used for) for Capital and Related Financing Activities	(27,914)	(779)	(642)	(29,335)	(8,445)
Cash Flows from Investing Activities					
Income Received on Investments	1,199	63	75	1,337	-
Net Cash Provided by Investing Activities	1,199	63	75	1,337	-
Net Increase (Decrease) in Cash and Cash Equivalents	28,803	1,047	(1,024)	28,826	498
Cash and Cash Equivalents at Beginning of Year	202,889	10,334	13,693	226,916	35,599
Cash and Cash Equivalents at End of Year	\$ 231,692	\$ 11,381	\$ 12,669	\$ 255,742	\$ 36,097

(continued)

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Water and Sewer Utility	Airport	Solid Waste	Total	Governmental Activities - Internal Service Funds
Cash and Cash Equivalents at End of Year includes:					
Cash and Investments	\$ 155,248	\$ 9,660	\$ 12,669	\$ 177,577	\$ 36,097
Cash with Fiscal Agent	32,041	-	-	32,041	-
Restricted Cash and Investments	44,403	1,721	-	46,124	-
Total Cash and Cash Equivalents	<u>\$ 231,692</u>	<u>\$ 11,381</u>	<u>\$ 12,669</u>	<u>\$ 255,742</u>	<u>\$ 36,097</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities					
Cash Flows from Operating Activities					
Operating Income (Loss)	\$ 10,620	\$ 312	\$ (664)	\$ 10,268	\$ 1,330
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation/Amortization	48,262	1,000	245	49,507	5,767
Pension Expense	(1,506)	(94)	(509)	(2,109)	320
Current Year Pension Contributions	1,564	96	523	2,183	(331)
Change in Equity in Joint Venture	3,596	-	-	3,596	-
Change in Accounts Receivable	2,140	46	13	2,199	-
Change in Miscellaneous Receivable	(1,457)	(1)	-	(1,458)	(134)
Change in Inventories	-	-	-	-	94
Change in Prepaid Expense	(197)	-	-	(197)	-
Change in Customer Deposits	212	2	-	214	-
Change in Accounts Payable	1,081	322	(22)	1,381	(471)
Change in Accrued Payroll and Compensated Absences	151	15	(39)	127	31
Change in Claims Payable	-	-	-	-	276
Change in Advanced Construction Payments	(2,377)	-	-	(2,377)	-
Change in Advanced Lease Payments	-	(100)	-	(100)	-
Total Adjustments	<u>51,469</u>	<u>1,286</u>	<u>211</u>	<u>52,966</u>	<u>5,552</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 62,089</u>	<u>\$ 1,598</u>	<u>\$ (453)</u>	<u>\$ 63,234</u>	<u>\$ 6,882</u>
Supplemental Disclosure of Non-cash Financing Activities					
Additions to Property, Plant, and Equipment					
Contributions from Developers	\$ 5,754	\$ -	\$ -	\$ 5,754	\$ -
Contributions from Others	-	-	-	-	8,415
Loss on Sale/Disposal of Assets	(43)	-	(487)	(530)	-
Change in Equity in Joint Venture	4,855	-	-	4,855	-
Total Non-Cash Financing Activities	<u>\$ 10,566</u>	<u>\$ -</u>	<u>\$ (487)</u>	<u>\$ 10,079</u>	<u>\$ 8,415</u>

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

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2015 (in thousands)

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 10	\$ 1,470
Total Assets	<u>\$ 10</u>	<u>\$ 1,470</u>
LIABILITIES		
Escrow Payable Vouchers	\$ -	\$ 55
State Land Department Rebate	-	1,415
Total Liabilities	-	<u>\$ 1,470</u>
NET POSITION		
Held in Trust for Other Purposes	<u>\$ 10</u>	

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

Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Contributions:	
Private Donations	<u>\$ 10</u>
Total Additions	<u>10</u>
DEDUCTIONS	
Scholarships / Program Activities	<u>5</u>
Total Deductions	<u>5</u>
Change in Net Position	5
Total Net Position - Beginning	<u>5</u>
Total Net Position - Ending	<u><u>\$ 10</u></u>

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies.

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

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

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

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 primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

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

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are earned and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

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

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

The government reports the following major governmental funds:

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

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

The *General CIP Construction Capital Projects Fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays including the acquisition, construction and improvements to major capital facilities, other than those financed by proprietary funds, community facility districts, Municipal Property Corporation and preservation/transportation privilege taxes or bonds. The Municipal Property Corporation activity was previously included in this fund and beginning this fiscal year this activity is presented separately in the non-major capital project fund. Capital Projects Funds allow the City to compile project cost data and demonstrate that legal or contractual requirements regarding the use of the resources are fully satisfied.

The government reports the following major proprietary funds:

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

Additionally, the government reports the following fund types:

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

The *Agency Funds* are purely custodial (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds are used to record the Family Self-Sufficiency activity and the Crossroad East Development Agreement.

The *Private-Purpose Trust Funds* are used to account for assets held in a trustee capacity for scholarships and other purposes as designated by the donors or by legal restrictions. Both the principal and earnings of these expendable trust funds can be expended for the trusts' intended purposes.

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

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

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

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

1. Deposits and Investments

The City considers all highly liquid investments (including restricted assets) in mutual funds, demand deposits, repurchase agreements, and U.S. Treasury bills with an original maturity of three months or less to be cash equivalents. For the purposes of the statements of cash flows, all pooled cash and investments are also considered to be cash equivalents, although there are investments with maturities in excess of three month when purchased in the portfolio. This is due to the fact that the Proprietary funds may deposit or withdraw cash at any time without prior notice or penalty, having the characteristics of demand deposits.

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* provides that governmental entities may report all investments at fair value or they may elect to report certain money market investments and participating interest-earning investment contracts at amortized cost. The City has elected to report all investments at fair value. The City's policy is to invest in certificates of deposit, repurchase agreements, commercial paper, highly rated corporate bonds/notes, direct U.S. Treasury debt, securities guaranteed by the United States Government or any of its agencies, and the State of Arizona Local Government Investment Pool (LGIP), which is overseen by the Office of the Arizona State Treasurer.

2. Receivables and Payables

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

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

The City's property tax is levied each year on or before the third Monday in August based on the previous January 1 full cash value as determined by the Maricopa County Assessor. Levies are due and payable in two installments, on October 1 and March 1, and become delinquent after November 1 and after May 1, respectively. If a taxpayer owes \$100 or less, the tax must be paid in full by November 1. A lien attaches to the property on the first day of January preceding the assessment and levy of taxes. Delinquent amounts bear interest at the rate of 16 percent. Maricopa County, at no charge to the taxing entities, bills and collects all property taxes. Public auctions of properties which have delinquent real estate taxes are held in February.

Property taxes levied for current operation and maintenance expenses on residential property are limited to 1 percent of the limited property value of such property. In addition, taxes levied for current operation and maintenance expenses on all types of property are limited to a maximum increase of 2 percent over the prior year's levy, adjusted for new construction and annexations. Property taxes levied to pay principal and interest on bonded indebtedness are not limited.

3. Inventories, Prepayments and Prepaid Items

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

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

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

4. Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The revenue bond reserve and water and sewer replacement accounts are used to report resources set aside to meet unexpected contingencies or to fund asset replacements. The joint venture construction deposits with the City of Phoenix are used for capital expansion, rehabilitation and expansion of the jointly used facilities.

Assets are also restricted in enterprise funds for deposits received from water, sewer and airport customers, as well as unearned revenues related to cash received in advance of services provided.

5. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Assets contributed (donated) to those funds are recorded by reference to historical costs of the donor if recently purchased or constructed or, if such records are not available, at estimated fair market value on the date of receipt. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

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

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

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

6. Pensions

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

7. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of medical leave earned by employees based on services already rendered. Employees may accumulate up to a maximum number of hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount unused at the calendar year-end are forfeited. The City's policy is to pay employees for unused accumulated vacation hours at termination or retirement. The City's medical leave policy, however, is that only those employees hired full-time before July 1, 1982, receive cash for a portion of unused medical leave at death or retirement. For employees hired after July 1, 1982, the City funds the value of medical leave balances converted to a retiree health savings account for the participant immediately upon retirement. To be eligible for the medical leave conversion, the employee must retire and have accumulated 300 or more hours of medical leave (420 or more hours for 56 hour workweek employees) and will be funded at 100 percent for any medical leave hours accrued prior to July 1, 2011. If an employee has not accrued 1,200 hours before July 1, 2011, the employee will be funded the unused medical leave accrued after July 1, 2011, at 50 percent of the employee's hourly base rate at the time of retirement, up to and including 1,200 hours accrued both before and after July 1, 2011. Employees who work a 56 hour workweek will have the same rules apply, except their cap is 1,680 medical leave hours.

Vacation pay is calculated based on vacation used and the medical leave conversion is based on an actuarial valuation dated January 1, 2015. The medical leave conversion and vacation pay amounts are accrued in the government-wide and proprietary fund financial statements. A liability for the current amount of compensated absences is recorded as a current liability at June 30, 2015, in the governmental and proprietary funds. The current liability represents compensated absences that have matured but were not paid as of June 30, 2015, that resulted from employee resignations and retirements. The current compensated absences amount in the governmental funds is combined with accrued payroll and other payroll related amounts in the accrued payroll and benefits line item. There is no long-term liability for compensated absences in the governmental funds.

8. Long Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the government-wide financial statements and the proprietary fund financial statements include a section for deferred outflows of resources. This represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for this category: deferred amounts on refunding and pension-related amounts. Deferred amounts on refunding result from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The pension-related amounts result from differences between expected and actual experience, changes of assumptions or other inputs, the difference between projected and actual investment earnings, changes in proportion and differences between employer contributions and proportionate share of contributions, and contributions made to the pension plan from the employer subsequent to the measurement date of the net pension liability and before the end of the reporting period. With the exception of the difference between projected and actual investment earnings and contributions made to the pension plan from the employer subsequent to the measurement date of the net pension liability and before the end of the reporting period, the pension-related deferred outflows of resources should be recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period.

The deferred outflows of resources relating to the difference between projected and actual investment earnings should be recognized in pension expense using a systematic and rational method over a closed five-year period, beginning in the current reporting period. The deferred outflow of resources relating to contributions made to the pension plan from the employer subsequent to the measurement date of the net pension liability and before the end of the reporting period will reduce the beginning net pension liability in the following fiscal year.

In addition to liabilities, the fund financial statements include a section for deferred inflows of resources. This represents an acquisition of fund balance or net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for this category: unavailable revenue and pension-related amounts. Unavailable revenue, which arises only under the modified accrual basis of accounting, is recognized as an inflow of resources in the period that the related amounts become available. The pension-related amounts result from differences between expected and actual experience, changes of assumptions or other inputs, the difference between projected and actual investment earnings, and changes in proportion and differences between employer contributions and proportionate share of contributions. With the exception of the difference between projected and actual investment earnings, the pension-related deferred inflows of resources should be recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The deferred inflows of resources relating to the difference between projected and actual investment earnings should be recognized in pension expense using a systematic and rational method over a closed five-year period, beginning in the current reporting period.

10. Development Impact Fee Revenue

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

11. Fund Balance Policies

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

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

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

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

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

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

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

12. Net Position

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

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

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

Unrestricted Net Position – This category represents net position of the City not restricted for any project or other purpose.

E. Implementation of New Accounting Principles

1. Governmental Accounting Standards Board Statement No. 68

The City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided for the employees of state and local governmental employers. The pension plans are administered through trusts or equivalent arrangements in which contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms, and pension plans are legally protected from the creditors of employer and non-employer contributing entities, and the pension plan administrator.

2. Governmental Accounting Standards Board Statement No. 69

The City adopted the provisions of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement improves financial reporting for government combinations and disposals of government operations. The term government combination is used in this Statement to refer to a variety of arrangements including mergers and acquisitions. This pronouncement did not impact the preparation of these financial statements.

3. Governmental Accounting Standards Board Statement No. 71

The City adopted the provisions of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of this Statement is to address an issue regarding the application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

4. Restatement of Net Position

The City sold land in the fiscal year ended June 30, 2014 and at the time of the sale proceeds due to the Irrigation Water Distribution System (IWDS) participants were unknown. In fiscal year ended June 30, 2015 the City paid out \$1,786,992 related to the land sale to IWDS participants and the ending fund balance for water and sewer funds in the proprietary fund statement was restated to reflect this prior period adjustment.

The City restated beginning net position in the government-wide statement of net position for infrastructure paid in a prior fiscal year with a net book value of \$11,316,204 that was not determined to be a capital asset of the City until the fiscal year ended June 30, 2015. Additionally in the current fiscal year, the City recorded several land donations with building improvements received in a prior fiscal year with a net book value of \$7,724,329. Lastly, the fleet internal service fund balance and the government-wide statement of net position were restated for vehicle donations received in a prior fiscal year with a net book value of \$7,901,401.

Net position as of July 1, 2014, was restated for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The following table shows a summary of all adjustments (in thousands):

	Government-Wide Statement of Net Position		Statements of Fund Net Position				
	Governmental Activities	Business- Type Activities	Water and Sewer Utility Fund	Airport	Solid Waste	Fleet Management	Self Insurance
Net position at June 30, 2014, as previously GASB Statement No. 68 adjustments:	\$ 2,975,662	\$ 1,366,767	\$ 1,311,658	\$ 36,366	\$ 18,305	\$ 46,359	\$ 4,920
Net pension liability (measurement date as of June 30, 2013)	(239,439)	(34,356)	(24,528)	(1,535)	(8,293)	(4,343)	(881)
Deferred outflows - City contributions made during fiscal year 2014	19,015	2,010	1,433	91	486	254	52
Prior year revenue adjustment	-	(1,787)	(1,787)	-	-	-	-
Capital asset adjustment	26,942	-	-	-	-	7,901	-
Net position at July 1, 2014, as restated	<u>\$ 2,782,180</u>	<u>\$ 1,332,634</u>	<u>\$ 1,286,776</u>	<u>\$ 34,922</u>	<u>\$ 10,498</u>	<u>\$ 50,171</u>	<u>\$ 4,091</u>

A stand-by commitment account equal to the maximum annual debt service of \$321,070 for the Waterfront Community Facilities District (CFD) was moved from the Waterfront CFD to the Debt Stabilization Fund since the CFD has no legal rights to these funds.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The City's total governmental fund balances, \$213,182,000 differs from net position of governmental activities, \$2,761,290,000 reported in the statement of net position. The difference primarily results from the long-term economic focus in the statement of net position versus the current financial resources focus in the governmental fund balance sheets.

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

	Total Governmental Funds	Long-Term Assets & Deferred Outflows/ Liabilities and Deferred Inflows ⁽¹⁾	Internal Service Funds ⁽²⁾	Reclassifications and Eliminations	Statement of Net Position Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Assets					
Cash and Investments	\$ 215,925	\$ -	\$ 36,097	\$ -	\$ 252,022
Cash with Fiscal Agent	63,968	-	-	-	63,968
Receivables (net of allowance for uncollectible amounts of \$38,804)					
Interest	493	-	-	-	493
Privilege Tax	18,331	-	-	-	18,331
Transient Occupancy Tax	752	-	-	-	752
Property Tax	1,960	-	-	-	1,960
State Shared Sales Tax	1,730	-	-	-	1,730
Franchise Fee	2,022	-	-	-	2,022
Court Receivable	10,204	-	-	-	10,204
Library Receivable	741	-	-	-	741
Highway User Tax	1,257	-	-	-	1,257
Auto Lieu Tax	347	-	-	-	347
Intergovernmental	21,575	-	-	-	21,575
Grants	1,950	-	-	-	1,950
Miscellaneous	6,314	-	479	-	6,793
Due from Other Funds	43	-	-	(43)	-
Supplies Inventory	227	-	812	-	1,039
Prepaid Items	-	-	-	-	-
Capital Assets (net of accumulated depreciation)	-	3,529,371	45,134	-	3,574,505
Prepayments	-	30,500	-	-	30,500
Service Concession Arrangements	-	74,417	-	-	74,417
Total Assets	347,839	3,634,288	82,522	(43)	4,064,606
Deferred Outflows of Resources					
Deferred Amounts on Refundings	-	29,561	-	-	29,561
Pension-Related Amounts	-	45,627	597	-	46,224
Total Deferred Outflows of Resources	-	75,188	597	-	75,785
Total Assets and Deferred Outflows of Resources	\$ 347,839	\$ 3,709,476	\$ 83,119	\$ (43)	\$ 4,140,391
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE/NET POSITION					
Liabilities					
Accounts Payable	\$ 11,952	\$ -	\$ 1,972	\$ -	\$ 13,924
Accrued Payroll and Benefits	9,016	(143)	189	-	9,062
Due to Other Funds	43	-	1,048	(43)	1,048
Accrued Compensated Absences - Current	-	143	-	-	143
Accrued Compensated Absences - Due within one year	-	11,287	175	-	11,462
Accrued Compensated Absences - Due in more than one year	-	14,011	217	-	14,228
Claims Payable - Due within one year	-	-	6,620	-	6,620
Matured Bond Interest Payable	16,253	-	-	-	16,253
Matured Bonds Payable	46,361	-	-	-	46,361
Unearned Revenue					
Intergovernmental	6,998	-	-	-	6,998
Other	1,524	-	-	-	1,524
Due to Other Governments	4,327	-	-	-	4,327
Guaranty and Other Deposits	2,330	-	-	-	2,330
Other	3,394	-	-	-	3,394
Bonds, Loans, Capital Leases, and Other Payables	-	1,195,741	14,005	-	1,209,746
Total Liabilities	102,198	1,221,039	24,226	(43)	1,347,420
Deferred Inflows of Resources					
Unavailable Revenue	32,459	(32,459)	-	-	-
Pension-Related Amounts	-	30,862	819	-	31,681
Total Deferred Inflows of Resources	32,459	(1,597)	819	-	31,681
Total Liabilities and Deferred Inflows of Resources	134,657	1,219,442	25,045	(43)	1,379,101
Fund Balances/Net Position					
Total Fund Balances/Net Position	213,182	2,490,034	58,074	-	2,761,290
Total Liabilities, Deferred Inflows of Resources, and Fund Balances/Net Position	\$ 347,839	\$ 3,709,476	\$ 83,119	\$ (43)	\$ 4,140,391

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

(in thousands)

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

Cost of capital assets	\$ 5,461,467
Accumulated depreciation	(1,932,096)
	<u>\$ 3,529,371</u>

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

Prepayments at 7/1/14	\$ 31,467
Amortization of prepayments	(967)
	<u>\$ 30,500</u>
SCAs at 7/1/14	\$ 67,022
Land improvements additions for SCAs	11,299
Amortization of SCAs	(3,904)
	<u>\$ 74,417</u>

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

Deferred amounts on refundings	\$ 29,561
Pensions	45,627
	<u>\$ 75,188</u>

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net position. Balances at June 30, 2015, were:

Capital leases payable	\$ (229)
Bonds payable	(887,325)
Service concession arrangement	(2,837)
Issuance premium	(67,810)
Accrued vacation and sick leave pay	(25,298)
Post employment - explicit subsidy	(915)
Net pension liability	(236,625)
	<u>\$ (1,221,039)</u>

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

Unavailable library revenue	\$ 741
Unavailable court revenue	3,766
Unavailable property tax revenue	1,126
Unavailable privilege tax revenue	5,255
Unavailable transient occupancy tax revenue	54
Unavailable intergovernmental revenue	20,232
Unavailable other	1,285
	<u>\$ 32,459</u>

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

\$ (30,862)

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

\$ 58,074

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

The net change in fund balances for governmental funds, \$27,709,000 differs from the change in net position for the governmental activities, \$(20,890,000) reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated in the next table.

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2015

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

(in thousands)

	Total Governmental Funds	Long-Term Revenue/ Expenses ⁽³⁾	Capital Related Items ⁽⁴⁾	Internal Service Funds ⁽⁵⁾	Reclassifications and Eliminations ⁽⁶⁾	Long-Term Debt Transactions ⁽⁷⁾	Statement of Activities
REVENUES							
Taxes - Local							
Property	\$ 64,272	\$ (120)	\$ -	\$ 2,077	\$ -	\$ -	\$ 66,229
Transaction Privilege	163,923	(1,587)	-	-	-	-	162,336
Transient Occupancy	17,047	(191)	-	-	-	-	16,856
Light and Power Franchise	8,691	-	-	-	-	-	8,691
Cable TV Franchise	3,748	-	-	-	-	-	3,748
Salt River Project In-Lieu	264	-	-	-	-	-	264
Other Taxes	906	4	-	-	-	-	910
Taxes - Intergovernmental							
State-Shared Sales	19,867	-	-	-	-	-	19,867
State Revenue Sharing	26,316	-	-	-	-	-	26,316
Auto Lieu Tax	8,307	-	-	-	-	-	8,307
Highway User Tax	13,461	-	-	-	-	-	13,461
Local Transportation Assistance Fund	652	-	-	-	-	-	652
Business and Liquor Licenses	1,925	61	-	-	-	-	1,986
Charges for Current Services							
Building and Related Permits	15,210	(14)	-	-	(41)	-	15,155
Recreation Fees	5,551	(7)	-	-	-	-	5,544
WestWorld Equestrian Facility Fees	4,176	143	-	-	-	-	4,319
Fire Fees	918	37	-	-	-	-	955
Fines and Forfeitures							
Court	4,321	(709)	-	-	-	-	3,612
Parking	243	(24)	-	-	-	-	219
Photo Radar	2,883	(17)	-	-	-	-	2,866
Court Enhancement	1,753	-	-	-	-	-	1,753
Library	340	450	-	-	-	-	790
Police Fees	460	-	-	-	-	-	460
Property Rental	5,282	(31)	-	-	-	-	5,251
Interest Earnings	1,934	-	-	-	-	-	1,934
Investment Income	(562)	-	-	-	-	-	(562)
Intergovernmental							
Federal Grants	10,143	592	-	-	-	-	10,735
State Grants	360	24	-	-	-	-	384
Miscellaneous	9,343	(3,363)	-	-	-	-	5,980
Developer Contributions	653	-	-	-	-	-	653
Streetlight and Services Districts	531	-	-	-	-	-	531
Contributions and Donations	3,558	(286)	-	-	-	-	3,272
Reimbursements from Outside Sources	3,445	(24)	-	-	-	-	3,421
Indirect Costs	6,987	-	-	-	-	-	6,987
Other	5,134	34	-	-	(11)	-	5,157
Total Revenues	\$ 412,042	\$ (5,028)	\$ -	\$ 2,077	\$ (52)	\$ -	\$ 409,039

(continued)

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

(in thousands)

	Total Governmental Funds	Long-Term Revenue/ Expenses ⁽³⁾	Capital Related Items ⁽⁴⁾	Internal Service Funds ⁽⁵⁾	Reclassifications and Eliminations ⁽⁶⁾	Long-Term Debt Transactions ⁽⁷⁾	Statement of Activities
EXPENDITURES/EXPENSES							
Current							
General Government							
Mayor and City Council	\$ 784	\$ 5	\$ -	\$ 1	\$ -	\$ -	\$ 790
City Clerk	917	8	2	-	-	-	927
City Attorney	6,012	85	1	5	-	-	6,103
City Auditor	782	10	-	-	-	-	792
City Court	5,584	52	42	4	-	-	5,682
City Manager	1,832	(5)	-	1	-	-	1,828
City Treasurer	4,904	88	103	4	(11)	-	5,088
Public Works	34,518	16	6,263	(166)	-	-	40,631
Community and Economic Development	44,550	4,098	90,373	(81)	(41)	-	138,899
Public Safety	123,761	6,880	5,433	(416)	(11)	-	135,647
Community Services	44,998	867	9,333	(64)	-	-	55,134
Administrative Services	15,050	175	2,632	(8)	-	-	17,849
Streetlight and Services Districts	583	-	-	-	-	-	583
Debt Service							
Principal	105,930	-	-	-	-	(105,930)	-
Interest and Fiscal Charges	36,706	-	-	-	-	(2,572)	34,134
Bond Issuance Costs	1,643	-	-	-	-	-	1,643
Capital Outlay	52,164	-	(52,164)	-	-	-	-
Total Expenditures/Expenses	\$ 480,718	\$ 12,279	\$ 62,018	\$ (720)	\$ (63)	\$ (108,502)	\$ 445,730
OTHER FINANCING USES/ CHANGES IN NET POSITION							
Net Transfers (to) from Other Funds	\$ 6,595	\$ -	\$ -	\$ (16)	\$ -	\$ -	\$ 6,579
Capital Contributions	-	-	8,703	51	(11)	-	8,743
Proceeds from Sale of Assets	-	-	-	479	-	-	479
Issuance of Refunding Bonds	207,173	-	-	-	-	(207,173)	-
Issuance of Long-Term Capital-Related Debt	26,815	-	-	-	-	(26,815)	-
Premium on Long-Term Debt Issued	23,871	-	-	-	-	(23,871)	-
Payment to Refunded Bonds Escrow Agent	(168,069)	-	-	-	-	168,069	-
Total	96,385	-	8,703	514	(11)	(89,790)	15,801
Net Change for the Year	\$ 27,709	\$ (17,307)	\$ (53,315)	\$ 3,311	\$ -	\$ 18,712	\$ (20,890)

(continued on next page)

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2015

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

(in thousands)

Reconciling Items Description

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

Property tax revenue	\$	(120)
Court revenue		(755)
Library revenue		450
Privilege tax revenue		(1,597)
Transient occupancy tax revenue		54
Intergovernmental revenue		(2,840)
Other receivable revenue		(208)
	\$	<u>(5,016)</u>

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

Amortization of long-term prepaid leases	\$	<u>(967)</u>
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrual for long-term compensated absences	\$	(778)
Accrual for long-term post employment implied subsidy		(288)
Pension expense		(24,523)
Amortization of service concession arrangements (SCAs)		(3,904)
	\$	<u>(29,493)</u>

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

\$ 18,169

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

Capital expenditures	\$	52,164
Miscellaneous net capital expenditures		(1,562)
Depreciation expense		(110,892)
Loss on disposal of capital assets		(1,728)
	\$	<u>(62,018)</u>

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

Capital contributions	\$	<u>8,703</u>
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(continued)

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

(in thousands)

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

Change in net position	\$	3,921
Internal payable to Enterprise Fund		(610)
	\$	<u>3,311</u>

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

Reduction in revenues/capital contributions - Governmental Funds	\$	(63)
Reduction in expenditures/expenses - Governmental Funds		63
	\$	<u>-</u>

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

Transferred to the paying agent		
Principal payments made	\$	105,930
Payment to refunded bond escrow - funded by refunding bonds		168,069
	\$	<u>273,999</u>

Interest expense in the statement of activities differs from the amount reported in governmental funds because additional interest was calculated for the amortization of deferred refunding costs, and reductions of interest expense were recognized due to the amortization of bond premiums which are expended within the fund statements.

Amortization of deferred charges on refundings	\$	(2,337)
Amortization of bond premium and discounts		4,909
	\$	<u>2,572</u>

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

Refunding bonds	\$	(207,173)
Long-Term capital-related debt		(26,815)
Premium on bonds		(23,871)
	\$	<u>(257,859)</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budget and Budgetary Accounting

The City prepared an annual budget that covered fiscal year 2014/15. The fiscal year 2014/15 budget appropriation is established and reflected in the financial statements as follows:

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

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

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

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

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

In June, the budget is legally enacted through passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. Additional expenditures may be authorized for expenditures directly necessitated by a natural or man-made disaster as prescribed in the State Constitution, Article 9, Section 20. During Fiscal Year 2014/15, there were no supplemental budgetary appropriations to the original budget.

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

Upon the recommendation of the City Manager, and with the approval of the City Council: 1) transfers may be made from the appropriations for contingencies to divisions; and 2) unexpended appropriations may be transferred from one division to another.

Management control of budgets is further maintained at a line-item level within the division.

B. Excess of Expenditures over Appropriations

The General Obligation Bond Debt Service Fund exceeded its expenditure appropriations by \$55,334,000 due to a current year refunding. The additional expenditures incurred were funded by the amounts issued from the refunding bonds. The Preserve Privilege Tax Special Revenue Fund exceeded its expenditure appropriation by \$2,000. The additional expenditures incurred were funded by available fund balance or available revenues within the fund.

C. Deficit Fund Equity

The CDBG Special Revenue Fund, HOME Special Revenue Fund and Grants Special Revenue Fund had deficit ending fund balances of \$40,000, \$355,000 and \$343,000, respectively, caused by certain grant reimbursements not being available. Revenue accruals are not recognized in the current fiscal year due to the unavailability of the funds. These reimbursements due will be recognized as revenue when actually received.

The Preserve Capital Projects Fund had a deficit ending fund balance of \$16,000 due to timing differences of a pending bond issuance and accruals.

D. Fund Balance Classifications

The table on the following page details the fund balance categories and classifications for Governmental Funds (in thousands):

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2015

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City of Scottsdale, Arizona

(In thousands)	General	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES					
Nonspendable					
Inventory	\$ 227	\$ -	\$ -	\$ -	\$ 227
Total Nonspendable	227	-	-	-	227
Restricted					
Property Tax for Debt Service	-	12,172	-	-	12,172
Property Tax for Community Facility Districts	-	-	-	702	702
MPC Funds for Debt Payments	-	-	-	3	3
Street Light Districts	-	-	-	24	24
General Government Special Programs	-	-	-	2,086	2,086
Public Works Special Programs	-	-	-	58	58
Public Safety Special Programs	-	-	-	987	987
Community Services Special Programs	-	-	-	61	61
Transaction Privilege & Highway User Tax for Transportation Improvements	-	-	-	12,711	12,711
Transaction Privilege Tax for Preserve Land Purchase and Improvements	-	-	-	33,147	33,147
Federal Grants for CDBG	-	-	-	34	34
Federal Grants for Section 8 Housing	-	-	2	333	335
Transaction Privilege Tax for Transportation Capital Improvements	-	-	-	27,269	27,269
GO Bond Proceeds for Capital Improvements	-	-	-	14,422	14,422
MPC Bond Proceeds for Capital Improvements	-	-	-	145	145
External Contributions for Capital Improvements	-	-	2,197	-	2,197
Stadium Contributions for Stadium Capital Improvements	-	-	566	-	566
Sales Tax Rebate for District Debt Service	-	-	-	321	321
Stadium Surcharge for Debt Service	-	-	-	1,753	1,753
Maricopa County Stadium District Contract for Debt Service	-	-	-	3,419	3,419
In-Lieu Fee for Street Improvement	-	-	42	-	42
State Tourism Authority Contract for Debt Service	-	-	-	783	783
Total Restricted	-	12,172	2,807	98,258	113,237
Committed					
General Government Special Programs	-	-	-	2,544	2,544
Community and Economic Development Special Programs	-	-	-	2,096	2,096
Public Safety Special Programs	-	-	-	437	437
Community Services Special Programs	-	-	-	1,812	1,812
Transit Occupancy Tax for Tourism Development	-	-	-	9,787	9,787
Excise Tax Debt Reserve	-	-	-	4,700	4,700
General Fund Contribution for Capital Improvements	-	-	26,855	-	26,855
Stadium Surcharge for Stadium Improvements	-	-	408	-	408
Tourism Development Capital Projects	-	-	383	-	383
In Lieu Stormwater Fees for Drainage Improvements	-	-	258	-	258
In Lieu Parking Fees for Parking Projects	-	-	274	-	274
Total Committed	-	-	28,178	21,376	49,554
Unassigned	56,017	-	(4,754)	(1,099)	50,164
Total Fund Balances	\$ 56,244	\$ 12,172	\$ 26,231	\$ 118,535	\$ 213,182

The Mayor and City Council have established a minimum fund balance policy of 10 percent of annual general governmental operating expenditures to be maintained in the General Fund and the Transportation, Nonmajor Special Revenue Fund. The reserves in these funds are to be maintained for unforeseen emergencies or catastrophic impacts to the City.

E. Net Position Restrictions

Only restrictions imposed by external sources are shown as restricted net position on the government-wide financial statements. The following restrictions apply to the Business-Type Activities at June 30, 2015:

Net Position Restrictions (in thousands)

Water and Sewer

Restricted for System Replacement	\$	37,914
Restricted for Debt Service		4,692
Restricted for Joint Venture Construction Deposits		4,295
	<u>\$</u>	<u>46,901</u>

IV. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

The City maintains a cash and investment pool for use by all funds except the Community Facilities Districts, Municipal Property Corporation and Scottsdale Preserve Authority Funds, which have investments held separately by a trustee.

City Charter, ordinance, and trust agreements authorize the City to invest in obligations of the U.S. Treasury, U.S. Government agencies, certificates of deposit, bankers' acceptances, commercial paper (A-1, P-1), highly rated corporate bonds/notes, repurchase agreements, mutual funds consisting of the foregoing, and the State of Arizona Local Government Investment Pool (LGIP).

Deposits

At June 30, 2015, the carrying amount of the City's deposits was \$292,548,582, and the bank balance was \$294,686,684. The \$2,138,102 difference represents outstanding checks, deposits in transit, and other reconciling items.

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, 2015, in accordance with City policy, \$500,000 of the City's deposits were covered by federal depository insurance, \$37,727,981 were CDARS covered by federal depository insurance, \$160,449,107 were collateralized by securities held by the City's agent, and \$96,009,596 were securities held by the pledging financial institution's trust department in the name of the City. Thus, the City had no deposits that were exposed to custodial credit risk.

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to maturities of less than five years unless matched to a specific cash flow. The following table summarizes the City's interest rate risk, based on maturity dates of various investments (in thousands):

Investment Type	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 - 2	2 - 3
U.S. Government Securities	\$ 106,796	\$ 16,094	\$ 57,259	\$ 33,443
Federal Agency Securities	87,826	8,362	58,469	20,995
Corporate Notes	83,998	7,063	43,309	33,626
Municipal Obligations	2,024	-	2,024	-
Total Investments	\$ 280,644	\$ 31,519	\$ 161,061	\$ 88,064

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by Nationally Recognized Statistical Rating Organizations (NRSROs). Presented below is the rating as of June 30, 2015, for each investment type (in thousands):

Investment Type	Total	A-	A	A+	AA-	AA	AA+	AAA	Exempt from Disclosure
U.S. Government Securities	\$ 106,796	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 106,796
Federal Agency Securities	87,826	-	-	-	-	-	87,826	-	-
Corporate Notes	83,998	5,870	13,463	17,339	14,291	17,602	6,557	8,876	-
Municipal Obligations	2,024	-	-	-	-	-	-	2,024	-
Total Investments	\$ 280,644	\$ 5,870	\$ 13,463	\$ 17,339	\$ 14,291	\$ 17,602	\$ 94,383	\$ 10,900	\$ 106,796

Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer.

The following is a listing by issuer of the City's investments at June 30, 2015:

(in thousands)

Issuer	Investment Type	Market Value	Percent of Holdings
U.S. Government	U.S. Government Securities	\$ 106,796	38.05%
Federal Home Loan Bank (FHLB)	Federal Agency Securities	23,272	8.29%
Federal Home Loan Mortgage Corporation (FHLMC)	Federal Agency Securities	37,640	13.41%
Federal National Mortgage Association (FNMA)	Federal Agency Securities	26,914	9.59%
AZ School Facilities Board	Municipal Obligations	2,024	0.72%
American Express Co	Corporate Notes	5,870	2.09%
American Honda Finance	Corporate Notes	5,631	2.01%
Apple Inc	Corporate Notes	6,557	2.34%
Bank of New York Co Inc	Corporate Notes	5,572	1.99%
Berkshire Hathaway Inc	Corporate Notes	6,059	2.16%
Caterpillar Inc	Corporate Notes	2,453	0.87%
Chevron Corp	Corporate Notes	2,791	1.00%
Cisco Systems Inc	Corporate Notes	6,021	2.15%
Coca-Cola Co	Corporate Notes	6,327	2.25%
Exxon Mobil Corp	Corporate Notes	5,276	1.88%
IBM Corp	Corporate Notes	5,542	1.98%
Johnson & Johnson	Corporate Notes	3,600	1.28%
JP Morgan Chase & Co	Corporate Notes	2,730	0.97%
PepsiCo Inc	Corporate Notes	4,998	1.78%
The Walt Disney Corporation	Corporate Notes	3,282	1.17%
Toyota Motor Corp	Corporate Notes	2,727	0.97%
Walmart Stores Inc	Corporate Notes	2,425	0.86%
Wells Fargo & Co	Corporate Notes	6,137	2.19%
Total Investments		<u><u>\$ 280,644</u></u>	<u><u>100.00%</u></u>

Investments

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

Cash on Hand	\$ 20
Carrying Amount of City Deposits	292,548
Investments	<u>280,644</u>
Total Cash and Investments	<u><u>\$ 573,212</u></u>

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

Primary Government	
Cash and Investments	\$ 429,599
Cash with Fiscal Agent	96,009
Restricted Cash	46,124
Handicap Scholarship Private Purpose Trust Fund	10
Family Self-Sufficiency Agency Fund	55
Crossroads East Dev Agreement	<u>1,415</u>
Total Cash and Investments	<u><u>\$ 573,212</u></u>

Investment income comprises the following for the year ended June 30, 2015 (in thousands):

Net Interest and Dividends	\$ 3,717
Net Decrease in the Fair Value of Investments	(999)
Total Net Investment Income	\$ 2,718

The net decrease in the fair value of investments during Fiscal Year 2014/15 was \$998,595. This amount takes into account all changes in fair value (realized and unrealized) that occurred during the year.

B. Receivables

Receivables as of June 30, 2015, for the government's individual major governmental funds, nonmajor governmental funds, and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows (in thousands):

Governmental and Governmental Activities Internal Service Funds

	General	General Obligation Bond Debt Service	General CIP Construction Capital Projects	Nonmajor and Other Funds	Total Governmental and Internal Service Funds
Receivables					
Property Taxes and Penalties					
Property	\$ 827	\$ 1,047	\$ -	\$ 86	\$ 1,960
Court	47,307	-	-	-	47,307
Subtotal Property Taxes and Penalties	48,134	1,047	-	86	49,267
Other Local Taxes					
Privilege	14,905	-	-	4,267	19,172
Transient Occupancy	-	-	-	752	752
State Shared Sales	1,730	-	-	-	1,730
Franchise Fee	1,964	-	-	58	2,022
Auto Lieu	347	-	-	-	347
Highway User	-	-	-	1,257	1,257
Subtotal Other Local Taxes	18,946	-	-	6,334	25,280
Intergovernmental/Grants	-	-	1,418	22,107	23,525
Interest and Other					
Interest	296	-	74	123	493
Library	1,601	-	-	-	1,601
Miscellaneous	3,101	-	2,710	982	6,793
Subtotal Interest and Other	4,998	-	2,784	1,105	8,887
Gross Receivable	72,078	1,047	4,202	29,632	106,959
Less: Allowances for Uncollectibles	(38,804)	-	-	-	(38,804)
Net Total Receivables	\$ 33,274	\$ 1,047	\$ 4,202	\$ 29,632	\$ 68,155

Business-Type Activities Enterprise Funds

	Water and Sewer Utility	Airport	Solid Waste	Total Enterprise Fund
Receivables				
Privilege Tax	\$ -	\$ 15	\$ -	\$ 15
Charges for Services	13,390	-	1,840	15,230
Intergovernmental	-	96	-	96
Interest	179	5	12	196
Miscellaneous	2,814	221	82	3,117
Gross Receivable	16,383	337	1,934	18,654
Less: Allowances for Uncollectibles	(39)	-	-	(39)
Net Total Receivables	\$ 16,344	\$ 337	\$ 1,934	\$ 18,615

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

	Unavailable	Unearned
Property Tax	\$ 1,126	\$ -
Transient Occupancy Tax	54	-
Court	3,766	-
Library	741	-
Privilege Tax	5,255	-
Intergovernmental	20,232	6,998
Other	1,285	1,524
Total	\$ 32,459	\$ 8,522

C. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows (in thousands):

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land*	\$ 1,842,865	\$ 16,354	\$ (351)	\$ 1,858,868
Construction in Progress**	106,065	52,476	(140,234)	18,307
Total Capital Assets, not being depreciated	1,948,930	68,830	(140,585)	1,877,175
Capital Assets, being depreciated				
Buildings and Land Improvements***	656,322	56,977	(1,455)	711,844
Streets and Storm Drains	2,763,354	45,248	(621)	2,807,981
Vehicles****	66,500	8,144	(4,889)	69,755
Equipment Maintained by Fleet	2,681	-	(302)	2,379
Machinery and Equipment	87,794	17,499	(26,992)	78,301
Total Capital Assets, being depreciated	3,576,651	127,868	(34,259)	3,670,260
Less Accumulated depreciation for				
Buildings and Land Improvements***	277,775	20,112	(478)	297,409
Streets and Storm Drains	1,512,322	86,512	(450)	1,598,384
Vehicles****	34,678	5,211	(4,672)	35,217
Equipment Maintained by Fleet	2,496	27	(302)	2,221
Machinery and Equipment	61,560	4,797	(26,658)	39,699
Total Accumulated depreciation	1,888,831	116,659	(32,560)	1,972,930
Total Capital Assets, being depreciated, net:	1,687,820	11,209	(1,699)	1,697,330
Governmental Activities Capital Assets, net	\$ 3,636,750	\$ 80,039	\$ (142,284)	\$ 3,574,505

*The Land category had increases of \$3,653,124 for a prior period adjustment primarily due to land donations received but not recorded.

**The Construction in Progress category had decreases of \$11,298,684 for assets related to a Service Concessionaire Arrangement (SCA). The capitalized amounts have been included in the City's SCA asset classification per GASB 60.

***The Building and Land Improvement category was restated due to a prior period adjustment for an increase cost of \$17,205,594 and accumulated depreciation of \$1,818,185 to capitalize underground infrastructure and building improvements.

****The Vehicles category was restated for trolleys that were donated to the City in a prior year but not recorded with cost of \$8,363,343 and accumulated depreciation of \$461,942.

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	\$ 48,821	\$ 1,504	\$ -	\$ 50,325
Water Rights	87,171	-	-	87,171
Construction in Progress	10,157	34,588	(21,338)	23,407
Total Capital Assets, not being depreciated	146,149	36,092	(21,338)	160,903
Capital Assets, being depreciated				
Water System*	1,160,437	11,643	(561)	1,171,519
Sewer System*	583,667	8,719	(124)	592,262
Buildings and Land Improvements	30,759	-	(175)	30,584
Machinery and Equipment*	8,071	42	(2,760)	5,353
Vehicles	830	-	(202)	628
Furniture, Fixtures, and Office Equipment*	754	-	(141)	613
Total Capital Assets, being depreciated	1,784,518	20,404	(3,963)	1,800,959
Less Accumulated depreciation for				
Water System*	366,398	31,676	(561)	397,513
Sewer System*	171,672	15,554	(80)	187,146
Buildings and Land Improvements	13,888	1,059	(176)	14,771
Machinery and Equipment*	3,537	1,142	(2,272)	2,407
Vehicles	631	42	(202)	471
Furniture, Fixtures, and Office Equipment*	691	34	(141)	584
Total Accumulated depreciation	556,817	49,507	(3,432)	602,892
Total Capital Assets, being depreciated, net:	1,227,701	(29,103)	(531)	1,198,067
Business-Type Activities Capital Assets, net	\$ 1,373,850	\$ 6,989	\$ (21,869)	\$ 1,358,970

*Assets were restated to move cost of \$15,179,962, accumulated depreciation of \$5,324,534 from Machinery & Equipment and cost of \$59,203, accumulated depreciation of \$28,169 from Furniture, Fixtures and Office Equipment to Water System cost \$6,293,365, accumulated depreciation \$3,794,227 and cost of \$8,945,800, accumulated depreciation of \$1,558,476 to Sewer System.

During fiscal year 2014/15, the Water and Sewer Utility Enterprise Fund capitalized net interest costs of \$871,383. Total interest expense in this fund before capitalization was \$14,877,356.

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

Governmental Activities	
City Clerk	\$ 2
City Court	39
Public Works	6,747
Community and Economic Development	88,239
Public Safety	4,439
City Treasurer	73
Community Services	8,529
Administrative Services	2,824
Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on their Usage of the Assets	5,767
Total Depreciation Expense - Government Activities	<u>\$ 116,659</u>
Business-Type Activities	
Water and Sewer System	\$ 48,262
Airport	1,000
Solid Waste	245
Total Depreciation Expense - Business-Type Activities	<u>\$ 49,507</u>

Construction Commitments

The City has active construction projects as of June 30, 2015. At year-end the government's commitments with contractors for specific projects are as follows (in thousands):

<u>Capital Project Program Classification</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Aviation	\$ 2,058	\$ 4,120
Drainage and Flood Control	1,115	2,150
Fire Protection	48	387
Municipal Facilities	571	429
Neighborhood and Community	4,153	1,726
Parks	344	191
Police	430	475
Preservation	771	571
Streets	2,237	2,112
Technology	42	142
Traffic	462	658
Transit	4,994	2,721
Wastewater	4,804	4,391
Water	14,142	13,449
Total Construction Commitments	<u>\$ 36,171</u>	<u>\$ 33,522</u>
Governmental Activities:		
General CIP Construction Capital Project Fund	\$ 3,509	\$ 3,743
Nonmajor Governmental Funds	11,545	7,680
Internal Service Funds	109	133
Total Governmental Activities	<u>15,163</u>	<u>11,556</u>
Business-Type Activities:		
Water & Sewer Utility	18,950	17,846
Airport	2,058	4,120
Total Business-Type Activities	<u>21,008</u>	<u>21,966</u>
Total Construction Commitments	<u>\$ 36,171</u>	<u>\$ 33,522</u>

D. Interfund Balances and Interfund Transfers

Due To and Due From Other Funds

"Due to" and "Due from" balances have been recorded to address temporary cash flow needs. The composition of interfund balances as of June 30, 2015, is as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
<u>(in thousands)</u>		<u>(in thousands)</u>	
General Fund	<u>\$ 43</u>	Nonmajor Governmental Funds	<u>\$ 43</u>

The HOME Special Revenue Fund had a deficit cash balance of \$2,356 due to grants being received on a reimbursement basis. The MPC Bond Capital Project Fund had a deficit cash balance of \$34,698 due to a timing difference for the City to be reimbursed from the cash with fiscal agent. The Preserve Capital Project Fund had deficit cash balance \$6,479 due to timing difference for the City to be reimbursed for a pending bond issuance.

Interfund Transfers

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

Net Transfers (in thousands)

	<u>Transfers Out</u>	<u>Transfers In</u>
Governmental Funds		
General	\$ 25,493	\$ 10,012
Debt Service - General Obligation Bond	-	21,461
Capital Projects - General CIP Construction	2,014	22,782
Nonmajor Governmental Funds	55,704	35,551
Total Governmental Funds	<u>83,211</u>	<u>89,806</u>
Enterprise Funds		
Water and Sewer Utility	6,800	229
Airport	4	-
Solid Waste	4	-
Total Enterprise Funds	<u>6,808</u>	<u>229</u>
Internal Service Funds	<u>16</u>	<u>-</u>
Total Transfers	<u><u>\$ 90,035</u></u>	<u><u>\$ 90,035</u></u>

E. Leases

Operating Leases

City as Lessee

The City, as a lessee, has entered into lease agreements involving office space, park equipment, vehicles, a distributed antenna system, and a street sweeper and trailer. Payments relating to these leases totaled \$650,334, of which \$488,016 was the minimum and \$162,318 was contingent. The contingent payments were a percentage of the net revenues generated by the park equipment.

The distributed antenna system's lease increases annually by 3 percent as per the lease agreement's escalation clause, and may be renewed by the City for up to ten years subsequent to the initial lease term's ending date of March 31, 2020.

The street sweeper and trailer lease may be renewed by the City for up to one year subsequent to the current lease term's initial termination date of December 21, 2015.

The future lease payments under non-cancellable operating lease agreements are as follows (in thousands):

<u>Fiscal Year</u> <u>Ending June 30,</u>	
2016	\$ 32
2017	6
2018	6
2019	7
2020	2
Total	<u><u>\$ 53</u></u>

City as Lessor

The City has agreements in which it conveys the right to use land, airport facilities, and other capital assets that it accounts for as operating leases. Minimum future rentals on noncancellable operating leases at June 30, 2015, are as follows (in thousands):

Fiscal Year Ending June 30,	
2016	\$ 2,774
2017	2,714
2018	2,610
2019	2,508
2020	2,359
Thereafter	79,491
Total	\$ 92,456

The above amounts do not include contingent rentals, which totaled \$2,056,817 for the fiscal year ended June 30, 2015.

A summary of the assets leased to third parties under the City's operating lease agreements at June 30, 2015, is as follows (in thousands):

Cost	\$ 77,832
Less: Accumulated Depreciation	(4,983)
Carrying Value	\$ 72,849

Capital Leases

The City has entered into a lease agreement as lessee for financing the acquisition of field maintenance equipment for its community services operations. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, is included in the City's governmental capital assets. The equipment acquired through this lease agreement is recorded at a cost of \$63,643, less accumulated amortization of \$49,500. Current year amortization expense was \$21,214.

