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**Scottsdale Preserve Authority**  
(A Component Unit of the City of Scottsdale, Arizona)



**Annual Financial Report**  
**Fiscal Year Ended June 30, 2019**

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# Scottsdale Preserve Authority

For the Fiscal Year ended June 30, 2019

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# **Scottsdale Preserve Authority**

**For the Fiscal Year ended June 30, 2019**

## **Board Members**

Fredda Bisman

Judith Frost

Kenneth Harder

James Jenkins

Dennis Robbins

William Schrader

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Scottsdale Preserve Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Scottsdale Preserve Authority (SPA), a component unit of the City of Scottsdale, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the SPA's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Scottsdale Preserve Authority, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Change in Accounting Principle***

As described in Note 1, the SPA implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, for the year ended June 30, 2019, which represents a change in accounting principle. Our opinion is not modified with respect to this matter

***Other Matters***

***Required Supplementary Information***

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, on our consideration of Scottsdale Preserve Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Scottsdale Preserve Authority’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Scottsdale Preserve Authority’s internal control over financial reporting and compliance.

*Heinfeld Meech & Co. PC*

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

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# Management's Discussion and Analysis

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For the Fiscal Year Ended June 30, 2019

As management of the Scottsdale Preserve Authority (SPA), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the SPA for the fiscal year ended June 30, 2019. The SPA is a component unit of the City of Scottsdale, Arizona (City).

## FINANCIAL HIGHLIGHTS

For the fiscal year ending 2018/19, the SPA's:

- Total assets and deferred outflows of resources were equal to total liabilities, resulting in an ending fund balance of \$0 (net position).
- Debt Service Fund reported an ending fund balance of \$0.
- Total long-term debt decreased by \$4,540,000 due to the payment of principal on outstanding debt.
- Significant bond indentures were in compliance.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the SPA's basic financial statements. Because of its limited purpose, the SPA's basic financial statements are comprised of two components: (1) Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and (2) Notes to the Basic Financial Statements.

Because the SPA only has one governmental program, the government-wide and fund financial statements are combined.

### Government-wide Financial Statements

The *Statement of Net Position* is designed to provide readers with a broad overview of the SPA's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the SPA's assets and liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether or not the financial position of the SPA is improving or deteriorating.

The *Statement of Activities* presents information showing how the SPA's net position changed during the most recent fiscal year. Changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses related to accrued interest.

# Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

## Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The SPA, like the City, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Debt Service funds are restricted as to use, and the General funds are unassigned.

The SPA maintains two governmental funds, general fund and debt service fund. Information is presented on the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances.

The SPA does not adopt an annual appropriated budget for its revenues and expenses. The debt service payments are budgeted as part of the City's annual budget.

## Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to acquire a full understanding of the data provided in the basic financial statements.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as useful indicators of a government's financial position. Total assets and deferred outflows of resources and total liabilities of the SPA were equal at the close of the most recent fiscal year with a balance of \$0 (net position).

### Net Position

June 30, 2019 and 2018

	Governmental Activities	
	2019	2018
<b>ASSETS</b>		
Noncurrent Assets	\$ 12,964,779	\$ 17,566,765
Total Assets	12,964,779	17,566,765
Deferred Outflows of Resources	295,291	380,299
Total Assets and Deferred Outflows of Resources	13,260,070	17,947,064
<b>LIABILITIES</b>		
Current Liabilities	4,828,438	4,732,188
Noncurrent Liabilities	8,431,632	13,214,876
Total Liabilities	13,260,070	17,947,064
<b>NET POSITION</b>		
Unrestricted	-	-
Total Net Position	\$ -	\$ -

The SPA's total net position for fiscal year 2018/19 remains the same as the prior fiscal year at \$0.

# Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

## Changes in Net Position

For the Fiscal Years Ended June 30, 2019 and 2018

	Governmental Activities	
	2019	2018
<b>REVENUES</b>		
Payments Received from City of Scottsdale	\$ 428,089	\$ 587,004
Total Revenues	428,089	587,004
<b>EXPENSES</b>		
General Government	4,440	5,855
Debt Service	423,649	581,149
Total Expenses	428,089	587,004
Change in Net Position	-	-
Net Position, Beginning of Year	-	-
Net Position, End of Year	\$ -	\$ -

Revenues and expenses decreased compared to the previous fiscal year due to the reduction in interest on long-term debt.

## Financial Analysis of the SPA's Funds

The focus of the SPA's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the SPA's ability to pay the debt service on the revenue bonds it issues to fund acquisition of preserve land or construction of land improvements.

As of the end of the fiscal year 2018/19, the SPA's governmental funds reported revenues equal to expenses and an ending fund balance of \$0. The Debt Service Fund and the General Fund each had a fund balance of \$0. The General Fund is used to pay administration expenses related to the SPA revenue bonds.

