CITY OF SURPRISE
Regular City Council Work Session
16000 N. Civic Center Plaza
Surprise, AZ 85374
Tuesday, February 19, 2019 @ 4:00 PM
COUNCIL CHAMBERS

A. Call To Order

B. Roll Call

C. Pledge of Allegiance

D. Proclamation and Community Acknowledgements

E. City Manager Report

F. City Clerk Report

G. Call To The Public

INSTRUCTIONS: In order to address the City Council, you will need to fill out a Call to the Public Form available at the front counter, and then turn it in to the City Clerk before the meeting begins.
Download the Call to the Public form (PDF download requires Adobe Acrobat Reader)
Fill out the Call to the Public form online If submitting form electronically, please submit to City Clerk at least one hour before the meeting start time.
The Call to the Public form is also available at the front counter.

Note: A.R.S. 38-431.01(H)- During this time members of the public may address City Council only on issues within the jurisdiction of the City Council which are not an item on the agenda. At the conclusion of the open call, City Council 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.

Approval of items on the Consent Agenda – all items with an asterisk (*) are considered to be routine matters and will be enacted by one motion and one roll call vote to the City Council. There will be no separate discussion on these items unless a Councilmember requests, in which event the item will be removed from the consent agenda and considered in its normal sequence on the agenda.

H. Regular City Council Meeting Agenda

CONSENT AGENDA:

REGULAR AGENDA ITEM - PUBLIC HEARING:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

1.	Citywide	Presentation and discussion pertaining to Asante Branch Library.	None Community and Recreation Svcs
2.	Citywide	Presentation and discussion pertaining to the city's Household Hazardous Waste Program.	None Mike Gent Public Works

3.	Internal	Presentation and discussion pertaining to a financial update and revenue sources in preparation of the fiscal year 2020 budget.	None Andrea Davis Finance
4.	Citywide	Presentation and discussion pertaining to the fiscal year 2018 annual audit and Comprehensive Annual Financial Report, and associated reports.	None Andrea Davis Finance

I. Other Business and Future Agenda Items

J. City Council Reports

K. Executive Session

For information Purposes; Upon a public majority vote of a quorum of the City Council, the Council may hold an executive session, which will not be open to the public, but for only the following purposes:

- discussion or consideration of personnel matters (A.R.S. §38-431.03 (A)(1));
- discussion or consideration of records exempt by law from public inspection (A.R.S. §38-401.03 (A)(2));

L. Adjournment

SHERRY ANN AGUILAR, CITY CLERK, MMC

POSTED:Posted on Thursday, February 14, 2019 @ 11:59 a.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
Regular City Council Work Session

Council Meeting Date: February 19, 2019
Submitting Department: Community and Recreation Svcs
Staff Recommendations: None

Contact Person:
District: Citywide

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

Agenda Wording:

Presentation and discussion pertaining to Asante Branch Library.

Motion:

Background:

The city collected development impact fees for a future library facility. The 3rd library was originally planned as a regional library that would be approximately 23,000 square foot on 7-10 acres of land. When the Impact Development Fee law was updated; the scope of the project changed to a 10,000 square foot library per state statute. Additionally, development impact fees must be spent on growth related projects. The parks and recreation master plan included a 3rd library before 2020. A library feasibility study was completed in September 2017 which provided recommendations for future libraries and operation of those libraries. The library impact fee funds must be spent by January of 2020. On May 1st, 2018 staff received direction to move forward with the Asante Library. Staff completed the procurement process and returned to council on August 7th where council approved reallocation of appropriations to fund the project. Impact fees cannot be spent on furniture, fixtures and equipment or library operations. These are to be discussed as part of the FY 20 budget process and library project update.

Objective Analysis:

The Asante Branch Library design is 30% complete and construction will be completed by the end of 2019. One time funding for furniture, fixtures and equipment as well as ongoing operational costs will be needed in order to open to the public in January 2020.

Policy Compliant:

This discussion is consistent with City and Council Policy

Financial Impact:

The construction of Asante Library is being funded by Development Impact Fees. On August 7th, 2018 Council approved resolution #2018-112 for a one-time capital project from the Library Development Fee Fund for Asante Library totaling $4,651,900. A one-time expense for Furniture, Fixtures and Equipment (FF & E) will be required from the City's Capital Fund for items not eligible to be funded by the impact fees. The current estimate for FF& E is approximately $550,000 which includes all the furniture, shelving, audio visual and opening day materials collection. The other financial impact will include operating expenses. Operating expenses include an Intergovernmental Agreement with Maricopa County Library District to manage the library as well as the utilities, janitorial services, landscaping services and IT support. Annual expenses are contingent on operating hours which will be discussed as part of the FY2020 Budget Process.

Budget Impact:

The Budget Impact will include a one-time expense for Furniture, Fixtures and Equipment (FF & E) from the City's Capital Fund for items not eligible to be funded by the impact fees during Fiscal Year 2020. The other financial impact will include operating expenses from the General Fund. Operating expenses include an Intergovernmental Agreement with Maricopa County Library District to manage the library as well as the utilities, janitorial services, landscaping services and IT support. Annual expenses are contingent on operating hours which will be discussed as part of the FY2020 Budget Process.

FTE Impact:

This item has no impact on FTE

ATTACHMENTS:

1. Library Asante update 02192019

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ARIZONA

Asante Branch Library

City of Surprise Community & Recreation Services Department

February 19, 2019

Asante Branch Library Background and Timeline

- City collected citywide development impact fee for a future library.
- Originally the 3rd library was planned to be 23,000 square feet facility built on 7-10 acres.
- New Impact fee law came into effect in 2012. Library can be no larger than 10,000 square feet. Funds are restricted to growth related projects.
- Parks & Recreation Master Plan identified need for new library by 2020.
- Library Feasibility Study Completed September 2017.
- Library discussed during FY 19 budget process.

