CITY OF SURPRISE
City Audit Committee Meeting
16000 N. Civic Center Plaza
Surprise, AZ 85374
Wednesday, January 29, 2020 @ 3:00 PM
COUNCIL CHAMBERS OVERFLOW ROOM

A. Call To Order

B. Roll Call

C. Pledge of Allegiance

D. Current Events and Reports

E. Staff Reports

F. City Audit Committee Agenda

CALL TO THE PUBLIC:

INSTRUCTIONS: In order to address the Board\Commission, you will need to fill out a Call to the Public Form available at the front counter, and then turn it in to the Secretary before the meeting begins.

Note: A.R.S. 38-431.01(H) - During this time members of the public may address the Board\Commission only on issues within the jurisdiction of the Board\Commission which are not an item on the agenda. At the conclusion of the open call, the Board\Commission may respond to criticism, may ask staff to review the matter or may ask that the matter be put on a future agenda. No discussion or action shall take place on any item raised.

CONSENT AGENDA:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

1.	Citywide	Consideration and action pertaining to approval of the September 25, 2019 meeting minutes.	City Manager Office
2.	Citywide	Presentation and discussion of the fiscal year 2019 annual audit and Comprehensive Annual Financial Report and associated reports.	Finance
3.	Citywide	Discussion and action pertaining to the MySurprise Report.	City Manager Office
4.	Citywide	Discussion and action pertaining to the FY2019-2020 2nd Quarter Summary of Audit Recommendations.	City Manager Office
5.	Citywide	Signing of updated Audit Committee Bylaws approved by Audit Committee on September 25, 2019.	City Manager Office

G. Other Business and Future Agenda Items

H. Executive Session

For information purposes: Upon a public majority vote of a quorum ("Commission"), the Commission may hold an executive session, which will not be open to the public, but for only the following purposes: discussion or consideration of records exempt by law from public inspection (A.R.S. §38-431.03(A)(2));

or discussion or consultation for legal advice with the attorney or attorneys of the public body (A.R.S. §38-431.03(A)(3)).

Confidentiality Requirements: Pursuant to A.R.S. §38-431.03(C)(D), any person receiving executive session information pursuant to A.R.S. §38-431.02 shall not disclose that information except to the Attorney General or County Attorney or by agreement of the Commission, or as otherwise ordered by a court of competent jurisdiction.

The Commission may vote to hold an executive session for the purpose of obtaining legal advice from the Commission's attorney on any matter listed on the agenda pursuant to A.R.S. § 38-431.03(A)(3).

I. Adjournment

SHERRY ANN AGUILAR, CITY CLERK, MMC

POSTED:Posted on Wednesday, January 22, 2020 @ 4:15 p.m.

SPECIAL NOTE: PERSONS WITH SPECIAL ACCESSIBILITY NEEDS, INCLUDING LARGE PRINT MATERIALS OR INTERPRETER, SHOULD CONTACT THE CITY CLERK'S OFFICE @ 623.222.1200 OR TTY 623.222.1002, BY NO LATER THAN 24 HOURS IN ADVANCE OF THE REGULAR SCHEDULED MEETING TIME.

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: January 29, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No | Regular: Yes | Public Hearing: No | Report/Discussion: No

Agenda Wording:
Consideration and action pertaining to approval of the September 25, 2019 meeting minutes.

Motion:
I move to approve the minutes of the September 25, 2019 City Audit Committee meeting.

Background:
N/A

Objective Analysis:
N/A

Policy Compliant:
N/A

Financial Impact:
N/A

Budget Impact:
N/A
FTE Impact:
N/A

ATTACHMENTS:
1. 20190925 Audit Committee meeting minutes - Draft

SURPRISE
ARIZONA

Audit Committee
16000 North Civic Center Plaza
Council Overflow Room
Surprise, AZ 85374

September 25, 2019

MEETING MINUTES – Draft (updated 10/29/19)

CALL TO ORDER

The meeting was called to order at 3:30 pm by Chair Holdaway, followed by the Pledge of Allegiance.

ROLL CALL

Chair Melissa Holdaway, Vice-Chair Connie Bowers, Councilmember Ken Remley, John Holland, Andrea Davis, Finance Director, Tammie Hollowell, IT Director and Councilmember Chris Judd (arrived 3:45 p.m.)

STAFF PRESENT:

Carol Holley, Internal Auditor-Sr., Alison Matthees, Internal Auditor, Robert Wingo, City Attorney, Mark Schott, Assistant City Manager and Gloria Bianco, Committee Secretary,

1. **Action item: Approval of June 19, 2019, Audit Committee meeting minutes** – Vice-Chair Connie Bowers motioned to approve the minutes. Second, by John Holland. Four yes votes, motion carried.

2. **Presentation to the Audit Committee by the City Attorney's Office pertaining to the Arizona Open Meeting Law. –** Robert Wingo, City Attorney, provided a brief overview of the Open Meeting Law. He reminded the committee that they are a public body and as such all laws in the state of Arizona will apply to them. Additional items touched on:

No meetings either sequential, via a technological device or at a meeting place of a majority of the committee should not occur even over time. If you respond to an email, do not respond via reply all. One exception to this if any of you feel that an item should be placed on a future agenda, there can be a request however, no additional discussion can occur.

Executive Session, what is said in Executive Session, is confidential by law. City Attorney will generally be there if this committee should have one.

Conflict of interest, if a matter comes before the board that would impact you financially or property interest, you must recuse yourself from discussion and voting. Arizona law requires

you to do this in writing. The City of Surprise has a conflict of interest form that should be filled out and submitted to the Secretary of this board. If you ever have a question about a matter, feel free to contact the City Attorneys office to assist in identifying whether you do have a conflict of interest.
Gifts, you are prohibited from accepting any gifts.
The City has adopted Robert Rules of order. Conduct your meetings in an efficient and civil matter. Robert's rules can be summed up in one rule “Do onto others as you would have them do unto you.”

3. Presentation and discussion of changes to the Surprise Municipal Code Chapter 2, Article VIII, Section 2-204 pertaining to Audit Committee Membership. – Carol Holley advised the changes made to the Municipal Code and approved by Mayor and Council at their September 5, 2019 Council meeting, as it pertains to the Audit Committee.

a. Appointment to the Audit Committee is made by the Mayor.
   Two Department employee committee staff member are now non-voting members
b. Deleted a statement in the ordinance related to the administrative purpose statement.
c. Redefined a quorum as 3 voting members, one of whom shall be a City Council member.

4. Consideration and action approving September 25, 2019, changes to the Audit Committee Bylaws. –
CM Ken Remley, Motioned to approve the Audit Committee bylaws as written with these following amendments.

a. Add language to annually select and vote for a Chair and Vice-Chair.
b. Add language to include The Chair can delegate authority to staff to present Audit Committee reports at a Council Meeting after every quarterly meeting.

CM Remley mentioned that the external audit, when presented to Council, should be presented by the External Auditor and Finance Director at either a Work Session or Council meeting.

Motion Second, by Vice-Chair Connie Bowers. Five yes votes, motion carried.

5. Discussion and action pertaining to the Bond Summary Report – Allison Matthees provided a summary on how bond funds were spent. This audit is part of our continuous review procedures. The focus was on pavement preservation. It was determined by the Internal Auditors that the funds for payment preservation were spent in alignment with voter-approved purposes.
Comment by CM Remley if any money was leftover from bond projects that leftover money would be used to pay down the bond and not used for another project.

John Holland motioned to approve and distribute the Bond Summary report. Second, by Councilmember Chris Judd. Five yes votes, motion carried.

6. Discussion and action pertaining to approval of the Benefits and Enrollment Audit Report – Mrs. Matthees advised that this was a full audit report on HR's internal controls around benefits and enrollment, focusing on effectiveness and efficiency of benefits processes, safeguarding of financial assets, adequacy of information technology, and compliance with regulations. The observations were split into High Medium or Low risk. High-risk observations focused on establishing or enhancing payroll changes and some pieces on regulatory compliance, Medium-risk areas focused on things that we are doing, but we need to formalize and document detailed policy and procedures, and segregation of duties. The lowest risk area focused on things to think about, to increase efficiencies.

Councilmember Chris Judd motioned to approve and distribute the Benefits and Enrollment Internal Audit Report. Second, by Vice-Chair Connie Bowers. Five yes votes, motion carried.

7. Discussion and action pertaining to FY2019-20 1st Quarter summary of Audit recommendations – Ms. Holley updated the Commission on open audit recommendations. We have 7 high risks, 8 moderate risks, and 7 low-risk items that the IA team is monitoring. 2 common trends identified in the audit recommendations are:

a. Reconcile and review transactions and account balances to ensure the accuracy and completeness of data.
b. Document policies and procedure to provide staff guidance.

CM Remley was concerned that the Clerks public records request recommendations have not been adopted. Mrs. Davis advised that Finance has had an opportunity over the summer to review the fee schedule; the schedule will be reorganized for a better understanding of them.

CM Remley also had a concern about Parks and Recreation's financial system. Finance has been working with Parks & Recreation and the vendor to have changes done to the software. We are now showing a balance and match with the Cities accounts receivable GL. We are now working on the credit piece.

John Holland motioned to approve and distribute the 1st Quarter summary of audit recommendations. Second, by Vice-Chair Connie Bowers. Five yes votes, motion carried.

Open Discussion:

No further discussion

Date and Time of Next Meeting:

It was decided to have our next meeting on Wednesday, January 29, 2020, at 3:00 pm. Gloria will send meeting notices to everyone.

Discussion topic: The external audit, presented by Heinfeld, Meech & Co., P.C.

Adjournment:

Vice-Chair Connie Bowers motioned to adjourn the meeting. Second, by Councilmember Remley. Five yes votes, motion carried.

The meeting adjourned at 4:25 p.m.

Submitted by

____

Carol Holley, Internal Auditor – Sr.

The foregoing instrument is a full, true, and correct copy of the original document on file in the office of the City Clerk, City of Surprise, Arizona.

ATTEST BY: ____________________________________

Gloria Bianco, Committee Secretary

DATE: ____________________________________

Mission statement:

To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability

DRAFT

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: January 29, 2020
Submitting Department: Finance
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No   Regular: No   Public Hearing: No   Report/Discussion: No

Agenda Wording:

Presentation and discussion of the fiscal year 2019 annual audit and Comprehensive Annual Financial Report and associated reports.

Motion:

N/A - Informational only

Background:

The city is subject to an annual audit performed by external auditors. Each year the finance department, in conjunction with the city's external auditors, produces the city of Surprise CAFR, Single Audit, Management Letter, Communication with Governance, Annual Expenditure Limitation (AELR) Report, and Highway User Revenue Fund (HURF) Report.

Objective Analysis:

The mission of the Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion will lend itself to the oversight and advisory components of the mission statement.

Policy Compliant:

Sec. 2-304 of the City of Surprise Municipal Code authorize the adoption of the Audit Committee Bylaws. The Audit Committee Bylaws require the Audit Committee to meet at least once annually with the City's external auditor to discuss the City's Comprehensive Annual Financial Report and other applicable risk management and City financial concerns.

Financial Impact:

N/A - Informational only

Budget Impact:

N/A - Informational only

FTE Impact:

N/A - Informational only

ATTACHMENTS:

1. 2019 Annual Expenditure Limitation Report

2. City of Surprise Communication to Governance 19
3. City of Surprise HURF Auditor's Report 19
4. City of Surprise ML 19
5. FY19 CAFR
6. General+Rep+Single+Audit+19+Surprise+City
7. GRL+ELR+Examination+2018
8. City of Surprise SARP 19

SURPRISE
ARIZONA

City of Surprise, Arizona

Annual Expenditure Limitation Report

For the Fiscal Year Ended June 30, 2019

CITY OF SURPRISE, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2019

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INDEPENDENT ACCOUNTANT'S REPORT

The Auditor General of the State of Arizona

The Honorable Mayor and City Council
of the City of Surprise, Arizona

We have examined the accompanying Annual Expenditure Limitation Report of the City of Surprise, Arizona for the year ended June 30, 2019, and the related notes to the report. The City's management is responsible for presenting this report in accordance with the uniform expenditure reporting system as described in Note 1. Our responsibility is to express an opinion on this report based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether this report is presented in accordance with the uniform expenditure reporting system, in all material respects. An examination involves performing procedures to obtain evidence about the amounts and disclosures in the report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the report, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Annual Expenditure Limitation Report referred to above is presented, in all material respects, in accordance with the uniform expenditure reporting system as described in Note 1.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
January 9, 2020

1.	Economic Estimates Commission expenditure limitation	$ 1,048,246,472		
2.	Voter-approved alternative expenditure limitation	-		
3.	Enter applicable amount from line 1 or line 2		$	1,048,246,472
4.	Amount subject to the expenditure limitation (total amount from part II, line C)	172,229,923		
11.	Amount under (in excess of) the expenditure limitation		$	876,016,549

I hereby certify, to the best of my knowledge and belief, that the information contained in this report is accurate and in accordance with the requirements of the uniform expenditure reporting system.

Signature of chief financial officer: Andrea Davis

Name and title: Andrea Davis, Chief Financial Officer/Finance Director

Telephone number: (623) 222-1853 Date: 1/9/2020

See accompanying notes to report.

	Description	Governmental funds	Enterprise funds	Internal service funds	Total
A.	Amounts reported on the reconciliation, line D	$ 149,571,094	$ 41,379,446	$ 15,100,712	$ 206,051,252
B.	Less exclusions claimed:				
	Debt service requirements (See Note 2)	7,715,115	3,364,821	-	11,079,936
	Grants and aid from the federal government (See Note 3)	1,634,142	-	-	1,634,142
	Amounts received from the State of Arizona (See Note 5)	347,127	-	-	347,127
	Quasi-external interfund transactions (See Note 10)	-	-	12,527,104	12,527,104
	Highway user revenues in excess of those received in fiscal year 1979-80 (See Note 4)	8,200,615	-	-	8,200,615
	Prior years carryforward (See Note 10)	-	-	32,405	32,405
	Total exclusions claimed	17,896,999	3,364,821	12,559,509	33,821,329
C.	Amounts subject to the expenditure limitation	$ 131,674,095	$ 38,014,625	$ 2,541,203	$ 172,229,923

See accompanying notes to report.

Description	Governmental funds	Enterprise funds	Internal service funds	Total
A. Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund financial statements	$ 153,141,303	$ 45,074,555	$ 15,461,533	$213,677,391
B. Subtractions:				
Items not requiring use of current financial resources:				
Depreciation	-	12,816,526	-	12,816,526
Claims incurred but not reported (IBNR) (See Note 6)	-	-	953,090	953,090
Pension/OPEB expense (See Note 7)	-	829,623	30,464	860,087
Expenditures of separate legal entities established under Arizona Revised Statutes (See Note 8)	3,570,209	-	-	3,570,209
Total subtractions	3,570,209	13,646,149	983,554	18,199,912
C. Additions:				
Principal payments on long-term debt (See Note 2)	-	1,642,100	-	1,642,100
Capital asset acquisitions (See Note 9)	-	7,281,562	-	7,281,562
Amounts paid in the current year but reported as expenses in previous years:				
Claims previously recognized as IBNR (See Note 6)	-	-	586,950	586,950
Pension/OPEB contributions paid in the current year (See Note 7)	-	1,027,378	35,783	1,063,161
Total additions	-	9,951,040	622,733	10,573,773
D. Amounts reported on part II, line A	$ 149,571,094	$ 41,379,446	$ 15,100,712	$206,051,252

See accompanying notes to report.

City of Surprise
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The annual expenditure limitation report (AELR) is presented as prescribed by the uniform expenditure reporting system (UERS), as required by Arizona Revised Statutes §41-1279.07. The AELR excludes expenditures, expenses, or deductions of certain revenues specified in the Arizona Constitution, Article IX, §20, from the total expenditures, expenses, or deductions reported in the fund financial statements.

In accordance with the UERS, a note to the AELR is presented below for any exclusion claimed on part II and each subtraction or addition in the reconciliation that cannot be traced directly to an amount reported in the fund financial statements. All references to financial statement amounts in the following notes refer to the statement of revenues, expenditures, and changes in fund balances for the governmental funds; statement of revenues, expenses, and changes in fund net position for the proprietary funds; and the statement of cash flows for the proprietary funds.

NOTE 2 – DEBT SERVICE

The exclusion claimed for debt service requirements on bonded indebtedness in the Governmental and Enterprise Funds consists of principal retirement and interest expenditures/expenses.

Governmental

	Bonded Indebtedness	
2015 Bond Issuance Principal	$	2,382,900
2015 Bond Issuance Interest		1,053,576
2018 Bond Issuance Principal		2,515,000
2018 Bond Issuance Interest		1,763,639
Total	$	7,715,115

Enterprise

	Bonded Indebtedness	
2007 Bond Issuance Principal	$	-
2007 Bond Issuance Interest		409,297
2015 Bond Issuance Principal		617,100
2015 Bond Issuance Interest		186,174
2018 Bond Issuance Principal		1,025,000
2018 Bond Issuance Interest		1,127,250
Total	$	3,364,821

City of Surprise
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2019

NOTE 3 – GRANTS AND AID FROM FEDERAL GOVERNMENT

Expenditures of grants and aid from the Federal Government consist of the following:

Federal		
U.S Department of Housing and Urban Development	$	453,934
U.S. Department of Justice		483,031
U.S. Department of Transportation		271,499
U.S. Department of Health and Human Services		149,256
U.S Department of Homeland Security		276,422
Total	$	1,634,142

NOTE 4 – HIGHWAY USER REVENUES

Highway user revenues for the current fiscal year were $9,166,292 which is $9,103,861 more than the highway user revenues received by the City in fiscal year 1980. Excludable revenues expended in the current fiscal year totaled $8,200,615, which is less than current revenues by $903,246, increasing the carryforward balance to $2,035,506.

NOTE 5 – AMOUNTS RECEIVED FROM THE STATE

Expenditures of amounts received from the State consist of the following:

Local Transportation Assistance Funds II/Arizona Lottery Funds	$	347,127
Total	$	347,127

NOTE 6 – CLAIMS INCURRED BUT NOT REPORTED

The subtraction of $953,090 for claims incurred but not reported consists of the estimated costs of claims incurred and expensed in the current year but not yet paid in the internal service funds. The addition of $586,950 for claims paid in the current year, but reported as expenses incurred but not reported in previous years, consists of cash payments in the current year for claims recognized as an expense in previous years in the internal service funds.

City of Surprise
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2019

NOTE 7- PENSION AND OPEB PLANS

The subtraction of pension and other post employment benefits (OPEB) expense consists of the change in the net pension/OPEB asset/liability recognized in the current year in the enterprise and internal service funds. The addition of pension/OPEB contributions paid in the current year consists of the required pension/OPEB contributions made to the Arizona State Retirement System and Public Safety Public Retirement System -Fire from the enterprise and internal service funds.

Pension Expense		
Enterprise Funds	$	783,250
Internal Service		28,682
Total	$	811,932
Pension Contributions		
Enterprise Funds	$	974,883
Internal Service		33,749
Total	$	1,008,632
OPEB Expense		
Enterprise Funds	$	46,373
Internal Service		1,782
Total	$	48,155
OPEB Contributions		
Enterprise Funds	$	52,495
Internal Service		2,034
Total	$	54,529

NOTE 8 – SEPARATE LEGAL ENTITIES

The subtraction of $3,570,209 for separate legal entities established under Arizona Revised Statutes consists of expenditures of special assessment districts included within the City's reporting entity, but not included in the Economic Estimates Commission base limit calculations, and are reported in the governmental funds category in the fund financial statements:

Street Lighting Districts Funds		
Public works and streets	$	2,539,509
Subtotal	$	2,539,509
Marley Park Community Facility District Fund		
General Operations	$	160
Culture and Recreation		80,600
Principal		455,000
Interest and other charges		458,040
Capital outlay		36,900
Subtotal	$	1,030,700
Total separate legal entities	$	3,570,209

NOTE 9 – ACQUISITION OF CAPITAL ASSETS

The amount reported for the acquisition of capital assets within the enterprise funds was computed as follows:

Total capital asset additions	$	8,494,241
Less: capital contributions		(1,200,127)
Less: transfer of capital assets from governmental funds		(12,552)
Total	$	7,281,562

NOTE 10 – QUASI-EXTERNAL INTERFUND TRANSACTIONS

There are certain transactions that are recorded between the City's funds as if the transaction was with an entity external to the City. The Employee Healthcare Fund charged other funds $9,847,643 in order to meet the costs of providing health insurance claims coverage, plan administration, stop loss premiums and reserves. The Risk Management Fund charged other funds $2,016,100 to provide risk management, loss control and safety programs citywide. The Worker's Compensation Fund charged other funds $776,583 in order to meet the costs of providing worker's compensation claims coverage, plan administration, stop loss premiums and reserves. Excludable revenues expended in the current fiscal year for the Risk Management totaled $2,048,505, which is more than current revenues by $32,405, decreasing the carryforward balances to $32,315. Excludable revenues expended in the current fiscal year for the Worker's Compensation Funds totaled $663,361, which is less than current year revenues by $113,222, increasing the carryforward balance to $497,139.

December 11, 2019

To the Governing Board
City of Surprise, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and remaining fund information of City of Surprise, Arizona (City) for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter provided to you during the planning phase of the audit. Professional standards also require that we communicate to you the following matters related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Surprise, Arizona are described in Note 1 to the financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

As described in Note 1 of the financial statements, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations*; GASB Statement 84, *Fiduciary Activities; and* GASB Statement 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61,* all of which represent a change in accounting principle. Our opinion is not modified with respect to these matters.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments.

The most sensitive estimates affecting the financial statements are:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time management estimates those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on leave rates and the City's policies regarding payment of unused vested leave.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.
- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

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, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain written representations from management, which are included in the management representation letter provided to us at the conclusion of the audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants regarding auditing and accounting matters.

Discussions with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management throughout the course of the year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as the City's auditors.

Compliance with Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, have complied with all relevant ethical requirements regarding independence. Heinfeld, Meech & Co., P.C. continually assesses client relationships to comply with relevant ethical requirements, including independence, integrity, and objectivity, and policies and procedures related to the acceptance and continuance of client relationships and specific engagements. Our firm follows the "Independence Rule" of the AICPA Code of Professional Conduct and the rules of state boards of accountancy and applicable regulatory agencies. It is the policy of the firm that all employees be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, U.S. Government Accountability Office (GAO), and applicable state boards of accountancy.

Responsibility for Fraud
It is important for both management and the members of the governing body to recognize their role in preventing, deterring, and detecting fraud. One common misconception is that the auditors are responsible for detecting fraud. Auditors are required to plan and perform an audit to obtain reasonable assurance that the financial statements do not include material misstatements caused by fraud. Unfortunately most frauds which occur in an organization do not meet this threshold.

The attached document prepared by the Association of Certified Fraud Examiners (ACFE) is provided as a courtesy to test the effectiveness of the fraud prevention measures of your organization. Some of these steps may already be in place, others may not. Not even the most well-designed internal controls or procedures can prevent and detect all forms of fraud. However, an awareness of fraud related factors, as well as the active involvement by management and the members of the governing body in setting the proper "tone at the top", increases the likelihood that fraud will be prevented, deterred and detected.

Additional Reports Issued
In addition to the auditor's report on the financial statements we will also issue the following documents related to this audit. These reports are typically issued within 30 days of the date of this letter.

- Single Audit Reporting Package
- Examination report on the Annual Expenditure Limitation Report
- HURF Report

Other Important Communications Related to the Audit
Attached to this letter are a copy of the signed engagement letter provided to us at the initiation of the audit, and a copy of the management representation letter provided to us at the conclusion of the audit. If there are any questions on the purpose or content of these letters please contact the engagement partner identified in the attached engagement letter.

Restriction on Use
This information is intended solely for the use of the members of the City Council and management of City of Surprise, Arizona and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona

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?**

Tucson • Phoenix • Flagstaff
HeinfeldMeech.com

May 21, 2019

Honorable Mayor, Members of the City Council, and Management
City of Surprise
16000 N. Civic Center Plaza
Surprise, AZ 85374

We are pleased to confirm our understanding of the services we are to provide for City of Surprise, Arizona (City) for the year ended June 30, 2019. We encourage you to read this letter carefully as it includes important information regarding the services we will be providing to the City. If there are any questions on the content of the letter, or the services we will be providing, we would welcome the opportunity to meet with you to discuss this information further.

We will audit the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements of City of Surprise, Arizona as of and for the year ended June 30, 2019. We have also been engaged to report on supplementary information that accompanies the City's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the basic financial statements as a whole:

1. Schedule of expenditures of federal awards
2. Combining and individual fund financial statements and schedules

Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI) to supplement the City's basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the City's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's discussion and analysis
2. Budgetary comparison schedules
3. GASB-required pension and other post-employment benefits schedules

The following other information accompanying the basic financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that information.

1. Other information included with the audited financial statements such as the Introductory and Statistical Sections of the Comprehensive Annual Financial Report

In addition, we will examine the following and issue an accountant's report based on our examination for the year ended June 30, 2019.

1. The Annual Expenditure Limitation Report

We will also provide the necessary services to prepare a report on Highway User Revenue Fund (HURF) expenditures in accordance with ARS §9-481(B)(2).

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We will also report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the basic financial statements taken as a whole. Our responsibility in the expression of opinions is to plan and perform the audit to obtain reasonable assurance, but not absolute assurance, that the financial statements are free from material misstatements.

An important aspect to our expression of opinions on the financial statements is understanding the concept of materiality. Our determination of materiality is a matter of professional judgment and is affected by our perception of the financial information needs of users of the financial statements. In this context, it is reasonable for us to assume that users –

1. have a reasonable knowledge of business and economic activities and accounting principles, and a willingness to study the information in the financial statements with reasonable diligence;
2. understand that financial statements are prepared, presented, and audited to levels of materiality;
3. recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment, and the consideration of future events; and
4. make reasonable economic decisions on the basis of the information in the financial statements.

The objective of our audit also includes reporting on –

- Internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards.*
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of accounting records, a determination of major programs in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon completion of our Single Audit. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue reports, or may withdraw from this engagement.

Audit Procedures – General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our tests will not include a detailed check of all of the City's transactions for the period. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards.* In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs.

However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry.

At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Audit Procedures - Internal Controls

Our audit will include obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards.*

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and the Uniform Guidance.

Audit Procedures – Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the City has complied with federal statutes, regulations and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the City's major programs. The purpose of these procedures will be to express an opinion on the City's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

Nonaudit Services

As part of the audit, we will assist with the submission of the Data Collection Form. You have expressed your intention to use these nonaudit services within the scope of your request for proposal for audit services. These nonaudit services do not constitute an audit and such services will not be conducted in accordance with *Governmental Auditing Standards*.

As the City's independent auditor, professional standards place specific requirements on our provision of certain nonaudit services. We are strictly prohibited from assuming management responsibilities or making management decisions; therefore, the nonaudit services we provide are limited to those indicated above. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities or making management decisions. Accordingly, to maintain our independence it is imperative that management understand its responsibilities and is capable of fulfilling these responsibilities. If there are any questions or concerns regarding management's responsibilities or ability to fulfill these responsibilities we request that you immediately contact us so that we may assess the circumstance and our continued independence with respect to providing audit services

Management Responsibilities

Management is responsible for the basic financial statements, schedule of expenditures of federal awards, and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, including the preparation of the schedule of expenditures of federal awards in accordance with the requirements of the Uniform Guidance.

Management is responsible for (1) designing, implementing, establishing and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including internal controls over federal awards, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with accounting principles generally accepted in the United States of America; and for compliance with applicable laws and regulations (including federal statutes) and the provisions of contracts and grant agreements (including award agreements). Your responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information for which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the Uniform Guidance, (3) additional information that we may request for the purpose of the audit, and (4) unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence.

Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is also responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the City involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, grantors, regulators, or others. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. In addition, you are responsible for identifying and ensuring that the City complies with applicable laws, regulations, contracts, agreements and grants. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a summary schedule of prior audit findings and a separate corrective action plan. The summary schedule of prior audit findings should be available for our review prior to issuance of our reports.

Management is responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in conformity with the Uniform Guidance. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon or make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

Management is also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with accounting principles generally accepted in the United States of America. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or to make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in a written representation letter that (1) you are responsible for presentation of supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our tests will not include a detailed check of all transactions for the period.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

We expect to begin our audit in June 2019 and conclude audit procedures and date our report in December 2019.

Use of Third-Party Service Providers

We maintain internal policies, procedures, and safeguards to protect the confidentiality of your information. We may, depending on the circumstances, use third-party service providers in providing our professional services. The following service providers may be utilized in the completion of our engagement:

- Capital Confirmation, Inc. – electronic bank and account balance confirmation service
- Wolters Kluwer – web-based application service to transfer files
- Harvest Investments, Ltd. – investment portfolio valuation service

You hereby consent and authorize us to use the above service providers, if deemed necessary, to complete the professional services outlined in this letter.

Engagement Administration, Fees and Other

We understand that your employees will prepare and provide us with the items listed in our request for audit information and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to electronically submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the Federal Audit Clearinghouse. We will coordinate with you the electronic submission and certification.

We will provide copies, which may include electronic copies, of the reports to the City. It is management's responsibility to submit the reporting package, if appropriate, to pass-through entities and any other agencies that request or require the reports. Unless restricted by law or regulation, or containing privileged or confidential information, copies of our audit reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Heinfeld, Meech & Co., P.C., and constitutes confidential information. However, we may be requested to make certain audit documentation available to a cognizant or oversight agency or its designee, a federal agency providing direct or indirect funding, the U.S. Government Accountability Office, or other authorized governmental agency for the purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. If requested, access to such audit documentation will be provided under the supervision of Heinfeld, Meech & Co., P.C., personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release or for any additional period requested by governmental agencies. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the parties contesting the audit finding for guidance prior to destroying the audit documentation.

Brittney Williams is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Our fee for these services will be at the amount outlined in our proposal. Our fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. We exercised care in estimating the fee and believe it accurately indicates the scope of the work. Subsequent review of documentation and additional meetings will be billed at the hourly rates indicated below. Our fee does not include factors beyond our control, such as new GASB requirements, consultation and assistance in correcting errors in City-prepared information, or rescheduling of the audit when the City is not prepared. It will be necessary for you to complete the requested information by certain timelines in order to meet the applicable filing deadlines for your audit reports. Not completing the requested information on time will jeopardize meeting the applicable filing deadlines. Additional fees incurred for factors beyond our control will be billed at the following hourly rates: Partner - $265; Manager - $195; Senior - $155; Staff - $110. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2018 peer review report accompanies this letter.

We appreciate the opportunity to be of service to City of Surprise, Arizona and believe that this letter accurately summarizes the significant terms of our engagement. Please feel free to contact us at any time if you have questions or concerns. If you have any questions regarding this letter, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona

cc: Nicholas (Nick) Sarpy, Accounting Manager
Andrea Davis, Finance Director

RESPONSE

This letter correctly sets forth the understanding of City of Surprise, Arizona.

Printed Name: Andrea Davis

Title: Finance Director

Signature: Andrea Davis
Andrea Davis (Jun 11, 2019)

Date: Jun 11, 2019

Grant Bennett Associates
A PROFESSIONAL CORPORATION

Report on the Firm's System of Quality Control

August 16, 2018

To the Shareholders of Heinfeld, Meech & Co., P. C. and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Heinfeld, Meech & Co., P. C. (the firm) in effect for the year ended May 31, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility
The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility
Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations
Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act and an audit of an employee benefit plan.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion
In our opinion, the system of quality control for the accounting and auditing practice of Heinfeld, Meech & Co., P. C. in effect for the year ended May 31, 2018, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Heinfeld, Meech & Co., P. C. has received a peer review rating of *pass*.

Grant Bennett Associates

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FINANCE DEPARTMENT
CITY OF SURPRISE
16000 N. CIVIC CENTER PLAZA
SURPRISE, AZ 85374
T. 623·222·1800

Heinfeld, Meech & Co., P.C.
3033 N. Central Ave. Suite 300
Phoenix, AZ 85012

This representation letter is provided in connection with your audit of the financial statements of City of Surprise, Arizona, which comprise the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows for the period then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.

2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.

8. The effects of all known actual or possible litigation, claims, and assessments have been evaluated, and if necessary, have been accounted for and disclosed in accordance with U.S. GAAP.

9. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.

    d. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.

11. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.

12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13. We have no knowledge of any fraud or suspected fraud that affects the City and involves:
    - Management,
    - Employees who have significant roles in internal control, or
    - Others where the fraud could have a material effect on the financial statements.

14. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, grantors, regulators, or others.

15. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

17. We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

19. If applicable, we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.

20. We have a process to track the status of audit findings and recommendations.

21. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

22. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

23. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.

24. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.

25. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

26. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

27. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

28. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

29. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

30. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

32. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

33. The financial statements properly classify all funds and activities in accordance with U.S. GAAP.

34. All funds that meet the quantitative criteria for presentation as a major fund are identified and presented as such and all other funds that are presented as a major fund are particularly important to financial statement users.

35. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

36. Investments are properly valued.

37. With regard to investments and other instruments reported at fair value:
    - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
    - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
    - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
    - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

38. If applicable, provisions for uncollectible receivables have been properly identified and recorded.

39. All payroll information and the individual employment data have been properly submitted to the state retirement systems, and the employer contributions have been properly submitted to the retirement systems.

40. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

41. Revenues are appropriately classified in the statement of activities within program revenues, and general revenues.

42. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

43. Special and extraordinary items, if any, are appropriately classified and reported.

44. Deposits and investment securities are properly classified as to risk and are properly disclosed.

45. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.

46. We have identified and disclosed to you all programs, agreements, and transactions that result in a tax abatement for financial reporting purposes. Tax abatement agreements and programs have been properly disclosed in the notes to the financial statements.

47. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

48. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

49. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

50. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

51. With respect to the supplementary information presented, such as the combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards.

    a. We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

    b. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

52. With respect to federal award programs:

    a. We are responsible for understanding and complying with and have complied with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).

    b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.

    c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.

d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

e. We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.

f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.

g. We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.

h. We have received no requests from a federal agency to audit one or more specific programs as a major program.

i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Compliance Supplement,* relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards, if any.

j. We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR Part 200, Subpart E).

m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

n. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

p. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.

q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report.

r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.

s. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

t. If applicable, we have monitored subrecipients to determine that they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.

u. If applicable, we have issued management decisions for audit findings that relate to federal awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient.

v. If applicable, we have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.

w. We have charged costs to federal awards in accordance with applicable cost principles.

x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

y. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information

z. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

aa. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.

bb. If applicable, we have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

We understand that at the conclusion of the audit Heinfeld, Meech & Co, P.C. will submit to the City Council a communication to those charged with governance that will include a copy of this representation letter and a copy of the engagement letter.

Andrea Davis
Andrea Davis (Dec 11, 2019)

Andrea Davis, Chief Financial Officer
City of Surprise, Arizona

Dec 11, 2019
Date

Nick Sarpy
Nick Sarpy (Dec 11, 2019)

Nick Sarpy, Accounting Manager
City of Surprise, Arizona

Dec 11, 2019
Date

INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the City of Surprise, Arizona's (City) compliance as to whether highway user revenue fund monies received by the City of Surprise, Arizona pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the City of Surprise, Arizona, were used solely for authorized transportation purposes during the year ended June 30, 2019. Management is responsible for the City of Surprise, Arizona's compliance with those requirements. Our responsibility is to express an opinion on the City of Surprise, Arizona's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about the City of Surprise, Arizona's compliance with the requirements referred to above, in all material respects. An examination involves performing procedures to obtain evidence about the City of Surprise, Arizona's compliance with the requirements referred to above. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance of the report, whether due to fraud or error. We believe the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the City of Surprise, Arizona's compliance with specified requirements.

In our opinion, the City of Surprise, Arizona complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2019.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 11, 2019

City of Surprise, Arizona
Management Letter
Year Ended June 30, 2019

Honorable Mayor, Members of the City Council and Management
City of Surprise, Arizona

Members of the City Council and Management:

In planning and conducting our single audit of the City of Surprise, Arizona for the year ended June 30, 2019, we performed the following as required by *Government Auditing Standards* (GAS) and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, Audit Requirements for Federal Awards* (Uniform Guidance):

- Considered the City's internal control over financial reporting,
- Tested internal controls over its major Federal programs, and
- Tested compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the City's financial statements and major federal programs.

Any audit findings that are required to be reported by GAS and Uniform Guidance have been included in the City's Single Audit Reporting Package for the year ended June 30, 2019. However, during our audit we noted certain immaterial matters that are opportunities for strengthening internal controls and instances of noncompliance with laws and regulations that did not meet that reporting criteria. Management should address these items to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws, regulations, contracts, and grant agreements. Those items and our related recommendations are briefly described in the accompanying summary. The items discussed in the accompanying summary are only a result of audit procedures performed based on risk assessment procedures and that not all deficiencies or weaknesses in controls may have been identified.

This information is intended for the City of Surprise, Arizona's City Council and Management, and is not intended to be and should not be used by anyone other than the specified parties. However, this information is a matter of public record, and its distribution is not limited.

We have already discussed these items and suggestions with City personnel and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 11, 2019

Payroll Policies

1. The City's payroll policies do not address whether or not paid time off and holiday hours count towards time worked for the purposes of determining overtime hours for non-sworn employees. Currently, both paid time off and holiday hours are counted towards time worked.

   It is recommended that management develop a written policy to address whether paid time off and holiday hours count towards time worked for the purposes of determining overtime hours for non-sworn employees.

2. The blended overtime rate of pay calculation includes stand-by wages divided by 80 hours.

   It's recommended that the City examine their blended overtime calculation as it may be inflating the overtime rate paid to employees. Additionally, a written policy should be developed for the calculation of the blended overtime rate.

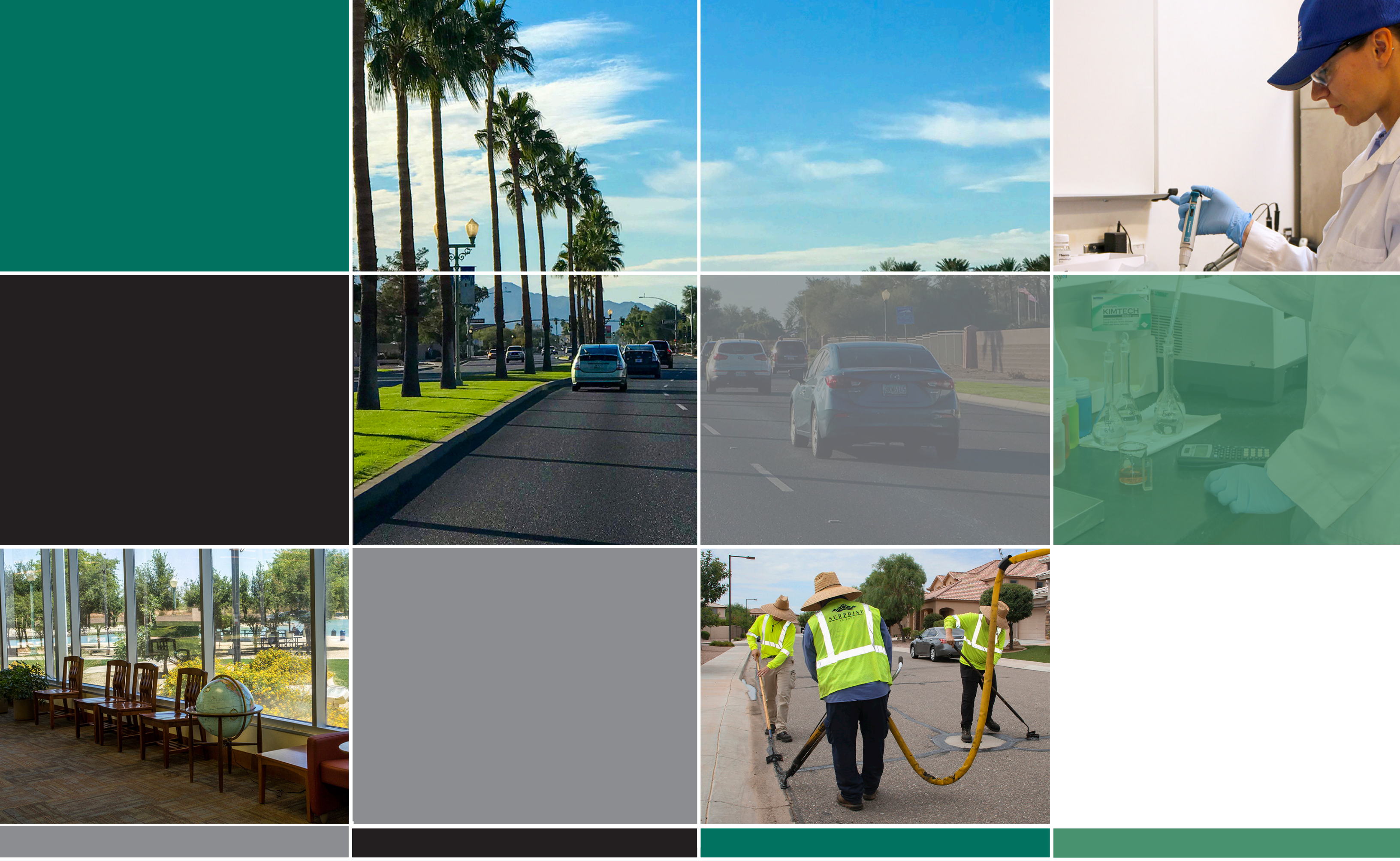
Net Position

1. Restricted net position in the Water and Sewer Funds did not include impact fees in the amount of $4,348,495 and $417,097, respectively. The City made the appropriate audit adjustments, which are properly reflected in the audited financial statements.

   It is recommended that net position related to impact fees be properly restricted in the future, and a thorough analysis of net position be performed to ensure proper classification.

2. Unavailable revenue was not taken into consideration when calculating net position restrictions for debt service and other purposes. These amounts were immaterial to the financial statements in the current year.

   It is recommended that the City evaluate restricted unavailable revenue in the classification of the government-wide net position.



SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FY2019

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

CITY OF SURPRISE, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended

June 30, 2019

Prepared by:

Finance Department

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INTRODUCTORY SECTION

The introductory Section is the first of three essential components of the City's Comprehensive Annual Financial Report (CAFR). The second essential component is the Financial Section, and the third is the Statistical section. The Introductory section provides general information on the City's structure and personnel as well as information useful in assessing the City's economic condition, with the letter of transmittal as the key element to formally introduce the CAFR to the intended readers.

SURPRISE

ARIZONA

FINANCE DEPARTMENT
CITY OF SURPRISE
16000 N. CIVIC CENTER PLAZA
SURPRISE, AZ 85374
T. 623·222·1800

December 11, 2019

Members of the City Council and City Manager:

In accordance with the requirements of Arizona Revised Statutes (A.R.S.) § 41-1279.07, I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Surprise, Arizona (the City), for the fiscal year ended June 30, 2019. These financial statements are prepared and presented in conformity with generally accepted accounting principles in the United States (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB). To the best of our knowledge and belief, this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of the operations of the various funds of the City. Disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Management assumes full responsibility for the completeness and reliability of the information presented in this report based on internal controls established for this purpose. To provide a reasonable basis for making these representations, the City has established a framework of internal control that is designed to protect the City's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the basic financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their anticipated benefits, the objective is to provide reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

Heinfeld, Meech and Co., P.C., a firm of licensed certified public accountants, has audited the City of Surprise's financial statements pursuant to A.R.S § 9-481. The audit is intended to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2019, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

An unmodified audit opinion denotes that the financial statements are presented fairly and in conformity with GAAP. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2019, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The City is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Heinfeld, Meech and Co., P.C. was also contracted to perform the single audit of the City's major grant programs. This audit was designed to meet the requirements of the Uniform Grant Guidance.

The single audit report is issued separately from this CAFR. Copies are available online and upon request from the City's Finance Department.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

City Profile

Surprise, located just 45 minutes west of downtown Phoenix along U.S. Route 60/State Highway 93, was founded on May 17, 1938 by Flora Mae Statler who purchased and subdivided the original town site. The former small farming village now encompasses 108 square miles, including urban and commercial developments, ranches, industrial sites, and business parks. Surprise has grown from 500 residents to a city of over 130,000 people, evolving from a small town government to a regional governmental entity.

Surprise operates under the Council/Manager form of government. Policymaking and legislative authority are vested in a governing council consisting of the Mayor and six Council Members. The Council is responsible, among other things, for passing ordinances, appointing committees, adopting the budget, and appointing the City Manager, the City Clerk, and the Presiding Judge. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for selecting department directors.

The Council is elected on a non-partisan basis. Council members serve four-year staggered terms, with three elected alternately every two years. The Mayor is elected at large every four years, while the other Council members are elected by district.

The City of Surprise provides a full range of services, including police and fire protection, roadway maintenance and construction, recreational and cultural activities, as well as general administrative services. Sanitation, water, stormwater, ground ambulance, and sewer services are provided to many of the residents through the City's enterprise funds. The City provides street lighting for existing and new areas through legally formed street lighting districts. The City accounts for a non-profit corporation formed under Arizona Revised Statute, Title 10, designed to facilitate the acquisition and improvement of City property, and a community facilities district designed to provide funding for the construction and acquisition of certain public infrastructure improvements. These last three activities essentially function as departments within the City and have been included as an integral part of the City's financial statements. Additional information on all three of these legally separate entities can be found in Note 1 section A. (1.A) in the Notes to the Financial Statements.

The annual budget is adopted by resolution and serves as the foundation for the City of Surprise's financial planning and control. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. The budget preparation and adoption process is described in greater detail in the Notes to the Financial Statements. The budget is prepared by fund and by department and may be amended during the fiscal year in accordance with our budget amendment policy which can be found in the City's budget book.

Economic Condition and Outlook

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the environment within which the City of Surprise operates.

Local Economy

Forecasts show continued improvement in the economic outlook for the City of Surprise. Key indicators supporting the forecasts include growth in both residential population and commercial square footage that result in increased revenues for the city as well as moderate inflation rates that has kept expenditure increases at a manageable level. Residential population growth in the city has exceeded the statewide average over the last five years and is expected to continue based on the availability of land within the city's planning area. This results in a greater number of consumers and a larger proportion of state shared revenues. The increase in commercial square footage allows for a greater capture of potential sales tax revenues from the increased consumer base. These have combined to result in an 13.2% increase in sales tax collections while state shared revenues increased by 1.9% over the previous year. In addition, the inflation rate has been held in check with the Phoenix-Mesa Consumer Price Index averaging 2.1% annually over the last five years. This shows prices have remained relatively stable over the last five years assisting the local economy by increasing the purchasing power of residents. The population and commercial square footage growth has been a factor in in the improved economic performance for the city.

Further information on the history of City revenues and expenses can be found in the MD&A, pages 16 through 29, and the statistical section that begins on page 166, of this financial report.

Long-Term Financial Planning

In order to keep pace with the City's growth, the City is committed to adding public safety personnel to ensure our community's safety and security. For the upcoming fiscal year 18 full-time equivalents will be added to the public safety departments (Police, Fire-Medical, and Court). In addition, as the City continues to grow support staff in other departments are needed and for the upcoming year this includes the addition of 13 full-time equivalent employees to the City's enterprise funds. Further, the City looks to continue to increase investment in maintaining facilities, infrastructure, and equipment that allow for the continued delivery of high quality services to the residents of Surprise. The city will dedicate $15.8 million in the upcoming fiscal year for this purpose. A five-year forecast comparing resources to expenditures helps ensure long-term financial stability and secures safety of the city's financial position.

Major Initiatives

On November 7, 2017, the voters of the City of Surprise approved three General Obligation Bond questions in the areas of Public Safety, Traffic Congestion Mitigation, and Pavement Preservation. The three questions represent ten capital improvement projects for a total authorized bond amount of $59.5 million. The City has issued General Obligation Bonds totaling $37.7 million of the $59.5 million authorization leaving a remaining authorization of $19.5 million. The City has continued construction and design work for these projects which will continue throughout fiscal year 2020 with an expected completion date for all ten projects in fiscal year 2023.

The City continues to work in partnership with Ottawa University Arizona and the surrounding developer to develop the City Center.

On May 15, 2018, the voters of the City of Surprise approved the acquisition of a local water company that operates in the City's northern planning area and future water service area. The acquisition will provide the City with the company's existing water infrastructure and grow the City's allocation of Colorado River water by more than 38 percent. The process for the acquisition of the water company has begun and is expected to be finalized within the next few years.

In fiscal year 2019, the City completed a five-year comprehensive utility rate study of the Water, Sewer, and Sanitation Funds. This study resulted in rates for the Water and Sewer funds remaining unchanged for next five fiscal years, 2020-2024. The study resulted in Sanitation Fund rates increasing from $16.96 in fiscal year 2019 to $23.70 in fiscal year 2024, an increase of 39.74%.

Further, 2019 saw the completion of the Development Impact Fee Study update which is completed every five years. In conjunction with the study update, a 10-year land use assumptions and infrastructure improvements plan is developed and approved by the City Council laying out planned projects for which development fees may be used to fund. The infrastructure improvement plan includes necessary public services for Parks and Recreation, Police, Fire, Water System, Water Resources, and Wastewater (Sewer).

Relevant Financial Policies

The City of Surprise has adopted a comprehensive set of financial policies which are reviewed annually and updated as necessary. During the current year, the City updated the minimum fund balance policy included in the Comprehensive Financial Management Policies. For fiscal year 2019, the General Fund minimum fund balance categories – Emergency Reserve, Operating Reserve, and a Budget Stabilization Reserve – continue to maintain the same percentage of the average budgeted personnel, supplies, and services over a two-month period for that year's Council Adopted Budget for the General Fund and the Highway User Revenue Fund as prior years; however, beginning in fiscal year 2019 the Ground Ambulance Services Fund was added to the computation of the minimum fund balance. The City is in compliance with its minimum fund balance and net position policy for all funds.

FINANCE DEPARTMENT
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During the current year, the City of Surprise updated its inventory policies for consumable and capital asset inventories to be consistent with operational procedures and Generally Accepted Accounting Principles. Further, the City developed and adopted policies related to capital assets, debt issuance, continuing disclosure compliance, accounts payable. Finally, the City's grants policies and procedures and the procurement guidelines were updated to match current City operations.

Awards and Acknowledgements

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 Surprise for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgements

I want to thank and recognize the staff of the Finance Department for their efforts in preparing this report. I would also like to thank all City departments for their assistance throughout the past year and express my appreciation for the guidance and support from the City Manager's Office and Mayor and City Council in planning and conducting the financial operations of the City in a fiscally responsible manner.