The City has entered into a lease agreement as lessee for financing the acquisition of printing and imaging equipment for its administrative operations. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, is included in the City's governmental capital assets. The equipment acquired through this lease agreement is recorded at a cost of \$296,434, less accumulated amortization of \$88,930. Current year amortization expense was \$59,287.

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

Fiscal Year Ending June 30,	
2016	\$ 81
2017	65
2018	66
2019	33
Less: Imputed Interest	(16)
Total	\$ 229

F. Service Concession Arrangements

During fiscal year 1983, the City entered into a cost-sharing and land use agreement with the United States Bureau of Reclamation (BOR), under which the City would operate and develop the land where the City's WestWorld operation is located for a period of 50 years (with a mutual option to renew for an additional 25 years). The City entered into this agreement to develop the WestWorld facility for public recreation use and to enhance its revenue stream from rentals, concession sales and parking fees. Beginning in fiscal year 2001, the BOR required the City to make annual payments for the administration of the agreement, and the present value of those payments as of June 30, 2015, is \$1,359,326. The City has also provided consideration in the form of land improvements with a book value of \$10,501,827 as of June 30, 2013, upon implementation of GASB Statement No. 60. and an additional \$49,331,437 through the fiscal year ended June 30, 2015. These improvements were reclassified from capital assets to an intangible asset. The City has recognized an intangible asset (net of accumulated amortization) in the amount of \$56,250,736 at year-end pursuant to the service concession arrangement.

During fiscal year 1985, the City entered into a recreational land use agreement with the BOR, under which the City would develop, operate and maintain the land where the City's Tournament Players Club (TPC) golf complex is located for a period of 50 years (with a mutual option to renew for an additional 25 years). The City entered into this agreement to develop the TPC complex for public recreation use and to enhance its revenue stream from facility usage fees and rentals. Beginning in fiscal year 1999, the BOR required the City to make annual payments for the administration of the agreement, and the present value of those payments as of June 30, 2015, is \$1,477,560. The City also provided consideration in the form of land improvements with a book value of \$10,126,752 as of June 30, 2013, upon implementation of GASB Statement No. 60 and an additional \$7,801,274 through the fiscal year ended June 30, 2015. These improvements were reclassified from capital assets to an intangible asset. The City has recognized an intangible asset (net of accumulated amortization) in the amount of \$18,166,199 at year-end pursuant to the service concession arrangement.

G. Bonds, Loans, and Other Payables

The following are brief descriptions of bonds outstanding at June 30, 2015. The totals shown are the principal amount outstanding, net of the current portion due July 1, 2015.

General Obligation Bonds

General Obligation (GO) bonds are issued, after approval by City of Scottsdale voters at an authorized bond election, to finance the construction of water and sewer systems, artificial lighting, parks and open spaces, recreational facilities, and general purpose improvements. At June 30, 2015, the City had \$6,400,000 of unissued various purpose GO bonds, which were authorized in September 2000. In May 2004, voters authorized \$500,000,000 of additional Preservation GO bonds, as well as an additional 0.15 percent sales tax increase to be used to finance Preserve land acquisitions. At June 30, 2015, the City had \$298,475,000 of unissued Preservation GO bonds from the May 2004 authorization. Preservation GO bonds are backed by the full faith and credit of the City, and are repaid through the Preserve sales tax approved by voters in May 1995 and May 2004 to be used specifically to finance land acquisitions for the McDowell Sonoran Preserve.

Municipal Property Corporation Bonds

The City of Scottsdale Municipal Property Corporation (MPC) is a nonprofit corporation created by the City in 1967 to finance the construction or acquisition of certain capital improvement projects. The MPC issues its own bonds, which are repaid through the City's excise tax collections and other unrestricted revenues. The use of property taxes to repay these bonds is specifically prohibited by law. Most of these bonds are recorded as governmental activities long-term debt. The 2005E MPC bonds, a portion of the 2006 MPC refunding bonds, the 2008A MPC bonds, the 2010 MPC bonds, a portion of the 2015A MPC bonds, and a portion of the 2015 MPC refunding bonds are recorded in and paid out of the revenues of the Water and Sewer Enterprise Fund.

The City of Scottsdale entered into an Intergovernmental Agreement with the Arizona Tourism and Sports Authority, doing business as the Arizona Sports and Tourism Authority (AZSTA) pertaining to the Scottsdale municipal spring training facility renovation project in March 2005. Per this agreement, City of Scottsdale MPC bonds were issued for \$20,000,000, with one third of the repayments provided by the City from funds received by the Maricopa County Stadium District (MCSD) and two thirds of the repayments provided to the City by the AZSTA.

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

The City has pledged to repay \$584,900,322 in MPC bonds issued from 2004 through June 30 2010, payable through 2036, with pledged revenues that include transient occupancy tax. The coverage ratio (revenues to debt service) for 2015 for these bonds is 5.40. The City issued \$226,605,000 in MPC bonds July 1, 2010 through 2015, payable through 2035, with pledged revenues that exclude the transient occupancy tax. The coverage ratio (revenues to debt service) for 2015 for these bonds is 4.97.

The total principal and interest remaining to be paid on all MPC bonds is \$738,799,806. Principal and interest paid for the current year was \$39,249,260. Total excise tax collections (including transient occupancy taxes) for the current year that are pledged for MPC bonds issued before July 1, 2010 was \$212,084,000. Total excise tax collections (excluding transient occupancy taxes) for the current year that are pledged for bonds issued after July 1, 2010 was \$195,037,000.

Scottsdale Preserve Authority Bonds

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

The City has pledged to repay \$67,795,000 in SPA bonds issued in 2004 through 2011. The bonds are payable through 2024. The coverage ratio (revenues to debt service) for 2015 is 5.32. The total principal and interest remaining to be paid on the bonds is \$56,177,038. Principal and interest paid for the current year and total sales tax were \$6,469,813 and \$34,429,000, respectively.

Water and Sewer Revenue Bonds

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

Water and sewer revenue bond covenants require that the City accumulate sufficient reserves to cover the eventual replacement of the water and sewer system. The City has continued to meet this reserve requirement. At June 30, 2015, the funds restricted for this purpose were \$37,914,174.

The City has pledged to repay \$54,170,000 in water and sewer revenue bonds issued in 2004 and 2008. The bonds are payable through 2016 and 2023. The coverage ratio (revenues to debt service) for 2015 is 14.41. The total principal and interest remaining to be paid on the bonds is \$36,576,750. Principal and interest for the current year and total customer net revenues were \$4,539,438 and \$65,414,000, respectively.

Certificates of Participation

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

Community Facilities Districts General Obligation Bonds

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

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

Bonds payable at June 30, 2015, comprised of the following:

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

General Obligation Bonds	Bonds Outstanding (in thousands)
2002 Refunding Bonds (issued September 26, 2002) due in annual installments of \$1,625,000 to \$8,795,000 through July 1, 2019; interest at 2 percent to 5 percent. On April 15, 2004, \$1,510,000 due 2010 were defeased. Original issue amount \$72,000,000.	\$ 8,680
2005A Various Purpose Bonds (issued December 1, 2005) due in annual installments of \$2,500,000 to \$10,750,000 through July 1, 2024; interest at 3.5 percent to 5 percent. On May 7, 2014, \$68,500,000 due 2017 through 2023 were refunded. On April 2, 2015, \$10,750,000 due 2024 were refunded. Original issue amount \$125,000,000.	8,000
2005B Preservation Bonds (issued December 1, 2005) due in annual installments of \$775,000 to \$1,575,000 through July 1, 2024; interest at 3.5 percent to 5 percent. On May 7, 2014, \$9,175,000 due 2017 through 2023 were refunded. On April 2, 2015, \$1,575,000 due 2024 were refunded. Original issue amount \$20,000,000.	1,100
2008A Various Purpose Bonds (issued May 13, 2008) due in annual installments of \$3,075,000 to \$9,800,000 through July 1, 2028; interest at 3.25 percent to 5 percent. On April 2, 2015, \$75,225,000 due 2019 through 2028 were refunded. Original issue amount \$100,000,000.	14,675
2008B Preservation Bonds (issued May 13, 2008) due in annual installments of \$325,000 to \$1,250,000 through July 1, 2034; interest at 3 percent to 5 percent. On April 2, 2015, \$14,625,000 due 2019 through 2034 were refunded. Original issue amount \$20,000,000.	1,875
2010 Various Purpose Bonds (issued April 7, 2010) due in annual installments of \$950,000 to \$4,800,000 through July 1, 2030; interest at 2 percent to 4 percent. Original issue amount \$50,800,000.	45,000
2011 Preservation Bonds (issued February 9, 2011) due in annual installments of \$740,000 to \$1,705,000 through July 1, 2034; interest at 3 percent to 5 percent. Original issue amount \$22,525,000.	19,475
2011 Refunding Bonds (issued April 6, 2011) due in annual installments of \$640,000 to \$7,265,000 through July 1, 2024; interest at 1 percent to 5 percent. Original issue amount \$43,115,000.	28,685
2012 Preservation Bonds (issued February 2, 2012) due in annual installments of \$1,400,000 to \$18,000,000 through July 1, 2034; interest at 2 percent to 4 percent. Original issue amount \$50,000,000.	50,000
2012 Refunding Bonds (issued July 11, 2012) due in annual installments of \$205,000 to \$30,045,000 through July 1, 2025; interest at 2 percent to 4 percent. Original issue amount \$83,025,000.	82,165
2013 Preservation Bond (issued February 13, 2013) due in annual installments of \$1,000,000 to \$8,665,000 through July 1, 2034; interest at 2 percent to 4 percent. Original issue amount \$75,000,000.	74,000
2014 Preservation Bond (issued May 7, 2014) due in annual installments of \$465,000 to \$945,000 through July 1, 2034; interest at 1.75 percent to 4 percent. Original issue amount \$14,000,000.	13,535
2014 Refunding Bonds (issued May 7, 2014) due in annual installments of \$3,845,000 to \$12,230,000 through July 1, 2023; interest at 2 percent to 5 percent. Original issue amount \$83,150,000.	79,305
2015 Refunding Bonds (issued April 2, 2015) due in annual installments of \$500,000 to \$30,565,000 through July 1, 2034; interest at 3 percent to 5 percent. Original issue amount \$160,415,000.	160,415
Total General Obligation Bonds Outstanding	\$ 586,910

Some of the above General Obligation Bonds are paid from the .2 percent and .15 percent Preservation Sales Taxes.

	Bonds Outstanding (in thousands)
Municipal Property Corporation Bonds	
2004A Municipal Property Corporation Excise Tax Revenue Bonds (issued September 15, 2004) due in annual installments of \$920,000 to \$2,715,000 through July 1, 2034; interest at 3.25 percent to 5.25 percent. On November 29, 2006, \$30,975,000 due 2017 and 2020 through 2034 were refunded. On May 29, 2014, \$2,610,000 due 2018 through 2019 were refunded. Original issue amount \$40,760,000.	S 1,160
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
2005D Municipal Property Corporation Excise Tax Revenue Bonds (issued December 1, 2005) due in annual installments of \$200,000 to \$3,625,000 through July 1, 2035; interest at 3.25 percent to 5 percent. On November 29, 2006, \$25,925,000 due 2017 through 2030 were refunded. On March 26, 2015, \$16,250,000 due 2031 through 2035 were refunded. Original issue amount \$46,500,000.	1,025
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
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.	665
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 2031 were refunded. Original issue amount \$32,500,000.	2,375
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.	24,550
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.	1,345
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.	34,810
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
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.	11,995
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.	14,340
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.	46,758
Total Municipal Property Corporation Bonds Outstanding	<u>S 217,483</u>

	Bonds Outstanding (in thousands)
Scottsdale Preserve Authority Bonds	
2004 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued March 30, 2004, due in annual installments of \$75,000 to \$3,315,000 through July 1, 2016; interest at 2 percent to 5 percent. Original issue amount \$22,925,000.	\$ 3,315
2010 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued October 10, 2010, due in annual installments of \$3,110,000 to \$6,090,000 through July 1, 2024; interest at 3 percent to 5.25 percent. Original issue amount \$32,855,000.	32,855
2011 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued on April 6, 2011, due in annual installments of \$920,000 to \$1,350,000 through July 1, 2022; interest at 2 percent to 5 percent. Original issue amount \$12,015,000.	8,195
Total Scottsdale Preserve Authority Bonds	44,365
Certificates of Participation	
2010 Certificates of Participation issued August 24, 2010, due in semi-annual installments of \$984,651 to \$1,246,573 beginning January 1, 2012, through July 1, 2020; interest at 2.97 percent. Original issue amount \$20,000,000.	11,762
Community Facilities Districts General Obligation Bonds	
2002 Scottsdale Mountain Community Facilities District General Obligation Refunding Bonds (issued May 15, 2002) due in annual installments of \$160,000 to \$455,000 beginning July 15, 2003 through July 15, 2018; interest at 3 percent to 4.7 percent. Original issue amount \$5,375,000.	1,055
2007 Waterfront Commercial Community Facilities District General Obligation Bonds (issued December 11, 2007) due in annual installments of \$25,000 to \$300,000 beginning July 15, 2009 through July 15, 2032. Interest at 4.85 percent to 6.05 percent. Original issue amount \$3,805,000.	3,330
2012 DC Ranch Community Facilities District General Obligation Refunding Bonds due in annual installments of \$555,000 to \$1,245,000 beginning July 15, 2013 through July 15, 2027; interest at 3.41 percent. Original issue amount \$14,670,000.	12,485
2012 McDowell Mountain Ranch Community Facilities District General Obligation Refunding Bonds due in annual installments of \$1,020,000 to \$1,335,000 beginning July 15, 2013 through July 15, 2022; interest at 2.84 percent. Original issue amount \$11,555,000.	8,405
2012 Via Linda Community Facilities District General Obligation Refunding Bonds due in annual installments of \$135,000 to \$210,000 beginning July 15, 2013 through July 15, 2023; interest at 2.60 percent. Original issue amount \$2,000,000.	1,530
Total Community Facilities Districts General Obligation Bonds Outstanding	26,805
Total Bonds Payable Recorded in Governmental Activities	\$ 887,325

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

	Bonds Outstanding (in thousands)
Water and Sewer Revenue Bonds	
2004 Water and Sewer Revenue Refunding Bonds (Series 2004 issued March 30, 2004) due in annual installments of \$80,000 to \$3,175,000 through July 1, 2016; interest at 2 percent to 5 percent. Original issue amount \$18,880,000.	\$ 1,000
2008 Water and Sewer Revenue Refunding Bonds (Series 2008 issued February 6, 2008) due in annual installments of \$190,000 to \$4,375,000 through July 1, 2023; interest at 3.25 percent to 5.25 percent. Original issue amount \$35,290,000.	28,335
Total Water and Sewer Revenue Bonds Outstanding	29,335
Municipal Property Corporation Bonds	
2005E Municipal Property Corporation Excise Tax Revenue Bonds (issued December 1, 2005) due in annual installments of \$2,275,000 to \$6,305,000 through July 1, 2016; interest at 5 percent. On November 29, 2006, \$67,455,000 due 2017 through 2030 were refunded. Original issue amount \$88,360,000.	3,255
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.	106,910
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.	37,800
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.	73,490
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	18,175
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.	46,812
Total Municipal Property Corporation Bonds Outstanding	286,442
Total Bonds Payable Recorded in Business-Type Activities	315,777
Total Long-Term Bonds Payable	\$ 1,203,102

Statutory Debt Limitation

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt issued for water, sewer, light, parks, open space purposes, public safety and transportation facilities may not exceed 20 percent of a city's net secondary assessed valuation. Outstanding general obligation bonded debt for all other purposes may not exceed 6 percent of a city's net secondary assessed valuation. Accretion on capital appreciation bonds, which is included for GAAP purposes as outstanding debt, is excluded for this calculation. General obligation bonds of community facilities districts also are not subject to or included in this calculation. The following summarizes the City of Scottsdale, Arizona's legal general obligation bonded debt borrowing capacity at June 30, 2015:

General Obligation Bonds Issued to Provide Water, Sewer, Light, Parks, Open Spaces, Public Safety, and Transportation		General Obligation Bonds Issued for All Other Purposes	
20% Constitutional Limit	\$ 1,035,355,578	6% Constitutional Limit	\$ 310,606,673
Less General Obligation		Less General Obligation	
20% Bonds Outstanding	<u>(532,887,656)</u>	6% Bonds Outstanding	<u>(54,022,344)</u>
Available 20% Limitation Borrowing Capacity	<u>\$ 502,467,922</u>	Available 6% Limitation Borrowing Capacity	<u>\$ 256,584,329</u>

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986, is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax-exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City used an independent consultant to evaluate the City's outstanding tax-exempt debt for arbitrage liability and determined that there is no arbitrage liability due as of June 30, 2015.

Advance Refundings and Defeasances

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

The City issued \$160,415,000 of General Obligation Refunding Bonds, Series 2015 (current and advance refunding) dated April 2, 2015, with an all-in true interest cost of 2.3 percent to refund \$160,415,000 of Series 2005A and 2005B, Series 2005 Refunding and Series 2008A and 2008B Bonds. The City will reduce its total debt service payments over the next 20 years by approximately \$16,026,498 and obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$13,345,770.

The Scottsdale MPC issued \$93,570,000 of Refunding Bonds, Series 2015 (advance refunding) dated March 26, 2015, with an all-in true interest cost of 2.8 percent to refund \$99,630,000 of Series 2005A and 2005C, Series 2005D, Series 2006A and 2006B and Series 2008A Bonds. The City will reduce its total debt service payments over the next 21 years by approximately \$9,597,900 and obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$7,507,116.

The proceeds from the refunding bonds issued 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 financial statements. The amount of debt defeased that remains outstanding on the 2015 Refunding Bonds at June 30, 2015 was \$83,905,000 for MPC bonds and \$102,175,000 for General Obligation bonds.

The following table reflects refunded debt outstanding at June 30, 2015, net of any amounts to be paid or retired by the trustee on July 1, 2015.

Refunded Debt Outstanding (in thousands)	
2005C MPC Excise Tax Revenue Bonds	\$ 18,555
2005D MPC Excise Tax Revenue Bonds	42,175
2005E MPC Excise Tax Revenue Bonds	67,455
2008A MPC Excise Tax Revenue Bonds	49,100
2005 Various Purpose GO Bonds	90,000
2008 Various Purpose GO Bonds	89,850
	<u>\$ 357,135</u>

Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2015 (in thousands):

Governmental Activities	Beginning Balance	Additional Obligations, Interest Accretion, and Net Increases	Current Maturities, Retirements, and Net Decreases	Ending Balance	Amounts Due Within One Year
Bonds Payable					
General Obligation Bonds	\$ 619,065	\$ 160,415	\$ (192,570)	\$ 586,910	\$ 35,395
Municipal Property Corporation Bonds	200,840	73,573	(56,930)	217,483	8,455
Scottsdale Preserve Authority Bonds	48,505	-	(4,140)	44,365	4,340
Certificates of Participation	13,914	-	(2,152)	11,762	2,216
Communities Facilities Districts General Obligation Bonds	29,395	-	(2,590)	26,805	2,680
Add Issuance Premiums	52,186	23,871	(8,247)	67,810	-
Total Bonds Payable	963,905	257,859	(266,629)	955,135	53,086
Capital Lease	329	-	(100)	229	73
Service Concession Arrangements	2,990	-	(153)	2,837	154
Risk Management Claims	15,663	32,080	(31,804)	15,939	6,620
Compensated Absences	24,881	11,883	(11,074)	25,690	11,462
Net Other Postemployment Benefit	627	288	-	915	-
Net Pension Liability	-	241,311	-	241,311	-
Governmental Activities Long-Term Liabilities	<u>\$ 1,008,395</u>	<u>\$ 543,421</u>	<u>\$ (309,760)</u>	<u>\$ 1,242,056</u>	<u>\$ 71,395</u>

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the governmental activities. For the year ended June 30, 2015, \$392,094 of accrued compensated absences is included in the above amount for Internal Service Funds. For the governmental activities, the General Fund, Special Revenue Funds and Capital Projects Funds generally liquidate accrued compensated absences. The compensated absences presented in this note are net of the current liability of \$143,000 in the governmental funds and \$0 in the Internal Service funds.

Business-Type Activities	Beginning Balance	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	Ending Balance	Amounts Due Within One Year
Bonds Payable					
Water and Sewer Revenue Bonds	\$ 32,275	\$ -	\$ (2,940)	\$ 29,335	\$ 3,055
Municipal Property Corporation Bonds	280,795	65,297	(59,650)	286,442	11,760
Add Issuance Premiums	18,095	9,971	(3,175)	24,891	-
Total Bonds Payable	331,165	75,268	(65,765)	340,668	14,815
Compensated Absences	3,085	1,566	(1,353)	3,298	1,427
Net Pension Liability	-	30,821	-	30,821	-
Business-Type Activities Long-Term Liabilities	\$ 334,250	\$ 107,655	\$ (67,118)	\$ 374,787	\$ 16,242

Debt Service Requirements to Maturity

The following is a summary of debt service requirements to maturity for long-term liabilities at June 30, 2015:

Governmental Activities (in thousands)

Fiscal Year	General Obligation Bonds Issued to Provide Water, Sewer, Light, Parks, Open Spaces, Public Safety, and Transportation Facilities 20% Limitation			General Obligation Bonds Issued For All Other Purposes 6% Limitation			Total General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 19,120	\$ 19,610	\$ 38,730	\$ 16,275	\$ 1,847	\$ 18,122	\$ 35,395	\$ 21,457	\$ 56,852
2017	25,974	18,777	44,751	11,631	1,162	12,793	37,605	19,939	57,544
2018	28,833	17,717	46,550	11,697	807	12,504	40,530	18,524	59,054
2019	30,091	16,651	46,742	10,469	437	10,906	40,560	17,088	57,648
2020	38,485	15,536	54,021	2,250	123	2,373	40,735	15,659	56,394
2021-2025	210,185	54,549	264,734	1,700	55	1,755	211,885	54,604	266,489
2026-2030	124,180	21,395	145,575	-	-	-	124,180	21,395	145,575
2031-2035	56,020	4,999	61,019	-	-	-	56,020	4,999	61,019
Total	\$ 532,888	\$ 169,234	\$ 702,122	\$ 54,022	\$ 4,431	\$ 58,453	\$ 586,910	\$ 173,665	\$ 760,575

Fiscal Year	Municipal Property Corporation Bonds			Scottsdale Preserve Authority Excise Tax Revenue Bonds			Capital Leases		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 8,455	\$ 9,595	\$ 18,050	\$ 4,340	\$ 2,143	\$ 6,483	\$ 73	\$ 8	\$ 81
2017	9,831	9,316	19,147	4,175	1,936	6,111	60	5	65
2018	11,200	8,810	20,010	4,365	1,760	6,125	63	3	66
2019	14,157	8,369	22,526	4,540	1,602	6,142	33	1	34
2020	15,552	7,773	23,325	4,780	1,375	6,155	-	-	-
2021-2025	53,656	30,124	83,780	22,165	2,996	25,161	-	-	-
2026-2030	62,378	16,808	79,186	-	-	-	-	-	-
2031-2035	42,175	4,703	46,878	-	-	-	-	-	-
Capital Appreciation **	79	(79)	-						
Total	\$ 217,483	\$ 95,419	\$ 312,902	\$ 44,365	\$ 11,812	\$ 56,177	\$ 229	\$ 17	\$ 246

Fiscal Year	Certificates of Participation			Community Facilities Districts General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 2,216	\$ 333	\$ 2,549	\$ 2,680	\$ 949	\$ 3,629
2017	2,282	267	2,549	2,770	859	3,629
2018	2,350	198	2,548	2,555	764	3,319
2019	2,421	128	2,549	2,475	680	3,155
2020	2,493	55	2,548	2,550	600	3,150
2021-2025	-	-	-	9,550	1,831	11,381
2026-2030	-	-	-	3,640	527	4,167
2031-2035	-	-	-	585	54	639
Total	\$ 11,762	\$ 981	\$ 12,743	\$ 26,805	\$ 6,264	\$ 33,069

(continued)

Governmental Activities (continued)
(in thousands)

Fiscal Year	Service Concession Arrangements			Total		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 154	\$ 142	\$ 296	\$ 53,313	\$ 34,627	\$ 87,940
2017	154	156	310	56,877	32,478	89,355
2018	154	172	326	61,217	30,231	91,448
2019	154	188	342	64,340	28,056	92,396
2020	154	205	359	66,264	25,667	91,931
2021-2025	769	1,315	2,084	298,025	90,870	388,895
2026-2030	769	1,890	2,659	190,967	40,620	231,587
2031-2035	529	1,798	2,327	99,309	11,554	110,863
Capital Appreciation				79	(79)	
Total	\$ 2,837	\$ 5,866	\$ 8,703	\$ 890,391	\$ 294,024	\$ 1,184,415

Business-Type Activities
(in thousands)

Fiscal Year	Water and Sewer Revenue Bonds			Municipal Property Corporation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 3,055	\$ 1,487	\$ 4,542	\$ 11,760	\$ 13,626	\$ 25,386
2017	3,195	1,354	4,549	12,640	13,052	25,692
2018	3,370	1,195	4,565	13,365	12,435	25,800
2019	3,540	1,026	4,566	13,979	11,792	25,771
2020	3,725	849	4,574	14,798	11,106	25,904
2021-2025	12,450	1,331	13,781	81,053	43,959	125,012
2026-2030	-	-	-	82,012	25,045	107,057
2031-2035	-	-	-	49,035	8,051	57,086
2036-2040	-	-	-	7,800	390	8,190
Total	\$ 29,335	\$ 7,242	\$ 36,577	\$ 286,442	\$ 139,456	\$ 425,898

Fiscal Year	Total		
	Principal	Interest	Total
2016	\$ 14,815	\$ 15,113	\$ 29,928
2017	15,835	14,406	30,241
2018	16,735	13,630	30,365
2019	17,519	12,818	30,337
2020	18,523	11,955	30,478
2021-2025	93,503	45,290	138,793
2026-2030	82,012	25,045	107,057
2031-2035	49,035	8,051	57,086
2036-2040	7,800	390	8,190
Total	\$ 315,777	\$ 146,698	\$ 462,475

V. OTHER INFORMATION

A. Risk Management

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

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

The liability claims amount recorded in the accompanying financial statements is based on reported pending claims and an actuarial analysis and projection of the accrued liability amounts necessary to fund the claims. At June 30, 2015, the general liability claims payable totaled \$13,625,680 and the self-insured benefits claims payable totaled \$2,313,000. The City began to administer all self-insured health and dental plans in January of 2004.

	Years Ended June 30	
(in thousands)	2015	2014
Claims Payable, July 1	\$ 15,663	\$ 12,882
Current Year Claims Incurred	32,080	31,813
Current Year Claim Payments	<u>(31,804)</u>	<u>(29,032)</u>
Claims Payable, June 30	<u>\$ 15,939</u>	<u>\$ 15,663</u>

B. Contingent Liabilities

The City is a party to several lawsuits incidental to its normal operations. Of those lawsuits, management, with the concurrence of the City Attorney, is of the opinion that, collectively, estimated potential losses ranging from \$2,500 up to \$10,000,000 are probable, and \$15,000 up to \$5,000,000 are reasonably possible. Reasonably possible is defined that the chance of the loss occurring is more than remote, but less than probable. 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 Note V.A. above.

In January 2013, the City entered into a settlement agreement with Scottsdale Fashion Square LLC to prepay an existing lease. In addition to a cash payment, the settlement included a provision for a waiver of \$2.5 million against future City fees associated with the development of the Scottsdale Fashion Square parcel plus any property acquired in the future that is contiguous to the property. The eligible fees to be waived include water and sewer development fees. Per Arizona Revised Statute 9-463.05, "If a municipality agrees to waive any of the development fees assessed on a development, the municipality shall reimburse the appropriate development fee accounts for the amount that was waived." As of June 30, 2015, approximately \$866,000 in fee waivers had been applied.

The City has entered into several agreements whereby it will reimburse developers a portion of the sales tax collected on their site for a time period up to a maximum dollar amount. The funding source for the reimbursements will come from sales tax collected on the site over the life of the agreement. The City does not become liable under the agreements until sales tax is generated, collected and remitted to the City. As of June 30, 2015, this requirement has not been met under any of the agreements. The City's estimated contingent liability at June 30, 2015 is \$16,026,742.

C. Subsequent Events

In July 2015 the City received \$10.2 million from Scottsdale National Golf Club, LLC, an Irrigation Water Distribution System (IWDS) participant. Payment assigned IWDS capacity ownership in the IWDS to Scottsdale National from Desert Mountain Club, Inc. effective on July 13, 2015. Of the funds received, \$2.9 million was paid to Desert Mountain as consideration, the remaining funds are held by the IWDS for future expansion and replacement costs.

In July 2015 the City received approximately \$2.0 million from the sale of a city office complex located at 7575 E. Main Street that previously served as the offices for Human Resources department personnel.

D. Joint Venture

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

The City records its share of SROG's cash operating expenses and its equity in the joint venture in the City's Water and Sewer Fund. For the year ended June 30, 2014, (the latest audited information available from SROG), the City's net investment in SROG was \$105,809,000. SROG's net cash operating expenses for the year ended June 30, 2014 were \$38,837,978, of which the City's share was \$3,987,261, or 10.3 percent. For the year ended June 30, 2015, the City paid \$247,420 for SROG capital contributions and \$4,313,595 for SROG operating expenses, including adjustments to the operating and replacement reserves and prior year settlement.

The Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2014, for the multi-city Sub-Regional Operating Group (the latest SROG CAFR available) may be obtained from the Arizona Municipal Water Users Association, 4041 N. Central Avenue, Suite 900, Phoenix, AZ 85012.

E. Pollution Remediation

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

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

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

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

The measurement of the City's pollution remediation obligation liability includes all remediation work that the City expects to perform, including work expected to be performed for the participating companies. In order to estimate the CGTF liability, eight projected cash flows, based on the prior eight years of historical costs and weighted equally, were used to calculate an average annual cost. In order to estimate the NGTF liability, three projected cash flows, based on the prior three years of historical costs and weighted equally, were used to calculate an average annual cost. These average costs were then projected over the remaining remediation period of 59 years for CGTF and the NGTF. It is estimated that future remediation will be required for approximately 50-70 years at each site; this estimate is reviewed and revised every five years with the next review due in the next 18 months.

Improvements in technology and changes in laws or regulations did not impact the average annual cost. The liability is revalued annually. Fiscal Year 2014/15 reimbursable outlays for operating and monitoring the CGTF were \$375,181 and for the NGTF were \$177,417. The City has a reimbursement agreement with the responsible parties and the total liability is expected to be fully recovered by the participating companies and therefore a corresponding Pollution Remediation Recoveries receivable has been accrued.

F. Related Organization

The Industrial Development Authority (IDA) is a nonprofit corporation established by the City in 1984 to promote the retention, expansion and attraction of businesses and commercial enterprises in Scottsdale. The Board of Directors of the IDA is appointed by the City Council and City Council is also involved in granting or denying IDA bond applications.

G. Retirement and Pension Plans

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

Arizona State Retirement System

General Information about the Pension Plan

Plan Description

All benefitted City employees, except public safety personnel and the Mayor and City Council, participate in the Arizona State Retirement System ("ASRS"). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. ASRS was established by the State of Arizona to provide pension benefits for employees of both the state and participating political subdivisions and school districts. ASRS is administered in accordance with Title 38, Chapter 5, Articles 2 and 2.1 of the Arizona Revised Statutes (ARS). The ASRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ASRS, P. O. Box 33910, Phoenix, AZ 85067-3910, calling 1-800-621-3778, or by visiting <https://www.azasrs.gov/content/annual-reports>.

Benefits Provided

The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms. A member may retire upon meeting the following age and service requirements:

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

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

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

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

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

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

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

Contributions

The ARS provide statutory authority for determining the employees' and employers' contribution amounts as a percentage of the City's covered payroll. Although the statutes prescribe the basis of making the actuarial calculation, the Arizona legislature is authorized to approve a contribution rate other than the actuarially determined rate. Employees were required to contribute 11.6 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of their annual pay for the fiscal year ended June 30, 2015, and the City's required contribution rate was 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) during the same time period. In addition, the City was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.51 percent for retirement and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the City in positions that would typically be filled by an employee who contributes to the ASRS. The required contribution rate for the year ended June 30, 2015, was actuarially determined to yield contribution amounts sufficient to finance costs earned by employees during the year and to amortize the Plan's unfunded actuarially accrued liability over the period specified in the statutes. Contributions to the pension plan from the City were \$11,092,000 for the year ended June 30, 2015. The City's contributions for the years ending June 30, 2015, 2014, and 2013 for OPEB were \$720,997, \$828,499, and \$859,525 respectively, all of which were equal to the required contributions for each year.

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

At June 30, 2015, the City reported a liability of \$163,141,788 for its proportionate share of the collective net pension liability of the ASRS. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of June 30, 2013. Update procedures were used to roll forward the total pension liability to the measurement date. The City's proportion of the collective net pension liability was based on the City's proportionate share of contributions to the pension plan relative to the contributions of all participating entities for the fiscal year ended June 30, 2014. At June 30, 2014, the City's proportion was 1.102563 percent, which was an increase of .008684 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City recognized a collective pension expense of \$11,168,228. At June 30, 2015, the City reported a collective deferred outflow of resources and a collective deferred inflow of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,291	\$ -
Net difference between projected and actual earnings on pension plan investments	-	28,528
Changes in proportion and differences between City contributions and proportionate share of contributions	995	-
City contributions subsequent to the measurement date	11,092	-
Total	\$ 20,378	\$ 28,528

The \$11,092,000 reported as a collective deferred outflow of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the collective net pension liability in the year ended June 30, 2016. Other amounts reported as a collective deferred outflow of resources and a collective deferred inflow of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30:

2016	\$	(3,095)
2017		(3,094)
2018		(5,921)
2019		(7,132)
2020		-
Thereafter		-

Actuarial assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2013
Actuarial rollforward date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	
Plan amendments	Immediate
Investment gain/loss	Five years
Assumption gain/loss	Average future service lives
Experience gain/loss	Average future service lives
Asset valuation	Fair value
Discount rate	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the five-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	63%	4.43%
Fixed Income	25%	0.80%
Real estate	8%	0.38%
Commodities	4%	0.18%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the actuarially determined amounts. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the City's proportionate share of the collective net pension liability calculated using the discount rate of 8 percent, as well as what the City's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
City's proportionate share of the collective net pension liability	\$ 206,203	\$ 163,142	\$ 139,779

Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position has been determined on the same basis used by the pension plan. The financial statements of the ASRS are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America that apply to government accounting of fiduciary funds including the Governmental Accounting Standards Board (GASB) Statements 28, 34, 37, 40, 43, 53, 63 and 67. Benefits and refunds are recognized when due and payable. Publicly traded investments are reported at fair values determined by the custodial agent. The agents' determination of fair values includes, among other things, utilization of pricing services or prices quoted by independent brokers at current exchange rates. ASRS' derivative instruments which consist of futures, forward contracts, options, swaps, rights and warrants, are measured at fair value. The fair value of limited partnership investments are based on estimated current values and accepted industry practice.

Fair value is based on estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Short-term investments are reported at cost plus accrued interest, which approximates fair value. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk. Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

Public Safety Personnel Retirement System

General Information about the Pension Plan

Plan Description

All of the City's public safety personnel participate in the Public Safety Personnel Retirement System ("PSPRS"). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). PSPRS is administered in accordance with Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes. The PSPRS acts as a common investment and administrative agent that is jointly administered by the Board of Trustees ("the Board") and 237 local boards. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Public Safety Personnel Retirement System, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016, calling (602) 255-5575, or by visiting: http://www.psprs.com/sys_psprs/AnnualReports/cato_annual_rpts_psprs.htm.

Benefits Provided

The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit terms. The calculation of retirement benefits for employees who became a member on or before December 31, 2011 commence the first day of the month following termination of employment and are based upon the following:

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

The calculation of retirement benefits for employees who became a member on or after January 1, 2012 commence the first day of the month following termination of employment and are based upon the following:

1. Age 52.5 with 25 years of service: 62.5 percent of the average monthly benefit compensation. Benefits will be reduced by 4 percent for each year of credited service under 25 years.
2. 25 or more years of service: 62.5 percent of the average monthly benefit compensation for the first 25 years of credited service plus 2.5 percent of the average monthly benefit compensation for each year over 25 years of credited service - up to a maximum of 80 percent of the average monthly benefit compensation. The pension is reduced by 4 percent per year for each year of credited service under 25 years with a pro-rata reduction for any fractional years.

The phrase "average monthly benefit compensation," as it is used in the above discussion, is defined as the average of the highest 36 consecutive months of compensation within the last 20 years of credited service (for employees who became a member on or before December 31, 2011) or as the average of the highest 60 consecutive months of compensation within the last 20 years of credited service (for employees who became a member on or after January 1, 2012).

Disability benefits are calculated as follows:

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

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

A retired member or survivor of a retired member may receive a benefit increase from the System if monies are available. Effective July 1, 2013, and each July 1 thereafter, as long as there are no monies left to pay under the old benefit increase structure, a benefit increase will be issued as long as the following criteria have been met:

1. A retired member who became a member on or before December 31, 2011, or the survivor of a retired member, was receiving benefits on or before July 31 of the two previous years, OR was 55 or older on July 1 of the current year and receiving benefits on or before July 31 of the previous year.
2. A retired member who became a member on or after January 1, 2012, or the survivor of a retired member, was 55 or older on July 1 of the current year and is receiving benefits, OR the retired member was under 55 on July 1 of the current year, was receiving an accidental disability or a catastrophic disability retirement benefit and was receiving benefits on or before July 31 of the two previous years, OR a survivor was under 55 on July 1 of the current year, is the survivor of a member who was killed in the line of duty and was receiving benefits on or before July 31 of the two previous years.

The increase is contingent upon a total return of more than 10.5 percent for the prior fiscal year, and will be calculated as follows (if there are insufficient earnings to cover the maximum increases, the percentage increase is limited to the earnings available):

Ratio of Actuarial Value of Assets to Liabilities	Maximum increase
60-64%	2.00%
65-69%	2.50%
70-74%	3.00%
75-79%	3.50%
80% or more	4.00%

From and after December 31, 2015, legislature may enact permanent one-time benefit increases after an analysis of the effect of the increase on the System by the Joint Legislative Budget Committee (JLBC).

Employees covered by benefit terms

At June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	210
Inactive employees entitled to but not yet receiving benefits	88
Active Employees	<u>628</u>
Total	<u><u>926</u></u>

Contributions and Annual OPEB Cost

ARS Title 38, Chapter 5, Article 4, Section 38-843 provides the authority for determining the City and active employee contribution requirements to the PSPRS pension and health insurance premium benefit plans. The contribution rates for employers are based on an actuarially determined rate recommended by an independent actuary contracted by the Board. The contribution rates for employees are prescribed by the ARS Section referenced above. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the fiscal year ended June 30, 2015, the employee contribution rate for pensions was 11.05 percent of annual pay for fire and police employees. The City's contribution rate for pensions was 27.04 percent for police employees and 11.23 percent for fire employees. The City's contribution rate for the health insurance premium benefit plans was 1.34 percent for police employees and 0.77 percent for fire employees. In addition, the City was required by statute to contribute at the actuarially determined rate of 19.65 percent of annual covered payroll of retired members who worked for the City in positions that would typically be filled by an employee who contributes to the PSPRS. The City's contributions to the pension plan and annual OPEB cost for the year ended June 30, 2015, were \$9,591,314 and \$629,201, respectively.

ARS Title 9, Chapter 8, Article 3, Section 9-952 requires the state treasurer to distribute a fire insurance premium tax to the respective incorporated cities and towns and legally organized fire districts in proportion to the full cash value of the real property and improvements in each incorporated city and town and legally organized fire district which procures the services of a private fire company and in each area served by a department or legally organized fire district. The warrant issued by the state treasurer is identified as the "fire fighters' relief and pension fund", to cover the firefighting personnel deposit into the pension plan. The annual tax provided by law is based on a portion of the premiums received on policies and contracts of fire insurance covering property within the state. The PSPRS received \$1,606,097 of fire insurance premium tax for the City of Scottsdale's fire pension plan for fiscal year ended June 30, 2015. PSPRS accounts for the fire insurance premium tax collected for the City as employer contributions.

Net Pension Liability

The City's net pension liability of \$108,990,615 was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the June 30, 2014 measurement was determined using the following actuarial assumptions:

Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value of Assets
Inflation	4.00%
Salary increases	4.00%-8.00%, including inflation
Investment rate of return	7.85%, net of investment and administrative expenses
Mortality rates	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study covering the 2006-2011 period.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2014, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
U.S. Equity	16.00%	7.60%
Non-U.S. Equity	14.00%	8.63%
Private Equity	11.00%	9.50%
Fixed Income	7.00%	4.75%
Credit Opportunities	13.00%	8.00%
Absolute Return	4.00%	6.75%
GTAA	10.00%	5.73%
Real Assets	8.00%	5.96%
Real Estate	11.00%	6.50%
Risk Parity	4.00%	6.04%
Short Term Investments	2.00%	3.25%
	<u>100.00%</u>	

* Geometric Real Rate of Return. Based on inflation assumption of 2.50%.

Discount rate

The discount rate used to measure the total pension liability was 7.85 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the statutorily mandated amounts and employer contributions will be made at the actuarially determined amounts. Based on those assumptions, the PSPRS plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

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

	Increase (Decrease)		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a)-(b)</u>
Balances at 6/30/14	\$ 218,281	\$ 124,647	\$ 93,634
Changes for the year:			
Service cost	6,363	-	6,363
Interest	16,898	-	16,898
Changes of benefit terms	3,987	-	3,987
Differences between expected and actual experience	(896)	-	(896)
Changes of assumptions/other inputs	22,122	-	22,122
Contributions-employer	-	7,997	(7,997)
Contributions-employee	-	3,495	(3,495)
Net investment income	-	17,047	(17,047)
Benefit payments, including refunds of employee contributions	(12,411)	(12,411)	-
Administrative expense	-	(137)	137
Other changes	-	(50)	50
Net changes	<u>36,063</u>	<u>15,941</u>	<u>20,122</u>
Balances at 6/30/15	<u>\$ 254,344</u>	<u>\$ 140,588</u>	<u>\$ 113,756</u>

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

	Increase (Decrease)		
	<u>Total Pension Liability (Asset) (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (Asset) (a)-(b)</u>
Balances at 6/30/14	\$ 42,567	\$ 44,257	\$ (1,690)
Changes for the year:			
Service cost	3,509	-	3,509
Interest	3,449	-	3,449
Changes of benefit terms	(448)	-	(448)
Differences between expected and actual experience	462	-	462
Changes of assumptions/other inputs	1,157	-	1,157
Contributions-employer	-	2,392	(2,392)
Contributions-employee	-	2,629	(2,629)
Net investment income	-	6,294	(6,294)
Benefit payments, including refunds of employee contributions	(780)	(780)	-
Administrative expense	-	(51)	51
Other changes	-	(60)	60
Net changes	<u>7,349</u>	<u>10,424</u>	<u>(3,075)</u>
Balances at 6/30/15	<u>\$ 49,916</u>	<u>\$ 54,681</u>	<u>\$ (4,765)</u>

Sensitivity of the net pension liability to changes in the discount rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.85 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.85 percent) or 1-percentage-point higher (8.85 percent) than the current rate:

	1% Decrease (6.85%)	Discount Rate (7.85%)	1% Increase (8.85%)
Police net pension liability (asset)	\$ 145,007	\$ 113,756	\$ 87,760
Fire net pension liability (asset)	3,393	(4,765)	(11,318)

Pension plan fiduciary net position

The pension plan's fiduciary net position has been determined on the same basis used by the pension plan. PSPRS financial statements are prepared using the accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of PSPRS. Refunds are due and payable by state law within 20 days of receipt of a written application for a refund. Refunds are recorded when paid. PSPRS investments are reported at fair value. Fair values are determined as follows: Short-term investments are reported at cost plus accrued interest. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair value as determined by fixed income broker/dealers plus accrued interest. Investments in hedge funds are valued monthly at the last reported valuations. Limited partnership investments in credit opportunities, private equity, real assets and real estate are valued on a quarterly or monthly basis at last reported valuations adjusted by any subsequent cash flows. Detailed information about the pension plan's fiduciary net position is available in the separately issued PSPRS financial report.

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

For the year ended June 30, 2015, the City recognized pension expense of \$15,786,095. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 420	\$ 758
Change of assumptions or other inputs	19,773	-
Net difference between projected and actual earnings on pension plan investments	-	7,785
City contributions subsequent to the measurement date	9,591	-
Total	<u>\$ 29,784</u>	<u>\$ 8,543</u>

City contributions subsequent to the measurement date of \$9,591,314 were reported as deferred outflows and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$	1,464
2017		1,464
2018		1,464
2019		1,465
2020		3,411
Thereafter		2,382

Agent Plan OPEB Trend Information

The table below presents the annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

Three-Year Trend Information for PSPRS (Police)
(dollars in thousands)

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
2015	\$ 442	100%	\$ -
2014	376	100%	-
2013	415	100%	-

Three-Year Trend Information for PSPRS (Fire)
(dollars in thousands)

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
2015	\$ 156	100%	\$ -
2014	125	100%	-
2013	122	100%	-

Agent Plan OPEB Actuarial Assumptions

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides multi-year trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on (1) the plan as understood by the City and plan members and include the types of benefits in force at the valuation date and (2) the pattern of sharing benefit costs between the City and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used to establish the fiscal year 2015 contribution requirements are as follows:

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	23 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Asset valuation method	7-Year smoothed market; 80%/120% market
Actuarial assumptions:	
Investment rate of return	7.85%, net of investment and administrative expenses
Projected salary increases	4.5% - 8.5%
includes inflation	4.0%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).
Assumed future permanent benefit increases	No explicit assumed permanent benefit increases assumption

The funded status of the PSPRS health insurance premium benefit plan in the June 30, 2014, actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	22 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Asset valuation method	7-Year smoothed market; 80%/120% market
Actuarial assumptions:	
Investment rate of return	7.85%, net of investment and administrative expenses
Projected salary increases	4.0% - 8.0%
includes inflation	4.0%

Agent Plan OPEB Funded Status

The following tables present the funded status of the health insurance premium benefit plans as of the most recent valuation date, June 30, 2014:

**Public Safety Personnel Retirement System (Police)
Funded Status for Health Insurance**

(dollars in thousands)	
	June 30, 2014
Actuarial Accrued Liability (AAL)	
Retired members and beneficiaries	\$ 2,010
Active members	2,869
DROP members	539
Total	5,418
Valuation Assets	5,809
Net Unfunded Actuarial Accrued Liability	<u><u>\$ (391)</u></u>
Percent Funded	107.2%
Annual Covered Payroll	\$ 31,348
Unfunded AAL as a Percentage of Covered Payroll	0.0%

**Public Safety Personnel Retirement System (Fire)
Funded Status for Health Insurance**

(dollars in thousands)	
	June 30, 2014
Actuarial Accrued Liability (AAL)	
Retired members and beneficiaries	\$ 115
Active members	1,243
DROP members	41
Total	1,399
Valuation Assets	1,042
Net Unfunded Actuarial Accrued Liability	<u><u>\$ 357</u></u>
Percent Funded	74.5%
Annual Covered Payroll	\$ 19,336
Unfunded AAL as a Percentage of Covered Payroll	1.8%

Elected Officials' Defined Contribution Retirement System

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

Benefit terms, including contribution requirements, for EODCRS are established by Title 38, Chapter 5, Article 3.1 of the Arizona Revised Statutes and may be amended by the State of Arizona. For each member of EODCRS, the City is required to contribute 6 percent of gross compensation to an individual member retirement account. Members are required to contribute 8 percent of gross compensation to their retirement account. Members are immediately vested in both their and the City's contributions and earnings on those contributions. For the year ended June 30, 2015, the City recognized pension expense of \$499.

H. Other Postemployment Benefits

In addition to the pension benefits described in the previous section (G), the City provides an option of post-retirement health care benefits, in accordance with Chapter 14 of the City Code. At retirement, employees with medical leave accumulated prior to September 6, 1976 are eligible for payment of medical leave at 100 percent cash value at current rate of pay. Employees hired before July 1, 1982 receive cash equal to 50 percent of the first 520 hours of unused medical leave plus 25 percent of all hours in excess of 520. The conversion rate is the employee's average hourly base pay rate for the five years immediately preceding retirement. The medical leave not paid out in cash is applied to a retirement health savings account at the employee's hourly rate of pay at the time of retirement. For shift fire employees with more than 420 hours and all other retirees with 300 or more hours of accumulated medical leave hired on or after July 1, 1982, the City will apply the value of the medical leave to a retirement health savings account. Medical leave balances accumulated through June 30, 2011 will be paid at 100 percent of the employee's hourly rate at the time of retirement. Medical leave balances accumulated July 1, 2011 or after will be paid out at 50 percent of the employee's hourly rate at retirement. Additionally, the payout is limited to the value of 1,200 combined hours for all retirees, except shift fire employees, who are limited to 1,680 hours earned both before and after July 1, 2011, unless more than 1,200 or 1,680 hours, respectively, were accrued prior to July 1, 2011. Total hours accrued before July 1, 2011 will be paid without limitation.