Asante Branch Library Background and Timeline

On August 7th, 2018 Council approved reallocation appropriations of $4,631,153 from contingency to capital within the library development fee fund for Asante Library project.

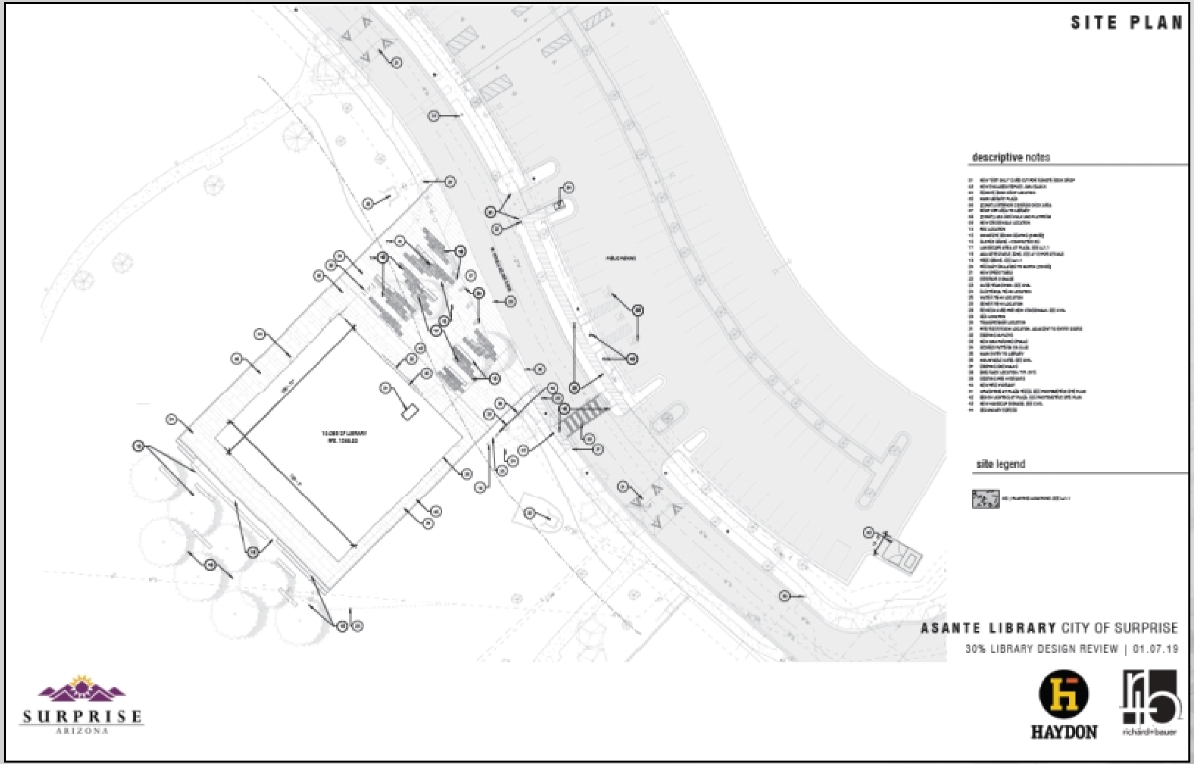
Impact fees cannot be spent on Furniture, Fixtures and Equipment and ongoing operational costs. These to be determined during FY 20 budget process.

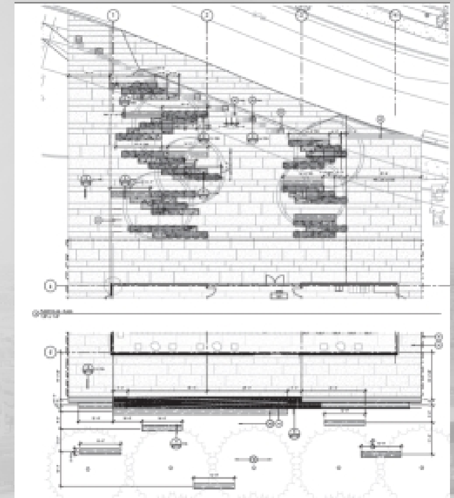
Project Location

16755 West Vereda Solana Drive

Concept Site Plan

16755 West Vereda Solana Drive





Conceptual Renderings

16755 West Vereda Solana Drive

entrance (north)view

side view

south view

Conceptual Floor Plan

16755 West Vereda Solana Drive

Color Legend

- ADULT
- B.O.H.
- CHILDREN
- ENTRY
- MULTIPURPOSE
- SERVICE
- STAFF
- STUDY
- TEENS
- WELCOME DESK/HOLDS
- FRIENDS OF LIBRARY
- BOOK DISPLAY

Conceptual Interior Renderings

16755 West Vereda Solana Drive

Asante Library Timeline

Design-Build

Notice to Proceed with Haydon Construction October 2018

Civil Design Complete and Permitted January 2019

Civil Construction Start February 2019

Building Design Complete and Permitted March 2019

Building Construction Start April 2019

Building Substantially Complete

December 2019

Project Budget

- FY 19 Project Budget Package Total $5,101,900

(Included $4,651,900 of Development Impact Fees & $450,000 FFE from General Fund)

- FFE & ongoing operational costs to be included in FY 20 budget process.

Asante Library FFE

- $550K
  - Opening Day Collection
  - IT Security and Infrastructure Equipment
  - Computers/Printers
  - Security Gate, Book Sorter, Self Check out
  - Shelving & Furniture
  - Multipurpose Room and Study Room AV

- Originally furniture, fixtures and equipment were estimated at $450,000 based on Goodyear library expenses on same square footage provided almost two years ago.