## Debt Administration

The SPA's total long-term debt decreased by \$4,540,000 during the current fiscal year due to the payment of principal on outstanding debt. The total Excise Revenue Debt at June 30, 2019, was \$7,410,000.

## Outstanding Debt

June 30, 2019 and 2018

	Governmental Activities	
	2019	2018
Excise Tax Revenue Bonds	\$ 7,410,000	\$ 11,950,000

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# Management's Discussion and Analysis

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For the Fiscal Year Ended June 30, 2019

## **Economic Factors**

The City's long-term financial plan remains one of conservative economic growth. The City continues to focus on efficient spending and revenues are forecasted to increase by modest amounts again in fiscal year 2019/20.

## **Requests for Information**

This financial report is designed to provide a general overview of the SPA's finances for all of those with an interest. If you have questions about this report or need additional financial information, contact the Scottsdale City Treasurer's Office at 7447 E. Indian School Road, Suite 210, Scottsdale, AZ 85251.

# Basic Financial Statements

Statement of Net Position and Governmental Funds Balance Sheet  
June 30, 2019

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>					
Assets					
Noncurrent Assets					
Cash, Restricted	\$ -	\$ 4,828,438	\$ 4,828,438	\$ -	\$ 4,828,438
Long-term Receivable from City of Scottsdale	-	8,136,341	8,136,341	-	8,136,341
Total Assets	<u>\$ -</u>	<u>\$ 12,964,779</u>	<u>\$ 12,964,779</u>	<u>-</u>	<u>12,964,779</u>
Deferred Outflows of Resources					
Deferred Amounts on Refunding				295,291	295,291
Total Assets and Deferred Outflows of Resources				<u>295,291</u>	<u>13,260,070</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES/NET POSITION</b>					
Liabilities					
Current Liabilities					
Matured Interest Payable	\$ -	\$ 288,438	\$ 288,438	\$ -	\$ 288,438
Matured Bonds Payable	-	4,540,000	4,540,000	-	4,540,000
Total Current Liabilities	<u>-</u>	<u>4,828,438</u>	<u>4,828,438</u>	<u>-</u>	<u>4,828,438</u>
Noncurrent Liabilities					
Due Within One Year	-	-	-	4,780,000	4,780,000
Due After One Year	-	-	-	3,651,632	3,651,632
Total Noncurrent Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,431,632</u>	<u>8,431,632</u>
Total Liabilities	<u>-</u>	<u>4,828,438</u>	<u>4,828,438</u>	<u>8,431,632</u>	<u>13,260,070</u>
Deferred Inflows of Resources					
Unavailable Revenue	-	8,136,341	8,136,341	(8,136,341)	-
Total Liabilities and Deferred Inflows of Resources		<u>12,964,779</u>	<u>12,964,779</u>	<u>295,291</u>	<u>13,260,070</u>
Fund Balances/Net Position					
Fund Balances					
Restricted	-	-	-	-	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ -</u>	<u>\$ 12,964,779</u>	<u>\$ 12,964,779</u>		
Net Position					
Unrestricted				-	-
Total Net Position				<u>\$ -</u>	<u>\$ -</u>

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

**Statement of Activities and Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances**  
 For the Fiscal Year Ended June 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>REVENUES</b>					
Payments Received from City of Scottsdale	\$ 4,440	\$ 5,121,885	\$ 5,126,325	\$ (4,698,236)	\$ 428,089
Total Revenues	<u>4,440</u>	<u>5,121,885</u>	<u>5,126,325</u>	<u>(4,698,236)</u>	<u>428,089</u>
<b>EXPENDITURES/EXPENSES</b>					
General Government					
City Treasurer - Finance and Accounting	4,440	-	4,440	-	4,440
Debt Service					
Principal Retirement	-	4,540,000	4,540,000	(4,540,000)	-
Interest and Fiscal Charges	-	581,885	581,885	(158,236)	423,649
Total Expenditures/Expenses	<u>4,440</u>	<u>5,121,885</u>	<u>5,126,325</u>	<u>(4,698,236)</u>	<u>428,089</u>
Net Change in Fund Balances/Net Position	-	-	-	-	-
Fund Balances/Net Position, Beginning of Year	-	-	-	-	-
Fund Balances/Net Position, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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# Notes to the Basic Financial Statements

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For the Fiscal Year Ended June 30, 2019

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Scottsdale Preserve Authority (SPA), a 501c3 nonprofit corporation, a component unit of the City of Scottsdale, conform to the accounting principles generally accepted in the United States of America applicable to governmental units as promulgated by the Governmental Accounting Standards Board. A summary of the more significant accounting policies of the SPA follows.