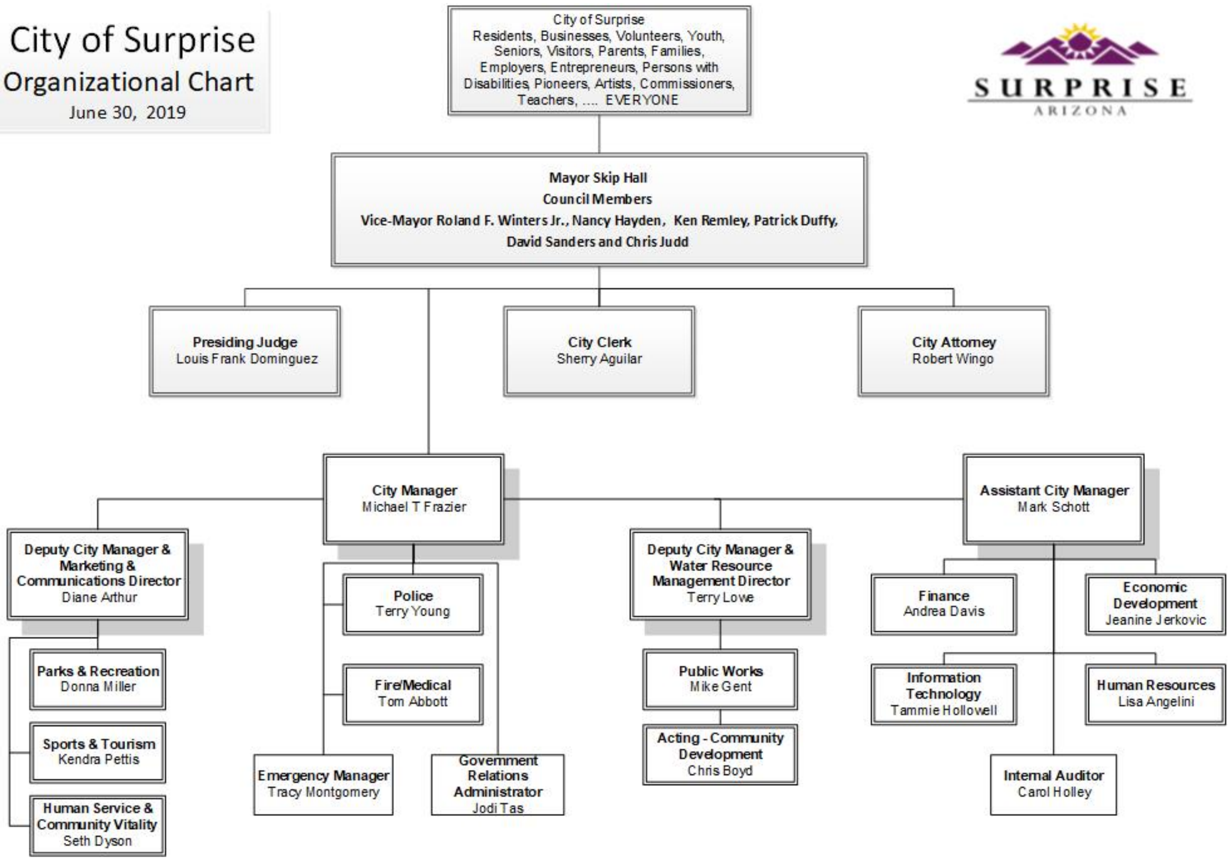
Respectfully submitted,

Andrea Davis

Andrea Davis
Chief Financial Officer

City of Surprise Organizational Chart

June 30, 2019



SURPRISE
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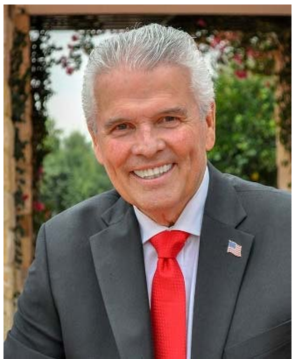
Mayor and City Council Members

MAYOR SKIP HALL – Mayor@surpriseaz.gov



Mayor Hall was unanimously selected by the City Council in November 2018 to serve as Mayor of Surprise to fill a vacancy. This term ends December 31, 2020.

He was first elected to the City Council in an April 2008 special election in District 6 (Palo Verde) and re-elected to office in 2009 to a full term. Redistricting placed him in the newly-configured District 5, and on August 27, 2013, he was elected to the District 5 seat. He was re-elected to that seat in the August 2018 Primary Election and resigned that seat to fulfill the remaining two-year mayoral term. He also served as Vice Mayor in 2011 and 2014.

Prior to serving in politics and serving three years on the City of Surprise Planning and Zoning Commission, Skip spent several decades working in various capacities in the Hospitality and Real Estate industries. For three years, he was the Vice President of a new home builder and prior to that, he served 10 years as the Senior Vice President of a hospitality company based in Japan. Most of his professional career was spent opening and operating several restaurants and hotels along the west coast.

He has been part of the united Council effort that helped pull Surprise back to fiscal health over the last several years, generating a budget surplus and placing the City's fiscal house in order. Councilman Hall also played a proactive supporting role with initiating a Surprise youth component and sponsors the Surprise Literacy Challenge annually.

His goals for the City include a 100-year water plan, working with transportation partners to expand east-west connections, developing a local circulator, expanding youth involvement in the community, increasing local veteran outreach and services, and attracting new businesses to Surprise.

He has served on a number of City Council Sub-Committees during his time on Council, as well as WESTMARC's Water & Energy Committee and the Valley Metro RPTA Board. Presently, Hall's regional service includes a position on the MAG Regional Council and involvement with the Kyl Center for Water Policy.

Hall is active with the City's Tourism Commission and in promoting the City to local, regional, and national organizations. Furthermore, he is active with the Surprise Regional Chamber of Commerce and the AZ TechCelerator to promote business growth. He serves on the Surprise Rotary Club and the Surprise Fraternal Order of Eagles. In addition, Councilman Hall is a member of the STEM Community of Practice with representatives of the Dysart Unified School District and the West Valley Veterans Success Project (VCP) Advisory Committee with several other state and local elected officials. He has also regularly volunteered his time with Radiant Church.

He grew up in Idaho and received a business degree from Seattle University. Skip is a Vietnam War Veteran and was awarded the Bronze Star for his outstanding service 1969-1970.

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VICE MAYOR ROLAND WINTERS – Roland.Winters@surpriseaz.gov

Roland F. Winters Jr. was first elected to City Council in 2013 with a term beginning January 2014. He was re-elected in 2018 and began his new four-year term in January 2019, when he was also appointed to the role of Vice Mayor.

Born and educated through high school in New Jersey, Roland earned a degree in Business Administration and Pre Law at Fullerton College in Fullerton, Ca. He earned a BA degree in Marketing Management from the University of California.

He worked thirty-five years at Hughes Air Craft Company in Fullerton, Ca. and also owned and operated a photo studio in Fullerton and Placentia, Ca. He served on the State Board of Directors for Californians for Disability Rights.

Roland and his wife Carroll have four children – two sons and two daughters. David lives in Muncie, Indiana; Donald lives in Wildwood, Florida; Nancy lives in Gilbert, Arizona; and Jennifer lives at home. Roland and Carroll have seven grandchildren.

Winters currently serves on the City's Boards and Commissions Selection Committee. In addition, he serves on the Maricopa County Community Services Commission, Valley Metro RPTA Board and the Northwest Valley Connect Advisory Board.

Winters' goal for Surprise is to be a fully self-sustaining city where its residents can live, get educated, work and play.

NANCY HAYDEN – Nancy.Hayden@surpriseaz.gov

Nancy Hayden was appointed by the Surprise City Council to serve as the District 2 (D2) Councilmember on February 6, 2018.

The seat was vacated following the death of Nancy's husband Councilmember Jim Hayden on December 20, 2017.

Among her reason's for applying for the D2 seat, Nancy stated wanting to carry on her husband's vision to better connect with residents and contribute to the City of Surprise's bright future and its many growth and development opportunities.

With her spouse and son having both retired from the United States Air Force, Nancy is also a proud supporter of our nation's veterans, as well as Luke Air Force Base. She is also committed to working alongside Valley leaders to help combat the regional opioid epidemic.

Nancy has an extensive background in project management of enterprise-wide changes in information technology and manufacturing requirements. She has been recognized for her negotiation strength and creative problem solving, as well as her ability to coordinate and implement complex organizational changes.

She began her career with Siemens Business Services/Business Communications Systems, Inc. in Santa Clara, California, in 1989 as a Site Support Manager, overseeing projects involving manufacturing, purchasing, and production control. Over the years she rose through the ranks to assist in company-wide technology updates and contract management that reduced Siemens annual costs by over $5 million. She retired from Siemens in 2002, and held other sales and customer service training positions with Honey's Clothing Store and Well Fargo, respectively.

Nancy has studied a variety of subjects from transportation to oceanography at San Jose City College, De Anza College and the University of Hawaii and holds a Project Management Certificate from the University of California- Santa Cruz.

Nancy and Jim moved into the Sun City Grand neighborhood over 15 years ago. She is a proud mother, grandmother, and great-grandmother committed to making Surprise a great place for people of all ages to live and flourish.

Nancy's appointed term ended December 31, 2018. Having won the August 28th Primary Election, her remaining two years of the four-year D2 term, began January 1, 2019 and expires December 31, 2020. D2 includes the following neighborhoods: Sun City Grand, Bell West Ranch, and portions of Arizona Traditions.

PATRICK DUFFY – Patrick.Duffy@surpriseaz.gov

Patrick Duffy was appointed by City Council in September 2017 to represent the residents of District 3 (D3).

Duffy replaced John Williams, who resigned from Council on August 15, 2017. Duffy is a Financial Advisor for Merrill Lynch and for the past 9 years he worked part-time as a City of Surprise Recreation Leader 3. He has lived in Surprise for eight years, two of them in D3. Duffy was a member of the Surprise Municipal Property Corporation Board and through his city service has been part of numerous Community and Recreation Services events including Spring Training support, Relay for Life events and Cal Ripken All-Star games. He holds a Bachelor of Arts in Political Science from Arizona State University.

Duffy's appointment expired December 31, 2018; and he was elected to the seat to serve out the remainder of the four-year term (two years) in the August 2018 Primary Election. The remaining two-year term expires December 31, 2020.

KEN REMLEY – Ken.Remley@surpriseaz.gov

Ken is a believer in strong leadership, partnership, and fiscal responsibility. His vision is to support initiatives that attract quality employers and good-paying jobs to Surprise, while maintaining cost-effective city services.

He was elected to District 4 in the August 2016 Primary Election and began his term in January 2017.

Ken is a licensed mortgage loan officer and income tax preparer. He served as the treasurer for the Litchfield Manor Homeowners' Association for 10 years. He also served on the HOA's Budget, Landscaping, Architectural and Social Committees.

He is a Vietnam War Veteran, having served in the United States Navy. Ken holds a bachelor's degree in Business Administration-Accounting from Cal State Fullerton.

Ken and his wife Beverley have lived in Surprise since 2004. They have four children, nine grandchildren, and eight great-grandchildren.

DAVID SANDERS – David.Sanders@surpriseaz.gov

David Sanders was appointed by City Council on January 3, 2019 to represent the residents of District 5 (D5). He replaced Skip Hall, who was appointed to Mayor by his City Council peers in November 2018.

Sanders has lived in Surprise since 2010 with his wife Steffany, and their children: Jayden, Grayson, and Emma.

Sanders is a Vice President – Portfolio Management at National Bank of Arizona and has previous banking/finance experience. He received a Bachelor of Science degree from California State University – San Marcos in Business Administration and an MBA from the W.P. Carey School of Business at Arizona State University with a focus on International Business and Finance.

Sanders was a five-year member of the Surprise Community and Recreation Services Advisory Board before joining the City Council. He and his counterparts on the Board played an instrumental role with the planning of Veramonte Park, Surprise Farms Park, the pickleball courts, and much more.

He was also part of the Capital Improvement Funding Exploration Committee, which helped craft a voter-approved $59.5 million general obligation bond package to fund public safety, traffic mitigation and pavement preservation projects across the City.

The term expiration for appointment will be December 31, 2020; and the remainder of the four-year term will result in the next scheduled council election in August 2020.

CHRIS JUDD – Chris.Judd@surpriseaz.gov

Chris Judd was elected as the District 6 (D6) Councilmember in the August 2018 Primary Election to serve a four-year term beginning January 1, 2019.

Chris is a native Arizonan and graduate of Arizona State University. He has been part of the Surprise business community since the mid-'90s, and he and his family of five have been coming home to Surprise for over a decade.

As an independent businessman and former owner and manager of local small businesses, Chris was very active with the Rotary Club of Surprise, and the Surprise Regional Chamber of Commerce. He served as the Rotary Club President in 2015-2016, and currently serves on the Board of Directors for the Rotary Club of Surprise Community Foundation. He previously served as Chairman of Taste of Surprise, a charity event organized by the Rotary Club and run entirely by volunteers. Under Chris's leadership, Taste of Surprise moved to Surprise Stadium to handle the growing crowds. It has grown into a must-attend annual event, bringing the community together and generating much needed funds for several charities that work right here in Surprise.

Chris began working in Surprise in 1996, right out of college, and spent 14 years as General Manager of a local small manufacturing plant. There he learned about the many challenges that businesses – especially small businesses – face, and how difficult it can be to juggle all of the factors required to make a business successful, profitable, and a good place to work. He took that knowledge and experience, and applied it to a small business of his own, a Surprise-based trucking company that served local and long-haul clients.

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Chris is employed by Liberty Mutual Insurance. He holds a professional designation as a Life Underwriter Training Council Fellowship from the College for Financial Planning, as well as a Bachelor of Science degree from ASU.

Chris and his wife Jenna have been married for over 20 years, and are most proud of the work they've done, and are doing, raising their three wonderful daughters. The family loves the great outdoors and they spend as much time as they can together, camping and hiking in and around the beautiful backcountry of Arizona's deserts, mountains, and forests.

City of Surprise
Appointed Officials

City Manager	**Michael T. Frazier**
City Clerk	**Sherry Aguilar**
City Attorney	**Robert Wingo**
Presiding Judge	**Louis Frank Dominguez**

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Surprise

Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morrill

Executive Director/CEO

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FINANCIAL SECTION – INDEPENDENT AUDITORS' REPORT

The Financial Section is divided into five subsections. The first subsection is the Independent auditors' report, which is the official written communication of the audit results provided by the independent auditors expressing their opinion on the City's financial statements as to whether the financial statements are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP).

Financial Subsection's

- Independent Auditors' Report
- Management's Discussion and Analysis
- Government Wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, Members of the City Council and City Manager
City of Surprise, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Surprise, Arizona (the City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Surprise, Arizona, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows 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, as of June 30, 2019 the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations*; GASB Statement 84*, Fiduciary Activities; and* GASB Statement 90*, Majority Equity Interests – an amendment of GASB Statements No. 14 and No.*

61, all of which represent a change in accounting principle. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Combining and Individual Fund Financial Statements and Schedules, 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 Financial Statements and Schedules 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 Financial Statements and Schedules information is 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 December 11, 2019, on our consideration of the City of Surprise, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Surprise's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Surprise, Arizona's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona

December 11, 2019

FINANCIAL SECTION – MANAGEMENT'S DISCUSSION AND ANALYSIS

The Financial Section is divided into five subsections. The second subsection is Management's Discussion and Analysis. This component of required supplementary information is used to introduce the basic financial statements and provide an analytical overview of the City's financial activities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Surprise (City) is pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2019. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing a summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation. Amounts presented may reflect some minor differences due to rounding. This analysis is meant to be read in conjunction with the letter of transmittal.

FINANCIAL HIGHLIGHTS

- **Governmental Activities net position.** The City's net position increased 6.6% or $26.6 million from $404.1 million to $430.7 million. This increase is largely attributable to an increase in sales taxes from an improving economy, increased property taxes related to the new secondary property tax levy and an increase in home values, along with better returns on investments during the year.
- **Business-type net position.** The City's net position increased by 2.4% or $7.9 million from $323.8 million to $331.6 million, which is a smaller increase than the prior year increase of $8.9 million. A 8.25% increase in water utility rates, a 2% increase in sanitation utility rates, an increase in the number of ground ambulances providing services, and continued growth in the City account for the change.
- **Governmental Activities expenses** of $160.5 million exceeded program revenues of $62.3 million, a difference of $98.2 million. The remaining $98.2 million of expense represents the total burden each separate function places on the City, that is the total cost after deducting revenues charged or grants and contributions received specifically for these programs. This amount is covered by general governmental revenues net of transfers.
- **Business-type expenses** were $44.4 million, while program revenues totaled $52.4 million, a difference of $8.0 million. The current year excess revenues will be added to net position.
- **Component units** – The City includes three separate legal entities in its report: The Surprise Municipal Property Corporation (SMPC), Marley Park Community Facilities District (CFD), and various Street Lighting Improvement Districts (SLID). Although legally separate, these "component units" are presented along with the City's financial statements (blended presentation). Blending component units is appropriate when they share a governing body with the primary government or when there is an exclusive benefit to the primary government. Each of the above mentioned component units, meets these requirements. A more detailed description of these component units is available in Note 1.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (on pages 30-31 and 32-33) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 34. For government-wide financial statements, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The fiduciary statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 30. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities provide information about the City as a whole and about its activities in a way that helps answer this question. These statements use 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.

These two statements report the City's net position and/or changes in them. You can think of the City's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

The statement of net position and the statement of activities are divided into two kinds of activities:

- ❖ **Governmental activities** – Most of the City's basic services are reported here, including police, fire-medical, public works, parks and recreation, human services and community vitality, community development, economic development departments, and general administration.
- ❖ **Business-type activities** – The City charges a fee to customers to help it cover all or most of the costs of certain services it provides. The City's ground ambulance services, water, sewer, sanitation, and stormwater systems are reported here.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 34 where the fund financial statements begin. These provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

- ❖ **Governmental Funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. A description of the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is included in the reconciliations following the fund financial statements.

- **Proprietary Funds** – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. The City uses an internal service fund (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities, specifically the City's Employee Healthcare Fund, the Risk Management Fund, and the Workers' Compensation Fund.

- **Fiduciary Funds** – The City is the fiduciary for the Flexible Spending Account. All of the City's fiduciary activities are reported in the separate statement of fiduciary net position and statement of changes in fiduciary net position on pages 48-49.

  These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table reflects the condensed Statement of Net Position as of June 30, 2019 and June 30, 2018.

City of Surprise's Net Position (in Millions)

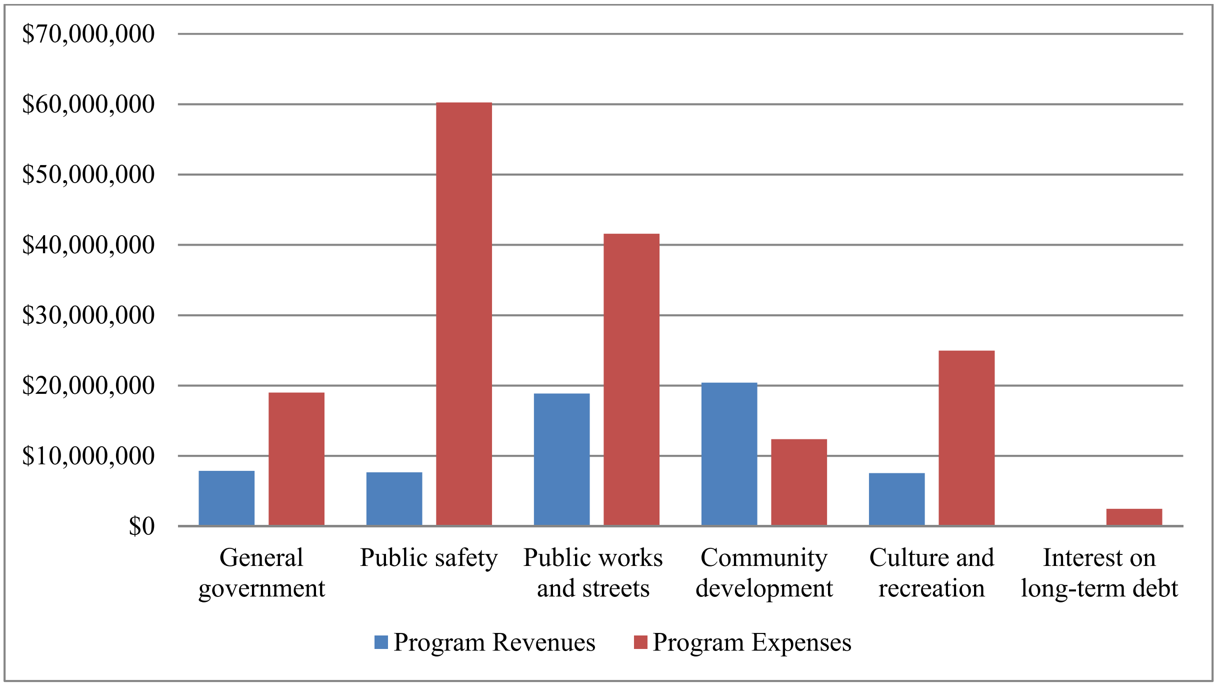
	Governmental Activities		Business-type Activities		Total Primary Government	
ASSETS	2019	2018	2019	2018	2019	2018
Current and other assets	$162.6	$137.2	$ 76.9	$ 68.8	$239.5	$206.0
Capital assets, net	441.3	435.3	306.8	311.2	748.1	746.5
Total assets	603.9	572.5	383.7	380.0	987.6	952.5
DEFERRED OUTFLOWS OF RESOURCES	25.7	30.9	2.1	2.1	27.8	33.0
LIABILITIES						
Current liabilities	33.8	26.1	8.1	5.2	41.9	31.3
Long-term liabilities	155.5	169.7	44.6	52.4	200.1	222.1
Total liabilities	189.3	195.8	52.7	57.6	242.0	253.4
DEFERRED INFLOWS OF RESOURCES	9.5	3.5	1.4	0.7	10.9	4.2
NET POSITION						
Net investment in capital assets	399.4	394.0	274.8	278.0	674.2	672.0
Restricted	29.5	67.7	12.9	14.4	42.4	82.1
Unrestricted	1.8	(57.6)	43.9	31.4	45.7	(26.2)
Total net position	$430.7	$404.1	$331.6	$323.8	$762.3	$727.9

Net position is a good indicator of a city's overall financial standing. For fiscal year 2019, the City had total combined net position of $762.3 million. This was an increase of $34.5 million, or 4.7% over the prior year's net position of $727.9 million and is attributed to a new secondary property tax of $0.42 per 100 of assessed value to repay the General Obligation Bonds, Series 2018, which were approved by voters in November 2017 and increased home values, an improving economy, an 8.25% water rate increase, a 2% sanitation rate increase, and continued growth within the City. In fiscal year 2018, the City's net position was restated as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* and a correction of a prior year error. Not all of the $762.3 million is available for the City to use without restraint. The largest portion of the City's total net position $674.2 million, or 88.4% represents the City's net investment in capital assets. Of the remaining net position, $42.4 million is restricted for various purposes with the remaining $45.7 million unrestricted as to its use.

City of Surprise's Changes in Net Position (in Millions)

REVENUES	Governmental Activities 2019	Governmental Activities 2018	Business-type Activities 2019	Business-type Activities 2018	Total Primary Government 2019	Total Primary Government 2018
Program Revenues:						
Charges for services	$ 28.3	$ 25.1	$ 46.8	$ 43.9	$ 75.1	$ 69.0
Operating grants and contributions	11.6	12.5	-	-	11.6	12.5
Capital grants and contributions	22.5	25.5	5.5	9.7	28.0	35.2
General Revenues:						
Property taxes	16.1	10.8	-	-	16.1	10.8
Sales taxes	61.6	54.4	-	-	61.6	54.4
Franchise taxes	5.6	5.7	-	-	5.6	5.7
State shared revenues	35.9	35.1	-	-	35.9	35.1
Unrestricted investment earnings	3.5	0.3	1.4	0.1	4.9	0.4
Other	0.5	(0.8)	-	-	0.5	(0.8)
Total revenues	185.6	168.6	53.7	53.7	239.3	222.3
EXPENSES						
Program activities:						
Governmental activities:						
General government	18.8	24.7	-	-	18.8	24.7
Public Safety	60.2	51.2	-	-	60.2	51.2
Public works and streets	41.6	37.7	-	-	41.6	37.7
Community development	12.4	12.3	-	-	12.4	12.3
Culture and recreation	25.0	26.5	-	-	25.0	26.5
Interest on long-term debt	2.5	1.9	-	-	2.5	1.9
Business-type activities:						
Ground Ambulance Services	-	-	3.4	3.1	3.4	3.1
Sanitation	-	-	8.6	8.6	8.6	8.6
Sewer	-	-	19.3	20.0	19.3	20.0
Stormwater	-	-	1.4	0.8	1.4	0.8
Water	-	-	11.7	10.9	11.7	10.9
Total expenses	160.5	154.3	44.4	43.4	204.9	197.7
Excess before transfers	25.1	14.3	9.3	10.3	34.4	24.6
Transfers in (out)	1.5	1.4	(1.5)	(1.4)	-	-
Increase/(Decrease) in net position	26.6	15.7	7.8	8.9	34.4	24.6
Net position - beginning - previously stated	404.1	389.6	323.8	314.1	727.9	703.7
Prior period adjustment	-	(1.2)	-	0.7	-	(0.5)
Net position - beginning - restated	404.1	388.4	323.8	314.9	727.9	703.3
Net Position - ending	$ 430.7	$ 404.1	$ 331.6	$ 323.8	$ 762.3	$ 727.9

FY 2019 Governmental Program Revenues and Expenses

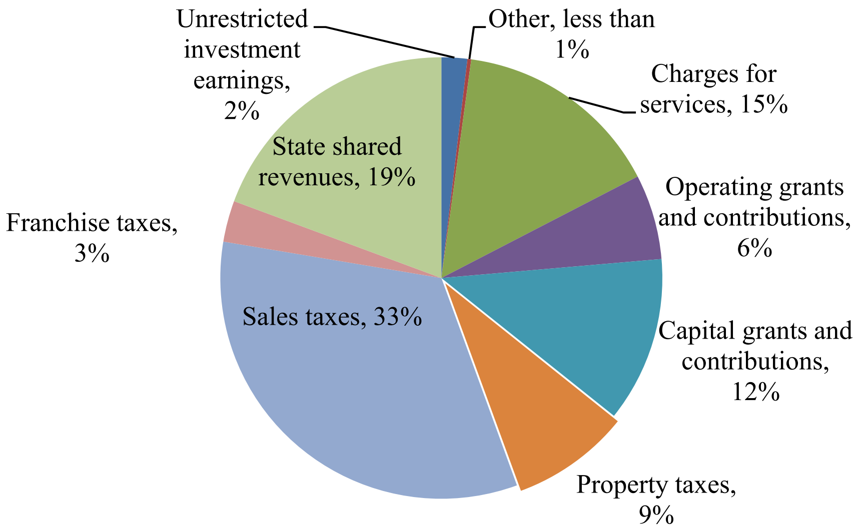


For fiscal year 2019, governmental program expenses exceeded program specific revenues by $98.2 million. The remaining expenses were supported by general governmental revenues.

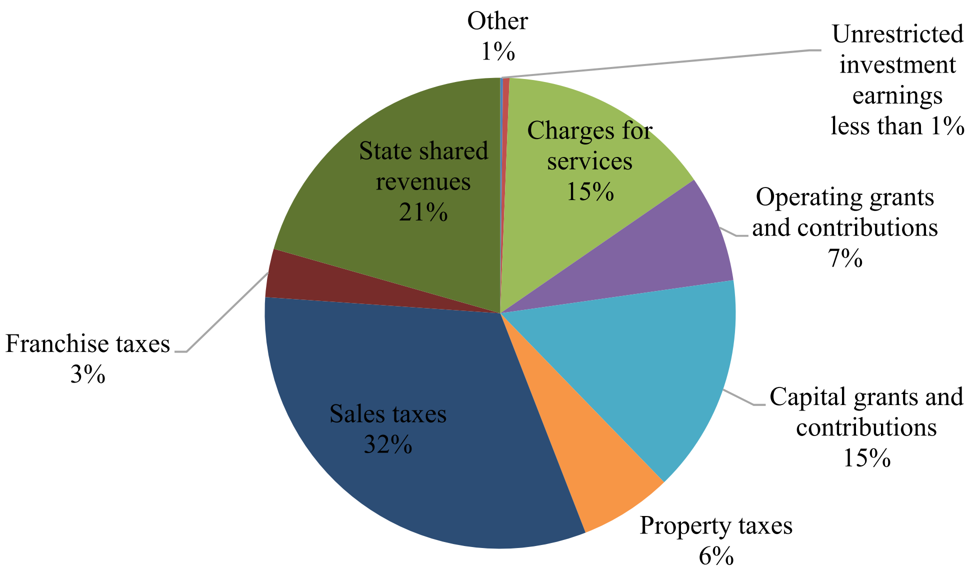
- Charges for services, operating grants and contributions, and capital grants and contributions account for 33.3% of total governmental revenues.
- Community oriented programs such as **Public Safety** (police, fire, and courts) and **Culture and Recreation** (parks, recreation, youth, and senior services) are subsidized by general governmental revenues. The City does not intend to charge for the total cost of these services directly.
  - Culture and Recreation often charges a fee for services it provides, but usually that fee does not cover the entire cost of the service.
- **Community Development** revenues come primarily from construction related activities.
- **SLIDS** are Street Light Improvement Districts that charge a fee/tax to pay for the maintenance of light poles and the electricity used by neighborhood streetlights. Revenues and expenses for SLIDS are included in the public works and streets program.

Governmental Activities Revenues for the fiscal year ended June 30, 2019 totaled $187.1 million and have been identified by major revenue source in percentage format. The prior year percentages have also been provided for comparison.

Fiscal Year 2019 Governmental Activities Revenues

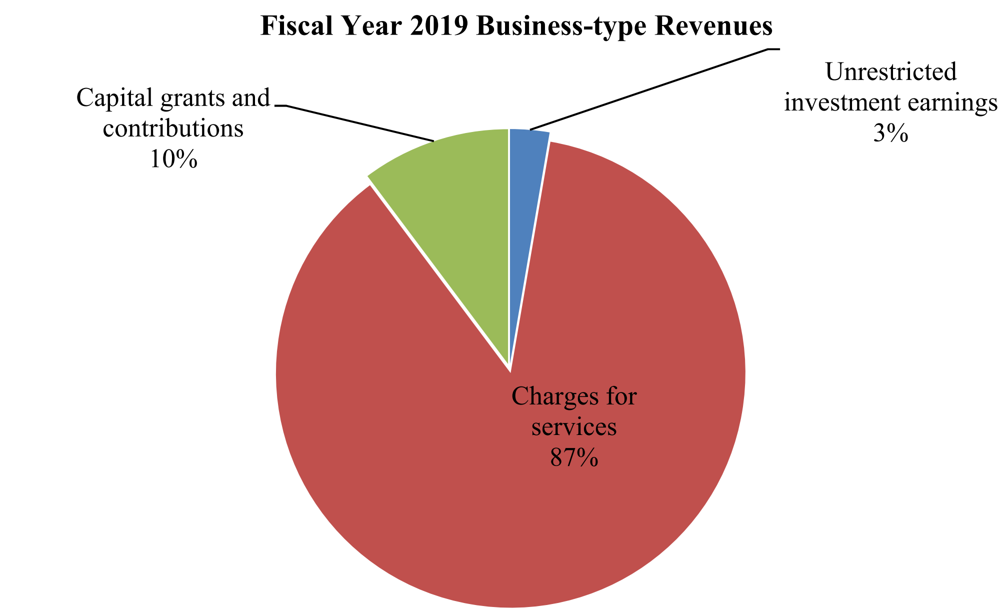


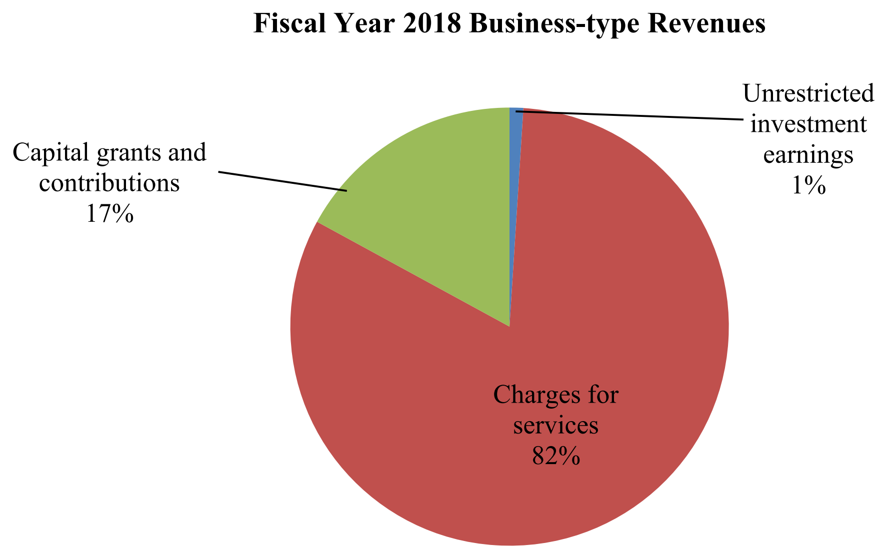
Fiscal Year 2018 Governmental Activities Revenues



- The City's largest revenue source is sales taxes at $61.6 million. This is followed by state shared revenues totaling $35.9 million.
- Total governmental activities revenues increased $17.1 million from the prior year as a result of the following changes in revenue: sales taxes increased $7.2 million due to an improving local economy. Charges for services increased $3.2 million, unrestricted investment earnings increased $3.2 million, other revenue increased $1.3 million, and property taxes increased $5.3 million due to a 7.25% increase in property values and a new secondary property tax which offset the decrease in capital grants and contributions of $3.0 million.

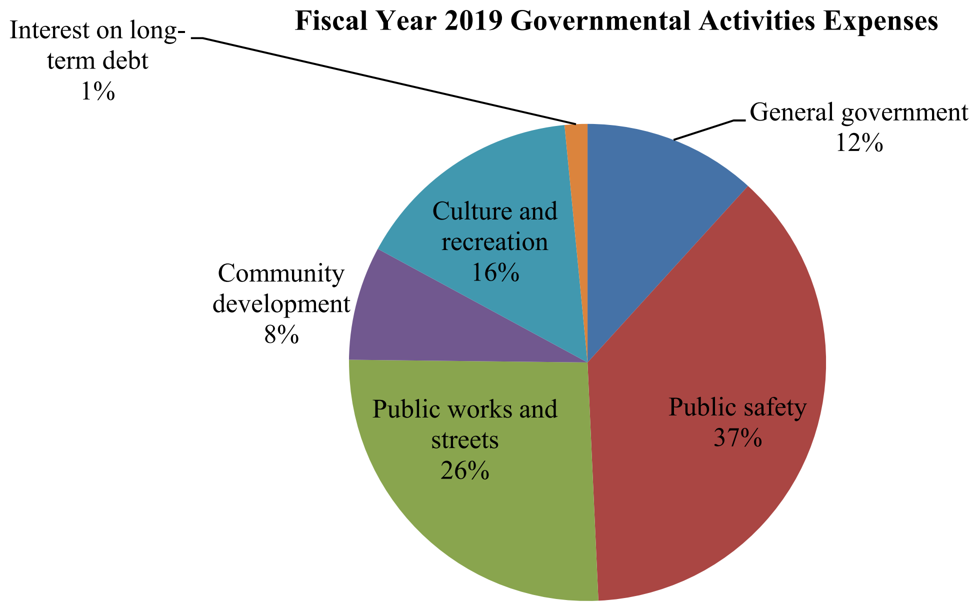
Business-type Revenues for the fiscal year ended June 30, 2019 totaled $53.8 million are identified by major revenue source in percentage format. The prior year percentages have also been provided for comparison.

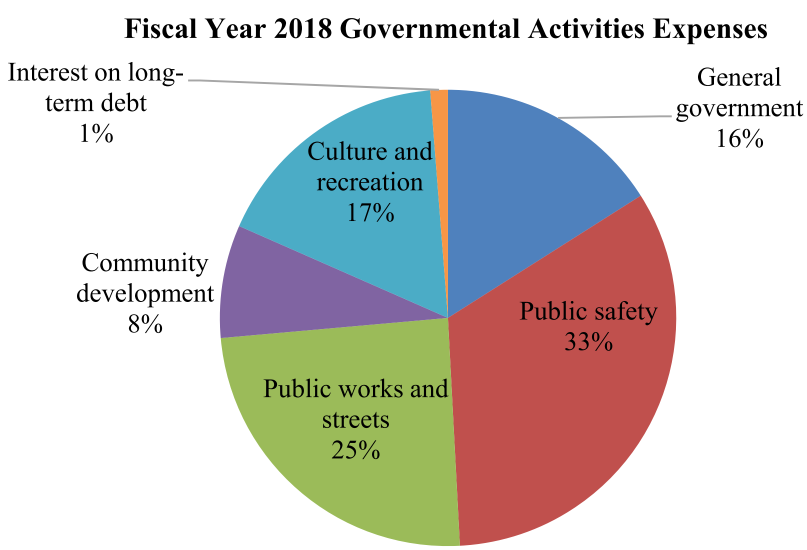




- ❖ Total Business-type revenues stayed stable from the prior fiscal year. The stability in the revenue is the result of increases in charges for services across all of the activities of $3.0 million and an increase in unrestricted investment earnings of $1.3 million compared to the prior year covering the decrease in capital grants and contributions of $4.2 million.

Governmental Activities Expenses for the fiscal year ended June 30, 2019 totaled $160.5 million and are identified by function in percentage format. The prior year percentages have also been provided for comparison.

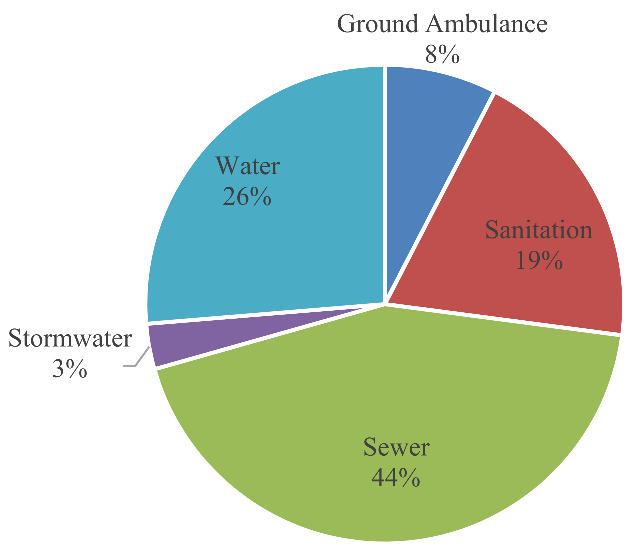




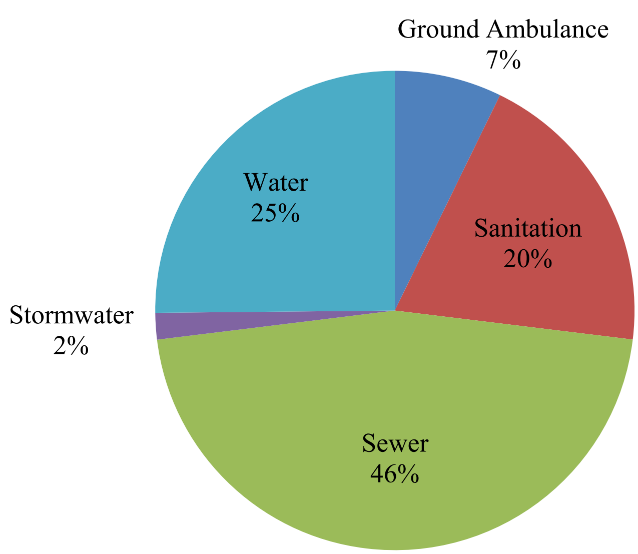
- Current year costs increased by $6.2 million or 4.0% as result of increases in personnel and personnel costs. The single largest expense for the City is the cost of personnel. Public safety has the largest workforce paid from governmental funds. As a result, public safety comprises the largest portion of program expenditures at $60.2 million.

Business-type Expenses for the fiscal year ended June 30, 2019 totaled $44.4 million and are identified by function in percentage format. The prior year percentages have also been provided for comparison.

Fiscal year 2019 Business-type Expenses



Fiscal year 2018 Business-type Expenses



- Business-type expenses increased by $1.0 million or 2.3% from the prior year. The Water Fund mainly contributed to this increase in expenses with the remaining increase spread evenly amongst the other programs. The increase in expenses was the result of personnel cost increases and increases in supplies and services for operations.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

- **Total Governmental Funds** fund balance increased $17.6 million from $110.2 million to $127.8 million. The increase was primarily due to a $12.5 million increase in tax revenues as the result of the new secondary property tax levy to repay the debt service related to the General Obligation Bonds, Series 2018, a $4.0 million increase in charges for services, and a $1.0 million increase in intergovernmental revenues. Of the total ending fund balance, $2.9 million has been classified as nonspendable and is not available to meet future funding needs because it is not in spendable form or is legally or contractually required to be maintained intact. An additional $62.0 million has been classified as restricted and consists of amounts restricted by external parties or as a result of the law. Of the remaining fund balance, $6.4 million has been committed to recognize a specific council determined purpose which may not be used for another purpose without council's direction, but the purpose can be changed by council. There is $20.1 million of fund balance which has been assigned to a specific purpose by the chief financial officer; these amounts may be used for other purposes than the currently assigned positions if the chief financial officer deems it necessary. Finally, there is an unassigned fund balance of $36.3 million which can be used for any purpose.
    - The General Fund balance increased $1.1 million. This change was the result of increases in property taxes, sales taxes, state shared revenues, intergovernmental revenues, charges for services, fines, indirect charges, and interest revenue.
    - The General Capital Projects Fund balance increased $9.5 million. This increase was the result of an increase in transfers in of $8.8 million and increased construction sales taxes and interest revenue.
    - The General Government Development Fee Fund contains $6.0 million in advances from other funds. The cash on hand in the fund is maintained to meet future debt service obligations in accordance with a settlement agreement. The advance will be repaid once sufficient resources are accumulated to meet future debt service obligations.
    - The Highway User Revenue Fund balance increased $1.0 million as a result of increased intergovernmental revenues exceeding the increases in expenditures.
    - The Transportation Improvement Fund balance increased $2.8 million from $2.9 million to $5.7 million. This increase is the result of a $1.2 million decrease in capital outlays related to construction projects during the current year and increased construction sales taxes.
    - The Debt Service Fund balance increased $0.5 million as a result of the new secondary property tax levy to repay the debt service related to the General Obligation Bonds, Series 2018.
    - The Non-Major Governmental Funds fund balance increased $2.1 million. The increase was due to development fees increasing by $1.4 million, interest revenue increasing by $0.6 million and a corresponding reduction in expenditures.

- **Proprietary Fund** financial statements provide similar information contained in the government-wide financial statements but in more detail. Their results are discussed previously in the review of business type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

- ❖ The original General Fund budget for expenditures was $113.0 million. Budget adjustments throughout the year resulted in total budgeted expenditures staying relatively flat and staying at $113.0 million. This was the result of using the General Fund Contingency for additional authorization for departments that needed it as a result of operations.
- ❖ Actual General Fund expenditures totaling $105.8 million were $7.2 million less than budgeted. $1.4 million of the variance is attributable to the Parks and Recreation Department from supplies and services savings. Further, $1.3 million of the savings was the result of vacancy and targeted savings across all departments. The remaining variance of $4.5 million was spread fairly evenly among all of the City's other departments and was a result of conservative spending efforts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets at Year-End Net of Depreciation (in Millions)

	Governmental Activities		Business Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land and improvements	$ 60.9	$ 49.7	$ 4.9	$ 5.1	$ 65.8	$ 54.8
Parks	8.6	9.1	-	-	8.6	9.1
Water rights	-	-	13.7	10.0	13.7	10.0
Construction in progress	9.4	3.0	2.1	0.7	11.5	3.7
Buildings and improvements	124.7	131.0	266.9	276.2	391.6	407.2
Improvements other than buildings	21.6	21.2	6.7	5.3	28.3	26.5
Equipment and vehicles	18.9	18.3	12.2	13.6	31.1	31.9
Intangibles	3.6	4.3	0.3	0.3	3.9	4.6
Infrastructure	193.6	198.7	-	-	193.6	198.7
Total capital assets, net	$441.3	$435.3	$ 306.8	$311.2	$748.1	$746.5

The capital assets of the Governmental Activities increased by $6.0 million from the prior fiscal year, net of depreciation ($27.7 million increase before depreciation).

- ❖ Changes to the Governmental Activities capital assets for fiscal year 2019 were the result of:
  - Current year depreciation expense of $24.5 million.
  - Capital asset donations made to the City. The assets donated consisted of land, streets infrastructure and right-of-ways.
    - ➢ $10.5 million – right-of-ways throughout the city
    - ➢ $5.5 million – streets infrastructure throughout the city

- ❖ Governmental Activities construction in process includes:
  - $2.8 million – Public Works Yard
  - $2.0 million – Asante Library
  - $1.5 million – Civic Center Infrastructure Improvements
  - $0.7 million – Waddell Road (State Route 303 to Reems Road)
  - $0.5 million – District Fire Station 304

The capital assets of the Business Type Activities funds decreased by $4.4 million from the prior fiscal year, net of depreciation ($7.5 million increase before depreciation).

- Changes to the Business Type Activities capital assets for fiscal year 2019 were the result of:
  - Current year depreciation expense of $12.8 million.
  - Capital asset infrastructure donations made to the City. The assets donated consisted of water, sewer, and stormwater utilities.
    - $0.1 million – Stormwater improvements
    - $0.8 million – Sewer lines
    - $0.2 million – Water lines

- Business Type Activities construction in process - includes:
  - $0.6 million – Circle City Water Acquisition
  - $0.3 million – SPA1 Recharge Expansion
  - $0.9 million – SPA1 Rancho Gabriela WSF-Arsenic Treatment Facility
  - $0.1 million – Desert Oasis WSF – Phase 2

- For more detailed information on Capital Assets, see Note 4 of this report.

Outstanding Debt at Year-End (in Millions)

	Governmental		Business Type		Total	
	2019	2018	2019	2018	2019	2018
General obligations	$ 37.3	$ 40.2	$ -	$ -	$ 37.3	$ 40.2
Pledged revenue obligations	23.9	26.6	3.9	4.6	27.8	31.2
Senior lien utility system revenue refunding obligations	-	-	28.1	-	28.1	-
Municipal property corporation bonds	-	-	-	33.7	-	33.7
Community facilities district bonds	11.4	11.8	-	-	11.4	11.8
Community facilities district notes	2.8	2.9	-	-	2.8	2.9
Total debt outstanding	$ 75.4	$ 81.5	$ 32.0	$ 38.3	$ 107.4	$ 119.8

- **Long-term debt**, including amounts due within one year, decreased $12.4 million this year from $119.8 million to $107.4 million. The decrease was the result of the refunding of the 2007 Municipal Property Corporation bonds with the 2018 Senior Lien Utility System Revenue Refunding Obligations which reduced the outstanding principal balance from $33.7 million to $25.3 million prior to the current year's amortization of the obligations. Further, the additional reduction in outstanding debt was the result of current year amortizations.
- For more detailed information on long-term debt, see Note 7 of this report.

ECONOMIC FACTORS, RATES, AND NEXT YEAR'S BUDGET

- **Revenues are expected to increase slightly –** City sales tax is expected to increase 9.5% or $4.4 million over last year's budget as consumer and city spending continues to grow with the economy, as well as city growth. State shared revenues are projected to increase 4.3%. Currently, the City of Surprise is the tenth most populated city in Arizona.
- **Personnel increase –** For the FY2020 budget, city employees received a cost-of-living increase of 1% and potential merit/step increases of an additional 2%. Further, increases in personnel costs are also attributable to the increase in the employer contribution rates to the City's pension plans (PSPRS and ASRS) in FY2020. The FY2020 budget also includes the addition of 53.9 full-time equivalents (FTE) compared to the FY2019 adopted budget primarily to support public safety and enterprise activities. Of this total increase, 11.1 FTE's were added after the FY2019 adopted budget. The increase in FTEs will be offset by an increase in revenues during the fiscal year.
- **Next year's budget –** Total budgeted expenditures for the General Fund for fiscal year 2020 is $121.1 million, a decrease of $9.3 million over the FY2019 adopted budged of $130.4 million. The decrease is mainly due to the removal of the Sports and Tourism Department from the General Fund and a decrease in transfers out to the General Capital Fund. The personnel and services categories increased from FY2019 to FY2020 which partially offset the decreases.

FINANCIAL CONTACT

The financial report is designed to provide a general overview of the City of Surprise's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information, should be addressed to the City's Chief Financial Officer at: 16000 North Civic Center Plaza, Surprise, Arizona 85374.

FINANCIAL SECTION – BASIC FINANCIAL STATEMENTS
GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Financial Section is divided into five subsections. The third subsection is comprised of the Basic Financial Statements that are the core of general-purpose external financial reporting for local governments and are separated into three components. The first component is comprised of the government-wide financial statements. These financial statements incorporate all of the City's governmental and business-type activities. The business-type activities are financed in whole or in part by fees charged to external parties for goods or services. There are two basic government-wide financial statements: the statement of net position and the statement of activities.