Current Library Operational Hours

- Northwest Regional 68 hour/week
  Mon-Th 9 am – 8 pm, Fri - Sun 9 – 5 pm
  Annual costs - $2M

- Hollyhock Library 18 hour/week
  Tues & Th 1 pm – 7 pm, Saturday 11 am-5
  Annual costs - $70K

Asante Library Operation Options

- Library Opens January 2020

Full Year Operational cost options (includes IGA with county, utilities, janitorial services, internet and landscape services)

- 60 hour/week - Mon-Th 9 am – 8 pm, Fri & Sat 9 – 5 pm $1,031,000
- 48 hour/week - Mon-Wed 10 am – 7 pm, Th – Sat 10 am-5 pm $910,600
- 25 hour/week - Mon & Tues 10 am – 7 pm, Sat 10 am – 5 pm $604,338

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QUESTIONS/COMMENTS?

Thank You

CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: February 19, 2019
Submitting Department: Public Works
Staff Recommendations: None

Contact Person: Mike Gent, DIRECTOR - PW
District: Citywide

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

Agenda Wording:
Presentation and discussion pertaining to the city's Household Hazardous Waste Program.

Motion:
N/A; Discussion only.

Background:
In 2007, the City of Surprise began offering a Household Hazardous Waste (HHW) collection program. The HHW program allows residents to dispose of harmful and hazardous household materials properly. The program has evolved over time to include a full list of unwanted materials for collection such as automotive fluids and oils, car batteries, pool and lawn chemicals, paint, propane tanks, miscellaneous cleaning chemicals, and electronics. The Public Works Department has hosted two drop-off events semi-annually since the beginning of the program, in the spring and fall of each year. Residents bring their HHW material to the Public Works Westgate yard located at 134th Ave and Westgate for these events.

The Public Works Department is planning a pilot program to offer a home collection service for the spring 2019 event instead of hosting a drop-off event. Several other communities in the Phoenix metropolitan area offer an HHW home collection service to their residents including El Mirage, Glendale, Peoria, Phoenix, and Scottsdale.

The spring 2019 home collection event will begin on April 1, 2019. From April 1 to 12, Surprise residents will schedule appointments to have acceptable HHW items picked up directly from their homes. Scheduled pickups will start on April 8, 2019. It is anticipated that all scheduled appointments will be completed by April 18, 2019; however, staff is planning to extend the scheduled pickup dates for an additional week if necessary and depending on the volume of HHW service requests.

The City has entered into a cooperative use agreement with Kary Environmental Services, Inc. to provide for the collection and disposal of the HHW materials picked up during the spring 2019 home collection event. Staff will use this event as a “pilot” to evaluate the effectiveness of implementing the home collection service during future HHW events or as an ongoing program.

Objective Analysis:

The home collection service offers a positive solution for the City, which allows for greater anticipated efficiencies with administering the program. The major benefits to the residents associated with changing to a home collection service include:

1) Added convenience of a home pickup in comparison to the long lines and wait times at the HHW drop-off events.

2) Scheduling flexibility with appointments in which residents will have a larger window of dates to choose for an HHW pickup in comparison to the two days each year for the drop-off events.

Policy Compliant:

This discussion is consistent with the city and council policies. The HHW program change specifically relates to the following City Council strategic plan goal: promote city's hazardous household waste disposal program to allow for proper disposal of electronics, paint, and other hazardous household waste.

Financial Impact:

Invoices associated with the HHW events are processed against the HHW program in the Public Works budget.

Budget Impact:

HHW operational costs are programmed as part of the annual budget process.

FTE Impact:

There are no FTE's associated with this item.

ATTACHMENTS:

1. HHW Program Changes 2019_Final

Household Hazardous Waste (HHW) Program

PUBLIC WORKS DEPARTMENT – SOLID WASTE DIVISION

FEBRUARY 19, 2019

Why Do We Do This?

- Surprise Priority – Safe, Clean, Friendly
- Proper disposal
- Good for environment, keeps hazards from going to landfill
- Residents love it

HHW Program History

- **Program started - 2007**
  - Drop-off Events
  - Semi-Annual in April and October each year
  - Contracted vendors for collection and disposal
  - Public Works staffing utilized day of event
- **Separate vendor for latex paint recycling - 2017**

Spring 2019 HHW Event

Event will change from a one-day, drop-off event to a home collection service!

What is the Process?

- **April 1 to 12** - Residents call customer service to schedule HHW pickup
- **April 8 to 18-ish** - Contracted vendor will complete scheduled HHW pickups

Spring 2019 HHW Event

Home Collection Service…It's Easy as 1,2,3…

1.Resident

KARY ENVIRONMENTAL SERVICES INC.

"THE KEY TO YOUR ENVIRONMENTAL SOLUTIONS"

2. Vendor

3. Communicate

Curbside HHW Programs

City of Prescott

Peoria Arizona

City of El Mirage Arizona

City of Scottsdale

Glendale AZ

City of Phoenix

QUESTIONS OR COMMENTS?

Thank You

CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: February 19, 2019

Contact Person: Andrea Davis, DIRECTOR - FINANCE

Submitting Department: Finance

District: Internal

Staff Recommendations: None

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

Agenda Wording:
Presentation and discussion pertaining to a financial update and revenue sources in preparation of the fiscal year 2020 budget.

Motion:
None, discussion only.

Background:
This is the second in a series of presentations regarding the development of the FY2020 Budget. This presentation will focus on a FY2019 financial update and a discussion on the sources of the General Fund.