During the year ended June 30, 2019, the SPA implemented the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement requires enhanced note disclosures and clarifies which liabilities governments should include when disclosing information related to debt.

### A. Reporting Entity

The Scottsdale Preserve Authority is a nonprofit corporation created by the City in 1996 to finance land acquisitions for the McDowell Sonoran Preserve (Preserve). The Preserve was created by the City to protect the McDowell Mountains and related Sonoran desert lands and is supported by six public votes. For financial reporting purposes, transactions of the SPA are included as if the SPA were part of the City's operations. The SPA issues its own bonds which are repaid through the two-tenths of one percent City sales tax approved by voters. A timeline of events for the SPA follows:

- May 23, 1995, voters approved proposition 400 which stated that funds collected by a sales tax increase (0.2 percent) can be used for 4,000 acres of land acquisition only, within Scottsdale's city boundaries.
- July 1, 1995, sales tax increase went into effect.
- September 10, 1996, voters approved proposition 404 for the use of revenue bonds to acquire land, using proceeds from the sales tax increase.
- November 10, 1998, voters approved proposition 411, expanding the boundary in which the Preserve tax could be used for land acquisition to include an additional 19,940 acres.
- May 18, 2004, voters approved question 1 for a sales tax increase (0.15 percent) to be used for Preserve land acquisition and constructing land improvements.
- July 1, 2004, the additional sales tax increase went into effect.

### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the SPA. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and miscellaneous revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The SPA had no business-type activities during the fiscal year.

Financial statements are provided for the major governmental funds, with an adjustments column to arrive at government-wide financial statement amounts.

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## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are earned and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the SPA considers revenues to be available if they are collected within 31 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of governmental long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

Installment payments from the City associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Interest is accrued in the current fiscal period when the revenue is earned. All other revenue items are considered to be measurable and available only when cash is received.

The SPA reports the following major governmental funds:

The *General Fund* accounts for resources accumulated and used for the payment of other operating expenses for the SPA, which may include insurance, legal fees and administration costs.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of governmental long-term debt including principal, interest and related costs.

The spending order for the SPA is to use restricted funds and then unassigned funds as they are needed. Currently the SPA does not have any unassigned, nonspendable, committed or assigned funds.

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

##### 1. Cash and Investments

As a 501c3 non-profit corporation, investments are not restricted by the Arizona Revised Statutes. The City of Scottsdale's investment policy authorizes the SPA to invest public monies in certificates of deposit, repurchase agreements, commercial paper (A-1, P-1), highly rated corporate bonds/notes, obligations of the U.S. Treasury, U.S. Government agencies, bankers' acceptances, mutual funds consisting of the foregoing, and the State of Arizona Local Government Investment Pool (LGIP).

Cash and investments held by trustee at June 30, 2019, plus accrued interest, is restricted as to usage.

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## Notes to the Basic Financial Statements

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For the Fiscal Year Ended June 30, 2019

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2. Restricted Assets

Cash and investments held by the SPA's trustee are classified as a restricted asset on the Statement of Net Position because its use is limited by applicable bond covenants.

#### 3. Capital Assets

Land acquired and construction of land improvements by the SPA is dedicated to the City of Scottsdale, Arizona to maintain and operate. As a result, the SPA owns no capital assets.

#### 4. Long-term Obligations

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

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

#### 5. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

The SPA has one item that qualifies for reporting in this category. It is the deferred amounts on refunding. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The SPA has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet.

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## Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 6. Net Position/Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Directors. The Board of Directors has not authorized anyone to assign fund balances. Unassigned fund balances are considered the remaining amounts. The SPA has not formally adopted a spending priority policy and therefore uses the spending priority indicated in GASB Statement 54. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the SPA's practice to use restricted resources first, then unrestricted resources. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, GASB Statement 54 indicates to use committed first, then assigned, and finally unassigned amounts.

In the government-wide financial statements, net position is reported in two categories: restricted and unrestricted. Restricted accounts for the portion of net position restricted by bond covenant. Unrestricted is the remaining net position not included in the previous category.

#### E. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America may require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

# Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

## NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

### A. Amounts Reported in the Statement of Net Position are Different Because:

Amounts receivable from the City for retirement of debts are reported as deferred inflows of resources as they are not considered available.	\$ 8,136,341
Long-term liabilities, including bonds payable, are not due and payable in the current period; therefore, are not reported in the funds.	(7,410,000)
Deferred Issuance Premiums are long-term liabilities and are not due and payable in the current period; therefore, are not reported in the funds.	(1,021,632)
Deferred amounts on refunding are long-term in nature and not reported in the funds.	<u>295,291</u>
Net adjustment to reduce total fund balance to arrive at net position	-
Total Fund Balance	<u>-</u>
<b>Total Net Position</b>	<b><u><u>\$ -</u></u></b>