SURPRISE

ARIZONA

City of Surprise, Arizona
Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	$ 106,078,587	$ 49,868,201	$ 155,946,788
Restricted cash and investments	48,638,859	11,924,664	60,563,523
Receivables (net of allowances)			
Accounts	284,607	5,622,632	5,907,239
Taxes and franchise fees	10,388,357	-	10,388,357
Grants	244,955	-	244,955
Intergovernmental	872,860	-	872,860
Other	1,153,450	42,084	1,195,534
Prepaid items and other assets	864,899	276,751	1,141,650
Inventory	1,132,086	872,847	2,004,933
Internal balances	(8,247,929)	8,247,929	-
Total current assets	161,410,731	76,855,108	238,265,839
Noncurrent assets:			
Equity interest in joint venture	1,061,275	-	1,061,275
Net other postemployment benefits asset	105,851	29,234	135,085
Capital assets, non-depreciable	78,859,132	20,688,778	99,547,910
Capital assets, depreciable	724,408,161	415,319,801	1,139,727,962
Accumulated depreciation	(361,977,040)	(129,215,885)	(491,192,925)
Total noncurrent assets	442,457,379	306,821,928	749,279,307
Total assets	603,868,110	383,677,036	987,545,146
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources - Pension related	25,042,439	1,969,370	27,011,809
Deferred Outflows of Resources - Loss on refunding	108,905	-	108,905
Deferred Outflows of Resources - Other postemployment benefits	510,997	119,614	630,611
Total deferred outflows of resources	25,662,341	2,088,984	27,751,325
Total assets and deferred outflows of resources	629,530,451	385,766,020	1,015,296,471
LIABILITIES			
Current liabilities:			
Accounts payable	6,603,974	1,989,883	8,593,857
Accrued payroll and related taxes	2,885,077	420,704	3,305,781
Deposits	154,095	400,676	554,771
Unearned revenues	1,819,832	592,805	2,412,637
Contracts payable, due in less than one year	2,318,743	401,479	2,720,222
Claims payable	1,764,489	-	1,764,489
Other liabilities	1,070,650	-	1,070,650
Compensated absences payable, due in less than one year	3,431,469	396,635	3,828,104
Matured bond and loan interest payable	2,517,547	719,337	3,236,884
Matured bond and loans payable	5,352,900	1,642,100	6,995,000
Bonds, loans and payables due in less than one year	5,908,700	1,581,300	7,490,000
Total current liabilities	33,827,476	8,144,919	41,972,395
Noncurrent liabilities:			
Contracts payable, due in more than one year	-	2,213,331	2,213,331
Compensated absences payable, due in more than one year	4,937,965	570,766	5,508,731
Bonds, loans and payables due in more than one year	69,519,826	30,460,451	99,980,277
Net pension liability	80,685,680	11,273,996	91,959,676
Net other postemployment benefits liability	324,878	43,272	368,150
Total noncurrent liabilities	155,468,349	44,561,816	200,030,165
Total liabilities	$ 189,295,825	$ 52,706,735	$ 242,002,560

See accompanying Notes to Financial Statements

City of Surprise, Arizona
Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources - Pension Related	$ 8,818,745	$ 1,346,879	$ 10,165,624
Deferred Inflows of Resources - other postemployment benefits related	717,514	91,208	808,722
Total deferred inflows of resources	9,536,259	1,438,087	10,974,346
Total liabilites and deferred inflows of resources	198,832,084	54,144,822	252,976,906
NET POSITION			
Net investment in capital assets	399,420,150	274,750,943	674,171,093
Restricted for:			
City Manager's Office	544	-	544
Court	209,526	-	209,526
Debt Service	625,449	11,945	637,394
Economic Development	6,822	-	6,822
Fire-Medical	6,022,381	-	6,022,381
Human Services and Community Vitality	41,104	-	41,104
Library	2,685,524	-	2,685,524
Parks and recreation	2,956,922	-	2,956,922
Police	4,929,371	-	4,929,371
Public Works	7,057,332	-	7,057,332
System repair and replacement	-	8,154,572	8,154,572
Transportation	4,927,395	-	4,927,395
Capital projects	-	4,765,592	4,765,592
Unrestricted	1,815,847	43,938,146	45,753,993
Total net position	$ 430,698,367	$ 331,621,198	$ 762,319,565

See accompanying Notes to Financial Statements

SURPRISE
ARIZONA

City of Surprise, Arizona
Statement of Activities
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General Government	$ 18,847,192	$ 6,744,068	$ 15,909	$ 1,019,295
Public Safety	60,235,535	1,948,725	1,369,379	4,356,719
Public works and streets	41,578,280	4,100,847	9,292,212	5,478,225
Community Development	12,382,036	9,901,258	39,291	10,482,747
Culture and recreation	24,970,626	5,590,198	838,427	1,131,030
Interest on long-term debt	2,473,876	-	-	-
Total governmental activities	160,487,545	28,285,096	11,555,218	22,468,016
Business-type activities:				
Ground Ambulance Services	3,375,334	3,284,354	-	42,084
Sanitation Fund	8,657,107	7,859,915	-	-
Sewer Fund	19,340,045	17,612,146	-	3,680,388
Stormwater Fund	1,363,889	1,987,661	-	98,216
Water Fund	11,690,946	16,125,842	-	1,689,004
Total business-type activities	44,427,321	46,869,918	-	5,509,692
Total primary government	$ 204,914,866	$ 75,155,014	$ 11,555,218	$ 27,977,708

General revenues:
Property taxes
Sales taxes
Franchise taxes
Unrestricted State shared revenues
Unrestricted investment earnings
Other
Transfers
Total general revenues, special items, and transfers
Change in net position
Net position - beginning
Net position - ending

See accompanying Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (11,067,920)	$ -	$ (11,067,920)
(52,560,712)	-	(52,560,712)
(22,706,996)	-	(22,706,996)
8,041,260	-	8,041,260
(17,410,971)	-	(17,410,971)
(2,473,876)	-	(2,473,876)
(98,179,215)	-	(98,179,215)
-	(48,896)	(48,896)
-	(797,192)	(797,192)
-	1,952,489	1,952,489
-	721,988	721,988
-	6,123,900	6,123,900
-	7,952,289	7,952,289
(98,179,215)	7,952,289	(90,226,926)
16,143,232	-	16,143,232
61,596,634	-	61,596,634
5,609,625	-	5,609,625
35,899,596	-	35,899,596
3,494,962	1,458,327	4,953,289
517,587	-	517,587
1,541,101	(1,541,101)	-
124,802,737	(82,774)	124,719,963
26,623,522	7,869,515	34,493,037
404,074,845	323,751,683	727,826,528
$ 430,698,367	$ 331,621,198	$ 762,319,565

See accompanying Notes to Financial Statements

SURPRISE

ARIZONA

FINANCIAL SECTION – BASIC FINANCIAL STATEMENTS
FUND FINANCIAL STATEMENTS

The Financial Section is divided into five subsections. The fourth subsection is also comprised of the Basic Financial Statements that are the core of general-purpose external financial reporting for local governments and are separated into three components. The second component is comprised of the fund financial statements. These financial statements are presented on the basis of funds, in contrast to the government-wide financial statements.

SURPRISE

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City of Surprise, Arizona
Balance Sheet
Governmental Funds
June 30, 2019

	General Fund	General Capital Projects Fund	General Government Development Fee Fund
ASSETS			
Cash and investments	$ 36,999,525	$ 20,520,660	$ 1,079,904
Restricted cash and investments	4,527,969	33,449,520	-
Receivables (net of allowances)			
Accounts	284,607	-	-
Taxes and franchise fees	10,258,487	-	-
Grants	-	-	-
Intergovernmental	42,575	-	-
Due from other funds	169,925	-	-
Other	336,464	55,823	-
Prepaid items and other assets	828,870	21,684	-
Inventory	497,348	-	-
Advances to other funds	870,950	-	-
Total assets	$ 54,816,720	$ 54,047,687	$ 1,079,904
LIABILITIES			
Accounts payable	$ 2,121,703	$ 1,751,035	$ -
Accrued payroll and related taxes	2,754,230	-	-
Due to other funds	-	-	-
Deposits	100,506	-	-
Unearned revenue	1,234,568	-	-
Contracts payable	2,180,596	-	-
Other liabilities	980,382	-	-
Matured bond interest payable	-	-	-
Matured bonds payable	-	-	-
Advances from other funds	-	-	5,993,321
Total liabilities	9,371,985	1,751,035	5,993,321
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Unavailable revenue	147,794	-	-
Total deferred inflow of resources	147,794	-	-
Total liabilities and deferred inflows of resources	9,519,779	1,751,035	5,993,321
FUND BALANCES (DEFICITS)			
Nonspendable	2,197,168	21,684	-
Restricted	454,024	32,584,383	-
Committed	-	-	-
Assigned	393,622	19,690,585	-
Unassigned	42,252,127	-	(4,913,417)
Total fund balances (deficits)	45,296,941	52,296,652	(4,913,417)
Total liabilities and fund balances (deficits)	$ 54,816,720	$ 54,047,687	$ 1,079,904

See accompanying Notes to Financial Statements.

Highway User Revenue Fund	Transportation Improvement Fund	Debt Service Fund	Total Nonmajor Funds	Total Governmental Funds
$ 2,297,504	$ 6,321,441	$ -	26,713,291	$ 93,932,325
45,459	99,024	7,629,264	2,887,623	48,638,859
-	-	-	-	284,607
-	-	79,337	50,533	10,388,357
-	-	-	244,955	244,955
830,285	-	-	-	872,860
-	-	-	-	169,925
-	-	-	4,200	396,487
3,042	-	-	5,208	858,804
606,563	-	-	28,175	1,132,086
-	-	-	-	870,950
$ 3,782,853	$ 6,420,465	$ 7,708,601	$ 29,933,985	$ 157,790,215
$ 611,168	$ 584,653	$ -	$ 1,493,291	$ 6,561,850
109,084	4,872	-	3,766	2,871,952
-	-	-	169,925	169,925
-	52,215	-	1,374	154,095
2,000	-	-	583,264	1,819,832
-	-	-	138,147	2,318,743
43,459	46,809	-	-	1,070,650
-	-	2,290,427	227,120	2,517,547
-	-	4,897,900	455,000	5,352,900
-	-	-	972,323	6,965,644
765,711	688,549	7,188,327	4,044,210	29,803,138
-	-	35,630	31,496	214,920
-	-	35,630	31,496	214,920
765,711	688,549	7,223,957	4,075,706	30,018,058
609,605	-	-	33,383	2,861,840
2,407,537	-	484,644	26,085,833	62,016,421
-	5,731,916	-	714,612	6,446,528
-	-	-	-	20,084,207
-	-	-	(975,549)	36,363,161
3,017,142	5,731,916	484,644	25,858,279	127,772,157
$ 3,782,853	$ 6,420,465	$ 7,708,601	$ 29,933,985	$ 157,790,215

City of Surprise, Arizona
Reconciliation of the Governmental Funds Balance Sheet Fund Balances
to the Statement of Net Position
June 30, 2019

Fund balances - total governmental funds		$ 127,772,157
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental capital assets	803,267,293	
Less accumulated depreciation	(361,977,040)	
		441,290,253
Some revenues will not be available to pay for current-period expenditures and, therefore, are unavailable in the funds.		214,920
Internal Service Funds used by management to charge the costs of employee healthcare, risk management, and workers' compensation to individual funds are included in the statement of net position.		
Net position (adjusted for interfund activity)	8,936,346	
Net pension liability	(434,581)	
Deferred Outflows	73,933	
Deferred Inflows	(51,378)	
Compensated absences	(47,266)	
Net OPEB asset	1,142	
Net OPEB asset/liability deferred outflows	4,654	
Net OPEB asset/liability deferred inflows	(3,493)	
Net OPEB liability	(1,633)	
		8,477,724
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	24,968,505	
Deferred inflows of resources related to pensions	(8,767,365)	
		16,201,140
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds payable	(70,873,687)	
Issuance premium (to be amortized as interest expense)	(4,554,839)	
Net pension liability	(80,251,099)	
Compensated absences payable	(8,322,167)	
Deferred Outflow of resources related to loss on refunding	108,905	
Net OPEB Asset	104,709	
Net OPEB Liability	(323,247)	
		(164,111,425)

See accompanying Notes to Financial Statements

City of Surprise, Arizona
Reconciliation of the Governmental Funds Balance Sheet Fund Balances
to the Statement of Net Position
June 30, 2019

The equity interest in the joint venture, Regional Wireless Cooperative, is not a financial resource and, therefore, is not reported in the funds.		1,061,275
Deferred Outflows and Inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of resources related to OPEB	506,343	
Deferred Inflows of resources related to OPEB	(714,020)	
		(207,677)
Net position of governmental activities		$ 430,698,367

See accompanying Notes to Financial Statements

City of Surprise, Arizona
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019

	General Fund	General Capital Projects Fund	General Government Development Fee Fund	Highway User Revenue Fund
REVENUES				
Taxes	$ 56,238,268	$ 7,037,652	$ -	$ -
Licenses and permits	5,991,243	-	-	-
Intergovernmental revenues	36,165,011	-	-	9,166,292
Charges for services	18,377,414	-	-	11,250
Grants revenue	-	-	-	-
Fines	1,452,165	-	-	-
Rents	724,073	-	-	-
Development fees	-	-	994,895	-
Interest revenue(loss)	983,101	1,298,450	27,386	54,623
Donations	125,872	-	-	-
Indirect charges	5,481,600	-	-	-
Other revenue	425,453	166,882	-	17,941
Total revenues	125,964,200	8,502,984	1,022,281	9,250,106
EXPENDITURES				
Current:				
General Government	17,241,199	-	-	-
Public Safety	51,055,282	-	-	-
Public works and streets	7,533,758	-	-	7,323,383
Community Development	11,795,543	-	-	-
Culture and recreation	18,003,987	-	-	-
Debt service:				
Administrative charges	-	-	-	-
Principal retirement	-	-	-	-
Interest	-	-	-	-
Bond issuance costs	-	-	-	-
Capital outlay:				
General Government	18,832	942,183	-	-
Public Safety	64,085	2,356,347	-	-
Public works and streets	44,454	12,156,698	-	939,663
Community Development	16,241	609,997	-	-
Culture and recreation	-	1,482,157	-	-
Total expenditures	105,773,381	17,547,382	-	8,263,046
Excess (deficiency) of revenues over expenditures	20,190,819	(9,044,398)	1,022,281	987,060
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	276,091	-	-	-
Transfers in	1,292,678	18,510,000	-	-
Transfers out	(20,603,292)	(13)	(367,248)	-
Total other financing sources (uses)	(19,034,523)	18,509,987	(367,248)	-
Net change in fund balances	1,156,296	9,465,589	655,033	987,060
Fund balances - beginning	44,184,359	42,831,063	(5,568,450)	2,052,122
Increase (decrease) in inventories	(43,714)	-	-	(22,040)
Fund Balances (deficits) - ending	$ 45,296,941	$ 52,296,652	$ (4,913,417)	$ 3,017,142

See accompanying Notes to Financial Statements

Transportation Improvement Fund	Debt Service Fund	Total Nonmajor Funds	Total Governmental Funds
$ 5,650,672	$ 4,364,666	$ 4,448,218	$ 77,739,476
-	-	-	5,991,243
-	-	442,923	45,774,226
-	-	800,598	19,189,262
-	-	1,581,233	1,581,233
-	-	336,580	1,788,745
-	-	-	724,073
-	-	5,487,264	6,482,159
135,200	77,457	723,712	3,299,929
-	-	-	125,872
-	-	-	5,481,600
63,562	-	52,726	726,564
5,849,434	4,442,123	13,873,254	168,904,382
-	-	116,938	17,358,137
-	-	938,348	51,993,630
2,836,409	-	2,886,636	20,580,186
56,668	-	289,575	12,141,786
-	-	1,609,771	19,613,758
-	1,051	3,800	4,851
-	4,897,900	455,000	5,352,900
-	2,817,215	454,240	3,271,455
-	-	-	-
-	-	36,900	997,915
-	-	120,826	2,541,258
167,122	-	1,827,493	15,135,430
-	-	-	626,238
-	-	2,041,602	3,523,759
3,060,199	7,716,166	10,781,129	153,141,303
2,789,235	(3,274,043)	3,092,125	15,763,079
-	-	-	276,091
-	3,750,488	124,008	23,677,174
-	-	(1,098,648)	(22,069,201)
-	3,750,488	(974,640)	1,884,064
2,789,235	476,445	2,117,485	17,647,143
2,942,681	8,199	23,712,619	110,162,593
-	-	28,175	(37,579)
$ 5,731,916	$ 484,644	$ 25,858,279	$ 127,772,157

City of Surprise, Arizona
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

Net change in fund balances - total governmental funds		$ 17,647,143
Amounts reported for governmental activities in the statement of net position are different because:		
Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.		
Expenditures for Capitalized Assets	15,065,606	
Less Current Year Depreciation	(24,471,731)	
		(9,406,125)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.		
Capital Contributions	15,985,382	
Disposals of Assets	(541,976)	
		15,443,406
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(68,863)
Inventories are recorded using the purchases method in the governmental funds and an adjustment is made to record inventory using the consumption method for the statement of activities.		
Change in Inventory		(37,579)
Governmental funds report City pension contributions as expenditures when made. However, in the statement of activities, pension expense is the cost of benefits earned adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and the investment experience.		
Pension Contributions	10,393,630	
Pension Expense	(13,003,065)	
		(2,609,435)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Also, the effect of premiums, discounts and similar items when debt is first issued.These items are current finance resources or uses to governmental funds whereas, these amounts are amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term liabilities and debt related items.		
Amortization of Issuance Premium	691,438	
Principal Paid	5,352,900	
Amortization of Loss on refunding	(108,904)	
		5,935,434
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when the financial resources are available.		
Increase in compensated absences	(1,433,458)	
Interest Expense	218,846	
		(1,214,612)

See accompanying Notes to Financial Statements

City of Surprise, Arizona
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019

Internal service funds are used by management to charge the costs of employee healthcare, risk management, and workers' compensation. The net revenue of certain activities of the internal services funds is reported in the statement of activities.		
Change in Net Position for the Internal Service Funds (adjusted for interfund activity)		$ 987,294
Change in Equity Interest in Joint Venture		(39,213)
Governmental funds report City OPEB contributions as expenditures when made. However, in the statement of activities, OPEB expense is the cost of benefits earned adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to OPEB, and the investment experience.		
OPEB Contributions	265,927	
OPEB Expense	(279,855)	
		(13,928)
Change in net position of governmental activities		$ 26,623,522

See accompanying Notes to Financial Statements

City of Surprise, Arizona
Statement of Net Position
Proprietary Funds
June 30, 2019

	Business-Type Activities		
	Ground Ambulance Services Fund	Water Fund	Sewer Fund
ASSETS			
Current assets:			
Cash and investments	$ 244,102	$ 21,569,721	$ 22,251,532
Restricted cash and investments	-	2,550,678	9,178,142
Receivables (net of allowances)			
Accounts	1,327,590	1,449,644	1,390,825
Other	42,084	-	-
Other assets	3,209	239,209	29,311
Inventory	37,513	247,172	457,557
Total current assets	1,654,498	26,056,424	33,307,367
Noncurrent assets:			
Advances to other funds	-	-	6,965,644
Net other postemployment benefits asset	2,988	7,773	10,348
Capital assets	1,325,069	134,275,254	289,616,913
Accumulated depreciation	(235,201)	(32,942,179)	(91,443,533)
Total noncurrent assets	1,092,856	101,340,848	205,149,372
Total assets	2,747,354	127,397,272	238,456,739
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	269,308	503,525	670,274
Deferred outflows related to other postemployment benefits	12,584	31,700	42,198
Total deferred outflows of resources	281,892	535,225	712,472
Total assets and deferred outflows of resources	$ 3,029,246	$ 127,932,497	$ 239,169,211
LIABILITIES			
Current liabilities:			
Accounts payable	$ 54,925	$ 1,021,966	$ 476,109
Accrued payroll and related taxes	69,515	102,145	136,848
Deposits	-	64,912	275,148
Unearned revenue	-	-	483,074
Claims payable	-	-	-
Compensated absences payable, due in less than one year	25,395	104,451	174,382
Contracts payable	-	111,150	290,329
Matured bond interest payable	-	-	719,337
Matured bonds and loans payable	-	-	1,642,100
Bonds, loans and payables, due in less than one year	-	-	1,581,300
Advances from other funds	870,950	-	-
Total current liabilities	1,020,785	1,404,624	5,778,627
Noncurrent liabilities:			
Compensated absences payable, due in more than one year	36,544	150,308	250,939
Contracts payable, due in more than one year	-	2,213,331	-
Bonds, loans and payables, due in more than one year	-	-	30,460,451
Net pension liability	1,281,034	2,959,721	3,939,870
Net other postemployment benefits liability	5,751	11,113	14,793
Total noncurrent liabilities	1,323,329	5,334,473	34,666,053
Total liabilities	2,344,114	6,739,097	40,444,680
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	165,469	349,911	465,788
Deferred inflows related to other postemployment benefits	10,881	23,792	31,670
Total deferred inflows of resources	176,350	373,703	497,458
Total liabilities and deferred inflows of resources	2,520,464	7,112,800	40,942,138
NET POSITION			
Net investment in capital assets	1,089,868	101,333,075	166,131,629
Restricted for:			
Debt service	-	-	11,945
System repair and replacement	-	2,374,616	5,754,458
Capital projects	-	4,348,495	417,097
Unrestricted	(581,086)	12,763,511	25,911,944
Total net position	$ 508,782	$ 120,819,697	$ 198,227,073

Difference between business-type adjustments to assets and liabilities.
Net position of business-type activities

See accompanying Notes to Financial Statements

Business-Type Activities			Governmental Activities
Sanitation Fund	Stormwater Fund	Total Enterprise Funds	Internal Service Funds
$ 3,777,014	$ 2,025,832	$ 49,868,201	$ 12,146,262
133,698	62,146	11,924,664	-
650,301	804,272	5,622,632	-
-	-	42,084	756,963
4,934	88	276,751	6,095
130,605	-	872,847	-
4,696,552	2,892,338	68,607,179	12,909,320
-	-	6,965,644	-
6,988	1,137	29,234	1,142
8,954,987	1,836,356	436,008,579	-
(4,504,039)	(90,933)	(129,215,885)	-
4,457,936	1,746,560	313,787,572	1,142
9,154,488	4,638,898	382,394,751	12,910,462
452,644	73,619	1,969,370	73,933
28,497	4,635	119,614	4,654
481,141	78,254	2,088,984	78,587
$ 9,635,629	$ 4,717,152	$ 384,483,735	$ 12,989,049
$ 431,896	$ 4,987	$ 1,989,883	$ 42,124
97,422	14,774	420,704	13,125
60,616	-	400,676	-
73,083	36,648	592,805	-
-	-	-	1,764,489
85,444	6,963	396,635	19,379
-	-	401,479	-
-	-	719,337	-
-	-	1,642,100	-
-	-	1,581,300	-
-	-	870,950	-
748,461	63,372	9,015,869	1,839,117
122,956	10,019	570,766	27,887
-	-	2,213,331	-
-	-	30,460,451	-
2,660,641	432,730	11,273,996	434,581
9,990	1,625	43,272	1,633
2,793,587	444,374	44,561,816	464,101
3,542,048	507,746	53,577,685	2,303,218
314,552	51,159	1,346,879	51,378
21,387	3,478	91,208	3,493
335,939	54,637	1,438,087	54,871
3,877,987	562,383	55,015,772	2,358,089
4,450,948	1,745,423	274,750,943	-
-	-	11,945	-
-	25,498	8,154,572	-
-	-	4,765,592	-
1,306,694	2,383,848	41,784,911	10,630,960
$ 5,757,642	$ 4,154,769	$ 329,467,963	$ 10,630,960
		2,153,235	
		$ 331,621,198	

See accompanying Notes to Financial Statements

City of Surprise, Arizona
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2019

	Business-Type Activities		
	Ground Ambulance Services Fund	Water Fund	Sewer Fund
OPERATING REVENUES			
Charges for services	$ 3,283,314	$ 15,946,250	$ 17,599,661
Other revenue	1,039	159,045	7,745
Total operating revenues	3,284,353	16,105,295	17,607,406
OPERATING EXPENSES			
Costs of sales and services	2,881,347	6,695,637	7,402,980
Personnel services	-	-	-
Contractual services, materials & supplies	-	-	-
Insurance claims, premiums, and administrative expenses	-	-	-
Indirect costs	381,700	1,522,100	1,647,200
Depreciation	130,767	3,530,638	8,068,139
Total operating expenses	3,393,814	11,748,375	17,118,319
Operating income (loss)	(109,461)	4,356,920	489,087
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	6,264	514,822	768,705
Developer reimbursement	-	(23,182)	(584,458)
Gain\(Loss) on disposal of capital assets	-	20,547	4,741
Amortization on premium	-	-	309,604
Interest and fiscal charges	-	-	(2,130,233)
Total nonoperating revenues (expenses)	6,264	512,187	(1,631,641)
Income (loss) before contributions and transfers	(103,197)	4,869,107	(1,142,554)
Transfers in	-	1,459,830	-
Transfers out	(1,384)	(602,927)	(2,404,633)
Capital contributions and grants	78,514	1,693,658	3,681,068
Change in net position	(26,067)	7,419,668	133,881
Total net position - beginning	534,849	113,400,029	198,093,192
Total net position - ending	$ 508,782	$ 120,819,697	$ 198,227,073

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds
Changes in net position of business-type activities

See accompanying Notes to Financial Statements

Business-Type Activities			Governmental Activities
Sanitation Fund	Stormwater Fund	Total Enterprise Funds	Internal Service Funds
$ 7,819,511	$ 1,915,422	$ 46,564,158	$ 16,067,377
8,997	72,239	249,065	524,047
7,828,508	1,987,661	46,813,223	16,591,424
5,905,724	1,152,868	24,038,556	-
-	-	-	521,698
-	-	-	366,784
-	-	-	14,573,051
1,763,400	167,200	5,481,600	-
1,038,210	48,772	12,816,526	-
8,707,334	1,368,840	42,336,682	15,461,533
(878,826)	618,821	4,476,541	1,129,891
119,555	48,981	1,458,327	195,034
-	-	(607,640)	-
31,407	-	56,695	-
-	-	309,604	-
-	-	(2,130,233)	-
150,962	48,981	(913,247)	195,034
(727,864)	667,802	3,563,294	1,324,925
-	-	1,459,830	-
(57,458)	(1,401)	(3,067,803)	-
25,107	98,216	5,576,563	-
(760,215)	764,617	7,531,884	1,324,925
6,517,857	3,390,152	321,936,079	9,306,035
$ 5,757,642	$ 4,154,769	$ 329,467,963	$ 10,630,960
		337,631	
		$ 7,869,515	

City of Surprise, Arizona
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2019

	Business-Type Activities		
	Ground Ambulance Services Fund	Water Fund	Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	$ 2,942,425	$ 16,214,885	$ 17,831,630
Cash receipts from interfund services provided	-	-	-
Cash Other	1,039	159,045	7,745
Payments to employees	(1,912,371)	(3,015,324)	(3,890,004)
Payments to suppliers	(883,672)	(4,978,329)	(5,583,844)
Payments for insurance claims and expenses	-	-	-
Net cash provided (used) by operating activities	147,421	8,380,277	8,365,527
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from other funds	246,100	-	1,534,648
Cash paid to other funds	(1,384)	(602,927)	(944,803)
Net cash provided (used) by noncapital financing activities	244,716	(602,927)	589,845
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds received from development fees	-	1,462,199	2,792,081
Proceeds received from extension fees	-	-	75,429
Proceeds received issuance of bonds	-	-	29,421,127
Principal and interest paid on bonds, loans and payables	-	-	(36,291,215)
Sale/Acquisition of capital assets	(318,250)	(3,764,849)	(2,486,364)
Developer reimbursements	-	(155,942)	(584,458)
Net cash provided (used) by capital and related financing activities	(318,250)	(2,458,592)	(7,073,400)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from interest income/(loss)	6,264	514,822	768,705
Net cash provided (used) by investing activities	6,264	514,822	768,705
Net increase (decrease) in cash and cash equivalents	80,151	5,833,580	2,650,677
Balances - beginning of year	163,951	18,286,819	28,778,997
Balances - end of the year	$ 244,102	$ 24,120,399	$ 31,429,674
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating Income (loss)	$ (109,461)	$ 4,356,920	$ 489,087
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	130,767	3,530,638	8,068,139
Changes in assets and liabilities:			
Accounts receivable	(340,885)	254,801	92,075
Other receivables	-	20,340	-
Other assets	(1,816)	74,331	(14,585)
Inventory	(17,005)	(97,413)	(234,973)
Accounts payable	(56,910)	308,767	107,994
Accrued payroll and related taxes	25,686	(901)	11,265
Deposits	(4)	(6,506)	161,746
Unearned revenue	-	-	(21,852)
Compensated absences	31,089	(2,850)	381
Net pension liability	484,209	(56,138)	(291,686)
Claims payable	-	-	-
Net other postemployment asset/liability	1,751	(1,712)	(2,064)
Net cash provided (used) by operating activities	$ 147,421	$ 8,380,277	$ 8,365,527
Noncash investing, capital and financing activities			
Capital asset contributions from developers	$ -	$ 226,805	$ 813,558
Capital asset contributions from other funds/governmental activities	36,430	1,464,484	(1,459,830)
Increase in the fair market value of investments	2,418	219,926	290,824
Total noncash investing, capital and financing activities	$ 38,848	$ 1,911,215	$ (355,448)
Reconciliation to Statement of Net Position			
Cash and investments	$ 244,102	$ 21,569,721	$ 22,251,532
Restricted cash and investments	-	2,550,678	9,178,142
Total cash and investments	$ 244,102	$ 24,120,399	$ 31,429,674
Total Cash	$ 244,102	$ 24,120,399	$ 31,429,674

See accompanying Notes to Financial Statements

Business-Type Activities			Governmental Activities
Sanitation Fund	Stormwater Fund	Total Enterprise Funds	Internal Service Funds
$ 7,747,275	$ 1,797,603	$ 46,533,818	$ 945,929
-	-	-	15,094,965
8,997	72,239	249,065	-
(2,952,736)	(460,908)	(12,231,343)	(457,888)
(4,800,686)	(453,189)	(16,699,720)	(394,202)
-	-	-	(14,261,599)
2,850	955,745	17,851,820	927,205
-	-	1,780,748	-
(57,458)	(1,401)	(1,607,973)	-
(57,458)	(1,401)	172,775	-
-	-	4,254,280	-
-	-	75,429	-
-	-	29,421,127	-
-	-	(36,291,215)	-
(146,763)	(463,235)	(7,179,461)	-
-	-	(740,400)	-
(146,763)	(463,235)	(10,460,240)	-
119,555	48,981	1,458,327	195,034
119,555	48,981	1,458,327	195,034
(81,816)	540,090	9,022,682	1,122,239
3,992,528	1,547,888	52,770,183	11,024,023
$ 3,910,712	$ 2,087,978	$ 61,792,865	$ 12,146,262
$ (878,826)	$ 618,821	4,476,541	$ 1,129,891
1,038,210	48,772	12,816,526	-
(19,637)	(114,987)	(128,633)	-
-	-	20,340	(550,530)
(1,222)	1,084	57,792	21,849
(44,726)	-	(394,117)	-
172,435	(2,635)	529,651	(51,129)
13,967	293	50,310	(1,314)
(46,984)	-	108,252	-
(5,614)	(2,832)	(30,298)	-
15,748	(2,372)	41,996	10,633
(239,148)	410,270	307,507	54,804
-	-	-	313,314
(1,353)	(669)	(4,047)	(313)
$ 2,850	$ 955,745	$ 17,851,820	$ 927,205
$ -	$ 98,216	$ 1,138,579	$ -
25,107	-	66,191	-
50,923	21,070	585,161	84,826
$ 76,030	$ 119,286	$ 1,789,931	$ 84,826
$ 3,777,014	$ 2,025,832	$ 49,868,201	$ 12,146,262
133,698	62,146	11,924,664	-
$ 3,910,712	$ 2,087,978	$ 61,792,865	$ 12,146,262
$ 3,910,712	$ 2,087,978	$ 61,792,865	$ 12,146,262

City of Surprise, Arizona
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2019

		Custodial Fund
ASSETS		
Cash and investments	$	39,408
Prepaid items and other assets		62,865
Total assets		102,273
LIABILITIES		
Accounts Payable		30,000
Total liabilities		30,000
NET POSITION		
Restricted for:		
Individuals		72,273
Total net position	$	72,273

City of Surprise, Arizona
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Year Ended June 30, 2019

	Custodial Fund
ADDITIONS	
Contributions:	
Employee contributions	$ 437,953
Total contributions	437,953
Total additions	437,953
DEDUCTIONS	
Claim settlement	433,849
Total deductions	433,849
Net increase (decrease) in fiduciary net position	4,104
Net Position -- beginning of the year - previously stated	-
Change in accounting principle	68,169
Net Position - beginning - restated	68,169
Net Position -- end of the year	$ 72,273

SURPRISE

ARIZONA

Financial Section – Notes to the Financial Statements

The Financial Section is divided into five subsections. The fifth subsection is also comprised of the Basic Financial Statements that are the core of general-purpose external financial reporting for local governments and are separated into three components. In addition to the government-wide and fund financial statements, the third component, the notes to the basic financial statements, are an integral part of the financial statements and include a summary of significant accounting policies and other disclosures considered necessary for a clear understanding of the accompanying financial statements.

SURPRISE

ARIZONA

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Surprise, Arizona (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

For the year ended June 30, 2019, the City implemented the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations;* GASB Statement No. 84, *Fiduciary Activities;* and GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No.14 and No. 61*. GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations. Specifically, it establishes uniform criteria for governments to recognize and measure certain asset retirement obligations. GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. GASB Statement No. 90 improves consistency in the measurement and comparability of the financial statement preparation of majority equity interests in legally separate organizations and improves the relevance of financial statement information for certain component units.

A. REPORTING ENTITY

The City is located approximately 20 miles northwest of downtown Phoenix and was incorporated in 1960 under the provision of the Arizona Constitution. During 2003, the voters approved the Home Rule, an alternative expenditure limitation for budget years through June 30, 2007. City of Surprise voters approved an Alternative Expenditure Limitation (Permanent Base Adjustment) on November 7, 2006. The City is governed by an elected mayor, and a six-member council, and offers the following services: public safety (police, fire-medical, and court), highways and streets, sanitation, water, sewer, storm water, health and social services, culture and recreation, public improvements, planning and zoning, and general administrative services.

COMPONENT UNITS

As required by accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. A primary government is considered financially accountable for another organization when it can impose its will or have a financial benefit or burden relationship. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The following entities are blended component units of the City:

The Surprise Municipal Property Corporation (Corporation) is an Arizona nonprofit corporation formed under the provision of Title 10 of the Arizona Revised Statutes. The Corporation was organized to acquire, construct, reconstruct, or improve buildings and other real and personal property suitable for leasing or sale to the City.

Various Street Lighting Improvement Districts (SLIDs) are maintained by the City for developing areas, and the City's council is the board for the SLIDs. The SLID property tax assessment rates are approved by the City's council. The SLIDs are reported in a special revenue fund.

Marley Park Community Facilities District (CFD) is maintained by the City for a developing area. The CFD's board is the same as the City's council. CFD property tax rates are approved by the City's council. The CFD is reported in a special revenue fund.

For the fiscal year ended June 30, 2019, the City had no discretely presented component units. Separately issued financial statements are not prepared for any of the component units.

RELATED ORGANIZATIONS

A related organization is one for which the primary government is not financially accountable even though the primary government appoints a voting majority of the organization's governing board.

EXCLUDED ORGANIZATIONS

Although there are schools located within the geographic boundaries of the City, school districts are separate from the municipalities in which they are located, with their own elected officials and taxing powers. Consequently, the report does not include the activities of the area school districts.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND BASIS OF PRESENTATION

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Government-Wide 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 non-fiduciary activities of the primary government and its component units. 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

The government-wide statements of activities present a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with the service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the receipts of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenue, are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Net position is reported as restricted when constraints placed on net position is either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Using a fund accounting system, amounts are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activity. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements.

Governmental Funds

All governmental funds are accounted for using modified accrual basis of accounting and current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end and on behalf of the government are also recognized as revenue. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Major governmental funds include the following:

> The ***General Fund*** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
>
> The ***General Capital Projects Fund***, a capital projects fund, accounts for revenues and expenditures relating to the acquisition of capital items.
>
> The ***General Government Development Fee Fund***, a special revenue fund, accounts for revenues and expenditures associated with general government development impact fees assessed to fund infrastructure and other expenditures for growth-related general government projects.
>
> The ***Highway User Revenue Fund****, a special revenue fund, accounts for State shared highway user revenues consisting of state taxes collected on gasoline, vehicle registration, vehicle license tax, and a number of other additional transportation related fees and expenditures that are legally restricted to expenditures for transportation and the construction, repairs, and maintenance of public works and streets.
>
> The ***Transportation Improvement Fund****, a special revenue fund, accounts for revenues and expenditures that are legally restricted to expenditures for existing roadway corridor improvements and the related costs of the construction of new roadways.
>
> The ***Debt Service Fund,*** a debt service fund, accounts for revenues and expenditures that are legally restricted for the payment of principal and interest on long-term debt of the City.

Proprietary and Fiduciary Funds

All proprietary and custodial funds are accounted for on the flow of economic resources measurement focus and use of accrual basis of accounting. Under this method, revenues/additions are recorded when earned and expenses/deductions are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Major proprietary funds include the following:

The ***Ground Ambulance Services Fund**** accounts for ground ambulance services provided to patients in need of emergency medical services within the City.

The ***Water Fund*** accounts for the provision of the water treatment and distribution to residential and commercial customers of the City.

The ***Sewer Fund*** accounts for sanitary sewer services provided to the residential and commercial customers of the City.

The ***Sanitation Fund**** accounts for trash collection services provided to the residential and some commercial customers of the City.

The ***Stormwater Fund**** accounts for stormwater management services provided to the residential and commercial customers of the City.

* These funds have not met the criterion which mandates they be reported separately as major funds. However, the City has chosen to present these funds as major funds.

In addition, the City reports the following fund types:

Internal service funds are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. The funds account for transactions of the City's internal insurance activities which includes general insurance, health insurance programs, and workers' compensation.

Custodial fund (not included in government-wide statements) accounts for employee contributions to their flexible spending accounts.

C. DEPOSITS AND INVESTMENTS

Cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less, including amounts on deposit with the Local Government Investment Pool and invested with the Certificate of Deposit Account Registry Service (CDARS) program through Alliance Bank of Arizona.

State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

D. RESTRICTED ASSETS

Restricted cash and investments reported in the statements are comprised of restricted deposits for development and construction agreements, for outstanding debt amounts and other contractual requirements.

E. RECEIVABLES AND PAYABLES

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-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."

Fund balance resulting from advances to other funds is shown as nonspendable and committed amounts.

All accounts receivables are shown net of allowance for un-collectibles when applicable.

F. INVENTORIES AND PREPAID ITEMS

Inventories consist of expendable supplies held for consumption. For the governmental funds inventories are reported using the purchases method, expenditures are incurred as inventory is purchased and an adjustment is made at year end directly to inventory and fund balance. For the proprietary funds and government wide statements inventories are reported using the consumption method, inventory is recorded when it is purchased and expensed as it is used. Inventory is valued using the average cost method. Certain payments to vendors reflect costs applicable to future accounting periods and are reported using the consumption method in both government-wide and fund financial statements and are therefore recorded as prepaid items.

G. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, intangibles (e.g. software, rights such as water rights and facility use rights), and infrastructure assets (e.g., streets, traffic signals and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City's policy defines capital assets as assets with an initial individual cost greater than $10,000 and an estimated useful life of two or more years. Land, right-of-ways, and easements regardless of cost are capitalized. Donated (contributed) capital assets, works of art, historical treasures, and any capital assets the City may receive as part of a service concession arrangement are recorded at acquisition value.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Significant outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation and amortization of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciated and amortized capital assets are as follows:

Assets	Useful life (Years)
Buildings	20-50
Improvements/Infrastructure	5-50
Machinery & Equipment	2-15
Intangibles (Software and Facility Use Rights)	5-30

H. DEFERRED OUTFLOWS OF RESOURCES

The City recognizes the consumption of net position that is applicable to a future reporting period as deferred outflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions, other postemployment benefits (OPEB), and bond refunding.

I. COMPENSATED ABSENCES

Vested or accumulated Paid Time Off (PTO) leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated PTO leave that is not expected to be liquidated with expendable available financial resources is reported in the government-wide statements. No expenditure is reported for these amounts in the governmental fund statements. Vested or accumulated PTO leave in proprietary funds and the government-wide statements is recorded as an expense and liability of those funds as the benefits accrue to employees. The internal service funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the governmental activities schedule. For the governmental activities, the General Fund, Highway User Revenue Fund, Transportation Improvement Fund, the Employee Healthcare Fund, Worker's Compensation Fund, and the Risk Management Fund have been used in prior years to liquidate the compensated absences liability.

J. LONG-TERM OBLIGATIONS

In the government-wide financial statements, and the proprietary fund types in the 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 type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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 is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. POSTEMPLOYMENT BENEFITS

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the 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. For the governmental activities, the General Fund, Highway User Revenue Fund, Transportation Improvement Fund, the non-major funds - SPD Towing Fund, Grants Fund, Neighborhood Revitalization Fund, Municipal Court FARE Fund, Municipal Court JCEF Fund, and the Municipal Court MFTG Fund; the Employee Healthcare Fund, Worker's Compensation Fund, and the Risk Management Fund have been used in prior years to liquidate the Pension and OPEB liabilities.

L. DEFERRED INFLOWS OF RESOURCES

The City recognizes the acquisition of net position that is applicable to a future reporting period as deferred inflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions, other postemployment benefits (OPEB), and in connection with receivables for revenues that are not considered to be measurable and available to liquidate liabilities of the current period.

M. FUND BALANCE

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 ordinance. Only City Council can remove or change the constraints placed on committed fund balance through formal council ordinance.

Assigned fund balances are limitations imposed internally by management based on the intended use of the funds. The City Council has designated the authority to assign amounts to be used for specific purposes to the Chief Financial Officer (CFO). Approval of the CFO is necessary to establish, modify or rescind an assignment of fund balance.

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.

N. MINIMUM FUND BALANCE

The minimum fund balance is not intended to be spent. The purpose of the minimum fund balance is to ensure the City has adequate resources to meet its operational needs in the event of unusual and unforeseen circumstances. If the necessity arises to draw down fund balance below the minimum requirements that have been set, a plan to replenish the minimum fund balance will be presented to Council for approval.

General Fund - Emergency Reserve - The City will maintain an Emergency Reserve in the General Fund of one and sixty-seven hundredths percent (1.67%) of the average of budgeted personnel, supplies, and services expenses over a two-month period for that year's Council Adopted Budget for the General Fund, Ground Ambulance Services Fund, and the Highway User Revenue Fund. The Emergency Reserve is for unexpected, large-scale expenses resulting from events where immediate, remedial action must be taken to protect the health and safety of residents, all unassigned fund balance has been exhausted, and no amount previously appropriated by the City Council is otherwise available. Any use of the Emergency Reserve must be approved by the City Manager or designee. When this occurs, the City Manager shall provide a summary report to the City Council as soon as practical on the usage of these funds and have City Council approve any necessary budget amendments. At that time, the City Manager will also present a plan to restore the Emergency Reserve to the one and sixty-seven hundredths percent (1.67%) level within the next fiscal year following the fiscal year in which the event occurred. For the year ended June 30, 2019 this balance totaled $2.0 million.

***General Fund - Operating Reserve* -** The City will maintain an additional General Fund Operating Reserve in the amount of ten percent (10%) of the average of budgeted personnel, supplies, and services expenses over a two-month period for that year's Council Adopted Budget for the General Fund, Ground Ambulance Services Fund, and the Highway User Revenue Fund. The Operating Reserve is for unexpected events such as failure of the state to remit revenues to the City, loss of state shared revenues, or other impairment of a significant funding source for the remainder of the fiscal year. The Operating Reserve may also be used for unexpected mandates or other events that cause the City to incur unplanned expenses. The Operating Reserve allows for the continuance of critical City services due to these unanticipated events and is done so after all unassigned fund balance has been exhausted and no amount previously appropriated by the City Council is otherwise available. Any use of the Operating Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan that projects to restore the Operating Reserve to the ten percent (10%) level within two fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2019 this balance totaled $12.0 million.

***General Fund - Budget Stabilization* -** The City will maintain an additional General Fund Budget Stabilization Reserve in the amount of five percent (5%) of the average of budgeted personnel, supplies, and services expenses over a two-month period for that year's Council Adopted Budget for the General Fund, Ground Ambulance Services Fund, and the Highway User Revenue Fund. The Budget Stabilization Reserve is used to provide funding to offset reductions in revenues resulting from fluctuations in the economic cycle that cannot be otherwise absorbed by the operating budget. The reserve funds will provide time for the City to restructure its operations in a deliberate manner to ensure continuance of critical City activities and is used after all unassigned fund balance has been exhausted and no amount previously appropriated by the City Council is otherwise available. Any use of the Budget Stabilization Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan, based on a multi-year financial projection, that plans to restore the Budget Stabilization Reserve to the five percent (5%) level within the three fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2019 this balance totaled $6.0 million.

***General Capital Projects Fund* -** $1 million

***Transportation Improvement Fund* -** $0.5 million

***Tourism Fund* -** $5,000

***Spring Training Ticket Surcharge Fund* -** $600,000

***Street Light Improvement Districts Fund* -** SLIDs have a maximum levy limit of $1.20 per $100 of assessed valuation in accordance with A.R.S. 48-616. To the extent that the levy limit has not been exceeded, taxes will be levied at a rate that will approach an individual ending fund balance reserve of 5% of its budgeted annual expenses.

There is no effect on the presentation of fund balance on the face of the financial statements. The City is in compliance with its established minimum fund balance policies.

O. NET POSITION

The government-wide, proprietary and fiduciary fund financial statements present ending resources as net position. Net position is categorized to help signify their availability.

Net Investment in Capital Assets includes all capital assets of the City both depreciable and non-depreciable net of accumulated depreciation and outstanding debt balances attributable to the acquisition, construction or improvement of these assets. Net position in this category represents infrastructure of the City and is not available to meet the City's needs.

Restricted Net Position consists of amounts that have external restrictions imposed upon them by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Net position in this category represent amounts that are not available to meet the City's needs as they have been promised for other purposes.

Unrestricted Net Position represents amounts that have not been restricted for any project or other purpose. These amounts are available to meet any needs of the City. While unrestricted net position is technically available to be spent by the City it is important to remember that the City has established financial policies that would prevent this. There are certain self-imposed criteria, such as maintaining a minimum operating fund balance that would further reduce the amount the City is willing to spend.

P. MINIMUM NET POSITION

Minimum net position is not intended to be spent. The purpose of the minimum net position balance is to ensure the City has adequate resources to meet its operational needs in the event of unusual and unforeseen circumstances.

Within the Stormwater, Sanitation, Sewer, and Water Funds, spendable net position is to be maintained at an amount equal to the average budgeted personnel, supplies and services expenses over a two-month period for that year's Council Adopted Budget. Additionally, an amount will be maintained for repair and replacement at a minimum of 2% of all tangible capital assets of the system. The reserve amounts by category for the year ended June 30, 2019 are listed below:

Fund	Repair & Replacement Reserve	Operating Reserve	Total Reserve
Water Fund	$ 2,374,616	$ 1,783,300	$ 4,157,916
Sewer Fund	5,754,458	1,791,900	7,546,358
Sanitation Fund	186,474	971,000	1,157,474
Stormwater Fund	25,498	133,100	158,598

The Risk Management Fund will maintain spendable net position at an amount that, together with purchased insurance policies, will adequately indemnify the City. An actuarial evaluation will be performed periodically to recommend appropriate funding levels, which will be approved by the City Council. For the year ended June 30, 2019, the required reserve was $261,600.

The Employee Healthcare Fund will maintain net position at a level which, together with purchased insurance policies (individual and aggregate stop loss), will adequately indemnify the City. The City has established an Adverse Times Reserve. The purpose of this reserve is to address cash flow needs caused by periods in which claim payments exceed projections. The target amount of this reserve is at least twenty-five percent (25%) of expected annual claims. For the year ended June 30, 2019, the required reserve was $2.65 million.

The Workers' Compensation Fund will maintain net position at a level which, together with purchased insurance policies (individual and aggregate stop loss), will adequately indemnify the City. The target amount of this reserve is at least twice the amount of the budgeted claims. For the year ended June 30, 2019, the required reserve was $1.5 million.

The City is in compliance with its established minimum net position policies.

Q. PROPERTY TAX

A primary tax levy is limited to an increase of two percent over the previous year's maximum allowable primary levy plus an increased dollar amount due to a net gain in property not taxed the previous year (Section 42-301, Arizona Revised Statutes). The two percent increase is based on the City's "maximum allowable levy" for the prior year.

Property taxes are recognized as revenues in the year they are levied and collected, or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end, or collected in advance of the year-end for which they are levied, are reported as unavailable revenues.

The County levies real property taxes on or before the third Monday in August, that become due and payable in two equal installments. The first installment is due on the first day of October, and becomes delinquent after the first business day in November. The second installment is due on the first day of March of the next year, and becomes delinquent after the first business day of May. The County also levies various personal property taxes during the year, which are due the second Monday of the month following receipt of the tax notice and becomes delinquent 30 days thereafter.

R. GRANT REVENUES

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

S. INTEREST REVENUE

Investment revenue is composed of interest, dividends, and net changes in the fair value of applicable investments. Investment revenue is included in other local revenue in the governmental fund financial statements and in nonoperating revenues in the proprietary fund financial statements.

T. INTERFUND TRANSACTIONS

Interfund services provided or used are accounted for as revenues, expenditures or expenses. All other interfund transactions are reported as transfers.

U. ESTIMATES

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

V. CHANGE IN ACCOUNTING PRINCIPLE

Net Position as of July 1, 2018, has been restated for the for the implementation of GASB Statement No. 84, *Fiduciary Activities.* Upon restatement, the City reported the following adjustment to beginning net position:

	Custodial Fund
Beginning of the year, as previously reported Net Position at June 30, 2018	$ -
Prior period adjustment - Implementation of GASB 84	68,169
Total prior period adjustment	68,169
Beginning of the year, as restated Net Position, July 1, 2018	$ 68,169

NOTE 2 – CASH AND INVESTMENTS

Arizona Revised Statutes authorize the City to invest public monies in the State Treasurer's local government investment pools, the County Treasurer's investment pool, in obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the City's investments.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the City's deposits may not be returned to the City. The City does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the City's deposits were $93,624,574 and the bank balance was $89,389,359. At year end, $500,000 of the City's deposits were covered by federal depository insurance. The remaining bank balance not covered by federal depository insurance $88,889,359 was fully collateralized. The collateral is held in the pledging banks trust department in the name of the pledging bank.

A reconciliation of the bank balance to the City's deposit balance as of June 30, 2019 follows:

Cash in bank	$ 89,389,359
Reconciling items:	
Outstanding checks	(390,934)
Deposits in transit	4,657,542
Other	8,015
	93,663,982
Less:	
Fiduciary Fund	39,408
Total City deposits	$ 93,624,574

The City's investments consisted of the following as of June 30, 2019:

Investment Type	Total Fair Value	Less than 1 year	1-2 years	2-3 years	3-4 years
U. S. government securities	$ 73,902,323	$ 20,120,864	$ 28,326,535	$ 22,417,984	$ 3,036,939
Government sponsored entity debt	36,323,074	12,266,955	12,226,163	11,829,956	-
Money market mutual funds	10,844,975	10,844,975	-	-	-
Local government investment pool	420,773	420,773	-	-	-
	$ 121,491,145	$ 43,653,567	$ 40,552,698	$ 34,247,940	$ 3,036,939

The State Treasurer's pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant's position in the State Treasurer investment pools approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments.

Total cash and investments for the City as of June 30, 2019, are as follows:

City's deposits	$ 93,663,982
Cash on hand	7,350
City's investments	121,491,145
Cash held by trustee	1,387,242
Total	$ 216,549,719

Interest Rate Risk. The City's formal investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City's investments in securities included $36,323,074 of government sponsored entity debt. At June 30, 2019, these investments were rated by Standard and Poor's at AA+. The money market mutual funds and local government investment pool are not rated. The City's formal investment policy limits investment choices to the following:

(1) Certificates of deposit in eligible depositories that must be insured or fully collateralized;
(2) Interest bearing savings accounts in banks and savings and loan institutions doing business in the State of Arizona whose accounts are insured by federal deposit insurance for their industry, but only if deposits in excess of the insured amount are secured by the eligible depository to the same extent and in the same manner as required under Arizona Revised Statute 35-323 (A);
(3) The pooled investment funds established by the State Treasurer pursuant to Arizona Revised Statute 35-326;
(4) Obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities;
(5) Bonds or other evidence of indebtedness of the State of Arizona or any of its counties, incorporated cities, towns, school districts, or special taxing districts, including registered warrants, substitute checks, and electronic funds transfers that bear interest pursuant to section Arizona Revised Statute 11-635;

(6) Bonds, notes, evidences of indebtedness of any county, municipal district, municipal utility, or special taxing district within the State of Arizona that are payable from revenues, earnings, or a special tax specifically pledged for the payment of the principal and interest on the obligations that are rated "A" or the equivalent by a nationally recognized statistical rating organization; and
(7) bonds, notes, or evidences of indebtedness issued by any county improvement district or municipal improvement district in the State of Arizona to finance local improvements authorized by law that are rated "A" or the equivalent by a nationally recognized statistical rating organization.