The projected liability for active employees, as of June 30, 2015, was \$14,445,798. The projected liability was considered payable within one year or greater and was therefore considered non-current and included in the proprietary and government-wide financial statements. Significant actuarial assumptions of the January 1, 2015 actuarial valuation include: a) mortality rates based on the RPH-2014 TotalDataset Mortality Table fully generational using scale MP 2014, b) interest compounded 4.0 percent annually, c) salary increases at a rate of 2 percent to 4 percent based on years of service, and d) Traditional Unit Credit cost method based on participant data as of January 1, 2015.

I. Postemployment Benefits Other Than Pensions

The cost of postemployment healthcare benefits, from an accrual accounting perspective, should be associated with the periods in which the future costs are earned rather than in the future years when they will be paid (similar to the cost of pension benefits). In early implementing the requirements of GASB Statement No. 45 during the fiscal year ended June 30, 2007, the City recognized the cost of postemployment healthcare in the year the employee services were received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years is being amortized over 30 years; the first period began with the fiscal year ended June 30, 2007.

Plan Description

The City provides postemployment medical care (OPEB) for eligible retired employees through a single-employer defined benefit medical plan. The plan provides medical benefits for eligible retirees, their spouses and their dependents through the City's group health insurance plans. The benefits, benefit levels, and contribution rates are determined annually by the City's Employee Benefit Coordination Team and approved by the Scottsdale City Council. The plan is not accounted for as a trust fund, as an irrevocable trust has not been established to account for the plan. The plan does not issue a separate financial report.

Benefits Provided

The City offers postemployment medical benefits to its eligible retirees. An eligible retiree is a Public Safety Personnel Retirement System Accidental Disability retired employee. Eligible retirees can enroll in a City plan up to 60 days after they retire; after that their eligibility for this benefit ceases. All medical care benefits are provided through the City's self-insured health plan. The benefit levels are the same as those afforded to active employees. Upon a retiree reaching 65 years of age, the retiree and related dependents are no longer eligible for City coverage.

As of June 30, 2015, Membership Consisted of:

Retirees and Beneficiaries Receiving Benefits	23
Terminated Employees Eligible for Benefits, But Not Yet Enrolled	-
Active Employees	643
	<hr/>
Total	666
	<hr/> <hr/>
Participating Employers	1
	<hr/> <hr/>

Funding Policy

The plan premium rates are determined annually in collaboration with an outside employee benefits consulting firm and approved by the Scottsdale City Council. City code requires the City Council to authorize the contribution rates for benefits. For fiscal year ended June 30, 2015, the eligible retirees paid 100 percent of the blended actuarial rate. By continuing to provide eligible retirees with access to the City's healthcare plans based on the same rates it charges to active employees, the City is in effect providing a subsidy to eligible retirees. This implied subsidy exists because on average retiree health care costs are higher than active employee healthcare costs. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through paying the higher rate for active employees each year. For fiscal year ended June 30, 2015, retirees contributed \$171,380 and the City contributed \$90,367 (implied subsidy).

Annual OPEB costs and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The City's annual OPEB cost for the current year and the related information for the plan are as follows at June 30, 2015 (in thousands):

Annual Required Contribution	\$	387
Interest on Net OPEB Obligation (Asset)		25
Adjustment to Annual Required Contribution		(33)
Annual OPEB Cost		<u>379</u>
Contributions Made		<u>(91)</u>
Change in Net OPEB Obligation		288
Net OPEB Obligation - Beginning of year		627
Net OPEB Obligation - End of year	\$	<u><u>915</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation (Asset)
2013	\$ 636	\$ 186	29.2%	\$ 288
2014	453	114	25.2%	627
2015	379	91	24.0%	915

Funded Status

The funded status of the plan as of June 30, 2015 was as follows (in thousands):

Actuarial Accrued Liability	\$	3,234
Actuarial Value of Plan Assets		-
Unfunded Actuarial Accrued Liability	\$	<u><u>3,234</u></u>
Funded Ratio		0%
Covered Payroll	\$	46,522
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll		7.0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Multi-year trend information regarding the actuarial value of plan assets increasing or decreasing over time relative to the actuarial accrued liability is available in the Required Supplementary Information section on page 129.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan understood by the employer and plan members) and include the type of benefits in force at the valuation date and the pattern of sharing benefits between the City and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant method and assumptions used for this fiscal year valuation were as follows:

Actuarial Valuation Date	July 1, 2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	22 years, Closed
Asset Valuation Method	N/A
Actuarial Assumptions	
Investment Rate of Return	4%*
Inflation Rate	3%
Projected Salary Increases	2.8%
Healthcare Inflation Rate	8.5% initial rate, 5% ultimate rate

*Investment rate of return based on City's own investments

Medical Reimbursements

The federal government may provide the City subsidies per the Medicare Part D Prescription Drug Subsidy Program for providing healthcare for Medicare eligible retirees. Any current and future years subsidies are recorded as revenue in the year received and are not recognized as a reduction to the actuarial accrued liability.

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

Schedule of the City's Proportionate Share of the Collective Net Pension Liability
Arizona State Retirement System
Current Fiscal Year (in thousands)

	<u>2015</u>
City's proportion of the net collective pension liability	1.102563%
City's proportionate share of the collective net pension liability	\$ 163,142
City's covered-employee payroll	\$ 99,077
City's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	164.66%
Plan fiduciary net position as a percentage of the total pension liability	69.49%

The City implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015. Information for the prior years is not available.

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

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

	<u>2015</u>
Total pension liability	
Service cost	\$ 6,363
Interest	16,898
Changes of benefit terms	3,987
Differences between expected and actual experience	(896)
Changes of assumptions or other inputs	22,122
Benefit payments, including refunds of employee contributions	(12,411)
Net change in total pension liability	<u>36,063</u>
Total pension liability-beginning	<u>218,281</u>
Total pension liability-ending (a)	<u><u>\$ 254,344</u></u>
 Plan fiduciary net position	
Contributions-employer	\$ 7,997
Contributions-employee	3,495
Net investment income	17,047
Benefit payments, including refunds of employee contributions	(12,411)
Administrative expense	(137)
Other changes	(50)
Net change in plan fiduciary net position	<u>15,941</u>
 Plan fiduciary net position-beginning	<u>124,647</u>
Plan fiduciary net position-ending(b)	<u><u>\$ 140,588</u></u>
 City's net pension liability-ending ((a) - (b))	<u><u>\$ 113,756</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	55.27%
 Covered-employee payroll	\$ 31,438
 City's net pension liability as a percentage of covered-employee payroll	361.84%

The City implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015.
Information for the prior years is not available.

See accompanying notes to the schedule.

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

	<u>2015</u>
Total pension liability	
Service cost	\$ 3,509
Interest	3,449
Changes of benefit terms	(448)
Differences between expected and actual experience	462
Changes of assumptions or other inputs	1,157
Benefit payments, including refunds of employee contributions	<u>(780)</u>
Net change in total pension liability	7,349
Total pension liability-beginning	42,567
Total pension liability-ending (a)	<u><u>\$ 49,916</u></u>
 Plan fiduciary net position	
Contributions-employer	\$ 2,392
Contributions-employee	2,629
Net investment income	6,294
Benefit payments, including refunds of employee contributions	(780)
Administrative expense	(51)
Other changes	<u>(60)</u>
Net change in plan fiduciary net position	10,424
 Plan fiduciary net position-beginning	44,257
Plan fiduciary net position-ending(b)	<u><u>\$ 54,681</u></u>
 City's net pension (asset)-ending ((a) - (b))	<u><u>\$ (4,765)</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	109.55%
 Covered-employee payroll	\$ 19,336
 City's net pension liability as a percentage of covered-employee payroll	0.00%

The City implemented GASB Statement No. 68 for the fiscal year ended June 30, 2015.
 Information for the prior years is not available.

See accompanying notes to the schedule.

Schedule of City Contributions
Arizona State Retirement System
Last 3 Fiscal Years (in thousands)

	2015	2014	2013
Statutorily required contribution	\$ 11,092	\$ 10,635	\$ 9,949
Contributions in relation to the statutorily required contribution	(11,092)	(10,635)	(9,949)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 101,962	\$ 99,077	\$ 97,257
Contributions as a percentage of covered-employee payroll	10.88%	10.73%	10.23%

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

Schedule of City Contributions
Public Safety Personnel Retirement System (Police)
Last Fiscal Year (Dollar amounts in thousands)

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 8,921	\$ 7,997
Employer contributions in relation to the actuarially determined contribution	<u>8,921</u>	<u>7,997</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 33,075	\$ 31,438
Contributions as a percentage of covered-employee payroll	26.97%	25.44%

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

See accompanying notes to the schedule.

Schedule of City Contributions
Public Safety Personnel Retirement System (Fire)
Last Fiscal Year (Dollar amounts in thousands)

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 2,276	\$ 2,392
Employer contributions in relation to the actuarially determined contribution	<u>2,276</u>	<u>2,392</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 20,420	\$ 19,336
Contributions as a percentage of covered-employee payroll	11.15%	12.37%

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

See accompanying notes to the schedule.

Schedule of OPEB Plans' Funding Progress

The following schedules of funding progress, presented as required supplementary information (RSI), present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits:

**Public Safety Personnel Retirement System (Police)
Schedule of Funding Progress Health Insurance**

(dollars in thousands)

Actuarial Valuation June 30	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percent Funded (1)/(2)	(4) Unfunded AAL (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4)/(5)
2012	\$ -	\$ 5,485	0.0%	\$ 5,485	\$ 32,276	17.0%
2013	-	5,407	0.0%	5,407	30,601	17.7%
2014	5,809	5,418	107.2%	(391)	31,438	0.0%

See accompanying notes to the schedule.

**Public Safety Personnel Retirement System (Fire)
Schedule of Funding Progress Health Insurance**

(dollars in thousands)

Actuarial Valuation June 30	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percent Funded (1)/(2)	(4) Unfunded AAL (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4)/(5)
2012	\$ -	\$ 1,059	0.0%	\$ 1,059	\$ 18,203	5.8%
2013	-	1,276	0.0%	1,276	17,980	7.1%
2014	1,042	1,399	74.5%	357	19,336	1.8%

See accompanying notes to the schedule.

Other Post-Employment Benefit Plan
Schedule of Funding Progress

(dollars in thousands)

Actuarial Valuation July 1	(1) Actuarial Value of Assets	(2) Projected Unit Credit Cost		(3) Percent Funded (1)/(2)	(4) Unfunded AAL (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4)/(5)
		Accrued Liability (AAL)					
2012	\$	\$	5,754	0.0%	\$ 5,754	\$ 42,805	13.4%
2013	-	-	4,148	0.0%	4,148	45,422	9.1%
2014	-	-	3,234	0.0%	3,234	46,522	7.0%

Other Post-Employment Benefit Plan
Schedule of Employer Contribution

(dollars in thousands)

Actuarial Valuation July 1	(1) Employer Contributions	(2) Annual Required Contribution		(3) Percent Contributed (1)/(2)
		(ARC)		
2012	\$	186	\$ 635	29.3%
2013	-	114	455	25.1%
2014	-	91	387	23.5%

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I. ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	23 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Asset valuation method	7-Year smoothed market; 80%/120% market
Actuarial assumptions:	
Investment rate of return	7.85%, net of investment and administrative expenses
Projected salary increases	4.5% - 8.5%
includes inflation	4.0%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).
Assumed future permanent benefit increases	No explicit assumed permanent benefit increases assumption

II. FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plan recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plan transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from the plan's Pension Fund to the new Health Insurance Fund.

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Nonmajor Governmental Funds

SPECIAL REVENUE FUNDS

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

Transportation

This fund receives and expends the City's allocation of the Arizona Highway User Revenue tax and 1.2 percent of transportation privilege tax for transportation improvements. The amount of Highway User Revenue available to each city is allocated on a population basis, which is determined by the latest federal census and must be used for street construction, reconstruction, maintenance or transit.

Community Development Block Grant Fund

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

HOME Fund

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

Grants Fund

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

Section 8 Fund

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

Preserve Privilege Tax Fund

This fund receives a 0.35 percent Preservation Privilege (Sales) Tax revenue approved by the voters in 1995 (0.2 percent) and 2004 (0.15 percent). Revenues are transferred to Capital Projects Funds for land purchases and improvements in the McDowell Sonoran Preserve or are used for related debt service payments.

Community Facilities Districts (CFD) Funds

Scottsdale Mountain CFD

McDowell Mountain Ranch CFD

DC Ranch CFD

Via Linda Road CFD

Waterfront Commercial CFD

These funds account for the non-debt related expenditures incurred by community facilities districts.

Streetlight Districts Fund

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

Special Programs Fund

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

Tourism Development Fund

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

DEBT SERVICE FUNDS

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

Municipal Property Corporation Debt Service Fund

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

Debt Service Stabilization Fund

This fund accounts for revenues received for future debt payments from the Arizona Sports and Tourism Authority, the Maricopa County Stadium District, the San Francisco Giants and funds committed by the City Council to be used for repayment of debt.

Community Facilities Districts (CFD) Funds

Scottsdale Mountain CFD

McDowell Mountain Ranch CFD

DC Ranch CFD

Via Linda Road CFD

Waterfront Commercial CFD

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

Scottsdale Preserve Authority Fund

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

CAPITAL PROJECTS FUNDS

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

General Obligation Bond Fund

Accounts for the proceeds and interest of the sale of Bond 2000 voter-approved general obligation bonds that are used for authorized capital improvements.

Transportation Privilege Tax Fund

Accounts for the authorized 0.2 percent Transportation Privilege (Sales) Tax dedicated to transportation capital improvements. Voters approved the tax on November 7, 1989.

Preserve Fund

Accounts for the resources used to acquire and improve land within the McDowell Sonoran Preserve. Resources are provided by the proceeds from the sale of bonds and the 0.15 percent 2004-approved Preserve Privilege Tax.

MPC (Municipal Property Corporation) Bond Fund

Accounts for the activity related to the MPC bond proceeds and authorized capital improvements.

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2015 (in thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and Investments	\$ 66,091	\$ 10,976	\$ 44,746	\$ 121,813
Cash with Fiscal Agent	73	19,825	695	20,593
Receivables				
Interest	40	-	83	123
Privilege Tax	4,267	-	-	4,267
Transient Occupancy Tax	752	-	-	752
Franchise Fee	58	-	-	58
Property Tax	1	85	-	86
Highway User Tax	1,257	-	-	1,257
Intergovernmental	3,405	17,632	-	21,037
Grants	971	-	99	1,070
Miscellaneous	503	-	-	503
Total Assets	<u>\$ 77,418</u>	<u>\$ 48,518</u>	<u>\$ 45,623</u>	<u>\$ 171,559</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 2,479	\$ -	\$ 3,621	\$ 6,100
Accrued Payroll and Benefits	437	-	42	479
Due to Other Funds	2	-	41	43
Matured Bond Interest Payable	-	6,108	-	6,108
Matured Bonds Payable	-	13,130	-	13,130
Unearned Revenue				
Intergovernmental	6,998	-	-	6,998
Other	1,101	-	-	1,101
Due to Other Governments	1	-	-	1
Guaranty and Other Deposits	5	-	-	5
Other	20	-	-	20
Total Liabilities	<u>11,043</u>	<u>19,238</u>	<u>3,704</u>	<u>33,985</u>
Deferred Inflows of Resources				
Unavailable Revenues	1,267	17,673	99	19,039
Total Liabilities and Deferred Inflows of Resources	<u>12,310</u>	<u>36,911</u>	<u>3,803</u>	<u>53,024</u>
Fund Balances				
Restricted	49,515	6,907	41,836	98,258
Committed	16,676	4,700	-	21,376
Unassigned	(1,083)	-	(16)	(1,099)
Total Fund Balances	<u>65,108</u>	<u>11,607</u>	<u>41,820</u>	<u>118,535</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 77,418</u>	<u>\$ 48,518</u>	<u>\$ 45,623</u>	<u>\$ 171,559</u>

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

Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes - Local				
Property	\$ 83	\$ 3,470	\$ -	\$ 3,553
Transaction Privilege	53,526	-	-	53,526
Transient Occupancy	17,047	-	-	17,047
Light and Power Franchise	290	-	-	290
Taxes - Intergovernmental				
Highway User Tax	13,461	-	-	13,461
Local Transportation Assistance Fund	652	-	-	652
Business and Liquor Licenses	53	-	-	53
Charges for Current Services				
Building and Related Permits	315	-	-	315
Recreation Fees	1,700	-	-	1,700
Fines, Fees, and Forfeitures				
Court	173	-	-	173
Court Enhancement	1,753	-	-	1,753
Police Fees	460	-	-	460
Property Rental	2,250	168	-	2,418
Interest Earnings	310	-	337	647
Investment Income	(90)	-	(75)	(165)
Intergovernmental				
Federal Grants	7,710	-	2,229	9,939
State Grants	360	-	-	360
Miscellaneous	2,908	1,489	1,485	5,882
Developer Contributions	484	-	-	484
Streetlight and Services Districts	531	-	-	531
Contributions and Donations	2,067	-	-	2,067
Reimbursements from Outside Sources	654	-	950	1,604
Indirect Costs	524	-	-	524
Other	57	-	11	68
Total Revenues	\$ 107,278	\$ 5,127	\$ 4,937	\$ 117,342
EXPENDITURES				
Current				
General Government				
Mayor and City Council	\$ 75	\$ -	\$ -	\$ 75
City Court	1,636	-	-	1,636
City Manager	855	-	-	855
City Treasurer	114	-	-	114
Public Works	14,959	-	-	14,959
Community and Economic Development	20,744	-	-	20,744
Public Safety	1,885	-	-	1,885
Community Services	11,121	-	-	11,121
Streetlight and Services Districts	583	-	-	583
Debt Service				
Principal	-	13,130	-	13,130
Interest and Fiscal Charges	-	12,418	-	12,418
Bond Issuance Costs	-	677	-	677
Capital Outlay	-	-	34,003	34,003
Total Expenditures	51,972	26,225	34,003	112,200
Excess (Deficiency) of Revenues over (under) Expenditures	55,306	(21,098)	(29,066)	5,142
OTHER FINANCING SOURCES (USES)				
Transfers In	99	21,884	13,568	35,551
Transfers Out	(47,465)	(1,062)	(7,177)	(55,704)
Issuance of Refunding Bonds	-	46,758	-	46,758
Issuance of Long-Term Capital-Related Debt	-	-	26,815	26,815
Premium on Long-Term Debt Issued	-	8,571	1,070	9,641
Payment to Refunded Bonds Escrow Agent	-	(54,626)	-	(54,626)
Total Other Financing Sources and (Uses)	(47,366)	21,525	34,276	8,435
Net Change in Fund Balances	7,940	427	5,210	13,577
Fund Balances - Beginning	57,168	11,180	36,610	104,958
Fund Balances - Ending	\$ 65,108	\$ 11,607	\$ 41,820	\$ 118,535

Combining Balance Sheet

Nonmajor Special Revenue Governmental Funds

June 30, 2015 (in thousands)

	Transportation	Community Development Block Grant	HOME	Grants	Section 8	Preserve Privilege Tax	Scottsdale Mountain CFD	McDowell Mountain CFD
ASSETS								
Cash and Investments	\$ 11,307	\$ 559	\$ -	\$ 936	\$ 351	\$ 30,380	\$ -	\$ -
Cash with Fiscal Agent	-	-	-	-	-	-	-	-
Receivables (net of allowance for uncollectibles)	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	40	-	-
Privilege Tax	1,522	-	-	-	-	2,745	-	-
Transient Occupancy Tax	-	-	-	-	-	-	-	-
Property Tax	-	-	-	-	-	-	-	-
Franchise Fee	-	-	-	-	-	-	-	-
Highway User Tax	1,257	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-	-
Grants	-	261	357	353	-	-	-	-
Miscellaneous	93	6	-	5	-	-	-	-
Prepaid Items	-	-	-	-	-	-	-	-
Total Assets	<u>\$ 14,179</u>	<u>\$ 826</u>	<u>\$ 357</u>	<u>\$ 1,294</u>	<u>\$ 351</u>	<u>\$ 33,165</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES								
Liabilities								
Accounts Payable	\$ 1,054	\$ 35	\$ 354	\$ 43	\$ 4	\$ 18	\$ -	\$ -
Accrued Payroll and Benefits	321	12	1	12	14	-	-	-
Due to Other Funds	-	-	2	-	-	-	-	-
Unearned Revenue	-	-	-	-	-	-	-	-
Intergovernmental	-	737	-	141	-	-	-	-
Other	-	-	-	1,098	-	-	-	-
Due to Other Governments	-	-	-	-	-	-	-	-
Guaranty and Other Deposits	-	5	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Total Liabilities	<u>1,375</u>	<u>789</u>	<u>357</u>	<u>1,294</u>	<u>18</u>	<u>18</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources								
Unavailable Revenues	93	77	355	343	-	-	-	-
Total Liabilities and Deferred Inflows of Resources	<u>1,468</u>	<u>866</u>	<u>712</u>	<u>1,637</u>	<u>18</u>	<u>18</u>	<u>-</u>	<u>-</u>
Fund Balances								
Restricted	12,711	34	-	-	333	33,147	-	-
Committed	-	-	-	-	-	-	-	-
Unassigned	-	(74)	(353)	(343)	-	-	-	-
Total Fund Balances	<u>12,711</u>	<u>(40)</u>	<u>(353)</u>	<u>(343)</u>	<u>333</u>	<u>33,147</u>	<u>-</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 14,179</u>	<u>\$ 826</u>	<u>\$ 357</u>	<u>\$ 1,294</u>	<u>\$ 351</u>	<u>\$ 33,165</u>	<u>\$ -</u>	<u>\$ -</u>

(continued)

Combining Balance Sheet

Nonmajor Special Revenue Governmental Funds

June 30, 2015 (in thousands)

	DC Ranch CFD	Via Linda Road CFD	Waterfront Commercial CFD	Streetlight Districts	Special Programs	Tourism Development	Total
ASSETS							
Cash and Investments	\$ -	\$ -	\$ -	\$ 17	\$ 12,941	\$ 9,600	\$ 66,091
Cash with Fiscal Agent	58	-	15	-	-	-	73
Receivables (net of allowance for uncollectibles)	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	40
Privilege Tax	-	-	-	-	-	-	4,267
Transient Occupancy Tax	-	-	-	-	-	752	752
Property Tax	1	-	-	-	-	-	1
Franchise Fee	-	-	-	-	58	-	58
Highway User Tax	-	-	-	-	-	-	1,257
Intergovernmental	-	-	-	-	3,405	-	3,405
Grants	-	-	-	-	-	-	971
Miscellaneous	-	-	-	7	211	181	503
Prepaid Items	-	-	-	-	-	-	-
Total Assets	<u>\$ 59</u>	<u>\$ -</u>	<u>\$ 15</u>	<u>\$ 24</u>	<u>\$ 16,615</u>	<u>\$ 10,533</u>	<u>\$ 77,418</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
Liabilities							
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 292	\$ 679	\$ 2,479
Accrued Payroll and Benefits	-	-	-	-	69	8	437
Due to Other Funds	-	-	-	-	-	-	2
Unearned Revenue	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	6,120	-	6,998
Other	-	-	-	-	3	-	1,101
Due to Other Governments	-	-	-	-	-	1	1
Guaranty and Other Deposits	-	-	-	-	-	-	5
Other	-	-	-	-	18	2	20
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,502</u>	<u>690</u>	<u>11,045</u>
Deferred Inflows of Resources							
Unavailable Revenues	-	-	-	-	343	56	1,267
Total Liabilities and Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,845</u>	<u>746</u>	<u>12,310</u>
Fund Balances							
Restricted	59	-	15	24	3,192	-	49,515
Committed	-	-	-	-	6,889	9,787	16,676
Unassigned	-	-	-	-	(311)	-	(1,083)
Total Fund Balances	<u>59</u>	<u>-</u>	<u>15</u>	<u>24</u>	<u>9,770</u>	<u>9,787</u>	<u>65,108</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 59</u>	<u>\$ -</u>	<u>\$ 15</u>	<u>\$ 24</u>	<u>\$ 16,615</u>	<u>\$ 10,533</u>	<u>\$ 77,418</u>

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

Nonmajor Special Revenue Governmental Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Transportation	Community Development Block Grant	HOME	Grants	Section 8	Preserve Privilege Tax	Scottsdale Mountain CFD	McDowell Mountain CFD
REVENUES								
Taxes - Local								
Property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10	\$ 10
Transaction Privilege	19,097	-	-	-	-	34,429	-	-
Transient Occupancy	-	-	-	-	-	-	-	-
Light and Power Franchise	-	-	-	-	-	-	-	-
Taxes - Intergovernmental								
Highway User Tax	13,461	-	-	-	-	-	-	-
Local Transportation Assistance Fund	652	-	-	-	-	-	-	-
Business and Liquor Licenses	-	-	-	-	-	-	-	-
Charges for Current Services								
Building and Related Permits	-	-	-	-	-	-	-	-
Recreation Fees	-	-	-	-	-	-	-	-
Fines, Fees, and Forfeitures								
Court	-	-	-	-	-	-	-	-
Court Enhancement	-	-	-	-	-	-	-	-
Police	-	-	-	-	-	-	-	-
Property Rental	-	52	-	-	-	-	-	-
Interest Earnings	-	-	-	-	1	284	-	-
Investment Income	-	-	-	-	-	(84)	-	-
Intergovernmental								
Federal Grants	-	1,066	12	1,180	5,452	-	-	-
State Grants	-	-	-	360	-	-	-	-
Miscellaneous	503	-	-	92	-	-	-	-
Developer Contributions	-	-	-	-	-	-	-	-
Streetlight and Services Districts	-	-	-	-	-	-	-	-
Contributions and Donations	-	-	-	1,506	-	-	-	-
Reimbursements from Outside Sources	-	-	-	1	2	-	-	-
Indirect Costs	524	-	-	-	-	-	-	-
Other	18	-	-	-	15	3	-	-
Total Revenues	34,255	1,118	12	3,139	5,470	34,632	10	10
EXPENDITURES								
Current								
General Government								
Mayor and City Council	-	-	-	-	-	-	-	-
City Court	-	-	-	-	-	-	-	-
City Manager	-	-	-	855	-	-	-	-
City Treasurer	-	-	-	-	-	4	10	10
Public Works	14,871	-	-	70	-	-	-	-
Community and Economic Development	7,900	-	-	497	-	-	-	-
Public Safety	-	-	-	879	-	-	-	-
Community Services	1,182	1,171	366	762	5,251	-	-	-
Streetlight and Services Districts	-	-	-	-	-	-	-	-
Total Expenditures	23,953	1,171	366	3,063	5,251	4	10	10
Excess (Deficiency) of Revenues over (under) Expenditures	10,302	(53)	(354)	76	219	34,628	-	-
OTHER FINANCING SOURCES (USES)								
Transfers In	-	-	-	-	-	7	-	-
Transfers Out	(9,605)	-	-	(19)	(4)	(29,547)	-	-
Total Other Financing Sources and (Uses)	(9,605)	-	-	(19)	(4)	(29,540)	-	-
Net Change in Fund Balances	697	(53)	(354)	57	215	5,088	-	-
Fund Balances - Beginning	12,014	13	(1)	(400)	118	28,059	-	-
Fund Balances - Ending	\$ 12,711	\$ (40)	\$ (355)	\$ (343)	\$ 333	\$ 33,147	\$ -	\$ -

(continued)

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

Nonmajor Special Revenue Governmental Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

	DC Ranch CFD	Via Linda Road CFD	Waterfront Commerical CFD	Streetlight Districts	Special Programs	Tourism Development	Total
REVENUES							
Taxes - Local							
Property	\$ 53	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ 83
Transaction Privilege	-	-	-	-	-	-	53,526
Transient Occupancy	-	-	-	-	-	17,047	17,047
Light and Power Franchise	-	-	-	-	290	-	290
Taxes - Intergovernmental							
Highway User Tax	-	-	-	-	-	-	13,461
Local Transportation Assistance Fund	-	-	-	-	-	-	652
Business and Liquor Licenses	-	-	-	-	53	-	53
Charges for Current Services							
Building and Related Permits	-	-	-	-	315	-	315
Recreation Fees	-	-	-	-	1,700	-	1,700
Fines, Fees, and Forfeitures							
Court	-	-	-	-	173	-	173
Court Enhancement	-	-	-	-	1,753	-	1,753
Police Fees	-	-	-	-	460	-	460
Property Rental	-	-	-	-	411	1,787	2,250
Interest Earnings	-	-	-	-	25	-	310
Investment Income	-	-	-	-	(6)	-	(90)
Intergovernmental							
Federal Grants	-	-	-	-	-	-	7,710
State Grants	-	-	-	-	-	-	360
Miscellaneous	-	-	-	-	2,313	-	2,908
Developer Contributions	-	-	-	-	484	-	484
Streetlight and Services Districts	-	-	-	531	-	-	531
Contributions and Donations	-	-	-	-	561	-	2,067
Reimbursements from Outside Sources	-	-	-	-	629	22	654
Indirect Costs	-	-	-	-	-	-	524
Other	-	-	-	-	21	-	57
Total Revenues	53	10	-	531	9,182	18,856	107,278
EXPENDITURES							
Current							
General Government							
Mayor and City Council	-	-	-	-	-	75	75
City Court	-	-	-	-	1,636	-	1,636
City Manager	-	-	-	-	-	-	855
City Treasurer	70	10	10	-	-	-	114
Public Works	-	-	-	-	18	-	14,959
Community and Economic Development	-	-	-	-	532	11,815	20,744
Public Safety	-	-	-	-	1,006	-	1,885
Community Services	-	-	-	-	2,389	-	11,121
Streetlight and Services Districts	-	-	-	583	-	-	583
Total Expenditures	70	10	10	583	5,581	11,890	51,972
Excess (Deficiency) of Revenues over (under) Expenditures	(17)	-	(10)	(52)	3,601	6,966	55,306
OTHER FINANCING SOURCES (USES)							
Transfers In	-	-	-	-	60	32	99
Transfers Out	-	-	-	-	(1,834)	(6,456)	(47,465)
Total Other Financing Sources and (Uses)	-	-	-	-	(1,774)	(6,424)	(47,366)
Net Change in Fund Balances	(17)	-	(10)	(52)	1,827	542	7,940
Fund Balances - Beginning	76	-	25	76	7,943	9,245	57,168
Fund Balances - Ending	\$ 59	\$ -	\$ 15	\$ 24	\$ 9,770	\$ 9,787	\$ 65,108

Transportation – Special Revenue Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Budgeted Amounts						
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis	
REVENUES							
Taxes - Local							
Transaction Privilege	\$ 18,413	\$ 18,413	\$ 19,097	\$ -	\$ 19,097	\$ 684	
Taxes - Intergovernmental							
Highway User Tax	12,945	12,945	13,461	-	13,461	516	
Local Transportation Assistance Fund	-	-	652	-	652	652	
Intergovernmental							
Federal Grants	750	750	-	-	-	(750)	
State Grants	650	650	-	-	-	(650)	
Miscellaneous	676	676	503	-	503	(173)	
Indirect Costs	524	524	524	-	524	-	
Other	15	15	18	-	18	3	
Total Revenues	33,973	33,973	34,255	-	34,255	282	
EXPENDITURES							
Current							
Public Works	15,014	14,944	14,890	(19)	14,871	54	
Community and Economic Development	9,209	9,211	7,893	7	7,900	1,318	
Community Services	1,067	1,067	1,182	-	1,182	(115)	
Total Expenditures	25,290	25,222	23,965	(12)	23,953	1,257	
Excess of Revenues over Expenditures	8,683	8,751	10,290	12	10,302	1,539	
OTHER FINANCING SOURCES (USES)							
Transfers Out	(9,256)	(9,256)	(9,605)	-	(9,605)	(349)	
Total Other Financing Sources and (Uses)	(9,256)	(9,256)	(9,605)	-	(9,605)	(349)	
Net Change in Fund Balances	(573)	(505)	685	12	697	1,190	
Fund Balance - Beginning	8,297	12,151	12,151	(137)	12,014	-	
Fund Balance - Ending	\$ 7,724	\$ 11,646	\$ 12,836	\$ (125)	\$ 12,711	\$ 1,190	
Explanation of Differences:							
The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:							
Payroll Accruals	\$	(12)					

Community Development Block Grant – Special Revenue Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Property Rental	\$ -	\$ -	\$ 52	\$ -	\$ 52	\$ 52
Intergovernmental						
Federal Grants	2,811	2,811	1,066	-	1,066	(1,745)
Total Revenues	2,811	2,811	1,118	-	1,118	(1,693)
EXPENDITURES						
Current						
Community Services	2,811	2,819	1,171	-	1,171	1,648
Total Expenditures	2,811	2,819	1,171	-	1,171	1,648
 (Deficiency) of Revenues (under) Expenditures	-	(8)	(53)	-	(53)	(45)
Fund Balance - Beginning	-	24	24	(11)	13	-
Fund Balance - Ending	\$ -	\$ 16	\$ (29)	\$ (11)	\$ (40)	\$ (45)

HOME – Special Revenue Fund**Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual**

For the Fiscal Year Ended June 30, 2015 (in thousands)

	<u>Budgeted Amounts</u>					
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Budget to GAAP Differences</u>	<u>Actual Amounts GAAP Basis</u>	<u>Variance Between Final Budget and Actual Amounts Budgetary Basis</u>
REVENUES						
Intergovernmental						
Federal Grants	\$ 981	\$ 981	\$ 12	\$ -	\$ 12	\$ (969)
Total Revenues	981	981	12	-	12	(969)
EXPENDITURES						
Current						
Community Services	981	982	366	-	366	616
Total Expenditures	981	982	366	-	366	616
 (Deficiency) of Revenues (under) Expenditures	-	(1)	(354)	-	(354)	(353)
 Fund Balance - Beginning	-	(1)	(1)	-	(1)	-
Fund Balance - Ending	\$ -	\$ (2)	\$ (355)	\$ -	\$ (355)	\$ (353)

Grants – Special Revenue Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Budgeted Amounts						
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis	
REVENUES							
Intergovernmental							
Federal Grants	\$ 2,620	\$ 7,630	\$ 1,180	\$ -	\$ 1,180	\$ (6,450)	
State Grants	143	123	360	-	360	237	
Miscellaneous	120	120	92	-	92	(28)	
Contributions and Donations	2,793	655	1,506	-	1,506	851	
Reimbursements from Outside Sources	-	-	1	-	1	1	
Total Revenues	<u>5,676</u>	<u>8,528</u>	<u>3,139</u>	<u>-</u>	<u>3,139</u>	<u>(5,389)</u>	
EXPENDITURES							
Current							
General Government							
City Manager	-	855	855	-	855	-	
Public Works	-	140	70	-	70	70	
Community and Economic Development	-	-	497	-	497	(497)	
Public Safety	1,930	891	884	(5)	879	7	
Community Services	<u>3,746</u>	<u>1,456</u>	<u>764</u>	<u>(2)</u>	<u>762</u>	<u>692</u>	
Total Expenditures	<u>5,676</u>	<u>3,342</u>	<u>3,070</u>	<u>(7)</u>	<u>3,063</u>	<u>272</u>	
Excess (Deficiency) of Revenues over (under) Expenditures	<u>-</u>	<u>5,186</u>	<u>69</u>	<u>7</u>	<u>76</u>	<u>(5,117)</u>	
OTHER FINANCING SOURCES (USES)							
Transfers Out	<u>-</u>	<u>-</u>	<u>(19)</u>	<u>-</u>	<u>(19)</u>	<u>(19)</u>	
Total Other Financing Sources and (Uses)	<u>-</u>	<u>-</u>	<u>(19)</u>	<u>-</u>	<u>(19)</u>	<u>(19)</u>	
Net Change in Fund Balance	-	5,186	50	7	57	(5,136)	
Fund Balance - Beginning	<u>-</u>	<u>(389)</u>	<u>(389)</u>	<u>(11)</u>	<u>(400)</u>	<u>-</u>	
Fund Balance - Ending	<u>\$ -</u>	<u>\$ 4,797</u>	<u>\$ (339)</u>	<u>\$ (4)</u>	<u>\$ (343)</u>	<u>\$ (5,136)</u>	

Explanation of Differences:

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

Payroll Accruals \$ (7)

Section 8 – Special Revenue Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Interest Earnings	\$ -	\$ -	\$ 1	\$ -	\$ 1	\$ 1
Intergovernmental						
Federal Grants	5,984	5,984	5,452	-	5,452	(532)
Reimbursements from Outside Sources	-	-	2	-	2	2
Other	-	-	15	-	15	15
Total Revenues	<u>5,984</u>	<u>5,984</u>	<u>5,470</u>	<u>-</u>	<u>5,470</u>	<u>(514)</u>
EXPENDITURES						
Current						
Community Services	5,984	5,992	5,257	(6)	5,251	735
Total Expenditures	<u>5,984</u>	<u>5,992</u>	<u>5,257</u>	<u>(6)</u>	<u>5,251</u>	<u>735</u>
Excess (Deficiency) of Revenues over (under) Expenditures	-	(8)	213	6	219	221
OTHER FINANCING SOURCES (USES)						
Transfers Out	-	(4)	(4)	-	(4)	-
Total Other Financing Sources and (Uses)	<u>-</u>	<u>(4)</u>	<u>(4)</u>	<u>-</u>	<u>(4)</u>	<u>-</u>
Net Change in Fund Balance	-	(12)	209	6	215	221
Fund Balance - Beginning	-	130	130	(12)	118	-
Fund Balance - Ending	<u>\$ -</u>	<u>\$ 118</u>	<u>\$ 339</u>	<u>\$ (6)</u>	<u>\$ 333</u>	<u>\$ 221</u>

Explanation of Difference:

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

Payroll Accruals	<u>\$ (6)</u>
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Preserve Privilege Tax – Special Revenue Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Budgeted Amounts					Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	
REVENUES						
Taxes - Local						
Transaction Privilege	\$ 33,219	\$ 33,219	\$ 34,429	\$ -	\$ 34,429	\$ 1,210
Interest Earnings	77	77	284	-	284	207
Investment Income	-	-	-	(84)	(84)	-
Other	-	-	3	-	3	3
Total Revenues	<u>33,296</u>	<u>33,296</u>	<u>34,716</u>	<u>(84)</u>	<u>34,632</u>	<u>1,420</u>
EXPENDITURES						
Current						
General Government						
City Treasurer	-	-	4	-	4	(4)
Community Services	2	2	-	-	-	2
Total Expenditures	<u>2</u>	<u>2</u>	<u>4</u>	<u>-</u>	<u>4</u>	<u>(2)</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>33,294</u>	<u>33,294</u>	<u>34,712</u>	<u>(84)</u>	<u>34,628</u>	<u>1,418</u>
OTHER FINANCING SOURCES (USES)						
Transfers In	-	-	7	-	7	7
Transfers Out	<u>(32,689)</u>	<u>(32,689)</u>	<u>(29,547)</u>	<u>-</u>	<u>(29,547)</u>	<u>3,142</u>
Total Other Financing Sources and (Uses)	<u>(32,689)</u>	<u>(32,689)</u>	<u>(29,540)</u>	<u>-</u>	<u>(29,540)</u>	<u>3,149</u>
Net Change in Fund Balance	605	605	5,172	(84)	5,088	4,567
Fund Balance - Beginning	<u>23,324</u>	<u>28,612</u>	<u>28,612</u>	<u>(553)</u>	<u>28,059</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 23,929</u>	<u>\$ 29,217</u>	<u>\$ 33,784</u>	<u>\$ (637)</u>	<u>\$ 33,147</u>	<u>\$ 4,567</u>
Explanation of Difference:						
Items recorded as revenues for GAAP purposes that are not recorded for budget purposes:						
Investment Income	<u>\$ (84)</u>					

Streetlight Districts – Special Revenue Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Budgeted Amounts					Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	
REVENUES						
Streetlight and Services Districts	\$ 533	\$ 533	\$ 531	\$ -	\$ 531	\$ (2)
Total Revenues	533	533	531	-	531	(2)
EXPENDITURES						
Current						
Streetlight and Services Districts	599	599	583	-	583	16
Total Expenditures	599	599	583	-	583	16
Excess (Deficiency) of Revenues over (under) Expenditures	(66)	(66)	(52)	-	(52)	14
Fund Balance - Beginning	68	76	76	-	76	-
Fund Balance - Ending	\$ 2	\$ 10	\$ 24	\$ -	\$ 24	\$ 14

Special Programs – Special Revenue Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

REVENUES	Budgeted Amounts		Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final				
Taxes - Local						
Light and Power Franchise	\$ 250	\$ 250	\$ 290	\$ -	\$ 290	\$ 40
Taxes - Intergovernmental						
Business and Liquor Licenses	24	24	53	-	53	29
Charges for Current Services						
Building and Related Permits	-	-	315	-	315	315
Recreation Fees	1,697	1,697	1,700	-	1,700	3
Fines, Fees, and Forfeitures						
Court	126	126	173	-	173	47
Court Enhancement	1,766	1,766	1,753	-	1,753	(13)
Police	480	480	460	-	460	(20)
Property Rental	458	458	411	-	411	(47)
Interest Earnings	16	16	25	-	25	9
Investment Income	-	-	-	(6)	(6)	-
Intergovernmental						
Miscellaneous	2,489	2,489	2,313	-	2,313	(176)
Developer Contributions	-	-	484	-	484	484
Contributions and Donations	878	878	561	-	561	(317)
Reimbursements from Outside Sources	487	487	629	-	629	142
Other	100	100	21	-	21	(79)
Total Revenues	8,771	8,771	9,188	(6)	9,182	417
EXPENDITURES						
Current						
General Government						
Mayor and City Council	-	1	-	-	-	1
City Court	1,865	1,899	1,644	(8)	1,636	255
Public Works	250	250	18	-	18	232
Community and Economic Development	1,025	1,134	532	-	532	602
Public Safety	1,614	2,587	1,012	(6)	1,006	1,575
Community Services	2,778	2,743	2,386	3	2,389	357
Total Expenditures	7,532	8,614	5,592	(11)	5,581	3,022
Excess of Revenues over Expenditures	1,239	157	3,596	5	3,601	3,439
OTHER FINANCING SOURCES (USES)						
Transfers In	60	60	60	-	60	-
Transfers Out	(1,075)	(1,075)	(1,834)	-	(1,834)	(759)
Total Other Financing Sources and (Uses)	(1,015)	(1,015)	(1,774)	-	(1,774)	(759)
Net Change in Fund Balance	224	(858)	1,822	5	1,827	2,680
Fund Balance - Beginning	6,500	7,993	7,993	(50)	7,943	-
Fund Balance - Ending	\$ 6,724	\$ 7,135	\$ 9,815	\$ (45)	\$ 9,770	\$ 2,680
Explanation of Difference:						
Items recorded as revenue for GAAP purposes that are not recorded for budget purposes:						
Investment Income	\$ (6)					
The City budgets for certain expenditures on the cash basis, rather than on the modified accrual basis:						
Payroll Accruals		(11)				
Net Increase in Fund Balance – Budget to GAAP	\$ 5					

Tourism Development – Special Revenue Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Taxes - Local						
Transient Occupancy Tax	\$ 15,794	\$ 15,794	\$ 17,047	\$ -	\$ 17,047	\$ 1,253
Property Rental	1,600	1,600	1,787	-	1,787	187
Reimbursements from Outside Sources	-	-	22	-	22	22
Other	20	20	-	-	-	(20)
Total Revenues	17,414	17,414	18,856	-	18,856	1,442
EXPENDITURES						
Current						
General Government						
Mayor and City Council	75	75	75	-	75	-
Community and Economic Development	10,797	13,281	11,815	-	11,815	1,466
Total Expenditures	10,872	13,356	11,890	-	11,890	1,466
Excess of Revenues over Expenditures	6,542	4,058	6,966	-	6,966	2,908
OTHER FINANCING SOURCES (USES)						
Transfers In	-	-	32	-	32	32
Transfers Out	(8,900)	(7,825)	(6,456)	-	(6,456)	1,369
Total Other Financing Sources and (Uses)	(8,900)	(7,825)	(6,424)	-	(6,424)	1,401
Net Change in Fund Balance	(2,358)	(3,767)	542	-	542	4,309
Fund Balance - Beginning	7,619	9,252	9,252	(7)	9,245	-
Fund Balance - Ending	\$ 5,261	\$ 5,485	\$ 9,794	\$ (7)	\$ 9,787	\$ 4,309

Combining Balance Sheet

Nonmajor Debt Service Governmental Funds

June 30, 2015 (in thousands)

	Municipal Property Corporation	Debt Service Stabilization	Scottsdale Mountain CFD	McDowell Mountain CFD	DC Ranch CFD	Via Linda Road CFD	Waterfront Commercial CFD	Scottsdale Preserve Authority	Total
ASSETS									
Cash and Investments	\$ -	\$ 10,976	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,976
Cash with Fiscal Agent	10,827	-	498	1,326	1,149	225	495	5,305	19,825
Receivables (net of allowance for uncollectibles)									
Property Tax	-	-	13	22	45	5	-	-	85
Intergovernmental	-	17,632	-	-	-	-	-	-	17,632
Total Assets	<u>\$ 10,827</u>	<u>\$ 28,608</u>	<u>\$ 511</u>	<u>\$ 1,348</u>	<u>\$ 1,194</u>	<u>\$ 230</u>	<u>\$ 495</u>	<u>\$ 5,305</u>	<u>\$ 48,518</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES									
Liabilities									
Matured Bond Interest Payable	\$ 4,424	\$ -	\$ 33	\$ 135	\$ 227	\$ 22	\$ 102	\$ 1,165	\$ 6,108
Matured Bonds Payable	6,400	-	420	1,053	830	170	115	4,140	13,130
Total Liabilities	<u>10,824</u>	<u>-</u>	<u>453</u>	<u>1,190</u>	<u>1,057</u>	<u>192</u>	<u>217</u>	<u>5,305</u>	<u>19,238</u>
Deferred Inflows of Resources									
Unavailable Revenues	-	17,632	6	9	23	3	-	-	17,673
Total Liabilities and Deferred Inflows of Resources	<u>10,824</u>	<u>17,632</u>	<u>459</u>	<u>1,199</u>	<u>1,080</u>	<u>195</u>	<u>217</u>	<u>5,305</u>	<u>36,911</u>
Fund Balances									
Restricted	3	6,276	52	149	114	35	278	-	6,907
Committed	-	4,700	-	-	-	-	-	-	4,700
Total Fund Balances	<u>3</u>	<u>10,976</u>	<u>52</u>	<u>149</u>	<u>114</u>	<u>35</u>	<u>278</u>	<u>-</u>	<u>11,607</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 10,827</u>	<u>\$ 28,608</u>	<u>\$ 511</u>	<u>\$ 1,348</u>	<u>\$ 1,194</u>	<u>\$ 230</u>	<u>\$ 495</u>	<u>\$ 5,305</u>	<u>\$ 48,518</u>

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

Nonmajor Debt Service Governmental Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Municipal Property Corporation	Debt Service Stabilization	Scottsdale Mountain CFD	McDowell Mountain CFD	DC Ranch CFD	Via Linda Road CFD	Waterfront Commercial CFD	Scottsdale Preserve Authority	Total
REVENUES									
Taxes - Local									
Property	\$ -	\$ -	\$ 490	\$ 1,270	\$ 1,273	\$ 172	\$ 265	\$ -	\$ 3,470
Property Rental	-	168	-	-	-	-	-	-	168
Intergovernmental									
Miscellaneous	-	1,489	-	-	-	-	-	-	1,489
Total Revenues	-	1,657	490	1,270	1,273	172	265	-	5,127
EXPENDITURES									
Current									
Debt Service									
Principal	6,400	-	420	1,055	830	170	115	4,140	13,130
Interest and Fiscal Charges	9,036	-	70	269	455	45	206	2,337	12,418
Bond Issuance Costs	677	-	-	-	-	-	-	-	677
Total Expenditures	16,113	-	490	1,324	1,285	215	321	6,477	26,225
Excess (Deficiency) of Revenues over (under) Expenditures	(16,113)	1,657	-	(54)	(12)	(43)	(56)	(6,477)	(21,098)
OTHER FINANCING SOURCES (USES)									
Transfers In	15,407	-	-	-	-	-	-	6,477	21,884
Transfers Out	-	(1,062)	-	-	-	-	-	-	(1,062)
Issuance of Refunding Bonds	46,758	-	-	-	-	-	-	-	46,758
Premium on Long-Term Debt Issued	8,571	-	-	-	-	-	-	-	8,571
Payment to Refunded Bonds Escrow Agent	(54,626)	-	-	-	-	-	-	-	(54,626)
Total Other Financing Sources and (Uses)	16,110	(1,062)	-	-	-	-	-	6,477	21,525
Net Change in Fund Balances	(3)	595	-	(54)	(12)	(43)	(56)	-	427
Fund Balances - Beginning, Restated*	6	10,381	52	203	126	78	334	-	11,180
Fund Balances - Ending	\$ 3	\$ 10,976	\$ 52	\$ 149	\$ 114	\$ 35	\$ 278	\$ -	\$ 11,607

*Restated due to a prior period adjustment to move fund balance of \$321,070 from the Waterfront Commercial CFD to the Debt Stabilization Fund.