Objective Analysis:
The information presented will lead to future discussions around the FY2020 budget and will assist the Mayor and City Council with making informed decisions about future operations.

Policy Compliant:
This presentation is consistent with City and Council policy.

Financial Impact:
The information presented is intended to encourage discussion which may have an impact on future operations.

Budget Impact:
The information presented is intended to encourage discussion which may have an impact on the FY2020 budget.

FTE Impact:
The number of full time equivalents (FTE) is not impacted by this item.

ATTACHMENTS:

CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: February 19, 2019

Submitting Department: Finance

Staff Recommendations: None

Contact Person: Andrea Davis, DIRECTOR - FINANCE

District: Citywide

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

Agenda Wording:

Presentation and discussion pertaining to the fiscal year 2018 annual audit and Comprehensive Annual Financial Report, and associated reports.

Motion:

None, information 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 Comprehensive Annual Financial Report (CAFR), Single Audit Report, Management Letter, Communication with Governance, Annual Expenditure Limitation (AELR) Report, and Highway User Revenue Fund (HURF) Report.

Objective Analysis:

A "clean" or unmodified opinion is the goal of all cities.

Policy Compliant:

The reports have met the requirements of external regulators and are compliant with City policy.

Financial Impact:

There is no financial impact as these reports are for informational purposes only.

Budget Impact:

There is no budget impact as these reports are for informational purposes only.

FTE Impact:

The number of full time equivalents (FTE) is not impacted by this item.

ATTACHMENTS:

1. 2018 CAFR Final
2. Communication to Governance 18
3. City of Surprise Management Letter 18
4. FY18 Single Audit Report
5. 2018 Annual Expenditure Limitation Report
6. City of Surprise Independent Accountant's Report - HURF 18

7. 20190219 Annual Audits and CAFR Council Presentation
8. 20190219 Annual Audits and CAFR Council Presentation

SURPRISE
ARIZONA

CITY OF SURPRISE, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2018

FY2018

CITY OF SURPRISE, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the fiscal year ended
June 30, 2018

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.

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

December 17, 2018

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, 2018. 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, 2018, 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, 2018, 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.

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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 low 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 10.1% increase in sales tax collections while state shared revenues increased by 9.8% over the previous year. In addition, the inflation rate has been held in check with the Phoenix-Mesa Consumer Price Index averaging 1.9% annually over the last five years. This shows prices have remained relatively flat over the last five years assisting the local economy by increasing the purchasing power of residents. The population and commercial square footage growth combined with historically low inflation rates has been a factor in in the improved economic performance for the city. The City has seen inflation rates increase in the second half of the fiscal year with a year over year percentage increase of 3.9%. This increase will be monitored as part of the City's annual budgeting process.

Further information on the history of City revenues and expenses can be found in the MD&A, pages 17 through 29, and the statistical section that begins on page 167, of this financial report.

Long-Term Financial Planning

With the fund balances exceeding reserve targets, 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 $18.4 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 begun design work on six of the ten projects and issued the first series of General Obligation Bonds totaling $37.7 million on April 18, 2018. After the sale of these Bonds, the City has a remaining authorization of $19.5 million as the result of the 2018 series being sold with a premium of $2.3 million that counted against the voter approved authorization. Construction and design work for these projects will continue throughout fiscal year 2019 with an expected completion date for all ten projects in fiscal year 2023.

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.

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 2018, the General Fund minimum fund balance was broken into three categories – Emergency Reserve, Operating Reserve, and a Budget Stabilization Reserve. The division of the minimum fund balance maintained 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. Further, the minimum net position for the Stormwater and Worker's Compensation Funds were formalized as part of the annual update to the policy. The City is in compliance with its minimum fund balance and net position policy for all funds.

In addition, during the current year, the City of Surprise updated the investment policy which is consistent with Arizona Revised Statutes to guide the City's investment strategy to ensure the best rate of return for the city's investments while maintaining liquidity and security of the investments.

FINANCE DEPARTMENT
CITY OF SURPRISE
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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, 2017. In order to be awarded this certificate, the 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 is valid for a period of one year only. We believe that our current CAFR continues to meet the program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