Custodial Credit Risk – Investments. All of the City's security investments are held in the City's name. The City's investment in the State Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the City's portion is not identified with specific investments and is not subject to custodial credit risk.

Concentration of Credit Risk. The City's investment policy places a limit on certain investment choices as follows:

(1) Certificates of deposits have a 50% sector limit;
(2) Bonds or other evidence of indebtedness of the State of Arizona or any of its counties, incorporated cities, towns, school districts, or special taxing districts, including registered warrants, substitute checks, and electronic funds transfers that bear interest pursuant to section Arizona Revised Statute 11-635 have a 40% sector limit and a 5% issuer limit;
(3) Bonds, notes, evidences of indebtedness of any county, municipal district, municipal utility, or special taxing district within the State of Arizona that are payable from revenues, earnings, or a special tax specifically pledged for the payment of the principal and interest on the obligations that are rated "A" or the equivalent by a nationally recognized statistical rating organization have a 40% sector limit and a 5% issuer limit; and
(4) Bonds, notes, or evidences of indebtedness issued by any county improvement district or municipal improvement district in the State of Arizona to finance local improvements authorized by law that are rated "A" or the equivalent by a nationally recognized statistical rating organization have a 40% sector limit and a 5% issuer limit. All other eligible investment choices do not have a concentration limit placed on them by the City's investment policy.

The City's current investments are in U.S. government securities, government sponsored entity debt, money market mutual funds and the local governmental investment pool which policy does not constrain.

Fair Value Measurements. The City uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures.

The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the statement of net position are categorized based on the inputs to the valuation techniques as follows:

- Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

Investments are measured as follows:

	Disclosure of Fair Value Inputs			
	FYE	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt Securities				
U. S. Treasury Notes	$ 73,902,323	$ 73,902,323	$ -	$ -
Federal Agency	36,323,074	-	36,323,074	-
Total investments by fair value level	$110,225,397	$ 73,902,323	$ 36,323,074	$ -
Investments measured at net asset value				
LGIP	420,773			
Total investments measured at fair value	$110,646,170			
Investments measured at amortized cost				
Money market funds	10,844,975			
Total investments:	$121,491,145			

Cash Reconciliation to Financial Statements

The following reconciliations are provided to reconcile cash to the government wide and fund financial statements:

Government-wide Financial Statements		
Total cash and investments	$	155,946,788
Total restricted cash and investments		60,563,523
Subtotal		216,510,311
Government-wide total cash and investments		216,510,311
Plus: Fiduciary Fund cash and cash equivalents		39,408
Total	$	216,549,719

Fund Financial Statements		
Governmental Funds		
Cash and investments	$	93,932,325
Restricted cash and cash equivalents		48,638,859
Enterprise Funds		
Cash and investments		49,868,201
Restricted cash and cash equivalents		11,924,664
Internal Service Fund		
Cash and investments		12,146,262
Fiduciary Fund		
Cash and cash equivalents		39,408
Total	$	216,549,719

NOTE 3 – ACCOUNTS RECEIVABLE

The intergovernmental receivable of $872,860, as reported in the statement of net position includes $830,285 in highway user tax and $42,575 in wildland fire reimbursements.

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received, but not yet earned.

The amounts reported in the governmental funds for the year ended June 30, 2019 are as follows:

CAFR Fund Name	Unearned	Unavailable
General Fund	$ 1,234,568	$ 147,794
Highway User Revenue Fund	2,000	-
Debt Service Fund	-	35,630
Non-major Governmental Funds	583,264	31,496
	$ 1,819,832	$ 214,920

Proprietary funds also report unearned revenue in connection with resources that have been received, but not yet earned.

The amounts reported in the proprietary funds for the year ended June 30, 2019 are as follows:

CAFR Fund Name	Unearned
Sewer Fund	$ 483,074
Sanitation Fund	73,083
Stormwater Fund	36,648
	$ 592,805

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019, was as follows:

	Primary Government				
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Not being depreciated:					
Land and land improvements	$ 49,656,478	$ 10,629,673	$ (47,005)	$ 682,134	$ 60,921,280
Parks	9,145,163	-	-	(537,380)	8,607,783
Construction in process	3,041,761	10,884,165	-	(4,595,857)	9,330,069
Total Not Being Depreciated	61,843,402	21,513,838	(47,005)	(4,451,103)	78,859,132
Other capital assets:					
Buildings and improvements	203,779,676	145,363	(117,507)	399,922	204,207,454
Improvements other than buildings	29,847,634	247,972	(43,340)	1,372,992	31,425,258
Equipment and vehicles	51,411,993	3,593,305	(2,967,122)	952,365	52,990,541
Intangibles	6,352,448	13,257	-	-	6,365,705
Infrastructure	422,316,558	5,500,133	(85,653)	1,688,165	429,419,203
Total Other Capital Assets	713,708,309	9,500,030	(3,213,622)	4,413,444	724,408,161
Total Assets before Depreciation	775,551,711	31,013,868	(3,260,627)	(37,659)	803,267,293
Accumulated depreciation:					
Building and improvements	(72,786,500)	(6,818,879)	90,061	-	(79,515,318)
Improvements other than buildings	(8,610,663)	(1,179,913)	15,198	7,908	(9,767,470)
Equipment and vehicles	(33,118,909)	(3,642,298)	2,637,851	-	(34,123,356)
Intangibles	(2,105,932)	(674,532)	-	-	(2,780,464)
Infrastructure	(223,676,735)	(12,156,108)	42,411	-	(235,790,432)
Total Accumulated Depreciation	(340,298,739)	(24,471,730)	2,785,521	7,908	(361,977,040)
Net Capital Assets - Governmental Activities	$ 435,252,972	$ 6,542,138	$ (475,106)	$ (29,751)	$ 441,290,253

Depreciation was charged by function as follows:

General government	$ 1,924,607
Public safety	2,839,839
Public works and streets, includes depreciation for infrastructure	15,076,608
Community development	38,816
Culture and recreation	4,591,860
Total governmental activities depreciation expense	$ 24,471,730

	Primary Government				
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Not being depreciated:					
Land	$ 5,162,310	$ 110	$ -	$ (255,439)	$ 4,906,981
Water Rights	9,967,642	3,736,629	-	-	13,704,271
Construction in progress	670,530	3,170,263	(3,000)	(1,760,267)	2,077,526
Total not being depreciated	15,800,482	6,907,002	(3,000)	(2,015,706)	20,688,778
Other capital assets:					
Buildings and system	384,531,970	1,164,126	(74,709)	61,298	385,682,685
Improvements other than buildings	5,638,674	1,150	-	1,687,731	7,327,555
Vehicles and equipment	22,019,166	358,068	(923,101)	304,336	21,758,469
Intangibles	521,857	29,235	-	-	551,092
Total other capital assets	412,711,667	1,552,579	(997,810)	2,053,365	415,319,801
Total assets before depreciation	428,512,149	8,459,581	(1,000,810)	37,659	436,008,579
Accumulated depreciation:					
Buildings and system	(108,375,216)	(10,466,864)	46,071	-	(118,796,009)
Improvements other than buildings	(384,603)	(255,244)	-	(7,908)	(647,755)
Vehicles and equipment	(8,428,535)	(1,988,585)	907,389	-	(9,509,731)
Intangibles	(156,557)	(105,833)	-	-	(262,390)
Total accumulated depreciation	(117,344,911)	(12,816,526)	953,460	(7,908)	(129,215,885)
Net capital assets - Business-type activities	$ 311,167,238	$ (4,356,945)	$ (47,350)	$ 29,751	$ 306,792,694

Depreciation was charged by function as follows:

Ground Ambulance	$ 130,767
Water	3,530,638
Sewer	8,068,139
Sanitation	1,038,210
Stormwater	48,772
Total Depreciation Expense	$ 12,816,526

NOTE 5 - DEVELOPER AGREEMENTS

The City of Surprise has entered into agreements with developers for infrastructure related to commercial and residential development. The developers construct the infrastructure and convey the assets to the City. Based on the terms of the agreements, over a designated period of time, the City pays the developers for the infrastructure with collections of impact fees and other specified revenues, up to the maximum amount per agreement. Commitments to reimburse developers under these agreements are not currently recognized until the requirements of the agreements are met. If the term of the agreement expires before the maximum amount has been repaid, the City has no further obligation to continue making payments under the agreement.

Development agreements related to water system infrastructure will be reimbursed using water system impact fees. Total water system infrastructure value conveyed is $25,629,990. Depending on the terms of the specific agreement, this value is eligible for reimbursement during the next fourteen years. Once an agreement expires, water system fees are no longer eligible for developer reimbursement. As of June 30, 2019, $17,245,637 had expired or been reimbursed, leaving a potential remaining balance of $8,384,353.

Development agreements related to wastewater system infrastructure will be reimbursed using specified sales tax revenues. The total net value reimbursable for wastewater system infrastructure is $14,002,595. Depending on the terms of the specific agreements, this value is eligible for reimbursement over the next thirty-one years. Once the agreements expire, the remaining unpaid balance of these infrastructure costs is no longer subject to repayment. As of June 30, 2019, $451,520 had expired or been reimbursed, leaving a potential remaining balance of $13,551,075.

Infrastructure installed in connection with development agreements related to transportation will be reimbursed using a portion of sales tax collections as prescribed in the agreements. The total net reimbursable value for this infrastructure is $65,603,304 at June 30, 2019. Depending on the terms of the specific agreements, this value is eligible for reimbursement over the next thirty-one years. Once the agreements expire, no further developer reimbursement of the unpaid balance is required. As of June 30, 2019, $3,954,189 had expired or been reimbursed, leaving a potential remaining balance of $61,649,115.

Development agreements related to park infrastructure will be reimbursed using park impact fees. Total park infrastructure value conveyed is $4,777,882. Depending on the terms of the specific agreement, this value is eligible for reimbursement through November 2020. Once an agreement expires, park impact fees are no longer eligible for developer reimbursement. As of June 30, 2019, the City has reimbursed $509,371 leaving a potential balance remaining of $4,268,511.

Development agreements related to fire infrastructure are reimbursed using fire development impact fees. The total net value reimbursable for fire infrastructure was $496,663. Depending on the terms of the specific agreement, this value was eligible for reimbursement through November 2020. When the agreements expire, the remaining unpaid balance of these infrastructure costs is no longer subject to repayment. As of June 30, 2019, the City had reimbursed $496,663, leaving a remaining balance of zero.

In addition, the City has entered into a number of developer agreements for infrastructure that has not yet been conveyed to the City. The total cost to be incurred under these agreements is currently undeterminable.

Tax Abatements

The City of Surprise participates in two tax abatement programs, foreign trade zones and a sales tax incentive program.

Foreign Trade Zones

The City of Surprise provides property tax abatements in any area of the City deemed to be foreign trade zone in accordance with Section 44-6501, Arizona Revised Statutes. The State of Arizona, any county, city or town within the state or a public or private corporation or any combination thereof can apply to the foreign trade zones board, United States Department of Commerce, for the right to establish, operate and maintain a foreign trade zone and subzones. For tax purposes, property in foreign trade zones is classified as class six property in accordance with Section 42-12006, Arizona Revised Statutes. The change in tax classification is administered by the County who levies and collects property taxes on the City's behalf. The property would otherwise be class one property. Class six foreign trade zones have a property tax assessment ratio of six percent compared to class one properties which have an assessment ratio of 18 percent. For fiscal year 2019, $26,471 of property taxes were abated by this program.

Sales Tax Incentive Program

The City of Surprise administers a sales tax (transaction privilege tax) incentive program in accordance with Ariz. Rev. Stat.§ 42-6010. The City has entered into agreements with specific businesses to return a portion of the sales tax generated by the business and paid to the Arizona State Department of Revenue. The City will return up to 50% of the sales tax generated by the business. The amount of taxes paid and returned is determined by the City's review of the monthly reports received from the Arizona State Department of Revenue. The exact amount of taxes abated during fiscal year 2019 cannot be disclosed in accordance with Ariz. Rev. Stat. § 42-2002.

In addition, the City has entered into two development agreements to reimburse developers for the construction of public infrastructure that will benefit the community. These reimbursements are paid over time from sales tax collected within a defined area. For the year ended June 30, 2019, the city reimbursed $3,295,892.

NOTE 6 – SIGNIFICANT COMMITMENTS

Construction Commitments

The City of Surprise has active construction projects as of June 30, 2019. At year end, the City commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment	Funding Source
Asante Library	$ 1,488,781	$ 2,420,011	Library Development Fee
Tennis Center Lighting	216,995	134,305	General Capital
163rd Avenue	166,215	76,795	Roads Regional Significance 2,4,6
Sweetwater Avenue	127,142	137,205	Transportation Improvement
Police Evidence Refrigerator	17,419	17,421	General Capital
Bell & Litchfield Signal Modification	18,414	6,138	Highway User Revenue
Advanced Metering Infrastructure	120,146	8,079,854	Water Utility Capital
EOne Truck Replacement	321,381	321,381	Vehicle Replacement
District Fire Station 304	64,103	21,363	Public Safety Election 2017
District Fire Station 304	458,154	167,131	Public Safety Election 2017
Fire Station 308	11,200	3,510	Public Safety Election 2017
107th & Union Hills Drainage	425,700	1,425,000	Stormwater Capital
Waddell Rd (SR303-Reems Rd)	561,072	75,505	Traffic Election 2017
Waddell Rd (SR303-Reems Rd)	40,943	48,449	Traffic Election 2017
Litchfield Rd (Waddell Rd-Peoria)	345,390	20,502	Traffic Election 2017
Greenway Rd Cotton Ln-Sarival	148,676	161,420	Traffic Election 2017
Public Works Yard	1,628,690	6,760,568	Public Works Exp Dev Fee
Public Works Yard	8,097	991,903	Sanitation Fund
Public Works Yard	1,208,942	3,186,620	Public Safety Election 2017
Public Works Yard	-	177,694	General Capital Projects Fund
SPA1 Recharge Expansion	190,260	25,056	Sewer Utility Capital
SPA1 Rancho Gabriela WSF	23,781	20,478	Water Utility Capital
SPA1 Rancho Gabriela WSF-Arsenic	738,893	182,553	Water Utility Capital
	$ 8,963,734	$ 24,460,862	

Encumbrances

Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. Encumbrances, based on purchase orders or other contracts, have been classified based on the existing resources that will be used to liquidate them. Encumbrances not for specific purposes for which resources already have been restricted, committed or assigned are classified as either committed or assigned fund balance. At year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

Fund	Encumbrances
General Fund	$ 480,720
General Capital Projects Fund	2,022,120
General Government Development Fee Fund	-
Highway User Revenue Fund	228,178
Transportation Improvement Fund	328,718
Debt Service Fund	-
Non-Major Funds	1,066,011
Ground Ambulance Services Fund	24,111
Water Fund	563,259
Sewer Fund	317,605
Sanitation Fund	725,429
Stormwater Fund	11,642
Total encumbrances	$ 5,767,793

NOTE 7 - LONG-TERM DEBT & OTHER PAYABLES

MUNICIPAL PROPERTY CORPORATION BONDS

The City of Surprise Municipal Property Corporation (MPC) issued, for the purpose of constructing the South Wastewater Treatment Plant, the Wastewater Development Impact Fee and Utility Revenue Bonds, Series 2007, maturing in 2031, with an original issue amount of $50,675,000. The remaining outstanding balance of $33,770,000 was fully defeased on October 1, 2018 with the issuance of the Senior Lien Utility System Revenue Refunding Obligations, Series 2018.

PLEDGED REVENUE OBLIGATIONS

In 2015, the City of Surprise issued Pledged Revenue Obligations and Pledged Revenue Refunding Obligations secured by a pledge on excise tax revenues and state shared revenues. A portion of the issuance was for the purpose of refunding the former MPC Series 2003 Bonds, and the remainder was for the construction of stadium improvements.

The issuance requires excise tax and state shared revenues to be maintained at a minimum of 3.0 times the combined debt service requirement payable. The debt service coverage ratio at June 30, 2019 (revenues to debt service payable) is 28.8.

The Pledged Revenue Obligations, Series 2015, were issued in the amount of $17,385,000, and have an outstanding principal balance at June 30, 2019 of $13,745,000. Proceeds of these obligations are designated for the construction of stadium improvements. The obligations are payable solely from pledged revenues and are payable through 2030. Principal and interest payments and pledged revenues for the current year were $1,584,300 and $122,165,507, respectively. Next year's principal and interest payments of $1,580,900 constitute approximately 1.3% of the current year pledged revenue.

The Pledged Revenue Refunding Obligations, Series 2015, were issued in the amount of $19,280,000 and have an outstanding principal balance at June 30, 2019 of $11,525,000. The proceeds of these obligations were used to refund (extinguish the debt) of the former MPC Series 2003 Bonds and pay costs of issuance. The refunding obligations are payable solely from pledged revenue and mature in 2024. Principal and interest payable and pledged revenues for the current year were $2,655,450 and $122,165,507, respectively. Next year's principal and interest payments totaling $2,653,850 constitute approximately 2.2% of current year pledged revenue.

In August 2018, the City of Surprise issued Senior Lien Utility System Revenue Refunding Obligations, Series 2018, secured by a pledge of revenues of the system which are revenues (including any unrestricted fund balances of the System) remaining after deducting operation expenses. A portion of the proceeds of the obligations, together with other legally available funds of the City, were placed in a trust fund to fully defease the City of Surprise Municipal Property Corporation Wastewater Development Impact Fee and Subordinate Lien Wastewater Revenue Bonds, Series 2007, on October 1, 2018.

The issuance requires pledged revenues to be at least 175 percent of the Parity Lien Test Debt Service. Parity Lien Test Debt Service is the highest aggregate Principal Requirement and Interest Requirement of all 2018 obligations and additional obligations then outstanding, to fall due and payable in the current or any future Bond Year. At June 30, 2019 the Parity Lien Test Debt Service is $2,955,524 and pledged revenues are $18,545,602. The current year ratio is 627.5 percent of the Parity Lien Test Debt Service.

Further, the issuance requires the City to establish and maintain rates, fees, and charges for all services supplied by the System to provide Pledged Revenues fully sufficient to produce pledged revenue in each fiscal year equal to at least 125 percent of the Principal Requirement and Interest Requirement on all 2018 Obligations and Additional Obligations then outstanding for the corresponding Bond Year. At June 30, 2019 pledged revenue equal 627.5 percent of the Principal Requirement and Interest Requirement.

The Senior Lien Utility System Revenue Refunding Obligations, Series 2018, were issued in the amount of $25,255,000, and have an outstanding principal balance at June 30, 2019 of $24,230,000. The proceeds of these obligations were used to defease (extinguish the debt) of the former City of Surprise Municipal Property Corporation Wastewater Development Impact Fee and Subordinate Lien Wastewater Revenue Bonds, Series 2007, and pay costs of issuance. The new refunding obligations have interest rates that range between 4-5%. The refunding obligations are payable solely from pledged revenue and mature in 2036. Principal and interest payable and pledged revenues for the current year were $2,152,250 and $18,545,602, respectively. Next year's principal and interest payments totaling $2,151,500 constitute approximately 862% of current year pledged revenue.

The City realized net proceeds of $29,013,570 (including a $4,166,127 premium) after payment of $407,557 in underwriting fees, and other issuance costs. The City used these proceeds together with other legally available funds of the City to establish a trust fund with the escrow trustee to provide resources for all future debt service payments on the refunded debt. The refunded debt is considered defeased at June 30, 2019, and related liabilities are not included in the City's financial statements. All of the refunding bonds were fully defeased on October 1, 2018. The reacquisition price equaled the net carrying amount of the old debt. Details of the refunding transaction are as follows:

Senior Lien Utility System Revenue Refunding Summary

Amount of refunding obligations issued	$ 25,255,000
Amount of bonds refunded	33,770,000
Original Issue Premium	4,166,127
Debt Service Reserve Fund Transfer	5,067,500
Other City Contributions	409,298
Reduction in debt service payments over next 18 years	13,472,462
Economic gain (loss)	5,310,835
Effective Interest Rate	2.92%

GENERAL OBLIGATIONS

In May 2018, the City of Surprise issued $37,730,000 in General Obligations secured by secondary property taxes. The new bonds have coupon rates ranging from 3-5% with final maturity of the bonds occurring in 2038. The Bonds are issued pursuant to the Arizona Constitution and laws of the State of Arizona, including particularly Title 35, Chapter 3, Article 3, Arizona Revised Statutes, a vote of the qualified electors of the City at an election held on November 7, 2017 (the “Election”), and a resolution authorizing issuance of the Bonds adopted by the Mayor and Council of the City on April 3, 2018 (the “Bond Resolution”). The Bonds are being issued for the purpose of paying for certain facilities improvements including a Fire Station, an Evidence and Readiness Center, a Public Works Operations Facility, and road improvements including improvements to Greenway, Litchfield and Waddell Roads and costs of issuance of the Bonds.

The Bonds represent the first installment of an aggregate voted principal amount of $59,500,000 of general obligation bonds approved at the Election. After the sale of the Bonds, the City has remaining authorized but unissued bonds of $19,512,500 from the Election.

COMMUNITY FACILITIES DISTRICT BONDS AND NOTES

Community Facilities District (CFD) Bonds and Notes are special purpose government entity debt which the City Council may issue under Arizona law to (among other things) acquire and improve public infrastructure.

In October 2017, Marley Park Community Facilities District directly borrowed $3,000,000 in new general obligation notes. These new note funds were used for the cost of issuance as well as the acquisition of capital assets. The new notes have an interest rate of 2.690% with final maturity occurring in 2032. The notes contain a gross up provision in the event they become taxable due to actions or omissions of the District. In such a case the taxable rate would be 4.14% and would be effective as of the date of a final determination of the Internal Revenue Service or a court of competent jurisdiction, or an opinion of a nationally recognized bond counsel selected by the lender.

In October 2016, Marley Park Community Facilities District defeased certain general obligation bonds related to the Series 2006, 2007 and 2008 issuances by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the City’s financial statements. At June 30, 2019, the bonds have been fully defeased.

Long-term debt as of June 30, 2019 is comprised of the following:

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

City of Surprise General and Revenue Obligations	Long-Term Debt Outstanding
2015, Pledged Revenue Obligation (issued June 23, 2015) due in annual installments of $855,000 to $1,505,000 through July 1, 2030; interest at 3 percent to 5 percent. Original issue amount $17,385,000.	$ 13,745,000
2015, Pledged Revenue Refunding Obligation (issued June 23, 2015) due in annual installments of $1,830,000 to $2,525,000 through July 1, 2024; interest at 3 percent to 5 percent. Original issue amount $19,280,000. 69.75 percent of this issue pertains to governmental activities.	8,038,689
Total 2015 Pledged Revenue Obligation	21,783,689
2015, Pledged Revenue Revenue Obligations, Issuance Premium	2,179,399
2018, General Obligation Bonds, (issued May 9, 2018) due in annual installments of $1,205,000 to $2,865,000 through July 1, 2038; interest at 3 percent to 5 percent. Original issue amount of $37,730,000.	35,215,000
2018, General Obligation Bonds, Issuance Premium	2,107,019
Total General and Revenue Obligations	$ 61,285,107

Community Facilities District General Obligation Bonds and Notes	Long-Term Debt Outstanding
2008 Marley Park Community Facilities District General Obligation Bonds due in annual installments of $60,000 to $630,000 beginning July 15, 2009 through July 15, 2033; interest at 3.80 percent to 7.00 percent. Original issue amount $3,395,000. In October 2016, $2,470,000 of these bonds was refunded by the 2016 Marley Park Community Facilities District General Obligation Refunding Bonds.	$ 100,000
2016 Marley Park Community Facilities District General Obligation and General Obligation Refunding Bonds, due in annual installments of $80,000 to $665,000 beginning July 15, 2017 through July 15, 2041; interest at 2 percent to 4 percent. Original issue amount $11,365,000 of which $4,800,000 is new issuance and $6,565,000 in refunding obligations.	11,005,000
2016 Marley Park Community Facilities District General Obligation and General Obligation Refunding Bonds, Issuance Premium	268,419
2017 Marley Park Community Facilities District General Obligation Notes, directly placed borrowing, due in annual installments of $100,000 to $245,000 beginning July 15, 2018 through July 15, 2032; interest is at 2.690 percent. Original issue amount $3,000,000.	2,770,000
Total Community Facilities Districts General Obligation Bonds and Notes Outstanding	14,143,419
Total Bonds and Notes Payable Recorded in Governmental Activities	$ 75,428,526

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

Revenue Obligations		Long-Term Debt Outstanding
2015, Pledged Revenue Refunding Obligation (issued June 23, 2015) due in annual installments of $1,830,000 to $2,525,000 through July 1, 2024; interest at 3 percent to 5 percent. Original issue amount $19,280,000. 30.25 percentage of this issue pertains to business-type activities.	$	3,486,314
2015, Pledged Revenue Refunding Obligation, Issuance Premium		390,762
2018, Senior Lien Utility System Revenue Refunding Obligations (issued August 7, 2018) due in installments of $940,000 to $2,045,000 through July 1, 2036; interest at 4.00 percent to 5.00 percent. Original issue amount $25,255,000.		24,230,000
2018, Senior Lien Utility System Revenue Refunding Obligations, Issuance Premium		3,934,675
Total Bonds Payable Recorded in Business-type Activities		32,041,751
Total Long-Term Bonds Payable	$	107,470,277

The following is a summary of long-term liabilities for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due within 1 year
Governmental activities					
Bonds and Notes payable:					
City of Surprise, Series 2015 Pledged revenue obligations $28,701,375 ($36,665,000 issued)	$ 24,166,588	$ -	$ (2,382,902)	$ 21,783,689	$ 2,473,700
City of Surprise, Series 2018 General obligations $37,730,000	37,730,000	-	(2,515,000)	35,215,000	2,865,000
For issuance premium 2015	2,475,819	-	(296,420)	2,179,399	-
For issuance premium 2018	2,481,105	-	(374,086)	2,107,019	-
Community Facilities District					
Series 2007 Bonds, $3,950,000 issued	130,000	-	(130,000)	-	-
Series 2008 Bonds, $3,395,000 issued	190,000	-	(90,000)	100,000	100,000
Series 2016 Bonds, $11,365,000 issued	11,140,000		(135,000)	11,005,000	275,000
Series 2017 Direct Placement Note, $3,000,000 issued	2,870,000	-	(100,000)	2,770,000	195,000
For issuance premium 2016	289,352	-	(20,933)	268,419	-
Total bonds and notes payable	81,472,864	-	(6,044,341)	75,428,526	5,908,700
Net pension liabilities	89,150,085	4,392,229	(12,856,634)	80,685,680	-
Net OPEB liabilities	365,351	164,586	(205,059)	324,878	-
Compensated absences payable	6,925,344	5,961,268	(4,517,178)	8,369,434	3,431,468
Total governmental activities long-term liabilities	$ 177,913,644	$ 10,518,083	$ (23,623,212)	$ 164,808,518	$ 9,340,168
Business-type activities					
City of Surprise, Series 2015 Pledged revenue obligations $5,278,625 ($36,665,000 issued)	$ 4,103,413	$ -	$ (617,100)	$ 3,486,314	$ 641,300
General municipal property corporation fund obligation Series 2007 Bonds, $50,675,000 issued	33,770,000	-	(33,770,000)	-	-
Senior Lien Utility System Revenue Refunding Obligations, Series 2018	-	25,255,000	(1,025,000)	24,230,000	940,000
For issuance premium 2015	468,915	-	(78,153)	390,762	-
For issuance premium 2018	-	4,166,127	(231,452)	3,934,675	-
Total bonds payable	38,342,328	29,421,127	(35,721,705)	32,041,751	1,581,300
Net pension liabilities	11,704,330	419,380	(849,714)	11,273,996	-
Net OPEB liabilities	27,327	28,714	(12,769)	43,272	-
Compensated absences payable	925,405	727,512	(685,516)	967,401	396,635
Contracts and developer payable	2,746,514	290,329	(422,033)	2,614,810	401,479
Total business-type activities long-term liabilities	$ 53,745,904	$ 30,887,062	$ (37,691,737)	$ 46,941,230	$ 2,379,414

At June 30, 2019, the City's outstanding bonds had the following ratings:

Description	Fitch Rating	Standard & Poor's Rating
City of Surprise, Arizona, Pledged Revenue and Revenue Refunding Obligations SERIES 2015	AA+	AA
City of Surprise, Arizona, General Obligation Bonds SERIES 2018	Not rated	AA
City of Surprise, Arizona, Senior Lien Utility System Revenue Refunding Obligations SERIES 2018	Not rated	AA+
Marley Park Community Facilities District General Obligation Bonds SERIES 2017	Not rated	Not rated
Marley Park Community Facilities District General Obligation and General Obligation Refunding Bonds SERIES 2016*	Not rated	AA
Marley Park Community Facilities District General Obligation Bonds SERIES 2008	Not rated	Not rated

* insured by Building America Mutual

The following is a summary of debt service requirements for the year ended June 30, 2019. Deferred amounts are not included:

	Governmental Activities					
Year Ended	Refunding/Stadium Imp 2015		GO Bonds 2018		Marley Park CFD 2008	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 2,473,700	$ 958,260	$ 2,865,000	$ 1,415,294	$ 100,000	$ 6,500
2021	2,549,037	884,049	1,205,000	1,272,044	-	-
2022	2,677,275	756,598	1,265,000	1,211,794	-	-
2023	2,812,487	622,734	1,330,000	1,148,544	-	-
2024	2,951,188	482,109	1,395,000	1,082,044	-	-
2025-2029	6,815,000	1,101,150	8,110,000	4,290,470	-	-
2030-2034	1,505,000	75,250	9,905,000	2,490,970	-	-
2035-2039	-	-	9,140,000	781,125	-	-
2040-2041	-	-	-	-	-	-
Total	$ 21,783,687	$ 4,880,150	$ 35,215,000	$ 13,692,285	$ 100,000	$ 6,500

	Governmental Activities					
	Marley Park CFD 2016		Marley Park CFD 2017 direct placement		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 275,000	$ 354,187	$ 195,000	$ 74,513	$ 5,908,700	$ 2,808,754
2021	385,000	348,688	185,000	69,268	4,324,037	2,574,049
2022	395,000	340,987	190,000	64,291	4,527,275	2,373,670
2023	405,000	329,138	195,000	59,180	4,742,487	2,159,596
2024	415,000	316,987	200,000	53,934	4,961,188	1,935,074
2025-2029	2,235,000	1,419,788	1,085,000	186,148	18,245,000	6,997,556
2030-2034	2,630,000	987,006	720,000	39,005	14,760,000	3,592,231
2035-2039	2,955,000	487,656	-	-	12,095,000	1,268,781
2040-2041	1,310,000	61,719	-	-	1,310,000	61,719
Total	$ 11,005,000	$ 4,646,156	$ 2,770,000	$ 546,339	$ 70,873,687	$ 23,771,430

	Business-Type Activities					
Year Ended	Refunding/Stadium Imp 2015		Sr. Lien Utility System Revenue Refunding 2018		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 641,300	$ 161,490	$ 940,000	$ 1,211,500	$ 1,581,300	$ 1,372,990
2021	660,963	142,251	985,000	1,164,500	1,645,963	1,306,751
2022	692,725	109,203	1,035,000	1,115,250	1,727,725	1,224,453
2023	727,513	74,566	1,085,000	1,063,500	1,812,513	1,138,066
2024	763,812	38,190	1,140,000	1,009,250	1,903,812	1,047,440
2025-2029	-	-	6,610,000	4,132,750	6,610,000	4,132,750
2030-2034	-	-	8,440,000	2,306,000	8,440,000	2,306,000
2035-2036	-	-	3,995,000	302,000	3,995,000	302,000
Total	$ 3,486,313	$ 525,700	$ 24,230,000	$ 12,304,750	$ 27,716,313	$ 12,830,450

Contracts Payable

General Government Activities

A balance of $2,318,743 is owed based on improvements made by developers per development agreements for various infrastructure items the City will own and amounts owed to contractors for the retainage of on-going projects.

Business Type Activities

A balance of $2,614,810 is owed based on improvements made by developers per development agreements for various equipment and infrastructure items the City will own and amounts owed to contractors for the retainage of on-going projects.

Legal Debt Limit

The Arizona Constitution provides that the general obligation bonded indebtedness for a city may not exceed twenty percent of the net secondary assessed valuation of the taxable property of the city for projects for purposes of water, wastewater, artificial light, open space preserves, parks and recreational facilities, public safety, law enforcement, fire and emergency services facilities, streets, and transportation facilities. Outstanding general obligation bonded indebtedness for all other purposes may not exceed six percent of the City's net secondary assessed valuation. The following summarizes the City of Surprise, Arizona's legal general obligation bonded debt borrowing capacity at June 30, 2019:

20% Limitation		6% Limitation	
20% Constitutional Limit	$ 263,322,489	6% Constitutional Limit	$ 78,996,747
Less General Obligation 20% Bonds Outstanding	(35,215,000)	Less General Obligation 6% Bonds Outstanding	-
Reduction for Excess Premium	(2,107,019)	Reduction for Excess Premium	-
Available 20% Limitation Borrowing Capacity	$ 226,000,470	Available 6% Limitation Borrowing Capacity	$ 78,996,747

OPERATING LEASES

The City leases copiers, trash compactors, and land under certain cancelable and non-cancelable operating leases expiring at various dates. Operating leases do not give rise to property rights or lease obligations (long-term debt), and therefore the results of the lease agreements are not reflected in the City's statement of net position. Lease expense for the fiscal year ended June 30, 2019 was $70,392.

The following is a schedule of the future minimum lease payments on the non-cancelable operating leases:

Year Ending June 30:	
2020	$ 39,483
2021	18,926
2022	17,296
2023	5,765
Total minimum payments required	$ 81,470

Operating Lease Revenue

The City leases various City-owned properties and buildings under cancelable long-term lease agreements. The carrying value of leased assets is $8,780,151 (cost of $12,525,906 less accumulated depreciation of $3,745,755). The lease properties and building are included as capital assets in the government-wide financial statements. Operating lease revenues for fiscal year 2019 were $432,000.

NOTE 8 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The City contributes to the Arizona State Retirement System (ASRS), the Public Safety Personnel Retirement System (PSPRS) for police officers and firefighters, and the Elected Officials Retirement Plan (EORP) for elected officials and judges. The plans are component units of the State of Arizona.

At June 30, 2019, the City reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental activities	Business-type activities	Total
Net OPEB asset	$ 105,851	$ 29,234	$ 135,085
Net pension liabilities	80,685,680	11,273,996	91,959,676
Net OPEB liabilities	324,878	43,272	368,150
Deferred outflows of resources related to pensions	25,042,439	1,969,370	27,011,809
Deferred outflows of resources related to OPEB	510,997	119,614	630,611
Deferred inflows of resources related to pensions	8,818,745	1,346,879	10,165,624
Deferred inflows of resources related to OPEB	717,514	91,208	808,722
Pension expense	13,593,754	783,251	14,377,005
OPEB expense	183,847	45,835	229,682

The City reported accrued payroll and employee benefits of $396,806 for outstanding pension and OPEB contribution amounts payable to all plans for the year ended June 30, 2019. Also, the City reported $11,725,716 of pension and OPEB expenditures in the governmental funds related to all plans to which it contributes.

Arizona State Retirement System

Plan description — City employees not covered by the other pension plans described below 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. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits provided — The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

Arizona State Retirement System

	Retirement Initial membership date	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from $100 per month to $260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

Contributions — In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2019, statute required active ASRS members to contribute at the actuarially determined rate of 11.80 percent (11.64 percent for retirement and 0.16 percent for long-term disability) of the members' annual covered payroll, and statute required the City to contribute at the actuarially determined rate of 11.80 percent (11.18 percent for retirement, 0.46 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members' annual covered payroll.

In addition, the City was required by statute to contribute at the actuarially determined rate of 10.53 percent (10.41 percent for retirement, 0.06 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to the ASRS would typically fill. The City's contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2019, were $4,349,366, $178,575, and $62,149, respectively.

During fiscal year 2019, the City paid for ASRS pension and OPEB contributions as follows: 70 percent from the general fund, 28 percent from major funds, and 2 percent from other funds.

Liability/(asset) — At June 30, 2019, the City reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB asset or liability.

ASRS	Net Pension/OPEB (asset) liability
Pension	$ 51,433,226
Health insurance premium benefit	(135,084)
Long-term disability	193,112

The net asset and net liabilities were measured as of June 30, 2018. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018. The total liabilities as of June 30, 2018, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the discount rate from 8 percent to 7.5 percent, changing the projected salary increases from 3–6.75 percent to 2.7–7.2 percent, decreasing the inflation rate from 3 percent to 2.3 percent, and changing the mortality rates.

The City's proportion of the net asset or net liability was based on the City's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2018. The City's proportions measured as of June 30, 2018, and the change from its proportions measured as of June 30, 2017, were:

ASRS	Proportion	Increase (decrease) from
	June 30, 2018	June 30, 2017
Pension	0.37%	0.01%
Health insurance premium benefit	0.38%	0.01%
Long-term disability	0.37%	0.01%

Expense — For the year ended June 30, 2019, the City recognized the following pension and OPEB expense.

ASRS	Pension/OPEB expense
Pension	$ 3,394,556
Health insurance premium benefit	138,032
Long-term disability	72,895

Deferred outflows/inflows of resources — At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension	
	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ 1,416,944	$ 283,543
Changes in assumptions	1,361,017	4,560,262
Difference between projected and actual investment earnings	-	1,236,847
Changes in proportion and differences between City contributions and proportionate share of contributions	1,622,800	-
City contributions subsequent to the measurement date	4,349,366	-
Total	$ 8,750,127	$ 6,080,652

	Health insurance premium benefit	
	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ -	$ 124,677
Changes in assumptions	260,511	-
Difference between projected and actual investment earnings	-	269,852
Changes in proportion and differences between City contributions and proportionate share of contributions	345	194
City contributions subsequent to the measurement date	178,575	-
Total	$ 439,431	$ 394,723

	Long-term disability	
	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ 4,939	$ -
Changes in assumptions	41,827	-
Difference between projected and actual investment earnings	-	18,705
Changes in proportion and differences between City contributions and proportionate share of contributions	2,535	16
City contributions subsequent to the measurement date	62,149	-
Total	$ 111,450	$ 18,721

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from city contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ending June 30	Pension	Health insurance premium benefit	Long-term disability
2020	$ 1,537,123	$ (52,281)	$ 916
2021	(786,130)	(52,281)	916
2022	(1,876,206)	(52,281)	917
2023	(554,678)	5,213	5,927
2024	-	17,762	6,845
Thereafter	-	-	15,059

Actuarial assumptions — The significant actuarial assumptions used to measure the total pension/OPEB liability are as follows:

Actuarial valuation date	June 30, 2017
Actuarial roll forward date	June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7–7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2017 actuarial valuation.

The long-term expected rate of return on ASRS plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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. On June 29, 2018, the ASRS Board approved updated strategic asset allocation targets, to be effective July 2018. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

ASRS Asset Class	Target Allocation	Long-term Expected Geometric Real Rate of Return
Equity	50%	5.50%
Fixed income	30%	3.83%
Real estate	20%	5.85%
Total	100%	

Discount rate — At June 30, 2018, the discount rate used to measure the ASRS total pension/OPEB liability was 7.5 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plans' 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

Sensitivity of the City's proportionate share of the ASRS net pension/OPEB (asset) liability to changes in the discount rate — The following table presents the City's proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate.

ASRS City's proportionate share of the	1% Decrease (6.5%)	Current discount rate (7.5%)	1% Increase (8.5%)
Net pension liability	$ 73,319,248	$ 51,433,226	$ 33,147,809
Net health insurance premium benefit liability (asset)	478,636	(135,084)	(657,851)
Net long-term disability liability	218,850	193,112	168,140

P**lan fiduciary net position** — Detailed information about the plans' fiduciary net position is available in the separately issued ASRS financial report.

Public Safety Personnel Retirement System

Plan descriptions — City police employees and City firefighters who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS) or employees who became members on or after July 1, 2017, may participate in the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). 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). A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool) which are not further disclosed because of their relative insignificance to the City's financial statements. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPRS plans. The report is available on the PSPRS website at www.psprs.com.

Benefits provided — The PSPRS provide retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit based on initial membership date as follows:

PSPRS	Initial membership date:	
Retirement and disability	Before January 1, 2012 (Tier 1)	On or after January 1, 2012 and before July 1, 2017 (Tier 2)
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percent		
Normal retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5% to 2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Catastrophic disability retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary disability retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor benefit		
Retired members	80% to 100% of retired member's pension benefit	
Active members	80% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from $100 per month to $260 per month depending on the age of the member and dependents.

Employees covered by benefit terms — At June 30, 2019, the following employees were covered by the agent plans' benefit terms:

	PSPRS Police		PSPRS Fire	
	Pension	Health	Pension	Health
Inactive employees or beneficiaries currently receiving benefits	43	43	12	12
Inactive employees entitled to but not yet receiving benefits	20	3	3	1
Active employees	119	119	121	121
Total	182	165	136	134

Contributions and annual OPEB cost — State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2019, are indicated below. Rates are a percentage of active members' annual covered payroll.

	Police		Fire	
	Tier 1 & 2	Tier 3	Tier 1 & 2	Tier 3
Active members - pension	7.65%	9.68%	7.65%	9.68%
Active members - Health benefit	0.00%	0.26%	0.00%	0.26%
City				
Pension	32.10%	26.97%	25.97%	20.07%
Health insurance premium benefit	0.37%	0.26%	0.31%	0.26%

In addition, statute required the City to contribute at the actuarially determined rate indicated below of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to the PSPRS would typically fill.

	PSPRS	
	Police	Fire
Pension	17.24%	10.33%
Health insurance premium benefit	0.05%	0.06%

The City's contributions to the plans for the year ended June 30, 2019, were:

	PSPRS Police	PSPRS Fire
Contributions made		
Pension	$3,977,387	$2,977,137
Health Insurance premium benefit	44,365	35,366

During fiscal year 2019, the City paid for PSPRS pension and OPEB contributions as follows: 98.8 percent from the general fund, .5 percent from major funds, and .7 percent from non-major funds.

Liability — At June 30, 2019, the City reported the following net pension/OPEB liabilities:

	Net pension liability	Net OPEB liability
PSPRS Police	$ 25,986,798	$ 44,107
PSPRS Fire	12,690,134	130,930

The net assets and net liabilities were measured as of June 30, 2017, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date.

Actuarial assumptions — The significant actuarial assumptions used to measure the total pension/OPEB liability are as follows:

PSPRS	
Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return	7.40%
Wage inflation	3.5% for pensions/not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Cost-of-living adjustment	Included for pensions/not applicable for OPEB
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience.
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.40 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

PSPRS Asset class	Target allocation	Long-term expected geometric real rate of return
Short term investments	2%	0.25%
Risk parity	4%	5.00%
Fixed income	5%	1.25%
Real assets	9%	4.52%
GTS	12%	3.96%
Private credit	16%	6.75%
Real estate	10%	3.75%
Private equity	12%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	100%	

Discount rate — At June 30, 2018, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.40 percent, which was the same as the discount rate used as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the plans' 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

Changes in the net/OPEB liability – The following tables present changes in the City's net pension/OPEB liability for the PSPRS – Police and PSPRS – Fire plans as follows:

PSPRS - Police - Pension	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) – (b)
Balances at June 30, 2018	$ 61,627,688	$ 34,802,471	$ 26,825,217
Changes for the year:			
Service cost	2,432,053	-	2,432,053
Interest on the total pension liability	4,564,294	-	4,564,294
Changes of benefit terms	-	-	-
Difference between expected and actual experience of the total pension liability	(615,366)	-	(615,366)
Changes of assumptions	-	-	-
Contributions—employer	-	3,608,348	(3,608,348)
Contributions—employee	-	1,121,032	(1,121,032)
Net investment income	-	2,508,024	(2,508,024)
Benefit payments, including refunds of employee contributions	(2,328,125)	(2,328,125)	-
Administrative expense	-	(38,871)	38,871
Other changes	-	20,867	(20,867)
Net changes	4,052,856	4,891,275	(838,419)
Balances at June 30, 2019	$ 65,680,544	$ 39,693,746	$ 25,986,798

PSPRS - Police - Health insurance premium benefit	Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB liability (asset) (a) – (b)
Balances at June 30, 2018	$ 1,184,616	$ 1,057,981	$ 126,635
Changes for the year:			
Service cost	34,574	-	34,574
Interest on the total OPEB liability	87,925	-	87,925
Changes of benefit terms	-	-	-
Difference between expected and actual experience of the total OPEB liability	(105,683)	-	(105,683)
Changes of assumptions	-	-	-
Contributions—employer	-	26,730	(26,730)
Contributions—employee	-	-	-
Net investment income	-	73,735	(73,735)
Benefit payments, including refunds of employee contributions	(27,446)	(27,446)	-
OPEB plan administrative expense	-	(1,122)	1,122
Other changes	-	1	(1)
Net changes	(10,630)	71,898	(82,528)
Balances at June 30, 2019	$ 1,173,986	$ 1,129,879	$ 44,107

PSPRS - Fire - Pension	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) – (b)
Balances at June 30, 2018	$ 52,521,863	$ 36,784,339	$ 15,737,524
Changes for the year:			
Service cost	2,629,254	-	2,629,254
Interest on the total pension liability	3,959,756	-	3,959,756
Changes of benefit terms	-	-	-
Difference between expected and actual experience of the total pension liability	(2,685,396)	-	(2,685,396)
Changes of assumptions	-	-	-
Contributions—employer	-	3,149,148	(3,149,148)
Contributions—employee	-	1,036,287	(1,036,287)
Net investment income	-	2,659,343	(2,659,343)
Benefit payments, including refunds of employee contributions	(652,543)	(652,543)	-
Administrative expense	-	(41,175)	41,175
Other changes	-	147,401	(147,401)
Net changes	3,251,071	6,298,461	(3,047,390)
Balances at June 30, 2019	$ 55,772,934	$ 43,082,800	$ 12,690,134

PSPRS - Fire - Health insurance premium benefit	Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB liability (asset) (a) – (b)
Balances at June 30, 2018	$ 975,262	$ 840,564	$ 134,698
Changes for the year:			
Service cost	28,223	-	28,223
Interest on the total OPEB liability	72,743	-	72,743
Changes of benefit terms	-	-	-
Difference between expected and actual experience of the total OPEB liability	(17,297)	-	(17,297)
Changes of assumptions	-	-	-
Contributions—employer	-	29,385	(29,385)
Contributions—employee	-	-	-
Net investment income	-	58,948	(58,948)
Benefit payments, including refunds of employee contributions	(12,727)	(12,727)	-
OPEB plan administrative expense	-	(897)	897
Other changes	-	1	(1)
Net changes	70,942	74,710	(3,768)
Balances at June 30, 2019	$ 1,046,204	$ 915,274	$ 130,930

Sensitivity of the City's net pension/OPEB liability to changes in the discount rate — The following table presents the City's net pension/OPEB liabilities calculated using the discount rate of 7.40 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 (6.40 percent) or 1 percentage point higher (8.40 percent) than the current rate:

	1% Decrease (6.40%)	Current discount rate (7.40%)	1% Increase (8.40%)
PSPRS Police			
Net pension liability	$ 36,549,728	$ 25,986,798	$17,517,175
Net OPEB liability/(asset)	206,636	44,107	(89,831)
PSPRS Fire			
Net pension liability	$ 22,405,257	$ 12,690,134	$ 4,901,275
Net OPEB liability	288,788	130,930	1,617

Plan fiduciary net position — Detailed information about the plans' fiduciary net position is available in the separately issued PSPRS financial reports.

Expense — For the year ended June 30, 2019, the City recognized the following pension and OPEB expense:

	Pension expense	OPEB expense
PSPRS Police	$ 6,648,189	$ 54,742
PSPRS Fire	4,304,351	64,352

Deferred outflows/inflows of resources — At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

PSPRS - Police - Pension	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ 3,600,778	$ 537,388
Changes in assumptions	2,770,348	-
Net difference between projected and actual earnings on pension plan investments	406,499	-
City contributions subsequent to the measurement date	3,977,387	-
Total	$ 10,755,012	$ 537,388

PSPRS - Police - Health insurance premium benefit	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ -	$ 142,902
Changes in assumptions	-	78,161
Net difference between projected and actual earnings on OPEB plan investments	-	20,547
City contributions subsequent to the measurement date	44,365	-
Total	$ 44,365	$ 241,610

PSPRS - Fire - Pension	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ 1,253,964	$ 2,740,941
Changes in assumptions	2,047,767	-
Net difference between projected and actual earnings on pension plan investments	426,174	-
City contributions subsequent to the measurement date	2,977,137	-
Total	$ 6,705,042	$ 2,740,941

PSPRS - Fire - Health insurance premium benefit	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ -	$ 38,114
Changes in assumptions	-	99,854
Net difference between projected and actual earnings on OPEB plan investments	-	15,701
City contributions subsequent to the measurement date	35,366	-
Total	$ 35,366	$ 153,669

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from city contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

	PSPRS			
	Police		Fire	
	Pension	Health	Pension	Health
Year ending June 30				
2020	$2,207,277	$ (43,307)	$ 609,397	$ (22,412)
2021	1,991,983	(43,307)	388,903	(22,412)
2022	1,283,924	(43,306)	(39,117)	(22,412)
2023	756,051	(35,263)	230,295	(16,153)
2024	148,500	(36,159)	190,826	(16,922)
Thereafter	(147,498)	(40,268)	(393,340)	(53,358)

PSPDCRP plan—City police and fire employees who are not members of PSPRS participate in the PSPDCRP. The PSPDCRP is a defined contribution pension plan. The PSPRS Board of Trustees governs the PSPDCRP according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.1. Benefit terms, including contribution requirements, are established by State statute.

For the year ended June 30, 2019, active PSPDCRP members were required by statute to contribute at least 9 percent of the members' annual covered payroll, and the City was required by statute to contribute 9 percent, respectively, of active members' annual covered payroll to an individual employee account. Employees are immediately vested in their own contributions and the earnings on those contributions. Employees vest in a portion of the City's contributions each year as set forth in statute. The plan retains nonvested City contributions when forfeited because of employment terminations. For the year ended June 30, 2019, the City recognized pension expense of $49,747.

C. Elected Officials Retirement Plan

Plan description — Elected officials and judges participate in the Elected Officials Retirement Plan (EORP), ASRS, or the Elected Officials Defined Contribution Retirement System (EODCRS). EORP administers a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan for elected officials and judges who were members of the plan on December 31, 2013. The EORP pension and OPEB plans were closed to new members as of January 1, 2014. The PSPRS Board of Trustees governs the EORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the EORP plans. The report is available on PSPRS's website at www.psprs.com. The EORP OPEB is immaterial to the financial statements of the City; therefore, it is not included in financial statements or presented here in the notes to the financial statements.