General Obligation Bond Debt Service Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Taxes - Local						
Property	\$ 35,568	\$ 35,568	\$ 35,253	\$ -	\$ 35,253	\$ (315)
Total Revenues	35,568	35,568	35,253	-	35,253	(315)
EXPENDITURES						
Debt Service						
Principal	33,320	33,320	90,395	-	90,395	(57,075)
Interest and Fiscal Charges	26,459	26,459	23,752	-	23,752	2,707
Bond Issuance Costs	-	-	966	-	966	(966)
Total Expenditures	59,779	59,779	115,113	-	115,113	(55,334)
 (Deficiency) of Revenues (under) Expenditures	 (24,211)	 (24,211)	 (79,860)	 -	 (79,860)	 (55,649)
OTHER FINANCING SOURCES (USES)						
Transfers In	24,211	24,211	21,461	-	21,461	(2,750)
Issuance of Refunding Bonds	-	-	160,415	-	160,415	160,415
Premium on Long-Term Debt Issued	-	-	14,230	-	14,230	14,230
Payment to Refunded Bonds Escrow Agent	-	-	(113,443)	-	(113,443)	(113,443)
Total Other Financing Sources and (Uses)	24,211	24,211	82,663	-	82,663	58,452
 Net Change in Fund Balance	 -	 -	 2,803	 -	 2,803	 2,803
 Fund Balance - Beginning	 6,307	 9,369	 9,369	 -	 9,369	 -
Fund Balance - Ending	\$ 6,307	\$ 9,369	\$ 12,172	\$ -	\$ 12,172	\$ 2,803

Municipal Property Corporation Bond Debt Service Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Budgeted Amounts					Variance Between Final Budget and Actual Amounts Budgetary Basis
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	
REVENUES						
Property Rental	\$ 145	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental						
Miscellaneous	1,317	-	-	-	-	-
Total Revenues	1,462	-	-	-	-	-
EXPENDITURES						
Debt Service						
Principal	6,866	6,866	6,400	-	6,400	466
Interest and Fiscal Charges	10,445	10,445	9,036	-	9,036	1,409
Bond Issuance Costs	-	-	677	-	677	(677)
Total Expenditures	17,311	17,311	16,113	-	16,113	1,198
Excess (Deficiency) of Revenues over Expenditures	(15,849)	(17,311)	(16,113)	-	(16,113)	1,198
OTHER FINANCING SOURCES (USES)						
Transfers In	15,993	15,993	15,407	-	15,407	(586)
Issuance of Refunding Bonds	-	-	46,758	-	46,758	46,758
Premium on Long-Term Debt Issued	-	-	8,571	-	8,571	8,571
Payment to Refunded Bonds Escrow Agent	-	-	(54,626)	-	(54,626)	(54,626)
Total Other Financing Sources and (Uses)	15,993	15,993	16,110	-	16,110	117
Net Change in Fund Balance	144	(1,318)	(3)	-	(3)	1,315
Fund Balance - Beginning	10,166	6	6	-	6	-
Fund Balance - Ending	\$ 10,310	\$ (1,312)	\$ 3	\$ -	\$ 3	\$ 1,315

Debt Service Stabilization Debt Service Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Property Rental	\$ -	\$ 145	\$ 168	\$ -	\$ 168	\$ 23
Intergovernmental						
Miscellaneous	-	1,317	1,489	-	1,489	172
Total Revenues	-	1,462	1,657	-	1,657	195
EXPENDITURES						
Debt Service						
Total Expenditures	-	-	-	-	-	-
Excess (Deficiency) of Revenues over Expenditures	-	1,462	1,657	-	1,657	195
OTHER FINANCING SOURCES (USES)						
Transfers Out	-	-	(1,062)	-	(1,062)	(1,062)
Total Other Financing Sources and (Uses)	-	-	(1,062)	-	(1,062)	(1,062)
Net Change in Fund Balance	-	1,462	595	-	595	(867)
Fund Balance - Beginning, Restated	-	10,381	10,381	-	10,381	-
Fund Balance - Ending	\$ -	\$ 11,843	\$ 10,976	\$ -	\$ 10,976	\$ (867)

Scottsdale Preserve Authority Debt Service Fund

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

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Budgeted Amounts					
	Original	Final	Actual Amounts Budgetary Basis	Budget to GAAP Differences	Actual Amounts GAAP Basis	Variance Between Final Budget and Actual Amounts Budgetary Basis
REVENUES						
Total Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENDITURES						
Debt Service						
Principal	4,140	4,140	4,140	-	4,140	-
Interest and Fiscal Charges	2,338	2,338	2,337	-	2,337	1
Total Expenditures	6,478	6,478	6,477	-	6,477	1
Excess (Deficiency) of Revenues over (under) Expenditures	(6,478)	(6,478)	(6,477)	-	(6,477)	1
OTHER FINANCING SOURCES (USES)						
Transfers In	6,478	6,478	6,477	-	6,477	(1)
Total Other Financing Sources and (Uses)	6,478	6,478	6,477	-	6,477	(1)
Net Change in Fund Balance	-	-	-	-	-	-
Fund Balance - Beginning	-	-	-	-	-	-
Fund Balance - Ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Combining Balance Sheet

Nonmajor Capital Projects Governmental Funds

June 30, 2015 (in thousands)

	General Obligation Bond	Transportation Privilege Tax	Preserve	MPC Bonds	Total
ASSETS					
Cash and Investments	\$ 15,125	\$ 28,975	\$ 646	\$ -	\$ 44,746
Cash with Fiscal Agents	-	-	-	695	695
Receivables (net of allowance for uncollectibles)					
Interest	45	38	-	-	83
Grants	-	99	-	-	99
Total Assets	<u>\$ 15,170</u>	<u>\$ 29,112</u>	<u>\$ 646</u>	<u>\$ 695</u>	<u>\$ 45,623</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 738	\$ 1,724	\$ 646	\$ 513	\$ 3,621
Accrued Payroll and Benefits	10	20	10	2	42
Due to Other Funds	-	-	6	35	41
Total Liabilities	<u>748</u>	<u>1,744</u>	<u>662</u>	<u>550</u>	<u>3,704</u>
Deferred Inflows of Resources					
Unavailable Revenues	-	99	-	-	99
Total Liabilities and Deferred Inflows of Resources	<u>748</u>	<u>1,843</u>	<u>662</u>	<u>550</u>	<u>3,803</u>
Fund Balances					
Restricted	14,422	27,269	-	145	41,836
Unassigned	-	-	(16)	-	(16)
Total Fund Balances	<u>14,422</u>	<u>27,269</u>	<u>(16)</u>	<u>145</u>	<u>41,820</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 15,170</u>	<u>\$ 29,112</u>	<u>\$ 646</u>	<u>\$ 695</u>	<u>\$ 45,623</u>

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

Nonmajor Capital Projects Governmental Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

	General Obligation Bond	Transportation Privilege Tax	Preserve	MPC Bonds	Total
REVENUES					
Interest Earnings	\$ 145	\$ 192	\$ -	\$ -	\$ 337
Investment Income	(37)	(38)	-	-	(75)
Intergovernmental					
Federal Grants	-	2,229	-	-	2,229
Miscellaneous	-	1,485	-	-	1,485
Reimbursements from Outside Sources	-	950	-	-	950
Other	5	6	-	-	11
Total Revenues	113	4,824	-	-	4,937
EXPENDITURES					
Current					
Capital Outlay	2,124	12,499	1,623	17,757	34,003
Total Expenditures	2,124	12,499	1,623	17,757	34,003
(Deficiency) of Revenues (under) Expenditures	(2,011)	(7,675)	(1,623)	(17,757)	(29,066)
OTHER FINANCING SOURCES (USES)					
Transfers In	1,050	9,920	1,614	984	13,568
Transfers Out	(4,276)	(970)	(7)	(1,924)	(7,177)
Issuance of Long-Term Capital-Related Debt	-	-	-	26,815	26,815
Premium on Long-Term Debt Issued	-	-	-	1,070	1,070
Total Other Financing Sources and (Uses)	(3,226)	8,950	1,607	26,945	34,276
Net Change in Fund Balances	(5,237)	1,275	(16)	9,188	5,210
Fund Balances - Beginning	19,659	25,994	-	(9,043)	36,610
Fund Balances - Ending	\$ 14,422	\$ 27,269	\$ (16)	\$ 145	\$ 41,820

INTERNAL SERVICE FUNDS

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

Fleet Management Fund

This fund is used to account for the expenses associated with purchasing and maintaining the City's vehicles.

Self-Insurance Fund

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

Computer Replacement Fund

This fund is used to account for the expenses associated with purchasing the City's computers, monitors and printers.

Combining Statement of Fund Net Position

Internal Service Funds

June 30, 2015 (in thousands)

	<u>Fleet Management</u>	<u>Self-Insurance</u>	<u>Computer Replacement</u>	<u>Total</u>
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>				
<u>Assets</u>				
Current Assets				
Cash and Investments	\$ 12,021	\$ 22,656	\$ 1,420	\$ 36,097
Receivables (net of allowance for uncollectibles)				
Miscellaneous	183	296	-	479
Supplies Inventory	812	-	-	812
Total Current Assets	<u>13,016</u>	<u>22,952</u>	<u>1,420</u>	<u>37,388</u>
Noncurrent Assets				
Capital Assets				
Buildings and Improvements	12,447	-	-	12,447
Motor Vehicles	72,134	-	-	72,134
Machinery and Equipment	1,020	-	-	1,020
Construction in Progress	367	-	-	367
Less Accumulated Depreciation	(40,834)	-	-	(40,834)
Total Noncurrent Assets	<u>45,134</u>	<u>-</u>	<u>-</u>	<u>45,134</u>
Total Assets	<u>58,150</u>	<u>22,952</u>	<u>1,420</u>	<u>82,522</u>
<u>Deferred Outflows of Resources</u>				
Pensions	498	99	-	597
<u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>				
<u>Liabilities</u>				
Current Liabilities				
Accounts Payable	1,455	507	10	1,972
Accrued Payroll and Benefits	162	27	-	189
Accrued Compensated Absences - Due within one year	146	29	-	175
Claims Payable - Due within one year	-	6,620	-	6,620
Total Current Liabilities	<u>1,763</u>	<u>7,183</u>	<u>10</u>	<u>8,956</u>
Noncurrent Liabilities				
Accrued Compensated Absences - Due in more than one year	177	40	-	217
Net Pension Liabilities	3,896	790	-	4,686
Other Payables - Due in more than one year	-	9,319	-	9,319
Total Noncurrent Liabilities	<u>4,073</u>	<u>10,149</u>	<u>-</u>	<u>14,222</u>
Total Liabilities	<u>5,836</u>	<u>17,332</u>	<u>10</u>	<u>23,178</u>
<u>Deferred Inflows of Resources</u>				
Pensions	681	138	-	819
<u>NET POSITION</u>				
Net Investment in Capital Assets	45,134	-	-	45,134
Unrestricted	6,997	5,581	1,410	13,988
Total Net Position	<u>\$ 52,131</u>	<u>\$ 5,581</u>	<u>\$ 1,410</u>	<u>\$ 59,122</u>

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

Internal Service Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

	<u>Fleet Management</u>	<u>Self-Insurance</u>	<u>Computer Replacement</u>	<u>Total</u>
Operating Revenues				
Charges for Sales and Services				
Billings to User Programs	\$ 18,302	\$ 29,079	\$ 1,046	\$ 48,427
Self Insurance Contributions - Employee	-	6,633	-	6,633
Self Insurance Contributions - Retiree	-	177	-	177
State Contributions	-	166	-	166
Other	478	782	-	1,260
Total Operating Revenues	<u>18,780</u>	<u>36,837</u>	<u>1,046</u>	<u>56,663</u>
Operating Expenses				
Costs of Sales and Services				
Fleet Management Operations	11,572	-	-	11,572
Self-Insurance Administration	-	2,324	-	2,324
Self-Insurance Claims	-	5,725	-	5,725
Self-Insurance Benefits	-	26,355	-	26,355
Insurance and Bond Premiums	-	3,015	-	3,015
Depreciation	5,767	-	-	5,767
Computer Replacement	-	-	575	575
Total Operating Expenses	<u>17,339</u>	<u>37,419</u>	<u>575</u>	<u>55,333</u>
Operating Income (Loss)	<u>1,441</u>	<u>(582)</u>	<u>471</u>	<u>1,330</u>
Non-Operating Revenues				
Property Tax	-	2,077	-	2,077
Gain on Sale of Capital Assets	479	-	-	479
Total Non-Operating Revenues	<u>479</u>	<u>2,077</u>	<u>-</u>	<u>2,556</u>
Income Before Contributions and Transfers	1,920	1,495	471	3,886
Capital Contribution	51	-	-	51
Transfers Out	(11)	(5)	-	(16)
Change in Net Position	<u>1,960</u>	<u>1,490</u>	<u>471</u>	<u>3,921</u>
Total Net Position - Beginning as Restated	50,171	4,091	939	55,201
Total Net Position - Ending	<u>\$ 52,131</u>	<u>\$ 5,581</u>	<u>\$ 1,410</u>	<u>\$ 59,122</u>

Combining Statement of Cash Flows

Internal Service Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Fleet Management	Self-Insurance	Computer Replacement	Total
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 18,302	\$ 35,922	\$ 1,046	\$ 55,270
Cash Payments to Employees for Services	(3,441)	(1,017)	-	(4,458)
Cash Payments to Suppliers for Goods/Services	(8,149)	(36,472)	(568)	(45,189)
Other Cash Receipts	477	782	-	1,259
Net Cash Provided by (Used for) Operating Activities	7,189	(785)	478	6,882
Cash Flows from Non-Capital Financing Activities				
Property Tax	-	2,077	-	2,077
Transfers Out	(11)	(5)	-	(16)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(11)	2,072	-	2,061
Cash Flows from Capital and Related Financing Activities				
Acquisition of Capital Assets	(9,222)	-	-	(9,222)
Sale of Capital Assets	777	-	-	777
Net Cash Used for Capital and Related Financing Activities	(8,445)	-	-	(8,445)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,267)	1,287	478	498
Cash and Cash Equivalents at Beginning of Year	13,288	21,369	942	35,599
Cash and Cash Equivalents at End of Year	\$ 12,021	\$ 22,656	\$ 1,420	\$ 36,097
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities				
Operating Income (Loss)	\$ 1,441	\$ (582)	\$ 471	\$ 1,330
Income Provided by (Used for) Operating Activities				
Depreciation	5,767	-	-	5,767
Pension Expense	266	54	-	320
Current Year Pension Contributions	(277)	(54)	-	(331)
Miscellaneous Receivable	(1)	(133)	-	(134)
Inventories	94	-	-	94
Accounts Payable	(127)	(351)	7	(471)
Accrued Payroll	4	(4)	-	-
Compensated Absences Payable	22	9	-	31
Claims Payable	-	276	-	276
Total Adjustments	5,748	(203)	7	5,552
Net Cash Provided by (Used for) Operating Activities	\$ 7,189	\$ (785)	\$ 478	\$ 6,882
Supplemental Disclosure of Non-cash Financing Activities				
Additions to Property, Plant, and Equipment				
Contributions from external sources	\$ 8,364	\$ -	\$ -	\$ 8,364
Contributions from other funds	51	-	-	51
	\$ 8,415	\$ -	\$ -	\$ 8,415

FIDUCIARY FUNDS

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

Handicap Scholarship Private Purpose Trust Fund

This fund accounts for monies received and expended for college scholarships for individuals with disabilities.

Family Self-Sufficiency Agency Fund

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

Crossroads East Development Agreement

This fund accounts for monies in escrow for the Arizona State Land Department.

Combining Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2015 (in thousands)

	Private Purpose Trust Funds		Agency Funds		
	Handicap Scholarship Private Purpose Trust Fund	Total	Family Self- Sufficiency Agency Fund	Crossroads East Dev Agreement Agency Fund	Total
ASSETS					
Cash and Cash Equivalents	\$ 10	\$ 10	\$ 55	\$ 1,415	\$ 1,470
Total Assets	10	10	55	1,415	1,470
LIABILITIES					
Escrow Payable Vouchers	-	-	55	-	55
State Land Department Rebate	-	-	-	1,415	1,415
Total Liabilities	-	-	\$ 55	\$ 1,415	\$ 1,470
NET POSITION					
Held in Trust for Other Purposes	\$ 10	\$ 10			

Combining Statement of Changes in Assets and Liabilities

Agency Funds

For the Fiscal Year Ended June 30, 2015 (in thousands)

	Family Self-Sufficiency				Crossroads East Dev Agreement			
	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
ASSETS								
Cash and Cash Equivalents	\$ 50	\$ 44	\$ 39	\$ 55	\$ 1,415	\$ -	\$ -	\$ 1,415
Total Assets	<u>\$ 50</u>	<u>\$ 44</u>	<u>\$ 39</u>	<u>\$ 55</u>	<u>\$ 1,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,415</u>
LIABILITIES								
Escrow Payable Vouchers	\$ 50	\$ 44	\$ 39	\$ 55	\$ -	\$ -	\$ -	\$ -
State Land Department Rebate	-	-	-	-	1,415	-	-	1,415
Total Liabilities	<u>\$ 50</u>	<u>\$ 44</u>	<u>\$ 39</u>	<u>\$ 55</u>	<u>\$ 1,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,415</u>

OTHER SUPPLEMENTARY INFORMATION

Debt Requirements

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

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

Schedule of Changes in Long-Term Debt*

For the Year Ended June 30, 2015 (in thousands of dollars)

	July 1, 2014	Issued	Retired	Refunding Bonds Issued	Bonds Deceased	Accretions, Amortizations & Contract Adjustments	June 30, 2015	Governmental Activities	Business-type Activities	Final Payment Date
GENERAL OBLIGATION BONDS										
Governmental Fund Type:										
2002 GO Refunding Various Purpose	\$ 6,585	\$ -	\$ 6,005	\$ -	\$ -	\$ -	\$ 580	\$ 580	\$ -	07/01/16
2002 GO Refunding Preservation	8,100	-	-	-	-	-	8,100	8,100	-	07/01/19
2005 GO Refunding Preservation	63,085	-	4,845	-	58,240	-	-	-	-	07/01/15
2005A GO Various Purpose	25,250	-	6,500	-	10,750	-	8,000	8,000	-	07/01/16
2005B GO Preservation	3,725	-	1,050	-	1,575	-	1,100	1,100	-	07/01/16
2008A GO Various Purpose	93,575	-	3,675	-	75,225	-	14,675	14,675	-	07/01/18
2008B GO Preservation	17,075	-	575	-	14,625	-	1,875	1,875	-	07/01/18
2010 GO Various Purpose	46,400	-	1,400	-	-	-	45,000	45,000	-	07/01/30
2011 GO Preservation	20,260	-	785	-	-	-	19,475	19,475	-	07/01/34
2011 GO Refunding Various Purpose	4,445	-	-	-	-	-	4,445	4,445	-	07/01/18
2011 GO Refunding Preservation	25,850	-	1,610	-	-	-	24,240	24,240	-	07/01/24
2012 GO Preservation	50,000	-	-	-	-	-	50,000	50,000	-	07/01/34
2012 GO Refunding Various Purpose	38,321	-	176	-	-	-	38,145	38,145	-	07/01/21
2012 GO Refunding Preservation	44,244	-	224	-	-	-	44,020	44,020	-	07/01/25
2013 GO Preservation	75,000	-	1,000	-	-	-	74,000	74,000	-	07/01/34
2014 GO Preservation	14,000	-	465	-	-	-	13,535	13,535	-	07/01/34
2014 GO Refunding Various Purpose	73,785	-	3,845	-	-	-	69,940	69,940	-	07/01/23
2014 GO Refunding Preservation	9,365	-	-	-	-	-	9,365	9,365	-	07/01/23
2015 GO Refunding Various Purpose	-	-	-	86,400	-	-	86,400	86,400	-	07/01/28
2015 GO Refunding Preservation	-	-	-	74,015	-	-	74,015	74,015	-	07/01/34
2005 GO Refunding Series Issuance Premium	1,105	-	-	-	944	(161)	-	-	-	-
2005A GO Series Issuance Premium	473	-	-	-	186	(144)	143	143	-	-
2005B GO Series Issuance Premium	81	-	-	-	31	(25)	25	25	-	-
2008A GO Series Issuance Premium	1,548	-	-	-	1,178	(92)	278	278	-	-
2008B GO Series Issuance Premium	107	-	-	-	89	(4)	14	14	-	-
2010 GO Bonds Issuance Premium	664	-	-	-	-	(42)	622	622	-	-
2011 GO Preserve Series Issuance Premium	224	-	-	-	-	(12)	212	212	-	-
2011 GO Refunding Series Issuance Premium	2,872	-	-	-	-	(295)	2,577	2,577	-	-
2012 GO Preserve Issuance Premium	2,179	-	-	-	-	(111)	2,068	2,068	-	-
2012 GO Refunding Series Issuance Premium	6,742	-	-	-	-	(613)	6,129	6,129	-	-
2013 GO Preserve Issuance Premium	2,897	-	-	-	-	(148)	2,749	2,749	-	-
2014 GO Preserve Issuance Premium	568	-	-	-	-	(28)	540	540	-	-
2014 GO Refunding Series Issuance Premium	9,334	-	-	-	-	(1,037)	8,297	8,297	-	-
2015 GO Refunding Series Issuance Premium	-	-	-	14,230	-	(178)	14,052	14,052	-	-
Total General Obligation Bonds	\$ 647,859	\$ -	\$ 32,155	\$ 174,645	\$ 162,843	\$ (2,890)	\$ 624,616	\$ 624,616	\$ -	-
REVENUE BONDS										
Business-Type:										
2004 Utility Revenue Series Refunding	\$ 1,960	\$ -	\$ 960	\$ -	\$ -	\$ -	\$ 1,000	\$ -	\$ 1,000	07/01/16
2008 Utility Revenue Series Refunding	30,315	-	1,980	-	-	-	28,335	-	28,335	07/01/23
2008 Refunding Series Issuance Premium	2,472	-	-	-	-	(289)	2,183	-	2,183	-
Total Revenue Bonds	\$ 34,747	\$ -	\$ 2,940	\$ -	\$ -	\$ (289)	\$ 31,518	\$ -	\$ 31,518	-

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

(continued)

Schedule of Changes in Long-Term Debt*

For the Year Ended June 30, 2015 (in thousands of dollars)

(continued here and on following page)

	July 1, 2014	Issued	Retired	Refunding Bonds Issued	Bonds Defeased	Accretions, Amortizations & Contract Adjustments	June 30, 2015	Governmental Activities	Business-type Activities	Final Payment Date
MUNICIPAL PROPERTY CORPORATION BONDS										
Governmental Fund Type:										
2004A MPC	\$ 2,265	\$ -	\$ 1,105	\$ -	\$ -	\$ -	\$ 1,160	\$ 1,160	\$ -	07/01/16
2005 MPC	23,170	-	265	-	22,630	-	275	275	-	07/01/17
2005D MPC	18,200	-	925	-	16,250	-	1,025	1,025	-	07/01/16
2006 MPC Refunding	55,450	-	-	-	-	-	55,450	55,450	-	07/01/34
2006A MPC	3,330	-	315	-	2,350	-	665	665	-	07/01/17
2006B MPC	12,775	-	1,100	-	9,300	-	2,375	2,375	-	07/01/17
2013A MPC	25,465	-	915	-	-	-	24,550	24,550	-	07/01/28
2013B MPC	1,395	-	50	-	-	-	1,345	1,345	-	07/01/33
2013C MPC	36,055	-	1,245	-	-	-	34,810	34,810	-	07/01/33
2014 MPC Refunding	22,735	-	-	-	-	-	22,735	22,735	-	07/01/27
2015A MPC	-	12,200	205	-	-	-	11,995	11,995	-	07/01/34
2015A MPC Taxable	-	14,615	275	-	-	-	14,340	14,340	-	07/01/34
2015 MPC Refunding	-	-	-	46,758	-	-	46,758	46,758	-	07/01/35
2004A Series Issuance Premium	43	-	-	-	-	(21)	22	-	-	-
2005 Series Issuance Premium	167	-	-	-	146	(7)	14	-	-	-
2005D Series Issuance Premium	798	-	-	-	687	(56)	55	-	-	-
2006 Refunding Series Issuance Premium	4,942	-	-	-	-	(247)	4,695	-	-	-
2006A Series Issuance Premium	40	-	-	-	27	(4)	9	-	-	-
2006B Series Issuance Premium	72	-	-	-	50	(7)	15	-	-	-
2013A MPC Series Issuance Premium	4,515	-	-	-	-	(331)	4,184	-	-	-
2013B MPC Series Issuance Premium	186	-	-	-	-	(10)	176	-	-	-
2013C MPC Series Issuance Premium	4,697	-	-	-	-	(252)	4,445	-	-	-
2014 Refunding Series Issuance Premium	2,642	-	-	-	-	(203)	2,439	-	-	-
2015A Series Issuance Premium	-	1,145	-	-	-	(29)	1,116	-	-	-
2015A Taxable Series Issuance Premium	-	269	-	-	-	(7)	262	-	-	-
2015 Refunding Series Issuance Premium	-	-	-	8,227	-	(98)	8,129	-	-	-
Subtotal	218,942	28,229	6,400	54,985	51,440	(1,272)	243,044	243,044	-	-
Business-Type:										
2005E Water/Sewer	6,105	-	2,850	-	-	-	3,255	-	3,255	07/01/16
2006 MPC Refunding	110,510	-	3,600	-	-	-	106,910	-	106,910	07/01/30
2008A Water/Sewer	90,100	-	3,200	-	49,100	-	37,800	-	37,800	07/01/32
2010 MPC Bonds Water/Sewer	74,080	-	590	-	-	-	73,490	-	73,490	07/01/36
2015A MPC Bonds Water/Sewer	-	18,485	310	-	-	-	18,175	-	18,175	07/01/34
2015 MPC Refunding	-	-	-	46,812	-	-	46,812	-	46,812	07/01/28
2005E Water Issuance Premium	159	-	-	-	-	(80)	79	-	-	-
2006 Refunding Series Issuance Premium	9,016	-	-	-	-	(563)	8,453	-	8,453	-
2008A Series Issuance Premium	3,494	-	-	-	1,825	(92)	1,577	-	1,577	-
2010 Water/Sewer Issuance Premium	2,954	-	-	-	-	(136)	2,818	-	2,818	-
2015A Series Issuance Premium	-	1,734	-	-	-	(43)	1,691	-	1,691	-
2015 Refunding Series Issuance Premium	-	8,237	-	-	-	(147)	8,090	-	8,090	-
Subtotal	296,418	28,456	10,550	46,812	50,925	(1,061)	309,150	-	309,150	-
Total Municipal Property Corporation Bonds	\$ 515,360	\$ 56,685	\$ 16,950	\$ 101,797	\$ 102,365	\$ (2,333)	\$ 552,194	\$ 243,044	\$ 309,150	-
SCOTTSDALE PRESERVE AUTHORITY BONDS										
Governmental Fund Type:										
2004 Excise Tax Refunding	\$ 6,465	\$ -	\$ 3,150	\$ -	\$ -	\$ -	\$ 3,315	\$ 3,315	\$ -	07/01/16
2010 Excise Tax Refunding	32,855	-	-	-	-	-	32,855	32,855	-	07/01/24
2011 Excise Tax Refunding	9,185	-	990	-	-	-	8,195	8,195	-	07/01/22
2004 Excise Tax Revenue Issuance Premium	237	-	-	-	-	(237)	-	-	-	-
2010 Excise Tax Revenue Issuance Premium	3,571	-	-	-	-	(345)	3,226	3,226	-	-
2011 Excise Tax Revenue Issuance Premium	787	-	-	-	-	(102)	685	685	-	-
Total Scottsdale Preserve Authority Bonds	\$ 53,100	\$ -	\$ 4,140	\$ -	\$ -	\$ (684)	\$ 48,276	\$ 48,276	\$ -	-

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

Schedule of Changes in Long-Term Debt*

(continued)

For the Year Ended June 30, 2015 (in thousands of dollars)

	July 1, 2014	Issued	Retired	Refunding Bonds Issued	Bonds Defeased	Accretions, Amortizations & Contract Adjustments	June 30, 2015	Governmental Activities	Business-type Activities	Final Payment Date
CERTIFICATES OF PARTICIPATION										
Governmental Fund Type:										
Series 2010-Public Safety Communications Project	\$ 13,914	\$ -	\$ 2,152	\$ -	\$ -	\$ -	\$ 11,762	\$ 11,762	\$ -	07/01/20
Total Certificates of Participation	\$ 13,914	\$ -	\$ 2,152	\$ -	\$ -	\$ -	\$ 11,762	\$ 11,762	\$ -	
COMMUNITY FACILITIES DISTRICT BONDS										
Governmental Fund Type:										
Scottsdale Mountain Refunding Series 2002	\$ 1,475	\$ -	\$ 420	\$ -	\$ -	\$ -	\$ 1,055	\$ 1,055	\$ -	07/15/18
Waterfront Commercial Series 2007	3,445	-	115	-	-	-	3,330	3,330	-	07/15/32
DC Ranch Refunding Series 2012	13,315	-	830	-	-	-	12,485	12,485	-	07/15/27
McDowell Mtn Ranch Refunding Series 2012	9,460	-	1,055	-	-	-	8,405	8,405	-	07/15/22
Via Linda Road Refunding Series 2012	1,700	-	170	-	-	-	1,530	1,530	-	07/15/23
Scottsdale Mountain 2002 Issuance Premium	5	-	-	-	-	(1)	4	4	-	
DC Ranch 2012 Issuance Premium	512	-	-	-	-	(39)	473	473	-	
McDowell Mtn Ranch 2012 Issuance Premium	178	-	-	-	-	(23)	155	155	-	
Total Community Facilities District Bonds	\$ 30,090	\$ -	\$ 2,590	\$ -	\$ -	\$ (63)	\$ 27,437	\$ 27,437	\$ -	
Total Bonds	\$ 1,295,070	\$ 56,685	\$ 60,927	\$ 276,442	\$ 265,208	\$ (6,259)	\$ 1,295,803	\$ 955,135	\$ 340,668	
CAPITAL LEASES										
Governmental Fund Type:										
Field Maintenance Equipment - Community Services	\$ 41	\$ -	\$ 26	\$ -	\$ -	\$ -	\$ 15	\$ 15	\$ -	2016
Street Maintenance Equipment - Public Works	19	-	19	-	-	-	-	-	-	2015
Copier Equipment - Administrative Services	269	-	55	-	-	-	214	214	-	2018
Total Capital Leases	\$ 329	\$ -	\$ 100	\$ -	\$ -	\$ -	\$ 229	\$ 229	\$ -	
SERVICE CONCESSION ARRANGEMENTS										
Governmental Fund Type:										
Bureau of Reclamation\Westworld	\$ 1,439	\$ -	\$ 80	\$ -	\$ -	\$ -	\$ 1,359	\$ 1,359	\$ -	2032
Bureau of Reclamation\TPC	1,551	-	73	-	-	-	1,478	1,478	-	2035
Total Service Concession Arrangements	\$ 2,990	\$ -	\$ 153	\$ -	\$ -	\$ -	\$ 2,837	\$ 2,837	\$ -	
TOTAL BONDS, CAPITAL LEASES, AND SERVICE CONCESSION ARRANGEMENTS	\$ 1,298,389	\$ 56,685	\$ 61,180	\$ 276,442	\$ 265,208	\$ (6,259)	\$ 1,298,869	\$ 958,201	\$ 340,668	
Compensated Absences								25,690	3,298	
Other Post-Employment Benefit - Implicit Subsidy								915	-	
Net Pension Liabilities								241,311	30,821	
Risk Management Claims								15,939	-	
Total Long-Term Debt							\$	1,242,056	\$ 374,787	

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

Statistical Section

Contents	Page
Financial Trends	170
These schedules contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time.	
Revenue Capacity	179
These schedules contain information to help the reader assess the City’s most significant local revenue sources, property tax and sale and use taxes.	
Debt Capacity	186
These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability to issue additional debt in the future.	
Demographic and Economic Information	192
These schedules offer economic and demographic indicators to help the reader understand the environment within which the City’s financial activities take place.	
Operating Information	194
These schedules contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to the services the City provides and the activities it performs.	

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

Table I

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental Activities										
Net Investment in Capital Assets	\$ 2,029,375	\$ 2,198,130	\$ 2,353,573	\$ 2,586,731	\$ 2,729,334	\$ 2,704,433	\$ 2,800,451	\$ 2,756,186	\$ 2,685,105	\$ 2,663,269
Restricted	102,293 ⁽¹⁾	108,686	189,540	131,732	97,950	91,862	100,275	100,472	109,615	117,485
Unrestricted	172,530 ⁽¹⁾	206,386	90,632	83,884	87,698	108,799	74,124	133,897	180,942	(19,464)
Total Governmental Activities Net Position	<u>\$ 2,304,198</u>	<u>\$ 2,513,202</u>	<u>\$ 2,633,745</u>	<u>\$ 2,802,347</u>	<u>\$ 2,914,982</u>	<u>\$ 2,905,094</u>	<u>\$ 2,974,850</u>	<u>\$ 2,990,555 ⁽²⁾</u>	<u>\$ 2,975,662 ⁽³⁾</u>	<u>\$ 2,761,290 ⁽⁴⁾</u>
Business-Type Activities										
Net Investment in Capital Assets	\$ 806,749	\$ 895,636	\$ 909,632	\$ 991,390	\$ 941,884	\$ 1,009,973	\$ 1,036,985	\$ 1,058,880	\$ 1,046,345	\$ 1,036,650
Restricted	27,000	33,649	26,147	26,568	32,244	36,287	38,576	41,545	47,101	46,901
Unrestricted	239,535	224,607	293,090	239,103	307,279	258,395	243,067	242,763	273,321	253,109
Total Business-Type Activities Net Position	<u>\$ 1,073,284</u>	<u>\$ 1,153,892</u>	<u>\$ 1,228,869</u>	<u>\$ 1,257,061</u>	<u>\$ 1,281,407</u>	<u>\$ 1,304,655</u>	<u>\$ 1,318,628</u>	<u>\$ 1,343,188</u>	<u>\$ 1,366,767 ⁽³⁾</u>	<u>\$ 1,336,660 ⁽⁵⁾</u>
Primary Government										
Net Investment in Capital Assets	\$ 2,836,124	\$ 3,093,766	\$ 3,263,205	\$ 3,578,121	\$ 3,671,218	\$ 3,714,406	\$ 3,837,436	\$ 3,815,066	\$ 3,731,450	\$ 3,699,919
Restricted	129,293	142,335	215,687	158,300	130,194	128,149	138,851	142,017	156,716	164,386
Unrestricted	412,065	430,993	383,722	322,987	394,977	367,194	317,191	376,660	454,263	233,645
Total Primary Government Net Position	<u>\$ 3,377,482</u>	<u>\$ 3,667,094</u>	<u>\$ 3,862,614</u>	<u>\$ 4,059,408</u>	<u>\$ 4,196,389</u>	<u>\$ 4,209,749</u>	<u>\$ 4,293,478</u>	<u>\$ 4,333,743</u>	<u>\$ 4,342,429</u>	<u>\$ 4,097,950</u>

⁽¹⁾ Restated restricted and unrestricted net position related to the classification of unspent bond proceeds.

⁽²⁾ In FY 2013, beginning net position was restated due to the implementation of GASB Statements 60 and 62.

⁽³⁾ In FY 2014, beginning net position was restated due to the implementation of GASB Statement 65.

⁽⁴⁾ In FY 2015, beginning net position was restated due to the implementation of GASB Statement 68 and an adjustment to capital assets.

⁽⁵⁾ In FY 2015, beginning net position was restated due to the implementation of GASB Statement 68 and an adjustment involving prior-year revenue.

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

Table 11a

	2006	2007	2008	2009	2010 ⁽¹⁾	2011 ⁽²⁾	2012 ⁽³⁾	2013	2014 ⁽⁴⁾	2015
Expenses										
Governmental Activities:										
General Government	\$ 42,729	\$ 45,682	\$ 40,698	\$ 20,646	\$ 24,351	\$ 21,495	\$ 18,964	\$ 20,985	\$ 21,084	\$ 21,210
Public Works	-	-	-	-	37,143	35,605	34,416	36,405	43,597	40,631
Community and Economic Development	-	-	-	-	-	134,221	126,622	147,514	134,626	138,899
Public Safety	-	-	-	-	116,155	111,227	115,740	118,033	127,026	135,647
Human Resources	3,615	3,800	4,790	3,545	3,717	3,047	-	-	-	-
Community Services	57,931	70,527	78,285	78,523	53,596	51,974	54,442	56,382	55,190	55,134
Information Technology	-	-	-	-	14,876	13,491	-	-	-	-
Administrative Services	-	-	-	-	1,917	2,905	17,318	16,863	17,552	17,849
Citizen and Neighborhood Resources	3,419	3,727	3,663	3,802	-	-	-	-	-	-
Economic Vitality	7,549	9,475	9,711	8,553	20,676	-	-	-	-	-
Finance and Accounting	-	-	-	-	5,848	-	-	-	-	-
Financial Services	8,343	9,843	10,930	9,913	-	-	-	-	-	-
Fire	26,943	28,054	31,943	31,174	-	-	-	-	-	-
Information Services	14,589	13,329	13,704	13,723	-	-	-	-	-	-
Municipal Services	14,746	17,698	20,153	22,887	-	-	-	-	-	-
Planning and Development	12,883	15,133	31,933	29,029	-	-	-	-	-	-
Planning, Neighborhood and Transportation	-	-	-	-	114,530	-	-	-	-	-
Police	74,408	81,375	91,102	92,530	-	-	-	-	-	-
The Downtown Group	-	-	-	4,595	-	-	-	-	-	-
Transportation	82,047	95,214	90,039	87,552	-	-	-	-	-	-
WestWorld	-	-	-	595	-	-	-	-	-	-
Streetlight and Service Districts	617	597	712	631	538	578	572	569	576	583
Interest on Long-Term Debt	37,192	38,981	39,457	42,242	39,405	40,358	40,647	38,389	35,486	34,134
Bond Issuance Costs	-	-	-	-	-	-	-	-	998	1,643
Total Governmental Activities Expenses	<u>387,011</u>	<u>433,435</u>	<u>467,120</u>	<u>449,940</u>	<u>432,752</u>	<u>414,901</u>	<u>408,721</u>	<u>435,140</u>	<u>436,135</u>	<u>445,730</u>
Business-Type Activities:										
Water Utility	53,961	64,915	71,140	81,391	76,178	83,888	90,829	90,205	91,496	95,958
Sewer Utility	27,854	26,089	26,947	33,509	33,274	34,533	41,218	43,169	45,421	44,352
Airport	2,922	2,958	3,343	3,482	3,120	3,680	3,681	3,785	4,014	3,703
Solid Waste	16,412	17,895	18,772	19,650	18,889	18,853	17,671	19,146	19,608	20,911
Total Business-Type Activities Expenses	<u>101,149</u>	<u>111,857</u>	<u>120,202</u>	<u>138,032</u>	<u>131,461</u>	<u>140,954</u>	<u>153,399</u>	<u>156,305</u>	<u>160,539</u>	<u>164,924</u>
Total Primary Government Expenses	<u>\$ 488,160</u>	<u>\$ 545,292</u>	<u>\$ 587,322</u>	<u>\$ 587,972</u>	<u>\$ 564,213</u>	<u>\$ 555,855</u>	<u>\$ 562,120</u>	<u>\$ 591,445</u>	<u>\$ 596,674</u>	<u>\$ 610,654</u>

⁽¹⁾In FY2010, the City's Governmental Activities were restructured from Departments to Divisions, which resulted in the shift of reporting associated expenses.

⁽²⁾In FY2011, Economic Vitality merged with Planning, Neighborhood and Transportation, to become the Community and Economic Development Division. In addition, Finance and Accounting was merged into General Government.

⁽³⁾In FY2012, Human Resources and Information Technology were absorbed into the Division's Administrative Services function.

⁽⁴⁾In FY2014, the City adopted GASB Statement 65, which mandated the expensing of bond issuance costs as opposed to the previous practice of capitalizing such costs.

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

Table IIb

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Program Revenue										
Governmental Activities:										
Charges for Services:										
General Government	\$ 13,783	\$ 14,102	\$ 15,581	\$ 14,670	\$ 13,982	\$ 4,777	\$ 3,965	\$ 4,340	\$ 4,282	\$ 4,279
Public Works	-	-	-	-	-	4,666	3,543	1,498	1,580	1,861
Community and Economic Development	-	-	-	-	-	9,604 ⁽²⁾	10,958	14,736	17,981	19,474
Public Safety	-	-	-	-	12,655	9,917	10,102	9,139	10,268	10,350
Human Resources	-	-	-	-	-	973	-	-	-	-
Community Services	4,028	4,388	4,637	4,619	5,773	4,617	5,573	5,523	5,914	6,334
Information Technology	-	-	-	-	-	2,485	-	-	-	-
Administrative Services	-	-	-	-	-	635	2,549	3,155	2,890	2,827
Planning, Neighborhood, and Transportation	-	-	-	-	6,837	-	-	-	-	-
Citizen and Neighborhood Resources	163	228	21	-	-	-	-	-	-	-
Economic Vitality	-	-	-	-	2,552	-	-	-	-	-
Fire	1,010	1,155	1,095	2,275	-	-	-	-	-	-
Planning and Development	20,515	16,128	12,800	6,393	-	-	-	-	-	-
Police	9,938	15,071	16,664	5,703	-	-	-	-	-	-
Transportation	277	326	-	-	-	-	-	-	-	-
WestWorld	-	-	-	2,682	-	-	-	-	-	-
Streetlight and Service Districts	511	546	595	599	289	478	551	551	400	531
Operating Grants and Contributions	26,355	29,293	28,409	26,272	29,319	32,205	28,144	31,255	27,710	28,397
Capital Grants and Contributions	136,745	211,707 ⁽¹⁾	157,808	240,289	190,279	41,072	112,163	66,917	38,817	14,831
Total Governmental Activities Program Revenues	213,325	292,944	237,610	303,502	261,686	111,429	177,548	137,114	109,842	88,884
Business-Type Activities:										
Charges for Services:										
Water Utility	81,517	84,381	90,741	91,546	94,199	94,056	97,944	100,615	104,722	98,495
Sewer Utility	27,119	32,250	33,930	34,198	35,027	34,533	36,032	36,939	39,917	39,541
Airport	3,342	3,451	3,380	2,813	2,879	2,816	3,248	3,552	3,635	4,020
Solid Waste	17,163	18,490	19,824	20,049	20,269	20,940	20,744	20,458	20,162	20,232
Capital Grants and Contributions	55,580	55,111	50,679	22,067	9,268	17,889	8,607	25,638	22,019	11,726
Total Business-Type Activities Revenues	184,721	193,683	198,554	170,673	161,642	170,234	166,575	187,202	190,455	174,014
Total Primary Government Revenues	\$ 398,046	\$ 486,627	\$ 436,164	\$ 474,175	\$ 423,328	\$ 281,663	\$ 344,123	\$ 324,316	\$ 300,297	\$ 262,898
Net (Expense)/Revenue										
Governmental Activities	\$ (173,686)	\$ (140,491)	\$ (229,510)	\$ (146,438)	\$ (171,066)	\$ (303,472)	\$ (231,173)	\$ (298,026)	\$ (326,293)	\$ (356,846)
Business-Type Activities	83,572	81,826	78,352	32,641	30,181	29,280	13,176	30,897	29,916	9,090
Total Primary Government Net Expense	\$ (90,114)	\$ (58,665)	\$ (151,158)	\$ (113,797)	\$ (140,885)	\$ (274,192)	\$ (217,997)	\$ (267,129)	\$ (296,377)	\$ (347,756)

⁽¹⁾ Developer contributions increased significantly due to the increase in the assets donated and their valuation (increase in construction costs).

⁽²⁾ In FY 2011, Economic Vitality was merged with Planning, Neighborhood and Transportation, to become the Community and Economic Development Division.

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

Table IIc

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Revenues and Other Changes in Net Position										
Governmental Activities:										
Taxes	\$ 240,731	\$ 249,411	\$ 246,330	\$ 221,272	\$ 208,083	\$ 222,118	\$ 227,963	\$ 234,582	\$ 248,642	\$ 257,860
Intergovernmental	54,481	60,520	65,933	64,145	56,830	49,190	44,035	49,054	52,715	56,316
Interest and Investment Income	13,714	23,013	19,187	14,653	1,368	248	1,063	985	1,274	1,372
Miscellaneous and Special Items	5,786	5,377	7,606	5,038	6,730	11,849	20,502	12,557	8,422	13,829
Transfers	10,536	11,174	10,997	9,932	10,690	10,179	7,366	7,244	6,202	6,579
Total Governmental Activities	<u>325,248</u>	<u>349,495</u>	<u>350,053</u>	<u>315,040</u>	<u>283,701</u>	<u>293,584</u>	<u>300,929</u>	<u>304,422</u>	<u>317,255</u>	<u>335,956</u>
Business-Type Activities:										
Taxes	119	195	195	117	130	134	132	144	154	169
Interest and Investment Income	6,581	9,265	6,910	4,958	4,295	2,658	421	763	964	1,346
Miscellaneous	686	496	517	408	430	1,355	7,610	-	-	-
Transfers	(10,536)	(11,174)	(10,997)	(9,932)	(10,690)	(10,179)	(7,366)	(7,244)	(6,202)	(6,579)
Total Business-Type Activities	<u>(3,150)</u>	<u>(1,218)</u>	<u>(3,375)</u>	<u>(4,449)</u>	<u>(5,835)</u>	<u>(6,032)</u>	<u>797</u>	<u>(6,337)</u>	<u>(5,084)</u>	<u>(5,064)</u>
Total Primary Government	<u>\$ 322,098</u>	<u>\$ 348,277</u>	<u>\$ 346,678</u>	<u>\$ 310,591</u>	<u>\$ 277,866</u>	<u>\$ 287,552</u>	<u>\$ 301,726</u>	<u>\$ 298,085</u>	<u>\$ 312,171</u>	<u>\$ 330,892</u>
Change in Net Position										
Governmental Activities	\$ 151,562	\$ 209,004	\$ 120,543	\$ 168,602	\$ 112,635	\$ (9,888)	\$ 69,756	\$ 6,396	\$ (9,038)	\$ (20,890)
Business-Type Activities	80,422	80,608	74,977	28,192	24,346	23,248	13,973	24,560	24,832	4,026
Total Primary Government	<u>\$ 231,984</u>	<u>\$ 289,612</u>	<u>\$ 195,520</u>	<u>\$ 196,794</u>	<u>\$ 136,981</u>	<u>\$ 13,360</u>	<u>\$ 83,729</u>	<u>\$ 30,956</u>	<u>\$ 15,794</u>	<u>\$ (16,864)</u>

City of Scottsdale, Arizona
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table III

	2006	2007	2008	2009	2010	2011 ⁽¹⁾	2012	2013	2014	2015
General Fund										
Nonspendable						\$ 247	\$ 264	\$ 265	\$ 266	\$ 227
Restricted						281	260	-	-	-
Committed						-	-	-	-	-
Assigned						-	-	-	-	-
Unassigned						53,199	52,105	48,679	52,354	56,017
Reserved	\$ 805	\$ 754	\$ 924	\$ 835	\$ 586	-	-	-	-	-
Unreserved	93,243	89,534	61,379	59,587	51,518	-	-	-	-	-
Total General Fund	<u>\$ 94,048</u>	<u>\$ 90,288</u>	<u>\$ 62,303</u>	<u>\$ 60,422</u>	<u>\$ 52,104</u>	<u>\$ 53,727</u>	<u>\$ 52,629</u>	<u>\$ 48,944</u>	<u>\$ 52,620</u>	<u>\$ 56,244</u>
All Other Governmental Funds										
Nonspendable						\$ 3,000	\$ 2,980	\$ -	\$ -	\$ -
Restricted						104,284	108,073	114,676	105,837	113,237
Committed						6,221	7,345	16,298	20,848	49,554
Assigned						36,609	37,183	39,666	7,362	-
Unassigned, Reported in:										
Special Revenue Funds						(640)	(447)	(1,394)	(1,194)	(1,083)
Capital Project Funds						-	-	-	-	(4,770)
Reserved	\$ 23,142	\$ 21,249	\$ 25,600	\$ 27,236	\$ 20,193	-	-	-	-	-
Unreserved, Reported in:										
Special Revenue Funds	40,952	52,484	35,179	30,710	30,963	-	-	-	-	-
Capital Project Funds	189,905	179,477	212,676	102,898	102,490	-	-	-	-	-
Total All Other Governmental Funds	<u>\$ 253,999</u>	<u>\$ 253,210</u>	<u>\$ 273,455</u>	<u>\$ 160,844</u>	<u>\$ 153,646</u>	<u>\$ 149,474</u>	<u>\$ 155,134</u>	<u>\$ 169,246</u>	<u>\$ 132,853</u>	<u>\$ 156,938</u>

⁽¹⁾In FY2011, fund balances were stated in classifications required by GASB54.