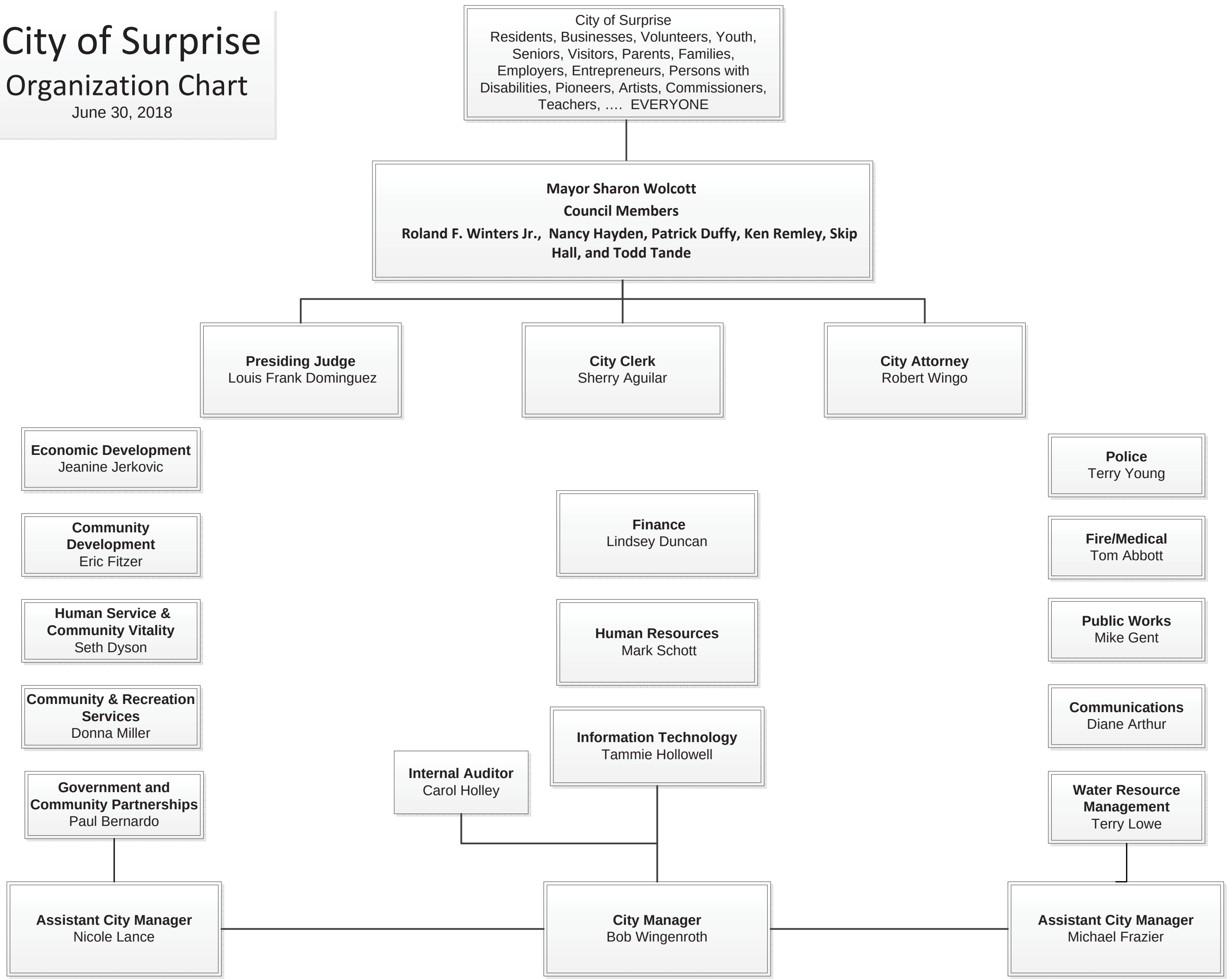
I want to thank and recognize the staff of the Finance Department for their efforts in preparing this report. I would also like to thank all City departments for their assistance throughout the past year and express my appreciation for the guidance and support from the City Manager's Office and Mayor 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
Organization Chart
June 30, 2018



SURPRISE
ARIZONA

MAYOR AND CITY COUNCIL MEMBERS

MAYOR SHARON WOLCOTT – Mayor@surpriseaz.gov

Sharon Wolcott serves as the Mayor of the City of Surprise, a city of more than 127,000 residents. She was first elected as Mayor in November of 2011 and re-elected in August of 2016. Prior to her service as Mayor, Wolcott was a member of the Surprise City Council. Throughout her time as an elected leader in Surprise, Wolcott has been a champion for fiscal accountability and transparency in municipal government and setting a course for Surprise's long-term economic success.

Demanding Fiscal Responsibility and Accountability: Under Wolcott's leadership, Surprise has made a major turn-around to fiscal stability, adopting new financial policies, ordering sweeping reviews of financial records, and cutting budgets to address serious shortfalls without raising taxes. Essential services were not affected and the City's bond ratings were re-established. She has ensured public safety needs are addressed in annual budgeting by adding police officers, firefighters and other related personnel to meet the needs of our growing community and keeping response times low.

Attracting Jobs and Economic Opportunities: Since Wolcott was first sworn into office, the City of Surprise has contributed more than $50 million in sales and use taxes to the state's economy. In all, more than 300 new businesses and nearly 3,000 jobs were added. Additionally, over 2.7 million square feet of new construction can be found in Surprise, including 1.2 million square feet in industrial businesses alone. The AZ TechCelerator, the city's business incubator, has a track record of over 300 jobs graduated, and the only Google corporate office presence in the State of Arizona. She continues to promote the city's Foreign Trade Zone, which has attracted exciting new businesses such as IRIS USA, Rioglass Solar, and the Gestamp Solar Steel to Surprise.

Supporting Quality Education: Mayor Wolcott believes education is a major economic development driver, as companies want to locate where the workforce is skilled. Her focus on attracting a four-year residential university to Surprise was realized in February 2017, when Ottawa University announced expansion plans to City Center. West-MEC's Career and Technical Education campus opened in Surprise in the summer of 2017, offering jobs and career training for students and adults. Mayor Wolcott is a champion of the local education system through both the A-rated Dysart Unified School District schools and charter schools in Surprise. She also encourages development of youth leadership initiatives to include involvement with the City Council and summer employment at the city.

Improving Transportation: Mayor Wolcott is a strong advocate for a broad transportation vision on the state and national level advocating for increased connectivity and multimodal options to include corridors linking power, telecommunications, trade, rail and vehicular transportation options. She's also taken on a leadership role on efforts to redevelop Grand Avenue by involving regional leaders from all communities along its length. Her never-ending support of Bell Road-Grand Avenue improvements resulted in safety enhancements as the Bell Bridge now carries traffic over the railroad tracks and allows Grand Avenue traffic to continue through the area without having to stop, improving traffic flows. Mayor Wolcott has served on the National League of Cities (NLC) Transportation and Infrastructure Services Committee and continues to engage with the NLC and others in the conversation about self-driving cars, or autonomous vehicles (AV), and how they can work with existing mobility and transit systems (buses, taxis, etc.).