Benefits provided — The EORP provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average yearly compensation, and service credit as follows:

EORP	Initial membership date:	
Retirement and disability	Before January 1, 2012	On or after January 1, 2012
Years of service and age required to receive benefit	20 years, any age 10 years, age 62 5 years, age 65 5 years, any age* any years and age if disabled	10 years, age 62 5 years, age 65 any years and age if disabled
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent		
Normal retirement	4% per year of service, not to exceed 80%	3% per year of service, not to exceed 75%
Disability retirement	80% with 10 or more years of service 40% with 5 to 10 years of service 20% with less than 5 years of service	75% with 10 or more years of service 37.5% with 5 to 10 years of service 18.75% with less than 5 years of service
Survivor benefit		
Retired members	75% of retired member’s benefit	50% of retired member’s benefit
Active members and other inactive members	75% of disability retirement benefit	50% of disability retirement benefit

* With reduced benefits of 0.25% for each month early retirement precedes the member’s normal retirement age, with a maximum reduction of 30%.

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase’s effects on the plan.

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 8 or more years of service, benefits range from $100 per month to $260 per month depending on the age of the member and dependents. For members with 5 to 7 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Contributions — State statutes establish active member and employer contribution requirements. Statute also appropriates $5 million annually through fiscal year 2043 for the EORP from the State of Arizona to supplement the normal cost plus an amount to amortize the unfunded accrued liability and designates a portion of certain court fees for the EORP. For the year ended June 30, 2019, statute required active EORP members to contribute 7 or 13 percent of the members’ annual covered payroll and the City to contribute at the actuarially determined rate of 61.5 percent of all active EORP members’ annual covered payroll. Also, statute required the City to contribute 49.86 percent to EORP of the annual covered payroll of elected officials and judges who were ASRS members and 55.5 percent to EORP of the annual covered payroll of elected officials and judges who were EODCRS members, in addition to the City’s required contributions to ASRS and EODCRS for these elected officials and judges. The City’s contributions to the pension and health insurance premium benefit plans for the year ended June 30, 2019, were $101,371 and $0, respectively.

During fiscal year 2019, the City paid for EORP pension contributions as follows: 100 percent from the general fund.

Liability — At June 30, 2019, the City reported a liability for its proportionate share of the EORP's net pension liability that reflected a reduction for the City's proportionate share of the State's appropriation for EORP. The amount the City recognized as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the EORP net pension liability	$ 1,849,518
State's proportionate share of the EORP net pension liability associated with the City	(90,103)
Total	$ 1,759,415

The net liability was measured as of June 30, 2018, and the total liability used to calculate the net liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2018, reflect statutory changes in benefit terms for automatic cost-of-living adjustments. The basis for cost-of-living adjustments was changed from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent.

The City's proportion of the net pension liability was based on the City's required contributions to the pension plan relative to the total of all participating employers' required contributions for the year ended June 30, 2018. The City's proportion measured as of June 30, 2018, and the change from its proportions measured as of June 30, 2017, was:

EORP	Proportion June 30, 2018	Increase (decrease) from June 30, 2017
Pension	0.293510%	0.13%

Expense — For the year ended June 30, 2019, the City recognized pension expense for EORP of $29,910 and revenue of ($90,103) for the City's proportionate share of the State's appropriation to EORP and the designated court fees.

Deferred outflows/inflows of resources — At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

EORP - Pension	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ -	$ 28,846
Changes of assumptions or other inputs	11,524	769,968
Net difference between projected and actual earnings on plan investments	16,049	-
Changes in proportion and differences between City contributions and proportionate share of contributions	672,686	7,828
City contributions subsequent to the measurement date	101,371	-
Total	$ 801,630	$ 806,642

The amounts reported as deferred outflows of resources related to EORP pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized as expenses as follows:

Year ending June 30	Pension
2020	$ (97,065)
2021	(2,776)
2022	(6,809)
2023	266
2024	-

Actuarial assumptions — The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial Valuation Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Fair Value of Assets
Wage Inflation	3.50%
Investment Rate of Return	7.40%
Salary Increases	3.75%, including inflation
Price Inflation	2.50%
Permanent benefit increase	Inflation-based cost of living allowance, capped at 2%. When calculating the total pension liability it is assumed benefit recipients will receive a cost of living adjustment averaging 1.75% each year in the future.
Mortality rates	RP-2014 mortality table using MP-2016 improvement scale with adjustments to match current experience
Retirement Age	Experience-Based Table

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on EORP plan investments was determined to be 7.40 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 expenses and inflation) are developed for each major asset class.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

EORP

Asset class	Target allocation	Long-term expected geometric real rate of return
Short term investments	2%	0.25%
Risk parity	4%	5.00%
Fixed income	5%	1.25%
Real assets	9%	4.52%
GTS	12%	3.96%
Private credit	16%	6.75%
Real estate	10%	3.75%
Private equity	12%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	100%	

Discount rates — At June 30, 2018, the discount rates used to measure the EORP total pension liability was 7.4 percent which was an increase of 3.49 for pension from the discount rates used as of June 30, 2017. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the actuarially determined rates, and State contributions will be made as currently required by statute. Based on those assumptions, the plans' 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 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 EORP net pension liability to changes in the discount rate The following table presents the City's proportionate share of the net pension liability calculated using the discount rates noted above, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

EORP	1% Decrease	Current discount rate	1% Increase
Rate - pension	6.40%	7.40%	8.40%
City's proportionate share of the net pension liability	$ 2,123,676	$ 1,849,518	$ 1,616,475

Plan fiduciary net position — Detailed information about the plan's fiduciary net position is available in the separately issued EORP financial report.

EODCRS plan — Elected officials and judges who are not members of EORP or ASRS participate in the EODCRS and the Elected Officials Defined Contribution Retirement System Disability Program (EODCDP). The EODCRS is a defined contribution pension plan. The EODCDP is a cost-sharing multiple-employer defined benefit disability (OPEB) plan for EODCRS members. The PSPRS Board of Trustees governs the EODCRS and EODCDP according to the provisions of A.R.S. Title 38, Chapter 5, Articles 3.1 and 3.2. Benefit terms, including contribution requirements, are established by state statute. The EODCDP is not further disclosed because of its relative insignificance to the City's financial statements.

For the year ended June 30, 2019, active EODCRS members were required by statute to contribute 8 percent of the members' annual covered payroll, and the City was required by statute to contribute 6 percent of active members' annual covered payroll to an individual employee account. Employees are immediately vested in their own contributions and the City's contributions to the individual employee account and the earnings on those contributions. For the year ended June 30, 2019, the City recognized pension expense of $4,487.

Deferred Compensation Plans

The City offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time government employees at their option, permits participants to defer a portion of their salary until future years. A governing board (committee) makes decisions about investment options available within each Plan. In fiscal year 2019, the City contributed to the 457 plan on behalf of eligible employees in an amount equal to a percentage of base annual salary. The City contributed $656,713 for the year ended June 30, 2019. The deferred compensation is not available to participants until termination, retirement, death, or an unforeseeable emergency.

The City's fiduciary responsibility for the plan is that of exercising "due care" in selecting a third-party administrator. Federal legislation requires that Section 457 plan assets be held in trust for employees; therefore, employee assets held in Section 457 plan assets are held in trust for employees. Employee assets held in Section 457 plans are not the property of the City and are not subject to claims of the City's general creditors. Therefore, the Deferred Compensation Custodial Fund is not included in the City's Financial Statements.

Defined Contribution Other Postemployment Plans

The City also offers a Post-Employment Health Plan (PEHP). The PEHP is a defined contribution plan designed to allow the City and employees to set aside money during the course of employment with the City, for the payment of qualified medical expenses incurred post-employment. The Post-Employment Health Plan consists of two sub-accounts that can accept contributions. One account accepts fixed contributions from the City and the other accepts earned and unused personal time off (vacation and sick leave). After voluntary termination of employment with the City, employees are provided with the option to be paid for all, or a portion of, earned and unused personal time off, or move earned and unused personal time off into their PEHP account.

Beginning with the first pay period in fiscal year 2019, the City began contributing $25 per pay period to the plan for members of the Surprise Police Employees Association and the Northwest Valley Fire Fighters Association Local 4361. Employees are not required to contribute in order to receive the City's contribution.

Further, eligible employees that are Tier 1 members of the Public Safety Personnel Retirement System (PSPRS), who enter the Deferred Retirement Option Plan (DROP) are eligible for an additional benefit. Upon the employee's acceptance by the local board and PSPRS to the DROP program the City will contribute eight percent of total PSPRS eligible earnings, per pay period, to the employee's PEHP. If for any reason an employee terminates participation in DROP, this additional benefit shall cease.

The City contributed $274,272 for the year ended June 30, 2019.

The City's fiduciary responsibility for the plan is that of exercising "due care" in selecting a third-party administrator. Federal legislation requires that post-employment health plan assets be held in trust for employees; therefore, employee assets held in post-employment plan assets are held in trust for employees. Employee assets held in post-employment health plans are not the property of the City and are not subject to claims of the City's general creditors. Therefore, the Deferred Compensation Custodial Fund is not included in the City's Financial Statements.

NOTE 9 - RISK MANAGEMENT

Risk Management Fund

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. Thus, the City participates in the Arizona Municipal Risk Retention Pool (AMRRP), which provides a comprehensive municipal coverage program including property, general liability, public officials' liability, automobile liability and physical damage, bonds and crime. The basic coverage program is standard for all participants and deemed to be appropriate by the governing board of the AMRRP. Individual limits are determined by the Council and staff members.

The limit for basic coverage is $2 million per occurrence and $13 million under an umbrella policy for a total of $15 million on a claim made basis. The AMRRP is structured such that member premiums are based on actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligation. The Pool has the authority to assess its members' additional premiums should reserve's and annual premiums be insufficient to meet the Pool's obligations. The City can be assessed up to the amount of the current year's contribution. The City's obligation is to file claims timely. The AMRRP is responsible for investigating claims, settling claims and billing the City for any deductible portion. The City's loss has not exceeded its coverage in any of the last three years, and the deductible portion has not been material to the City's financial position.

As of June 30, 2019, unpaid claims were as follows:

	Risk Management Fund	
	2018	2019
Beginning unpaid claims	$ -	$ 180,000
Claims incurred and changes in estimates	463,782	543,806
Payments made	(283,782)	(576,273)
Ending unpaid claims	$ 180,000	$ 147,533

Employee Healthcare Fund

The City has established the Employee Healthcare Fund to account for the costs of claims incurred by the City through a self-insurance program. The City is self-insured for individual health claims up to $250,000. Commercial stop loss insurance is in place for claims in excess of the individual limit as well as aggregate insurance for claims in excess of 125% of the City's total actuarially projected claims.

The claims liability includes an estimated amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends and other economic and social factors. Claims that have been incurred but not reported make up $794,325 of the total claims payable reported. The remaining $651,296 is made up of outstanding claims at year end. The City's loss has not exceeded its coverage over the last year.

As of June 30, 2019, unpaid claims were as follows:

	Employee Healthcare Fund	
	2018	2019
Beginning unpaid claims	$ 1,358,057	$ 1,257,598
Claims incurred and changes in estimates	9,478,152	11,161,235
Payments made	(9,578,611)	(10,973,212)
Ending unpaid claims	$ 1,257,598	$ 1,445,621

Worker's Compensation Fund

Following in-depth analysis including an actuarial study to determine feasibility, the Mayor and City Council approved establishing a Worker's Compensation Fund on January 3, 2017; to administer a self-insured workers' compensation program. The City sought and gained authority to self-insure/self-administer workplace injury claims through the Industrial Commission of Arizona (ICA), effective July 1, 2017. The program assumed responsibility for all new workplace injury/exposures deemed compensable, while leaving liability of prior claims with the previous insurance carrier.

The program assumes first-dollar losses up to the established self-insured retention (SIR) levels of two categories of employees. The first category, General Employee Population, carries a self-insured retention level of $500,000 per occurrence. Public Safety Population assumes a self-insured retention of $1,000,000 per occurrence. Should a claim exceed the respective SIR, the excess carrier assumes liability up to statutory limits. All claims below the SIR are managed in-house and resolved via funds established for claims settlement. Expenses within the program are reported regularly to the Workers' Compensation Trust Board, as prescribed by Arizona Revised Statute.

Excess insurance premiums are calculated following underwriting evaluation to include actuarial study and loss history. Being a newly designated self-administered program, the City has been assigned an experience modifier of 1.0, which designates an insurance premium of $0.28 per $100 of payroll. These premiums are assigned to each department based on industry hazard codes and total payroll.

The Workers' Compensation fund currently has an established reserve of $1,500,000, which exceeds the required amount designated by the Industrial Commission of Arizona. The funds held in this reserve account are maintained by the City following approval from both City Council and the ICA for exemption from posting security for outstanding workers' compensation claims, per Arizona Administrative Code R20-5-114.

The claims liability includes an estimated amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends and other economic and social factors. Claims that have been incurred but not reported make up $158,765 of the total claims payable reported. The remaining $12,570 is made up of outstanding claims at year end. The City's loss has not exceeded its coverage over the last year.

As of June 30, 2019, unpaid claims were as follows:

	Workers' Compensation Fund	
	2018	2019
Beginning unpaid claims	$ -	$ 13,577
Claims incurred and changes in estimates	188,621	387,745
Payments made	(175,044)	(229,987)
Ending unpaid claims	$ 13,577	$ 171,335

NOTE 10 - CONTINGENT LIABILITIES

The City is a defendant in various lawsuits that are incidental to the ordinary course of its operations. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's legal counsel, the resolution of these matters will not have a material adverse effect on the City's financial position.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City has entered into a settlement agreement of which the City is financially responsible for a drainage study and road improvements. The total cost to be incurred is currently unknown. The City is also financially responsible to reimburse future development impact fees, planning and zoning fees, and building permits charged by the City related directly to the development of the Property defined in the settlement agreement up to $800,000. As of June 30, 2019 the City had reimbursed the developer as part of the settlement agreement $771,629 leaving up to $28,371 to be reimbursed to the developer in future years.

NOTE 11 - INTERFUND BORROWING AND TRANSFERS

As of June 30, 2019, interfund balances were as follows:

Due to/from other funds:

Due from	Due to General Fund
Non-Major Governmental Fund - Grants Fund	$ 169,925

At year end, the Grants fund, a non-major governmental fund, had a negative cash balance in the pooled cash account. The short-term negative cash balance was eliminated by interfund borrowing with the General Fund and is expected to be paid within one year.

Advances to/from other funds:

	Advances from		
Advances to	General Fund	Sewer Fund	Total
General Government Development Fee Fund	$ -	$5,993,321	$ 5,993,321
Non-Major Governmental Funds	-	972,323	972,323
Ground Ambulance Services Fund	870,950	-	870,950
Total	$ 870,950	$6,965,644	$ 7,836,594

As of June 30, 2019, the City had several long-term loans outstanding. The loans relate to expenditures for projects to be funded by impact fees and to establish ground ambulance services within the City. These loans will be repaid as impact fees are collected in future years and through charges for services once ground ambulance services are fully operational.

Interfund Transfers:

	Transfers in					
Transfers Out	General Fund	General Capital Projects Fund	Debt Service Fund	Non-Major Governmental Funds	Water Fund	Total
General Fund	$ -	$18,510,000	$ 1,969,284	$ 124,008	$ -	$20,603,292
General Capital Projects Fund	-	-	13	-	-	13
General Government Development Fee Fund	-	-	367,248	-	-	367,248
Non-Major Governmental Funds	-	-	1,098,648	-	-	1,098,648
Ground Ambulance Services Fund	891	-	493	-	-	1,384
Water Fund	506,286	-	96,641	-	-	602,927
Sewer Fund	733,253	-	211,550	-	1,459,830	2,404,633
Sanitation Fund	51,346	-	6,112	-	-	57,458
Stormwater Fund	902	-	499	-	-	1,401
Total	$1,292,678	$18,510,000	$ 3,750,488	$ 124,008	$1,459,830	$25,137,004

Transfers between funds were used to (1) record payments in lieu of franchise fees from the enterprise funds to the General Fund (2) record payments in lieu of property taxes from the enterprise funds to the General Fund and Debt Service Fund (3) to support as needed replacement of vehicles and maintenance, construction or purchase of city assets (4) move amounts for debt service payments (5) to fund municipal arts projects, and (6) to transfer water rights (capital assets) generated by the Sewer Fund to the Water Fund to be used for water services. During the year ended June 30, 2019 the governmental activities transferred capital assets and accumulated depreciation totaling $74,779 and $7,908, respectively, for a net transfer amount of $66,872 to business-type activities. The Sanitation Fund transferred capital assets totaling $10 to governmental activities.

NOTE 12 – FUND BALANCE CLASSIFICATION

Fund balance classifications:

	General Fund	General Capital Projects Fund	General Government Development Fee Fund	Highway User Revenue Fund	Transportation Improvement Fund	Debt Service Fund	Non-Major Governmental Fund	Total
Fund balance								
Nonspendable:								
Advance to other funds	$ 870,950	$ -	$ -	$ -	$ -	$ -	$ -	$ 870,950
Inventory	497,348	-	-	606,563	-	-	28,175	1,132,086
Prepaids	828,870	21,684	-	3,042	-	-	5,208	858,804
Total Nonspendable	2,197,168	21,684	-	609,605	-	-	33,383	2,861,840
Restricted:								
City Manager's Office	544	-	-	-	-	-	-	544
Court	-	-	-	-	-	-	209,526	209,526
Debt Service	-	-	-	-	-	484,644	140,805	625,449
Economic Development	6,822	-	-	-	-	-	-	6,822
Fire and Medical	8,907	-	-	-	-	-	6,013,474	6,022,381
Human Services and Community Vitality	32,967	-	-	-	-	-	8,137	41,104
Library	-	-	-	-	-	-	2,685,524	2,685,524
Parks and recreation	337,366	-	-	-	-	-	2,590,332	2,927,698
Police	68,467	-	-	-	-	-	4,860,845	4,929,312
Public works	-	-	-	-	-	-	7,057,332	7,057,332
Transportation	-	-	-	2,407,537	-	-	2,519,858	4,927,395
Unspent Bond Proceeds - Public Safety	-	15,025,869	-	-	-	-	-	15,025,869
Unspent Bond Proceeds - Traffic Mitigation	-	12,312,984	-	-	-	-	-	12,312,984
Unspent Bond Proceeds - Pavement Preservation	-	5,245,530	-	-	-	-	-	5,245,530
Total Restricted	455,073	32,584,383	-	2,407,537	-	484,644	26,085,833	62,017,470
Committed:								
Transportation	-	-	-	-	5,731,916	-	-	5,731,916
Tourism	-	-	-	-	-	-	714,612	714,612
Total Committed	-	-	-	-	5,731,916	-	714,612	6,446,528
Assigned:								
Construction projects	-	15,210,967	-	-	-	-	-	15,210,967
FS Package Replacement Reserve	-	78,589	-	-	-	-	-	78,589
Vehicle Replacement	-	4,401,029	-	-	-	-	-	4,401,029
Public Safety	12,216	-	-	-	-	-	-	12,216
Wildland Vehicle Replacement	345,960	-	-	-	-	-	-	345,960
Other	35,446		-	-	-	-	-	35,446
Total Assigned	393,622	19,690,585	-	-	-	-	-	20,084,207
Unassigned:								
Unassigned or negative fund balance	42,250,582	-	(5,568,450)	-	-	-	(975,052)	35,707,080
Total	$ 45,296,445	$ 52,296,652	$ (5,568,450)	$ 3,017,142	$ 5,731,916	$ 484,644	$ 25,858,776	$ 127,117,125

NOTE 13 – DEFICIT FUND BALANCES

As of June 30, 2019, the following individual governmental funds reported deficits in fund balances:

Fund		Deficit
Major Funds:		
General Government Development Fee Fund	$	4,913,417
Non-Major Governmental Funds		
Fire Development Fee Grandfathered Fund		972,323

Deficits arose due to project expenditures incurred in current and prior years exceeding impact fee revenues. The deficit fund balances are expected to be funded with future development impact fees received.

NOTE 14 – BUDGET BASIS OF ACCOUNTING

The City records expenditures for prepaid items as an expenditure in the period goods or services are received; however, on the budgetary basis of accounting the expenditure is recorded in the period of the actual cash outlay.

NOTE 15 – JOINT VENTURE

The City currently participates with nineteen cities, towns and fire districts in the Regional Wireless Cooperative (RWC) agreement for the administration, operation, management, construction, and maintenance of a regional public safety communications network. The RWC is an Arizona joint venture, multi-jurisdictional organization throughout the Phoenix Metropolitan Region. The City of Phoenix is both the Network Managing Member and the Administrative Managing Member. As the Network Managing Member, the City of Phoenix operates and maintains the network. As the Administrative Managing Member, the City of Phoenix is responsible for accounting, budgeting, procurement and contracting for the RWC.

The City has an ongoing financial responsibility as a result of the agreement to participate in the cost to construct, operate and maintain the network. The City's share of costs is determined based on the proportionate number of subscriber units in use at the time of assessment. The equity interest for the City at June 30, 2019, was $1,061,275.

Separate financial statements may be obtained from RWC Director's Office, 200 W. Washington Street, 12th Floor, Phoenix, Arizona 85003.

NOTE 16 – SUBSEQUENT EVENTS

On October 3, 2019, the Marley Park Community Facilities District issued $8,470,000 in General Obligation Bonds, Series 2019. The bonds were issued to acquire certain public infrastructure benefitting the District that were constructed by the developer. The bonds are payable in annual installments through July 15, 2044 of $50,000 to $1,260,000 with coupon rates of 3.0% to 4.0%.

On November 12, 2019, the City received an upgrade from Standard and Poor's on its Pledged Revenue and Revenue Refunding Obligations, Series 2015. The rating was increased to AA+ from AA with a stable outlook.

SURPRISE

ARIZONA

Required supplementary information

Schedule of the City’s proportionate share of the net pension/OPEB liability (asset)
Cost-sharing plans

Arizona State Retirement System - Pension	Reporting fiscal year (measurement date)					
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2010
City’s proportion of the net pension liability	0.37%	0.36%	0.35%	0.32%	0.29%	Information
City’s proportionate share of the net pension liability	$51,433,226	$56,257,015	$56,796,968	$50,841,272	$ 42,980,167	not
City’s covered payroll	$37,581,388	$35,238,842	$32,932,534	$30,121,665	$ 26,536,195	available
City’s proportionate share of the net pension liability as a percentage of its covered payroll	136.86%	159.64%	172.46%	168.79%	161.97%	
Plan fiduciary net position as a percentage of the total pension liability	73.40%	69.92%	67.06%	68.35%	69.49%	

Arizona State Retirement System - Health insurance premium benefit	Reporting fiscal year (measurement date)		
	2019 (2018)	2018 (2017)	2017 through 2010
City’s proportion of the net OPEB (asset)	0.38%	0.37%	Information
City’s proportionate share of the net OPEB (asset)	$ (135,084)	$ (199,174)	not
City’s covered payroll	$37,581,388	$ 35,238,842	available
City’s proportionate share of the net OPEB (asset) as a percentage of its covered payroll	-0.36%	-0.57%	
Plan fiduciary net position as a percentage of the total OPEB liability	102.20%	103.57%	

Arizona State Retirement System - Long-term disability	Reporting fiscal year (measurement date)		
	2019 (2018)	2018 (2017)	2017 through 2010
City’s proportion of the net OPEB liability	0.37%	0.36%	Information
City’s proportionate share of the net OPEB liability	$ 193,112	$ 131,344	not
City’s covered payroll	$37,581,388	$ 35,238,842	available
City’s proportionate share of the net OPEB liability as a percentage of its covered payroll	0.51%	0.37%	
Plan fiduciary net position as a percentage of the total OPEB liability	77.83%	84.44%	

See accompanying notes to this schedule.

Required supplementary information

Schedule of the City's proportionate share of the net pension/OPEB liability (asset)
Cost-sharing plans

Elected Official Retirement Plan - Pension	Reporting fiscal year (measurement date)					
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2010
City's proportion of the net pension liability	0.29%	0.17%	0.19%	0.16%	0.22%	Information
City's proportionate share of the net pension liability	$ 1,849,518	$ 2,034,660	$ 1,829,709	$ 1,276,030	$ 1,505,462	not available
State's proportionate share of the net pension liability associated with the City	$ (90,103)	$ 213,700	$ 100,812	$ 107,037	$ 136,820	
Total	$ 1,759,415	$ 2,248,360	$ 1,930,521	$ 1,383,067	$ 1,642,282	
City's covered payroll	$ 150,767	$ 154,566	$ 155,470	$ 155,470	$ 154,983	
City's proportionate share of the net pension liability as a percentage of its covered payroll	1166.98%	1454.63%	1241.73%	889.60%	1059.65%	
Plan fiduciary net position as a percentage of the total pension liability	30.36%	19.66%	23.42%	28.32%	31.91%	

See accompanying notes to this schedule.

Required supplementary information

Schedule of changes in the City's net pension/OPEB liability and related ratios
Agent plans

PSPRS - Police - Pension	Reporting fiscal year (measurement date)					
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2010
Total pension liability						Information
Service cost	$ 2,432,053	$ 2,580,430	$ 2,064,206	$ 1,663,042	$ 1,565,018	not available
Interest on the total pension liability	4,564,294	4,152,228	3,530,011	2,833,422	2,300,961	
Changes of benefit terms	-	431,035	4,507,117	-	241,790	
Differences between expected and actual experience in the measurement of the pension liability	(615,366)	884,245	144,478	5,574,308	1,218,340	
Changes of assumptions or other inputs	-	950,588	2,249,172	-	2,469,394	
Benefit payments, including refunds of employee contributions	(2,328,125)	(2,887,339)	(1,829,352)	(965,851)	(1,157,301)	
Net change in total pension liability	$ 4,052,856	$ 6,111,187	$ 10,665,632	$ 9,104,921	$ 6,638,202	
Total pension liability-beginning	61,627,688	55,516,501	44,850,869	35,745,948	29,107,746	
Total pension liability-ending (a)	$ 65,680,544	$ 61,627,688	$ 55,516,501	$ 44,850,869	$ 35,745,948	
Plan fiduciary net position						
Contributions-employer	$ 3,608,348	$ 2,601,364	$ 2,303,420	$ 1,729,946	$ 1,359,213	
Contributions-employee	1,121,032	1,376,163	1,496,064	1,196,870	977,373	
Net investment income	2,508,024	3,589,391	168,147	951,951	2,875,527	
Benefit payments, including refunds of employee contributions	(2,328,125)	(2,887,339)	(1,829,352)	(965,851)	(1,157,301)	
Pension plan administrative expense	(38,871)	(32,160)	(24,595)	(23,613)	-	
Other changes	20,867	36,754	138,888	210,447	(462,996)	
Net change in plan fiduciary net position	$ 4,891,275	$ 4,684,173	$ 2,252,572	$ 3,099,750	$ 3,591,816	
Plan fiduciary net position-beginning	34,802,471	30,118,298	27,865,726	24,765,976	21,174,160	
Plan fiduciary net position-ending (b)	$ 39,693,746	$ 34,802,471	$ 30,118,298	$ 27,865,726	$ 24,765,976	
City's net pension (asset) liability-ending (a) - (b)	$ 25,986,798	$ 26,825,217	$ 25,398,203	$ 16,985,143	$ 10,979,972	
Plan fiduciary net position as a percentage of the total pension liability	60.43%	56.47%	54.25%	62.13%	69.28%	
Covered payroll	$ 12,326,006	$ 11,769,882	$ 11,159,388	$ 10,682,880	$ 8,730,979	
City's net pension (asset) liability as a percentage of covered payroll	210.83%	227.91%	227.59%	158.99%	125.76%	

See accompanying notes to this schedule.

Required supplementary information

Schedule of changes in the City’s net pension/OPEB liability and related ratios
Agent plans

PSPRS - Police - OPEB	Reporting fiscal year (measurement date)		
	2019 (2018)	2018 (2017)	2014 through 2010
Total OPEB liability			Information
Service cost	$ 34,574	$ 37,056	not available
Interest on the total OPEB liability	87,925	94,154	
Changes of benefit terms	-	6,912	
Differences between expected and actual experience of the total OPEB liability	(105,683)	(68,029)	
Changes of assumptions	-	(107,363)	
Benefit payments, including refunds of employee contributions	(27,446)	(29,932)	
Net change in total OPEB liability	$ (10,630)	$ (67,202)	
Total OPEB liability-beginning	1,184,616	1,251,818	
Total OPEB liability-ending (a)	$ 1,173,986	$ 1,184,616	
Plan fiduciary net position			
Contributions-employer	$ 26,730	$ 55,927	
Contributions-employee	-	-	
Net investment income	73,735	110,362	
Benefit payments, including refunds of employee contributions	(27,446)	(29,932)	
OPEB plan dministrative expense	(1,122)	(976)	
Other changes	1	-	
Net change in plan fiduciary net position	$ 71,898	$ 135,381	
Plan fiduciary net position-beginning	1,057,981	922,600	
Plan fiduciary net position-ending (b)	$ 1,129,879	$ 1,057,981	
City's net OPEB (asset) liability-ending (a) - (b)	$ 44,107	$ 126,635	
Plan fiduciary net position as a percentage of the total OPEB liability	96.24%	89.31%	
Covered payroll	$ 12,326,006	$ 11,769,882	
City's net OPEB (asset) liability as a percentage of covered payroll	0.36%	1.08%	

See accompanying notes to this schedule.

Required supplementary information

Schedule of changes in the City's net pension/OPEB liability and related ratios
Agent plans

PSPRS - Fire - Pension

	Reporting fiscal year (measurement date)					
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2010
Total pension liability						Information not available
Service cost	$ 2,629,254	$ 2,540,844	$ 1,944,045	$ 1,709,096	$ 1,635,304	
Interest on the total pension liability	3,959,756	3,537,634	2,858,919	2,480,922	2,170,938	
Changes of benefit terms	-	324,839	4,813,386	-	25,204	
Differences between expected and actual experience in the measurement of the pension liability	(2,685,396)	721,498	(428,646)	991,201	122,957	
Changes of assumptions or other inputs	-	36,178	2,042,866	-	1,068,570	
Benefit payments, including refunds of employee contributions	(652,543)	(1,074,336)	(485,385)	(481,494)	(1,740,565)	
Net change in total pension liability	$ 3,251,071	$ 6,086,657	$ 10,745,185	$ 4,699,725	$ 3,282,408	
Total pension liability-beginning	52,521,863	46,435,206	35,690,021	30,990,296	27,707,888	
Total pension liability-ending (a)	$ 55,772,934	$ 52,521,863	$ 46,435,206	$ 35,690,021	$ 30,990,296	
Plan fiduciary net position						
Contributions-employer	$ 3,149,148	$ 1,828,952	$ 1,773,960	$ 1,394,750	$ 1,298,311	
Contributions-employee	1,036,287	1,340,153	1,188,041	1,085,819	916,860	
Net investment income	2,659,343	3,742,608	170,022	956,696	2,973,644	
Benefit payments, including refunds of employee contributions	(652,543)	(1,074,336)	(485,385)	(481,494)	(1,740,565)	
Pension plan administrative expense	(41,175)	(33,516)	(24,864)	(23,732)	-	
Other changes	147,401	141,131	30,036	23,521	(491,977)	
Net change in plan fiduciary net position	$ 6,298,461	$ 5,944,992	$ 2,651,810	$ 2,955,560	$ 2,956,273	
Plan fiduciary net position-beginning	36,784,339	30,839,347	28,187,537	25,231,977	22,275,704	
Plan fiduciary net position-ending (b)	$ 43,082,800	$ 36,784,339	$ 30,839,347	$ 28,187,537	$ 25,231,977	
City's net pension (asset) liability-ending (a) - (b)	$ 12,690,134	$ 15,737,524	$ 15,595,859	$ 7,502,484	$ 5,758,319	
Plan fiduciary net position as a percentage of the total pension liability	77.25%	70.04%	66.41%	78.98%	81.42%	
Covered payroll	$ 11,534,304	$ 11,296,060	$ 10,648,460	$ 9,802,389	$ 8,942,409	
City's net pension (asset) liability as a percentage of covered payroll	110.02%	139.32%	146.46%	76.54%	64.39%	

See accompanying notes to this schedule.

Required supplementary information
Schedule of City pension/OPEB contributions

PSPRS - Fire - OPEB	Reporting fiscal year (measurement date)		
	2019 (2018)	2018 (2017)	2014 through 2010
Total OPEB liability			Information
Service cost	$ 28,223	$ 28,898	not available
Interest on the total OPEB liability	72,743	78,136	
Changes of benefit terms	-	8	
Differences between expected and actual experience of the total OPEB liability	(17,297)	(28,004)	
Changes of assumptions	-	(124,948)	
Benefit payments, including refunds of employee contributions	(12,727)	(12,382)	
Net change in total OPEB liability	$ 70,942	$ (58,292)	
Total OPEB liability-beginning	975,262	1,033,554	
Total OPEB liability-ending (a)	$ 1,046,204	$ 975,262	
Plan fiduciary net position			
Contributions-employer	$ 29,385	$ 40,649	
Contributions-employee	-	-	
Net investment income	58,948	86,787	
Benefit payments, including refunds of employee contributions	(12,727)	(12,382)	
OPEB plan dministrative expense	(897)	(769)	
Other changes	1	-	
Net change in plan fiduciary net position	$ 74,710	$ 114,285	
Plan fiduciary net position-beginning	840,564	726,279	
Plan fiduciary net position-ending (b)	$ 915,274	$ 840,564	
City's net OPEB (asset) liability-ending (a) - (b)	$ 130,930	$ 134,698	
Plan fiduciary net position as a percentage of the total OPEB liability	87.49%	86.19%	
Covered payroll	$ 11,534,304	$ 11,296,060	
City's net OPEB (asset) liability as a percentage of covered payroll	1.14%	1.19%	

See accompanying notes to this schedule.

Required supplementary information

Schedule of City pension/OPEB contributions

Arizona State Retirement System - Pension

	Reporting fiscal year 2019	2018	2017	2016	2015	2014	2013 through 2010
Statutorily required contribution	$ 4,349,366	$ 4,084,163	$ 3,773,263	$ 3,569,994	$ 3,259,073	$ 2,801,701	Information not available
City's contributions in relation to the statutorily required contribution	4,349,366	4,084,163	3,773,263	3,569,994	3,259,073	2,801,701	
City's contribution deficiency	$ -	$ -	$ -	$ -	$ -	$ -	
City's covered payroll	$ 38,971,217	$ 37,581,388	$ 35,238,842	$ 32,932,534	$ 30,121,665	$ 26,536,195	
City's contributions as a percentage of covered payroll	11.16%	10.87%	10.71%	10.84%	10.82%	10.56%	

Arizona State Retirement System - Health insurance premium benefit

	Reporting fiscal year 2019	2018	2017	2016 through 2010
Statutorily required contribution	$ 178,575	$ 164,581	$ 196,952	Information not available
City's contributions in relation to the statutorily required contribution	178,575	164,581	196,952	
City's contribution deficiency	$ -	$ -	$ -	
City's covered payroll	$ 38,971,217	$ 37,581,388	$ 35,238,842	
City's contributions as a percentage of covered payroll	0.46%	0.44%	0.56%	

Arizona State Retirement System - Long-term disability

	Reporting fiscal year 2019	2018	2017	2016 through 2010
Statutorily required contribution	$ 62,149	$ 61,374	$ 49,278	Information not available
City's contributions in relation to the statutorily required contribution	62,149	61,374	49,278	
City's contribution deficiency	$ -	$ -	$ -	
City's covered payroll	$ 38,971,217	$ 37,581,388	$ 35,238,842	
City's contributions as a percentage of covered payroll	0.16%	0.16%	0.14%	

See accompanying notes to this schedule.

Required supplementary information

Schedule of City pension/OPEB contributions

Elected Official Retirement Plan - Pension

	Reporting fiscal year						
	2019	2018	2017	2016	2015	2014	2013 through 2010
Statutorily required contribution	$ 101,371	$ 66,206	$ 34,133	$ 36,535	$ 35,199	$ 47,836	Information
City's contributions in relation to the statutorily required contribution	101,371	66,206	34,133	36,535	35,199	47,836	not available
City's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	
City's covered payroll	$ 176,123	$ 150,767	$ 154,566	$ 155,470	$ 155,470	$ 154,983	
City's contributions as a percentage of covered payroll	57.56%	43.91%	22.08%	23.50%	22.64%	30.87%	

The City was not required and did not contribute to the EORP health insurance premium benefit plan for fiscal years 2019, 2018, or 2017. Information for fiscal years 2016 through 2010 is not available.

PSPRS - Police - Pension

	Reporting fiscal year						
	2019	2018	2017	2016	2015	2014	2013 through 2010
Actuarially determined contribution	$ 3,977,387	$ 5,056,552	$ 2,598,440	$ 2,301,028	$ 1,753,988	$ 1,359,213	Information
City's contributions in relation to the actuarially determined contribution	3,977,387	5,056,552	2,598,440	2,301,028	1,753,988	1,359,213	not available
City's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	
City's covered payroll	$ 13,066,419	$ 12,326,006	$ 11,769,882	$ 11,159,388	$ 10,682,880	$ 8,730,979	
City's contributions as a percentage of covered payroll	30.44%	41.02%	22.08%	20.62%	16.42%	15.57%	

PSPRS - Police - OPEB

	Reporting fiscal year			
	2019	2018	2017	2016 through 2010
Actuarially determined contribution	$ 44,365	$ 79,382	$ 58,849	Information
City's contributions in relation to the actuarially determined contribution	44,365	79,382	58,849	not
City's contribution deficiency (excess)	$ -	$ -	$ -	available
City's covered payroll	$ 13,066,419	$ 12,326,006	$ 11,769,882	
City's contributions as a percentage of covered payroll	0.34%	0.64%	0.50%	

See accompanying notes to this schedule.

Required supplementary information
Schedule of City pension/OPEB contributions

PSPRS - Fire - Pension

	Reporting fiscal year						
	2019	2018	2017	2016	2015	2014	2013 through 2010
Actuarially determined contribution	$ 2,977,137	$ 4,499,428	$ 1,832,987	$ 1,716,087	$ 1,417,546	$ 1,298,311	Information
City's contributions in relation to the actuarially determined contribution	2,977,137	4,499,428	1,832,987	1,716,087	1,417,546	1,298,311	not available
City's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	
City's covered payroll	$ 11,767,811	$ 11,534,304	$ 11,296,060	$ 10,648,460	$ 9,802,389	$ 8,942,409	
City's contributions as a percentage of covered payroll	25.30%	39.01%	16.23%	16.12%	14.46%	14.52%	

PSPRS - Fire - OPEB

	Reporting fiscal year			
	2019	2018	2017	2016 through 2010
Actuarially determined contribution	$ 35,366	$ 77,072	$ 40,740	Information
City's contributions in relation to the actuarially determined contribution	35,366	77,072	40,740	not
City's contribution deficiency (excess)	$ -	$ -	$ -	available
City's covered payroll	$ 11,767,811	$ 11,534,304	$ 11,296,060	
City's contributions as a percentage of covered payroll	0.30%	0.67%	0.36%	

See accompanying notes to this schedule.

Note 1 – Actuarially determined contribution rates

Actuarially determined contribution rates are calculated as of June 30 each year for ASRS which is 12 months prior to the beginning of the fiscal year in which contributions are reported. Actuarial determined contribution rates for PSPRS are calculated as of June 30 2 years prior to the beginning of the fiscal year in which contributions are reported. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent-of-pay, Closed
Remaining amortization period as of the 2017 actuarial valuation	20 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 normal cost which otherwise would be payable.
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2017 actuarial valuation, projected salary increases were decreased from 4.0%–8.0% to 3.5%–7.5% for PSPRS. In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS.
Wage growth	In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5% for PSPRS. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%.
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	In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales. RP-2000 mortality table (adjusted by 105% for both males and females).

Note 2 – Factors that affect trends

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS and EORP changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS and EORP also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes increased the PSPRS required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date. EORP-required contributions are not based on actuarial valuations, and therefore, these changes did not affect them. Also, the City refunded excess employee contributions to PSPRS and EORP members. PSPRS and EORP provided the City the option to reduce its actual employer contributions for the refunded amounts; however, the City elected not to reduce its actual employer contributions for the refunded amounts.

The fiscal year 2019 (measurement date 2018) pension liabilities for EORP reflects the replacement of the permanent benefit increase (PBI) for retirees based on investment returns with a cost of living adjustment based on inflation. Also, the EORP liability and required pension contributions for fiscal year 2019 reflect a statutory change that requires the employer contribution rate to be actuarially determined. This change increased the discount rate used to calculate the liability thereby reducing the total pension liability.

The actuarial assumptions used in the June 30, 2017, valuation for ASRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2017, actuarial valuation.

The actuarial assumptions used in the June 30, 2018, valuation for PSPRS were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. Several actuarial assumptions were adjusted as a result of the study, including decreasing wage inflation from 4.0% to 3.5%.

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
General Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	$ 54,463,200	$ 54,463,200	$ 56,238,268	$ 1,775,068
Licenses and permits	5,668,900	5,668,900	5,991,243	322,343
Intergovernmental revenues	36,426,300	36,426,300	36,165,011	(261,289)
Charges for services	11,631,400	11,806,100	18,377,414	6,571,314
Fines	1,247,900	1,247,900	1,452,165	204,265
Rents	681,800	639,600	724,073	84,473
Interest revenue(loss)	148,600	148,600	983,101	834,501
Donations	550,700	575,600	125,872	(449,728)
Indirect charges	5,481,600	5,481,600	5,481,600	-
Other revenue	470,600	470,600	425,453	(45,147)
Total revenues	116,771,000	116,928,400	125,964,200	9,035,800
EXPENDITURES				
Current:				
General Government				
City council	540,300	705,300	335,193	370,107
City manager	3,622,700	3,224,200	3,031,467	192,733
City attorney	2,289,000	2,289,000	2,021,362	267,638
City clerk	807,900	807,900	619,493	188,407
Finance	4,338,600	4,383,600	3,845,937	537,663
Human resources	2,356,000	2,406,000	2,245,516	160,484
Information technology	5,215,800	5,296,800	5,142,231	154,569
Total general government	19,170,300	19,112,800	17,241,199	1,871,601
Public Safety				
Police	28,537,000	28,608,700	27,931,759	676,941
Fire	21,001,600	21,081,600	20,843,866	237,734
Court	2,429,600	2,429,600	2,279,657	149,943
Total public safety	51,968,200	52,119,900	51,055,282	1,064,618
Community Developmen				
Economic development	7,082,100	7,309,700	7,216,753	92,947
Community development	4,775,600	4,909,400	4,578,790	330,610
Total community development	11,857,700	12,219,100	11,795,543	423,557
Culture and Recreation				
Human services and community vitality	1,816,300	2,237,500	1,814,457	423,043
Parks and recreation	17,713,100	17,598,000	16,189,530	1,408,470
Total culture and recreation	19,529,400	19,835,500	18,003,987	1,831,513
Public Works and Streets				
Public works and streets	8,202,500	8,223,000	7,533,758	689,242
Total public works and streets	8,202,500	8,223,000	7,533,758	689,242
Contingency				
Contingency	2,124,200	1,320,200	-	1,320,200
Total contingency	2,124,200	1,320,200	-	1,320,200
Total current	112,852,300	112,830,500	105,629,769	7,200,731
Capital outlay:				
General Government				
City manager	$ 33,000	$ 33,000	$ 10	$ 32,990
Human resources	5,800	5,800	4,321	1,479
Information technology	20,000	20,000	14,501	5,499
Public Safety				
Police	2,500	2,500	539	1,961
Fire	65,000	65,000	63,546	1,454
Public works and streets				
Public works and streets	-	45,000	44,454	546
Community Development				
Community development	-	16,300	16,241	59
Culture and recreation				
Parks and recreation	25,000	900	-	900
Total capital outlay	151,300	188,500	143,612	44,888
Total expenditures	113,003,600	113,019,000	105,773,381	7,245,619
Excess (deficiency) of revenues over expenditures	3,767,400	3,909,400	20,190,819	16,281,419

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
General Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	54,700	54,700	276,091	221,391
Transfers in	1,244,400	1,244,400	1,292,678	48,278
Transfers out	(20,621,200)	(20,621,200)	(20,603,292)	17,908
Total other financing sources (uses)	(19,322,100)	(19,322,100)	(19,034,523)	287,577
Net change in fund balances	$ (15,554,700)	$ (15,412,700)	$ 1,156,296	$ 16,568,996

See accompanying notes to this schedule.

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
General Government Development Fee Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Development fees	$ 437,700	$ 437,700	$ 994,895	$ 557,195
Interest revenue	-	-	27,386	27,386
Total revenues	437,700	437,700	1,022,281	584,581
EXPENDITURES				
Current:				
Contingency				
Contingency	5,300	5,300	-	5,300
Total current	5,300	5,300	-	5,300
Total expenditures	5,300	5,300	-	5,300
Excess (deficiency) of revenues over expenditures	432,400	432,400	1,022,281	589,881
OTHER FINANCING SOURCES (USES)				
Transfers out	(437,700)	(437,700)	(367,248)	70,452
Total other financing sources (uses)	(437,700)	(437,700)	(367,248)	70,452
Net change in fund balances	$ (5,300)	$ (5,300)	$ 655,033	$ 660,333

See accompanying notes to this schedule.

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Highway User Revenue Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Intergovernmental revenues	$ 8,335,500	$ 8,335,500	$ 9,166,292	$ 830,792
Charges for services	1,000	1,000	11,250	10,250
Interest revenue	-	-	54,623	54,623
Other revenue	1,500	81,500	17,941	(63,559)
Total revenues	8,338,000	8,418,000	9,250,106	832,106
EXPENDITURES				
Current:				
Public Works and Streets				
Public works and streets	8,116,400	8,089,400	7,323,383	766,017
Contingency				
Contingency	50,400	197,000	-	197,000
Total current	8,166,800	8,286,400	7,323,383	963,017
Capital outlay:				
Public Works and Streets				
Public works and streets	1,098,500	978,900	939,663	39,237
Total capital outlay	1,098,500	978,900	939,663	39,237
Total expenditures	9,265,300	9,265,300	8,263,046	1,002,254
Excess (deficiency) of revenues over expenditures	(927,300)	(847,300)	987,060	1,834,360
Net change in fund balances	$ (927,300)	$ (847,300)	$ 987,060	$ 1,834,360

See accompanying notes to this schedule.

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Transportation Improvement Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Taxes	$ 2,648,300	$ 2,648,300	$ 5,650,672	$ 3,002,372
Interest revenue	-	-	135,200	135,200
Grants revenue	-	-	63,562	63,562
Total revenues	2,648,300	2,648,300	5,849,434	3,201,134
EXPENDITURES				
Current:				
Public Works and Streets				
Public works and streets	3,173,300	3,184,800	2,836,409	348,391
Community Development				
Economic development	90,500	90,500	56,668	33,832
Contingency				
Contingency	912,800	512,400	-	512,400
Total current	4,176,600	3,787,700	2,893,077	894,623
Capital outlay:				
Public works and streets				
Public works and streets	23,600	412,500	167,122	245,378
Total capital outlay	23,600	412,500	167,122	245,378
Total expenditures	4,200,200	4,200,200	3,060,199	1,140,001
Excess (deficiency) of revenues over expenditures	(1,551,900)	(1,551,900)	2,789,235	4,341,135
Net change in fund balances	$ (1,551,900)	$ (1,551,900)	$ 2,789,235	$ 4,341,135

See accompanying notes to this schedule.

Note to Required Supplementary Information

Note 1 – BUDGETARY BASIS OF ACCOUNTING

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds with the following exceptions: (1) Capital Projects, the Grants, and Neighborhood Revitalization Funds adopt project-length budgets which normally extend beyond the fiscal year (2) Compensated absences are expended when paid, (3) Capital outlays within the enterprise funds are expended on a budget basis, (4) Bad debt expense represents revenue the City won't receive, rather than an actual cash outlay, and (5) Prepaid items and inventory are expended when paid not when the goods or services are received or used.

Prior to the third Monday in July, the City Manager submits to the City Council, and Council adopts a tentative budget for the fiscal year commencing on July 1. The tentative budget includes a schedule of the estimated expenditures and revenues. The proposed budget sets the maximum limit. The tentative budget is then published once a week for two consecutive weeks in a local newspaper. Finally, the City holds a public hearing on the budget and convenes a special meeting to adopt the final proposed budget on or before the 14th day before the tax levy is adopted.

The annual budget is adopted by resolution and serves as the foundation for the City of Surprise's financial planning and control. It has been programmed to allow as much flexibility as possible while still establishing useful guidelines. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. The City budget is adopted by department within each fund and by project in the capital funds. In addition, the full-time equivalent (FTE) position count is adopted by department within each fund. Changes to the adopted budget must be made in accordance with the City's Budget Amendment Policy. This policy specifies the approval levels required for various types of budget amendments. During the fiscal year, amendment requests are submitted to the Finance Department for preparation and processing. Changes can be made pursuant to the policy only if funds are unencumbered and available.

SURPRISE

ARIZONA

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

SURPRISE

ARIZONA

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
General Capital Projects Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Taxes	$ 2,634,200	$ 2,634,200	$ 7,037,652	$ 4,403,452
Interest revenue	-	-	1,298,450	1,298,450
Other revenue	-	94,000	166,882	72,882
Total revenues	2,634,200	2,728,200	8,502,984	5,774,784
EXPENDITURES				
Capital outlay:				
General Government				
City manager	781,900	781,900	49,598	732,302
Information technology	1,634,500	1,592,000	861,580	730,420
General operations	-	31,100	31,005	95
Public Safety				
Police	1,308,500	1,305,600	209,077	1,096,523
Fire	5,355,900	4,926,400	2,147,270	2,779,130
Public works and streets				
Public works and streets	21,332,000	21,183,600	12,156,698	9,026,902
Community Development				
Economic development	670,000	650,000	126,563	523,437
Community development	1,194,100	995,300	483,434	511,866
Culture and recreation				
Human services and community vitality	10,000	10,000	8,595	1,405
Parks and recreation	1,363,800	1,693,000	1,473,562	219,438
Contingency				
Contingency	1,896,300	2,469,400	-	2,469,400
Total capital outlay	35,547,000	35,638,300	17,547,382	18,090,918
Total expenditures	35,547,000	35,638,300	17,547,382	18,090,918
Excess (deficiency) of revenues over expenditures	(32,912,800)	(32,910,100)	(9,044,398)	23,865,702
OTHER FINANCING SOURCES (USES)				
Transfers in	18,510,000	18,510,000	18,510,000	-
Transfers out	-	(13)	(13)	-
Total other financing sources (uses)	18,510,000	18,509,987	18,509,987	-
Net change in fund balances	$ (14,402,800)	$ (14,400,113)	$ 9,465,589	$ 23,865,702

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Debt Service Fund
For the Year Ended June 30, 2019

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget
REVENUES				
Taxes	$ 4,359,900	$ 4,359,900	$ 4,364,666	$ 4,766
Interest revenue	-	-	77,457	77,457
Total revenues	4,359,900	4,359,900	4,442,123	82,223
EXPENDITURES				
Current:				
Contingency				
Contingency	76,200	76,200	-	76,200
Total current	76,200	76,200	-	76,200
Debt service:				
Administrative charges	-	-	1,051	(1,051)
Principal retirement	4,897,900	4,897,900	4,897,900	-
Interest	2,817,300	2,817,300	2,817,215	85
Bond issuance costs	9,300	9,300	-	9,300
Total debt service	7,724,500	7,724,500	7,716,166	8,334
Total expenditures	7,800,700	7,800,700	7,716,166	84,534
Excess (deficiency) of revenues over expenditures	(3,440,800)	(3,440,800)	(3,274,043)	166,757
OTHER FINANCING SOURCES (USES)				
Transfers in	3,440,800	3,750,488	3,750,488	-
Total other financing sources (uses)	3,440,800	3,750,488	3,750,488	-
Net change in fund balances	$ -	$ 309,688	$ 476,445	$ 166,757

SURPRISE

ARIZONA

NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS

❖ <u>Special Revenue Funds</u> – These funds account for specific non-capital revenues that are restricted in their allowable use.