City of Scottsdale, Arizona
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table IVa

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues										
Taxes - Local	\$ 239,478	\$ 251,017	\$ 246,175	\$ 219,846	\$ 204,040	\$ 221,236	\$ 228,823	\$ 236,652	\$ 249,289	\$ 258,851
Taxes - Intergovernmental	69,413	76,545	81,246	77,408	69,336	61,754	53,834	59,813	63,816	68,603
Business and Liquor Licenses	1,572	1,626	1,761	1,733	1,787	1,745	1,805	1,763	1,782	1,925
Charges for Current Services	27,260	23,291	20,376	15,719	15,322	15,119	16,985	20,870	24,078	25,855
Fines, Fees, and Forfeitures	10,260	14,779	15,210	11,459	11,637	8,579	9,133	8,472	8,343	10,000
Special Assessments	1,106	1,825	895	821	765	733	719	591	-	-
Property Rental	4,173	3,868	3,733	3,527	3,353	4,204	4,630	4,232	4,270	5,282
Interest Earnings	12,518	21,083	17,298	13,491	5,014	2,705	2,837	2,624	2,974	1,934
Investment Income	-	-	-	-	(4,696)	(3,397)	(1,403)	(1,639)	(1,700)	(562)
Intergovernmental	13,129	15,763	15,552	31,813	17,756	52,300	67,725	53,462	40,116	19,846
Developer Contributions	392	2,024	7,775	9,425	2,518	254	101	203	64	653
Streetlight and Services Districts	511	546	595	599	289	478	551	551	400	531
Contributions and Donations	835	1,878	1,673	1,519	1,275	1,157	2,521	2,813	2,178	3,558
Reimbursements from Outside Sources	969	568	1,824	1,210	2,852	4,673	12,642	5,934	2,446	3,445
Indirect Costs	9,898	10,208	11,577	14,917	14,159	14,800	9,096	7,595	7,102	6,987
Other	644	700	934	991	644	1,892	3,265	2,438	1,652	5,134
Total Revenues	\$ 392,158	\$ 425,721	\$ 426,624	\$ 404,478	\$ 346,051	\$ 388,232	\$ 413,264	\$ 406,374	\$ 406,810	\$ 412,042

City of Scottsdale, Arizona
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table IVb

	2006	2007	2008	2009	2010 ⁽¹⁾	2011 ⁽²⁾	2012 ⁽³⁾	2013	2014	2015
Expenditures										
General Government	\$ 23,516	\$ 24,938	\$ 26,633	\$ 19,216	\$ 17,030	\$ 19,783	\$ 18,523	\$ 19,695	\$ 19,730	\$ 20,815
Public Works	-	-	-	-	31,391	31,463	27,307	29,658	33,381	34,518
Community and Economic Development	-	-	-	-	-	42,357	38,369	70,351	41,063	44,550
Public Safety	-	-	-	-	111,459	108,003	107,934	111,960	119,159	123,761
Human Resources	3,507	3,855	3,854	3,465	3,657	3,013	-	-	-	-
Community Services	53,535	61,778	69,200	70,807	45,655	43,967	44,762	45,346	45,035	44,998
Information Technology	-	-	-	-	9,469	9,357	-	-	-	-
Administrative Services	-	-	-	-	1,859	3,031	14,450	14,141	14,950	15,050
Finance and Accounting	-	-	-	-	6,059	-	-	-	-	-
Economic Vitality	7,510	9,016	9,373	8,246	17,110	-	-	-	-	-
Planning, Neighborhood, and Transportation	-	-	-	-	27,447	-	-	-	-	-
Planning and Development	12,436	14,331	15,012	16,671	-	-	-	-	-	-
WestWorld	-	-	-	3,704	-	-	-	-	-	-
Information Systems	8,253	8,931	10,149	9,904	-	-	-	-	-	-
The Downtown Group	-	-	-	4,627	-	-	-	-	-	-
Fire	24,296	26,614	29,785	30,767	-	-	-	-	-	-
Police	66,278	78,261	89,725	89,802	-	-	-	-	-	-
Financial Services	7,769	9,080	9,433	9,701	-	-	-	-	-	-
Transportation	10,099	13,439	14,301	15,580	-	-	-	-	-	-
Municipal Services	8,850	9,692	19,140	18,800	-	-	-	-	-	-
Citizen and Neighborhood Resources	3,070	3,254	3,621	3,732	-	-	-	-	-	-
Streetlight and Services Districts	617	597	712	632	538	578	572	569	576	583
Debt Service:										
Principal	27,632	34,252	33,043	31,308	33,701	37,677	44,700	63,234	59,387	105,930
Interest and Fiscal Charges	36,382	38,279	38,651	41,612	38,782	40,091	40,487	38,789	37,323	36,706
Bond Issuance Costs	351	735	1,028	-	497	1,057	774	1,915	998	1,643
Capital Outlay	218,897	147,367	196,976	155,358	77,929	107,448	129,025	181,189	99,722	52,164
Total Expenditures	\$ 512,998	\$ 484,419	\$ 570,636	\$ 533,932	\$ 422,583	\$ 447,825	\$ 466,903	\$ 576,847	\$ 471,324	\$ 480,718
Deficit of Revenues under Expenditures	\$ (120,840)	\$ (58,698)	\$ (144,012)	\$ (129,454)	\$ (76,532)	\$ (59,593)	\$ (53,639)	\$ (170,473)	\$ (64,514)	\$ (68,676)

⁽¹⁾In FY2010, the City's Governmental Activities were restructured from Departments to Divisions which resulted in the shift of reporting associated expenditures.

⁽²⁾In FY2011, Economic Vitality merged with Planning, Neighborhood and Transportation, to become the Community and Economic Development Division. In addition, Finance and Accounting was merged into General Government.

⁽³⁾In FY2012, Human Resources and Information Technology were absorbed into the Division's Administrative Services function.

City of Scottsdale, Arizona
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table IVc

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Other Financing Sources (Uses)										
Transfers In	\$ 147,643	\$ 162,965	\$ 195,170	\$ 160,319	\$ 108,066	\$ 79,592	\$ 81,579	\$ 78,171	\$ 89,669	\$ 89,806
Transfers Out	(140,513)	(155,295)	(185,082)	(145,357)	(98,693)	(69,378)	(75,826)	(70,919)	(82,696)	(83,211)
Capital Lease Acquisitions	-	175	-	-	-	-	-	-	296	-
Issuance of Refunding Bonds	-	55,450	-	-	-	87,985	-	111,250	105,885	207,173
Issuance of Long-Term Capital-Related Debt	191,500	42,500	123,805	-	50,800	42,525	50,000	140,000	14,000	26,815
Premium on Long-Term Debt Issued	5,501	7,199	2,379	-	843	10,047	2,448	22,082	12,742	23,871
Payment to Refunded Bonds Escrow Agent	-	(61,845)	-	-	-	(94,818)	-	(99,684)	(108,099)	(168,069)
Proceeds from Notes Payable	-	3,000	-	-	-	-	-	-	-	-
Proceeds from Sale of Assets	-	-	-	-	-	1,091	-	-	-	-
Total Other Financing Sources and (Uses)	204,131	54,149	136,272	14,962	61,016	57,044	58,201	180,900	31,797	96,385
Net Change in Fund Balances	\$ 83,291	\$ (4,549)	\$ (7,740)	\$ (114,492)	\$ (15,516)	\$ (2,549)	\$ 4,562	\$ 10,427	\$ (32,717)	\$ 27,709
Debt Service as a Percentage of Noncapital Expenditures	21.8%	21.5%	19.2%	19.3%	21.0%	22.8%	25.2%	25.8%	26.0%	33.3%

City of Scottsdale, Arizona
Tax Revenues By Source
Last Ten Fiscal Years
(modified accrual basis of accounting)
(in thousands)

Table V

Sales and Use Taxes						
Fiscal Year	Property	Privilege and Use - General	Privilege and Use - McDowell Mtn	Privilege and Use - Transportation	Privilege and Use - Public Safety	Transient Occupancy
2006	\$ 49,651	\$ 104,949	\$ 35,483	\$ 20,020	\$ 9,978	\$ 8,970
2007	50,732	110,225	37,281	20,910	10,578	9,723
2008	53,778	104,673	35,604	19,823	10,145	9,621
2009	60,493	85,829	29,121	16,141	8,289	7,577
2010	58,354	77,878	26,416	14,608	7,541	7,113
2011	65,970	80,119	27,199	15,042	7,765	13,126 ⁽¹⁾
2012	65,089	84,633	28,809	15,985	8,231	13,430
2013	64,908	89,002	30,376	16,852	8,679	13,852
2014	64,914	95,604	32,655	18,116	9,330	15,303
2015	64,272	100,560	34,429	19,097	9,837	17,047

Franchise Taxes			Intergovernmental		
Fiscal Year	Cable TV Franchise	Light and Power Franchise	State Shared Sales	State Revenue Sharing	Other
2006	\$ 3,157	\$ 6,308	\$ 21,664	\$ 21,223	\$ 962
2007	3,355	7,284	22,312	26,653	929
2008	3,544	8,030	21,575	33,037	957
2009	3,606	7,831	18,677	35,103	959
2010	3,317	7,834	17,227	30,309	979
2011	3,163	7,842	17,844	22,849	1,010
2012	3,445	8,115	16,987	18,347	1,086
2013	3,461	8,424	17,793	22,205	838
2014	3,722	8,477	18,922	24,230	900
2015	3,748	8,691	19,867	26,316	906

⁽¹⁾ The Transient Occupancy tax rate increased from 3% to 5%, effective July 1, 2010.

City of Scottsdale, Arizona
Taxable Sales Subject to Privilege (Sales) Tax by Category
Last Ten Fiscal Years
(dollars in thousands)

Table VI

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Automotive	\$ 1,662,604	\$ 1,622,601	\$ 1,370,365	\$ 918,219	\$ 818,517	\$ 862,091	\$ 950,450	\$ 1,074,591	\$ 1,209,388	\$ 1,335,511
Construction	2,046,791	2,208,957	1,932,043	1,251,432	754,583	718,652	786,402	861,934	1,073,279	1,057,986
Food Stores	584,706	626,083	652,226	624,917	611,083	611,825	626,883	639,362	655,787	690,837
Hotel/Motel	497,804	533,055	529,862	416,216	395,229	401,413	420,494	440,522	488,117	525,421
Major Department Stores	1,012,906	1,011,240	974,330	864,676	865,614	882,376	897,617	907,857	917,406	937,370
Miscellaneous Retail Stores	1,413,445	1,478,112	1,364,347	1,078,674	1,107,272	1,194,790	1,299,083	1,321,572	1,450,611	1,612,954
Other Taxable Activity	513,553	551,095	532,751	556,842	449,455	502,739	525,480	626,171	666,504	695,566
Rentals	1,102,152	1,211,551	1,308,247	1,217,688	1,144,939	1,113,821	1,134,785	1,189,304	1,210,218	1,315,545
Restaurants	726,122	774,598	754,103	684,188	670,311	713,420	799,231	794,034	844,186	925,948
Utilities	398,204	418,460	435,415	432,570	436,010	429,035	430,169	432,356	435,579	435,879
Total	\$ 9,958,287	\$ 10,435,752	\$ 9,853,689	\$ 8,045,422	\$ 7,253,013	\$ 7,430,162	\$ 7,870,594	\$ 8,287,703	\$ 8,951,075	\$ 9,533,017
City Sales Tax	1.65%	1.65%	1.65%	1.65%	1.65%	1.65%	1.65%	1.65%	1.65%	1.65%

City of Scottsdale, Arizona
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

Table VII

Privilege (Sales) Tax Rates				Use Tax Rates			
City Direct				City Direct			
Fiscal Year	Rate	County Rate	State Rate	Fiscal Year	Rate	County Rate	State Rate
2006	1.65%	0.70%	5.60%	2006	1.45%	0.00%	5.60%
2007	1.65%	0.70%	5.60%	2007	1.45%	0.00%	5.60%
2008	1.65%	0.70%	5.60%	2008	1.45%	0.00%	5.60%
2009	1.65%	0.70%	5.60%	2009	1.45%	0.00%	5.60%
2010	1.65%	0.70%	6.60% ⁽¹⁾	2010	1.45%	0.00%	6.60% ⁽¹⁾
2011	1.65%	0.70%	6.60%	2011	1.45%	0.00%	6.60%
2012	1.65%	0.70%	6.60%	2012	1.45%	0.00%	6.60%
2013	1.65%	0.70%	5.60% ⁽³⁾	2013	1.45%	0.00%	5.60% ⁽³⁾
2014	1.65%	0.70%	5.60%	2014	1.45%	0.00%	5.60%
2015	1.65%	0.70%	5.60%	2015	1.45%	0.00%	5.60%

Transient Occupancy Tax Rates				Jet Fuel Tax Rates (cents per gallon)			
City Direct				City Direct			
Fiscal Year	Rate	County Rate	State Rate	Fiscal Year	Rate	County Rate	State Rate
2006	3.00%	1.77%	5.50%	2006	1.80%	0.46%	2.90%
2007	3.00%	1.77%	5.50%	2007	1.80%	0.46%	2.90%
2008	3.00%	1.77%	5.50%	2008	1.80%	0.46%	2.90%
2009	3.00%	1.77%	5.50%	2009	1.80%	0.46%	2.90%
2010	3.00%	1.77%	6.50% ⁽¹⁾	2010	1.80%	0.46%	2.90%
2011	5.00%	1.77%	6.50% ⁽²⁾	2011	1.80%	0.46%	2.90%
2012	5.00%	1.77%	6.50%	2012	1.80%	0.46%	2.90%
2013	5.00%	1.77%	5.50% ⁽³⁾	2013	1.80%	0.46%	2.90%
2014	5.00%	1.77%	5.50%	2014	1.80%	0.46%	2.90%
2015	5.00%	1.77%	5.50%	2015	1.80%	0.46%	2.90%

Source: City Tax Audit Section

Note: The following gives a general description of each tax. Complete details for each tax can be found in Appendix C of the Scottsdale Revised City Code.

Privilege (Sales) Tax applies to the sale, lease, license for use and/or rental transactions.

Use Tax applies to the storage or use of items within the City on which no privilege tax has been paid.

Transient Occupancy Tax applies to transactions involving transient lodging.

Jet Fuel Tax applies to transactions involving the sale of jet fuel.

⁽¹⁾ The state tax rate increased, with the exception of jet fuel, on 6/1/2010 due to approval from the voters in the May 2010 election.

⁽²⁾ The transient occupancy tax rate increased from 3% to 5%, effective July 1, 2010.

⁽³⁾ The state tax rate decreased, with the exception of jet fuel, on 6/1/2013 due to approval from the voters in the May 2010 election.

City of Scottsdale, Arizona
Sales Tax Revenue Payers by Industry
Current Year and Nine Years Ago
(dollars in thousands)

Table VIII

	Fiscal Year 2015				Fiscal Year 2006			
	Number of Filers	Percentage of Total	Tax Revenue	Percentage of Total	Number of Filers	Percentage of Total	Tax Revenue	Percentage of Total
Automotive	579	2.51%	\$ 22,649	13.81%	668	2.63%	\$ 27,250	15.99%
Construction	6,433	27.94%	18,265	11.14%	8,740	34.47%	34,090	20.00%
Food Stores	175	0.76%	11,540	7.04%	175	0.69%	10,258	6.02%
Hotel/Motel	75	0.33%	8,777	5.35%	77	0.30%	8,374	4.91%
Major Department Stores	27	0.12%	15,598	9.51%	30	0.12%	15,611	9.16%
Miscellaneous Retail Stores	5,175	22.48%	28,020	17.07%	6,445	25.42%	25,024	14.69%
Other Taxable Activity	4,115	17.87%	15,022	9.16%	3,960	15.62%	12,130	7.12%
Rentals	5,134	22.30%	21,352	13.02%	4,007	15.80%	19,157	11.24%
Restaurants	1,011	4.39%	15,493	9.45%	970	3.83%	12,007	7.05%
Utilities	299	1.30%	7,292	4.45%	284	1.12%	6,508	3.82%
Total	23,023	100.00%	\$ 164,008	100.00%	25,356	100.00%	\$ 170,409	100.00%

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories are intended to provide alternative information regarding the sources of the city's revenue. The "Other Taxable Activity" category includes all license fees, penalties, and interest.

City of Scottsdale, Arizona
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

Table IX

City Direct Rate				Overlapping Rates			
Fiscal Year				Scottsdale Unified School District			
	Operating	Debt Service	Total City	Operating	Debt Service	EVIT	Total School
2006	\$ 0.4400	\$ 0.6000	\$ 1.0400	\$ 3.4600	\$ 1.2200	\$ 0.0600	\$ 4.7400
2007	0.4200	0.5500	0.9700	3.4500	1.2600	0.0500	4.7600
2008	0.3800	0.4100	0.7900	3.4200	1.2600	0.0500	4.7300
2009	0.3537	0.4327	0.7864	2.8179	1.0742	0.0500	3.9421
2010	0.3650	0.3782	0.7432	2.4447	1.3382	0.0500	3.8329
2011	0.3836	0.5140	0.8976	2.4017	1.3529	0.0500	3.8046
2012	0.4412	0.6503	1.0915	2.7498	1.2503	0.0500	4.0501
2013	0.5027	0.7225	1.2252	3.0875	1.3390	0.0500	4.4765
2014	0.5342	0.7604	1.2946	3.3548	1.2239	0.0500	4.6287
2015	0.5580	0.6869	1.2449	3.1091	1.0045	0.0500	4.1636

Overlapping Rates										
County-Wide Jurisdictions										
Fiscal Year	County Operating	Community College	County Flood	County Education Equalization	Fire District Assistance	Central AZ Project	County Free Library	County Special Health Care	Total County	Total Direct and Overlapping
2006	\$ 1.2000	\$ 1.0300	\$ 0.2100	\$ 0.4400	\$ 0.0100	\$ 0.1200	\$ 0.0500	\$ 0.1206	\$ 3.1806	\$ 8.9606
2007	1.1800	1.0646	0.2000	-	0.0100	0.1200	0.0500	0.1184	2.7430	8.4730
2008	1.1000	0.9760	0.1500	-	0.0100	0.1000	0.0400	0.0935	2.4695	7.9895
2009	1.0327	0.9386	0.1367	-	0.0053	0.1000	0.0353	0.0856	2.3342	7.0627
2010	0.9909	0.8844	0.1367	0.3306	0.0057	0.1000	0.0353	0.0914	2.5750	7.1511
2011	1.0508	0.9728	0.1489	0.3564	0.0066	0.1000	0.0412	0.1122	2.7889	7.4911
2012	1.2407	1.2082	0.1780	0.4259	0.0084	0.1000	0.0492	0.1494	3.3598	8.5014
2013	1.2407	1.3778	0.1780	0.4717	0.0110	0.1000	0.0492	0.1683	3.5967	9.2984
2014	1.2807	1.5340	0.1392	0.5123	0.0121	0.1400	0.0438	0.1939	3.8560	9.7793
2015	1.3209	1.5187	0.1392	0.5089	0.0113	0.1400	0.0556	0.1856	3.8802	9.2887

Source: Maricopa County Department of Finance Publications On-Line "Tax Rate 2014"

Note: The City has Community Facilities Districts (CFD) that levy property taxes independent of the City to property owners within a designated area. For FY 2014/15 the rates were as follows: Scottsdale Mountain CFD - \$1.5272, McDowell Mountain CFD - \$0.7802, DC Ranch CFD - \$0.5228, Via Linda Road CFD - \$1.0766 and the Waterfront Commercial CFD - \$5.5692.

City of Scottsdale, Arizona
Principal Property Taxpayers
Current Year and Nine Years Ago
(dollars in thousands)

Table X

Taxpayer	2015			2006		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Arizona Public Service Company	\$ 60,737	1	1.173%	\$ 82,233	1	1.740%
Scottsdale Fashion Square LLC	29,879	2	0.577%	59,825	2	1.260%
Excel Promenade LLC	18,929	3	0.366%	-	-	-
Gainey Drive Associates	13,412	4	0.259%	37,977	5	0.800%
Qwest Corporation*	13,354	5	0.258%	53,128	3	1.120%
Portales Corporate Center LLC/Etal	13,291	6	0.257%	-	-	-
SDQ FEE LLC	13,069	7	0.252%	-	-	-
WJ Small Grandchildrens Trust	13,068	8	0.252%	-	-	-
Scottsdale Fiesta Retail Center	12,574	9	0.243%	-	-	-
Southwest Gas Corporation	11,091	10	0.214%	-	-	-
First American	-	-	0.000%	44,027	4	0.930%
General Dynamics Decision Systems	-	-	0.000%	27,094	6	0.570%
Marvin F Poer & Co	-	-	0.000%	21,413	7	0.450%
Pederson/BVT Promenade Associates	-	-	0.000%	21,396	8	0.450%
Scottsdale Acquisition LLC	-	-	0.000%	19,488	9	0.410%
Drug (AZ) QRS 14-42 INC	-	-	0.000%	17,972	10	0.380%
Total	<u>\$ 199,404</u>		<u>3.851%</u>	<u>\$ 384,553</u>		<u>8.11%</u>

Source: The Maricopa County Assessor's Office.

The Salt River Project Agricultural Improvement and Power District's (SRP) assessed valuation is not reflected in the total assessed valuation of the City. SRP is subject to a "voluntary contribution" in lieu of ad valorem taxation. The 2014/15 secondary assessed valuation of the SRP within the City is \$21,194,294 as provided by SRP.

*Qwest Corporation was operating under the name Qwest Communications, Inc. in 2006.

City of Scottsdale, Arizona
Assessed Value of Taxable Property
Last Ten Fiscal Years
(dollars in thousands)

Table XI

Fiscal Year Ended June 30th	Real Property				Personal Property	Less Tax Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
	Residential Property	Commercial Property	Vacant Land	Historic and Special Use	Assessed Value			
2006 P	\$ 2,622,605	\$ 1,220,872	\$ 614,301	\$ 1,507	\$ 225,683	\$ (320,326)	\$ 4,364,642	\$ 0.44
2006 S	2,792,337	1,309,263	784,962	2,136	246,619	(404,264)	4,731,053	0.60
2007 P	2,846,492	1,347,926	674,315	1,474	238,279	(322,012)	4,786,474	0.42
2007 S	2,919,838	1,545,559	921,888	1,797	240,843	(420,481)	5,209,444	0.55
2008 P	3,358,045	1,406,676	787,106	1,645	388,502	(442,551)	5,499,423	0.38
2008 S	4,583,036	1,711,178	1,193,455	1,888	402,675	(648,410)	7,243,822	0.41
2009 P	3,947,876	1,584,811	950,456	1,727	403,064	(559,516)	6,328,418	0.35
2009 S	5,237,939	1,987,377	1,505,737	2,073	427,495	(888,204)	8,272,417	0.43
2010 P	4,409,444	1,879,139	1,177,944	1,845	259,145	(717,210)	7,010,307	0.36
2010 S	4,989,883	2,436,470	1,765,907	2,070	259,145	(1,047,474)	8,406,001	0.38
2011 P	4,212,414	1,980,853	1,170,054	4,822	242,654	(724,635)	6,886,162	0.38
2011 S	4,261,972	2,312,814	1,458,512	5,622	242,654	(906,165)	7,375,409	0.51
2012 P	3,521,958	1,615,176	969,618	4,217	224,822	(665,901)	5,669,890	0.44
2012 S	3,524,902	1,623,645	1,021,533	4,300	224,822	(707,211)	5,691,991	0.65
2013 P	3,232,809	1,402,569	845,953	3,133	228,843	(643,724)	5,069,583	0.50
2013 S	3,236,951	1,405,867	856,609	3,133	228,843	(651,408)	5,079,995	0.72
2014 P	3,179,924	1,234,395	763,038	2,810	213,781	(591,625)	4,802,323	0.53
2014 S	3,190,808	1,238,888	793,269	2,852	214,245	(612,212)	4,827,850	0.76
2015 P	3,400,223	1,211,532	731,585	2,849	208,844	(569,038)	4,985,995	0.56
2015 S	3,542,585	1,228,899	792,839	2,986	209,029	(599,560)	5,176,778	0.69

Source: Arizona Department of Revenue Abstract of the Assessment Roll.

Under Arizona law, there are two property valuation bases: PRIMARY (P) and SECONDARY (S). The primary (limited assessed) valuation is used when levying for maintenance and operation of cities, school districts, community college districts, counties, and the state. The secondary (full cash) assessed valuation is used when levying for debt retirement, voter-approved budget overrides, and maintenance and operation of special service districts.

City of Scottsdale, Arizona
Property Tax Levies and Collections
Last Ten Fiscal Years
(dollars in thousands)

Table XII

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2006	\$ 47,809	\$ 46,431	97.1%	\$ 942	\$ 47,373	99.1%
2007	48,778	47,105	96.6%	1,058	48,163	98.7%
2008	50,838	49,408	97.2%	1,277	50,685	99.7%
2009	58,179	55,876	96.0%	1,765	57,641	99.1%
2010	57,380	55,221	96.2%	1,622	56,843	99.1%
2011	64,327	62,237	96.8%	737	62,974	97.9%
2012	62,033	60,309	97.2%	673	60,982	98.3%
2013	62,187	60,630	97.5%	836	61,466	98.8%
2014	62,367	61,227	98.2%	667	61,894	99.2%
2015	63,380	62,233	98.2%	-	62,233	98.2%

Source: "Total Tax Levy Amount for Fiscal Year" = Maricopa County Tax Levy Reports on County Finance Website. Collections Amounts = Maricopa County Finance Office "Secured Tax Levy Report".
Amounts represent property taxes recorded in the General, Debt Service and the Self-Insurance Funds.

City of Scottsdale, Arizona
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(dollars in thousands)

Table XIII

	Governmental Activities										
Fiscal Year Ended June 30	General Obligation Bonds	Revenue Bonds	Municipal Property Corporation Bonds	Scottsdale Preserve Authority Bonds	Special Assessment Bonds	Certificates of Participation	Community Facilities District Bonds	Contracts Payable	Capital Leases	Service Concession Arrangements	
2006	\$ 501,614	\$ 2,990	\$ 112,209	\$ 80,199	\$ 5,505	\$ 7,090	\$ 41,708	\$ 13,136	\$ -	\$ -	
2007	478,369	-	155,200	77,251	4,670	6,401	40,143	19,819	172	-	
2008	578,894	-	154,879	74,158	3,835	5,689	42,313	17,875	141	-	
2009	555,701	-	154,837	70,915	3,000	4,954	40,578	16,828	-	-	
2010	583,071	-	153,582	67,567	2,250	4,194	38,725	15,732	-	-	
2011	579,972	-	152,578	64,309	1,500	23,409	36,762	14,582	-	-	
2012	603,426	-	149,983	60,304	750	18,031	34,685	13,375	-	-	
2013	651,224	-	222,403	56,154	-	16,003	32,083	2,570	183	3,144	
2014	647,859	-	218,942	53,100	-	13,914	30,090	-	329	2,990	
2015	624,616	-	243,044	48,276	-	11,762	27,437	-	229	2,837	
	Business-Type Activities										
Fiscal Year Ended June 30	Revenue Bonds	Municipal Property Corporation Bonds	Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita					
2006	\$ 62,401	\$ 169,901	\$ 179	\$ 996,932	10.32%	\$ 4,510					
2007	58,933	165,154	139	1,006,251	10.47%	4,555					
2008	55,553	269,802	97	1,203,236	11.54%	5,444					
2009	51,629	262,391	53	1,160,886	12.13%	5,267					
2010	48,250	332,216	7	1,245,594	11.62%	5,691					
2011	44,776	323,107	-	1,240,995	11.77%	5,709					
2012	41,157	313,505	-	1,235,216	11.09%	5,667					
2013	37,803	303,793	-	1,325,360	11.63%	5,965					
2014	34,747	296,418	-	1,298,389	11.43%	5,776					
2015	31,518	309,150	-	1,298,869	11.26%	5,689					

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
See Table XVIII - Schedule of Demographic and Economic Statistics for personal income and population data.

City of Scottsdale, Arizona
Ratios of Net General Bonded Debt Outstanding
Last Ten Fiscal Years
(dollars in thousands, except per capita)

Table XIV

Fiscal Year Ended June 30	Governmental Activities - General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Net General Bonded Debt	Percentage of Total Taxable Assessed Value of Property ⁽¹⁾	Per Capita
2006	\$ 501,614	\$ 12,436	\$ 489,178	10.3%	\$ 2,213
2007	478,369	9,383	468,986	9.0%	2,123
2008	578,894	9,520	569,374	7.9%	2,576
2009	555,701	10,841	544,860	6.6%	2,472
2010	583,071	4,932	578,139	6.9%	2,641
2011	579,972	6,787	573,185	7.8%	2,637
2012	603,426	5,789	597,637	10.5%	2,742
2013	651,224	10,105	641,119	12.6%	2,885
2014	647,859	9,369	638,490	13.2%	2,840
2015	624,616	12,172	612,444	11.8%	2,683

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on Table XI for property value data.

See the Schedule of Demographic and Economic Statistics (Table XVIII) for population data.

⁽¹⁾Percentage of Total Taxable Assessed Value of Property was corrected using the information from table XI for years Fiscal Years 2006-2010.

City of Scottsdale, Arizona
 Direct and Overlapping Governmental Activities Debt
 As of June 30, 2015
 (dollars in thousands)

Table XV

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Maricopa County Community College District	\$ 709,690	13.7641%	\$ 97,682
Tempe Elementary School District No. 3	86,700	0.0200%	-
Balsz Elementary School District No. 31	18,345	5.9625%	1,094
Scottsdale Unified School District No. 48	239,963	69.9142%	167,768
Paradise Valley Unified School District No. 69	281,570	30.0054%	84,486
Cave Creek Unified School District No. 93	13,750	63.1889%	8,688
Fountain Hills Unified School District No. 98	11,475	3.7081%	426
Phoenix Union High School District No. 210	295,670	0.3679%	1,088
Tempe Union High School District No 213	75,475	0.0100%	-
Subtotal, overlapping debt			361,232
City direct debt	958,201	100.0000%	958,201
Total direct and overlapping debt			<u>\$ 1,319,433</u>

Source: Maricopa County Assessor's Office

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Scottsdale. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value.

City of Scottsdale, Arizona
Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)

Table XVIa

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>20% Limitation</u>										
Debt Limit Equal to 20% of Assessed Valuation	\$ 947,151	\$ 1,041,889	\$ 1,448,765	\$ 1,654,483	\$ 1,681,200	\$ 1,475,082	\$ 1,138,398	\$ 1,015,999	\$ 965,570	\$ 1,035,356
Total Net Debt Applicable to 20% Limit	<u>372,545</u>	<u>363,455</u>	<u>424,865</u>	<u>413,095</u>	<u>499,945</u>	<u>498,490</u>	<u>524,675</u>	<u>561,126</u>	<u>553,121</u>	<u>532,888</u>
Legal 20% Debt Margin (Available Borrowing Capacity)	<u>\$ 574,606</u>	<u>\$ 678,434</u>	<u>\$ 1,023,900</u>	<u>\$ 1,241,388</u>	<u>\$ 1,181,255</u>	<u>\$ 976,592</u>	<u>\$ 613,723</u>	<u>\$ 454,873</u>	<u>\$ 412,449</u>	<u>\$ 502,468</u>
Total Net Debt Applicable to the 20% Limit as a Percentage of 20% Debt Limit	39.33%	34.88%	29.33%	24.97%	29.74%	33.79%	46.09%	55.23%	57.28%	51.47%
<u>6% Limitation</u>										
Debt Limit Equal to 6% of Assessed Valuation	\$ 284,145	\$ 312,567	\$ 434,629	\$ 496,345	\$ 504,360	\$ 442,524	\$ 341,519	\$ 304,799	\$ 289,671	\$ 310,606
Total Net Debt Applicable to 6% Limit	<u>126,820</u>	<u>112,745</u>	<u>149,580</u>	<u>138,360</u>	<u>78,245</u>	<u>74,250</u>	<u>69,750</u>	<u>78,009</u>	<u>65,944</u>	<u>54,022</u>
Legal 6% Debt Margin (Available Borrowing Capacity)	<u>\$ 157,325</u>	<u>\$ 199,822</u>	<u>\$ 285,049</u>	<u>\$ 357,985</u>	<u>\$ 426,115</u>	<u>\$ 368,274</u>	<u>\$ 271,769</u>	<u>\$ 226,790</u>	<u>\$ 223,727</u>	<u>\$ 256,584</u>
Total Net Debt Applicable to the 6% Limit as a Percentage of 6% Debt Limit	44.63%	36.07%	34.42%	27.88%	15.51%	16.78%	20.42%	25.59%	22.77%	17.39%

City of Scottsdale, Arizona
Legal Debt Margin Information
As of June 30, 2015
(in thousands)

Table XVIb

Legal Debt Margin Calculation for Fiscal Year 2015

Net Secondary Assessed Valuation as of June 30, 2015	\$ 5,176,777,891
 <u>20% Limitation</u>	
Debt Limit Equal to 20% of Assessed Valuation	\$ 1,035,356
Debt applicable to limit:	
General Obligation Bonds	<u>532,888</u>
Legal 20% Debt Margin (Available Borrowing Capacity)	<u><u>\$ 502,468</u></u>
 <u>6% Limitation</u>	
Debt Limit Equal to 6% of Assessed Valuation	\$ 310,606
Debt applicable to limit:	
General Obligation Bonds	<u>54,022</u>
Legal 6% Debt Margin (Available Borrowing Capacity)	<u><u>\$ 256,584</u></u>

Source: City of Scottsdale City Treasurer

Under Arizona law, cities can issue general obligation bonds for purposes of water, sewer, light, parks, open space purposes, public safety, and transportation facilities but outstanding bonds issued for such purposes may not exceed 20 percent of the City's net secondary assessed valuation. Outstanding general obligation bonded debt for all other purposes may not exceed 6 percent of the City's net secondary assessed valuation.

General obligation bonds of community facilities districts are not subject to or included in this computation since they are not bonds of the City of Scottsdale, Arizona.

City of Scottsdale, Arizona
Pledged-Revenue Coverage
Last Ten Fiscal Years
(dollars in thousands)

Table XVII

Water and Sewer Revenue Bonds									Highway User Revenue Bonds			
Fiscal Year Ended June 30	Operating Revenue ⁽¹⁾	Less: Operating Expenses	Net Operating Revenue	Development Fee Revenue	Net Revenue	Debt Service Principal	Debt Service Interest	Coverage	Highway User Tax Revenue	Debt Service Principal	Debt Service Interest	Coverage
2006	\$ 115,374	\$ 56,329	\$ 59,045	\$ 24,071	\$ 83,116	\$ 3,330	\$ 3,182	12.76	\$ 15,708	\$ 2,825	\$ 317	5.00
2007	125,880	64,089	61,791	17,878	79,669	3,475	2,997	12.31	16,778	2,990	165	5.32
2008	131,553	66,077	65,476	15,280	80,756	3,640	2,582	12.98	16,123	-	-	N/A
2009	130,782	71,236	59,546	3,043	62,589	3,660	2,507	10.15	14,083	-	-	N/A
2010	133,624	70,165	63,459	3,126	66,585	3,115	2,351	12.18	13,342	-	-	N/A
2011	132,441	77,456	54,985	3,859	58,844	3,220	2,199	10.86	13,396	-	-	N/A
2012	134,336	78,837	55,499	3,073	58,572	3,380	2,056	10.77	10,885	-	-	N/A
2013	138,224	73,647	64,577	12,213	76,790	3,115	1,891	15.34	11,903	-	-	N/A
2014	142,066	77,891	64,175	15,139	79,314	3,240	1,738	15.93	12,268	-	-	N/A
2015	139,242	79,154	60,088	5,326	65,414	2,940	1,599	14.41	13,461	-	-	N/A

Special Assessment Bonds					Scottsdale Preserve Authority Bonds				Municipal Property Corporation Bonds					
Fiscal Year Ended June 30	Special Assessment Collections	Debt Service Principal	Debt Service Interest	Coverage ⁽²⁾	0.2 % and 0.15% Sales Tax ⁽³⁾	Debt Service Principal	Debt Service Interest	Coverage	Debt Service Principal ⁽⁴⁾	Debt Service Interest ⁽⁴⁾	Includes Transient Occupancy Tax (6)		Excludes Transient Occupancy Tax (7)	
											Excise Tax ⁽⁵⁾	Coverage	Excise Tax ⁽⁵⁾	Coverage
2006	\$ 1,106	\$ 851	\$ 275	0.98	\$ 35,483	\$ 2,815	\$ 3,997	5.21	\$ 5,995	\$ 10,017	\$ 202,081	12.62	\$ -	N/A
2007	1,825	848	235	1.69	37,281	2,965	3,843	5.48	5,305	10,057	218,205	14.20	-	N/A
2008	895	846	197	0.86	35,604	3,110	3,676	5.25	5,584	13,988	216,066	11.04	-	N/A
2009	821	845	158	0.82	29,121	3,260	3,502	4.31	7,570	19,482	185,801	6.87	-	N/A
2010	765	757	121	0.87	26,416	3,365	3,374	3.92	9,715	18,415	170,638	6.07	-	N/A
2011	733	757	86	0.87	27,199	3,470	2,471	4.58	9,785	22,185	168,641	5.27	155,515	4.86
2012	719	755	52	0.89	28,809	3,655	2,835	4.44	11,841	21,141	171,075	5.19	157,645	4.78
2013	591	755	17	0.77	30,376	3,800	2,680	4.69	12,355	21,480	184,079	5.44	170,227	5.03
2014	-	-	-	N/A	32,655	3,960	2,508	5.05	18,200	22,994	198,679	4.82	183,376	4.45
2015	-	-	-	N/A	34,429	4,140	2,330	5.32	16,950	22,299	212,084	5.40	195,037	4.97

⁽¹⁾Includes investment income.⁽²⁾Coverage ratio is less than 1.0 due to prepayment of amounts that are currently in fund balance.⁽³⁾In May 2004, the City of Scottsdale, Arizona citizens approved an additional .15% Preservation Privilege Tax. This tax was effective July 1, 2004.⁽⁴⁾Includes debt service payments paid out of revenue from the Water and Sewer Fund.⁽⁵⁾Excise Tax was recalculated for prior years using correct items from Table V and the Statement of Revenue, Expenditures, and Changes in Fund Balances for the Governmental Funds.⁽⁶⁾Includes Transient Occupancy taxes which are pledged revenues for MPC bonds issued prior to July 1, 2010.⁽⁷⁾Excludes Transient Occupancy taxes that are no longer pledged revenues for MPC bonds issued on or after July 1, 2010.

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

**City of Scottsdale, Arizona
Demographic and Economic Statistics
Last Ten Fiscal Years**

Table XVIII

Fiscal Year	Population⁽¹⁾	Personal Income⁽²⁾ (in thousands)	Per Capita Personal Income⁽³⁾	Median Age⁽⁴⁾	Charter and Public School Enrollment⁽⁵⁾	Year-End Average Unemployment Rate⁽⁶⁾
2006	221,030	\$ 9,661,884	\$ 43,713	41.0	27,000	3.0%
2007	220,907	9,611,884	43,511	41.0	26,653	2.6%
2008	221,031	10,428,464	47,181	41.0	26,567	2.3%
2009	220,410	9,573,949	43,437	41.0	27,029	3.9%
2010	218,888	10,715,662	48,955	45.4	27,093	6.8%
2011	217,365	10,542,637	48,502	45.4	27,116	7.2%
2012	217,965	11,135,832	51,090	45.4	28,177	6.8%
2013	222,200	11,393,527	51,276	45.4	27,816	5.8%
2014	224,800	11,358,020	50,525	45.1	27,191	5.6%
2015	228,300	11,536,227	50,531	45.4	26,233	4.7%

Data Sources and Notes:

⁽¹⁾ July 1 Population estimate, State of Arizona Office of Employment and Population Statistics.

⁽²⁾ Calculated by multiplying per capita personal income by total population divided by 1,000.

⁽³⁾ Sites USA (estimate) 2006-2010; U.S. Census, American Community Survey, 5-Year Estimates used for FY 2011-2015 estimates.

⁽⁴⁾ U.S. Census; 2006-2009 based on Census 2000; 2010-2012 based on Census 2010, 2013-2015 based on U.S. Census, American Community Survey, 5-Year Estimates.

⁽⁵⁾ Arizona Department of Education. For 2015, Arizona Department of Education Oct. 1, 2014 total enrollment for 8 charter and 29 public schools located within Scottsdale city boundaries.

⁽⁶⁾ Arizona Office of Employment and Population Statistics, in cooperation with the U.S. Dept of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics. For calendar year that ended within the fiscal year. For example, FY 2015 is for Calendar Year 2014.

City of Scottsdale, Arizona
Principal Employers
Current Year and Nine Years Ago

Table XIX

Employer	2015			2006		
	Employees	Rank	Percentage of Total City Employment ⁽¹⁾	Employees	Rank	Percentage of Total City Employment ⁽¹⁾
HonorHealth (Scottsdale Healthcare)	6,382	1	5.39%	4,400	1	3.00%
CVS - Health ⁽²⁾	2,800	2	2.36%	1,636	7	1.10%
Vanguard	2,500	3	2.11%			
Scottsdale Unified School District ⁽³⁾	2,240	4	1.89%	3,500	4	2.40%
City of Scottsdale	2,160	5	1.83%	2,191	5	1.50%
General Dynamics C4 Systems	1,945	6	1.57%	4,000	2	2.80%
Mayo Clinic	1,851	7	1.64%	3,995	3	2.80%
Scottsdale Insurance Company	1,800	8	1.52%	2,000	6	1.40%
McKesson Corporation	1,350	9	1.14%	700	10	0.50%
International Cruise and Excursion	1,340	10	1.13%			
Fairmont Princess Resort				1,200	8	0.80%
Rural Metro Corporation				875	9	0.60%
Total	<u>24,368</u>		<u>20.58%</u>	<u>24,497</u>		<u>16.90%</u>

Source: City of Scottsdale Comprehensive Annual Financial Report, FY 2005/06 and Economic Development Department communications with employers, July 2015.

⁽¹⁾ Annual Employment according to the Arizona Office of Employment and Population Statistics was 118,270 in Dec, 2014. The 2006 labor force was listed at 145,034.

⁽²⁾ In 2006, this company was known as Caremark. CVS Caremark was rebranded/renamed CVS Health in 2014.

⁽³⁾ Scottsdale Unified School District has administrative offices and some schools outside of Scottsdale city limits. 2015 numbers only report Scottsdale-based employees. 2006 included all employees.

City of Scottsdale, Arizona
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Table XX

Function	2006	2007	2008	2009	2010 ⁽¹⁾	2011	2012 ⁽³⁾	2013	2014	2015
Administrative Services				38.5	35.0	35.0	138.8	124.6	127.4	120.9
Aviation	13.0	15.0	15.0	16.0	14.0	14.0	14.0	14.0	14.0	14.5
Citizen and Neighborhood Resources	39.0	40.0								
Communications and Public Affairs		14.7								
Community and Economic Development						214.5	188.5	175.5	176.5	173.0
Community Services	559.4	580.3	546.1	543.1	489.3	487.6	459.5	454.2	454.2	448.3
Economic Vitality	11.0	40.0	77.0	54.0	47.0					
Financial Services	149.0	151.0	134.0	110.5						
Finance and Accounting					92.5	95.5	83.5	93.0	93.0	89.7
General Government	217.0	172.6	172.6	167.1	155.0	153.0	141.0	140.0	140.0	140.4
Human Resources ⁽²⁾	35.5	36.5	53.5	35.5	30.0	30.5				
Information Technology ⁽²⁾	80.8	83.8	91.8	81.8	78.8	75.8				
Municipal Services	151.7	170.5								
Planning and Development	144.0	167.0								
Planning/Neighborhood/Transportation			205.2	224.0	167.5					
Public Safety ⁽⁴⁾			999.6	981.6	953.6	957.6	933.6	924.6	934.6	
Public Safety - Fire	259.0	268.0								266.0
Public Safety - Police	676.1	705.6								664.6
Public Works			248.5	233.0	197.0	206.0	205.0	204.0	204.0	205.0
Solid Waste	83.3	85.3	85.8	89.0	89.0	89.0	89.0	89.0	90.0	90.0
Transportation	27.0	30.0								
Water Resources	152.5	162.0	169.0	180.0	189.0	189.0	202.0	204.0	204.0	205.0
Total	<u>2,598.3</u>	<u>2,722.3</u>	<u>2,798.1</u>	<u>2,754.1</u>	<u>2,537.7</u>	<u>2,547.5</u>	<u>2,454.9</u>	<u>2,422.9</u>	<u>2,437.7</u>	<u>2,417.4</u>

Source: The City of Scottsdale, Arizona's Budget Department.

⁽¹⁾ In FY2010, the Full-time Equivalent Employees for prior years were restated to actual. In addition, the City's Governmental Activities were restructured from Departments to Divisions which resulted in the shift of reporting associated Full-time Equivalent Employees.

⁽²⁾ In FY2012, Human Resources and Information Technology were absorbed into the Division's Administrative Services function.

⁽³⁾ In FY2012, Meter Reading Operations was transferred from Finance and Accounting to Water Resources.

⁽⁴⁾ In FY2015, Public Safety was restated to reflect the creation of separate Police and Fire Divisions.