### B. Amounts Reported in the Statement of Activities are Different Because:

The contractual agreement provides for repayment of debt by the City to the SPA. Thus, in the statement of activities, revenues are recorded at the inception of the agreement rather than as received. Revenues in the fund statements that provide current financial resources for payment of principal have been previously recognized as revenues in the statement of activities resulting in the following adjustments to the revenue

Principal and premium and deferred refunding cost payment from City of Scottsdale	\$ (4,698,236)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, neither transaction has any effect on net position	4,540,000
Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities	<u>158,236</u>
Net Adjustments to Change in net position	-
Net Change in Fund Balance	<u>-</u>
<b>Change in Net Position</b>	<b><u><u>\$ -</u></u></b>

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# Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

## NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A. Budgetary Information

The SPA does not adopt an annual appropriation budget. However, debt service payments are budgeted as part of the City's annual budget.

## NOTE 4 – DETAILED NOTES ON ALL FUNDS

### A. Assets

#### 1. Deposits

**Deposits** – At June 30, 2019, the carrying amount of the SPA's deposits and bank balance were \$4,828,438.

#### *Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the SPA's deposits may not be returned to it. As of June 30, 2019, \$4,828,438 of the SPA's deposits was uninsured and collateralized by securities held by the pledging bank's trust department not in the SPA's name, and therefore exposed to custodial credit risk.

#### 2. Restricted Assets

Restricted assets at June 30, 2019, as follows:

	<u>Debt Service Fund</u>
Restricted Cash	<u>\$ 4,828,438</u>

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## Notes to the Basic Financial Statements

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For the Fiscal Year Ended June 30, 2019

### NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

#### B. Liabilities

##### Obiligations Under Long-term Debt

###### *Revenue Bonds*

The SPA issues excise tax revenue bonds to provide funds to acquire land for the McDowell Sonoran Preserve. Revenue bonds have been issued for governmental activities only. The bonds are generally callable with interest payable semiannually. Bonds payable at June 30, 2019, consisted of the outstanding revenue bonds presented below.

<u>Purpose</u>	<u>Bonds Outstanding</u>
2010 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued October 20, 2010, due in annual installments of \$3,110,000 to \$6,090,000 through July 1, 2024; interest at 3 percent to 5.25 percent. On May 17, 2017, \$19,535,000 due 2021 through 2024 was refunded. Original issue amount \$32,855,000.	\$ 3,565,000
2011 Scottsdale Preserve Authority Excise Tax Revenue Refunding Bonds issued on April 6, 2011, due in annual installments of \$920,000 to \$1,350,000 through July 1, 2022; interest at 2 percent to 5 percent. Original issue amount \$12,015,000.	<u>3,845,000</u>
Total Scottsdale Preserve Authority Bonds	<u><u>\$ 7,410,000</u></u>

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## Notes to the Basic Financial Statements

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For the Fiscal Year Ended June 30, 2019

### NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

The City is obligated under agreements to pay the SPA amounts sufficient to retire the SPA's bonds and related interest in exchange for the properties acquired in connection with the issuance of the bonds. The City has collateralized the SPA bonds by a pledge of the Preserve Excise Tax, which is a two-tenths (.2) of one percent (1%) transaction privilege and use tax, and a one and one half-tenths (.15) of one percent (1%) transaction privilege and use tax of the City approved by the qualified electors of the City on May 23, 1995 and May 18, 2004, respectively. The revenues generated by the Preserve Excise Tax have consistently been greater than 150 percent of the annual debt service payments on the SPA bonds as required in the agreements.

The agreements mentioned above are, in substance, long-term sales contracts for an amount equal to the SPA's bonded debt and interest thereon. Accordingly, the accompanying balance sheet reflects a receivable from the City for the present value of the amounts due, which corresponds to the principal portion of the bonded debt payable.

The SPA bond issuances contain the following provisions that would constitute an event of default.

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

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

# Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

## NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONTINUED)

### *Changes in Long-term Liabilities*

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Excise Tax Revenue Bonds	\$ 11,950,000	\$ -	\$ (4,540,000)	\$ 7,410,000	\$ 4,780,000
Issuance Premium	1,264,876	-	(243,244)	1,021,632	-
Total	<u>\$ 13,214,876</u>	<u>\$ -</u>	<u>\$ (4,783,244)</u>	<u>\$ 8,431,632</u>	<u>\$ 4,780,000</u>

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	4,780,000	349,875
2021	1,280,000	131,500
2022	1,350,000	67,500
Total	<u>\$ 7,410,000</u>	<u>\$ 548,875</u>

## NOTE 5 – OTHER INFORMATION

### A. Risk Management

The SPA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The SPA does not have separate insurance coverage but is included under the City of Scottsdale, Arizona's risk management.