Protecting Surprise's Quality of Life: As a regional leader, Mayor Wolcott recognizes the importance of preserving our desert and open space. She was a founding member of the White Tank Conservancy, which aims to preserve the mountain range and wildlife corridors in a responsible manner by involving a myriad of key stakeholders, including various municipalities, the county, state and developers. In 2018, she negotiated an agreement with the City of Buckeye to place the mountain reserve in both cities' planning areas, with the intention of preventing further development. In 2016, Mayor Wolcott was recognized by the West Valley Arts Council for find them a new home and securing long-term partnerships with the What's Happening Art Movement (WHAM) and the Surprise POPS Band. Wolcott also supported a council-initiative to create a one-and-one-third percent for the arts funding mechanism on all future capital improvement projects built in Surprise.

Over the years, Mayor Wolcott has served on a variety of regional boards and commissions including the Arizona League of Cities & Towns Executive Committee, Greater Phoenix Economic Council Board of Directors, I-11 Coalition Board of Directors, Maricopa Association of Governments (MAG) - Regional Council; and Transportation Policy Committee, Westmarc's Executive Committee & Board of Directors, and MAG's Economic Development Committee

Mayor Wolcott has more than 25 years of experience in three states as an elected official, serving at both the state and local levels. As a mother of two and a grandmother of three, she brings a well-balanced perspective to her passion for public service and for making Surprise a great place to live and work.

VICE MAYOR 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. He was selected to serve as Vice Mayor in January 2018.

Vice Mayor Remley serves as the Chair of the Committee on Boards & Commissions and as a member of Committee on Community Outreach, Partnerships & Grants. He is an active member of the Surprise Regional Chamber of Commerce and the Rotary Club of Surprise.

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.

ROLAND WINTERS – Roland.Winters@surpriseaz.gov

Roland F. Winters Jr. was elected to District 1 (Acacia) on August 27, 2013 and is serving a five-year term which began January 1, 2014.

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 (CDR).

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 Boards and Commissions Selection Committee and the Committee on Community Outreach, Partnerships and Grants. In addition, he serves on the Northwest Valley Connect Advisory Board, the Joint Planning Advisory Council (JPAC) and the Maricopa Association of Governments Economic Development Committee

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. 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 committed to working alongside Valley leaders to help combat the regional Opioid Epidemic. She is currently serving on the Luke West Valley Council, the Maricopa Association of Governments (MAG) Human Services Committee and the Regional Opioid Action Committee.

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 arts to 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 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 appointment term will end December 31, 2018. The candidate that wins the August 28 Primary Election will then serve out the remaining two years of the four-year D2 term, beginning January 1, 2019.

PATRICK DUFFY – Patrick.Duffy@surpriseaz.gov

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

Councilmember Duffy is an Associate Vice President for First Financial Equity Corporation. He previously worked as a Financial Advisor for Merrill Lynch in addition to working part-time as a City of Surprise Recreation Leader 3 for the past 9 years. He has lived in Surprise for eight years, two of them in D3.

Patrick serves as an ex-officio on the Surprise Regional Chamber of Commerce Board of Directors. He also serves as the Chair of the Community Outreach, Partnership & Grants Committee and a member of the Performance Evaluation Leaders and Board & Commissions Selection Committee. Patrick is actively involved with 1Mission, a Valley community development organization giving people in poverty the opportunity to earn homes by serving their communities.

Patrick 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 is a former high school football coach having coached the sport for 9 years at his alma mater, Mountain Ridge High School. In addition, he coached varsity baseball for 2 years.

Councilman Duffy is passionate about sports and tourism in Surprise and bringing head of household jobs to our community. He holds a Bachelor of Arts in Political Science from Arizona State University.

The term expiration for his appointment will be December 31, 2018; and the remainder of the four-year term will be placed on the next scheduled Council election in August 2018.

SKIP HALL – Skip.Hall@surpriseaz.gov

Prior to serving in politics and serving three years on the 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 as the Senior Vice President of a hospitality company based in Japan for ten years. Most of his professional career was spent opening and operating several restaurants and hotels along the west coast.

Councilman Hall was 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 sworn in on January 1, 2014 to a four-year term and elected Vice Mayor by the City Council on January 14, 2014. He also served as Vice Mayor in 2011 and again in 2014.

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 co-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 the Mayor's Business Roundtable Committee, the Form Based Code Sub-Committee, the Boards & Commissions Committee, WESTMARC's Water & Energy Committee and he chaired the Water Planning Sub-Committee. He currently serves as the chair of the Performance Evaluation Leaders. In addition, he is a Board Member on the Valley Metro RPTA and a Committee Member on the Audit and Finance Committee for Valley Metro. He is also a member on the Kyl Center for Water Policy.

Councilman 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.

TODD TANDE – Todd.Tande@surpriseaz.gov

Todd Tande was elected in the newly-configured District 6 (Palo Verde) on August 27, 2013 to an extended five-year term beginning January 1, 2014. Todd also served a term as Vice Mayor for the City of Surprise from January 2017 until January 2018. As part of his Council duties, Todd is also serving on the Executive Committee of the Board of Directors for WESTMARC, and he has also served several years on the Maricopa Association of Governments (MAG) Human Services and Community Initiatives Committee.

Council Member Todd Tande serves on the Board of Directors and as Sr. Executive Vice President, and co-founder of Education Connection Solutions, LLC., a management consulting firm with International clientele. He is also a licensed Realtor. He received his Bachelor of Science degree in Management and his MBA from California State Polytechnic University, Pomona, California. Todd spent half of his career in the private sector with many years in the theme park (Disney and Knott's) and defense (Rockwell International, Hughes Aircraft, Raytheon) industries including directly supporting top corporate management of a Fortune 27 company.