City of Scottsdale, Arizona
Operating Indicators by Division⁽¹⁾
Last Ten Fiscal Years

Table XXI

Division	2006	2007	2008	2009	2010 ⁽²⁾	2011	2012	2013	2014	2015
General Government										
<i>City Attorney</i>										
% of cases resolved at first court appearance (arraignment)	32%	34%	35%	34%	32%	40%	37%	37%	34%	39%
<i>City Auditor</i>										
# of reports performed	15	10	11	13	16	17	14	14	14	16
<i>City Clerk</i>										
# of legal postings	1,011	1,138	1,173	1,158	1,301	1,241	1,185	1,124	1,080	1,005
# of minutes	99	90	90	71	87	66	63	63	65	57
<i>City Court</i>										
Charges filed /Charges adjudicated (resolved)	156,051 / 132,096	201,866 / 216,000	221,400 / 219,980	115,319 / 137,887	107,720 / 113,382	104,301 / 108,003	102,953/ 100,929	93,306/ 90,016	99,063/ 83,441	96,741/ 91,200
<i>City Treasurer⁽³⁾</i>										
# of Accounts Payable checks issued	41,194	42,000	38,000	36,442	33,620	45,592	45,112	33,599	32,865	32,491
# of customer contacts (utilities, taxes and licensing)	212,888	216,764	230,143	176,680	175,918	255,124	246,319	254,992	209,325	196,549
<i>City Manager</i>										
% of survey respondents rating the "Overall Quality of Life in Scottsdale" as good to excellent ⁽⁴⁾	No Survey	90%	No Survey	No Survey	No Survey	94%	No Survey	No Survey	98%	No Survey
News releases, media updates, traffic alerts, construction updates released to news media	205	220	220	N/A	240	281	N/A	N/A	N/A	N/A
Total ad value equivalency generated ⁽⁵⁾	N/A	N/A	N/A	N/A	N/A	N/A	\$20,000	\$78,861	\$64,931	\$34,863
Acres of land acquired for inclusion in the McDowell Sonoran Preserve	138	251	648	25	399	2,001	4,419	6,400	2,365	0
Administrative Services										
<i>Human Resources</i>										
Citywide turnover	11.1%	9.0%	12.0%	6.0%	9.5%	7.3%	7.1%	7.3%	6.0%	7.8%
HR operating cost as a % of City payroll	2.3%	2.0%	2.1%	2.1%	1.6%	1.8%	1.3%	1.7%	1.4%	1.4%
<i>Information Technology</i>										
# of SPAM emails blocked (monthly) from being delivered to the City (An average of 30 seconds per email is expended by staff)	25,400,000	654,100	1,200,000	2,200,000	2,100,000	1,775,000	1,870,000	1,588,935	1,335,869	1,395,338
Annual Disk Storage size (DAS, NAS, and SAN) (Terabytes)	30.0	30.0	80.0	147.8	170.0	266.0	266.0	167.3	45.8	51.4
<i>Purchasing</i>										
# of purchase orders	10,778	9,460	8,224	6,234	5,748	5,310	5,018	4,678	5,019	5,064
Community Services										
# attending Parks and Recreation facilities, Human Services facilities, and Libraries annually	7,877,216	7,838,000	7,940,283	8,747,495	8,634,522	8,855,120	8,471,649	8,223,148	7,765,110	7,322,719
# of square feet of medians and rights of way maintained	15,188,684	15,460,961	16,918,438	17,000,000	17,000,000	23,168,510	23,475,510	22,726,329	22,502,626	22,832,327

(continued on next page)

City of Scottsdale, Arizona
Operating Indicators by Division⁽¹⁾
Last Ten Fiscal Years

Table XXI

Division	2006	2007	2008	2009	2010 ⁽²⁾	2011	2012	2013	2014	2015
Community and Economic Development										
<i>Planning and Development</i>										
Customer wait-time (in minutes) at One Stop Shop	15	20	20	7	7	6	6	12	15	12
Provide applicant with pre-application meeting within 30 days of submitting request.	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
% of inspections performed within 24 hours of the request	99%	99%	99%	100%	100%	100%	100%	100%	100%	100%
# of new Code Enforcement cases processed per year	13,137	16,900	15,570	20,568	16,452	16,000	16,500	15,603	14,222	15,514
% increase of Neighborhood Watch groups annually ⁽⁶⁾	5%	5%	5%	-56%	5%	5%	5%	5%	2%	0%
% of survey respondents rating "Your Neighborhood as a Place to Live" as good to excellent ⁽⁷⁾	No Survey	90%	No Survey	No Survey	No Survey	91%	No Survey	No Survey	93%	No Survey
<i>Transportation</i>										
Total citywide transit ridership	2,104,382	2,365,204	2,584,837	3,472,828	3,103,185	2,539,744	2,499,000	2,599,557	2,589,218	2,635,739
Actions to improve safety and efficiency of traffic flow (signal timing changes and traffic control and speed limit studies) ⁽⁸⁾	322	375	475	N/A	8,578	10,397	10,500	5,043	3,687	4,252
<i>Economic Development</i>										
Targeted job creation - number of companies / number of jobs ⁽⁹⁾	11 / 1,275	7 / 1,800	5 / 1,374	7 / 394	10 / 731	7 / 450	8 / 1,595	36 / 1,593	16 / 1,069	13 / 1,180
<i>Tourism</i>										
Hotel/Motel average occupancy rate	69.0%	69.0%	65.0%	59.2%	58.0%	58.8%	61.5%	63.0%	65.6%	67.8%
Bed Tax growth (% annual change)	+5%	+9%	-2%	-21%	-6%	8%	5%	3%	10%	12%
# of Downtown special events coordinated	62	71	65	100	110	95	119	126	275	306
<i>Aviation</i>										
Scottsdale Airport - Takeoffs and Landings	210,481	185,241	201,958	169,972	156,896	136,089	146,058	137,333	148,971	153,285
<i>WestWorld</i>										
# of special events at WestWorld	49	43	44	31	28	20	20	27	24	52
Public Safety										
<i>Police</i>										
Scottsdale Uniform Crime Report, Part 1 (crimes per thousand) ⁽¹⁰⁾										
Scottsdale	34.9	37.1	35.6	34.3	29.6	31.9	32.8	29.1	27.8	25.5
Valley Average	51.0	51.0	51.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Achieve the standard of six minutes or less for response to emergency calls for service (includes medical and accident related calls)	N/A	6:06	5:07	5:07	5:01	4:57	5:11	4:54	5:04	5:25
Provide initial contact to 100% of citizen traffic concerns within seven days	98%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<i>Fire</i>										
Total incidents	23,952	22,894	22,936	23,953	23,996	25,586	26,344	27,075	28,544	32,425
Responses per capita	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.12	0.13	0.14
Travel time (en-route to on-scene)	4:20	4:15	4:21	4:23	4:28	4:22	4:18	4:26	4:27	4:33

(continued on next page)

City of Scottsdale, Arizona
Operating Indicators by Division⁽¹⁾
Last Ten Fiscal Years

Table XXI

Division	2006	2007	2008	2009	2010 ⁽²⁾	2011	2012	2013	2014	2015
Public Works and Water Resources										
<i>Public Works</i>										
Facility inventory maintained (square feet)	2,166,650	2,221,650	2,271,550	2,334,310	2,929,802	3,006,106	3,029,606	3,322,968	3,313,468	3,348,774
# of active Capital Projects	219	202	180	178	168	183	162	186	150	120
# of homes serviced by Residential Refuse Collection	76,300	77,206	78,024	78,607	79,006	79,508	79,787	80,013	80,354	80,785
# of citizens serviced annually by Household Hazardous Waste collection program ⁽¹¹⁾	2,000	2,100	2,200	1,923	1,497	2,573	2,591	2,691	2,905	2,362
<i>Water Resources</i>										
Water Service Connections	86,399	86,728	87,248	87,349	87,409	87,458	87,577	87,851	88,348	88,905
Drinking Water Supplied (million gallons per day)	73.1	72.1	73.7	69.4	68.4	67.9	69.2	67.6	70.2	63.9
Reclaimed Water Supplied (million gallons per day)	11.5	11.4	11.7	9.6	11.2	8.7	6.9	8.9	9.7	9.2
Sewer Service Connections	74,143	76,092	76,849	77,363	77,605	77,850	78,018	78,269	79,014	79,588
Sewage Treated (million gallons per day)	24.2	25.3	23.9	19.7	21.0	21.1	20.9	20.7	20.9	21.2
# of water meters read annually ⁽¹²⁾	1,015,662	1,030,368	1,044,205	1,049,008	1,050,067	1,051,089	1,043,335	1,055,230	1,059,738	1,066,385

Source: The City of Scottsdale's Budget Office and applicable City divisions.

⁽¹⁾This presentation is consistent with the organizational structure approved as part of the FY 2014/15 Budget. It has been noted where changes were approved by the City Council mid-year.

⁽²⁾In FY 2010, the indicators for prior years were restated to actuals.

⁽³⁾Effective December 2009, the City Council approved placing Financial Management under the control of the City Treasurer, renaming the department "Finance and Accounting," moving Payroll and Risk Management from Human Resources into the Finance and Accounting Department, and moving Tax Audit and Purchasing into a new division named Administrative Services.

⁽⁴⁾The complete results for the most recent survey, as well as archived copies of prior year surveys can be found at http://www.scottsdaleaz.gov/CitizenSurvey/Citizen_Survey_Results.

⁽⁵⁾Effective FY 2012 established more appropriate performance measures for Office of Communication activities and products (ad value equivalency).

⁽⁶⁾During FY 2008/09, the Neighborhood Watch program was reviewed; participants that were no longer eligible for the program were removed, thus reducing the numbers.

⁽⁷⁾The complete results for the most recent survey, as well as archived copies of prior year surveys can be found at http://www.scottsdaleaz.gov/CitizenSurvey/Citizen_Survey_Results

⁽⁸⁾The statistic for "Actions to improve safety and efficiency of traffic flow (signal timing changes and traffic control and speed limit studies)" has increased due to automation of the process. Prior to FY 2009/10 changing signal timing was a manual process. Starting June 2009, the process was automated through the Traffic Management Center.

⁽⁹⁾Effective FY 2013/14, only jobs verified through employer to be created or retained within the first 12 months were counted in annual metrics; total announced job creation is significantly higher.

⁽¹⁰⁾The crime per thousand increase reflects a recalculation in population with the Census 2010 as a basepoint, rather than an increase in crime. In addition, crime stats are for the prior calendar year end, rather than fiscal year end.

⁽¹¹⁾The statistic for "# of citizens serviced annually by Household Hazardous Waste Collection program" number of events was restored in FY 2010/11. During FY 2008/09 and FY 2009/10 the number of events were reduced as a budget savings initiative.

⁽¹²⁾Effective July 2011, the City Council approved placing Meter Reading under the control of the Water Resources Division.

City of Scottsdale, Arizona
Capital Asset Statistics by Function
Last Ten Fiscal Years

Table XXII

Function	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public Safety										
Police:										
Stations	3	3	3	4	4	4	4	4	4	4
Police Vehicles	345	375	383	363	357	352	352	351	359	347
Fire Stations	13	13	13	14	14	15	15	15	15	15
Highways and Streets										
Square Yards of Pavement	19,660,273	20,393,288	20,562,017	20,644,388	20,873,951	20,828,414	20,852,234	20,859,993	20,748,525	20,827,420
Equivalent 12' Wide Lane Miles	2,793	2,897	2,921	2,932	2,965	2,959	2,962	2,963	2,947	2,958
Traffic Signals	276	276	285	295	289	289	300	303	297	304
Culture and Recreation										
Parks	40	40	43	41	41	41	42	42	42	42
Parks Acreage	879	937	911	940	941	941	974	975	975	975
Swimming Pools	3	4	4	4	4	4	4	4	4	4
Tennis Courts	49	51	55	55	55	55	55	55	55	55
Community Centers	6	5	5	5	5	5	5	6	6	6
Water										
Water Mains (miles)	1,933	1,997	2,030	2,044	2,061	2,059	2,064	2,070	2,079	2,079
Fire Hydrants	9,839	10,147	10,367	10,365	10,664	10,687	10,729	10,779	10,874	10,941
Sewer										
Sanitary Sewers (miles)	1309.0	1,350.0	1,352.6	1,360.0	1,421.0	1,421.0	1,422.0	1,424.0	1,429.0	1,441.0
Storm Sewers (miles)	148.0	153.5	157.2	166.9	164.0	163.0	168.0	169.0	187.7	275.0

Source: City of Scottsdale, Arizona divisions.





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October 30, 2015

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Scottsdale, Arizona (City) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Scottsdale, Arizona are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

As described in Note I of the financial statements, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ended June 30, 2015. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised note disclosures and new required supplementary information.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments.

The most sensitive estimates affecting the financial statements are:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time management estimates those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on leave rates and City policies regarding payment of unused vested leave.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.
- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Scottsdale, Arizona's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. Management informed us that, and to our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the City's auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the "Independence Rule" of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper "tone at the top", increases the likelihood that fraud will be prevented, deterred and detected.

Restriction on Use

This information is intended solely for the use of the members of the Council and management of City of Scottsdale, Arizona and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

Fraud Prevention Checklist

The most cost-effective way to limit fraud losses is to prevent fraud from occurring. This checklist is designed to help organizations test the effectiveness of their fraud prevention measures.

1. Is ongoing anti-fraud training provided to all employees of the organization?

- Do employees understand what constitutes fraud?
- Have the costs of fraud to the company and everyone in it — including lost profits, adverse publicity, job loss and decreased morale and productivity — been made clear to employees?
- Do employees know where to seek advice when faced with uncertain ethical decisions, and do they believe that they can speak freely?
- Has a policy of zero-tolerance for fraud been communicated to employees through words and actions?

2. Is an effective fraud reporting mechanism in place?

- Have employees been taught how to communicate concerns about known or potential wrongdoing?
- Is there an anonymous reporting channel available to employees, such as a third-party hotline?
- Do employees trust that they can report suspicious activity anonymously and/or confidentially and without fear of reprisal?
- Has it been made clear to employees that reports of suspicious activity will be promptly and thoroughly evaluated?
- Do reporting policies and mechanisms extend to vendors, customers and other outside parties?

3. To increase employees' perception of detection, are the following proactive measures taken and publicized to employees?

- Is possible fraudulent conduct aggressively sought out, rather than dealt with passively?
- Does the organization send the message that it actively seeks out fraudulent conduct through fraud assessment questioning by auditors?
- Are surprise fraud audits performed in addition to regularly scheduled audits?
- Is continuous auditing software used to detect fraud and, if so, has the use of such software been made known throughout the organization?

- 4. Is the management climate/tone at the top one of honesty and integrity?**
 - Are employees surveyed to determine the extent to which they believe management acts with honesty and integrity?
 - Are performance goals realistic?
 - Have fraud prevention goals been incorporated into the performance measures against which managers are evaluated and which are used to determine performance-related compensation?
 - Has the organization established, implemented and tested a process for oversight of fraud risks by the board of directors or others charged with governance (e.g., the audit committee)?
- 5. Are fraud risk assessments performed to proactively identify and mitigate the company's vulnerabilities to internal and external fraud?**
- 6. Are strong anti-fraud controls in place and operating effectively, including the following?**
 - Proper separation of duties
 - Use of authorizations
 - Physical safeguards
 - Job rotations
 - Mandatory vacations
- 7. Does the internal audit department, if one exists, have adequate resources and authority to operate effectively and without undue influence from senior management?**
- 8. Does the hiring policy include the following (where permitted by law)?**
 - Past employment verification
 - Criminal and civil background checks
 - Credit checks
 - Drug screening
 - Education verification
 - References check
- 9. Are employee support programs in place to assist employees struggling with addictions, mental/ emotional health, family or financial problems?**
- 10. Is an open-door policy in place that allows employees to speak freely about pressures, providing management the opportunity to alleviate such pressures before they become acute?**
- 11. Are anonymous surveys conducted to assess employee morale?**

**CITY OF SCOTTSDALE, ARIZONA
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2015**

**CITY OF SCOTTSDALE, ARIZONA
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2015**

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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Scottsdale, Arizona's basic financial statements, and have issued our report thereon dated October 26, 2015. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 68, as amended by Statement No. 71.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Scottsdale, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Scottsdale, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Scottsdale, Arizona's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Scottsdale, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015



**Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and
Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited City of Scottsdale, Arizona's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Scottsdale, Arizona's major federal programs for the year ended June 30, 2015. City of Scottsdale, Arizona's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Scottsdale, Arizona's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Scottsdale, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Scottsdale, Arizona's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Scottsdale, Arizona complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of City of Scottsdale, Arizona is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Scottsdale, Arizona's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Scottsdale, Arizona's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Scottsdale, Arizona's basic financial statements. We issued our report thereon dated October 26, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015

CITY OF SCOTTSDALE, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grantor's Number	Total Expenditures & Transfers	Amounts Provided to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
Direct grants:				
Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-04-0503	\$ 144,387	\$
Community Development Block Grants/Entitlement Grants	14.218	B-11-MC-04-0503	28,151	
Community Development Block Grants/Entitlement Grants	14.218	B-12-MC-04-0503	177,949	23,787
Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-04-0503	568,872	154,498
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-04-0503	273,744	22,768
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-04-0503	3,255	
Total Community Development Block Grants/Entitlement Grants			<u>1,196,358</u>	<u>201,053</u>
Section 8 Housing Choice Vouchers	14.871	AZ032FSF	42,643	
Section 8 Housing Choice Vouchers	14.871	AZ032AF	359,537	
Section 8 Housing Choice Vouchers	14.871	AZ032VO	4,853,554	
Total Section 8 Housing Choice Vouchers			<u>5,255,734</u>	
Passed through the Maricopa County Home Consortium:				
HOME Investment Partnerships Program	14.239	M-12-DC-04-0227	355,979	354,409
HOME Investment Partnerships Program	14.239	M-13-DC-04-0227	5,807	
HOME Investment Partnerships Program	14.239	M-14-DC-04-0227	3,668	
Total HOME Investment Partnerships Program			<u>365,454</u>	<u>354,409</u>
Total U.S. Department of Housing and Urban Development			<u>6,817,546</u>	<u>555,462</u>
<u>U.S. Department of Justice</u>				
Passed through the Governor's Office for Children, Youth and Families:				
Juvenile Accountability Block Grant	16.523	JB-CSG-14-4365-09	419	
Juvenile Accountability Block Grant	16.523	JB-CSG-14-4365-09Y2	2,100	
Total Juvenile Accountability Block Grant			<u>2,519</u>	
Passed through Maricopa County:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-H4079-AZ-DJ	28,126	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-H1867-AZ-DJ	2,499	
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>30,625</u>	
Equitable Sharing Program	16.922	N/A	1,822,497	
Passed through the Arizona Criminal Justice Commission:				
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CV13-14-005	2,116	
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CV14-15-005	8,478	
Total Paul Coverdell Forensic Sciences Improvement Grant Program			<u>10,594</u>	
Total U.S. Department of Justice			<u>1,866,235</u>	
<u>U.S. Department of Transportation</u>				
Direct grants:				
Airport Improvement Program	20.106	3-04-0032-026-2010	2,661	
Airport Improvement Program	20.106	3-04-0032-029-2012	160,199	
Airport Improvement Program	20.106	3-04-0032-031-2014	446,055	
Total Airport Improvement Program			<u>608,915</u>	
Passed through the Arizona Department of Transportation:				
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	CM-SCT-0(218)A	203,488	
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	CM-SCT-0(219)D	1,565,589	
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	CM-SCT-0(223)D	601,726	
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	HSIP-SCT-0(217)D	8,406	
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	HSIP-SCT-0(222)D	61,270	
Total Highway Planning and Construction			<u>2,440,479</u>	
Passed through the City of Phoenix:				
Federal Transit Formula Grants	20.507	AZ-04-0004	46,210	
Federal Transit Formula Grants	20.507	AZ-04-0005	15,359	
Federal Transit Formula Grants	20.507	AZ-04-0008	57,125	
Federal Transit Formula Grants	20.507	AZ-90-X074	144,633	
Federal Transit Formula Grants	20.507	AZ-90-X124	296,863	
Total Federal Transit Formula Grants			<u>560,190</u>	

CITY OF SCOTTSDALE, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015
(Concluded)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grantor's Number	Total Expenditures & Transfers	Amounts Provided to Subrecipients
<u>U.S. Department of Transportation (Concl'd)</u>				
Passed through the Regional Public Transportation Authority: New Freedom Program	20.521	AZ-57-X016	100,000	
Passed through the Governor's Office of Highway Safety: Highway Safety Cluster:				
State and Community Highway Safety	20.600	2014A-PT-088	29,098	
State and Community Highway Safety	20.600	2015-AL-012	72,994	
State and Community Highway Safety	20.600	2015-CIOT-016	10,000	
Total State and Community Highway Safety Subtotal			<u>112,092</u>	
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	2014-410-008	21,674	
National Priority Safety Programs	20.616	2014A-164-128 (405d)	7,872	
Total Highway Safety Cluster			<u>141,638</u>	
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	2014-164-099	4,655	
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	2014A-164-128 (405d)	23,615	
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			<u>28,270</u>	
Total U.S. Department of Transportation			<u>3,879,492</u>	
<u>Institute of Museum and Library Services</u>				
Passed through Arizona State Library, Archives and Public Records:				
Grants to States	45.310	N/A	4,192	
Grants to States	45.310	N/A	4,175	
Grants to States	45.310	N/A	34,682	
Grants to States	45.310	N/A	20,419	
Total Grants to States			<u>63,468</u>	
Total Institute of Museum and Library Services			<u>63,468</u>	
<u>U.S. Department of Homeland Security</u>				
Direct grants:				
Assistance to Firefighters Grant	97.044	EMW-2013-FO-03912	173,252	
Passed through Arizona Department of Homeland Security:				
Homeland Security Grant Program	97.067	130822-01	13,640	
Homeland Security Grant Program	97.067	130822-03	12,699	
Homeland Security Grant Program	97.067	140208-01	2,913	
Homeland Security Grant Program	97.067	140823-01	34,003	
Homeland Security Grant Program	97.067	140823-02	52,064	
Homeland Security Grant Program	97.067	140824-01	48,749	
Homeland Security Grant Program	97.067	140824-02	19,943	
Total Homeland Security Grant Program			<u>184,011</u>	
Total U.S. Department of Homeland Security			<u>357,263</u>	
Total Expenditures of Federal Awards			\$ <u>12,984,004</u>	\$ <u>555,462</u>

CITY OF SCOTTSDALE, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of City of Scottsdale, Arizona, under programs of the federal government for the year ended June 30, 2015. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

Federal awards provided to sub-recipients are treated as expenditures when it is paid to the sub-recipient.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the applicable OMB cost principles circular, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE 3 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2015 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word “unknown” were used.

NOTE 4 – PRIOR YEAR NUMBERS

A Balance disclosed in the Schedule of Expenditures of Federal Awards as of June 30, 2015, includes activity from prior fiscal years that was not previously reported. This occurred due to the grant not being awarded until fiscal year ending June 30, 2015; however as per the Airport Improvement Program (AIP) Handbook Section 11, 3-88 and Section 13, 3-301; Project formulation costs are costs that are incurred before the project starts and are eligible for reimbursement.

As of June 30, 2013, the Schedule understated expenditures for CFDA 20.106 by \$250,338 and as of June 30, 2014, the Schedule understated expenditures for CFDA 20.106 by \$4,553. Therefore, the Schedule as of June 30, 2015, includes the activity in this program for those prior year understatements.

**CITY OF SCOTTSDALE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted?

 yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

 yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Vouchers
16.922	Equitable Sharing Program
20.106	Airport Improvement Program
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs:

\$389,520

Auditee qualified as low-risk auditee?

 yes X no

**CITY OF SCOTTSDALE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

None reported.

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None reported.

**CITY OF SCOTTSDALE, ARIZONA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015**

Status of Federal Award Findings and Questioned Costs

Reference Number: 2014-003
Program: Section 8 Housing Choice Vouchers
CFDA Number: 14.871

Status: Corrected.

Reference Number: 2014-004
Program: Federal Transit Formula Grants
CFDA Number: 20.507

Status: Corrected.



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INDEPENDENT ACCOUNTANTS' REPORT

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

We have examined the City of Scottsdale, Arizona's (City) compliance as to whether highway user revenue fund monies received by the City pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the City, were used solely for authorized transportation purposes during the year ended June 30, 2015. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City of Scottsdale, Arizona's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

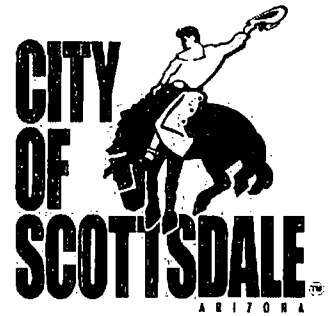
In our opinion, the City of Scottsdale, Arizona complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2015.

This report is intended solely for the information and use of management and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015



**DC RANCH COMMUNITY FACILITIES DISTRICT
(A COMPONENT UNIT OF THE
CITY OF SCOTTSDALE, ARIZONA)**

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

DC RANCH COMMUNITY FACILITIES DISTRICT
(A COMPONENT UNIT OF THE CITY OF SCOTTSDALE, ARIZONA)

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

DC RANCH COMMUNITY FACILITIES DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
DC Ranch Community Facilities District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of DC Ranch Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the DC Ranch Community Facilities District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary budget comparison information for the Debt Service Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary budget comparison information of the Debt Service Fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary budget comparison information of the Debt Service Fund is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015, on our consideration of DC Ranch Community Facilities District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 DC Ranch Community Facilities District's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the DC Ranch Community Facilities District (District), we offer readers a narrative overview and analysis of the financial activities for the District. The District is one of the City of Scottsdale, Arizona's component units for the fiscal year ended June 30, 2015.

Formed in 1997, the District is a special purpose taxing district and separate political subdivision under Arizona statutes. As such, the District can levy taxes and issue bonds, independent of the City of Scottsdale, Arizona (City). Property owners within the District boundaries pay for District infrastructure and functions through secondary property tax assessments. City staff administers the District and the cost of their services is reimbursed by District funds. The Scottsdale City Council also serves as the District Board of Directors.

FINANCIAL HIGHLIGHTS

- District tax collections and funds carried forward from prior years were sufficient to pay debt service during the fiscal year 2014/15.
- District tax levies continue to comply with the City-imposed assessment limit of \$3.00 per \$100 assessed valuation. In fiscal year 2014/15, the tax rate was \$0.52 per \$100 assessed valuation.
- As of June 30, 2015 the District's governmental funds reported a combined ending fund balance of \$172,991. Of this amount, \$58,781 is in the General Fund and \$114,210 is in the Debt Service Fund.
- Governmental fund balances decreased by \$28,962 during the fiscal year. The tax rate was decreased from \$0.53 in fiscal year 2013/14 to \$0.52 in fiscal year 2014/15 due to increasing assessed valuations.
- The District's total long-term debt decreased by \$830,000 in the fiscal year due to scheduled principal payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the District's basic financial statements. Because of its limited purpose, the District's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances and (2) Notes to the Basic Financial Statements.

Because the District has 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 District's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. Changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses related to accrued interest.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds, and, basically, all are restricted as to use.

The District maintains two governmental funds, general and debt service. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and Debt Service Fund.

The District adopts an annual budget for its General Fund and Debt Service Fund revenues and expenditures. Supplementary budgetary schedules have been provided to demonstrate compliance with this budget.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to acquire a full understanding of the data provided in the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as useful indicators of a government's financial position. The liabilities of the District exceeded its assets and deferred outflows at the close of the most recent fiscal year by approximately \$12.3 million (net position). The large deficit results from the nature of the District's operations. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and a separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes to pay the debt service over the life of the bonds. The City Council serves as the Board of Directors. However, the City has no liability for the District's debt. For financial reporting purposes, transactions of the District are combined together and included as if they were part of the City's operations and the assets financed through the District are combined with the infrastructure of the City. Because the capital assets are recorded in the City's financial statements, the Statement of Net Position for the District reflects a large liability without an offsetting asset.

Net Position

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
ASSETS		
Current and Other Assets	\$ 1,252,694	\$ 1,255,667
Total Assets	1,252,694	1,255,667
Deferred Outflows of Resources	479,908	519,900
Total Assets and Deferred Outflows of Resources	1,732,602	1,775,567
LIABILITIES		
Long-term Liabilities	12,957,327	13,826,688
Other Liabilities	1,057,021	1,040,662
Total Liabilities	14,014,348	14,867,350
NET POSITION		
Restricted	136,892	139,380
Unrestricted	(12,418,638)	(13,231,163)
Total Net Position	\$ (12,281,746)	\$ (13,091,783)

The District's total net position increased by \$810,037 during the fiscal year.

Changes in Net Position

For the Fiscal Years Ended June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
REVENUES		
Taxes	\$ 1,336,060	\$ 1,176,502
Interest	-	9
Total Revenues	1,336,060	1,176,511
EXPENSES		
General Government	69,901	70,067
Interest and Fiscal Charges	456,122	488,543
Capital Improvements	-	-
Total Expenses	526,023	558,610
Change in Net Position	810,037	617,901
Net Position, Beginning of Year	(13,091,783)	(13,650,574)
Net Effect of Accounting Change	-	(59,110)
Net Position in Beginning of Year, Restated	-	(13,709,684)
Net Position, End of Year	\$ (12,281,746)	\$ (13,091,783)

Revenues increased in fiscal year 14/15 and expenses decreased due to the reduction in long-term debt resulting in an increase in the District's net position.

Financial Analysis of the District's Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the District's ability to pay the debt service on the general obligation bonds it issues to fund construction or acquisition of public infrastructure.

As of the end of fiscal year 2014/15, the District's governmental funds reported a combined ending fund balance of \$172,991, a decrease of \$28,962 in comparison with the prior year. Of the total combined ending fund balance, \$58,781 is in the General Fund and \$114,210 is in the Debt Service Fund. The tax rate was decreased from \$0.53 in fiscal year 2013/14 to \$0.52 in fiscal year 2014/15 to compensate for increasing assessed valuations; expenditures decreased and revenues increased. All revenues collected represented property taxes and totaled \$1,326,430 in the fiscal year ended June 30, 2015.

Capital Assets and Debt Administration

The District was formed to finance and acquire or construct amenities that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Since formation, District bonds have been issued and the proceeds used to acquire or construct parks, paths, trails, roads, athletic fields and related athletic field infrastructure.

The District has issued all of the authorized \$20 million in District general obligation bonds. The City has no liability for the District's debt.

At the time of issue, District general obligation bonds have a 25-year term, typically with the first five years requiring interest-only payments. In the event that the District Board decides at a future time to dissolve the District, State statute provides that all taxable property in the District will remain subject to the lien for the payment of the bonds until all bonds have been defeased.

The District is not engaged in any significant activities other than providing for the levy of secondary property taxes to pay debt service and administrative fees. The District does not own or operate any facilities.

Outstanding Debt

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
General Obligation Bonds	<u>\$ 12,485,000</u>	<u>\$ 13,315,000</u>

The District's total long-term debt decreased during the current fiscal year by \$830,000 due to the payment of principal on the refunding bonds.

Next Year's Budget and Rates

The fiscal year 2015/16 District budget includes a \$0.56 tax rate per \$100 of assessed value. This is a \$0.04 increase from the rate used for the fiscal year 2014/15 budget.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2015

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Current Assets					
Cash and Investments	\$ 57,855	\$ -	\$ 57,855	\$ -	\$ 57,855
Restricted Cash and Investments	-	1,149,013	1,149,013	-	1,149,013
Taxes Receivable	926	44,900	45,826	-	45,826
Total Assets	<u>\$ 58,781</u>	<u>\$ 1,193,913</u>	<u>\$ 1,252,694</u>	<u>-</u>	<u>1,252,694</u>
Deferred Outflows of Resources					
Deferred Amounts on Refunding				479,908	479,908
Total Assets and Deferred Outflows of Resources				<u>479,908</u>	<u>1,732,602</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION					
Liabilities					
Matured Bonds Payable	-	830,000	830,000	-	830,000
Interest Payable	-	227,021	227,021	-	227,021
Long-term Liabilities					
Due Within One Year	-	-	-	860,000	860,000
Due After One Year	-	-	-	12,097,327	12,097,327
Total Liabilities	<u>-</u>	<u>1,057,021</u>	<u>1,057,021</u>	<u>12,957,327</u>	<u>14,014,348</u>
Deferred Inflows of Resources					
Unavailable Revenues		22,682	22,682	(22,682)	-
Total Liabilities and Deferred Inflows of Resources	<u>-</u>	<u>1,079,703</u>	<u>1,079,703</u>	<u>12,934,645</u>	<u>14,014,348</u>
Fund Balances/Net Position					
Fund Balances					
Restricted	-	114,210	114,210	(114,210)	-
Unassigned	58,781	-	58,781	(58,781)	-
Total Fund Balances	<u>58,781</u>	<u>114,210</u>	<u>172,991</u>	<u>(172,991)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 58,781</u>	<u>\$ 1,193,913</u>	<u>\$ 1,252,694</u>		
Net Position					
Restricted for Debt Service				136,892	136,892
Unrestricted				(12,418,638)	(12,418,638)
Total Net Position				<u>\$ (12,281,746)</u>	<u>\$ (12,281,746)</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, 2015

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
REVENUES					
Taxes	\$ 53,057	\$ 1,273,373	\$ 1,326,430	\$ 9,630	\$ 1,336,060
Total Revenues	53,057	1,273,373	1,326,430	9,630	1,336,060
EXPENDITURES/EXPENSES					
Current					
General Government					
City Treasurer - Finance and Accounting	69,901	-	69,901	-	69,901
Debt Service					
Principal Retirement	-	830,000	830,000	(830,000)	-
Interest and Fiscal Charges	-	455,491	455,491	631	456,122
Total Expenditures/Expenses	69,901	1,285,491	1,355,392	(829,369)	526,023
Excess (Deficiency) of Revenues Over Expenditures	(16,844)	(12,118)	(28,962)	28,962	-
Change in Net Position	-	-	-	810,037	810,037
Fund Balances/Net Position, Beginning of Year	75,625	126,328	201,953	(13,293,736)	(13,091,783)
Fund Balances/Net Position, End of Year	\$ 58,781	\$ 114,210	\$ 172,991	\$ (12,454,737)	\$ (12,281,746)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the DC Ranch Community Facilities District (District), a component unit of the City of Scottsdale, Arizona (City), conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the District follows.

A. Reporting Entity

The DC Ranch Community Facilities District was formed by petition to the City of Scottsdale City Council in March 1997. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the District. The City Council serves as the Board of Directors; however, the City has no liability for the District's debt. For financial reporting purposes, transactions of the DC Ranch Community Facilities District are included as if the District were part of the City's operations.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year.

Financial statements are provided for major governmental funds, with an adjustments column to arrive at government-wide 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. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both earned and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the current fiscal period when the revenue is earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* accounts for resources accumulated and used for the payment of other operating expenses for the District, which may include insurance, legal fees and administration costs.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of governmental long-term debt principal, interest and related costs.

The spending order for the District is to use restricted funds and then unassigned funds as they are needed. Currently the District does not have any unassigned, nonspendable, committed or assigned funds.

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

1. Cash and Investments

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; or bonds of the State of Arizona counties, cities, towns, school districts or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit and repurchase agreements at 100 percent of all deposits not covered by federal depository insurance.

Cash and investments held by trustee at June 30, 2015, plus accrued interest, are restricted as to usage.

2. Restricted Assets

Certain cash and investments held by the District's trustee are classified as restricted on the statement of net position because their use is limited by applicable bond covenants.

3. Capital Assets

Capital assets acquired or construction of infrastructure assets by the District are dedicated to the City of Scottsdale, Arizona to maintain and operate. As a result, the District owns no capital assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the 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 District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding. A deferred charge 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 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 District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet.

6. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables and corpus on any permanent fund. Restricted funds are constrained 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 passed a resolution authorizing the City of Scottsdale City Treasurer to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

In the government-wide financial statements, net position is reported in two categories: restricted and unrestricted. Restricted accounts for the portion of net position restricted by bond covenant. Unrestricted is the remaining net position not included in the previous category.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Amounts reported in the statement of net position are different because:

Revenues not available to pay current-period expenditures are deferred inflows in the funds.	\$ 22,682
Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore, are not reported in the funds.	(12,957,327)
Deferred amount on refunding are long-term in nature and not reported	<u>479,908</u>
Net adjustment to reduce total fund balance to arrive at net position.	(12,454,737)
Total Fund Balance	<u>172,991</u>
Total Net Position	<u><u>\$ (12,281,746)</u></u>

B. Amounts reported in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	\$ 9,630
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, it has no effect on net position.	830,000
Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.	<u>(631)</u>
Net adjustments to reconcile net changes in fund balances to change in net position.	838,999
Net change in Fund Balance	<u>(28,962)</u>
Change in Net Position	<u><u>\$ 810,037</u></u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The District adopts an annual operating budget for expenditures for the General Fund and Debt Service Fund on essentially the same modified accrual basis of accounting used to record actual expenditures. Budgetary control over expenditures is exercised at the fund level. The Debt Service Fund exceeded its budget for interest and fiscal charges. The additional expenditures incurred were funded by available fund balance.

B. Deficit Net Position

As described in Note 1, the District was formed to finance and acquire or construct infrastructure assets that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Therefore, the Statement of Net Position reflects a large liability without an offsetting asset.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits – The District had no deposits at June 30, 2015.

Investments – At June 30, 2015, the District’s investments were as follows:

	<u>Reported Amount</u>	<u>Fair Value</u>
Cash and Investments Held by Trustee	<u>\$ 1,206,868</u>	<u>\$ 1,206,868</u>

All investments were insured or registered in the District’s name, or were held by the District or its agent in the District’s name. Investments consisted of short-term United States Treasury trust accounts.

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. As of June 30, 2015, the District had no deposits that were exposed to custodial risk.

The custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateralized securities that are in the possession of another party. The District’s investment policy requires that securities are to be held by a third party custodian.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District’s investment policy limits its investment portfolio to short-term United States Treasury obligations and money market accounts, agencies guaranteed by the United States, and repurchase agreements that are secured by the same.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not have a formal policy to guard against credit risk; however, all investments must be issued or guaranteed by a federal agency, as required in the bond covenant, and backed by the full faith and credit of the United States.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one issuer.

2. Restricted Assets

Restricted assets at June 30, 2015, as follows:

Restricted for:	
Debt Service Fund	\$ 1,149,013
Total Restricted	\$ 1,149,013

3. Property Taxes Receivable

The Maricopa County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business days in November and May. During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding the assessment levy.

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund financial statements. In the fund financial statements property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 31 days subsequent to fiscal year-end. Property taxes not collected within 31 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred inflows.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2015, were as follows:

<u>Year</u>	<u>General Fund</u>	<u>Debt Service Fund</u>
2014/15	\$ 926	\$ 44,900

At the end of the current fiscal year, unavailable revenue reported in the governmental funds was as follows:

Delinquent Property Taxes Receivable (Debt Service Fund)	<u>Unavailable</u>
	\$ 22,682

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

Obligations Under Long-term Debt

General Obligation Bonds

The District issues general obligation bonds to provide funds to acquire and improve public infrastructure in specified areas. General obligation bonds have been issued for governmental activities only. The bonds are not callable with interest payable semiannually. Bonds payable at June 30, 2015, consisted of the outstanding general obligation bonds presented below:

General obligation bonds currently outstanding are as follows:

Purpose	Interest Rates (%)	Amount
2012 DC Ranch Community Facilities District General Obligation Refunding Bonds due in annual installments of \$555,000 to \$1,245,000 beginning July 15, 2013 through July 15, 2027. Original issue amount \$14,670,000.	3.41	\$ 12,485,000

Community facilities districts (CFDs) are created only by petition to the City Council by property owners within the District areas. As board of directors for the District, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the District property (prior to improvements being installed), when compared to proposed District debt, is a minimum of 3 to 1 prior to issuance of debt and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the District and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's net secondary assessed valuation.

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 13,315,000	\$ -	\$ (830,000)	\$ 12,485,000	\$ 860,000
Plus Issuance Premium	511,688	-	(39,361)	472,327	-
Total	<u>\$ 13,826,688</u>	<u>\$ -</u>	<u>\$ (869,361)</u>	<u>\$ 12,957,327</u>	<u>\$ 860,000</u>

Changes in Long-term Liabilities

Annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2016	\$ 860,000	\$ 425,739
2017	885,000	396,412
2018	920,000	366,234
2019	950,000	334,862
2020	980,000	302,467
2021-2025	5,440,000	987,024
2026-2027	2,450,000	126,000
Total	<u>\$ 12,485,000</u>	<u>\$ 2,938,738</u>

NOTE 5 – OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss. The District carries commercial insurance for \$1,000,000 per occurrence and \$2,000,000 aggregate covering general liability exposures. The District also carries public entity management liability insurance for \$1,000,000 each wrongful act and \$1,000,000 aggregate to cover damages resulting from the conduct of duties by or for a public entity or its boards. There have been no known losses in any of the past three fiscal years.

Required Supplementary Information

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

For the Fiscal Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance
REVENUES			
Taxes	\$ 56,035	\$ 53,057	\$ (2,978)
Interest	-	-	-
Total Revenues	56,035	53,057	(2,978)
EXPENDITURES			
Current			
General Government			
City Treasurer - Finance and Accounting	75,800	69,901	5,899
Total Expenditures	75,800	69,901	5,899
Excess (Deficiency) of Revenues Over Expenditures	(19,765)	(16,844)	2,921
Fund Balance, Beginning of Year	66,273	75,625	9,352
Fund Balance, End of Year	\$ 46,508	\$ 58,781	\$ 12,273

Supplementary Information

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

For the Fiscal Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance
REVENUES			
Taxes	\$ 1,280,843	\$ 1,273,373	\$ (7,470)
Interest	10	-	(10)
Total Revenues	<u>1,280,853</u>	<u>1,273,373</u>	<u>(7,480)</u>
EXPENDITURES			
Debt Service			
Principal Retirement	830,000	830,000	-
Interest and Fiscal Charges	459,242	455,491	3,751
Total Expenditures	<u>1,289,242</u>	<u>1,285,491</u>	<u>3,751</u>
Excess (Deficiency) of Revenues Over Expenditures	(8,389)	(12,118)	(3,729)
Fund Balance, Beginning of Year	<u>147,013</u>	<u>126,328</u>	<u>(20,685)</u>
Fund Balance, End of Year	<u>\$ 138,624</u>	<u>\$ 114,210</u>	<u>\$ (24,414)</u>



October 30, 2015

Board of Directors
DC Ranch Community Facilities District

We have audited the financial statements of the governmental activities and each major fund of DC Ranch Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by DC Ranch Community Facilities District are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the DC Ranch Community Facilities District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. Management informed us that, and to our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the District’s auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the “Independence Rule” of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of DC Ranch Community Facilities District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants



**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
DC Ranch Community Facilities District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of DC Ranch Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise DC Ranch Community Facilities District's basic financial statements and have issued our report thereon dated October 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DC Ranch Community Facilities District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DC Ranch Community Facilities District's internal control. Accordingly, we do not express an opinion on the effectiveness of DC Ranch Community Facilities District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DC Ranch Community Facilities District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015



**McDOWELL MOUNTAIN RANCH
COMMUNITY FACILITIES DISTRICT
(A COMPONENT UNIT OF THE
CITY OF SCOTTSDALE, ARIZONA)**

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

McDOWELL MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT
(A COMPONENT UNIT OF THE CITY OF SCOTTSDALE, ARIZONA)

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

McDOWELL MOUNTAIN RANCH COMMUNITY FACILITIES DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
McDowell Mountain Ranch Community Facilities District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of McDowell Mountain Ranch Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the McDowell Mountain Ranch Community Facilities District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary budget comparison information for the Debt Service Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary budget comparison information of the Debt Service Fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary budget comparison information of the Debt Service Fund is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015, on our consideration of McDowell Mountain Ranch Community Facilities District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 McDowell Mountain Ranch Community Facilities District's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the McDowell Mountain Ranch Community Facilities District (District), we offer readers a narrative overview and analysis of the financial activities for the District. The District is one of the City of Scottsdale, Arizona's component units for the fiscal year ended June 30, 2015.

Formed in 1994, the District is a special purpose taxing district and separate political subdivision under Arizona statutes. As such, the District can levy taxes and issue bonds, independent of the City of Scottsdale, Arizona (City). Property owners within the District boundaries pay for District infrastructure and functions through secondary property tax assessments. City staff administers the District and the cost of their services is reimbursed by District funds. The Scottsdale City Council also serves as the District Board of Directors.

FINANCIAL HIGHLIGHTS

- District tax collections and funds carried forward from prior years were sufficient to pay debt service during the fiscal year 2014/15.
- District tax levies continue to comply with the City-imposed assessment limit of \$3.00 per \$100 assessed valuation. In fiscal year 2014/15, the tax rate was \$0.78 per \$100 assessed valuation.
- As of June 30, 2015, the District's governmental funds reported combined ending fund balances of \$149,112. All of this amount is in the Debt Service Fund.
- Governmental fund balances decreased by \$54,396 during the fiscal year. The tax rate was decreased from \$0.82 in fiscal year 2013/14 to \$0.78 in fiscal year 2014/15.
- The District's total long-term debt decreased by \$1,055,000 in the fiscal year due to scheduled principal payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the District's basic financial statements. Because of its limited purpose, the District's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances and (2) Notes to the Basic Financial Statements.

Because the District has only one governmental program, the government-wide and fund financial statements are combined.

Government-wide Financial Statements

The *Statement of Net Position* is designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. Changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses related to accrued interest.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

The District maintains two governmental funds, general and debt service. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and Debt Service Fund.

The District adopts an annual budget for its General and Debt Service Funds revenues and expenditures. Supplementary budgetary schedules have been provided to demonstrate compliance with these budgets.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to acquire a full understanding of the data provided in the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as useful indicators of a government's financial position. The liabilities of the District exceeded its assets at the close of the most recent fiscal year by approximately \$8.4 million (net position). The large deficit results from the nature of the District's operations. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and a separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes to pay the debt service over the life of the bonds. The City Council serves as the Board of Directors. However, the City has no liability for the District's debt. For financial reporting purposes, transactions of the District are combined together and included as if they were part of the City's operations and the assets financed through the District are combined with the infrastructure of the City. Because the capital assets are recorded in the City's financial statements, the Statement of Net Position for the District reflects a large liability without an offsetting asset.

Net Position

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
ASSETS		
Current and Other Assets	\$ 1,347,703	\$ 1,382,855
Total Assets	1,347,703	1,382,855
LIABILITIES		
Long-term Liabilities	8,560,194	9,637,364
Other Liabilities	1,189,332	1,168,816
Total Liabilities	9,749,526	10,806,180
NET POSITION		
Restricted	158,371	214,039
Unrestricted	(8,560,194)	(9,637,364)
Total Net Position	\$ (8,401,823)	\$ (9,423,325)

The District's total net position increased by \$1,021,502 during the fiscal year.

Changes in Net Position

For the Fiscal Years Ended June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
REVENUES		
Taxes	\$ 1,278,029	\$ 1,223,991
Interest	-	8
Total Revenues	1,278,029	1,223,999
EXPENSES		
General Government	9,583	9,758
Interest and Fiscal Charges	246,944	276,912
Capital Improvements	-	110,117
Total Expenses	256,527	396,787
Change in Net Position	1,021,502	827,212
Net Position, Beginning of Year	(9,423,325)	(10,196,825)
Net Effect of Accounting Change	-	(53,712)
Net Position Beginning of Year, Restated	-	(10,250,537)
Net Position, End of Year	\$ (8,401,823)	\$ (9,423,325)

Revenues increased in fiscal year 2014/15 and expenses decreased due to the reduction in long-term debt interest and capital improvements expenditures for the year, increasing the District's net position.

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with legal requirements related to special purpose districts and general obligation bonds.

Financial Analysis of the District's Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the District's ability to pay the debt service on the general obligation bonds it issues to fund construction or acquisition of public infrastructure.

As of the end of fiscal year 2014/15, the District's governmental funds reported combined ending fund balances of \$149,112, a decrease of \$54,396 in comparison with the prior year. The entire fund balance is for debt service. The tax rate was decreased from \$0.82 in fiscal year 2013/14 to \$0.78 in fiscal year 2014/15 to compensate for the decrease in debt expenditures; revenues increased and expenditures decreased, as seen on page 11.

All governmental revenues collected represented property taxes and totaled \$1,279,301 in the fiscal year ended June 30, 2015.

Capital Assets and Debt Administration

The District was formed to finance and acquire or construct amenities that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Since formation, District bonds have been issued, and the proceeds used to provide funding for the completion of Thompson Peak Parkway and other infrastructure, such as water and sewer lines necessary for the McDowell Mountain Ranch development.

Since the formation, the District has issued \$18,860,000 of the total \$20 million general obligation bond authorization. In fiscal years 1998/99 and 2012/2013, the City Council and the District Board approved the issuance of refunding bonds to consolidate and reduce the costs of the District debt. There was no defeased debt outstanding for this issue at June 30, 2015.

At the time of issue, District general obligation bonds have a 25-year term, typically with the first five years requiring interest-only payments. In the event that the District Board decides at a future time to dissolve the District, State statute provides that all taxable property in the District will remain subject to the lien for the payment of the bonds until all bonds have been defeased.

The District is not engaged in any significant activities other than providing for the levy of secondary property taxes to pay debt service and administrative fees. The District does not own or operate any facilities.

Outstanding Debt

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
General Obligation Bonds	<u>\$ 8,405,000</u>	<u>\$ 9,460,000</u>

The District's total long-term debt decreased by \$1,055,000 during the current fiscal year due to the payment of principal of the refunding bonds.

Next Year's Budget and Rates

The fiscal year 2015/16 District budget includes a \$0.84 tax rate per \$100 of assessed value. This is a \$0.06 increase from the rate used in the fiscal year 2014/15 budget.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2015

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
ASSETS					
Current Assets					
Cash and Investments, Restricted	\$ -	\$ 1,326,020	\$ 1,326,020	\$ -	\$ 1,326,020
Taxes Receivable	-	21,683	21,683	-	21,683
Total Assets	\$ -	\$ 1,347,703	\$ 1,347,703	-	1,347,703
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION					
Liabilities					
Matured Interest Payable	-	134,332	134,332	-	134,332
Matured Bonds Payable	-	1,055,000	1,055,000	-	1,055,000
Long-term Liabilities					
Due Within One Year	-	-	-	1,085,000	1,085,000
Due After One Year	-	-	-	7,475,194	7,475,194
Total Liabilities	-	1,189,332	1,189,332	8,560,194	9,749,526
Deferred Inflows of Resources					
Unavailable Revenues	-	9,259	9,259	(9,259)	-
Total Liabilities and Deferred Inflows of Resources	-	1,198,591	1,198,591	8,550,935	9,749,526
Fund Balances/Net Position					
Fund Balances					
Restricted	-	149,112	149,112	(149,112)	-
Total Fund Balances	-	149,112	149,112	(149,112)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ -	\$ 1,347,703	\$ 1,347,703		
Net Position					
Restricted for Debt Service				158,371	158,371
Unrestricted				(8,560,194)	(8,560,194)
Total Net Position				\$ (8,401,823)	\$ (8,401,823)

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, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES					
Taxes	\$ 9,583	\$ 1,269,718	\$ 1,279,301	\$ (1,272)	\$ 1,278,029
Total Revenues	9,583	1,269,718	1,279,301	(1,272)	1,278,029
EXPENDITURES/EXPENSES					
Current					
General Government					
City Treasurer - Finance and Accounting	9,583	-	9,583	-	9,583
Debt Service					
Principal Retirement	-	1,055,000	1,055,000	(1,055,000)	-
Interest and Fiscal Charges	-	269,114	269,114	(22,170)	246,944
Total Expenditures/Expenses	9,583	1,324,114	1,333,697	(1,077,170)	256,527
Excess (Deficiency) of Revenue Over Expenditures	-	(54,396)	(54,396)	54,396	-
Change in Net Position	-	-	-	1,021,502	1,021,502
Fund Balances/Net Position, Beginning of Year	-	203,508	203,508	(9,626,833)	(9,423,325)
Fund Balances/Net Position, End of Year	\$ -	\$ 149,112	\$ 149,112	\$ (8,550,935)	\$ (8,401,823)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the McDowell Mountain Ranch Community Facilities District (District), a component unit of the City of Scottsdale, Arizona (City), conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the District follows.

A. Reporting Entity

The McDowell Mountain Ranch Community Facilities District was formed by petition to the City of Scottsdale City Council in January 1994. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the District. The City Council serves as the Board of Directors; however, the City has no liability for the District's debt. For financial reporting purposes, transactions of the McDowell Mountain Ranch Community Facilities District are included as if the District were part of the City's operations.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year.