- *Grants Fund* - this fund has been established to account for revenues and expenditures from the various grants received by the City.
- *LTAF II Fund* - This fund has been established to account for revenues and expenditures received by the City from the state of Arizona. These funds are a portion of lottery money collected and can be used to fund transit operations, facilities, and equipment purchases.
- *Municipal Court Enhancement Fund* - Established in FY2003, this fund tracks revenue associated with fines dedicated to Municipal Court technology improvements. City policy restricts the use of these funds.
- *Municipal Court FARE fund* - This fund is used to discretely track funds received by the City that are restricted to use on projects which enhance the fine collections process. FARE - Fare/fees and restitution enforcement.
- *Municipal Court JCEF Fund* - This fund is used to discretely track funds received by the City that are restricted to use on technology improvements in the Municipal Court. JCEF - Judicial court enhancement fund.
- *Municipal Court MFTG Fund* - This fund is used to discretely track funds received by the City that are restricted to use on projects which aid in the processing of criminal cases. MFTG - Municipal fill the gap.
- *Neighborhood Revitalization Fund* - This fund is used to track all revenues and expenditures associated with the City's neighborhood revitalization program. This program is funded through a combination of federal, state and local funds. City policy, grant agreements, and contractual obligations restrict the use of these funds.
- *Net Premium Seating Fund* - This fund was established to account for the revenues and expenditures for a ticket surcharge on the sale of spring training tickets for premium seats.
- *Proposition 400 Fund* - This fund is used to track all revenues and expenditures for the county-wide half-cent sales tax to be used for regional transportation improvements.
- *SB1398 Fines Fund* - This fund was established to account for funds the City receives from the state of Arizona for penalties charged on certain violations. These revenues are limited to the purchase of officer safety equipment.
- *SPD DEA Fund* - This fund is used to discreetly track funds received from the participation on DEA task forces in the Greater Phoenix area. The use of these funds is limited to approval by the disbursing program manager and is generally related to purchase and maintenance of department equipment not included in the general budget. SPD - Surprise Police Department. DEA - Drug Enforcement Activity.
- *SPD RICO Fund* - This fund is used to discretely track funds received from participation in the Maricopa County Attorney's Office Anti-Racketeering Influenced and Corrupt Organizations (RICO) task force.
- *SPD Towing Fund* - This fund is used to track activity in the Police Department for vehicle impounds. The use of these funds is limited to administrative management of the vehicle impound program.
- *Spring Training Ticket Surcharge Fund* - This fund was established to account for the revenue and expenditures from a $1 per ticket surcharge on the sale of spring training tickets. These revenues are limited to operational improvements to stadium facilities.
- *Tourism Fund* - This fund is used to track all revenues and expenditures associated with the City's 2.52% bed tax. The funds are used to support tourism within the City. City policy and state statute restrict the use of these funds.
- *163rd Avenue Roadway Development Impact Fee Fund* - This fund was established to account for development impact fees which are assessed to the service area identified as the 163rd Avenue Roadway.

- *Fire Development Fee 2014 Law Fund* - This fund was established to account for the inflow of Fire and EMS development fees levied on new residential and commercial construction. This fee can only be used for the purchase, construction, financing and furnishing of new capital or one-time items directly related to the increased demand on Fire and EMS services caused by growth. This fund accounts for the development fees approved to be collected beginning August 1, 2014.
- *Fire Development Fee Grandfathered Fund* - This fund was established to account for the inflow of Fire and EMS development fees levied on new residential and commercial construction. This fee can only be used for the purchase, construction, financing and furnishing of new capital or one-time items directly related to the increased demand on Fire and EMS services caused by growth. This fund accounts for the development fees approved to be collected prior to August 1, 2014.
- *Library Development Fee Fund* - This fund was established to account for the inflow of library development fees levied on new residential construction. This fee can only be used for the purchase, construction, financing and furnishing of new items directly related to the increased demand on library services caused by growth.
- *Parks and Recreation Development Fee Fund* - This fund was established to account for the inflow of parks and recreation development fees levied on new residential construction. This fee can only be used for the purchase, construction, financing and furnishing of new items directly related to the increased demand on parks and recreation services caused by growth.
- *Police Development Fee Fund* - This fund was established to account for the inflow of police development fees levied on new residential and commercial construction. This fee can only be used for the purchase, construction financing and furnishing of new capital or one-time items directly related to the increased demand of police services caused by growth.
- *Public Works Expansion Development Fee Fund* - This fund was established to account for the inflow of public works development fees levied on new residential and commercial construction. This fee can only be used for the purchase, construction, financing and furnishing of new capital or one-time items directly related to the increased demand on public works caused by growth.
- *Roads of Regional Significance SPA 2,4, & 6 Fund* - This fund was established to account for the inflow of development fees levied on new residential and commercial construction. This fee can only be used for the purchase, construction, financing, and furnishing of new capital or one-time items directly related to the increased demand on roadways caused by growth.
- *Roads of Regional Significance SPA 3 & 5 Fund* - This fund was established to account for the inflow of development fees levied on new residential and commercial construction. This fee can only be used for the purchase, construction, financing, and furnishing of new capital or one-time items directly related to the increased demand on roadways caused by growth.
- *Street Lighting District Fund* – Eighty-four Street Light Improvement Districts (SLIDs) have been established by ordinance to provide a centralized location for the collection of taxes from properties located in the district. These proceeds are legally restricted to the payment of electricity to operate the street lights within the district.
- *Marley Park Community Facility District Fund* – This fund was established to provide a location to process operating expenditures and for the collection of the related portion of the property taxes from properties located in the district. These proceeds are legally restricted to the payment of operations and debt service within the district.

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2019

	Grants Fund	LTAF II/ALF Fund	Municipal Court Enhancement Fund	Municipal Court FARE Fund	Municipal Court JCEF Fund
ASSETS					
Cash and investments	$ -	$ 153	$ 136,798	$ 12,011	$ 45,488
Restricted cash and investments	-	-	-	-	-
Receivables (net of allowances)					
Taxes and franchise fees	-	-	-	-	-
Grants	179,505	-	-	-	-
Other	-	-	-	-	-
Prepaid items and other assets	4,100	-	-	-	-
Inventory	-	-	-	-	-
Total assets	$ 183,605	$ 153	$ 136,798	$ 12,011	$ 45,488
LIABILITIES					
Accounts payable	$ 111	$ -	$ -	$ -	$ -
Accrued payroll and related taxes	-	-	-	1,013	-
Due to other funds	169,925	-	-	-	-
Deposits	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Contracts payable	-	-	-	-	-
Matured bond interest payable	-	-	-	-	-
Matured bonds payable	-	-	-	-	-
Advances from other funds	-	-	-	-	-
Total liabilities	170,036	-	-	1,013	-
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows - Unavailable revenue	12,695	-	-	-	-
Total deferred inflow of resources	12,695	-	-	-	-
Total liabilities and deferred inflows of resources	182,731	-	-	1,013	-
FUND BALANCES (DEFICITS)					
Nonspendable	4,100	-	-	-	-
Restricted	-	153	136,798	10,998	45,488
Committed	-	-	-	-	-
Unassigned	(3,226)	-	-	-	-
Total fund balances (deficits)	874	153	136,798	10,998	45,488
Total liabilities and fund balances (deficits)	$ 183,605	$ 153	$ 136,798	$ 12,011	$ 45,488

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds (Continued)
June 30, 2019

Municipal Court MFTG Fund	Neighborhood Revitalization Fund	Net Premium Seating Fund	Proposition 400 Fund	SB1398 Fines Fund	SPD DEA Fund	SPD RICO Fund	SPD Towing Fund
$ 17,855	$ -	$ 81,561	$ 386	$ 20,557	$ -	$ -	$ 332,238
-	533,133	-	-	-	16,449	1,382,920	-
-	-	-	-	-	-	-	-
-	65,450	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,108	-
-	-	-	-	-	-	-	-
$ 17,855	$ 598,583	$ 81,561	$ 386	$ 20,557	$ 16,449	$ 1,384,028	$ 332,238
$ -	$ 6,707	$ -	$ -	$ -	$ -	$ 145	$ 15
1,613	-	-	-	-	-	-	1,140
-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,374	-
-	583,264	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,613	589,971	-	-	-	-	1,519	1,155
-	475	-	-	-	-	-	-
-	475	-	-	-	-	-	-
1,613	590,446	-	-	-	-	1,519	1,155
-	-	-	-	-	-	1,108	-
16,242	8,137	-	386	20,557	16,449	1,381,401	331,083
-	-	81,561	-	-	-	-	-
-	-	-	-	-	-	-	-
16,242	8,137	81,561	386	20,557	16,449	1,382,509	331,083
$ 17,855	$ 598,583	$ 81,561	$ 386	$ 20,557	$ 16,449	$ 1,384,028	$ 332,238

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds (Continued)
June 30, 2019

	Spring Training Ticket Surcharge Fund	Tourism Fund	163rd Ave Development Fee Fund	Fire Development Fee 2014 Law Fund
ASSETS				
Cash and investments	$ 645,802	$ 638,051	$ 111,467	$ 6,013,474
Restricted cash and investments	-	-	-	-
Receivables (net of allowances)				
Taxes and franchise fees	-	-	-	-
Grants	-	-	-	-
Other	-	-	-	-
Prepaid items and other assets	-	-	-	-
Inventory	28,175	-	-	-
Total assets	$ 673,977	$ 638,051	$ 111,467	$ 6,013,474
LIABILITIES				
Accounts payable	$ 1,558	$ 5,000	$ -	$ -
Accrued payroll and related taxes	-	-	-	-
Due to other funds	-	-	-	-
Deposits	-	-	-	-
Unearned revenue	-	-	-	-
Contracts payable	-	-	-	-
Matured bond interest payable	-	-	-	-
Matured bonds payable	-	-	-	-
Advances from other funds	-	-	-	-
Total liabilities	1,558	5,000	-	-
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows - Unavailable revenue	-	-	-	-
Total deferred inflow of resources	-	-	-	-
Total liabilities and deferred inflows of resources	1,558	5,000	-	-
FUND BALANCES (DEFICITS)				
Nonspendable	28,175	-	-	-
Restricted	644,244	-	111,467	6,013,474
Committed	-	633,051	-	-
Unassigned	-	-	-	-
Total fund balances (deficits)	672,419	633,051	111,467	6,013,474
Total liabilities and fund balances (deficits)	$ 673,977	$ 638,051	$ 111,467	$ 6,013,474

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds (Continued)
June 30, 2019

Fire Development Fee Grandfathered Fund	Library Development Fee Fund	Parks and Recreation Development Fee Fund	Police Development Fee Fund	Public Works Expansion Development Fee Fund	Roads of Regional Significance SPA 2, 4 and 6 Fund	Roads of Regional Significance SPA 3 and 5 Fund	Street Lighting Districts Fund
$ -	$ 3,166,239	$ 1,925,733	$ 3,111,355	$ 7,591,394	$ 2,436,765	$ 24,361	$ 301,172
-	-	138,147	-	-	-	-	-
-	-	-	-	-	-	-	39,284
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	4,200
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
$ -	$ 3,166,239	$ 2,063,880	$ 3,111,355	$ 7,591,394	$ 2,436,765	$ 24,361	$ 344,656
$ -	$ 480,715	$ -	$ -	$ 663,127	$ 53,274	$ -	$ 201,639
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	138,147	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
972,323	-	-	-	-	-	-	-
972,323	480,715	138,147	-	663,127	53,274	-	201,639
-	-	-	-	-	-	-	13,952
-	-	-	-	-	-	-	13,952
972,323	480,715	138,147	-	663,127	53,274	-	215,591
-	-	-	-	-	-	-	-
-	2,685,524	1,925,733	3,111,355	6,928,267	2,383,491	24,361	129,065
-	-	-	-	-	-	-	-
(972,323)	-	-	-	-	-	-	-
(972,323)	2,685,524	1,925,733	3,111,355	6,928,267	2,383,491	24,361	129,065
$ -	$ 3,166,239	$ 2,063,880	$ 3,111,355	$ 7,591,394	$ 2,436,765	$ 24,361	$ 344,656

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds (Continued)
June 30, 2019

	Marley Park Community Facility District Fund	Total Nonmajor Special Revenue Funds
ASSETS		
Cash and investments	$ 100,431	$ 26,713,291
Restricted cash and investments	816,974	2,887,623
Receivables (net of allowances)		-
Taxes and franchise fees	11,249	50,533
Grants	-	244,955
Other	-	4,200
Prepaid items and other assets	-	5,208
Inventory	-	28,175
Total assets	$ 928,654	$ 29,933,985
LIABILITIES		
Accounts payable	$ 81,000	$ 1,493,291
Accrued payroll and related taxes	-	3,766
Due to other funds	-	169,925
Deposits	-	1,374
Unearned revenue	-	583,264
Contracts payable	-	138,147
Matured bond interest payable	227,120	227,120
Matured bonds payable	455,000	455,000
Advances from other funds	-	972,323
Total liabilities	763,120	4,044,210
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Unavailable revenue	4,374	31,496
Total deferred inflow of resources	4,374	31,496
Total liabilities and deferred inflows of resources	767,494	4,075,706
FUND BALANCES (DEFICITS)		
Nonspendable	-	33,383
Restricted	161,160	26,085,833
Committed	-	714,612
Unassigned	-	(975,549)
Total fund balances (deficits)	161,160	25,858,279
Total liabilities and fund balances (deficits)	$ 928,654	$ 29,933,985

SURPRISE

ARIZONA

City of Surprise, Arizona
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2019

	Grants Fund	LTAF II/ALF Fund	Municipal Court Enhancement Fund	Municipal Court FARE Fund	Municipal Court JCEF Fund
REVENUES					
Taxes	$ -	$ -	$ -	$ -	$ -
Intergovernmental revenues	-	347,127	-	6,669	-
Charges for services	-	-	-	-	-
Grants revenue	1,065,314	-	-	-	-
Fines	-	-	83,784	-	20,394
Development fees	-	-	-	-	-
Interest revenue(loss)	-	153	2,746	471	917
Other revenue	13,230	-	-	-	-
Total revenues	1,078,544	347,280	86,530	7,140	21,311
EXPENDITURES					
Current:					
General Government	105,145	-	-	-	-
Public Safety	696,775	-	13,159	23,833	-
Public works and streets	-	347,127	-	-	-
Community Development	31,496	-	-	-	-
Culture and recreation	155,866	-	-	-	-
Debt service:					
Administrative charges	-	-	-	-	-
Principal retirement	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay:					
General Government	-	-	-	-	-
Public Safety	86,201	-	11,205	-	-
Public works and streets	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Total expenditures	1,075,483	347,127	24,364	23,833	-
Excess (deficiency) of revenues over expenditures	3,061	153	62,166	(16,693)	21,311
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	3,061	153	62,166	(16,693)	21,311
Fund balances - beginning	(2,187)	-	74,632	27,691	24,177
Increase in inventories	-	-	-	-	-
Fund balances - ending	$ 874	$ 153	$ 136,798	$ 10,998	$ 45,488

City of Surprise, Arizona
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2019

Municipal Court MFTG Fund	Neighborhood Revitalization Fund	Net Premium Seating Fund	Proposition 400 Fund	SB1398 Fines Fund	SPD DEA Fund	SPD RICO Fund
$ -	$ -	$ -	$ -	$ -	$ -	$ -
6,089	-	-	-	-	-	-
-	-	22,437	-	-	-	-
-	515,919	-	-	-	-	-
-	-	-	-	19,680	-	212,722
-	-	-	-	-	-	-
708	-	2,500	10	440	394	24,938
-	-	-	-	-	-	6,907
6,797	515,919	24,937	10	20,120	394	244,567
-	-	-	-	-	-	-
37,956	-	-	-	15,908	-	97,741
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	453,717	129,925	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	23,420
-	-	-	-	-	-	-
-	219	-	-	-	-	-
37,956	453,936	129,925	-	15,908	-	121,161
(31,159)	61,983	(104,988)	10	4,212	394	123,406
-	-	124,008	-	-	-	-
-	-	-	-	-	-	-
-	-	124,008	-	-	-	-
(31,159)	61,983	19,020	10	4,212	394	123,406
47,401	(53,846)	62,541	376	16,345	16,055	1,259,103
-	-	-	-	-	-	-
$ 16,242	$ 8,137	$ 81,561	$ 386	$ 20,557	$ 16,449	$ 1,382,509

City of Surprise, Arizona
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2019

	SPD Towing Fund	Spring Training Ticket Surcharge Fund	Tourism Fund	163rd Ave Development Fee Fund	Fire Development Fee 2014 Law Fund
REVENUES					
Taxes	$ -	$ -	$ 611,579	$ -	$ -
Intergovernmental revenues	-	-	83,038	-	-
Charges for services	56,550	717,411	-	-	-
Grants revenue	-	-	-	-	-
Fines	-	-	-	-	-
Development fees	-	-	-	-	1,854,434
Interest revenue(loss)	8,037	10,719	21,283	2,665	132,323
Other revenue	12	-	-	-	-
Total revenues	64,599	728,130	715,900	2,665	1,986,757
EXPENDITURES					
Current:					
General Government	-	-	-	-	11,633
Public Safety	52,976	-	-	-	-
Public works and streets	-	-	-	-	-
Community Development	-	-	-	-	-
Culture and recreation	-	687,419	102,244	-	-
Debt service:					
Administrative charges	-	-	-	-	-
Principal retirement	-	-	-	-	-
Interest	-	-	-	-	-
Capital outlay:					
General Government	-	-	-	-	-
Public Safety	-	-	-	-	-
Public works and streets	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Total expenditures	52,976	687,419	102,244	-	11,633
Excess (deficiency) of revenues over expenditures	11,623	40,711	613,656	2,665	1,975,124
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	(458,684)	-	-
Total other financing sources (uses)	-	-	(458,684)	-	-
Net change in fund balances	11,623	40,711	154,972	2,665	1,975,124
Fund balances - beginning	319,460	603,533	478,079	108,802	4,038,350
Increase in inventories	-	28,175	-	-	-
Fund balances - ending	$ 331,083	$ 672,419	$ 633,051	$ 111,467	$ 6,013,474

City of Surprise, Arizona
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2019

Fire Development Fee Grandfathered Fund	Library Development Fee Fund	Parks and Recreation Development Fee Fund	Police Development Fee Fund	Public Works Expansion Development Fee Fund	Roads of Regional Significance SPA 2, 4 and 6 Fund	Roads of Regional Significance SPA 3 and 5 Fund
$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,674,831	-	1,130,555	827,444	-	-	-
27,602	95,753	53,857	71,799	193,607	59,704	582
-	-	25,302	-	-	-	-
1,702,433	95,753	1,209,714	899,243	193,607	59,704	582
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
56,194	-	201,885	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	1,654,598	172,895	-
-	2,041,383	-	-	-	-	-
56,194	2,041,383	201,885	-	1,654,598	172,895	-
1,646,239	(1,945,630)	1,007,829	899,243	(1,460,991)	(113,191)	582
-	-	-	-	-	-	-
(66,918)	-	(437,618)	(135,428)	-	-	-
(66,918)	-	(437,618)	(135,428)	-	-	-
1,579,321	(1,945,630)	570,211	763,815	(1,460,991)	(113,191)	582
(2,551,644)	4,631,154	1,355,522	2,347,540	8,389,258	2,496,682	23,779
-	-	-	-	-	-	-
$ (972,323)	$ 2,685,524	$ 1,925,733	$ 3,111,355	$ 6,928,267	$ 2,383,491	$ 24,361

City of Surprise, Arizona
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2019

	Street Lighting Districts Fund	Marley Park Community Facility District Fund	Total Nonmajor Special Revenue Funds
REVENUES			
Taxes	$ 2,725,353	$ 1,111,286	$ 4,448,218
Intergovernmental revenues	-	-	442,923
Charges for services	4,200	-	800,598
Grants revenue	-	-	1,581,233
Fines	-	-	336,580
Development fees	-	-	5,487,264
Interest revenue(loss)	12,504	-	723,712
Other revenue	7,275	-	52,726
Total revenues	2,749,332	1,111,286	13,873,254
EXPENDITURES			
Current:			
General Government	-	160	116,938
Public Safety	-	-	938,348
Public works and streets	2,539,509	-	2,886,636
Community Development	-	-	289,575
Culture and recreation	-	80,600	1,609,771
Debt service:			
Administrative charges	-	3,800	3,800
Principal retirement	-	455,000	455,000
Interest	-	454,240	454,240
Capital outlay:			
General Government	-	36,900	36,900
Public Safety	-	-	120,826
Public works and streets	-	-	1,827,493
Culture and recreation	-	-	2,041,602
Total expenditures	2,539,509	1,030,700	10,781,129
Excess (deficiency) of revenues over expenditures	209,823	80,586	3,092,125
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	124,008
Transfers out	-	-	(1,098,648)
Total other financing sources (uses)	-	-	(974,640)
Net change in fund balances	209,823	80,586	2,117,485
Fund balances - beginning	(80,758)	80,574	23,712,619
Increase in inventories	-	-	28,175
Fund balances - ending	$ 129,065	$ 161,160	$ 25,858,279

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Grants Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Grants revenue	$ 24,338,600	$ 23,410,800	$ 1,065,314	$ (22,345,486)
Other revenue	-	13,300	13,230	13,230
Total revenues	24,338,600	23,424,100	1,078,544	(22,332,256)
EXPENDITURES				
Current:				
General Government				
City attorney	272,600	258,700	105,145	153,555
Public Safety				
Police	713,900	925,700	485,832	439,868
Fire-Medical	435,300	504,600	210,943	293,657
Community Development				
Community development	166,300	155,100	31,496	123,604
Culture and recreation				
Human services and community vitality	160,500	161,600	155,866	5,734
Contingency				
Contingency	22,345,500	20,402,700	-	20,402,700
Total current	24,094,100	22,408,400	989,282	21,419,118
Capital outlay:				
Public Safety				
Police	36,000	154,800	49,771	105,029
Fire-Medical	-	36,500	36,430	70
Public Works and Streets				
Public works and streets	207,700	207,700	-	207,700
Total capital outlay	243,700	399,000	86,201	312,799
Total expenditures	24,337,800	22,807,400	1,075,483	21,731,917
Excess (deficiency) of revenues over expenditures	800	616,700	3,061	(600,339)
Net change in fund balances	$ 800	$ 616,700	$ 3,061	$ (600,339)

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
LTAF II/ALF Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Intergovernmental revenues	$ 357,000	$ 357,000	$ 347,127	$ (9,873)
Interest revenue	-	-	153	153
Total revenues	357,000	357,000	347,280	(9,720)
EXPENDITURES				
Current:				
Public Works and Streets				
Public works and streets	357,000	357,000	347,127	9,873
Total current	357,000	357,000	347,127	9,873
Total expenditures	357,000	357,000	347,127	9,873
Excess (deficiency) of revenues over expenditures	-	-	153	153
Net change in fund balances	$ -	$ -	$ 153	$ 153

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Municipal Court Enhancement Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Fines	$ 86,500	$ 86,500	$ 83,784	$ (2,716)
Interest revenue	-	-	2,746	2,746
Total revenues	86,500	86,500	86,530	30
EXPENDITURES				
Current:				
Public Safety				
Court	40,000	40,000	13,159	26,841
Contingency				
Contingency	82,900	82,900	-	82,900
Total current	122,900	122,900	13,159	109,741
Capital outlay:				
Public Safety				
Court	-	-	11,205	(11,205)
Total capital outlay	-	-	11,205	(11,205)
Total expenditures	122,900	122,900	24,364	98,536
Excess (deficiency) of revenues over expenditures	(36,400)	(36,400)	62,166	98,566
Net change in fund balances	$ (36,400)	$ (36,400)	$ 62,166	$ 98,566

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Municipal Court FARE Fund
For the Year Ended June 30, 2019

	Budgeted Amounts							
	Original		Final		Actual		Variance with Final Budget	
REVENUES								
Intergovernmental revenues	$	3,500	$	3,500	$	6,669	$	3,169
Interest revenue		-		-		471		471
Total revenues		3,500		3,500		7,140		3,640
EXPENDITURES								
Current:								
Public Works								
Court		25,800		25,800		23,833		1,967
Contingency								
Contingency		5,800		5,800		-		5,800
Total current		31,600		31,600		23,833		7,767
Total expenditures		31,600		31,600		23,833		7,767
Excess (deficiency) of revenues over expenditures		(28,100)		(28,100)		(16,693)		11,407
Net change in fund balances	$	(28,100)	$	(28,100)	$	(16,693)	$	11,407

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Municipal Court JCEF Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Fines	$ 18,500	$ 18,500	$ 20,394	$ 1,894
Interest revenue	-	-	917	917
Total revenues	18,500	18,500	21,311	2,811
EXPENDITURES				
Current:				
Contingency				
Contingency	41,000	41,000	-	41,000
Total current	41,000	41,000	-	41,000
Total expenditures	41,000	41,000	-	41,000
Excess (deficiency) of revenues over expenditures	(22,500)	(22,500)	21,311	43,811
Net change in fund balances	$ (22,500)	$ (22,500)	$ 21,311	$ 43,811

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Municipal Court MFTG Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Intergovernmental revenues	$ 6,500	$ 6,500	$ 6,089	$ (411)
Interest revenue	-	-	708	708
Total revenues	6,500	6,500	6,797	297
EXPENDITURES				
Current:				
Public Safety				
Court	41,000	41,000	37,956	3,044
Contingency				
Contingency	11,000	11,000	-	11,000
Total current	52,000	52,000	37,956	14,044
Total expenditures	52,000	52,000	37,956	14,044
Excess (deficiency) of revenues over expenditures	(45,500)	(45,500)	(31,159)	14,341
Net change in fund balances	$ (45,500)	$ (45,500)	$ (31,159)	$ 14,341

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Neighborhood Revitalization Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Grants revenue	$ 2,542,000	$ 5,032,000	$ 515,919	$ (4,516,081)
Total revenues	2,542,000	5,032,000	515,919	(4,516,081)
EXPENDITURES				
Current:				
Culture and Recreation				
Human services and community vitality	2,362,600	3,359,900	453,717	2,906,183
Total current	2,362,600	3,359,900	453,717	2,906,183
Capital outlay:				
Culture and Recreation				
Human services and community vitality	179,400	182,200	219	181,981
Total capital outlay	179,400	182,200	219	181,981
Total expenditures	2,542,000	3,542,100	453,936	3,088,164
Excess (deficiency) of revenues over expenditures	-	1,489,900	61,983	(1,427,917)
Net change in fund balances	$ -	$ 1,489,900	$ 61,983	$ (1,427,917)

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Net Premium Seating Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Charges for services	$ 30,000	$ 30,000	$ 22,437	$ (7,563)
Interest revenue(loss)	-	-	2,500	2,500
Total revenues	30,000	30,000	24,937	(5,063)
EXPENDITURES				
Current:				
Culture and Recreation				
Parks and recreation	165,000	165,000	129,925	35,075
Contingency				
Contingency	41,600	41,600	-	41,600
Total current	206,600	206,600	129,925	76,675
Total expenditures	206,600	206,600	129,925	76,675
Excess (deficiency) of revenues over expenditures	(176,600)	(176,600)	(104,988)	71,612
OTHER FINANCING SOURCES (USES)				
Transfers in	125,800	125,800	124,008	(1,792)
Total other financing sources (uses)	125,800	125,800	124,008	(1,792)
Net change in fund balances	$ (50,800)	$ (50,800)	$ 19,020	$ 69,820

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Proposition 400 Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Interest revenue	$ -	$ -	$ 10	$ 10
Total revenues	-	-	10	10
EXPENDITURES				
Current:				
Contingency				
Contingency	100	100	-	100
Total current	100	100	-	100
Total expenditures	100	100	-	100
Excess (deficiency) of revenues over expenditures	(100)	(100)	10	110
Net change in fund balances	$ (100)	$ (100)	$ 10	$ 110

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
SB1398 Fines Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Fines	$ 15,900	$ 15,900	$ 19,680	$ 3,780
Interest revenue	-	-	440	440
Total revenues	15,900	15,900	20,120	4,220
EXPENDITURES				
Current:				
Public Safety				
Police	15,900	16,000	15,908	92
Contingency				
Contingency	5,700	5,700	-	5,700
Total current	21,600	21,700	15,908	5,792
Total expenditures	21,600	21,700	15,908	5,792
Excess (deficiency) of revenues over expenditures	(5,700)	(5,800)	4,212	10,012
Net change in fund balances	$ (5,700)	$ (5,800)	$ 4,212	$ 10,012

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
SPD DEA Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Interest revenue	$ -	$ -	$ 394	$ 394
Total revenues	-	-	394	394
EXPENDITURES				
Current:				
Contingency				
Contingency	16,500	16,500	-	16,500
Total current	16,500	16,500	-	16,500
Total expenditures	16,500	16,500	-	16,500
Excess (deficiency) of revenues over expenditures	(16,500)	(16,500)	394	16,894
Net change in fund balances	$ (16,500)	$ (16,500)	$ 394	$ 16,894

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
SPD RICO Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Fines	$ 245,000	$ 245,000	$ 212,722	$ (32,278)
Interest revenue	-	-	24,938	24,938
Other revenue	-	-	6,907	6,907
Total revenues	245,000	245,000	244,567	(433)
EXPENDITURES				
Current:				
Public Safety				
Police	510,800	320,800	97,741	223,059
Contingency				
Contingency	76,000	76,000	-	76,000
Total current	586,800	396,800	97,741	299,059
Capital outlay:				
Public Safety				
Police	200,000	390,000	23,420	366,580
Total capital outlay	200,000	390,000	23,420	366,580
Total expenditures	786,800	786,800	121,161	665,639
Excess (deficiency) of revenues over expenditures	(541,800)	(541,800)	123,406	665,206
Net change in fund balances	$ (541,800)	$ (541,800)	$ 123,406	$ 665,206

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
SPD Towing Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Charges for services	$ 62,500	$ 62,500	$ 56,550	$ (5,950)
Interest revenue	-	-	8,037	8,037
Other revenue	-	-	12	12
Total revenues	62,500	62,500	64,599	2,099
EXPENDITURES				
Current:				
Public Safety				
Police	112,200	112,200	52,976	59,224
Contingency				
Contingency	146,700	146,700	-	146,700
Total current	258,900	258,900	52,976	205,924
Capital outlay:				
Public Safety				
Police	100,000	100,000	-	100,000
Total capital outlay	100,000	100,000	-	100,000
Total expenditures	358,900	358,900	52,976	305,924
Excess (deficiency) of revenues over expenditures	(296,400)	(296,400)	11,623	308,023
Net change in fund balances	$ (296,400)	$ (296,400)	$ 11,623	$ 308,023

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Spring Training Ticket Surcharge Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Charges for services	$ 689,000	$ 689,000	$ 717,411	$ 28,411
Interest revenue	-	-	10,719	10,719
Total revenues	689,000	689,000	728,130	39,130
EXPENDITURES				
Current:				
Culture and Recreation				
Parks and recreation	689,000	689,000	687,419	1,581
Total current	689,000	689,000	687,419	1,581
Total expenditures	689,000	689,000	687,419	1,581
Excess (deficiency) of revenues over expenditures	-	-	40,711	40,711
Net change in fund balances	$ -	$ -	$ 40,711	$ 40,711

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Tourism Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	$ 597,700	$ 597,700	$ 611,579	$ 13,879
Intergovernmental revenues	100,000	100,000	83,038	(16,962)
Interest revenue	-	-	21,283	21,283
Total revenues	697,700	697,700	715,900	18,200
EXPENDITURES				
Current:				
Culture and Recreation				
Parks and recreation	100,000	133,300	102,244	31,056
Contingency				
Contingency	622,400	589,100	-	589,100
Total current	722,400	722,400	102,244	620,156
Total expenditures	722,400	722,400	102,244	620,156
Excess (deficiency) of revenues over expenditures	(24,700)	(24,700)	613,656	638,356
OTHER FINANCING SOURCES (USES)				
Transfers out	(448,300)	(458,684)	(458,684)	-
Total other financing sources (uses)	(448,300)	(458,684)	(458,684)	-
Net change in fund balances	$ (473,000)	$ (483,384)	$ 154,972	$ 638,356

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
163rd Ave Development Fee Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Interest revenue	$ -	$ -	$ 2,665	$ 2,665
Total revenues	-	-	2,665	2,665
EXPENDITURES				
Current:				
Contingency				
Contingency	107,600	107,600	-	107,600
Total current	107,600	107,600	-	107,600
Total expenditures	107,600	107,600	-	107,600
Excess (deficiency) of revenues over expenditures	(107,600)	(107,600)	2,665	110,265
Net change in fund balances	$ (107,600)	$ (107,600)	$ 2,665	$ 110,265

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Fire Development Fee 2014 Law Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Development fees	$ 1,100,000	$ 1,100,000	$ 1,854,434	$ 754,434
Interest revenue	-	-	132,323	132,323
Total revenues	1,100,000	1,100,000	1,986,757	886,757
EXPENDITURES				
Current:				
General Government				
General operations	9,000	18,400	11,633	6,767
Contingency				
Contingency	4,858,100	4,848,700	-	4,848,700
Total current	4,867,100	4,867,100	11,633	4,855,467
Total expenditures	4,867,100	4,867,100	11,633	4,855,467
Excess (deficiency) of revenues over expenditures	(3,767,100)	(3,767,100)	1,975,124	5,742,224
Net change in fund balances	$ (3,767,100)	$ (3,767,100)	$ 1,975,124	$ 5,742,224

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Fire Development Fee Grandfathered Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Development fees	$ 928,100	$ 928,100	$ 1,674,831	$ 746,731
Interest revenue	-	-	27,602	27,602
Total revenues	928,100	928,100	1,702,433	774,333
EXPENDITURES				
Current:				
Community Development				
Economic development	90,000	90,000	56,194	33,806
Total current	90,000	90,000	56,194	33,806
Total expenditures	90,000	90,000	56,194	33,806
Excess (deficiency) of revenues over expenditures	838,100	838,100	1,646,239	808,139
OTHER FINANCING SOURCES (USES)				
Transfers out	(838,100)	(838,100)	(66,918)	771,182
Total other financing sources (uses)	(838,100)	(838,100)	(66,918)	771,182
Net change in fund balances	$ -	$ -	$ 1,579,321	$ 1,579,321

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Library Development Fee Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Interest revenue	$ -	$ -	$ 95,753	95,753
Total revenues	-	-	95,753	95,753
EXPENDITURES				
Current:				
Contingency				
Contingency	4,617,200	200	-	200
Total current	4,617,200	200	-	200
Capital outlay:				
Culture and recreation				
Parks and recreation	-	4,651,900	2,041,383	2,610,517
Total capital outlay	-	4,651,900	2,041,383	2,610,517
Total expenditures	4,617,200	4,652,100	2,041,383	2,610,717
Excess (deficiency) of revenues over expenditures	(4,617,200)	(4,652,100)	(1,945,630)	2,706,470
Net change in fund balances	$ (4,617,200)	$ (4,652,100)	$ (1,945,630)	$ 2,706,470

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Parks and Recreation Development Fee Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Development fees	$ 900,000	$ 900,000	$ 1,130,555	$ 230,555
Interest revenue	-	-	53,857	53,857
Other revenue	-	-	25,302	25,302
Total revenues	900,000	900,000	1,209,714	309,714
EXPENDITURES				
Current:				
Community Development				
Economic development	280,000	280,000	201,885	78,115
Contingency				
Contingency	1,411,100	1,411,100	-	1,411,100
Total current	1,691,100	1,691,100	201,885	1,489,215
Total expenditures	1,691,100	1,691,100	201,885	1,489,215
Excess (deficiency) of revenues over expenditures	(791,100)	(791,100)	1,007,829	1,798,929
OTHER FINANCING SOURCES (USES)				
Transfers out	(437,600)	(437,618)	(437,618)	-
Total other financing sources (uses)	(437,600)	(437,618)	(437,618)	-
Net change in fund balances	$ (1,228,700)	$ (1,228,718)	$ 570,211	$ 1,798,929

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Police Development Fee Fund
For the Year Ended June 30, 2019

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget
REVENUES				
Development fees	$ 500,000	$ 500,000	$ 827,444	$ 327,444
Interest revenue	-	-	71,799	71,799
Total revenues	500,000	500,000	899,243	399,243
EXPENDITURES				
Current:				
Contingency				
Contingency	2,595,000	2,595,000	-	2,595,000
Total current	2,595,000	2,595,000	-	2,595,000
Total expenditures	2,595,000	2,595,000	-	2,595,000
Excess (deficiency) of revenues over expenditures	(2,095,000)	(2,095,000)	899,243	2,994,243
OTHER FINANCING SOURCES (USES)				
Transfers out	(135,400)	(135,428)	(135,428)	-
Total other financing sources (uses)	(135,400)	(135,428)	(135,428)	-
Net change in fund balances	$ (2,230,400)	$ (2,230,428)	$ 763,815	$ 2,994,243

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Public Works Expansion Development Fee Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Interest revenue	$ -	$ -	$ 193,607	193,607
Total revenues	-	-	193,607	193,607
EXPENDITURES				
Current:				
Public Works and Sreets				
Public works and streets	44,400	44,400	-	44,400
Contingency				
Contingency	2,087,000	2,119,600	-	2,119,600
Total Current	2,131,400	2,164,000	-	2,164,000
Capital outlay:				
Public Works and Streets				
Public works and streets	6,190,700	6,158,100	1,654,598	4,503,502
Total capital outlay	6,190,700	6,158,100	1,654,598	4,503,502
Total expenditures	8,322,100	8,322,100	1,654,598	6,667,502
Excess (deficiency) of revenues over expenditures	(8,322,100)	(8,322,100)	(1,460,991)	6,861,109
Net change in fund balances	$ (8,322,100)	$ (8,322,100)	$ (1,460,991)	$ 6,861,109

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Roads of Regional Significance SPA 2, 4 and 6 Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Interest revenue	$ -	$ -	$ 59,704	$ 59,704
Total revenues	-	-	59,704	59,704
EXPENDITURES				
Current:				
Contingency				
Contingency	2,503,200	2,013,200	-	2,013,200
Total current	2,503,200	2,013,200	-	2,013,200
Capital outlay:				
Public Works and Streets				
Public works and streets	-	490,000	172,895	317,105
Total capital outlay	-	490,000	172,895	317,105
Total expenditures	2,503,200	2,503,200	172,895	2,330,305
Excess (deficiency) of revenues over expenditures	(2,503,200)	(2,503,200)	(113,191)	2,390,009
Net change in fund balances	$ (2,503,200)	$ (2,503,200)	$ (113,191)	$ 2,390,009

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Roads of Regional Significance SPA 3 and 5 Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Interest revenue	$ 100	$ 100	$ 582	$ 482
Total revenues	100	100	582	482
EXPENDITURES				
Current:				
Contingency				
Contingency	23,900	23,900	-	23,900
Total current	23,900	23,900	-	23,900
Total expenditures	23,900	23,900	-	23,900
Excess (deficiency) of revenues over expenditures	(23,800)	(23,800)	582	24,382
Net change in fund balances	$ (23,800)	$ (23,800)	$ 582	$ 24,382

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Street Lighting Districts Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Taxes	$ 2,730,300	$ 2,730,300	$ 2,725,353	$ (4,947)
Charges for services	-	-	4,200	4,200
Interest revenue	-	-	12,504	12,504
Other revenue	-	-	7,275	7,275
Total revenues	2,730,300	2,730,300	2,749,332	19,032
EXPENDITURES				
Current:				
Public Works and Streets				
Public works and streets	2,732,600	2,778,100	2,539,509	238,591
Total current	2,732,600	2,778,100	2,539,509	238,591
Total expenditures	2,732,600	2,778,100	2,539,509	238,591
Excess (deficiency) of revenues over expenditures	(2,300)	(47,800)	209,823	257,623
Net change in fund balances	$ (2,300)	$ (47,800)	$ 209,823	$ 257,623

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Marley Park Community Facility District Fund
For the Year Ended June 30, 2019

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget
REVENUES				
Taxes	$ 1,115,400	$ 1,115,400	$ 1,111,286	$ (4,114)
Total revenues	1,115,400	1,115,400	1,111,286	(4,114)
EXPENDITURES				
Current:				
General Government				
General government	200	200	160	40
Culture and Recreation				
Parks and recreation	80,600	80,600	80,600	-
Contingency				
Contingency	4,200	4,200	-	4,200
Total current	85,000	85,000	80,760	4,240
Debt service:				
Administrative charges	3,200	3,200	3,800	(600)
Principal retirement	577,800	577,800	455,000	122,800
Interest	536,100	536,100	454,240	81,860
Bond issuance costs	150,000	150,000	-	150,000
Total debt service	1,267,100	1,267,100	913,040	354,060
Capital outlay:				
General Government				
General operations	2,850,000	2,850,000	36,900	2,813,100
Total capital outlay	2,850,000	2,850,000	36,900	2,813,100
Total expenditures	4,202,100	4,202,100	1,030,700	3,171,400
Excess (deficiency) of revenues over expenditures	(3,086,700)	(3,086,700)	80,586	3,167,286
OTHER FINANCING SOURCES (USES)				
Issuance of debt	3,000,000	3,000,000	-	(3,000,000)
Total other financing sources (uses)	3,000,000	3,000,000	-	(3,000,000)
Net change in fund balances	$ (86,700)	$ (86,700)	$ 80,586	$ 167,286

- <u>Internal Service Funds</u> – These funds are used to track those transactions relating to the City's internal insurance activities.
  - *Risk Management Fund* – This fund was created to provide general insurance coverage as well as risk management, loss control, and safety programs city-wide.
  - *Employee Healthcare Trust Fund* – This fund was created to provide health insurance claims, plan administration, stop loss premiums, and fund reserves.
  - *Workers' Compensation Fund* – This fund was created to account for expenses incurred for worker's compensation claims, administration, coverage, and fund reserves.

City of Surprise, Arizona
Combining Statement of Net Position
Internal Service Funds
June 30, 2019

	Risk Management Fund	Employee Healthcare Trust	Workers' Compensation Fund	Total Internal Service funds
ASSETS				
Current assets:				
Cash and investments	$ 2,523,316	$ 7,854,861	$ 1,768,085	$ 12,146,262
Receivables (net of allowances)				
Other	524,047	232,916	-	756,963
Other assets	2,774	3,321	-	6,095
Total current assets	3,050,137	8,091,098	1,768,085	12,909,320
Noncurrent assets:				
Net other postemployment benefits asset	682	273	187	1,142
Total noncurrent assets	682	273	187	1,142
Total assets	3,050,819	8,091,371	1,768,272	12,910,462
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	44,156	17,654	12,123	73,933
Deferred outflows related to other postemployment benefits	2,780	1,111	763	4,654
Total deferred outflows of resources	46,936	18,765	12,886	78,587
Total assets and deferred outflows of resources	$ 3,097,755	$ 8,110,136	$ 1,781,158	$ 12,989,049
LIABILITIES				
Current liabilities:				
Accounts payable	31,681	3,866	6,577	42,124
Accrued payroll and related taxes	10,446	-	2,679	13,125
Claims payable	147,533	1,445,621	171,335	1,764,489
Compensated absences payable, due in less than one year	17,616	-	1,763	19,379
Total current liabilities	207,276	1,449,487	182,354	1,839,117
Noncurrent liabilities:				
Compensated absences payable, due in more than one year	25,350	-	2,537	27,887
Net pension liability	259,549	103,773	71,259	434,581
Net other postemployment benefits liability	975	390	268	1,633
Total noncurrent liabilities	285,874	104,163	74,064	464,101
Total liabilities	493,150	1,553,650	256,418	2,303,218
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	30,685	12,268	8,425	51,378
Deferred inflows related to other postemployment benefits	2,086	834	573	3,493
Total deferred inflows of resources	32,771	13,102	8,998	54,871
Total liabilities and deferred inflows of resources	525,921	1,566,752	265,416	2,358,089
NET POSITION				
Unrestricted	2,571,834	6,543,384	1,515,742	10,630,960
Total net position	$ 2,571,834	$ 6,543,384	$ 1,515,742	$ 10,630,960

City of Surprise, Arizona

Combining Statement of Revenues, Expenditures, and Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2019

	Risk Management Fund	Employee Healthcare Trust	Workers' Compensation Fund	Total Internal Service Funds
OPERATING REVENUES				
Charges for services	$ 2,147,919	$ 13,128,942	$ 790,516	$ 16,067,377
Other revenue	524,047	-	-	524,047
Total operating revenues	2,671,966	13,128,942	790,516	16,591,424
OPERATING EXPENSES				
Personnel services	282,270	95,405	144,023	521,698
Contractual services, materials & supplies	90,331	137,997	138,456	366,784
Insurance claims, premiums, and administrative expenses	1,771,208	12,263,486	538,357	14,573,051
Total operating expenses	2,143,809	12,496,888	820,836	15,461,533
Operating income (loss)	528,157	632,054	(30,320)	1,129,891
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	58,641	97,050	39,343	195,034
Total nonoperating revenues (expenses)	58,641	97,050	39,343	195,034
Income (loss) before contributions and transfers	586,798	729,104	9,023	1,324,925
Change in net position	586,798	729,104	9,023	1,324,925
Total net position - beginning	1,985,036	5,814,280	1,506,719	9,306,035
Total net position - ending	$ 2,571,834	$ 6,543,384	$ 1,515,742	$ 10,630,960

City of Surprise, Arizona
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2019

	Risk Management Fund	Employee Healthcare Trust	Workers' Compensation Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	$ 131,819	$ 800,177	$ 13,933	$ 945,929
Cash receipts from interfund services provided	2,016,100	12,302,282	776,583	15,094,965
Payments to employees	(261,588)	(113,859)	(82,441)	(457,888)
Payments to suppliers	(79,407)	(194,591)	(120,204)	(394,202)
Payments for insurance claims and expenses	(1,803,675)	(12,077,325)	(380,599)	(14,261,599)
Net cash provided (used) by operating activities	3,249	716,684	207,272	927,205
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash received from interest income	58,641	97,050	39,343	195,034
Net cash provided (used) by investing activities	58,641	97,050	39,343	195,034
Net increase (decrease) in cash and cash equivalents	61,890	813,734	246,615	1,122,239
Balances - beginning of year	2,461,426	7,041,127	1,521,470	11,024,023
Balances - end of the year	$ 2,523,316	$ 7,854,861	$ 1,768,085	$ 12,146,262
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating Income (loss)	$ 528,157	$ 632,054	$ (30,320)	$ 1,129,891
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Changes in assets and liabilities:				
Other receivables	(524,047)	(26,483)	-	(550,530)
Other assets	629	(591)	21,811	21,849
Accounts payable	10,295	(57,865)	(3,559)	(51,129)
Accrued payroll and related taxes	1,806	(3,408)	288	(1,314)
Compensated absences	14,766	(6,588)	2,455	10,633
Net pension liability	4,270	(8,405)	58,939	54,804
Claims payable	(32,467)	188,023	157,758	313,314
Net other postemployment asset/liability	(160)	(53)	(100)	(313)
Net cash provided (used) by operating activities	$ 3,249	$ 716,684	$ 207,272	$ 927,205
Noncash investing, capital and financing activities				
Increase in the fair market value of investments	$ 25,168	$ 42,696	$ 16,962	$ 84,826
Total noncash investing, capital and financing activities	$ 25,168	$ 42,696	$ 16,962	$ 84,826

STATISTICAL SECTION

This section provides detailed information, for purposes of providing a context for comprehending the information presented in the financial statements, not disclosures and required supplementary information, and gaining a better understanding of the financial shape of the City of Surprise, Arizona.

Contents:

Financial Trends:

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:

These schedules contain information to help the reader assess the government's most significant local revenue sources, transaction privilege (sales) tax and property taxes.

Debt Capacity:

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information:

These schedules of demographic and economic indicators help the reader understand the environment that the government's financial activities take place.

Operating Information:
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Reports for the relevant year

SURPRISE

ARIZONA

SURPRISE

ARIZONA

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

	2010	2011	2012	2013
Governmental activities				
Net investment of capital assets	$ 437,142,472	$ 425,526,375	$ 445,035,827	$ 428,076,477
Restricted	27,494,001	27,405,931	27,011,749	28,105,434
Unrestricted	5,285,625	1,266,669	4,750,944	19,164,721
Total governmental activities net position	$ 469,922,098	$ 454,198,975	$ 476,798,520	$ 475,346,632
Business-type activities				
Net investment of capital assets	$ 250,936,354	$ 257,403,366	$ 269,712,138	$ 262,605,698
Restricted*	13,841,284	21,445,388	6,673,158	6,867,426
Unrestricted	40,360,365	39,592,483	54,053,088	60,409,577
Total business-type activities net position	$ 305,138,003	$ 318,441,237	$ 330,438,384	$ 329,882,701
Primary government				
Net investment of capital assets	$ 688,078,826	$ 682,929,741	$ 714,747,965	$ 690,682,175
Restricted	41,335,285	48,851,319	33,684,907	34,972,860
Unrestricted	45,645,990	40,859,152	58,804,032	79,574,298
Total primary government net position	$ 775,060,101	$ 772,640,212	$ 807,236,904	$ 805,229,333

Source: The source of this information is the City's financial records.

* Restricted amount for fiscal year 2010 is for sewer fund debt-related reserves. Beginning in fiscal year 2010, sewer fund debt was properly recorded in the sewer fund as a business-type activity, instead of a governmental activity as previously reported.