Todd also has experience in public service in California and Indiana. He served in a Budget and Policy Management role in the County Executive Office for Orange County, California where he was hired to help resolve the County's multi-billion-dollar bankruptcy. As part of the initial recovery efforts, Todd wrote the minute order (local law), unanimously adopted by the Board of Supervisors, to set up a Treasurer's Oversight Committee consisting of top financial experts from the private sector investment community. Todd also coordinated restructuring of major agency budgets and prepared the recovery briefing charts with information presented to Wall Street and Sacramento during successful recovery efforts.

Todd later served as Chief Financial Officer for Indianapolis-Marion County DPS for six years where his ideas and efforts led to improvements and changes in federal and state policies. Todd then was asked to join the State of Indiana government as the Deputy Director, serving in the Chief Operating Officer role where he was tasked with achieving a successful operational and financial turnaround for the Indiana Department of Natural Resources, which included over 20 operating divisions and over 4,000 employees during peak seasons. Todd was then promoted and completed his Indiana public service in the State Capitol as Finance Director, responsible for statewide finances at a time when the state achieved its first ever AAA credit rating.

Todd has served in many volunteer roles including as a Council Member and Treasurer of his churches in California and Arizona, and as a Board Member and four-year Vice Chairman of the Navajo Mission and School in Rock Point, Arizona. Todd also founded and led the local Surprise C3G group providing free services to job seekers. Todd has served his political party in Arizona, Indiana, and California, in roles such as Precinct Committeeman, State Delegate, Candidate Volunteer Team Member, and as an advisor for newly elected candidates on their transition teams. Todd also has served as a volunteer Docent Leader and Chair of the Ways and Means Committee at the Nixon Presidential Library and Birthplace Museum in Yorba Linda, California. Todd is an Eagle Scout from historic Troop 99 in Yorba Linda, California, and he also received the title of "Honored Citizen" for Orange County, California from the Board of Supervisors.

Todd met his wife Blossom, who completed a term serving as a Governing Board Member for our local award winning Dysart Unified School District at a time when the District achieved its first District "A" Rating from the State of Arizona. Todd and Blossom have been married since their Freshman year in college and they have two children, Erikka who is a Physician Assistant – Certified (PA-C) at a large hospital emergency room, and Brian who is an Assistant Store Manager for a large retailer. Todd and Blossom also now have two grandchildren. Todd's parents moved to Sun City Grand in 2003 – and now four generations of Tande's live in Surprise, Arizona.

City of Surprise
Appointed Officials

City Manager	**Bob Wingenroth**
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

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City of Surprise

Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

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 and Members of the City Council
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, 2018, and the related notes to the financial statements, which collectively comprise the City 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 of the City of Surprise, Arizona, as of June 30, 2018, 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, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* for the year ended June 30, 2018, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and net pension liability 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 17, 2018 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 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., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 17, 2018

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, 2018. 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

- During the 2018 fiscal year, the Ground Ambulance Services Fund became a proprietary fund. Previously, the Ground Ambulance Services Fund had been reported as a part of the General Fund.
- In November 2017, the registered voters of the City approved three general obligation bond questions in the areas of public safety, traffic congestion mitigation, and pavement preservation. The approval of the three questions authorized the issuance of $59.5 million in bonds for the completion of ten capital improvement projects.
- In May 2018, the registered voters of the City authorized the purchase and acquisition of a local water company that would increase the City's Colorado River Water allocation by 38 percent.
- **Governmental Type net position.** The City's net position increased 4.0% or $15.7 million from $388.4 million to $404.1 million. This increase is largely attributable to an increase in capital grants and contributions due to increased development activity and increases in sales taxes from an improving economy.
- **Business Type net position.** The City's net position increased by 2.8% or $8.9 million from $314.9 million to $323.8 million, which is a larger increase than the prior year increase of $1.0. A 8.25% increase in water utility rates, an increase in capital grants and contributions from development, and the addition of the Ground Ambulance Services Fund as an enterprise fund account for the change.
- **Governmental Activities expenses** of $154.3 million exceeded program revenues of $63.1 million, a difference of $91.2 million. The remaining $91.2 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 $43.4 million, while program revenues totaled $53.6 million, a difference of $10.2 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, community recreation services, 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 separate statements of fiduciary net position on page 48.

  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, 2018 and June 30, 2017.

City of Surprise's Net Position (in Millions)