Financial statements are provided for major governmental funds, with an adjustments column to arrive at government-wide 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. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both earned and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the current fiscal period when the revenue is earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

- The *General Fund* accounts for resources accumulated and used for the payment of other operating expenses for the District, which may include insurance, legal fees and administration costs.
- The *Debt Service Fund* accounts for resources accumulated and used for the payment of governmental long-term debt principal, interest and related costs.

The spending order for the District is to use restricted funds and then unassigned funds as they are needed. Currently the District does not have any unassigned, nonspendable, committed or assigned funds.

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

1. Cash and Investments

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; or bonds of the State of Arizona counties, cities, towns, school districts or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit and repurchase agreements at 100 percent of all deposits not covered by federal depository insurance.

Cash and investments held by trustee at June 30, 2015, plus accrued interest, are restricted as to usage.

2. Restricted Assets

Cash and investments held by the District's trustee are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

3. Capital Assets

Capital assets acquired or construction of infrastructure assets by the District are dedicated to the City of Scottsdale, Arizona to maintain and operate. As a result, the District owns no capital assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify as an outflow of resources.

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 District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet.

6. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained 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 passed a resolution authorizing the City of Scottsdale City Treasurer to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

In the government-wide financial statements, net position is reported in two categories: restricted and unrestricted. Restricted accounts for the portion of net position restricted by bond covenant. Unrestricted is the remaining net position not included in the previous category.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Amounts reported in the statement of net position are different because:

Revenues not available to pay current-period expenditures are deferred inflows in the funds.	\$ 9,259
Issuance premium is amortized over the life of the bonds; therefore, are not reported in the funds.	(155,194)
Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore; are not reported in the funds.	<u>(8,405,000)</u>
Net adjustment to reduce total fund balance to arrive at net position.	(8,550,935)
Total Fund Balance	<u>149,112</u>
Total Net Position	<u><u>\$ (8,401,823)</u></u>

B. Amounts reported in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	\$ (1,272)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, it has no effect on net position.	1,055,000
Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.	<u>22,170</u>
Net adjustments to reconcile net change in fund balance to change in net position.	1,075,898
Net change in Fund Balance	<u>(54,396)</u>
Change in Net Position	<u><u>\$ 1,021,502</u></u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The District adopts an annual operating budget for revenues and expenditures for the General Fund and Debt Service Fund on essentially the same modified accrual basis of accounting used to record actual expenditures. Budgetary control over expenditures is exercised at the fund level. The Debt Service Fund exceeded its budget for interest and fiscal charges. The additional expenditures incurred were funded by available fund balance.

B. Deficit Net Position

As described in Note 1, the District was formed to finance and acquire or construct infrastructure assets that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Therefore, the Statement of Net Position reflects a large liability without an offsetting asset.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits – The District had no deposits at June 30, 2015.

Investments – At June 30, 2015, the District’s investments were as follows:

Restricted for:	<u>Reported Amount</u>	<u>Fair Value</u>
Cash and Investments Held by Trustee	\$ 1,326,020	\$ 1,326,020

All investments were insured or registered in the District’s name, or were held by the District or its agent in the District’s name. Investments consisted of short-term United States Treasury money market accounts.

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. As of June 30, 2015 the District had no deposits that were exposed to custodial risk.

The custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateralized securities that are in the possession of another party. The District’s investment policy requires that securities are to be held by a third party custodian.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District’s investment policy limits its investment portfolio to short-term United States Treasury obligations and money market accounts, agencies guaranteed by the United States, and repurchase agreements that are secured by the same.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not have a formal policy to guard against credit risk; however, all investments must be issued or guaranteed by a federal agency, as required in the bond covenant, and backed by the full faith and credit of the United States.

Concentration of Credit Risk

The District’s investment policy contains no limitations on the amount that can be invested in any one issuer.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

2. Restricted Assets

Restricted assets at June 30, 2015, as follows:

Restricted for:	
Debt Service Fund	\$ 1,326,020
Total Restricted	\$ 1,326,020

3. Property Taxes Receivable

The Maricopa County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business days in November and May. During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding the assessment levy.

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund financial statements. In the fund financial statements, property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 31 days subsequent to fiscal year-end. Property taxes not collected within 31 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred inflows.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2015, were as follows:

<u>Year</u>	<u>Debt Service Fund</u>
2014/15	\$ 21,683

At the end of the current fiscal year, unavailable revenue reported in the governmental funds was as follows:

	<u>Unavailable</u>
Delinquent Property Taxes Receivable (Debt Service Fund)	\$ 9,259

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

Obligations Under Long-term Debt

General Obligation Bonds

The District issues general obligation bonds to provide funds to acquire and improve public infrastructure in specified lands. General obligation bonds have been issued for governmental activities only. The bonds are not callable with interest payable semiannually. Bonds payable at June 30, 2015, consisted of the outstanding general obligation bonds presented below:

Purpose	Interest Rates (%)	Amount
2012 McDowell Mountain Ranch Refunding Bonds due in annual installments of \$1,020,000 to \$1,335,000 beginning July 15, 2013 through July 15, 2022. Original issue amount \$11,555,000.	2.84	\$ 8,405,000

Community facilities districts (CFDs) are created only by petition to the City Council by property owners within the District areas. As board of directors for the District, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the District property (prior to improvements being installed), when compared to proposed District debt, is a minimum of 3 to 1 prior to issuance of debt and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the District and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's net secondary assessed valuation.

Changes in Long-term Liabilities

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 9,460,000	\$ -	\$ (1,055,000)	\$ 8,405,000	\$ 1,085,000
Issuance Premium	177,364	-	(22,170)	155,194	-
Total	\$ 9,637,364	\$ -	\$ (1,077,170)	\$ 8,560,194	\$ 1,085,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2016	\$ 1,085,000	\$ 238,702
2017	1,125,000	207,888
2018	1,155,000	175,938
2019	1,195,000	143,136
2020	1,230,000	109,198
2021-2022	2,615,000	112,180
Total	\$ 8,405,000	\$ 987,042

NOTE 5 – OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss. The District carries commercial insurance for \$1,000,000 per occurrence and \$2,000,000 aggregate covering general liability exposures. The District also carries public entity management liability insurance for \$1,000,000 each wrongful act and \$1,000,000 aggregate to cover damages resulting from the conduct of duties by or for a public entity or its boards. There have been no known losses in any of the past three fiscal years.

Required Supplementary Information

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

For the Fiscal Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance
REVENUES			
Taxes	\$ 11,000	\$ 9,583	\$ (1,417)
Total Revenues	11,000	9,583	(1,417)
EXPENDITURES			
Current			
General Government			
City Treasurer - Finance and Accounting	11,000	9,583	1,417
Total Expenditures	11,000	9,583	1,417
Excess (Deficiency) of Revenue Over Expenditures	-	-	-
Fund Balance, Beginning of Year	-	-	-
Fund Balance, End of Year	\$ -	\$ -	\$ -

Supplementary Information

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

For the Fiscal Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance
REVENUES			
Taxes	\$ 1,274,339	\$ 1,269,718	\$ (4,621)
Total Revenues	<u>1,274,339</u>	<u>1,269,718</u>	<u>(4,621)</u>
EXPENDITURES			
Debt Service			
Principal Retirement	1,055,000	1,055,000	-
Interest and Fiscal Charges	269,664	269,114	550
Total Expenditures	<u>1,324,664</u>	<u>1,324,114</u>	<u>550</u>
Excess (Deficiency) of Revenues Over Expenditures	(50,325)	(54,396)	(4,071)
Net Change in Fund Balance	(50,325)	(54,396)	(4,071)
Fund Balance, Beginning of Year	<u>183,972</u>	<u>203,508</u>	<u>19,536</u>
Fund Balance, End of Year	<u><u>\$ 133,647</u></u>	<u><u>\$ 149,112</u></u>	<u><u>\$ 15,465</u></u>



October 30, 2015

Board of Directors
McDowell Mountain Ranch Community Facilities District

We have audited the financial statements of the governmental activities and each major fund of McDowell Mountain Ranch Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by McDowell Mountain Ranch Community Facilities District are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the McDowell Mountain Ranch Community Facilities District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. Management informed us that, and to our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the District's auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the "Independence Rule" of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper "tone at the top", increases the likelihood that fraud will be prevented, deterred and detected.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of McDowell Mountain Ranch Community Facilities District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
McDowell Mountain Ranch Community Facilities District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of McDowell Mountain Ranch Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise McDowell Mountain Ranch Community Facilities District's basic financial statements and have issued our report thereon dated October 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered McDowell Mountain Ranch Community Facilities District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McDowell Mountain Ranch Community Facilities District's internal control. Accordingly, we do not express an opinion on the effectiveness of McDowell Mountain Ranch Community Facilities District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McDowell Mountain Ranch Community Facilities District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015



**CITY OF SCOTTSDALE MUNICIPAL PROPERTY CORPORATION
(A COMPONENT UNIT OF THE
CITY OF SCOTTSDALE, ARIZONA)**

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

CITY OF SCOTTSDALE MUNICIPAL PROPERTY CORPORATION
(A COMPONENT UNIT OF THE CITY OF SCOTTSDALE, ARIZONA)

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

CITY OF SCOTTSDALE MUNICIPAL PROPERTY CORPORATION

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For the Fiscal Year ended June 30, 2015

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HEINFELD, MEECH & CO., P.C.
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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, 2015, 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, 2015, 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 26, 2015, 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.
CPAs and Business Consultants

October 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2015. The Corporation is a component unit of the City of Scottsdale, Arizona (City).

FINANCIAL HIGHLIGHTS

- In the Statement of Net 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 \$10,336,183 (net position).
- The Corporation's total net position increased by \$29,493,680 due to a new bond issuance and an advanced refunding bond issuance.
- As of June 30, 2015, the Corporation's Debt Service Fund and Capital Projects Fund reported ending fund balances of \$5,615 and \$10,330,568, respectively.
- The MPC issued \$45,300,000 in new bonds for the construction of the Museum of the West, renovation of the Tournament Players Club (TPC) clubhouse and Stadium Course and sewer improvements, and issued \$93,570,000 in refunding bonds to achieve a debt service savings.

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.

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 \$10,336,183 (net position).

Net Position

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current and Other Assets	\$ 578,862,304	\$ 536,188,774
Total Assets	578,862,304	536,188,774
Deferred Outflows of Resources	12,590,528	6,126,056
Total Assets and Deferred Outflows of Resources	591,452,832	542,314,830
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Long-Term Liabilities Outstanding	552,193,593	515,360,910
Other Liabilities	28,923,056	46,111,417
Total Liabilities	581,116,649	561,472,327
NET POSITION		
Restricted	5,615	5,585
Unrestricted	10,330,568	(19,163,082)
Total Net Position	<u>\$ 10,336,183</u>	<u>\$ (19,157,497)</u>

Over the fiscal year, the Corporation's total net position increased by \$29,493,680. Total revenue increased by \$47,998,695 as a result of new debt issued and total expenses decreased by \$7,309,651 primarily due to lower capital project expenses.

Changes in Net Position

For the Fiscal Years Ended June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
REVENUES		
Lease Payments	\$ 69,591,235	\$ 21,592,567
Investment Income	9	72
Other Revenue	90	-
Total Revenues	<u>69,591,334</u>	<u>21,592,639</u>
EXPENSES		
General Government	18,391,353	25,818,152
Interest and Fiscal Charges	21,706,301	21,589,153
Total Expenses	<u>40,097,654</u>	<u>47,407,305</u>
Increase\Decrease in Net Position	29,493,680	(25,814,666)
Net Position, Beginning of Year	(19,157,497)	(19,389,259)
Cumulative Effect of Prior Period Adjustment	-	26,046,428
Net Position, End of Year	<u>\$ 10,336,183</u>	<u>\$ (19,157,497)</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, 2015, the Corporation's governmental funds reported combined ending fund balances of \$10,336,183. The fund balance for the Debt Service Fund was \$5,615 of which represents payments received from the City of Scottsdale for debt service payments, and \$10,330,568 which represents unspent bond funds subsequent to the new debt issuance.

Debt Administration

The total net Excise Revenue Debt at June 30, 2015 was \$552,193,593.

The net Excise Revenue debt increased due to the issuance of new bonds in the amount of \$45,300,000 offset by current and advanced refundings and current debt service payments. Outstanding debt increased by \$36,832,683.

Outstanding Debt

For the Fiscal Years Ended June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
Excise Revenue Bonds	<u>\$ 552,193,593</u>	<u>\$ 515,360,910</u>

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 2015/16, 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, 2015

	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	\$ 27,887,818	\$ 11,371,421	\$ 39,259,239	\$ -	\$ 39,259,239
Total Current Assets	27,887,818	11,371,421	39,259,239	-	39,259,239
Noncurrent Assets					
Amount Due from City of Scottsdale	539,603,065	-	539,603,065	-	539,603,065
Total Noncurrent Assets	539,603,065	-	539,603,065	-	539,603,065
Total Assets	\$ 567,490,883	\$ 11,371,421	\$ 578,862,304	-	578,862,304
Deferred Outflows of Resources					
Deferred Amounts on Refunding				12,590,528	12,590,528
Total Assets and Deferred Outflows of Resources				\$ 12,590,528	\$ 591,452,832
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION					
Liabilities					
Accounts Payable	-	1,040,853	1,040,853	-	1,040,853
Bond Interest Payable	10,932,203	-	10,932,203	-	10,932,203
Matured Bonds Payable	16,950,000	-	16,950,000	-	16,950,000
Long-term Liabilities					
Due Within One Year	-	-	-	20,215,000	20,215,000
Due After One Year	-	-	-	531,978,593	531,978,593
Total Liabilities	27,882,203	1,040,853	28,923,056	552,193,593	581,116,649
Deferred Inflows of Resources					
Unavailable Revenue	539,603,065	-	539,603,065	(539,603,065)	-
Fund Balances					
Restricted	5,615	10,330,568	10,336,183	(10,336,183)	-
Total Fund Balances	5,615	10,330,568	10,336,183	(10,336,183)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 567,490,883	\$ 11,371,421	\$ 578,862,304		
Net Position					
Restricted for Debt Service				5,615	5,615
Restricted for Capital Projects				10,330,568	10,330,568
Total Net Position				\$ 10,336,183	\$ 10,336,183

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, 2015

	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	\$ 39,223,024	\$ -	\$ 39,223,024	\$ 30,368,211	\$ 69,591,235
Investment Income	6	3	9	-	9
Other Revenues	90	-	90	-	90
Total Revenues	39,223,120	3	39,223,123	30,368,211	69,591,334
EXPENDITURES/EXPENSES					
Current					
General Government	-	-	-	18,391,353	18,391,353
Capital Improvements	-	18,391,353	18,391,353	(18,391,353)	-
Debt Service					
Principle	16,950,000	-	16,950,000	(16,950,000)	-
Interest and Fiscal Charges	22,322,136	-	22,322,136	(1,848,816)	20,473,320
Bond Sale Costs	1,232,981	-	1,232,981	-	1,232,981
Total Expenditures	40,505,117	18,391,353	58,896,470	(18,798,816)	40,097,654
Excess (Deficiency) of Revenues over Expenditures	(1,281,997)	(18,391,350)	(19,673,347)	49,167,027	29,493,680
Other Financing Sources (Uses)					
Operating Transfers In (Out)	-	-	-	-	-
Proceeds of Bonds	-	45,300,000	45,300,000	(45,300,000)	-
Issuance of Refunding Bonds	93,570,000	-	93,570,000	(93,570,000)	-
Bond Premium	17,027,295	2,585,000	19,612,295	(19,612,295)	-
Payment to Escrow Agent - Advance Refunding	(109,315,268)	-	(109,315,268)	109,315,268	-
Total Other Financing Sources (Uses)	1,282,027	47,885,000	49,167,027	(49,167,027)	-
Net Change in Fund Balances	30	29,493,650	29,493,680	0	29,493,680
Fund Balances/Net Position, Beginning of Year	5,585	(19,163,082)	(19,157,497)	-	(19,157,497)
Fund Balances/Net Position, End of Year	\$ 5,615	\$ 10,330,568	\$ 10,336,183	\$ 0	\$ 10,336,183

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

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.

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, 2015, plus accrued interest, is restricted.

The Corporation's deposits at June 30, 2015 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.

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 65, 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 the life of the refunded 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 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 54. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, GASB 54 indicates to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, GASB 54 indicates to use committed first, then assigned, and finally unassigned amounts.

In the government-wide financial statements, net position is reported in two categories: restricted net position and unrestricted net position. Restricted net position accounts for the portion of net position restricted by bond covenants. Unrestricted net position is the remaining net position not included in the previous category.

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	\$	509,234,854	
New Debt Issued		138,870,000	
Debt Service Payments Made		(16,950,000)	
Advance Refunded Bond Payments		(99,630,000)	
Deferred Amount on Refunded Bonds		(6,950,406)	
Amortization Amount on Refunding		485,935	
Deferred Premium on New Bonds		19,612,295	
Amortization of Premium Removed for Refunded Bonds		(2,734,862)	
Amortization of Premium on Existing Bonds		<u>(2,334,751)</u>	\$ 539,603,065

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	(503,925,000)	
Deferred Issuance Premium	<u>(48,268,593)</u>	(552,193,593)

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

<u>12,590,528</u>	<u>12,590,528</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	<u>10,336,183</u>
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Total Net Position	<u><u>\$ 10,336,183</u></u>
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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.

New Debt Issued	\$	138,870,000	
Debt Service Payments Made		(16,950,000)	
Advance Refunded Bond Payments		(99,630,000)	
Deferred Amount on Refunded Bonds		(6,950,406)	
Amortization Amount on Refunding		485,935	
Deferred Premium on New Bonds		19,612,295	
Amortization of Premium removed for Refunded Bonds		(2,734,862)	
Amortization of Premium on Existing Bonds		<u>(2,334,751)</u>	\$ 30,368,211

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	(485,935)	
Amortization of Premium on Existing Bonds	<u>2,334,751</u>	1,848,816

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>16,950,000</u>	16,950,000
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Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of activities, however, issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities.

Bond Proceeds From Bonds	(138,870,000)	
Premium On Bonds	(19,612,295)	
Payment to Escrow Agent - Advance Refunding	<u>109,315,268</u>	<u>(49,167,027)</u>

Net Adjustment To Reduce Net Change In Fund Balances To Arrive At Net Change In Net Position (0)

Net Change In Fund Balances	<u>29,493,680</u>
Net Change In Net Position	<u>\$ 29,493,680</u>

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, 2015, the Corporation's deposits consisted of the following:

	Fair Value
Accounts With Trustee	<u>\$ 39,259,239</u>
Total Deposits	<u><u>\$ 39,259,239</u></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, 2015, in accordance with the Corporation's policy, \$250,000 of the Corporation's deposits were covered by federal depository insurance and \$39,009,239 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.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Corporation will not be able to recover the value of its investment or collateralized securities that are in possession of another party.

The Corporation's investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the Corporation be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

Interest Rate Risk

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

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

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.

The Corporation issued \$93,570,000 of Refunding Bonds, Series 2015, (advance refunding) dated March 26, 2015, with an all-in true interest cost (TIC) of 2.80 percent, to refund \$99,630,000 of Series 2005A, Series 2005C, Series 2005D, Series 2006A, Series 2006B and Series 2008A. The Corporation will reduce its total debt service payments over the next 21 years by \$9,597,398, and obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$7,507,116.

The proceeds from the issuance of the bonds were used to purchase U.S. government securities that were placed in an irrevocable trust with an escrow agent to provide debt service payments on the bonds being refunded. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the Corporation's financial statements. The amount of debt defeased that remains outstanding at June 30, 2015, net of any amounts to be paid or retired by the trustee on July 1, 2015 was \$83,905,000.

In a prior year, the Corporation refinanced other bond issues through the issuance of refunding bonds. The proceeds from the issuance of the bonds were used to purchase U.S. government securities that were placed in an irrevocable trust with an escrow agent to provide debt service payments on the bonds being refunded. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the Corporation's financial statements.

The table below reflects defeased debt outstanding at June 30, 2015, net of any amounts to be paid or retired by the trustee on July 1, 2015.

Refunded in Prior Years	
2005C MPC Excise Tax Revenue Bonds	\$ 18,555,000
2005D MPC Excise Tax Revenue Bonds	42,175,000
2005E MPC Excise Tax Revenue Bonds	67,455,000
2008A MPC Excise Tax Revenue Bonds	49,100,000
	<u>\$ 177,285,000</u>

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Bonds payable at June 30, 2015 consisted of the outstanding bonds presented below:

Classified in Debt Service Fund - General Government Purposes Municipal Property Corporation Bonds

	Bonds Outstanding
2004A Municipal Property Corporation Excise Tax Revenue Bonds (issued September 15, 2004) due in annual installments of \$920,000 to \$2,715,000 through July 1, 2034; interest at 3.25 percent to 5.25 percent. On November 29, 2006, \$30,975,000 due 2017 and 2020 through 2034 were refunded. On May 29, 2014, \$2,610,000 due 2018 through 2019 were refunded. Original issue amount \$40,760,000.	\$ 1,160,000
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
2005D Municipal Property Corporation Excise Tax Revenue Bonds (issued December 1, 2005) due in annual installments of \$200,000 to \$3,625,000 through July 1, 2035; interest at 3.25 percent to 5 percent. On November 29, 2006, \$25,925,000 due 2017 through 2030 were refunded. On March 26, 2015, \$16,250,000 due 2031 through 2035 were refunded. Original issue amount \$46,500,000.	1,025,000
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.	665,000
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.	2,375,000
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.	24,550,000
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.	1,345,000
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.	34,810,000
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.	11,995,000
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.	14,340,000
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.	46,758,269
Total Municipal Property Corporation Bonds Outstanding	\$ 217,483,269

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>
2005E Municipal Property Corporation Excise Tax Revenue Bonds (issued December 1, 2005) due in annual installments of \$2,275,000 to \$6,305,000 through July 1, 2030; interest at 5 percent. On November 29, 2006, \$67,455,000 due 2017 through 2030 were refunded. Original issue amount \$88,360,000.	S 3,255,000
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.	106,910,000
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.	37,800,000
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.	73,490,000
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	18,175,000
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	<u>S 286,441,731</u>
Total bonds outstanding	<u><u>S 503,925,000</u></u>

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 \$738,799,806.

NOTE 5 – CHANGES IN LONG TERM DEBT

The Corporation issued new debt of \$45,300,000 with a premium of \$3,148,301 for the purpose of constructing assets. The Corporation also issued new debt of \$93,570,000 with a premium of \$16,463,994 for the purpose of refunding existing debt including:

- There was an advance refunding of \$99,630,000 on the 2005CDE, 2006AB and 2008A bonds (the callable date is greater than 90 days of the refunding date) with deferred premiums of \$2,734,862 and deferred amount on refundings of \$6,950,406.

The Corporation made principal payments of \$16,950,000, amortized deferred issuance premiums of \$2,334,751 and deferred amount on refundings of \$485,935 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	\$ 481,635,000	\$ 33,725,910	\$ 515,360,910
Increases:			
New Bond Issue	45,300,000	3,148,301	48,448,301 ¹
New Refunding Bond Issue	93,570,000	16,463,994	110,033,994 ²
Total Increases	138,870,000	19,612,295	158,482,295
Decreases:			
Existing Bonds	(16,950,000)	(2,334,751)	(19,284,751)
Advance Refunding	(99,630,000)	(2,734,862)	(102,364,862)
Total Decreases	(116,580,000)	(5,069,612)	(121,649,612)
Ending Balances	\$ 503,925,000	\$ 48,268,593	\$ 552,193,593
Amounts Due Within One Year	\$ 20,215,000		
Amounts Due in More than One Year	\$ 483,710,000		

¹ Principal and Premium of 2015 MPC Bonds

² Principal and Premium of 2015 MPC Refunding Bonds

The following is a summary of annual debt service requirements to maturity as of June 30, 2015:

Fiscal Year	Principal	Interest	Total
2016	\$ 20,215,000	\$ 23,220,463	\$ 43,435,463
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
2021-2025	134,710,000	74,083,075	208,793,075
2026-2030	144,390,000	41,852,031	186,242,031
2031-2035	91,210,000	12,754,350	103,964,350
2036-2040	7,800,000	390,000	8,190,000
Capital Appreciation	78,933	(78,933)	-
Total	\$ 503,925,000	\$ 234,874,806	\$ 738,799,806

NOTE 6 – OTHER INFORMATION

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.

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.



October 30, 2015

Board of Directors
City of Scottsdale Municipal Property Corporation

We have audited the financial statements of the governmental activities and each major fund of City of Scottsdale Municipal Property Corporation, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Scottsdale Municipal Property Corporation are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City of Scottsdale Municipal Property Corporation’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. Management informed us that, and to our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the Corporation’s auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the “Independence Rule” of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of City of Scottsdale Municipal Property Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants



HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
City of Scottsdale Municipal Property Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of City of Scottsdale Municipal Property Corporation, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, 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 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Scottsdale Municipal Property Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Scottsdale Municipal Property Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Scottsdale Municipal Property Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Scottsdale Municipal Property Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015



**SCOTTSDALE MOUNTAIN
COMMUNITY FACILITIES DISTRICT
(A COMPONENT UNIT OF THE
CITY OF SCOTTSDALE, ARIZONA)**

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

SCOTTSDALE MOUNTAIN COMMUNITY FACILITIES DISTRICT
(A COMPONENT UNIT OF THE CITY OF SCOTTSDALE, ARIZONA)

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

SCOTTSDALE MOUNTAIN COMMUNITY FACILITIES DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Scottsdale Mountain Community Facilities District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Scottsdale Mountain Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Scottsdale Mountain Community Facilities District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary budget comparison information for the Debt Service Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary budget comparison information of the Debt Service Fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary budget comparison information of the Debt Service Fund is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015, on our consideration of Scottsdale Mountain Community Facilities District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Scottsdale Mountain Community Facilities District's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Scottsdale Mountain Community Facilities District (District), we offer readers a narrative overview and analysis of the financial activities for the District. The District is one of the City of Scottsdale, Arizona's component units for the fiscal year ended June 30, 2015.

Formed in 1992, the District is a special purpose taxing district and separate political subdivision under Arizona statutes. As such, the District can levy taxes and issue bonds, independent of the City of Scottsdale, Arizona (City). Property owners within the District boundaries pay for District infrastructure and functions through secondary property tax assessments. City staff administers the District and the costs of their services are reimbursed by District funds. The Scottsdale City Council also serves as the District Board of Directors.

FINANCIAL HIGHLIGHTS

- District tax collections and funds carried forward from prior years were sufficient to pay debt service during the fiscal year 2014/15.
- District tax levy continued to comply with the City-imposed assessment limit of \$3.00 per \$100 assessed valuation. In fiscal year 2014/15, the tax rate was \$1.53 per \$100 assessed valuation.
- As of June 30, 2015, the District's governmental fund reported an ending fund balance of \$52,025. The entire amount is for debt service.
- Governmental fund balances decreased by \$214 during the fiscal year. The tax rate was increased from \$1.49 in fiscal year 2013/14 to \$1.53 in fiscal year 2014/15. The District's total long-term debt decreased by \$420,000 in the fiscal year ended June 30, 2015, due to scheduled principal payments.
- The outstanding bonds are insured by MBIA for nonpayment during the term of the bond.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the District's basic financial statements. Because of its limited purpose, the District's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balance and (2) Notes to the Basic Financial Statements.

Because the District has 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 District's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. Changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses related to accrued interest.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds.

The District maintains two governmental funds, general and debt service. Information is presented in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and Debt Service Fund.

The District adopts an annual budget for its General Fund and Debt Service Fund revenues and expenditures. Supplementary budgetary schedules have been provided to demonstrate compliance with this budget.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to acquire a full understanding of the data provided in the basic financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The liabilities of the District exceeded its assets at the close of the most recent fiscal year by approximately \$1.0 million (net position). The large deficit results from the nature of the District's operations. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and a separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes to pay the debt service over the life of the bonds. The City Council serves as the Board of Directors. However, the City has no liability for the District's debt. For financial reporting purposes, transactions of the District are combined together and included as if they were part of the City's operations and the assets financed through the District are combined with the infrastructure of the City. Because the capital assets are recorded in the City's basic financial statements, the Statement of Net Position for the District reflects a large liability without an offsetting asset.

Net Position

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
ASSETS		
Current and Other Assets	\$ 511,474	\$ 504,080
Total Assets	511,474	504,080
LIABILITIES		
Long-term Liabilities	1,058,574	1,479,766
Other Liabilities	453,470	447,279
Total Liabilities	1,512,044	1,927,045
NET POSITION		
Restricted	58,004	56,801
Unrestricted	(1,058,574)	(1,479,766)
Total Net Position	\$ (1,000,570)	\$ (1,422,965)

The District's total net position increased by \$422,395 during the fiscal year.

Changes in Net Position

For the Fiscal Years Ended June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
REVENUES		
Taxes	\$ 500,731	\$ 453,892
Interest	\$ -	9
Total Revenues	500,731	453,901
EXPENSES		
General Government	9,588	9,755
Interest and Fiscal Charges	68,748	86,367
Total Expenses	78,336	96,122
Change in Net Position	422,395	357,779
Net Position, Beginning of Year	(1,422,965)	(1,723,385)
Net Effect of Accounting Change	-	(57,359)
Net Position Beginning of Year, Restated	-	(1,780,744)
Net Position, End of Year	\$ (1,000,570)	\$ (1,422,965)

Revenues increased slightly in fiscal year 14/15 and expenses decreased due to the reduction in long-term debt interest increasing the District's net position.

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with legal requirements related to special purpose districts and general obligation bonds.

Financial Analysis of the District's Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the District's ability to pay the debt service on the general obligation bonds it issues to fund construction or acquisition of public infrastructure.

As of the end of fiscal year 2014/15, the District's governmental fund reported an ending fund balance of \$52,025, a decrease of \$214 in comparison with the prior year. The entire fund balance is for debt service. The tax rate was increased from \$1.49 in fiscal year 2013/14 to \$1.53 in fiscal year 2014/15; revenues increased but not in proportion to expenses, which caused expenditures to exceed revenues, as seen on page 11.

All revenues collected represented property taxes and totaled \$499,314 for the fiscal year ended June 30, 2015.

Capital Assets and Debt Administration

The District was formed to finance and acquire or construct amenities that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure.

At formation, the District was authorized to issue up to \$7 million in District general obligation bonds. SunCor Development Company, the developer of Scottsdale Mountain planned community, contracted to fund any difference between debt service costs and property tax revenues. The City has no liability for the District's debt.

Since formation, \$5,450,000 in District bonds has been issued. Bond proceeds were used to acquire land included in the Scottsdale Mountain Preserve, to construct water and sewer lines and related infrastructure, and to address drainage within this district. In fiscal year 2001/02, the District Board approved the issuance of bonds to refund outstanding District general obligation bonds. Refunding bonds totaling \$5,375,000 were issued. There was no defeased debt outstanding at June 30, 2015.

At the time of issue, District general obligation bonds have a 25-year term, typically with the first five years being interest-only payments. In the event that the District Board decides at a future time to dissolve the District, State statute provides that all taxable property in the District will remain subject to the lien for the payment of the bonds until all bonds have been defeased.

The District is not engaged in any significant activities other than providing for the levy of secondary property taxes to pay debt service and administrative fees. The District does not own or operate any facilities.

Outstanding Debt

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
General Obligation Bonds	<u>\$ 1,055,000</u>	<u>\$ 1,475,000</u>

The District's total long-term debt decreased by \$420,000 during the current fiscal year due to the payment of principal on the refunding bonds.

Next Year's Budget and Rates

The fiscal year 2015/16 District budget includes a \$1.59 tax rate per \$100 of assessed value. This is a \$0.06 increase from the rate used in the fiscal year 2014/15 budget and reflects the increasing debt service payments for next fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2015

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
ASSETS					
Current Assets					
Cash and Investments, Restricted	\$ -	\$ 498,416	\$ 498,416	\$ -	\$ 498,416
Taxes Receivable	-	13,058	13,058	-	13,058
Total Assets	<u>\$ -</u>	<u>\$ 511,474</u>	<u>\$ 511,474</u>	<u>-</u>	<u>511,474</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION					
Liabilities					
Matured Interest Payable	-	33,470	33,470	-	33,470
Matured Bonds Payable	-	420,000	420,000	-	420,000
Long-term Liabilities					
Due Within One Year	-	-	-	440,000	440,000
Due After One Year	-	-	-	618,574	618,574
Total Liabilities	<u>-</u>	<u>453,470</u>	<u>453,470</u>	<u>1,058,574</u>	<u>1,512,044</u>
Deferred Inflows of Resources					
Unavailable Revenues	-	5,979	5,979	(5,979)	-
Total Liabilities and Deferred Inflows of Resources	<u>-</u>	<u>459,449</u>	<u>459,449</u>	<u>1,052,595</u>	<u>1,512,044</u>
Fund Balances/Net Position					
Fund Balances					
Restricted	-	52,025	52,025	(52,025)	-
Total Fund Balances	<u>-</u>	<u>52,025</u>	<u>52,025</u>	<u>(52,025)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ -</u>	<u>\$ 511,474</u>	<u>\$ 511,474</u>		
Net Position					
Restricted for Debt Service				58,004	58,004
Unrestricted				(1,058,574)	(1,058,574)
Total Net Position				<u>\$ (1,000,570)</u>	<u>\$ (1,000,570)</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, 2015

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
REVENUES					
Taxes	\$ 9,588	\$ 489,726	\$ 499,314	\$ 1,417	\$ 500,731
Total Revenues	9,588	489,726	499,314	1,417	500,731
EXPENDITURES/EXPENSES					
Current					
General Government					
City Treasurer - Finance and Accounting	9,588	-	9,588	-	9,588
Debt Service					
Principal Retirement	-	420,000	420,000	(420,000)	-
Interest and Fiscal Charges	-	69,940	69,940	(1,192)	68,748
Total Expenditures/Expenses	9,588	489,940	499,528	(421,192)	78,336
Excess (Deficiency) of Revenue Over Expenditures	-	(214)	(214)	214	-
Change in Net Position	-	-	-	422,395	422,395
Fund Balances/Net Position, Beginning of Year	-	52,239	52,239	(1,475,204)	(1,422,965)
Fund Balances/Net Position, End of Year	\$ -	\$ 52,025	\$ 52,025	\$ (1,052,595)	\$ (1,000,570)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Scottsdale Mountain Community Facilities District (District), a component unit of the City of Scottsdale, Arizona (City), conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the District follows.

A. Reporting Entity

The Scottsdale Mountain Community Facilities District was formed by petition to the City of Scottsdale City Council in February 1992. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the District. The City Council serves as the Board of Directors; however, the City has no liability for the District's debt. For financial reporting purposes, transactions of the Scottsdale Mountain Community Facilities District are included as if the District were part of the City's operations.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year.

Financial statements are provided for major governmental funds, with an adjustments column to arrive at government-wide statement amounts.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both earned and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the current fiscal period when the revenue is earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* accounts for resources accumulated and used for the payment of other operating expenses for the District, which may include insurance, legal fees and administration costs.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of governmental long-term debt principal, interest and related costs.

The spending order for the District is to use restricted funds and then unassigned funds as they are needed. Currently the District does not have any unassigned, nonspendable, committed or assigned funds.

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

1. Cash and Investments

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; or bonds of the State of Arizona counties, cities, towns, school districts or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit and repurchase agreements at 100 percent of all deposits not covered by federal depository insurance.

Cash and investments held by trustee at June 30, 2015, plus accrued interest, are restricted as to usage.

2. Restricted Assets

Cash and investments held by the District's trustee are classified as restricted on the statement of net position because their use is limited by applicable bond covenants.

3. Capital Assets

Capital assets acquired or construction of infrastructure assets by the District are dedicated to the City of Scottsdale, Arizona to maintain and operate. As a result, the District owns no capital assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**4. Long-term Obligations**

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify as an outflow of resources.

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 District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet.

6. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained 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 passed a resolution authorizing the City of Scottsdale City Treasurer to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

In the government-wide financial statements, net position is reported in two categories: restricted and unrestricted. Restricted accounts for the portion of net position restricted by bond covenant. Unrestricted is the remaining net position not included in the previous category.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Amounts reported in the statement of net position are different because:

Revenues not available to pay current-period expenditures are deferred inflows in the funds.	\$ 5,979
Issuance premium is long-term in nature to be amortized over the life of the bonds; therefore, is not reported in the funds.	(3,574)
Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore, are not reported in the funds.	<u>(1,055,000)</u>
Net adjustment to reduce total fund balance to arrive at net position.	(1,052,595)
Total Fund Balance	<u>52,025</u>
Total Net Position	<u><u>\$ (1,000,570)</u></u>

B. Amounts reported in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	\$ 1,417
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, it has no effect on net position.	420,000
Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.	<u>1,192</u>
Net adjustments to reconcile net changes in fund balances to change in net position.	422,609
Net change in Fund Balance	<u>(214)</u>
Change in Net Position	<u><u>\$ 422,395</u></u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The District adopts an annual operating budget for expenditures for the General Fund and Debt Service Fund on essentially the same modified accrual basis of accounting used to record actual expenditures. Budgetary control over expenditures is exercised at the fund level.

B. Deficit Net Position

As described in Note 1, the District was formed to finance and acquire or construct infrastructure assets that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Therefore, the Statement of Net Position reflects a large liability without an offsetting asset.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits – The District had no deposits at June 30, 2015.

Investments – At June 30, 2015, the District's investments were as follows:

	<u>Reported Amount</u>	<u>Fair Value</u>
Restricted for:		
Cash and Investments Held by Trustee	\$ 498,416	\$ 498,416

All investments were insured or registered in the District's name, or were held by the District or its agent in the District's name. Investments consisted of short-term United States Treasury money market accounts.

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. As of June 30, 2015, the District had no deposits that were exposed to custodial credit risk.

The custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateralized securities that are in the possession of another party. The District's investment policy requires that securities are to be held by a third party custodian.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits its investment portfolio to short-term United States Treasury obligations and money market accounts, agencies guaranteed by the United States, and repurchase agreements that are secured by the same.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not have a formal policy to guard against credit risk; however, all investments must be issued or guaranteed by a federal agency, as required in the bond covenant, and backed by the full faith and credit of the United States.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one issuer.

2. Restricted Assets

Restricted assets at June 30, 2015, as follows:

Restricted for:	
Debt Service Fund	\$ 498,416

3. Property Taxes Receivable

The Maricopa County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business days in November and May. During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding the assessment levy.

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund financial statements. In the fund financial statements, property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 31 days subsequent to fiscal year-end. Property taxes not collected within 31 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred inflows.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2015 were as follows:

<u>Year</u>	<u>Debt Service Fund</u>
2014/15	\$ 13,058

At the end of the current fiscal year, unavailable revenue reported in the governmental fund was as follows:

Delinquent Property Taxes Receivable (Debt Service Fund)	<u>Unavailable</u> \$ 5,979
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NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

Obligations Under Long-term Debt

General Obligation Bonds

The District issues general obligation bonds to provide funds to acquire and improve public infrastructure in specified areas. General obligation bonds have been issued for governmental activities only. The bonds are generally callable with interest payable semiannually. Bonds payable at June 30, 2015, consisted of the outstanding general obligation bonds presented below:

Purpose	Interest Rates (%)	Amount
2002 Scottsdale Mountain Refunding Bonds (issued May 15, 2002) due in annual installments of \$160,000 to \$455,000 beginning July 15, 2003 through July 15, 2018; Original issue amount \$5,375,000.	4.50 - 4.70	\$ 1,055,000

Community facilities districts (CFDs) are created only by petition to the City Council by property owners within the District areas. As board of directors for the District, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the District property (prior to improvements being installed), when compared to proposed District debt, is a minimum of 3 to 1 prior to issuance of debt and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the District and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's net secondary assessed valuation.

Changes in Long-Term Liabilities

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 1,475,000	\$ -	\$ (420,000)	\$ 1,055,000	\$ 440,000
Issuance Premium	4,766	-	(1,192)	3,574	-
Total	\$ 1,479,766	\$ -	\$ (421,192)	\$ 1,058,574	\$ 440,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2016	\$ 440,000	\$ 48,250
2017	455,000	28,450
2018	160,000	7,520
Total	\$ 1,055,000	\$ 84,220

NOTE 5 – OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss. The District carries commercial insurance for \$1,000,000 per occurrence and \$2,000,000 aggregate covering general liability exposures. The District also carries public entity management liability insurance for \$1,000,000 each wrongful act and \$1,000,000 aggregate to cover damages resulting from the conduct of duties by or for a public entity or its boards. There have been no known losses in any of the past three fiscal years.

Required Supplementary Information

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

For the Fiscal Year Ended June 30, 2015

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Taxes	\$ 9,800	\$ 9,588	\$ (212)
Total Revenues	<u>9,800</u>	<u>9,588</u>	<u>(212)</u>
EXPENDITURES			
Current			
General Government			
City Treasurer - Finance and Accounting	9,800	9,588	212
Total Expenditures	<u>9,800</u>	<u>9,588</u>	<u>212</u>
Excess (Deficiency) of Revenue Over Expenditures	-	-	-
Fund Balance, Beginning of Year	-	-	-
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Supplementary Information

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

For the Fiscal Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance
REVENUES			
Taxes	\$ 489,589	\$ 489,726	\$ 137
Interest	-	-	-
Total Revenues	<u>489,589</u>	<u>489,726</u>	<u>137</u>
EXPENDITURES			
Debt Service			
Principal Retirement	420,000	420,000	-
Interest and Fiscal Charges	<u>70,140</u>	<u>69,940</u>	<u>200</u>
Total Expenditures	<u>490,140</u>	<u>489,940</u>	<u>200</u>
Excess (Deficiency) of Revenue Over Expenditures	(551)	(214)	337
Fund Balance, Beginning of Year	<u>42,185</u>	<u>52,239</u>	<u>10,054</u>
Fund Balance, End of Year	<u><u>\$ 41,634</u></u>	<u><u>\$ 52,025</u></u>	<u><u>\$ 10,391</u></u>



October 30, 2015

Board of Directors
Scottsdale Mountain Community Facilities District

We have audited the financial statements of the governmental activities and each major fund of Scottsdale Mountain Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Scottsdale Mountain Community Facilities District are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Scottsdale Mountain Community Facilities District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. Management informed us that, and to our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the District’s auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the “Independence Rule” of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of Scottsdale Mountain Community Facilities District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants



HEINFELD, MEECH & CO., P.C.
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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Scottsdale Mountain Community Facilities District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Scottsdale Mountain Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Scottsdale Mountain Community Facilities District's basic financial statements and have issued our report thereon dated October 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Scottsdale Mountain Community Facilities District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Scottsdale Mountain Community Facilities District's internal control. Accordingly, we do not express an opinion on the effectiveness of Scottsdale Mountain Community Facilities District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Scottsdale Mountain Community Facilities District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015



SCOTTSDALE PRESERVE AUTHORITY
(A COMPONENT UNIT OF THE
CITY OF SCOTTSDALE, ARIZONA)

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

SCOTTSDALE PRESERVE AUTHORITY
(A COMPONENT UNIT OF THE CITY OF SCOTTSDALE, ARIZONA)

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

SCOTTSDALE PRESERVE AUTHORITY

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For the Fiscal Year ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Scottsdale Preserve Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Scottsdale Preserve Authority (SPA), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the SPA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Scottsdale Preserve Authority, as of June 30, 2015, 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 26, 2015, on our consideration of Scottsdale Preserve Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Scottsdale Preserve Authority's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Scottsdale Preserve Authority (SPA), we offer readers this narrative overview and analysis of the financial activities of the SPA for the fiscal year ended June 30, 2015. The Scottsdale Preserve Authority is a component unit of the City of Scottsdale, Arizona (City).

FINANCIAL HIGHLIGHTS

- The liabilities and assets of the SPA were equal at the close of the most recent fiscal year with a fund balance of \$0 (net position).
- The SPA's total net position was \$0 during the fiscal year. As of June 30, 2015, the SPA's Debt Service Fund reported an ending fund balance of \$0.
- The SPA's total long-term debt decreased by \$4,140,000, during the current fiscal year due to the payment of principal on outstanding debt.
- The SPA is in compliance with all significant bond indentures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the SPA's basic financial statements. Because of its limited purpose, the SPA's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance and (2) Notes to the Basic Financial Statements. Because the SPA only has one governmental program, the government-wide and fund financial statements are combined.

Government-wide Financial Statements

The *Statement of Net Position* is designed to provide readers with a broad overview of the SPA's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the SPA's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the SPA is improving or deteriorating.

The *Statement of Activities* presents information showing how the SPA's 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 result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses related to accrued interest.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The SPA, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The SPA maintains two governmental funds, general and debt service fund. Information is presented on the Statement of Net Position and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance.

The SPA does not adopt an annual appropriated budget for its revenues and expenses. The debt service payments are budgeted as part of the City's annual budget.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to acquire a full understanding of the data provided in the basic financial statements.

Government-wide Financial Analysis

As noted earlier, changes in net position may serve over time as useful indicators of a government's financial position. The liabilities and assets of the SPA were equal at the close of the most recent fiscal year with a balance of \$0 (net position).

Net Position

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
ASSETS		
Current and Other Assets	\$ 5,304,906	\$ 5,214,206
Long-term Receivable	47,373,981	51,859,336
Total Assets	52,678,887	57,073,542
Deferred Outflows of Resources	901,905	1,240,830
Total Assets and Deferred Outflows of Resources	53,580,792	58,314,372
LIABILITIES		
Long-term Liabilities Outstanding	48,275,886	53,100,166
Other Liabilities	5,304,906	5,214,206
Total Liabilities	53,580,792	58,314,372
NET POSITION		
Unrestricted	-	-
Total Net Position	\$ -	\$ -

The SPA's total net position remains the same at \$0.

Changes in Net Position

For the Fiscal Years Ended June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
REVENUES		
Installment Payment Received from City of Scottsdale	\$ 1,995,877	\$ 2,185,822
Total Revenues	1,995,877	2,185,822
EXPENSES		
General Government	4,410	4,375
Interest and Fiscal Charges	1,991,467	2,181,447
Total Expenses	1,995,877	2,185,822
Change in Net Position	-	-
Net Position, Beginning of Year	-	(3,267,051)
Net Effect of Accounting Change	-	3,267,051
Net Position Beginning of Year, Restated	-	-
Net Position, End of Year	\$ -	\$ -

Expenses and revenues decreased due to a decrease in long-term debt.

Financial Analysis of the SPA's Funds

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

The focus of the SPA's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending.

The General Fund is used to pay administration expenses related to the SPA revenue bonds. Revenues equaled expenses in the General Fund for the current fiscal year.

At June 30, 2015, the SPA's governmental funds reported a combined ending balance of \$0. The Debt Service Fund and the General Fund each had a fund balance of \$0.

Debt Administration

The SPA's total long-term debt decreased by \$4,140,000 during the current fiscal year due to the payment of principal on outstanding debt. The total Excise Revenue Debt at June 30, 2015 was \$44,365,000.

Outstanding Debt

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
Excise Tax Revenue Bonds	\$ 44,365,000	\$ 48,505,000

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 2015/16, 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 SPA's finances for all of those with an interest. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2015

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Current Assets					
Cash and Investments, Restricted	\$ -	\$ 5,304,906	\$ 5,304,906	\$ -	\$ 5,304,906
Long-term Receivable from City of Scottsdale	-	47,373,981	47,373,981	-	47,373,981
Total Assets	\$ -	\$ 52,678,887	\$ 52,678,887	-	52,678,887
Deferred Outflows of Resources					
Deferred Amounts on Refunding				901,905	901,905
Total Assets and Deferred Outflows of Resources				901,905	53,580,792
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION					
Liabilities					
Matured Interest Payable	-	1,164,906	1,164,906	-	1,164,906
Matured Bonds Payable	-	4,140,000	4,140,000	-	4,140,000
Long-term Liabilities					
Due Within One Year	-	-	-	4,340,000	4,340,000
Due After One Year	-	-	-	43,935,886	43,935,886
Total Liabilities	-	5,304,906	5,304,906	48,275,886	53,580,792
Deferred Inflows of Resources					
Unavailable Revenue	-	47,373,981	47,373,981	(47,373,981)	-
Total Liabilities and Deferred Inflows of Resources		52,678,887	52,678,887	901,905	53,580,792
Fund Balances/Net Position					
Fund Balances					
Restricted	-	-	-	-	-
Total Fund Balances	-	-	-	-	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ -	\$ 52,678,887	\$ 52,678,887		
Net Position					
Unrestricted				-	-
Total Net Position				\$ -	\$ -

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, 2015

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
REVENUES					
Payments Received from City of Scottsdale	\$ 4,410	\$ 6,476,823	\$ 6,481,233	\$ (4,485,356)	\$ 1,995,877
Total Revenues	4,410	6,476,823	6,481,233	(4,485,356)	1,995,877
EXPENDITURES/EXPENSES					
General Government					
City Treasurer - Finance and Accounting	4,410	-	4,410	-	4,410
Debt Service					
Principal Retirement	-	4,140,000	4,140,000	(4,140,000)	-
Interest and Fiscal Charges	-	2,336,823	2,336,823	(345,356)	1,991,467
Total Expenditures/Expenses	4,410	6,476,823	6,481,233	(4,485,356)	1,995,877
Net Change in Fund Balances/Net Position	-	-	-	-	-
Fund Balances/Net Position, Beginning of Year	-	-	-	-	-
Fund Balances/Net Position, End of Year	\$ -	\$ -	\$ -	\$ -	\$ -

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Scottsdale Preserve Authority (SPA), a 501c3 nonprofit corporation, has adopted, as a component unit of the City, the accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the SPA follows.