2014	2015	2016	2017	2018	2019
$ 413,717,047	$ 409,274,827	$ 405,111,110	$ 392,458,485	$ 393,984,378	$ 399,420,150
29,650,958	27,948,361	22,743,525	24,613,341	67,683,440	29,462,370
25,538,922	(18,482,747)	(16,896,594)	(27,479,276)	(57,592,973)	1,815,847
$ 468,906,927	$ 418,740,441	$ 410,958,041	$ 389,592,550	$ 404,074,845	$ 430,698,367
$ 263,420,571	$ 264,678,599	$ 270,081,565	$ 279,249,380	$ 277,989,957	$ 274,750,943
6,895,582	5,381,403	13,039,887	12,326,207	14,365,125	12,932,109
57,257,700	44,564,505	29,979,759	22,570,204	31,396,601	43,938,146
$ 327,573,853	$ 314,624,507	$ 313,101,211	$ 314,145,791	$ 323,751,683	$ 331,621,198
$ 677,137,618	$ 673,953,426	$ 675,192,675	$ 671,707,865	$ 671,974,335	$ 674,171,093
36,546,540	33,329,764	35,783,412	36,939,548	82,048,565	42,394,479
82,796,622	26,081,758	13,083,165	(4,909,072)	(26,196,372)	45,753,993
$ 796,480,780	$ 733,364,948	$ 724,059,252	$ 703,738,341	$ 727,826,528	$ 762,319,565

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

	2010	2011	2012	2013
Expenses				
Governmental Activities:				
General government	$ 21,961,410	$ 18,092,847	$ 17,438,582	$ 14,958,702
Public safety	33,876,919	38,760,889	39,628,843	39,096,150
Public works & streets	28,392,783	29,748,611	29,415,043	33,710,624
Community development	6,484,414	4,915,385	7,401,566	7,668,373
Culture and recreation	16,399,646	15,229,013	16,189,568	16,285,289
Interest	2,044,603	1,919,145	1,594,060	1,505,313
Total governmental activities expenses	109,159,775	108,665,890	111,667,662	113,224,451
Business-type Activities:				
Ground ambulance services	-	-	-	-
Sanitation	4,559,778	5,603,983	6,047,844	5,934,789
Sewer	16,665,251	20,090,934	19,325,017	18,717,547
Stormwater	-	-	-	-
Water	9,792,043	11,188,199	10,792,041	10,849,653
Total business-type activities	31,017,072	36,883,116	36,164,902	35,501,989
Total primary government expenses	$ 140,176,847	$ 145,549,006	$ 147,832,564	$ 148,726,440
Program Revenues				
Governmental Activities:				
Charges for services:				
General government	$ 5,630,748	$ 7,947,615	$ 6,435,843	$ 6,313,245
Public safety	1,257,537	1,522,658	3,096,058	2,922,055
Public works & streets	328,230	3,786,620	3,238,179	792,288
Community development	868,305	1,315,799	1,622,594	2,003,777
Culture and recreation	3,783,816	3,838,003	5,307,491	4,837,786
Operating grants and contributions	13,157,726	10,404,916	8,207,130	10,139,981
Capital grants and contributions	31,142,608	8,655,730	32,449,260	5,925,348
Total governmental activities program revenues	56,168,970	37,471,341	60,356,555	32,934,480
Business-type activities:				
Charges for services:				
Ground ambulance services	-	-	-	-
Sanitation	6,175,989	6,598,929	6,700,961	6,862,696
Sewer	14,857,689	15,303,709	15,481,721	15,904,030
Stormwater	-	-	-	-
Water	9,711,411	9,841,874	10,047,169	10,073,124
Capital grants and contributions	51,714,784	16,878,654	14,502,214	4,427,857
Total business-type activities program revenues	82,459,873	48,623,166	46,732,065	37,267,707
Total primary government program revenues	$ 138,628,843	$ 86,094,507	$ 107,088,620	$ 70,202,187

2014	2015	2016	2017	2018	2019
$ 16,079,202	$ 21,038,892	$ 18,906,430	$ 27,733,034	$ 24,693,086	$ 18,847,192
40,931,709	44,415,505	47,273,449	64,148,194	51,157,392	60,235,535
34,988,682	35,141,030	38,670,796	41,540,981	37,661,923	41,578,280
8,388,639	5,205,925	10,235,430	12,326,274	12,345,202	12,382,036
17,228,719	21,863,417	25,690,406	22,555,794	26,471,045	24,970,626
1,378,709	1,635,320	1,472,910	1,381,807	1,927,016	2,473,876
118,995,660	129,300,089	142,249,421	169,686,084	154,255,664	160,487,545
-	-	-	-	3,141,623	3,375,334
7,144,521	7,883,309	7,972,061	9,034,441	8,557,348	8,657,107
20,072,400	20,360,031	20,399,067	19,519,303	20,039,173	19,340,045
-	-	-	187,744	775,651	1,363,889
10,546,378	10,619,858	11,823,538	15,013,661	10,926,918	11,690,946
37,763,299	38,863,198	40,194,666	43,755,149	43,440,713	44,427,321
$ 156,758,959	$ 168,163,287	$ 182,444,087	$ 213,441,233	$ 197,696,377	$ 204,914,866
$ 8,494,212	$ 5,301,697	$ 5,041,335	$ 5,863,856	$ 7,171,091	$ 6,744,068
1,306,553	2,963,326	3,778,584	3,600,402	2,801,908	1,948,725
499,338	507,198	853,321	1,445,873	2,252,924	4,100,847
1,697,315	2,005,421	2,552,293	3,770,393	7,384,028	9,901,258
4,917,918	5,313,203	5,894,021	5,586,303	5,507,476	5,590,198
9,833,470	9,908,788	11,178,339	12,097,958	12,530,903	11,555,218
2,877,937	11,561,202	11,558,409	14,356,832	25,485,790	22,468,016
29,626,743	37,560,835	40,856,302	46,721,617	63,134,120	62,308,330
-	-	-	-	2,974,704	3,284,354
7,000,935	6,952,296	7,099,896	7,525,140	7,485,027	7,859,915
16,046,564	17,950,085	16,151,096	17,190,499	17,345,559	17,612,146
-	-	-	1,282,788	1,834,202	1,987,661
9,987,819	10,814,903	12,195,621	14,048,726	14,227,502	16,125,842
3,270,131	129,722	3,107,265	5,788,132	9,682,391	5,509,692
36,305,449	35,847,006	38,553,878	45,835,285	53,549,385	52,379,610
$ 65,932,192	$ 73,407,841	$ 79,410,180	$ 92,556,902	$ 116,683,505	$ 114,687,940

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

	2010	2011	2012	2013
Net revenue/expense:				
Governmental activities	$ (52,990,805)	$ (71,194,549)	$ (51,311,107)	$ (80,289,971)
Business-type activities	51,442,801	11,740,050	10,567,163	1,765,718
Total primary government net expense	$ (1,548,004)	$ (59,454,499)	$ (40,743,944)	$ (78,524,253)
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Property taxes	$ 6,831,553	$ 7,018,180	$ 6,112,789	$ 9,274,735
Sales taxes	29,144,497	29,826,572	33,266,049	37,836,088
Franchise taxes	4,309,896	4,448,614	4,547,621	4,732,649
Unrestricted State shared revenue	21,234,739	18,767,966	23,434,911	25,983,982
Unrestricted investment earnings	414,492	488,919	304,846	164,984
Other	1,425,472	489,667	297,016	562,787
Transfers	(6,195,179)	946,818	968,148	1,068,522
Total governmental activities	57,165,470	61,986,736	68,931,380	79,623,747
Business-type activities:				
Unrestricted investment earnings	423,050	552,583	331,127	150,350
Other	110,149	483,773	-	-
Special item - Extinguishment of debt	2,821,348	-	-	-
Transfers	6,195,179	(946,818)	(968,148)	(1,068,522)
Total business-type activities	9,549,726	89,538	(637,021)	(918,172)
Total primary government	$ 66,715,196	$ 62,076,274	$ 68,294,359	$ 78,705,575
Change in Net Position				
Governmental activities	$ 4,174,665	$ (9,207,813)	$ 17,620,273	$ (666,224)
Business-type activities	60,992,527	11,829,588	9,930,142	847,546
Prior period adjustments	-	-	-	-
Total primary government	$ 65,167,192	$ 2,621,775	$ 27,550,415	$ 181,322

Source: The source of this information is the City's financial records.
Note 1: GASB Statement No. 68 was implemented in fiscal year 2015. Prior years' financial statements were not restated.
Note 2: GASB Statement No. 75 was implemented in fiscal year 2018. Prior year's financial statements were not restated.

2014	2015	2016	2017	2018	2019
$ (89,368,917)	$ (91,739,254)	$ (101,393,119)	$ (122,964,467)	$ (91,121,544)	$ (98,179,215)
(1,457,850)	(3,016,192)	(1,640,788)	2,080,136	10,108,672	7,952,289
$ (90,826,767)	$ (94,755,446)	$ (103,033,907)	$ (120,884,331)	$ (81,012,872)	$ (90,226,926)
$ 9,401,277	$ 9,713,903	$ 9,962,925	$ 10,441,730	$ 10,813,317	$ 16,143,232
39,685,844	42,111,177	46,807,817	49,416,383	54,419,572	61,596,634
5,159,956	5,249,320	5,062,719	5,674,974	5,643,876	5,609,625
26,722,541	29,879,804	30,560,635	31,755,661	35,032,519	35,899,596
329,637	400,260	607,602	26,274	324,501	3,494,962
482,776	1,146,649	407,445	3,129,094	(753,721)	517,587
1,147,181	1,132,145	201,576	1,154,860	1,355,582	1,541,101
82,929,212	89,633,258	93,610,719	101,598,976	106,835,646	124,802,737
296,183	253,407	319,068	119,304	141,108	1,458,327
-	-	-	-	-	-
-	-	-	-	-	-
(1,147,181)	(1,132,145)	(201,576)	(1,154,860)	(1,355,582)	(1,541,101)
(850,998)	(878,738)	117,492	(1,035,556)	(1,214,474)	(82,774)
$ 82,078,214	$ 88,754,520	$ 93,728,211	$ 100,563,420	$ 105,621,172	$ 124,719,963
$ (6,439,705)	$ (2,105,996)	$ (7,782,400)	$ (21,365,491)	$ 15,714,102	$ 26,623,522
(2,308,848)	(3,894,930)	(1,523,296)	1,044,580	8,894,198	7,869,515
-	-	-	-	(520,113)	-
$ (8,748,553)	$ (6,000,926)	$ (9,305,696)	$ (20,320,911)	$ 24,088,187	$ 34,493,037

City of Surprise, Arizona
Fund Balances of Governmental Funds
Last Ten Years
(modified accrual basis of accounting)

	2010	2011	2012	2013
General fund				
Nonspendable	$ -	$ 327,420	$ 637,513	$ 626,565
Restricted	-	129,117	79,170	77,439
Committed	-	-	-	-
Assigned	-	1,334,202	317,343	327,182
Unassigned	-	239,533	4,459,773	17,166,622
Reserved	2,692,681	-	-	-
Unreserved	12,527,329	-	-	-
Total general fund	$ 15,220,010	$ 2,030,272	$ 5,493,799	$ 18,197,808
All other governmental funds				
Nonspendable	$ -	$ 125,744	$ 106,844	$ 134,673
Restricted	-	27,151,070	26,932,579	28,027,995
Committed	-	7,767,079	7,915,957	7,266,032
Assigned	-	41,951,897	42,460,372	44,505,144
Unassigned		(50,850,735)	(50,409,260)	(49,901,573)
Reserved	57,870,335	-	-	-
Unreserved, reported in:				
Special revenue funds	(37,216,769)	-	-	-
Capital projects funds	(8,724,406)	-	-	-
Debt service funds	6,236,019	-	-	-
Total all other governmental funds	$ 18,165,179	$ 26,145,055	$ 27,006,492	$ 30,032,271

Source: The source of this information is the City's financial records.

Note: GASB 54 established new categories for reporting fund balance in fiscal year 2011.

2014	2015	2016	2017	2018	2019
$ 821,009	$ 1,313,505	$ 1,287,510	$ 1,262,361	$ 1,602,598	$ 2,197,168
66,385	-	-	501,278	480,554	454,024
-	-	-	-	-	-
360,030	578,518	542,821	338,555	338,167	393,622
26,849,205	34,324,717	37,385,696	38,436,548	41,763,040	42,252,127
-	-	-	-	-	-
-	-	-	-	-	-
$ 28,096,629	$ 36,216,740	$ 39,216,027	$ 40,538,742	$ 44,184,359	$ 45,296,941

2014	2015	2016	2017	2018	2019
$ 206,294	$ 195,374	$ 368,126	$ 618,466	$ 638,371	$ 664,672
29,584,573	46,848,361	23,064,256	24,112,063	67,202,886	61,562,397
47,607,527	42,241,616	40,246,190	40,005,619	3,483,301	6,446,528
1,173,198	1,209,403	469,830	1,109,942	2,912,343	19,690,585
(50,029,315)	(49,288,936)	(47,671,784)	(46,064,773)	(8,258,667)	(5,888,966)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
$ 28,542,277	$ 41,205,818	$ 16,476,618	$ 19,781,317	$ 65,978,234	$ 82,475,216

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

	2010	2011	2012	2013	2014
Revenues					
Taxes	$ 38,940,670	$ 39,445,440	$ 42,290,109	$ 47,442,186	$ 48,262,126
Licenses and permits	4,342,546	4,490,664	4,586,621	4,771,649	5,197,956
Intergovernmental revenues	28,985,886	25,743,085	30,476,028	33,441,035	35,923,296
Charges for services	4,963,482	5,708,552	7,052,487	7,943,039	7,896,783
Grants revenue	2,855,614	3,010,650	1,626,534	2,443,199	2,131,707
Fines	1,930,945	1,827,127	1,870,202	1,986,692	1,498,451
Rents	4,000,944	611,019	580,820	584,972	606,679
Development fees	1,721,280	2,494,845	2,415,290	2,240,664	1,790,461
Interest revenue	391,530	464,496	278,177	149,655	307,139
Donations	-	429,237	257,372	344,589	148,062
Indirect charges*	-	3,660,700	3,660,700	3,660,700	4,682,772
Other revenue	2,286,355	2,047,634	1,175,823	960,297	482,776
Total revenues	90,419,252	89,933,449	96,270,163	105,968,677	108,928,208
Expenditures					
Current					
General government	17,750,497	12,073,329	12,627,722	11,925,890	13,674,046
Public safety	30,461,294	34,968,406	35,592,854	35,984,984	38,018,470
Public works and streets	15,573,166	15,425,981	14,706,512	15,350,181	16,784,098
Community development	6,447,218	4,802,971	7,336,377	7,605,656	8,344,991
Culture and recreation	13,393,070	12,373,798	13,421,538	13,210,175	14,912,746
Capital outlay	12,918,988	6,186,111	5,177,828	3,215,160	6,409,054
Debt Service					
Principal	2,137,075	2,328,300	2,449,900	2,533,138	2,661,713
Interest	1,973,329	1,898,152	1,594,060	1,505,313	1,378,709
Other charges	-	-	-	-	-
Total expenditures	100,654,637	90,057,048	92,906,791	91,330,497	102,183,827
Excess of revenues over (under) expenses	(10,235,385)	(123,599)	3,363,372	14,638,180	6,744,381
Other financing sources (uses)					
Proceeds from sale of assets	-	-	-	33,035	240,830
Transfers in (out)	(6,167,991)	946,818	968,148	1,068,522	4,803,747
From bonding	-	-	-	-	(3,656,566)
Payments to refunded bond escrow agent	-	-	-	-	-
Total other financing sources (uses)	(6,167,991)	946,818	968,148	1,101,557	1,388,011
Special items					
Advance forgiveness	-	-	-	-	-
Total special items	-	-	-	-	-
Net change in fund balances	$ (16,403,376)	$ 823,219	$ 4,331,520	$ 15,739,737	$ 8,132,392
Debt service as a percentage of noncapital expenditures**	4.7%	5.0%	4.6%	4.6%	4.2%

Source: The source of this information is the City's financial records.

* Beginning in fiscal year 2011, indirect charges are shown as revenue rather than transfers in.

** Beginning in fiscal year 2010, the debt related to the sewer fund was properly reported in the sewer fund, which decreases the percentage of debt reported for governmental funds.

2015	2016	2017	2018	2019
$ 52,178,522	$ 56,908,903	$ 59,749,360	$ 65,257,328	$ 77,739,476
4,975,398	5,121,719	5,811,255	5,817,956	5,991,243
37,947,604	39,209,688	40,430,400	44,773,004	45,774,226
9,241,853	11,363,453	13,127,359	15,186,099	19,189,262
1,659,609	3,060,620	1,856,830	2,691,930	1,581,233
1,768,671	1,214,978	1,052,366	2,281,998	1,788,745
549,400	630,514	621,033	601,628	724,073
2,224,125	3,297,082	4,413,714	5,306,365	6,482,159
400,260	607,602	24,449	310,038	3,299,929
245,671	228,316	160,706	183,307	125,872
4,682,772	4,884,443	4,768,960	5,249,200	5,481,600
1,155,192	392,199	2,908,665	522,745	726,564
117,029,077	126,919,517	134,925,097	148,181,598	168,904,382
20,291,986	16,306,183	16,675,593	16,965,220	17,358,137
41,862,877	44,433,546	47,036,287	51,471,894	51,993,630
17,314,612	20,492,467	20,116,384	19,858,787	20,580,186
5,074,395	10,080,446	12,225,155	11,890,816	12,141,786
19,301,123	18,416,339	17,998,257	19,540,944	19,613,758
8,604,468	36,511,052	17,501,271	18,067,055	22,824,600
2,786,800	2,361,425	2,613,738	2,776,050	5,352,900
1,245,447	1,749,568	1,587,151	1,578,092	3,271,455
389,873	19,762	724,982	472,877	4,851
116,871,581	150,370,788	136,478,818	142,621,735	153,141,303
157,496	(23,451,271)	(1,553,721)	5,559,863	15,763,079
226,080	336,821	368,156	136,426	276,091
1,132,145	1,150,009	354,860	974,136	1,607,973
19,320,205	-	11,696,218	43,211,107	-
	-	(6,500,617)	-	-
20,678,430	1,486,830	5,918,617	44,321,669	1,884,064
-	-	-	-	-
-	-	-	-	-
$ 20,835,926	$ (21,964,441)	$ 4,364,896	$ 49,881,532	$ 17,647,143
4.1%	3.6%	4.1%	3.3%	6.2%

City of Surprise, Arizona
Governmental Activities Tax Revenues by Source
Last Ten Fiscal Years
(accrual basis of accounting)

Fiscal Year	Property Tax	Sales Tax	Franchise & Business Licenses	Total
2010	6,831,553	29,144,497	4,309,896	40,285,946
2011	7,018,180	29,826,572	4,448,614	41,293,366
2012	6,112,789	33,266,049	4,547,621	43,926,459
2013	9,274,735	37,836,088	4,732,649	51,843,472
2014	9,401,277	39,685,844	5,159,956	54,247,077
2015	9,713,903	42,111,177	5,249,320	57,074,400
2016	9,962,925	46,807,817	5,062,719	61,833,461
2017	10,441,730	49,416,383	5,674,974	65,533,087
2018	10,813,317	54,419,572	5,643,876	70,876,765
2019	16,143,232	61,596,634	5,609,625	83,349,491

Source: The source of this information is the City's financial records.

SURPRISE
ARIZONA

City of Surprise, Arizona
Major Sources of Municipal Sales Tax
Last Ten Fiscal Years

	2010	2011	2012	2013
Description of Payers Business				
Construction	$ 4,391,089	$ 3,870,561	$ 4,936,286	$ 7,071,711
Retail trade	10,886,710	11,258,630	12,588,859	13,831,839
Communications and utilities	4,706,978	4,558,281	4,813,827	5,053,313
Restaurant and bar	3,704,296	3,910,930	4,254,798	4,877,292
Real estate, rental and leasing	2,618,870	2,824,605	3,160,567	3,610,593
Other	2,833,644	2,858,970	3,278,980	3,488,295
Total	$ 29,141,587	$ 29,281,977	$ 33,033,317	$ 37,933,043

Source: City of Surprise "Sales, Use, and Bed Tax Report" as of June 30, 2019.

When NAICS reporting began, many businesses checked the "Other" category due to uncertainty. This problem is being remedied and therefore, the "Other" category will decrease as more businesses will be classified under their proper category.

State and local laws prohibit the disclosure of individual taxpayer information.

2014	2015	2016	2017	2018	2019
$ 5,702,652	$ 5,318,361	$ 8,429,076	$ 7,444,202	$ 9,424,657	$ 13,938,324
15,319,378	17,897,576	18,608,256	20,578,048	24,170,542	25,309,922
5,230,594	5,379,741	5,609,855	5,682,238	5,010,541	4,873,454
5,262,786	5,600,500	5,933,745	6,543,214	7,673,195	8,226,189
3,872,029	4,077,066	4,246,757	4,790,722	4,858,025	5,495,101
3,439,338	4,188,861	4,109,905	4,377,959	3,282,612	3,753,644
$ 38,826,777	$ 42,462,105	$ 46,937,594	$ 49,416,383	$ 54,419,572	$ 61,596,634

City of Surprise, Arizona
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

		Real Property		Exemptions	Total			Ratio of Total
Fiscal Year		Assessed Value Residential Property	Assessed Value Commercial Property	Real Property	Full Cash Value	Direct Tax Rate	Estimated Actual Taxable Full Cash Value	Assessed Value to Total Estimated Actual Value
2010	P	899,879,844	407,255,079	(147,231,863)	1,159,903,060	0.5661	11,218,267,227	10.34%
2010	S	932,885,757	567,640,639	(95,418,806)	1,405,107,590	-	12,479,985,619	11.26%
2011	P	734,802,358	444,395,674	(110,470,743)	1,068,727,289	0.6735	9,795,021,688	10.91%
2011	S	739,725,180	532,775,146	(143,459,254)	1,129,041,072	-	10,353,625,385	10.90%
2012	P	653,425,523	390,774,648	(112,327,444)	931,872,727	0.6700	8,729,697,453	10.67%
2012	S	653,862,821	414,853,720	(131,986,535)	936,730,006	-	8,883,000,424	10.55%
2013	P	613,827,446	355,335,651	(117,175,984)	851,987,113	0.7383	8,131,671,314	10.48%
2013	S	614,117,003	369,093,201	(128,526,531)	854,683,673	-	8,219,696,417	10.40%
2014	P	590,891,318	352,740,031	(120,457,469)	823,173,880	0.7783	7,921,310,783	10.39%
2014	S	592,539,973	366,349,440	(128,753,963)	830,135,450	-	8,021,860,448	10.35%
2015	P	635,011,041	351,426,277	(128,356,166)	858,081,152	0.7591	8,378,359,740	10.24%
2015	S	674,517,543	367,445,212	(137,241,712)	904,721,043	-	8,871,516,138	10.20%
2016	P	659,032,840	359,978,533	(129,767,780)	889,243,593	0.7591	8,723,777,883	10.19%
2016	S	775,338,584	403,053,294	(146,482,133)	1,031,909,745	-	10,151,951,511	10.16%
2017	P	703,447,546	353,382,997	(127,933,738)	928,896,805	0.7591	9,188,106,400	10.11%
2017	S	832,582,676	418,393,201	(151,461,223)	1,099,514,654	-	10,888,981,453	10.10%
2018	P	742,214,719	372,303,716	(136,482,015)	978,036,420	0.7591	9,704,804,426	10.08%
2018	S	883,909,865	470,218,102	(164,602,354)	1,189,525,613	-	11,739,266,942	10.13%
2019	P	786,977,862	394,591,418	(132,661,610)	1,048,907,670	0.7591	10,275,630,683	10.21%
2019	S	979,109,102	501,184,044	(163,680,703)	1,316,612,443	0.4200	12,872,480,509	10.23%

Source: Maricopa County Assessor's Office State Abstract
Direct Tax Rate is From the Maricopa County Finance Department's "Tax Levy Book for the City of Surprise" for the applicable tax year.

SURPRISE

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

	City of Surprise			Overlapping Rates Maricopa County				
Fiscal Year	Operating (Primary) Tax Rate	Debt Service (Secondary) Tax Rate	Total City Tax Rate	Operating Tax Rate	Debt Service Tax Rate	County Library	Flood Control	Total County Tax Rate
2010	0.5661	-	0.5661	0.9909	-	0.0353	-	1.0262
2011	0.6735	-	0.6735	1.0508	-	0.0412	-	1.0920
2012	0.6700	-	0.6700	1.2407	-	0.0492	-	1.2899
2013	0.7383	-	0.7383	1.2407	-	0.0492	-	1.2899
2014	0.7783	-	0.7783	1.2807	-	0.0492	-	1.3299
2015	0.7591	-	0.7591	1.3209	-	0.0556	-	1.3765
2016	0.7591	-	0.7591	1.4009	-	0.0556	-	1.4565
2017	0.7591	-	0.7591	1.4009	-	0.0556	-	1.4565
2018	0.7591	-	0.7591	1.4009	-	0.0556	0.1792	1.6357
2019	0.7591	0.4200	1.1791	1.4009	-	0.0556	0.1792	1.6357

Source: Maricopa County Finance Department's "Maricopa County 2018 Tax Levy" report.
Note: Prior to fiscal year 2018, the Maricopa County Flood Control District tax rate was included in the other column.

Overlapping Rates				
Dysart School District				
Operating Tax Rate	Debt Service Tax Rate	Total School District Tax Rate	Other	Total Direct & Overlapping Rates
3.0430	1.7251	4.7681	1.2182	7.5786
2.9051	2.0919	4.9970	1.3405	8.1030
3.4104	2.5820	5.9924	1.6440	9.5963
4.6547	2.7317	7.3864	1.8351	11.2497
4.3492	2.9538	7.3030	1.6356	11.0468
3.9957	2.7750	6.7707	1.7472	10.6535
3.0640	2.9085	5.9725	1.7120	9.9001
4.1562	2.8032	6.9594	2.5181	11.6931
4.1562	2.8032	6.9594	2.5104	11.8646
4.1089	2.7859	6.8948	2.4330	12.1426

City of Surprise, Arizona
Principal Property Taxpayers
June 30, 2019 and 2010

	2019				2010			
Taxpayer		**Primary Assessed Valuation**	**Rank**	**Percentage of Total**		**Primary Assessed Valuation**	**Rank**	**Percentage of Total**
Arizona Public Service Company	$	28,979,671	1	2.76%				
Southwest Gas Corporation (T&D)		5,876,250	2	0.56%				
EPCOR (Agua Fria Water Division)		4,533,890	3	0.43%				
CCD Real Estate Holdings LLC		4,129,091	4	0.39%				
Breit MF Stadium Village LLC		4,103,570	5	0.39%				
Mazal Realty West Valley Surprise ADA Complia		3,762,360	6	0.36%				
Sands Surprise Real Estate Chevy LLC		3,344,238	7	0.32%				
Harmony at Surprise SPE LLC		3,302,130	8	0.31%				
Wal Mart Stores Inc		3,121,164	9	0.30%				
LAACO Ltd		2,954,844	10	0.28%				
Arizona Public Service Company					$	22,551,081	1	1.94%
Southwest Gas Corporation (T&D)						6,293,350	2	0.54%
Marley Park Phase II LLC						6,130,320	3	0.53%
Surprise Holdings LLC						5,686,676	4	0.49%
CCD Real Estate Holdings LLC						5,627,047	5	0.49%
Pccp Cs CH Surprise LLC						3,994,453	6	0.34%
Gvsw Surprise Plaza LLC						3,927,352	7	0.34%
Transwestern Pipeline Company						3,886,508	8	0.34%
Federal National Mortgage Association						3,753,910	9	0.32%
Sands Surprise Real Estate Chevy LLC						3,624,812	10	0.31%
Total	$	64,107,208		6.10%	$	65,475,509		5.64%
Primary Assessed Valuation		1,048,907,670				1,159,903,060		

Source: Maricopa County Assessor's Office

City of Surprise, Arizona
Primary Property Tax Levies and Collections
Last Ten Fiscal Years

		Collected within the Fiscal Year of the Levy			Total Collections to Date	
Fiscal Year	Total Tax Levy	Current Tax Collections	Percentage of Levy	Tax Collections in Subsequent Years	Tax Collections	Percentage of Levy
2010	6,952,011	6,599,191	94.9%	135,898	6,735,089	96.9%
2011	7,174,003	6,892,250	96.1%	172,630	7,064,880	98.5%
2012	6,200,706	6,021,059	97.1%	118,638	6,139,697	99.0%
2013	6,295,546	6,159,818	97.8%	95,664	6,255,482	99.4%
2014	6,350,356	6,249,156	98.4%	69,240	6,318,396	99.5%
2015	6,509,332	6,425,856	98.7%	62,517	6,488,373	99.7%
2016	6,754,752	6,661,068	98.6%	48,762	6,709,830	99.3%
2017	7,037,842	6,947,745	98.7%	70,669	7,018,414	99.7%
2018	7,424,272	7,321,178	98.6%	81,969	7,403,147	99.7%
2019	7,962,251	7,862,533	98.7%	-	7,862,533	98.7%

Source: Maricopa County Treasurer's Office "Secured Levy Report" through June 30, 2019.

City of Surprise, Arizona
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

	Governmental Activities			
Fiscal Year	General Obligation Bonds	Special (CFD) Assessment Bonds and Notes	Municipal Property Corp. Bonds	Pledged Revenue Obligations
2010*	-	8,290,000	28,677,713	-
2011	-	7,935,000	24,489,225	-
2012	-	7,745,000	22,229,325	-
2013	-	7,545,000	19,896,188	-
2014	-	7,335,000	17,444,474	-
2015	-	7,115,000	-	30,832,800
2016	-	6,885,000	-	31,770,034
2017	-	12,105,285	-	29,249,876
2018	40,211,105	14,619,352	-	24,166,587
2019	37,322,019	14,143,419	-	23,963,086

* The amount for fiscal year 2010 is for sewer related municipal property corporation bonds. Beginning in fiscal year 2010, the municipal property corporation bonds were properly recorded in the sewer fund as a business-type activity instead of as a governmental activity as previously reported.

Soure: City financial records

Business-Type Activities						
Municipal Property Corp. Bonds	Water Infrastructure Financing Authority Loan	Utility Revenue Obligations	Pledged Revenue Obligations	Total Primary Government	Percentage of Personal Income	Per Capita
63,112,287	1,500,000	-	-	101,580,000	4.0%	864
61,295,775	1,324,760	-	-	95,044,760	4.0%	803
60,315,675	-	-	-	90,290,000	3.4%	755
59,303,813	-	-	-	86,745,001	3.3%	713
53,565,524	-	-	-	78,344,998	3.0%	633
39,365,000	-	-	5,832,000	83,144,800	3.1%	658
37,585,000	-	-	5,903,844	82,143,878	3.0%	640
35,720,000	-	-	5,249,430	82,324,591	2.8%	620
33,770,000	-	-	4,103,413	116,870,457	3.9%	872
-	-	28,164,675	3,877,075	107,470,274	3.4%	778

City of Surprise, Arizona
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
2010	-	-	-	0.000%	-
2011	-	-	-	0.000%	-
2012	-	-	-	0.000%	-
2013	-	-	-	0.000%	-
2014	-	-	-	0.000%	-
2015	-	-	-	0.000%	-
2016	-	-	-	0.000%	-
2017	-	-	-	0.000%	-
2018	37,730,000	5,857	37,724,143	3.171%	281
2019	35,215,000	483,319	34,731,681	2.638%	251

Soure: City financial records

City of Surprise, Arizona
Direct and Overlapping Governmental Activities Debt
As of June 30, 2019

		Proportion Applicable to the City	
Overlapping Jurisdiction	**General Obligation and Pledged Revenue Bonded Debt**	**Approximate Percent**	**Net Debt Amount**
State of Arizona	None	0.00%	None
Maricopa County	None	2.56%	None
Maricopa County Community College District	$ 312,450,000	2.59%	$ 8,092,455
Maricopa County Special Health Care District	459,125,000	2.59%	11,891,338
Western Maricopa Education Center	116,510,000	7.05%	8,213,955
Dysart Unified School District No. 89	121,293,000	77.81%	94,378,083
Peoria Unified School District No. 11	229,415,000	0.39%	894,719
Nadaburg Unified School District No. 81	185,000	26.56%	49,136
Wickenburg Unified School District No. 9	9,596,000	2.55%	244,698
Subtotal, overlapping debt	$ 1,248,574,000		$ 123,764,383
City of Surprise	$ 61,285,105	100.00%	$ 61,285,105
Marley Park Community Facilities District	14,143,419	100.00%	14,143,419
Subtotal, direct debt	$ 75,428,524		$ 75,428,524
Total Direct and Overlapping General Obligation and Pledged Revenue Bonded Debt			$ 199,192,907

Source: The various jurisdictions

Proportion applicable to City of Surprise, Arizona is computed on the ratio of limited property valuation for fiscal year 2018/2019.
Excludes various other non-property tax supported debt such as Public Finance Corporation lease revenue bonds, Stadium District revenue bonds, Stadium District loans, Housing Authority loans and capital leases.
Excludes non-property tax supported debt such as revenue bonds.
Marley Park refunded $6,065,000 of existing debt with $11,365,000 of General Obligation bonds on October 6, 2016.

Includes: Excise Tax Revenue obligations

City of Surprise, Arizona
Legal Debt Margin Information Unrestricted and Restricted
Last Ten Fiscal Years

Unrestricted

	2010	2011	2012	2013
Debt limit 6%	$ 81,197,672	$ 67,742,464	$ 56,203,800	$ 51,281,020
Total net debt applicable to limit	-	-	-	-
Unrestricted legal debt margin	$ 81,197,672	$ 67,742,464	$ 56,203,800	$ 51,281,020
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%

Restricted

	2010	2011	2012	2013
Debt limit 20%	$ 270,658,907	$ 225,808,214	$ 187,346,001	$ 170,936,735
Total net debt applicable to limit	-	-	-	-
Restricted legal debt margin	$ 270,658,907	$ 225,808,214	$ 187,346,001	$ 170,936,735
Total net debt applicable to the 20% limit as a percentage of the 20% debt limit	0.00%	0.00%	0.00%	0.00%

Source: Maricopa County Assessor's Office - 2018 Levy Limit Worksheet

2014	2015	2016	2017	2018	2019
$ 49,298,862	$ 54,283,263	$ 61,914,585	$ 65,970,879	$ 71,371,537	$ 78,996,747
-	-	-	-	-	-
$ 49,298,862	$ 54,283,263	$ 61,914,585	$ 65,970,879	$ 71,371,537	$ 78,996,747
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

2014	2015	2016	2017	2018	2019
$ 164,329,540	$ 180,944,209	$ 206,381,949	$ 219,902,931	$ 237,905,123	$ 263,322,489
-	-	-	-	39,987,500	37,322,019
$ 164,329,540	$ 180,944,209	$ 206,381,949	$ 219,902,931	$ 197,917,623	$ 226,000,470
0.00%	0.00%	0.00%	0.00%	16.81%	14.17%

City of Surprise, Arizona
Demographic and Economic Statistics
Last Ten Fiscal Years

Year	Population	Personal Income	Median Household Income	Median Age	Unemployment Rate
2010	117,517	2,541,689,235	61,208	35.4	9.4%
2011	118,349	2,388,475,189	57,114	36.8	6.5%
2012	119,530	2,624,633,827	62,141	35.9	4.3%
2013	121,629	2,608,232,906	60,687	36.8	5.0%
2014	123,797	2,623,490,276	59,973	36.0	5.4%
2015	126,275	2,684,147,318	58,455	37.0	9.8%
2016	128,422	2,779,842,369	59,094	38.7	9.4%
2017	132,677	2,911,895,653	59,916	39.0	4.5%
2018	134,085	2,997,757,500	61,035	39.9	4.6%
2019	138,161	3,184,636,354	62,927	41.3	3.7%

Data Sources: Office of Economic Opportunity
Maricopa Association of Governments
US Department of Labor, Bureau of Labor Statistics
US Census Bureau

City of Surprise, Arizona
Principal Employers
June 30, 2019 and Nine Years Prior

	2019[1]			2010[2]		
Employer	**Employees**	**Rank**	**%of Total**	**Employees**	**Rank**	**%of Total**
Dysart School District (Surprise Schools Only)	1,660	1	7.89%	2,300	1	6.30%
City of Surprise	1,170	2	5.56%	725	2	1.99%
Wal-Mart	720	3	3.42%	715	3	1.96%
Fry's Food Store	560	4	2.66%	445	4	1.22%
Rousseau Farming Company	340	5	1.62%			
McDonalds	270	6	1.28%			
Home Depot	250	7	1.19%			
Maricopa County	210	8	1.00%			
Crescent Crown	200	9	0.95%	225	10	0.62%
Kohl's Department Store	180	10	0.86%	237	9	0.65%
Safeway Food Store				445	4	1.22%
APS/ Pinnacle West Corp				275	6	0.75%
Charter Schools				270	7	0.74%
Albertson's Food Store				250	8	0.68%
Total	5,560		26.41%	5,887		16.13%
Total City Employment	21,050			36,500		

Sources:
[1] Maricopa Association of Governments, as of June 30, 2019
[2] Prior Years CAFR

City of Surprise, Arizona
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Function										
General government	124	124	118	123	123	136	134	140	142	146
Public safety:										
Police:										
Officers	132	130	132	133	134	130	139	158	159	159
Civilians	56	58	49	49	48	54	49	43	42	45
Fire:										
Firefighters and officers	110	114	112	111	111	113	113	128	127	126
Civilians	9	8	6	7	7	7	8	8	7	7
Public works and streets:										
All others	100	96	87	83	83	83	84	84	80	84
Community development	40	36	36	40	40	43	40	41	41	42
Economic Development	-	-	-	-	-	-	8	8	8	7
Culture and recreation	95	97	97	110	110	122	118	117	116	120
Human Service and Communtiy Vitality	-	-	-	-	-	-	9	15	16	18
Water	31	33	29	25	25	24	29	33	36	35
Sanitation	32	34	34	31	31	32	33	35	37	37
Sewer	39	39	36	36	36	37	39	50	45	45
Stormwater	-	-	-	-	-	-	-	-	6	5
Ground ambulance services	-	-	-	-	-	-	-	-	19	26
Total	769	769	736	748	748	781	804	861	881	902

Source: Fiscal year 2019 Adopted Budget

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City of Surprise, Arizona
Operating Indicators by Function
Last Ten Fiscal Years

Function	2010	2011	2012	2013	2014
Public safety:					
Police:					
Calls- incidents responded to	41,495	40,779	42,010	39,866	37,566
Citations issued	12,455	8,233	7,856	9,673	7,020
Officers per 1,000 residents	1.2	1.5	1.1	1.1	1.1
Fire-Medical:					
Number of responses	10,998	11,620	12,313	13,649	14,004
Inspections	639	1,101	1,122	1,184	1,411
Public works and streets:					
Sq. ft. of buildings to maintain	830,271	830,431	830,431	830,271	830,271
Vehicles/equipment maintained per month	444	387	494	403	392
Number of street lights repaired	249	270	291	300	377
Street miles maintained	526	536	539	607	607
Community development:					
Building safety inspections performed	11,349	11,106	13,257	20,150	18,220
Annual new residential starts	291	206	395	554	385
Parks and recreation:					
Organized recreation program participants	170,336	176,569	185,232	191,648	192,300
Special events/open facility participants	242,759	261,327	256,674	269,823	278,980
Sports and Tourism					
Special events/open facility participants	N/A	N/A	N/A	N/A	N/A
Water:					
Water service connections	14,519	14,130	14,329	14,570	14,740
Water main breaks	N/A	N/A	N/A	N/A	N/A
Average daily consumption (thousands of gallons)	N/A	N/A	N/A	N/A	N/A
Sewer:					
Sewage treated (million gallons per day)	7.6	7.4	7.6	8.1	8.1
Sewer service connections	46,448	44,077	44,583	45,802	45,984
Sanitation:					
Refuse collected (tons/annually)	30,398	30,803	30,289	29,400	30,583
Number of routes	34	34	33	33	32
Total services	33,797	37,144	32,357	32,975	33,321
Stormwater:					
Customers	-	-	-	-	-

Sources: Various government departments
N/A - This information is not available.

2015	2016	2017	2018	2,019
38,191	39,511	40,909	41,806	40,541
7,524	5,971	6,358	5,136	8,602
1.1	1.0	1.0	1.0	1.0
15,750	16,896	16,546	17,435	10,865
1,885	2,745	2,407	1,810	1,595
830,271	855,774	855,774	855,774	855,774
405	334	375	397	415
43	44	38	79	52
627	627	627	627	629
15,624	20,320	22,407	31,063	34,598
417	486	600	1,288	1,303
178,186	160,535	163,580	162,012	141,189
321,214	307,475	306,714	343,868	120,114
N/A	N/A	N/A	N/A	253,823
14,971	15,362	15,499	16,331	16,729
N/A	N/A	N/A	4	2
N/A	N/A	N/A	7,322	7,416
8.4	8.4	8.4	8.4	9
44,923	47,273	48,196	50,303	48,451
33,351	32,787	33,671	34,979	36,757
32	56	56	57	59
32,683	35,366	36,421	36,657	35,510
-	-	49,429	50,594	47,235

City of Surprise, Arizona
Capital Asset Statistics by Function
Last Ten Years

Function	**2010**	**2011**	**2012**	**2013**	**2014**
Public safety:					
Police:					
Stations	2	2	2	2	2
Patrol units	73	80	64	63	63
Fire:					
Fire stations	7	7	7	7	7
Fire engines and ladder trucks	11	11	11	11	12
Ambulances	0	0	0	0	0
Public works and streets:					
Street miles	592	536	539	607	607
Street lighting improvement districts	83	98	103	101	105
Traffic Signals	42	42	45	51	51
Bridges	15	15	19	19	19
Community development:					
Inspection vehicles	12	12	12	12	10
Parks and recreation:					
Parks acreage	393	393	393	393	393
Parks	12	12	12	12	12
Swimming pools	2	2	2	2	2
Softball fields	11	11	11	11	11
Baseball fields	21	21	21	21	21
Libraries	2	2	2	2	2
Water:					
Well production maximum daily	24.6	31.0	31.0	31	31
Sewer:					
Sewer treatment plants	1	2	2	2	2
Maximum daily treatment capacity	16.3	18.3	18.3	18.3	18.3
Sanitation:					
Collection trucks	26	26	26	26	26

Sources: Various government departments

2015	2016	2017	2018	2019
2	2	2	2	2
68	72	90	73	87
7	7	7	7	7
12	12	12	13	13
0	1	3	4	5
627	627	627	627	629
107	107	123	132	146
50	50	50	50	52
19	19	19	19	19
10	10	11	11	11
393	393	393	393	393
12	12	12	12	12
2	2	2	2	2
11	11	11	11	11
21	21	21	21	21
2	2	2	2	2
32	32	33	33	33
2	2	2	2	2
18.3	18.3	18.3	18.3	18.3
26	27	27	27	27

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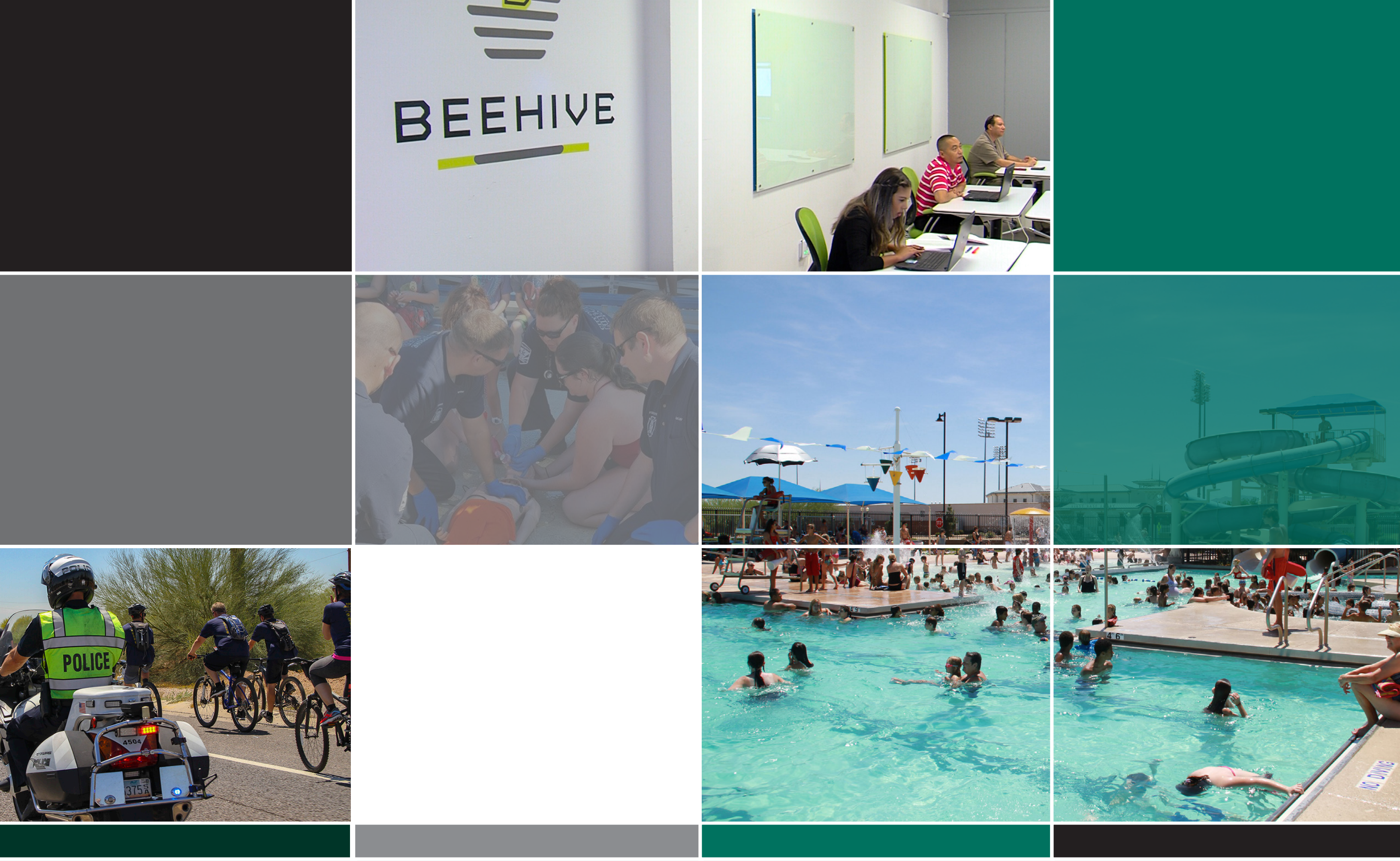

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Heinfeld, Meech & Co., P.C.
3033 N. Central Ave. Suite 300
Phoenix, AZ 85012

This representation letter is provided in connection with your audit of the financial statements of City of Surprise, Arizona, which comprise the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows for the period then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.

2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.

8. The effects of all known actual or possible litigation, claims, and assessments have been evaluated, and if necessary, have been accounted for and disclosed in accordance with U.S. GAAP.

9. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.

    d. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.

11. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.

12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13. We have no knowledge of any fraud or suspected fraud that affects the City and involves:
    - Management,
    - Employees who have significant roles in internal control, or
    - Others where the fraud could have a material effect on the financial statements.

14. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, grantors, regulators, or others.

15. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

17. We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

19. If applicable, we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us.

20. We have a process to track the status of audit findings and recommendations.

21. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

22. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

23. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.

24. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.

25. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

26. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

27. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

28. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

29. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

30. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

31. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

32. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

33. The financial statements properly classify all funds and activities in accordance with U.S. GAAP.

34. All funds that meet the quantitative criteria for presentation as a major fund are identified and presented as such and all other funds that are presented as a major fund are particularly important to financial statement users.

35. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

36. Investments are properly valued.

37. With regard to investments and other instruments reported at fair value:
    - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
    - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
    - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
    - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

38. If applicable, provisions for uncollectible receivables have been properly identified and recorded.

39. All payroll information and the individual employment data have been properly submitted to the state retirement systems, and the employer contributions have been properly submitted to the retirement systems.

40. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

41. Revenues are appropriately classified in the statement of activities within program revenues, and general revenues.

42. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

43. Special and extraordinary items, if any, are appropriately classified and reported.

44. Deposits and investment securities are properly classified as to risk and are properly disclosed.

45. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.

46. We have identified and disclosed to you all programs, agreements, and transactions that result in a tax abatement for financial reporting purposes. Tax abatement agreements and programs have been properly disclosed in the notes to the financial statements.

47. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

48. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

49. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

50. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

51. With respect to the supplementary information presented, such as the combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards.

    a. We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

    b. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

52. With respect to federal award programs:

    a. We are responsible for understanding and complying with and have complied with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).

    b. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.

    c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.

d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

e. We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.

f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.

g. We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.

h. We have received no requests from a federal agency to audit one or more specific programs as a major program.

i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Compliance Supplement,* relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards, if any.

j. We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR Part 200, Subpart E).

m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

n. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

p. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.

q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report.

r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.

s. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

t. If applicable, we have monitored subrecipients to determine that they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.

u. If applicable, we have issued management decisions for audit findings that relate to federal awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient.

v. If applicable, we have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.

w. We have charged costs to federal awards in accordance with applicable cost principles.

x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

y. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information

z. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

aa. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.

bb. If applicable, we have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

We understand that at the conclusion of the audit Heinfeld, Meech & Co, P.C. will submit to the City Council a communication to those charged with governance that will include a copy of this representation letter and a copy of the engagement letter.

Andrea Davis
Andrea Davis (Dec 11, 2019)

Andrea Davis, Chief Financial Officer
City of Surprise, Arizona

Dec 11, 2019
Date

Nick Sarpy
Nick Sarpy (Dec 11, 2019)

Nick Sarpy, Accounting Manager
City of Surprise, Arizona

Dec 11, 2019
Date

General Rep Single Audit 19 Surprise City

Final Audit Report 2019-12-11

Created:	2019-12-11
By:	Christopher Goeman (christopher.goeman@heinfeldmeech.com)
Status:	Signed
Transaction ID:	CBJCHBCAABAAC3BwWYiLP8qvRTHjqDx8taG7JjdJ_0ZZ

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FINANCE DEPARTMENT
CITY OF SURPRISE
16000 N. CIVIC CENTER PLAZA
SURPRISE, AZ 85374
T. 623·222·1800

Heinfeld, Meech & Co., P.C.
3033 N. Central Ave. Suite 300
Phoenix, AZ 85012

In connection with your examination of the Annual Expenditure Limitation Report (AELR) for the year ended June 30, 2019, for the purpose of expressing an opinion about whether the AELR is presented, in all material respects, in accordance with the Uniform Expenditure Reporting System, we confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your examination.

1. The AELR for the year ended June 30, 2019 is presented in accordance with the Uniform Expenditure Reporting System.

2. We are responsible for the AELR and for our assertion that it is presented in accordance with the Uniform Expenditure Reporting System.

3. We have provided you with all relevant information and access to information and personnel in connection with your examination of the AELR.

4. We have disclosed to you all deficiencies in internal control relevant to the engagement of which we are aware.

5. We have disclosed to you knowledge of any actual, suspected, or alleged fraud or noncompliance with laws or regulations affecting the AELR.

6. All relevant matters are reflected in the measurement and/or evaluation of the AELR.

7. We believe that significant assumptions used in making any material estimates are reasonable.

8. We have disclosed to you all known matters that may contradict the AELR, and we have disclosed to you all communications from regulatory agencies, received through the date of your report affecting the AELR.

9. We have disclosed to you all events subsequent to June 30, 2019 that would have a material effect on the AELR.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Nick Sarpy
Nick Sarpy (Jan 9, 2020)

Jan 9, 2020

Nick Sarpy, Accounting Manager
City of Surprise, Arizona

Date

GRL ELR Examination 2018

Final Audit Report 2020-01-09

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Adobe Sign

City of Surprise, Arizona
Single Audit Reporting Package
Year Ended June 30, 2019

CITY OF SURPRISE, ARIZONA
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2019

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 Surprise, 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 Surprise, Arizona, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City of Surprise, Arizona's basic financial statements, and have issued our report thereon dated December 11, 2019.

Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No.'s 83, 84 and 90.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Surprise, 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 Surprise, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Surprise, 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 Surprise, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 11, 2019

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and
Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited City of Surprise, 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 Surprise, Arizona's major federal programs for the year ended June 30, 2019. City of Surprise, Arizona's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Surprise, Arizona's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Surprise, 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 Surprise, Arizona's compliance.