A. Reporting Entity

The Scottsdale Preserve Authority is a nonprofit corporation created by the City in 1996 to finance land acquisitions for the McDowell Sonoran Preserve (Preserve). The SPA is a component unit of the City of Scottsdale, Arizona. There are no component units combined with the SPA for financial statement presentation purposes. The SPA was created by the City to protect the McDowell Mountains and related Sonoran desert lands and is supported by six public votes. The SPA issues its own bonds which are repaid through the two tenths of one percent City sales tax approved by voters to be used specifically for this purpose. In the event there is no more land to purchase prior to the 30 years specified for the tax increase, the tax would end at the time all bonds are repaid. A timeline of events for the SPA follow:

- May 23, 1995, the residents of the City passed proposition 400 which stated that funds collected by a sales tax increase (0.2 percent) can be used for land acquisition only, within Scottsdale's city boundaries.
- July 1, 1995, sales tax increase went into effect.
- September 1996, voters approved the use of revenue bonds to acquire land using proceeds from the sales tax increase.
- November 1998, voters approved expanding the boundary in which the Preserve tax could be used for land acquisition to include an additional 19,940 acres.
- May 18, 2004, voters approved a sales tax increase (0.15 percent) to be used for Preserve land acquisition and constructing improvements.
- July 1, 2004, new sales tax increase went into effect.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the SPA. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by payments from the City revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The SPA had no business-type activities during the fiscal year.

Financial statements are provided for the SPA's major governmental funds, with an adjustments 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are earned and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the SPA considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Installment payments from the City 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 earned and available only when cash is received by the SPA.

The SPA reports the following major governmental funds:

- The *General Fund* accounts for resources accumulated and used for the payment of other operating expenditures for the SPA, which may include insurance, legal fees and administration costs.
- The *Debt Service Fund* accounts for resources accumulated and used for the payment of governmental long-term debt principal, interest and related costs.

Although they have not adopted a formal policy, when both restricted and unassigned funds are available for use, it is the SPA's policy to use restricted funds first, and then unassigned funds as they are needed. Currently, the SPA does not have any non-spendable, committed or assigned funds.

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

1. Cash and Investments

As a 501c3 non-profit corporation, investments are not restricted by the Arizona Revised Statutes. The City of Scottsdale's investment policy authorizes the SPA to invest public monies in State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit, commercial paper, highly rated corporate bonds/notes and repurchase agreements in eligible depositories; bonds or other obligations of the United States government.

Cash and investments held by trustee at June 30, 2015, plus accrued interest, is restricted as to usage.

2. Restricted Assets

Cash and investments held by the SPA's trustee are classified as restricted assets on the statement of net position because their use is limited to payments for debt service.

3. Capital Assets

Land acquired by the SPA is donated to the City of Scottsdale, Arizona upon purchase for the McDowell Sonoran Preserve. As a result, the SPA owns no capital assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the 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 SPA has one item that qualifies for reporting in this category. It is the deferred amounts on refunding. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is amortized over the shorter of the life of the refunded 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 SPA has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet.

6. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Directors. The Board of Directors has not authorized anyone to assign fund balances. Unassigned fund balances are considered the remaining amounts. The SPA has not formally adopted a spending priority policy and therefore use the spending priority indicated in GASB 54. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the SPA's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, GASB 54 indicates to use committed first, then assigned, and finally unassigned amounts.

In the government-wide financial statements, net position is reported in two categories: restricted net position and unrestricted net position. Restricted net position accounts for the portion of net position restricted by bond covenant. Unrestricted net position is the remaining net position not included in the previous category.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Amounts Reported in the Statement of Net Position are Different Because:

Amounts receivable from the City for retirement of debts are reported as deferred inflows of resources as they are not considered available.	\$ 47,373,981
Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore, are not reported in the funds.	(48,275,886)
Deferred amount on refunding are long-term in nature and not reported.	901,905
Net adjustment to reduce total fund balance to arrive at net position	-
Total Fund Balance	-
Total Net Position	\$ -

B. Amounts Reported in the Statement of Activities are Different Because:

Contractual agreement provides for repayment of debt by the City to the SPA thus, in the statement of activities revenues are recorded at the inception of the agreement rather than as received. Revenues in the fund statements that provide current financial resources for payment of principal have been previously recognized as revenues in the statement of activities resulting in the following adjustments to the revenue

Principal and premium and deferred refunding cost payment from City of Scottsdale	\$ (4,485,356)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, neither transaction has any effect on net position.	4,140,000
Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities	345,356
Net Adjustments to Change in net position	-
Net Change in Fund Balance	-
Change in Net Position	\$ -

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The SPA does not adopt an annual appropriation budget. However, debt service payments are budgeted as part of the City's annual budget.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits – At June 30, 2015, the SPA's deposits were \$5,304,906.

Investments – The SPA had no investments at June 30, 2015.

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. As of June 30, 2015, in accordance with the City's policy, \$250,000 of the SPA's deposits were covered by federal depository insurance and \$5,054,906 was collateralized by the SPA's agent or pledging financial institution's trust department or agent in the name of the SPA. Therefore, there were no deposits that were exposed to custodial risk.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the SPA will not be able to recover the value of its investment or collateralized securities that are in the possession of another party. The SPA's investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the SPA be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian. The SPA had no investments as of June 30, 2015, and thus was not exposed to custodial risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the SPA's investment policy limits its investment portfolio to maturities of less than five years. The SPA had no investments as of June 30, 2015, and thus was not exposed to interest rate risk.

2. Restricted Assets

Restricted assets at June 30, 2015, as follows:

Restricted for:

Debt Service Fund

\$ 5,304,906

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

Obligations Under Long-term Debt

Revenue Bonds

The SPA issues excise tax revenue bonds to provide funds to acquire land for the McDowell Sonoran Preserve. Revenue bonds have been issued for governmental activities only. The bonds are generally callable with interest payable semiannually.

Bonds payable at June 30, 2015, consisted of the outstanding revenue bonds presented below:

Purpose	Bonds Outstanding
2004 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued March 30, 2004, due in annual installments of \$75,000 to \$3,315,000 through July 1, 2016; interest at 2 percent to 5 percent. Original issue amount \$22,925,000.	\$ 3,315,000
2010 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued October 10, 2010, due in annual installments of \$3,110,000 to \$6,090,000 through July 1, 2024; interest at 3 percent to 5.25 percent. Original issue amount \$32,855,000.	32,855,000
2011 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued on April 6, 2011, due in annual installments of \$920,000 to \$1,350,000 through July 1, 2022; interest at 2 percent to 5 percent. Original issue amount \$12,015,000.	8,195,000
Total Scottsdale Preserve Authority Bonds	<u>\$ 44,365,000</u>

The City is obligated under agreements to pay the SPA amounts sufficient to retire the SPA's bonds and related interest in exchange for the properties acquired in connection with the issuance of the bonds. The City has collateralized the SPA bonds by a pledge of the Preserve Excise Tax, which is a two-tenths (.2) of one percent (1%) transaction privilege and use tax, and a one and one half-tenths (.15) of one percent (1%) transaction privilege and use tax of the City approved by the qualified electors of the City on May 23, 1995 and May 18, 2004, respectively. The revenues generated by the Preserve Excise Tax have consistently been greater than 150 percent of the annual debt service payments on the SPA bonds as required in the agreements.

The agreements mentioned above are, in substance, long-term sales contracts for an amount equal to the SPA's bonded debt and interest thereon. Accordingly, the accompanying balance sheet reflects a receivable from the City for the present value of the amounts due, which corresponds to the principal portion of the bonded debt payable.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Changes in Long-term Liabilities

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Excise Tax Revenue Bonds	\$ 48,505,000	\$ -	\$ (4,140,000)	\$ 44,365,000	\$ 4,340,000
Issuance Premium	4,595,166	-	(684,280)	3,910,886	-
Total	<u>\$ 53,100,166</u>	<u>\$ -</u>	<u>\$ (4,824,280)</u>	<u>\$ 48,275,886</u>	<u>\$ 4,340,000</u>

Annual debt service requirements to maturity for revenue bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2016	\$ 4,340,000	\$ 2,142,613
2017	4,175,000	1,935,863
2018	4,365,000	1,759,963
2019	4,540,000	1,602,462
2020	4,780,000	1,375,462
2021-2024	22,165,000	2,995,675
Total	<u>\$ 44,365,000</u>	<u>\$ 11,812,038</u>

NOTE 5 – OTHER INFORMATION

A. Risk Management

The SPA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The SPA does not have separate insurance coverage but is included under the City of Scottsdale, Arizona's risk management.



October 30, 2015

Board of Directors
Scottsdale Preserve Authority

We have audited the financial statements of the governmental activities and each major fund of Scottsdale Preserve Authority, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Scottsdale Preserve Authority are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Scottsdale Preserve Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. Management informed us that, and to our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the SPA’s auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the “Independence Rule” of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of Scottsdale Preserve Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants



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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Scottsdale Preserve Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Scottsdale Preserve Authority, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Scottsdale Preserve Authority's basic financial statements and have issued our report thereon dated October 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Scottsdale Preserve Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Scottsdale Preserve Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Scottsdale Preserve Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Scottsdale Preserve Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015



VIA LINDA ROAD
COMMUNITY FACILITIES DISTRICT
(A COMPONENT UNIT OF THE
CITY OF SCOTTSDALE, ARIZONA)

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

VIA LINDA ROAD COMMUNITY FACILITIES DISTRICT
(A COMPONENT UNIT OF THE CITY OF SCOTTSDALE, ARIZONA)

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

VIA LINDA ROAD COMMUNITY FACILITIES DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Via Linda Road Community Facilities District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Via Linda Road Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Via Linda Road Community Facilities District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary budget comparison information for the Debt Service Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary budget comparison information for the Debt Service Fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary budget comparison information for the Debt Service Fund is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015, on our consideration of Via Linda Road Community Facilities District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Via Linda Road Community Facilities District's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Via Linda Road Community Facilities District (District), we offer readers a narrative overview and analysis of the financial activities for the District. The District is one of the City of Scottsdale, Arizona's component units for financial reporting purposes for the fiscal year ended June 30, 2015.

Formed in 1998, the District is a special purpose taxing district and separate political subdivision under Arizona statutes. As such, the District can levy taxes and issue bonds, independent of the City of Scottsdale, Arizona (City). Property owners within the District boundaries pay for District infrastructure and functions through secondary property tax assessments. City staff administers the District and the cost of their services is reimbursed by District funds. The Scottsdale City Council also serves as the District Board of Directors.

FINANCIAL HIGHLIGHTS

- District tax collections and funds carried forward from prior years were sufficient to pay debt service during the fiscal year 2014/15.
- District tax rates continue to comply with the City-imposed assessment limit of \$3.00 per \$100 assessed valuation. In fiscal year 2014/15, the tax rate was \$1.08 per \$100 assessed valuation.
- As of June 30, 2015, the District's governmental fund reported an ending fund balance of \$34,714. The total amount is for debt service.
- Governmental fund balances decreased by \$43,097 during the fiscal year.
- The District's total long-term debt decreased by \$170,000 in the fiscal year due to scheduled principal payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the District's basic financial statements. Because of its limited purpose, the District's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balance and (2) Notes to the Basic Financial Statements.

Because the District has 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 District's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. Changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses related to accrued interest.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are governmental funds, and, basically, all are restricted as to use.

The District maintains two governmental funds, general and debt service. Information is presented in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance for the General Fund and the Debt Service Fund.

The District adopts an annual budget for its General Fund and Debt Service Fund. Supplementary budgetary schedules have been provided to demonstrate compliance with this budget.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to acquire a full understanding of the data provided in the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$1.5 million (net position). The large deficit results from the nature of the District's operations. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and a separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes to pay the debt service over the life of the bonds. The City Council serves as the Board of Directors. However, the City has no liability for the District's debt. For financial reporting purposes, transactions of the District are combined together and included as if they were part of the City's operations and the assets financed through the District are combined with the infrastructure of the City. Because the capital assets are recorded in the City's financial statements, the Statement of Net Position for the District reflects a large liability without an offsetting asset.

Net Position

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
ASSETS		
Current and Other Assets	\$ 230,363	\$ 267,805
Total Assets	230,363	267,805
LIABILITIES		
Long-term Liabilities	1,530,000	1,700,000
Other Liabilities	192,100	189,245
Total Liabilities	1,722,100	1,889,245
NET POSITION		
Restricted	38,263	78,560
Unrestricted	(1,530,000)	(1,700,000)
Total Net Position	\$ (1,491,737)	\$ (1,621,440)

The District's total net position increased by \$129,703 during the fiscal year.

Changes in Net Position

For the Fiscal Years Ended June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
REVENUES		
Taxes	\$ 183,931	\$ 109,846
Interest	-	2
Total Revenues	183,931	109,848
EXPENSES		
General Government	9,578	9,755
Interest and Fiscal Charges	44,650	48,940
Total Expenses	54,228	58,695
Change in Net Position	129,703	51,153
Net Position, Beginning of Year	(1,621,440)	(1,618,439)
Net Effect of Accounting Change	-	(54,154)
Net Position Beginning of Year, Restated	-	(1,672,593)
Net Position, End of Year	\$ (1,491,737)	\$ (1,621,440)

Revenues in fiscal year 14/15 increased from the prior year and expenses decreased due to the reduction in long-term debt interest increasing the District's net position.

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with legal requirements related to special purpose districts and general obligation bonds.

Financial Analysis of the District's Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the District's ability to pay the debt service on the general obligation bonds it issues to fund construction or acquisition of public infrastructure.

As of the end of fiscal year 2014/15 the District's governmental fund reported an ending fund balance of \$34,714, a decrease of \$43,097 in comparison with the prior year. This entire fund amount constitutes the Debt Service Fund balance. Revenues increased due to a higher tax rate, but not in proportion to expenses, which caused the decrease in fund balance.

All revenues collected represent property taxes and totaled \$181,131 for the fiscal year ended June 30, 2015.

Capital Assets and Debt Administration

The District was formed to finance and acquire or construct amenities that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Since formation, District bonds have been issued, and the proceeds used to acquire or construct an extension of Via Linda Road and the development of trailheads.

Since formation, the District has issued \$3,225,000 of the \$3,500,000 authorized bonds. Bond proceeds were used to extend Via Linda Road eastward, and to pay developer stipulations for City trailheads. At this time, the District is not engaged in any significant activities other than providing for the levy of secondary property taxes to pay debt service and administrative fees. The District does not own or operate any facilities. In fiscal year 2012/13, the City Council and the District Board approved the issuance of \$2,000,000 refunding bonds to reduce the total debt service payments over the next 11 years. There was no defeased debt outstanding at June 30, 2015.

At the time of issue, District general obligation bonds have a 25-year term, typically with the first five years requiring interest-only payments. In the event that the District Board decides at a future time to dissolve the District, State statute provides that all taxable property in the District will remain subject to the lien for the payment of the bonds until all bonds have been defeased.

Outstanding Debt

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
General Obligation Bonds	<u>\$ 1,530,000</u>	<u>\$ 1,700,000</u>

The District's total long-term debt decreased by \$170,000 during the current fiscal year due to the payment of principal on the general obligation refunding bonds.

Next Year's Budget and Rates

The fiscal year 2015/16 District budget includes a \$1.29 tax rate per \$100 of assessed value. This is a \$0.21 increase from the rate used in the fiscal year 2014/15 budget.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2015

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
ASSETS					
Current Assets					
Cash and Investments, Restricted	\$ -	\$ 225,180	\$ 225,180	\$ -	\$ 225,180
Taxes Receivable	-	5,183	5,183	-	5,183
Total Assets	\$ -	\$ 230,363	\$ 230,363	-	230,363
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION					
Liabilities					
Mature Bond Interest Payable	-	22,100	22,100	-	22,100
Matured Bonds Payable	-	170,000	170,000	-	170,000
Long-term Liabilities					
Due Within One Year	-	-	-	175,000	175,000
Due After One Year	-	-	-	1,355,000	1,355,000
Total Liabilities	-	192,100	192,100	1,530,000	1,722,100
Deferred Inflows of Resources					
Unavailable Revenues	-	3,549	3,549	(3,549)	-
Total Liabilities and Deferred Inflows of Resources	-	195,649	195,649	1,526,451	1,722,100
Fund Balances/Net Position					
Fund Balances					
Restricted	-	34,714	34,714	(34,714)	-
Total Fund Balances	-	34,714	34,714	(34,714)	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ -	\$ 230,363	\$ 230,363		
Net Position					
Restricted for Debt Service				38,263	38,263
Unrestricted				(1,530,000)	(1,530,000)
Total Net Position				\$ (1,491,737)	\$ (1,491,737)

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, 2015

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
REVENUES					
Taxes	\$ 9,578	\$ 171,553	\$ 181,131	\$ 2,800	\$ 183,931
Total Revenues	9,578	171,553	181,131	2,800	183,931
EXPENDITURES/EXPENSES					
Current					
General Government					
City Treasurer - Finance and Accounting	9,578	-	9,578	-	9,578
Debt Service					
Principal Retirement	-	170,000	170,000	(170,000)	-
Interest and Fiscal Charges	-	44,650	44,650	-	44,650
Total Expenditures/Expenses	9,578	214,650	224,228	(170,000)	54,228
Excess of Revenues Over (Under) Expenditures/Expenses	-	(43,097)	(43,097)	43,097	-
Change in Net Position	-	-	-	129,703	129,703
Fund Balances/Net Position, Beginning of Year	-	77,811	77,811	(1,699,251)	(1,621,440)
Fund Balances/Net Position, End of Year	\$ -	\$ 34,714	\$ 34,714	\$ (1,526,451)	\$ (1,491,737)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Via Linda Road Community Facilities District (District), a component unit of the City of Scottsdale, Arizona (City), conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the District follows.

A. Reporting Entity

The Via Linda Road Community Facilities District was formed by petition to the City of Scottsdale City Council in April 1998. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the District. The City Council serves as the Board of Directors; however, the City has no liability for the District's debt. For financial reporting purposes, transactions of the Via Linda Road Community Facilities District are included as if the District were part of the City's operations.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year.

Financial statements are provided for major governmental funds, with an adjustments column to arrive at government-wide 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. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both earned and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the current fiscal period when the revenue is earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* accounts for resources accumulated and used for the payment of other operating expenses for the District, which may include insurance, legal fees and administration costs.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of governmental long-term debt principal, interest and related costs.

The spending order for the District is to use restricted funds and then unassigned funds as they are needed. Currently the District does not have any nonspendable, committed or assigned funds.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance**1. Cash and Investments**

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; or bonds of the State of Arizona counties, cities, towns, school districts or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit and repurchase agreements at 100 percent of all deposits not covered by federal depository insurance.

Cash and investments held by trustee at June 30, 2015, plus accrued interest, are restricted as to usage.

2. Restricted Assets

Cash and investments held by the District's trustee are classified as restricted on the statement of net position because their use is limited by applicable bond covenants.

3. Capital Assets

Capital assets acquired or construction of infrastructure assets by the District are dedicated to the City of Scottsdale, Arizona to maintain and operate. As a result, the District owns no capital assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify as an outflow of resources.

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 District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet.

6. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained 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 passed a resolution authorizing the City of Scottsdale City Treasurer to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

In the government-wide financial statements, net position is reported in two categories: restricted and unrestricted. Restricted accounts for the portion of net position restricted by bond covenant. Unrestricted is the remaining net position not included in the previous category.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Amounts reported in the statement of net position are different because:

Revenues not available to pay current-period expenditures are deferred inflows in the funds.	\$ 3,549
Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore, are not reported in the funds.	<u>(1,530,000)</u>
Net adjustment to reduce total fund balance to arrive at net position.	(1,526,451)
Total Fund Balance	<u>34,714</u>
Total Net Position	<u><u>\$ (1,491,737)</u></u>

B. Amounts reported in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	\$ 2,800
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, it has no effect on net position.	<u>170,000</u>
Net adjustments to reconcile net changes in fund balance to change in net position.	172,800
Net change in Fund Balance	<u>(43,097)</u>
Change in Net Position	<u><u>\$ 129,703</u></u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The District adopts an annual operating budget for revenues and expenditures for the General Fund and Debt Service Fund on essentially the same modified accrual basis of accounting used to record actual expenditures. Budgetary control over expenditures is exercised at the fund level.

B. Deficit Net Position

As described in Note 1, the District was formed to finance and acquire or construct infrastructure assets that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Therefore, the Statement of Net Position reflects a large liability without an offsetting asset.

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits – The District had no deposits at June 30, 2015

Investments – At June 30, 2015, the District’s investments were as follows:

Restricted for:	<u>Reported Amount</u>	<u>Fair Value</u>
Cash and Investments Held by Trustee	\$ 225,180	\$ 225,180
	<u>\$ 225,180</u>	<u>\$ 225,180</u>

All investments held by the trustee were insured or registered in the District’s name, or were held by the District or its agent in the District’s name. Investments consisted of short-term United States Treasury money market accounts.

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. As of June 30, 2015, the District had no deposits that were exposed to custodial credit risk.

The custodial credit risk for investments, including private investments, is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateralized securities that are in the possession of another party. The District’s investment policy requires that securities are to be held by a third party custodian.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District’s investment policy limits its investment portfolio, including private investments, to short-term (less than five years) United States Treasury obligations and money market accounts, agencies guaranteed by the United States, and repurchase agreements that are secured by the same.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District does not have a formal policy to guard against credit risk; however, all investments, including private investments, must be issued or guaranteed by a federal agency, as required in the bond covenant, and backed by the full faith and credit of the United States.

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one issuer.

2. Restricted Assets

Restricted assets at June 30, 2015, as follows:

Restricted for:	
Debt Service Fund	<u>\$ 225,180</u>

3. Property Taxes Receivable

The Maricopa County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business days in November and May. During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding the assessment levy.

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund financial statements. In the fund financial statements, property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 31 days subsequent to fiscal year-end. Property taxes not collected within 31 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred inflows.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2015, were as follows:

<u>Year</u>	<u>Debt Service Fund</u>
2014/15	<u>\$ 5,183</u>

At the end of the current fiscal year, unavailable revenue reported in the governmental funds was as follows:

Delinquent Property Taxes Receivable (Debt Service Fund)	<u>Unavailable</u> <u>\$ 3,549</u>
---	---------------------------------------

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

Obligations Under Long-term Debt

General Obligation Bonds

The District issues general obligation bonds to provide funds to acquire and improve public infrastructure in specified lands. General obligation bonds have been issued for governmental activities only. The bonds are not callable with interest payable semiannually. Bonds payable at June 30, 2015, consisted of the outstanding general obligation bonds presented below:

Purpose	Interest Rates (%)	Amount
2012 Via Linda Refunding Bonds due in annual installments of \$135,000 to \$210,000 beginning July 15, 2013 through July 15, 2023. Original issue amount \$2,000,000.	2.6	\$ 1,530,000

Community facilities districts (CFDs) are created only by petition to the City Council by property owners within the District areas. As board of directors for the District, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the District property (prior to improvements being installed), when compared to proposed District debt, is a minimum of 3 to 1 prior to issuance of debt and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the District and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's net secondary assessed valuation.

Changes in Long-term Liabilities

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 1,700,000	\$ -	\$ (170,000)	\$ 1,530,000	\$ 175,000
Total	\$ 1,700,000	\$ -	\$ (170,000)	\$ 1,530,000	\$ 175,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2016	\$ 175,000	\$ 39,780
2017	180,000	35,230
2018	185,000	30,550
2019	190,000	25,740
2020	190,000	20,800
2021-2023	610,000	32,110
Total	\$ 1,530,000	\$ 184,210

NOTE 5 – OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss. The District carries commercial insurance for \$1,000,000 per occurrence and \$2,000,000 aggregate covering general liability exposures. The District also carries public entity management liability insurance for \$1,000,000 each wrongful act and \$1,000,000 aggregate to cover damages resulting from the conduct of duties by or for a public entity or its boards. There have been no known losses in any of the past three fiscal years.

Required Supplementary Information

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

For the Fiscal Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance
REVENUES			
Taxes	\$ 9,800	\$ 9,578	\$ (222)
Total Revenues	9,800	9,578	(222)
EXPENDITURES			
Current			
General Government			
City Treasurer - Finance and Accounting	9,800	9,578	222
Total Expenditures	9,800	9,578	222
Excess (Deficiency) of Revenue Over Expenditures	-	-	-
Fund Balance, Beginning of Year	-	-	-
Fund Balance, End of Year	\$ -	\$ -	\$ -

Supplementary Information

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

For the Fiscal Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance
REVENUES			
Taxes	\$ 173,978	\$ 171,553	\$ (2,425)
Total Revenues	<u>173,978</u>	<u>171,553</u>	<u>(2,425)</u>
EXPENDITURES			
Debt Service			
Principal Retirement	170,000	170,000	-
Interest and Fiscal Charges	47,400	44,650	2,750
Total Expenditures	<u>217,400</u>	<u>214,650</u>	<u>2,750</u>
Excess (Deficiency) of Revenue Over Expenditures	(43,422)	(43,097)	325
Fund Balance, Beginning of Year	<u>66,424</u>	<u>77,811</u>	<u>11,387</u>
Fund Balance, End of Year	<u>\$ 23,002</u>	<u>\$ 34,714</u>	<u>\$ 11,712</u>



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October 30, 2015

Board of Directors
Via Linda Road Community Facilities District

We have audited the financial statements of the governmental activities and each major fund of Via Linda Road Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Via Linda Road Community Facilities District are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Via Linda Road Community Facilities District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. Management informed us that, and to our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the District’s auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the “Independence Rule” of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of Via Linda Road Community Facilities District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants



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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Via Linda Road Community Facilities District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Via Linda Road Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Via Linda Road Community Facilities District's basic financial statements and have issued our report thereon dated October 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Via Linda Road Community Facilities District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Via Linda Road Community Facilities District's internal control. Accordingly, we do not express an opinion on the effectiveness of Via Linda Road Community Facilities District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Via Linda Road Community Facilities District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015



**WATERFRONT COMMERCIAL
COMMUNITY FACILITIES DISTRICT
(A COMPONENT UNIT OF THE
CITY OF SCOTTSDALE, ARIZONA)**

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

WATERFRONT COMMERCIAL COMMUNITY FACILITIES DISTRICT
(A COMPONENT UNIT OF THE CITY OF SCOTTSDALE, ARIZONA)

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2015

WATERFRONT COMMERCIAL COMMUNITY FACILITIES DISTRICT

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For the Fiscal Year ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Waterfront Commercial Community Facilities District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Waterfront Commercial Community Facilities District (District), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Waterfront Commercial Community Facilities District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary budget comparison information for the Debt Service Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary budget comparison information of the Debt Service Fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary budget comparison information of the Debt Service Fund is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015, on our consideration of Waterfront Commercial Community Facilities District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Waterfront Commercial Community Facilities District's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Waterfront Commercial Community Facilities District (District), we offer readers a narrative overview and analysis of the financial activities for the District. The District is one of the City of Scottsdale, Arizona's component units for the fiscal year ended June 30, 2015.

Formed in 2005, the District is a special purpose taxing district and separate political subdivision under Arizona statutes. As such, the District can levy taxes and issue bonds, independent of the City of Scottsdale, Arizona (City). Property owners within the District boundaries pay for District infrastructure and functions through secondary property tax assessments. City staff administers the District and the costs of their services are reimbursed by District funds. The Scottsdale City Council also serves as the District Board of Directors.

FINANCIAL HIGHLIGHTS

- District tax collections and other available funds were sufficient to pay debt service during the fiscal year 2014/15.
- In fiscal year 2014/15, the tax rate was \$5.57 per \$100 assessed valuation.
- As of June 30, 2015, the District's governmental funds reported a combined ending fund balance of \$293,485. Of this amount, \$15,030 is in the General Fund and \$278,455 is in the Debt Service Fund.
- A prior period adjustment was recorded in the Debt Service Fund; decreasing the District's total fund balance by \$321,070. The Waterfront Stand-by Commitment previously held by the District has been moved to the City of Scottsdale's Debt Service Stabilization Fund in order to restructure the reserve balances. Additionally, governmental fund balances decreased by \$65,104 during the fiscal year for a total decrease of \$386,174.
- The District's long-term debt decreased by \$115,000 in the fiscal year due to scheduled principal payments.
- The District is in compliance with all bond reserve requirements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the District's basic financial statements. Because of its limited purpose, the District's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and (2) Notes to the Basic Financial Statements.

Because the District has 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 District's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. Changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses related to accrued interest.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Debt Service funds are restricted and assigned as to use, and the General funds are unassigned.

The District maintains two governmental funds, general and debt service. Information is presented in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund and the Debt Service Fund.

The District adopts an annual budget for its General Fund and Debt Service Fund. Supplementary budgetary schedules have been provided to demonstrate compliance with this budget.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to acquire a full understanding of the data provided in the basic financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as useful indicators of a government's financial position. The liabilities of the District exceeded its assets at the close of the most recent fiscal year by approximately \$3.0 million (net position). The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and a separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes to pay the debt service over the life of the bonds. The City Council serves as the Board of Directors. However, the City has no liability for the District's debt. For financial reporting purposes, transactions of the District are combined together and included as if they were part of the City's operations and the assets financed through the District are combined with the infrastructure of the City. Because the capital assets are recorded in the City's basic financial statements, the Statement of Net Position for the District reflects a large liability without an offsetting asset.

Net Position

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
ASSETS		
Current and Other Assets	\$ 510,063	\$ 883,912
Total Assets	510,063	883,912
LIABILITIES		
Long-term Liabilities	3,330,870	3,445,923
Other Liabilities	216,578	204,253
Total Liabilities	3,547,448	3,650,176
NET POSITION		
Restricted	278,455	333,972
Unrestricted	(3,315,840)	(3,100,236)
Total Net Position	\$ (3,037,385)	\$ (2,766,264)

The District's total net position increased by \$49,949 during the fiscal year, offset by a decrease for a prior period adjustment of \$321,070 for a net decrease of \$271,121.

Changes in Net Position

For the Fiscal Years Ended June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
REVENUES		
Taxes	\$ 265,598	\$ 274,788
Interest	42	41
Total Revenues	265,640	274,829
EXPENSES		
General Government	9,589	9,763
Interest and Fiscal Charges	206,102	211,452
Total Expenses	215,691	221,215
Change in Net Position	49,949	53,614
Net Position, Beginning of Year	(2,766,264)	(2,645,663)
Net Effect of Accounting Change	-	(174,215)
Cumulative Effect of Prior Period Adjustment	(321,070)	-
Net Position, Beginning of Year, as Restated	(3,087,334)	(2,819,878)
Net Position, End of Year	\$ (3,037,385)	\$ (2,766,264)

Revenues decreased in fiscal year 2014/15 due to decrease in levied taxes received. Expenses decreased due to the reduction in long-term debt interest. The District's net position decreased due to the prior period adjustment.

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with legal requirements related to special purpose districts and general obligation bonds.

Financial Analysis of the District's Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the District's ability to pay the debt service on the general obligation bonds it issues to fund construction or acquisition of public infrastructure.

As of the end of fiscal year 2014/15 the District's governmental funds reported a combined ending fund balance of \$293,485, a decrease of \$386,174. Of the total combined ending fund balance, \$15,030 is in the General Fund and \$278,455 is in the Debt Service Fund.

Revenues totaled \$265,640 for the fiscal year ended June 30, 2015, of which \$265,598 was property tax and \$42 was interest.

Capital Assets and Debt Administration

The District was formed to finance and acquire or construct amenities that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure.

At formation, the District was authorized to issue up to \$9 million in District general obligation bonds. As of June 30, 2015, \$3,805,000 in District bonds have been issued under this authorization. The City has no liability for the District's debt.

At the time of issue, District general obligation bonds have a 25-year term. In the event that the District Board decides at a future time to dissolve the District, State statute provides that all taxable property in the District will remain subject to the lien for the payment of the bonds until all bonds have been defeased.

The District is not engaged in any significant activities other than providing for the levy of secondary property taxes to pay debt service and administrative fees. The District does not own or operate any facilities.

Outstanding Debt

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
General Obligation Bonds	\$ 3,330,000	\$ 3,445,000

Next Year's Budget and Rates

The fiscal year 2015/16 District budget includes a \$7.92 tax rate per \$100 of assessed value. This is a \$2.35 increase from the rate used in the fiscal year 2014/15 budget and reflects the decreasing District assessed valuation as reported by the Maricopa County Assessor's office and increasing debt service requirements for the next year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet

June 30, 2015

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
ASSETS					
Current Assets					
Cash and Investments	\$ 15,030	\$ -	\$ 15,030	\$ -	\$ 15,030
Restricted Cash and Investments	-	495,033	495,033	-	495,033
Total Assets	<u>\$ 15,030</u>	<u>\$ 495,033</u>	<u>\$ 510,063</u>	<u>-</u>	<u>510,063</u>
LIABILITIES AND FUND BALANCES/NET POSITION					
Liabilities					
Matured Interest Payable	-	101,578	101,578	-	101,578
Matured Bonds Payable	-	115,000	115,000	-	115,000
Long-term Liabilities					
Due Within One Year	-	-	-	120,000	120,000
Due After One Year	-	-	-	3,210,870	3,210,870
Total Liabilities	<u>-</u>	<u>216,578</u>	<u>216,578</u>	<u>3,330,870</u>	<u>3,547,448</u>
Fund Balances/Net Position					
Fund Balances					
Restricted	-	278,455	278,455	(278,455)	-
Unassigned	15,030	-	15,030	(15,030)	-
Total Fund Balances	<u>15,030</u>	<u>278,455</u>	<u>293,485</u>	<u>(293,485)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 15,030</u>	<u>\$ 495,033</u>	<u>\$ 510,063</u>		
Net Position					
Restricted for Debt Service				278,455	278,455
Unrestricted				(3,315,840)	(3,315,840)
Total Net Position				<u>\$ (3,037,385)</u>	<u>\$ (3,037,385)</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, 2015

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
REVENUES					
Taxes	\$ -	\$ 265,598	\$ 265,598	\$ -	\$ 265,598
Interest	2	40	42	-	42
Total Revenues	2	265,638	265,640	-	265,640
EXPENDITURES/EXPENSES					
Current					
General Government					
City Treasurer - Finance and Accounting	9,589	-	9,589	-	9,589
Debt Service					
Principal Retirement	-	115,000	115,000	(115,000)	-
Interest and Fiscal Charges	-	206,155	206,155	(53)	206,102
Total Expenditures/Expenses	9,589	321,155	330,744	(115,053)	215,691
Excess (Deficiency) of Revenue Over Expenditures	(9,587)	(55,517)	(65,104)	65,104	-
Change in Net Position	-	-	-	49,949	49,949
Fund Balances/Net Position, Beginning of Year	24,617	655,042	679,659	(3,445,923)	(2,766,264)
Cumulative Effect of Prior Period Adjustment		(321,070)	(321,070)	-	(321,070)
Fund Balances/Net Position, Beginning of Year as Restated	24,617	333,972	358,589	(3,445,923)	(3,087,334)
Fund Balances/Net Position, End of Year	\$ 15,030	\$ 278,455	\$ 293,485	\$ (3,330,870)	\$ (3,037,385)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Waterfront Commercial Community Facilities District (District), a component unit of the City of Scottsdale, Arizona (City), conform to accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the District follows.

A. Reporting Entity

The Waterfront Commercial Community Facilities District was formed by petition to the City of Scottsdale City Council in September 2005. The District's purpose is to acquire and improve public infrastructure in specified land areas. As a special purpose district and separate political subdivision under the Arizona Constitution, the District can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed for District taxes and thus for the costs of operating the District. The City Council serves as the Board of Directors; however, the City has no liability for the District's debt. For financial reporting purposes, transactions of the Waterfront Commercial Community Facilities District are included as if the District were part of the City's operations.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the fiscal year.

Financial statements are provided for major governmental funds, with an adjustments column to arrive at government-wide financial statement amounts.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both earned and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Property taxes associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the current fiscal period when the revenue is earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* accounts for resources accumulated and used for the payment of other operating expenses for the District, which may include insurance, legal fees and administration costs.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of governmental long-term debt principal, interest and related costs.

The spending order for the District is to use restricted funds and then unassigned funds as they are needed. Currently the District does not have any unassigned, nonspendable or committed funds.

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

1. Cash and Investments

Arizona Revised Statutes authorize the District to invest public monies in the State or County Treasurers' investment pools, interest bearing savings accounts, certificates of deposit and repurchase agreements in eligible depositories; bonds or other obligations of the United States government that are guaranteed as to principal and interest by the United States government; or bonds of the State of Arizona counties, cities, towns, school districts or special districts as specified by statute. As required by statute, collateral is required for demand deposits, certificates of deposit and repurchase agreements at 100 percent of all deposits not covered by federal depository insurance.

A portion of cash and investments in the Debt Service Fund at June 30, 2015, plus accrued interest, are restricted as to usage.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Restricted Assets

Certain cash and investments held by the District's trustee are classified as restricted on the statement of net position because their use is limited by applicable bond covenants.

3. Capital Assets

Capital assets acquired or construction of infrastructure assets by the District are dedicated to the City of Scottsdale, Arizona to maintain and operate. As a result, the District owns no capital assets.

4. Long-term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify as an outflow of resources.

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 District has no items that qualify as an inflow of resources.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Directors. The Board of Directors passed a resolution authorizing the City of Scottsdale City Treasurer to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

In the government-wide financial statements, net position is reported in two categories: restricted and unrestricted. Restricted accounts for the portion of net position restricted by bond covenant. Unrestricted is the remaining net position not included in the previous category.

NOTE 2 – PRIOR PERIOD ADJUSTMENT

The District established a “*Stand-By Commitment Account*” equal to the maximum annual debt service on the bonds. This debt stabilization reserve balance of \$321,070.00 in the District’s cash balance has been moved to the City of Scottsdale’s Debt Service Stabilization Fund.

Effective June 30, 2015 the balance of \$321,070.00 is no longer reported in the District’s Statement of Net Position and Governmental fund Balance Sheet and now appears in the City’s restricted cash balances.

The fund balances and net position were restated as follows:

	Statement of Activities	Governmental Funds Debt Service Fund
Fund Balance/Net position at June 30, 2014, as previously reported	\$ (2,766,264)	\$ 655,042
Prior Period Adjustment	(321,070)	(321,070)
Fund Balance/Net position at July 1, 2014, as restated	<u>\$ (3,087,334)</u>	<u>\$ 333,972</u>

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Amounts reported in the statement of net position are different because:

Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore, are not reported in the funds.	\$ (3,330,870)
Net adjustment to reduce total fund balance to arrive at net position.	(3,330,870)
Total Fund Balance	293,485
Total Net Position	\$ (3,037,385)

B. Amounts reported in the statement of activities are different because:

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, it has no effect on net position.	\$ 115,000
Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	53
Net adjustments to reconcile net changes in fund balances to change in net position.	115,053
Net change in Fund Balance	(65,104)
Change in Net Position	\$ 49,949

NOTE 4 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The District adopts an annual operating budget for expenditures for the General Fund and Debt Service Fund on essentially the same modified accrual basis of accounting used to record actual expenditures. Budgetary control over expenditures is exercised at the fund level. The Debt Service fund exceeded its budget for interest and fiscal charges. The additional expenditures incurred were funded by available fund balance.

B. Deficit Net Position

As described in Note 1, the District was formed to finance and acquire or construct infrastructure assets that are subsequently dedicated to the City for operation. The District does not own or operate infrastructure. Therefore, the Statement of Net Position reflects a large liability without an offsetting asset.

NOTE 5 – DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits – The District had no deposits at June 30, 2015.

Investments – At June 30, 2015, the District’s investments were as follows:

	<u>Reported Amount</u>	<u>Fair Value</u>
Cash and Investments Held by Trustee	\$ 510,063	\$ 510,063
Total Cash and Investments	<u>\$ 510,063</u>	<u>\$ 510,063</u>

All investments were insured or registered in the District’s name, or were held by the District or its agent in the District’s name. All investments held by the trustee consisted of short term United States Treasury money market funds.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the District will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Since the District does not have a policy for investments as of June 30, 2015, the District’s investments pooled with the City’s cash, as well as cash and investments held by the trustee, fall under the City’s policy. The City’s investment policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City are conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy limits the City’s investment portfolio to maturities of less than five years unless matched to a specific cash flow. Since the District does not have an investment policy as of June 30, 2015, the District’s investments pooled with the City’s cash, as well as cash and investments held by the trustee, fall under the City’s policy.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations (NRSROs). It is the City’s policy to invest in securities with the highest rating issued by NRSROs. Since the District does not have an investment policy as of June 30, 2015, the District’s investments pooled with the City’s cash, as well as cash and investments held by the trustee, fall under the City’s policy.

NOTE 5 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one issuer.

2. Restricted Assets

Restricted assets at June 30, 2015, as follows:

3. Property Taxes Receivable

Restricted for:

Debt Service Fund	\$ 495,033
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The Maricopa County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the property taxes due to the District in August. Two equal installments, payable in October and March, become delinquent after the first business days in November and May. During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding the assessment levy.

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund financial statements. In the fund financial statements, property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 31 days subsequent to fiscal year-end. Property taxes not collected within 31 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred inflows.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2015 were as follows:

Year	Debt Service Fund
2014/15	\$ -

At the end of the current fiscal year, there was no unavailable revenue reported in the governmental funds.

NOTE 5 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Liabilities

Obligations Under Long-term Debt

General Obligation Bonds

The District issues general obligation bonds to provide funds to acquire and improve public infrastructure in specified areas. General obligation bonds have been issued for governmental activities only. The bonds are generally callable with interest payable semiannually. Bonds payable at June 30, 2015, consisted of the outstanding general obligation bonds presented below:

Purpose	Interest Rates (%)	Amount
2007 Waterfront District General Obligation Bonds (issued December 11, 2007) due in annual installments of \$25,000 to \$300,000 beginning July 15, 2009 through July 15, 2032. Original issue amount \$3,805,000.	4.85 - 6.05	\$ 3,330,000

Community facilities districts (CFDs) are created only by petition to the City Council by property owners within the District areas. As board of directors for the District, the City Council has adopted a formal policy that CFD debt will be permitted only when the ratio of the full cash value of the District property (prior to improvements being installed), when compared to proposed District debt, is a minimum of 3 to 1 prior to issuance of debt and 5 to 1 or higher after construction of improvements. These ratios are verified by an appraisal paid for by the District and administered by the City. In addition, cumulative debt of all CFDs cannot exceed 5 percent of the City's net secondary assessed valuation.

Changes in Long-Term Liabilities

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 3,445,000	\$ -	\$ (115,000)	\$ 3,330,000	\$ 120,000
Issuance Premium	923	-	(53)	870	-
Total	\$ 3,445,923	\$ -	\$ (115,053)	\$ 3,330,870	\$ 120,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2016	\$ 120,000	\$ 197,002
2017	125,000	190,583
2018	135,000	183,895
2019	140,000	176,132
2020	150,000	168,083
2021-2025	885,000	699,925
2026-2030	1,190,000	400,785
2031-2032	585,000	53,543
Total	\$ 3,330,000	\$ 2,069,948

NOTE 6 – OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss. The District carries commercial insurance for \$1,000,000 per occurrence and \$2,000,000 aggregate covering general liability exposures. The District also carries public entity management liability insurance for \$1,000,000 each wrongful act and \$1,000,000 aggregate to cover damages resulting from the conduct of duties by or for a public entity or its boards. There have been no known losses in any of the past three fiscal years.

B. Subsequent Events

In July 2015, the District received a loan from the City of Scottsdale in the amount of \$43,000 to meet debt service requirements. The loan is scheduled to be paid back to the City by November 30, 2016.

C. Concentration Information

The District has one major taxpayer that accounts for approximately fifty percent of net secondary assessed valuation. Delinquent payments by this taxpayer could result in a significant loss of revenue.

Required Supplementary Information

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

For the Fiscal Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance
REVENUES			
Interest	\$ 2	\$ 2	\$ -
Total Revenues	2	2	-
EXPENDITURES			
Current			
General Government			
City Treasurer - Finance and Accounting	9,800	9,589	211
Total Expenditures	9,800	9,589	211
Excess (Deficiency) of Revenue Over Expenditures	(9,798)	(9,587)	211
Fund Balance, Beginning of Year	24,379	24,617	238
Fund Balance, End of Year	\$ 14,581	\$ 15,030	\$ 449

Supplementary Information

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

For the Fiscal Year Ended June 30, 2015

	Original and Final Budget	Actual	Variance
REVENUES			
Taxes	\$ 322,845	\$ 265,598	\$ (57,247)
Interest	50	40	(10)
Total Revenues	<u>322,895</u>	<u>265,638</u>	<u>(57,257)</u>
EXPENDITURES			
Debt Service			
Principal Retirement	115,000	115,000	-
Interest and Fiscal Charges	<u>206,155</u>	<u>206,155</u>	<u>-</u>
Total Expenditures	<u>321,155</u>	<u>321,155</u>	<u>-</u>
Excess (Deficiency) of Revenue Over Expenditures	1,740	(55,517)	(57,257)
Fund Balance, Beginning of Year	<u>25,012</u>	<u>655,042</u>	<u>630,030</u>
Cumulative Effect of Prior Period Adjustment	-	(321,070)	(321,070)
Fund Balances/Net Position, Beginning of Year as Restated	<u>25,012</u>	<u>333,972</u>	<u>308,960</u>
Fund Balance, End of Year	<u>\$ 26,752</u>	<u>\$ 278,455</u>	<u>\$ 251,703</u>



HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

3033 N. Central Ave., Suite 300
Phoenix, Arizona 85012
Tel (602) 277-9449
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October 30, 2015

Board of Directors
Waterfront Commercial Community Facilities District

We have audited the financial statements of the governmental activities and each major fund of Waterfront Commercial Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Waterfront Commercial Community Facilities District are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Waterfront Commercial Community Facilities District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. Management informed us that, and to our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the District’s auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the “Independence Rule” of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud

It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper “tone at the top”, increases the likelihood that fraud will be prevented, deterred and detected.

Restriction on Use

This information is intended solely for the use of the members of the Board of Directors and management of Waterfront Commercial Community Facilities District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants



**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Waterfront Commercial Community Facilities District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Waterfront Commercial Community Facilities District, a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Waterfront Commercial Community Facilities District's basic financial statements and have issued our report thereon dated October 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Waterfront Commercial Community Facilities District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Waterfront Commercial Community Facilities District's internal control. Accordingly, we do not express an opinion on the effectiveness of Waterfront Commercial Community Facilities District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waterfront Commercial Community Facilities District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 26, 2015

FY 2014/15 Annual Financial Audit

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

Contracted CPA Firm: Heinfeld, Meech & Co., PC

Background

- City Charter requires Council to designate CPAs to perform an independent audit of City's annual financial statements
- Council assigned financial audit contract coordination and monitoring to the City Auditor
- Audit Committee received FY 2014/15 audit reports at its November 16 meeting and recommends acceptance of the reports

Summary of Financial Audit Reports

- Annual financial audit includes:
 - City's Comprehensive Annual Financial Report (CAFR): Unmodified (clean) opinion
 - Component Units' Annual Financial Reports: Unmodified (clean) opinions
 - Community Facilities Districts (5)
 - Municipal Property Corporation (MPC)
 - Scottsdale Preserve Authority (SPA)

Communication with Governance

- For City's CAFR and each Component Unit
- Inform Council regarding matters such as:
 - Accounting practices, significant estimates
 - Any audit adjustments or disagreements with management (no issues)
 - Other similar matters (no issues)
- For CAFR, accounting practices highlights new Pension accounting and reporting standards

Federal & State Funding Reports

Federal funding/compliance reports

- Federally funding almost \$13M from:
 - Housing & Urban Develop. \$6.8M
 - Transportation \$3.9M
 - Justice \$1.9M
 - Others \$0.3M
- Single Audit, includes:
 - Report on Internal Control and Compliance based on Financial Statement audit (no issues)
 - Report on Compliance, Internal Control and Expenditures of Federal Awards (no issues)
 - Schedule of Expend. of Federal Awards (clean opinion)
 - Findings (none)/ Prior Audit Findings (corrected)

Federal & State Funding Reports

State funding/compliance report

- Highway User Revenue Fund (HURF) uses:
City complied with state requirements

- Reports that are completed later:
 - HUD-required financial schedule (federal)
 - Annual Expenditure Limitation Report (state)

Further information

Financial Reports:

Jeff Nichols, City Treasurer

Audit:

Sharron Walker, City Auditor

Requested Action

As recommended by the Council's Audit Committee:

- Accept the FY 2014/15 annual financial audit reports as submitted

Item 34

FY 2014/15 Annual Financial Audit

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

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