Basis for Qualified Opinion on CDBG – Entitlement Grants Cluster
As described in in the accompanying schedule of findings and questioned costs, City of Surprise, Arizona did not comply with requirements regarding CFDA 14.218 CDBG – Entitlement Grants Cluster for Activities Allowed or Unallowed and Allowable Costs/Cost Principles as described in finding number 2019-001. Compliance with such requirements is necessary, in our opinion, for City of Surprise, Arizona to comply with the requirements applicable to that program.

Qualified Opinion on CDBG – Entitlement Grants Cluster
In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, City of Surprise, Arizona complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CDBG - Entitlement Grants Cluster for the year ended June 30, 2019.

Other Matters
The results of our auditing procedures disclosed another instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion on the major federal program is not modified with respect to this matter.

City of Surprise, Arizona's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Surprise, Arizona's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance
Management of City of Surprise, 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 Surprise, 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Surprise, 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 that we consider to be material weaknesses.

City of Surprise, Arizona's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City of Surprise, Arizona's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

City of Surprise, Arizona is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. City of Surprise, Arizona's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Surprise, Arizona as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City of Surprise, Arizona's basic financial statements. We issued our report thereon dated December 11, 2019, 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 the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 11, 2019

City of Surprise
Schedule of Expenditures of Federal Awards
Year ended June 30, 2019

Federal agency/CFDA number/Pass-through grantor	Federal program name/Program Title	Cluster title	Other Award ID Number	Program expenditures	Amount provided to subrecipients
U.S. Department of Housing and Urban Development					
14 218	Community Development Block Grants/Entitlement Grants	CDBG–Entitlement Grants Cluster			
	2017 Community Development Block Grants/Entitlement Grants		B17-MC-04-0514	57,133	8,322
	2018 Community Development Block Grants/Entitlement Grants		B18-MC-04-0514	94,943	-
	Community Development Block Grants/Entitlement Grants		Program Income	210,470	85,990
	Community Development Block Grants/Entitlement Grants		Program Income	1,400	-
	Total CDBG- Entitlement Grants Cluster			363,946	94,312
Passed through Maricopa County/the Maricopa HOME Consortium					
14 239	Home Investment Partnership Programs				
	2016 HOME Investment Partnership Program		C-22-17-046-3-00	35,462	-
	2017 HOME Investment Partnership Program		C-22-17-046-3-01	54,526	-
	Total HOME Investment Partnership Program			89,988	-
	Total U.S. Department of Housing and Urban Development			453,934	94,312
U.S. Department of Justice					
16 U01	DEA Task Force - FY18			9,216	-
	DEA Task Force - FY19			27,307	-
	Total DEA Task Force			36,523	-
Passed through Arizona Department of Public Safety					
16 575	Crime Victim Assistance				
	Crime Victim Assistance		2015-VA-GX-0032	103,044	-
	Crime Victim Assistance		2015-VA-GX-0032	115,603	-
	Total Crime Victim Assistance			218,647	-
16 607	Bulletproof Vest Partnership Program			7,090	-
16 710	Public Safety Partnership and Community Policing Grants		2016UMWX0122	100,553	-
16 922	Equitable Sharing Program		AZ0072700	120,218	-
	Total U.S. Department of Justice			483,031	-
U.S. Department of Transportation					
Passed through Arizona Department of Transportation					
20 205	Highway Planning and Construction	Highway Planning and Construction Cluster			
	Highway Planning and Construction		SUR-0(226)T	26,890	-
	Highway Planning and Construction		SUR-0(229)T	2,567	-
	Highway Planning and Construction		SUR-0(232)D	628	-
	Highway Planning and Construction		SUR-0(233)D	783	-
	Highway Planning and Construction		SUR-0(229)T	628	-
	Total Highway Planning and Construction Cluster			31,496	-
Passed through Arizona Governor's Office of Highway Safety					
20 600	State and Community Highway Safety	Highway Safety Cluster			
	State and Community Highway Safety		2018-PTS-067	43,724	-
	State and Community Highway Safety		2018-PTS-066	12,141	-
	State and Community Highway Safety		2019-PTS-052	32,310	-
	State and Community Highway Safety		2018-OP-016	2,646	-
	State and Community Highway Safety		2019-MC-003	19,764	-
	State and Community Highway Safety		2019-AL-030	2,840	-
	State and Community Highway Safety		2019-OP-014	7,000	-
	Subtotal 20.600 State and Community Highway Safety			120,425	-

See accompanying Notes to Schedule of Expenditures of Federal Awards

City of Surprise
Schedule of Expenditures of Federal Awards
Year ended June 30, 2019

Federal agency/CFDA number/Pass-through grantor	Federal program name/Program Title	Cluster title	Other Award ID Number	Program expenditures	Amount provided to subrecipients
Passed through Governor's Office of Highway Safety					
20 616	National Priority Safety Programs	Highway Safety Cluster			
	National Priority Safety Programs		2018-II-006	5,910	-
	National Priority Safety Programs		2019-II-006	40,000	-
	National Priority Safety Programs		2019-405d-039	7,500	-
	National Priority Safety Programs		2018-405h-016	12,835	-
	National Priority Safety Programs		2019-405h-018	7,735	-
	National Priority Safety Programs		2018-405h-015	2,331	-
	National Priority Safety Programs		2019-405b-010	8,220	-
	National Priority Safety Programs		2019-405b-011	6,047	-
	National Priority Safety Programs		2019-CIOT-023	4,000	-
	Subtotal 20.616 National Priority Safety Programs			94,578	-
	Total Highway Safety Cluster			215,003	-
Passed through Governor's Office of Highway Safety					
20 614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements		2018-PB-008	25,000	-
	Total U.S. Department of Transportation			271,499	-
U.S. Department of Health and Human Services					
Passed through Area Agency on Aging, Region One					
93 045	Special Programs for the Aging_Title III, Part C_Nutrition Services	Aging Cluster	2017-37-SUR	60,000	-
	Total Aging Cluster			60,000	-
Passed through Maricopa County Human Services					
93 667	Social Services Block Grant		C-22-16-043-3-00	89,256	-
	Total U.S. Department of Health and Human Services			149,256	-
U.S. Department of Homeland Security					
97 044	Assistance to Firefighters Grant		EMW-2017-FV-02096	42,084	-
Passed through Arizona Department of Homeland Security					
97 067	Homeland Security Grant Program				
	Homeland Security Grant Program		170822-01	2,165	-
	Homeland Security Grant Program		180821-01	31,132	-
	Homeland Security Grant Program		170212-01	6,732	-
	Homeland Security Grant Program		180215-01	3,710	-
	Homeland Security Grant Program		170821-01	7,313	-
	Homeland Security Grant Program		180820-01	28,602	-
	Homeland Security Grant Program		180820-02	7,304	-
	Total Homeland Security Grant Program			86,958	-
97 083	Staffing for Adequate Fire and Emergency Response (SAFER)		EMW-2015-FH-00791	147,380	
	Total U.S. Department of Homeland Security			276,422	-
	Total Expenditures of Federal Awards			$ 1,634,142	$ 94,312

See accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF SURPRISE, ARIZONA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Period 7/1/2018 - 6/30/2019

Significant Accounting Policies Used in Preparing the SEFA

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the City of Surprise under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the City of Surprise, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Surprise.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 Uniform Guidance, 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.

10% De Minimis Cost Rate

The auditee did not use the de minimis cost rate.

Catalogue of Federal Domestic Assistance Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2019 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.

CITY OF SURPRISE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
- Significant deficiency(ies) identified: No
- Material weakness(es) identified: No

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:
- Significant deficiency(ies) identified: No
- Material weakness(es) identified: Yes

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with §200.516 of Uniform Guidance: Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.218	CDBG – Entitlement Grants Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee: Yes

Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*: No

Findings and Questioned Costs Related to Federal Awards: Yes

Summary Schedule of Prior Audit Findings required to be reported: Yes

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 2019-001
Repeat Finding: No
Program Name/CFDA Title: CDBG – Entitlement Grants Cluster
CFDA Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Federal Award Numbers: B17-MC-04-0514, B18-MC-04-0514
Pass-Through Agency: N/A
Questioned Costs: $98,156
Type of Finding: Noncompliance, Material Weakness
Compliance Requirement: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

CRITERIA
All activities undertaken must meet one of the three national objectives of the CDBG Entitlement Grants program, i.e., benefit low and moderate income persons, prevent or eliminate slums or blight, or meet community development needs having a particular urgency (24 CFR sections 570.200 and 570.208).

CONDITION
Documentation was not maintained to support that only low and moderate income residents received home rehabilitation assistance.

CAUSE
There was not sufficient oversight over the home rehabilitation program. Additionally, checklists were not utilized to ensure all required steps and compliance requirements were sufficiently met.

EFFECT
Ineligible residents may have benefited from the home rehabilitation program.

CONTEXT
For two of three home rehabilitation case files reviewed, the City did not retain support for income reported on the application. For all three home rehabilitation files reviewed, no documentation was retained to demonstrate that an income check was completed and compared to HUD's income guidelines. The sample was not intended to be, and was not, a statistically valid sample.

RECOMMENDATION
The City should maintain documentation that an income check was performed and compared to HUD income guidelines. In addition, a supervisory review of the case file should be completed to ensure compliance.

VIEWS OF RESPONSIBLE OFFICIALS
See Corrective Action Plan.

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 2019-002
Repeat Finding: No
Program Name/CFDA Title: CDBG – Entitlement Grants Cluster
CFDA Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Federal Award Numbers: B17-MC-04-0514, B18-MC-04-0514
Pass-Through Agency: N/A
Questioned Costs: N/A
Type of Finding: Noncompliance, Material Weakness
Compliance Requirement: Special Tests and Provisions

<u>CRITERIA</u>
When CDBG funds are used for rehabilitation, the grantee must ensure that the work is properly completed (24 CFR section 570.506).

<u>CONDITION</u>
The City did not have sufficient controls in place to ensure home rehabilitation was properly completed.

<u>CAUSE</u>
There was not sufficient oversight over the home rehabilitation program. Additionally, checklists were not utilized to ensure all required steps and compliance requirements were sufficiently met.

<u>EFFECT</u>
The home rehabilitations performed may not have appropriately addressed and corrected deficiencies.

<u>CONTEXT</u>
The following deficiencies were noted during the review of home rehabilitation case files:

- For one of three projects reviewed, the pre-inspection checklist was not maintained.
- For two of three projects reviewed, the post-inspection documentation was not maintained.

The sample was not intended to be, and was not, a statistically valid sample.

<u>RECOMMENDATION</u>
The City should maintain documentation of rehabilitation case file pre-inspections, and complete the internal CDBG Housing Rehabilitation Case File Checklist. Supervisory review of the checklist and case files should be performed to ensure compliance.

<u>VIEWS OF RESPONSIBLE OFFICIALS</u>
See Corrective Action Plan.

SURPRISE
ARIZONA

FINANCE DEPARTMENT
CITY OF SURPRISE
16000 N. CIVIC CENTER PLAZA
SURPRISE, AZ 85374
T. 623·222·1800

December 11, 2019

To Whom It May Concern:

The accompanying Corrective Action Plan has been prepared as required by U.S. Office of Management and Budget Uniform Guidance. The name of the contact person responsible for corrective action, the planned corrective action, and the anticipated completion date for each finding included in the current year's Schedule of Findings and Questioned Costs have been provided.

In addition, we have also prepared the accompanying Summary Schedule of Prior Audit Findings which includes the status of audit findings reported in the prior year's audit.

Sincerely,

Nick Sarpy
Accounting Manager
City of Surprise, Arizona

CITY OF SURPRISE, ARIZONA
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2019

Findings and Questioned Costs Related to Federal Awards

Finding Number: 2019-001
Program Name/CFDA Title: CDBG – Entitlement Grants Cluster
CFDA Number: 14.218
Contact Person: Adam Lane, Neighborhood Services Supervisor
Anticipated Completion Date: 6/30/2020
Planned Corrective Action: We concur with the findings and will work to establish effective internal controls.

Finding Number: 2019-002
Program Name/CFDA Title: CDBG – Entitlement Grants Cluster
CFDA Number: 14.218
Contact Person: Adam Lane, Neighborhood Services Supervisor
Anticipated Completion Date: 6/30/2020
Planned Corrective Action: We concur with the findings and will work to establish effective internal controls.

CITY OF SURPRISE, ARIZONA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019

Status of Findings and Questioned Costs Related to Federal Awards

Finding Number: 2018-001
Program Name/CFDA Title: CDBG – Entitlement Grants Cluster
CFDA Number: 14.218
Status: Fully corrected.

Finding Number: 2018-001
Program Name/CFDA Title: Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies
CFDA Number: 12.610
Status: No longer valid.

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: January 29, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No   Regular: No   Public Hearing: No   Report/Discussion: No

Agenda Wording:

Discussion and action pertaining to the MySurprise Report.

Motion:

I move to approve and distribute the MySurprise report.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2019-2020 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

This item relates to work performed as part of the FY2019-2020 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. MySurprise Report - FINAL
2. 29Jan2020- Audit Cmt PowerPt Presentation

SURPRISE
ARIZONA

CitySourced MySurprise Application Continuous Review Summary

October 20, 2019

Table of Contents and Scope

MySurprise Application Continuous Review Summary	

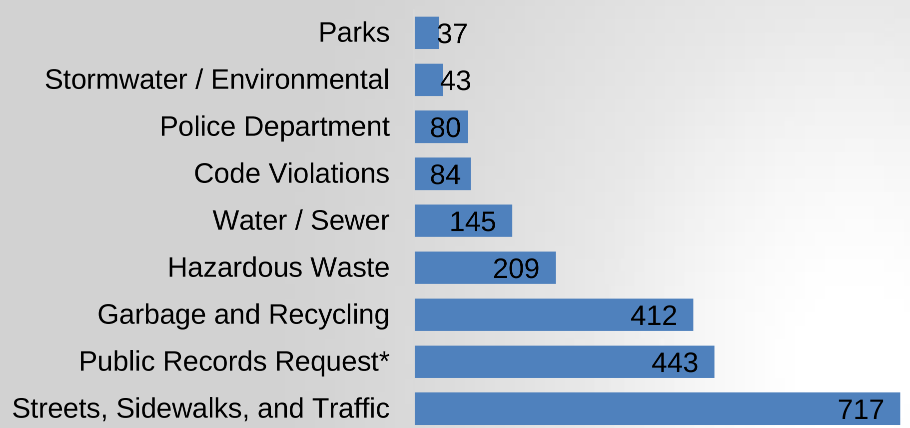
Purpose and Scope

As part of the approved FY2020 Annual Audit Plan, Internal Audit (IA) developed continuous review procedures around high-risk areas including newly implemented applications or tools. The review objective was to review the City's usage of CitySourced (MySurprise) application and determine if any areas for improvement or increased efficiency exist.

IA selected MySurprise, implemented in October 2018, for review. IA performed procedures including the following:

- Inquiry with Information Technology (IT), Public Works, City Clerk, and Customer Service (CS) personnel
- Analysis of MySurprise usage and workflow data for November 2018 – September 2019

MySurprise Requests by Type (November 2018 - September 2019)



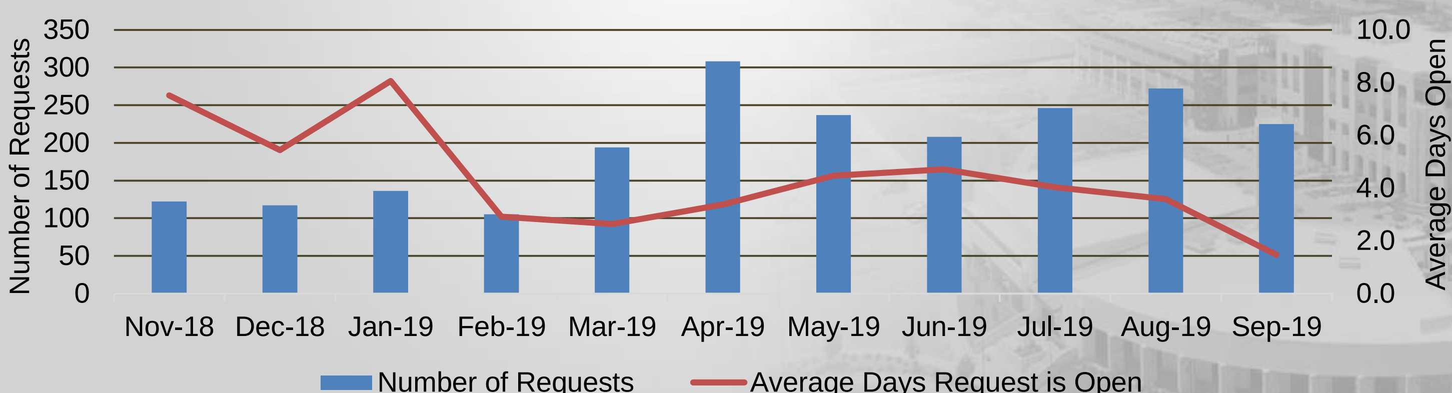
** Includes only external public records requests (PRR), not internal duplicates created as part of the document collection process. See next page for details*.

Continuous Review Summary and Conclusion

Based on inquiry and procedures performed, IA determined the MySurprise application is fulfilling its intended purpose of providing residents with an alternative, additional method of communicating with city personnel and generally streamlining the request process. City personnel utilizing the application regularly had largely positive feedback, notably the City Clerk's office cited reduced cost spent on paper and printing supplies and decreased time spend on each individual PRR since the implementation of MySurprise. IT personnel are currently working to expand the usage of the application to additional departments.

One low risk observation was noted around simplifying the request reassignment process to reduce the risk of escalated or delayed requests (See page 5 for observation and recommendation details).

MySurprise Request Trends by Month



Note 1: Average days a request is open has generally remained steady or decreased since an initial high point at the beginning of system implementation which is to be expected due to the new system learning curve.
Note 2: April increase in request volume aligns with the addition of PRR functionality along with the concurrent spring hazardous waste drive.

Citywide MySurprise Utilization

The City utilizes dozens of workflows within MySurprise, three examples are outlined here. Amongst the city functions utilizing MySurprise there are varying degrees of integration of the application into the request resolution process as shown below.

Less Integrated Application Use

START
Request submitted by resident and routed to correct department (Note 1)

Solid Waste Requests

CS Call Center Staff contact requestor via phone to schedule pick-up according to solid waste Munis calendar

Once a date is selected, CS Staff create request in Munis calendar and close MySurprise request

Streets Requests

Workflow-assigned supervisor reviews request and contacts requestor via MySurprise for details if necessary

Supervisor duplicates relevant request details in the Infor work order management system (Infor) for staff to complete

Once work order has been completed in Infor, supervisor marks request complete in MySurprise

Public Records Requests

City Clerk staff review request, create internal duplicate in MySurprise, and assign workflow category

MySurprise workflows route internal request to appropriate departments notifying them of the request and timeline

Department saves needed documents to SharePoint and communicates status with City Clerk through MySurprise

City Clerk provides requestor with SharePoint document download link via MySurprise and closes internal and external requests

END
Request completed within MySurprise system notifying requestor

More Integrated Application Use

Note 1: When submitting a request, the requestor selects from approximately a dozen categories and a number of sub-categories that determine which City department is notified. If a request is miscategorized, staff can reassign the request in MySurprise. In addition to requests submitted through MySurprise, individuals may contact a department directly or utilize the City's call center; based on handling procedures for the relevant department, these requests are either manually created in MySurprise or in the department's tracking tool.

Detailed Observation: Low Risk

Observation	Recommendation	Management Response
1 - The request reassignment process within MySurprise should be simplified. Surprise residents assign their MySurprise requests to a category which determines the city employee the request is routed to. If the request should be handled by a different City employee, it may be reassigned to that individual in a multi-step process. Because City of Surprise IT Security Policies strictly enforce a "least privilege" rule, employee access in MySurprise is restricted based on category of the request. If a request is improperly reassigned, the newly assigned individual may not be able to view the request. Based on inquiry performed, inaccurate / incomplete reassignment of requests has resulted in escalation procedures due to the risk of non-timely resolution.	1. The IT Application Administrator should work with the third party vendor to develop an enhancement to MySurprise to increase the efficiency of request reassignment and prevent unnecessary escalation of requests. The enhancement should ensure that any individual reassigned to a request has the appropriate access rights to view the request.	***Concur.*** Changes to the existing functionality require a software development change in the vendor application. This enhancement request has been submitted to the vendor by the Senior Application Analyst. The vendor has not provided a timeline when this enhancement request may be implemented. IT cannot provide an estimated timeline for resolution due to the dependency on the vendor deciding to implement this enhancement.

Audit Observation Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction:

- High – Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets.
- Moderate – Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate the potential risk of loss to City assets.
- Low – Represents an observation for consideration by management for correction or implementation associated the process being audited. Low-risk observations should be implemented to improve efficiency and effectiveness of operations.

Appendix A – Standards and Acknowledgements

Non-Audit Services

The work detailed in this report is part of IA's continuous review program and does not constitute an audit as defined by and conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). Performing this continuous review work, by itself or in aggregate with other non-audit services provided, does not create any threats to the independence of the IA function.

This project was not intended nor designed to be a detailed study of every relevant procedure, system, or transaction. As such, the conclusion and recommendation contained in this report may not include all areas which may need improvement.

Data Reliability

The data utilized for the work performed was primarily obtained directly from MySurprise, the City of Surprise's web-based customer portal. The data within MySurprise does not impact the City's financial statements. IA determined the data utilized is sufficiently reliable given its intended use.

Acknowledgements

IA appreciates the time City staff contributed to this review. IA would like to take this opportunity to thank all of the departments and individuals involved in the Bond Summary project for their considerable cooperation.

We received input and assistance from the following departments / divisions:

- Information Technology
- Public Works (Streets and Solid Waste Divisions)
- City Clerk
- Customer Service (Call Center)

Auditor: Alison Matthees, MPA, CIA

Surprise Internal Audit

<u>Vision</u>

The development of people, systems, and processes that delivers innovative and effective auditing services to the City of Surprise.

<u>Mission</u>

To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

For more information or to contact Internal Audit:
https://www.surpriseaz.gov/2561/Internal-Auditor

SURPRISE
ARIZONA

Audit Committee

January 29, 2020
3:30 PM

Audit Committee

Audit Projects Update:

- ✓ MySurprise
- ✓ Quarterly Audit Recommendation Status Report

MySurprise Report

Review Objectives:

Review the City's usage of CitySourced (MySurprise) application initiated in November 2018 and determine if any areas for improvement or increased efficiency exist.

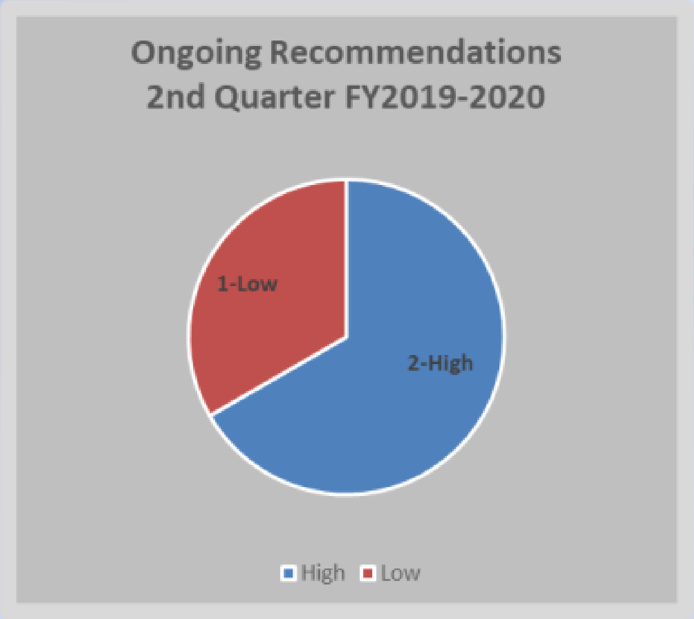
Conclusion:

- Application was positively received by departments utilizing and IT plans continued expansion into other areas.
- One low risk observation was noted around simplifying the request reassignment process to reduce the risk of escalated or delayed requests

Audit Committee

SURPRISE
ARIZONA

Quarterly Audit Recommendation Status Report



Common Trends:

- User system access rights and privileges not periodically reviewed by departments
- Documentation of policies and procedures
- Automation of processes when feasible

SURPRISE
ARIZONA

AUDIT COMMITTEE

January 29, 2020

Thank You

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: January 29, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No Regular: No Public Hearing: No Report/Discussion: No

Agenda Wording:
Discussion and action pertaining to the FY2019-2020 2nd Quarter Summary of Audit Recommendations.

Motion:
I move to approve and distribute the FY2019-2020 2nd Quarter Audit Recommendation Status Report.

Background:
This item has been placed on the agenda to discuss the results of work performed as part of the FY2019-2020 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:
The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement.

Policy Compliant:
Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:
This item relates to work performed as part of the FY2019-2020 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:
There is no budget impact associated with this item.

FTE Impact:
There is no FTE impact associated with this item.

ATTACHMENTS:
1. 2nd Qtr Recommendation Status-15Jan2020

SURPRISE

ARIZONA

Audit Recommendation Status Report

January 13, 2020

Carol Holley, Sr. Internal Auditor

Alison Matthees, Internal Auditor

Summary

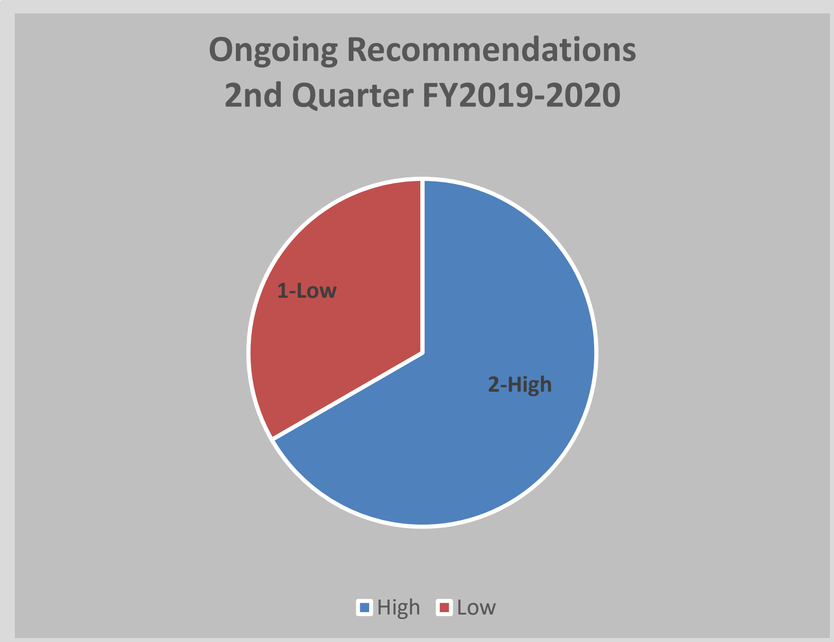
Each quarter, Internal Audit (IA) reports to the Audit Committee on actions taken by staff to address audit recommendations. This report summarizes actions taken by staff for the period of August 20, 2019 to December 17, 2019.

Exhibits A, B and C summarizes actions taken on 25 audit recommendations made in FY2017-2018 to FY2019-2020. Two recommendations were removed from the report as budgetary funds were not available in FY2019-2020. The department will continue to seek approval for budgetary funding in the next budget cycle.

Three common trends identified in the audit recommendations included the need for departments to:

- Periodically perform a review of user system access rights and privileges by applying the best practice principle of least privilege, which state employees should only possess the permissions necessary to perform their job duties.
- Document policies and procedures
- Automate processes when feasible

IA appreciates the time and resources allocated by City of Surprise departments to reduce the number of open audit recommendations: City Clerk's Office, Finance, Human Resources, and Information Technology.



Contents

Purpose and Standards

The recommendations referenced in each audit report were designed to decrease the risk to City of Surprise (City) assets and improve the efficiency and effectiveness of operations. In response to each audit recommendation, management developed an action plan to address identified risks.

The purpose of performing audit follow-up procedures is to determine the status of management action plans. *Governmental Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing* reference the need for audit follow-up procedures:

<u>Governmental Auditing Standards</u>:

GAGAS 8.30 *– "Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives."*

<u>International Standards for the Professional Practice of Internal Auditing</u>:

2500 – Monitoring Progress
"The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management."

2500.A1 – *"The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action."*

Methodology

After the completion of each audit, audit observations and recommendations are tracked in an Excel spreadsheet by IA. Quarterly, IA performs follow-up procedures on the status of audit recommendations with the appropriate City departments. Departments self-report the status of management action plans. Testimonial or documentary evidence is obtained and reviewed by IA. In some cases, IA will go beyond the standard process and perform more in-depth verification of the extent to which certain audit recommendations have been implemented, and issue a separate report on this work.

All recommendations reviewed were categorized as follows:

Ongoing – City staff provided some evidence of progress on the recommendation; however, either element of the audit recommendation was not addressed, or the department reported it has begun to implement the audit recommendation and has not yet completed the implementation **(See Exhibit A.)**

Complete – City staff provided sufficient and appropriate evidence to support elements of implementing the audit recommendation **(See Exhibit B.)**

Pending Future Budgetary Approval – Budget request not approved in FY2019-2020. Implementation pending availability and approval of budgetary funding in future budget fiscal year **(See Exhibit C.)**

Exhibit A

Ongoing Audit Recommendations

No.	Division/ Department	Report Date	Recommendation	Status as of August 19, 2019	Management Update Comments December 17, 2019	Risk Level
1	Multiple Departments/ CitySourced MySurprise Application	10/20/2019	The IT Application Administrator should work with the third party vendor to develop an enhancement to MySurprise to increase the efficiency of request reassignment and prevent unnecessary escalation of requests. The enhancement should ensure that any individual reassigned to a request has the appropriate access rights to view the request.	OnGoing - On Track	Changes to the existing functionality require a software development change in the vendor application. This enhancement request has been submitted to the vendor by the Senior Application Analyst. The vendor has not provided a timeline when this enhancement request may be implemented. IT cannot provide an estimated timeline for resolution due to the dependency on the vendor deciding to implement this enhancement	Low
2-3	Information Technology	2/4/2019	Confidential-Discussed in e-session on June 19, 2019	OnGoing - On Track	One ongoing recommendation will take two years to implement. One ongoing recommendation will be implemented in 2020.	High

Audit Observation Risk Rating

High	Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to city assets.
Modera	Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate potential risk of loss to city assets.
Low	Represents an observation for consideration by management for correction or implementation associated the process being audited. Low risk observations should be implemented to improve efficiency and effectiveness of operations.

No.	Department Report Title	Report Date	Recommendation	Status as of August 19, 2019	Management Update Comments December 17, 2019	Risk Level
1	City Clerk's Office Public Records Request	8/14/2017	Review the copy fee schedule rates and make adjustments as necessary. The review should include, but not limited to establishing a minimum service level at which fees will be assessed.	Complete	Based on data analysis performed by the Finance Department and the automation of the record request process, no updates to the public records request fees are warranted.	Moderate
2	City Clerk's Office Public Records Request	8/14/2017	Work in conjunction with the Finance Department to: Submit a complete public records requests fee schedule to City Council for review and approval by resolution Replace the current copy fees statement on the bottom of the City Clerk Form with "Copy fees will be assessed in accordance with the adopted Citywide Fee Schedule"	Complete	Based on data analysis performed by the Finance Department and the automation of the record request process, no updates to the public records request fees are warranted.	Moderate
3	Human Resources Benefits and Enrollment	5/7/2019	Work with IT and Munis vendor to develop a usable payroll change report which details any changes made since the prior pay period. The report should include any manual changes made including, but not limited to: updated deduction amounts, employee name / bank account information, manual adjustments to hours, etc.	Complete	The Payroll Audit Changes Repot process has been established. See item 1 (Payroll Error Review) for details.	High
4	Human Resources Benefits and Enrollment	5/7/2019	Develop and document a review process for each pay period in which an HR management designee reviews manual changes and period-over-period deviations for accuracy and reasonableness. Work with IT to modify user access permissions to ensure the reviewer is systematically unable to make any changes without secondary Munis workflow approval.	Complete	The Payroll Audit Changes Repot process has been established and HR Data Changes and Audit Process SOP has been approved by the department director. See items 1 and 2 (Payroll Error Review) for details.	High
5	Human Resources Benefits and Enrollment	5/7/2019	Develop and document a process for periodically monitoring terminated employees for completeness and accuracy of COBRA compliance. A reconciliation between all terminated employees and those who COBRA notifications have been prepared for should be performed at least monthly by someone who does not prepare the COBRA notifications.	Complete	The Benefits Administration SOP (approved by department director 9/30/19) outlines benefits administration process and procedures including COBRA compliance (section B).	High
6	Human Resources Benefits and Enrollment	5/7/2019	Update the procedures around reviewing weekly 834 Exception Reports for TPA's to include: Follow-up and / or escalation procedures if issues or discrepancies are identified Timeliness thresholds for reviewing Exception Reports Procedures for evidencing review of each Exception Report Documentation retention for TPA provided Exception Reports	Complete	The Benefits Administration SOP (approved by department director 9/30/19) outlines benefits administration process and procedures including 834 Exception Report reviews (section C1).	High
7	Human Resources Benefits and Enrollment	5/7/2019	Develop and document procedures for maintaining appropriate documentation and monitoring open items to ensure timely resolution. Considerations include: A centralized location for tracking all outstanding documentation Quarterly supervisor review of open items Defined escalation procedures for aging (>90 days) follow-up items Procedures for tracking dependent identifying information obtained outside of new hire orientation Reviewer responsibilities when approving benefits changes in Munis	Complete	The Benefits Administration SOP (approved by department director 9/30/19) outlines benefits administration process and procedures including supporting documentation for benefit enrollments / changes - document retention / timelines, responsibilities of reviewers, monitoring open items, etc. (section C2).	Moderate
8	Human Resources Benefits and Enrollment	5/7/2019	At least biannually, review benefits-related documentation for a sample of new employees in the timeframe since the prior review to verify documentation retention according to HR policy.	Complete	The Benefits Administration SOP (approved by department director 9/30/19) outlines benefits administration process and procedures including outlining a twice annual audit of benefit and enrollment changes (section C2 - Item 4).	Moderate
9	Human Resources Benefits and Enrollment	5/7/2019	Document HR policies or a segregation of duties matrix defining duties for HR functions and jobs.	Complete	The HR Segregation of Duties SOP completed and approved by the department director on 9/30/19 outlines different staff roles to ensure we have appropriate internal controls and segregation of duties to reduce opportunities for errors and/or fraud.	Moderate
10	Human Resources Benefits and Enrollment	5/7/2019	At least bi-annually, work with IT to perform a review of all users, assigned roles, and permissions allowed by those roles to identify and remove any conflicting access roles, terminated or transferred employees, or unnecessary access. As Munis allows, HR Management should ensure that access to the system aligns with departmental segregation of duties policies and best practices for HR and payroll functions.	Complete	The Benefits Administration SOP (approved by department director 9/30/19) outlines benefits administration process and procedures including procedures and timing for user access reviews. (section A).	Moderate
11	Human Resources Benefits and Enrollment	5/7/2019	Define and document a process for periodically (every 3-5 years) reassessing the feasibility, benefits, and costs of performing periodic employee dependent re-verification to identify any dependents with a changed relationship status to the employee which may make them ineligible for City benefits coverage. Evidence (e.g. cost vs. benefit analysis) to support the feasibility determination should be maintained.	Complete	We have completed a memo outlining the decision not to move forward with a process to re-verify dependent eligibility at this time. We collaborated with our benefits consultant, CBIZ, to come to this determination. In addition, we added some information to the Benefits Administration SOP stating that at least every three years we will assess the feasibility of this process.	Low

Audit Observation Risk Rating

High	Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to city assets.
Mode	Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate potential risk of loss to city assets.
Low	Represents an observation for consideration by management for correction or implementation associated the process being audited. Low risk observations should be implemented to improve efficiency and effectiveness of operations.

Count	Division/ Department	Report Date	Recommendation	Status as of August 19, 2019	Management Update Comments December 17, 2019	Risk Level
12	Human Resources Benefits and Enrollment	5/7/2019	Perform an audit of HR users with access to COBRA Solutions to develop a comprehensive list of users with access including the name of the user, the user's 6-digit computer ID, and reason for needing access to COBRA Solutions. At least annually, the HR Department should perform a user access review of this listing to validate the appropriateness of access and remove any users no longer needing the application.	Complete	COBRA solutions access list was first created for 8/31/2019, but it was already updated on 9/23/2019 since new staff joined the team.	Low
13	Human Resources Benefits and Enrollment	5/7/2019	At least annually, perform a user access review of all user with benefits / personnel folder access within LaserFiche to identify and remove any terminated or transferred employees or unnecessary access.	Complete	The Benefits Administration SOP (approved by department director 9/30/19) outlines benefits administration process and procedures including procedures and timing for user access reviews. (section A).	Low
14	Human Resources Benefits and Enrollment	5/7/2019	Work with the City's benefits consultant to establish and document formal procedures for monitoring the performance guarantees of TPA contracts. Though the monitoring is done by the benefits consultant, the City's procedures should include frequency of review of work performed, communication required to be provided by benefits consultant, assignment of review responsibilities, and follow-up procedures.	Complete	The Benefits Administration SOP (approved by department director 9/30/19) outlines benefits administration process and procedures including outlining responsibilities for vendor performance guarantees (section D).	Low
15	Human Resources Benefits and Enrollment	5/7/2019	Work with appropriate Finance and IT Department personnel to determine the feasibility of automating the complete invoice approval process by customizing workflows based on the invoice coding. If possible, develop comprehensive Munis workflows for invoice approval which include all necessary approvers, eliminating the need for manual approvals outside the system.	Complete	The Benefits Administration SOP (approved by department director 9/30/19) outlines benefits administration process and procedures including outlining responsibilities for invoice approval (section F).	Low
16	Human Resources Payroll Error Review	5/7/2019	HR Management should define and document procedures for making changes to the employee salary records in Munis which are currently made on an ad hoc basis outside of Munis workflows. The HR Department should determine which of the following procedures is most efficient and document the processes to be utilized: a. For appropriate change management related to payroll, the process for making changes outside of Munis workflow authorization should include, at a minimum, the following steps: i. Documentation of authorization to make change; ii. Review of changes after being made in Munis for accuracy, agreement to supporting documentation, and reasonableness of impact on payroll by an individual independent of the process; iii. Retention of appropriate supporting documentation b. Alternatively, make any changes to the employee salary record utilizing the Munis workflow approval process; meaning changes are made in a pending environment and then approved by appropriate personnel before being made active. Appropriate authorization and segregation of duties between the change-maker and review should be in place and controlled through systematic access limitations.	Complete	HR Data Changes and Audit Process SOP has been completed and approved by the department director. We originally issued this SOP on June 12, 2019, but after the Benefits and Enrollment audit we determined we needed to make some additional updates and expand the scope of the SOP.	High
17	Human Resources Payroll Error Review	5/7/2019	HR Management should implement a review of pay rates during each biweekly payroll to identify any erroneous changes impacting employee pay until a permanent payroll changes report review is implemented. For more details on the implementation of a payroll changes report, refer to the forthcoming Benefits and Enrollment Audit Report.	Complete	The Payroll Audit Changes Repot process has been established. This audit report came up as a result of the Payroll Error audit, but it was also tied to the Benefits and Enrollment audit. HR, payroll, and IT all collaborated to design three reports to better visualize the data since it was a very long and comprehensive report. Per the screen shots, we created one report to show changes to employee deductions, one report to show changes to the employee master record, and a final report to show changes to employee job/salary records. Since implementing on 9/30/2019, this report has already been a helpful resource.	Moderate
18	Human Resources Payroll Error Review	5/7/2019	HR Management should consider the feasibility of utilizing the employee notification program within Munis to send an automated message to an employee if a change was made to key fields, like pay rate, in their employee record. The notification text should align with the EPM which states that if an employee believes the change was made in error, they should report to their supervisor or HR.	Complete	At this time we have determined that the Munis notifications are not feasible with the current Munis configurations due to being unnecessarily manual and burdensome on staff. HR will consider further testing during the upcoming upgrade. HR will kick off upgrade testing in January 2020 with a go-live date in October 2020	Low
19	Parks and Recreation Program Registration	10/11/2018	Develop and document a revenue control and management policy that includes billing and collection practices. The policy should include, but not limited to: Establishing a collection time frame Establishing dollar threshold for authorizing write-offs Requiring documentation and written authorization to write-off accounts receivable Adequately documenting and retaining support for adjustments, write-offs, and collection efforts Using the City collection contract, when appropriate Periodically reconciling subsystems to financial systems throughout the fiscal year Ensuring all applicable transactions processed in subsystems are reflected in the City's financial system promptly	Complete	Complete-The SOP for Accounts Receivables is attached. The Parks and Rec Department is now reconciling Munis to Civic Rec on a monthly basis.	High
20	Parks and Recreation Program Registration	10/11/2018	Ensuring that all migration CLASS and CivicRec manual adjustments are reflected and reconciled to the MUNIS financial system.	Complete	Complete-The Parks and Rec Department is now reconciling Munis to Civic Rec on a monthly basis.	High
21	Parks and Recreation Program Registration	10/11/2018	Work with the Finance Department to ensure that asset and liability accounts associated with the registration system are reconciled more frequently than annually.	Complete	The Parks and Rec Department is now reconciling Munis to Civic Rec on a monthly basis. An SOP will be finalized by 01/31/20 documenting the reconciling process.	Moderate
22	Parks and Recreation Program Registration	10/11/2018	Develop and document a Revenue Control Policy that includes, but is not limited to: Timely reconciliation to applicable general ledgers Recording all receipts and receivables in accordance with GAAP	Complete	Complete-The SOP for Accounts Receivables is attached. The Parks and Rec Department is now reconciling Munis to Civic Rec on a monthly basis. An SOP will be finalized by 01/31/20 documenting the reconciling process.	Moderate

Audit Observation Risk Rating

High	Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to city assets.
Mode	Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate potential risk of loss to city assets.
Low	Represents an observation for consideration by management for correction or implementation associated the process being audited. Low risk observations should be implemented to improve efficiency and effectiveness of operations.

Exhibit C

Pending Future Budgetary Approval

Count	Division/ Department	Report Date	Recommendation	Status as of August 19, 2019	Management Update Comments December 17, 2019	Risk Level
1-2	Information Technology	2/4/2019	Confidential-Discussed in e-session on June 19, 2019	OnGoing Pending Future Budget Approval	Not approved in FY2020 budget. Will include in FY2021 budget process.	High Low

Audit Observation Risk Rating

High	Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to city assets.
Modera	Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate potential risk of loss to city assets.
Low	Represents an observation for consideration by management for correction or implementation associated the process being audited. Low risk observations should be implemented to improve efficiency and effectiveness of operations.

CITY OF SURPRISE
City Audit Committee Meeting

Council Meeting Date: January 29, 2020
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

Consent: No   Regular: Yes   Public Hearing: No   Report/Discussion: No

Agenda Wording:

Signing of updated Audit Committee Bylaws approved by Audit Committee on September 25, 2019.

Motion:

I move to approve the signing of the September 25, 2019 updated Audit Committee Bylaws.

Background:

The Audit Committee Bylaws were last reviewed, revised, and approved by the Audit Committee on September 25, 2019.

Objective Analysis:

Audit Committee Bylaws are periodically reviewed and revised, if necessary, to ensure the efficient and effective operation of the Audit Committee.

Policy Compliant:

Ordinance #2016-25 codified Chapter 2, Article VIII, Sec. 2-304(b) Bylaws To ensure independence and efficiency in the performance of its function the Audit Committee is hereby authorized to adopt bylaws which will at a minimum include and address voting rights meetings and member terms The bylaws may include any rules or policies which enable the Audit Committee to perform and carry out any of the duties enumerated herein.

Financial Impact:

No financial impact.

Budget Impact:

No budget impact.

FTE Impact:

No FTE impact.

ATTACHMENTS:

1. Bylaws Revisions-29Jan2020

Audit Committee Bylaws

Created: December 2015
Revised: March 22, 2017
Revised: September 25, 2019
Revised: January 29, 2020

Table of Contents

I. Ordinance

On September 6, 2016, Ordinance #2016-25 of the Mayor and Council of the City of Surprise amended Chapter 2, Article VIII of the Surprise Municipal Code by adding Section 2-304, Audit Committee, that formally established an Audit Committee and its powers and duties.

II. Purpose

The purpose of the Audit Committee (AC) shall be to provide advice to City Council in respect to fulfilling its oversight responsibilities regarding the integrity of the financial statements of the City of Surprise, Arizona (City). The AC will further assist and advise the Internal Auditor (IA) and City Council on matters relating to the City's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. Consistent with this function, the AC endeavors to encourage continuous improvement of, and foster adherence to, City policies, procedures and practices at all levels.

III. Composition

The AC shall consist of seven (7) members : two (2) City council members appointed by the Mayor; three (3) citizens; and two non-voting City department executives appointed by the City Manager.

AC members should have an understanding of financial reporting, accounting, auditing, or related business field(s), be familiar with local government operations, and have sufficient time to effectively perform the duties listed herein. At least one (1) member shall be designated as the "financial expert."

The members of the AC will annually select and vote to designate a Chairperson and Vice-Chairperson by majority vote. A city staff member is not eligible to serve as Chairperson or Vice-Chairperson. The Chairperson has the authority to sign correspondence and resolutions as the official representative of the AC. During the absence of the Chairperson, the Vice-Chairperson shall act as the presiding officer over all AC meetings and activities.

Members will be appointed for a period not exceeding two (2) years, after which they will be eligible for extension or re-appointment for one (1) additional term. Each term shall start on July 1st of the applicable year. Any vacancy shall be filled promptly. Members shall be appointed to achieve staggered two (2) year terms.

IV. Voting

Each member of the AC (excluding city staff) shall have one (1) vote. AC members must be present at the time of the vote. The act of the majority of AC members present at the meeting, at which a quorum is present, is the act of the AC. A quorum shall consist of three (3) voting AC members, one (1) of whom shall be a City Council member. A voting majority shallmean moret than half of the voting members present at a meeting.

V. Conflict of Interest

AC members shall refrain from participating in any manner, including but not limited to discussion, on any matter in which they, or a relative, has a substantial interest as defined by Arizona law.

VI. Responsibility

The AC's primary duties and responsibilities include:

- Reporting after each AC meeting to the City Council on completed audit reports, as deemed appropriate. Reports exempt by law from public inspection, including information or testimony that is specifically required to be maintained as confidential by state or federal law, may be addressed in a duly noticed executive session with City Council.
- Reviewing and approving the internal Annual Audit Plan. In making its pre-approval determination, the AC shall consider whether providing any non-audit services is compatible with maintaining the IA's independence.
- Considering and reviewing with the IA:
  - ✓ Significant audit findings during the year and management's responses to them
  - ✓ Monitoring follow up on reported findings to assure corrective action is taken
  - ✓ Any difficulties encountered during the performance of an audit conducted, including any restrictions or limitations on audit scope or access to required information
  - ✓ Any changes required in the planned scope of the Annual Audit Plan
  - ✓ The internal Audit Charter
  - ✓ The Internal Audit Office's overall performance and its compliance with accepted standards for the professional practice of internal auditing
- Evaluating findings and recommendations resulting from the Internal Audit Office peer review
- Meeting at least once annually with the City's external auditor to discuss the City's Comprehensive Annual Financial Report and other applicable risk management and City financial concerns.

- The AC may, in its discretion, also review reports from City management on other finance, legal, and administrative issues to the extent that it deems appropriate or necessary.
- Periodically assess the AC's performance under the bylaws and reassess the adequacy of the bylaws
- Performing other functions as requested by City Council

VII. Compliance

The AC shall:

- Discuss significant risk exposures periodically with the independent external auditor, City management or the IA, as necessary
- Review the steps and programs that City management and the IA have taken to identify, monitor, control and report such exposures
- Establish procedures whereby employees can confidentially and anonymously submit to the AC concerns or issues regarding the City's accounting, compliance, ethical, or auditing matters
- Periodically require, the IA and the independent external auditor to review, report and comment on significant City risks or exposures and actions needed to minimize such risks or exposures
- Consider any emerging issues that the AC should become involved with in the future

VIII. Other Responsibilities

The AC shall oversee the IA's receipt, retention and treatment of fraud, waste and abuse online complaints regarding accounting, internal accounting controls or auditing matters. The IA shall keep a record of complaints and inform the AC periodically of complaints received and actions taken for resolution.

IX. Meetings

The AC shall meet as frequently as circumstances dictate, but no less than four times annually, unless there are no items for discussion. All AC members are expected to attend each meeting, in person or via tele or video-conference. The AC will invite members of City management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors in executive sessions when appropriate. The AC shall name a Chairperson, who shall approve an agenda in advance of each meeting.. The AC shall maintain minutes or other records of meetings and activities of the AC.

The AC shall, through its Chairperson, or designee, regularly report to the City Council following the meetings of the AC, or as needed, addressing such matters as:

- ❖ Quality of the City's financial statements
- ❖ Compliance with legal or regulatory requirements,
- ❖ Performance and independence of the external auditors
- ❖ Performance of the internal audit function or
- ❖ Other matters related to the AC's functions and responsibilities.

X. Access

The AC may request reports from the Chief Financial Officer or City department heads. The AC may retain experts to advise or assist it, including outside counsel, accountants, financial analysts or others.

XI. Limitation of Audit Committee's Role

While the AC has the responsibilities and powers set forth in the bylaw~~s~~, it is not the duty of the AC to plan or conduct audits or to determine that the City's financial statements and disclosures are complete and accurate and are in accordance with GAAP and applicable rules and regulation. These are the responsibilities of City management and the independent external auditor.

Members of the AC are entitled to rely on the expertise, knowledge, and professional judgment of City management, the IA, the independent external auditor(s), and any consultant or expert retained by the AC. The AC's responsibilities are not to be interpreted as a substitute for the professional obligations of others.

Nothing contained in the bylaws are intended to expand the applicable standards of liability under statutory or regulatory requirements for the City Council.

XII. Authority

The AC has the authority to conduct or authorized investigations into any matters within its scope of responsibility. It is empowered to:

- ❖ Advise City Council on the appointment, compensation, and oversee the work of any registered public accounting firm hired by the City
- ❖ Resolve any disagreements between City Management and the independent external auditor regarding financial reporting, and other non-auditing services
- ❖ Resolve any disagreements between City Management and the IA regarding audit scope, observations, and recommendations

- ❖ Obtain any information it requires from any City employee, volunteer, or other external parties, subject to legal confidentiality restrictions, necessary to complete AC responsibilities
- ❖ Request attendance of any employee or volunteer of the City and its enterprises at AC meetings
- ❖ Pre-approve all auditing and non-audit services
- ❖ Retain independent counsel or others to advise the AC or assist in the conduction of an investigation
- ❖ Request from City Council, sufficient funds to exercise the powers and duties set forth herein

These bylaws and the policies therein become effective immediately upon adoption by the Audit Committee.

Audit Committee Chair	Date
Audit Committee Co-Chair	Date
Audit Committee Member	Date
Audit Committee Member	Date
Audit Committee Member	Date