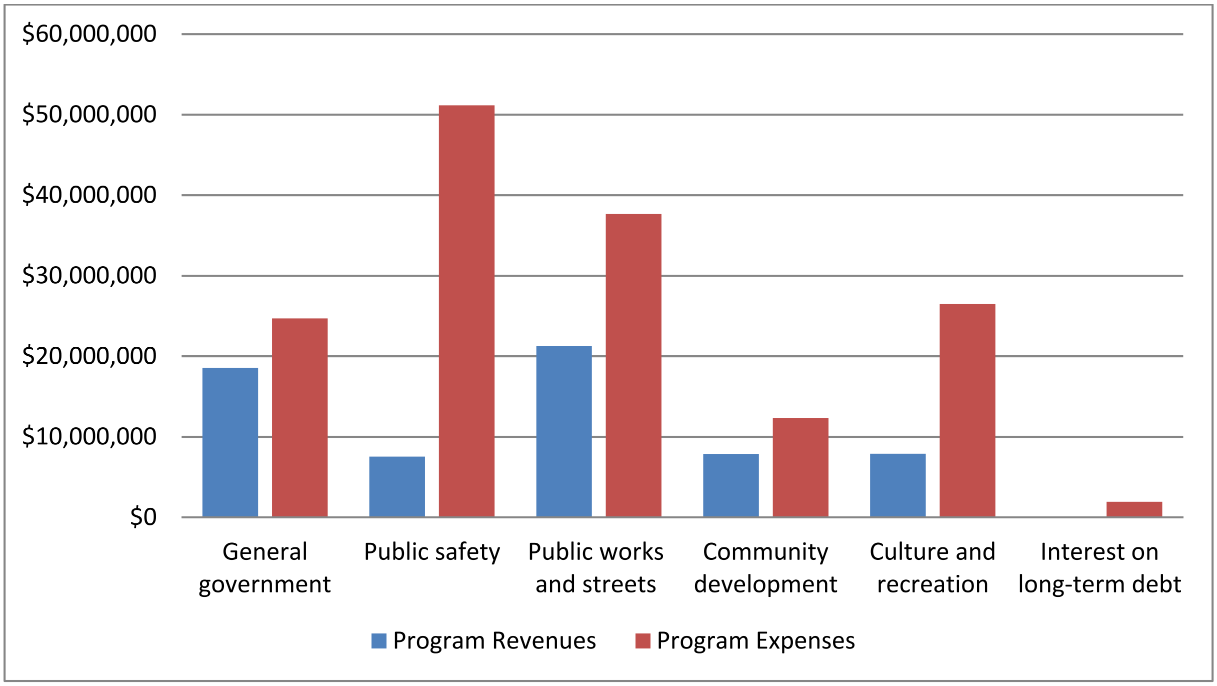
	Governmental Activities		Business-type Activities		Total Primary Government	
ASSETS	2018	2017	2018	2017	2018	2017
Current and other assets	$137.2	$ 85.2	$ 68.8	$ 59.7	$206.0	$144.9
Capital assets, net	435.3	433.4	311.2	313.4	746.5	746.8
Total assets	572.5	518.6	380.0	373.1	952.5	891.7
DEFERRED OUTFLOWS OF RESOURCES	30.9	33.0	2.1	3.1	33.0	36.1
LIABILITIES						
Current liabilities	26.1	25.7	5.2	7.6	31.3	33.3
Long-term liabilities	169.7	130.3	52.4	53.1	222.1	183.4
Total liabilities	195.8	156.0	57.6	60.7	253.4	216.7
DEFERRED INFLOWS OF RESOURCES	3.5	6.0	0.7	1.4	4.2	7.4
NET POSITION						
Net investment in capital assets	394.0	392.5	278.0	279.2	672.0	671.7
Restricted	67.7	24.6	14.4	12.3	82.1	36.9
Unrestricted	(57.6)	(27.5)	31.4	22.6	(26.2)	(4.9)
Total net position	$404.1	$389.6	$323.8	$314.1	$727.9	$703.7

Net position is a good indicator of a city's overall financial standing. For fiscal year 2018, the City had total combined net position of $727.9 million. This was an increase of $24.6 million, or 3.4% over the prior year's restated net position of $703.2 million and is attributed to increased development activity, an improving economy and an 8.25% water rate increase. 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 $727.9 million is available for the City to use without restraint. The largest portion of the City's total net position $672.0 million, or 92.3% represents the City's net investment in capital assets. Of the remaining net position, $82.1 million is restricted for various purposes and a deficit of $26.2 million is unrestricted related to the City's Pension and Other postemployment benefit (OPEB) liabilities.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
REVENUES	2018	2017	2018	2017	2018	2017
Program Revenues:						
Charges for services	$ 25.1	$ 20.3	$ 43.9	$ 40.0	$ 69.0	$ 60.3
Operating grants and contributions	12.5	12.1	-	-	12.5	12.1
Capital grants and contributions	25.5	14.4	9.7	5.8	35.2	20.2
General Revenues:						
Property taxes	10.8	10.4	-	-	10.8	10.4
Sales taxes	54.4	49.4	-	-	54.4	49.4
Franchise taxes	5.7	5.7	-	-	5.7	5.7
State shared revenues	35.1	31.7	-	-	35.1	31.7
Unrestricted investment earnings	0.3	-	0.1	0.1	0.4	0.1
Other	(0.8)	3.1	-	-	(0.8)	3.1
Total revenues	168.6	147.1	53.7	45.9	222.3	193.0
EXPENSES						
Program activities:						
Governmental activities:						
General government	24.7	27.7	-	-	24.7	27.7
Public Safety	51.2	64.1	-	-	51.2	64.1
Public works and streets	37.7	41.5	-	-	37.7	41.5
Community development	12.3	12.3	-	-	12.3	12.3
Culture and recreation	26.5	22.6	-	-	26.5	22.6
Interest on long-term debt	1.9	1.5	-	-	1.9	1.5
Business-type activities:						
Ground Ambulance Services	-	-	3.1	-	3.1	-
Sanitation	-	-	8.6	9.0	8.6	9.0
Sewer	-	-	20.0	19.5	20.0	19.5
Stormwater	-	-	0.8	0.2	0.8	0.2
Water	-	-	10.9	15.0	10.9	15.0
Total expenses	154.3	169.7	43.4	43.7	197.7	213.4
Excess before transfers	14.3	(22.6)	10.3	2.2	24.6	(20.4)
Transfers in (out)	1.4	1.2	(1.4)	(1.2)	-	-
Increase/(Decrease) in net position	15.7	(21.4)	8.9	1.0	24.6	(20.4)
Net position - beginning - previously stated	389.6	411.0	314.1	313.1	703.7	724.1
Change in accounting principle	(1.2)	-	0.7	-	(0.5)	-
Net position - beginning - restated	388.4	-	314.9	-	703.3	-
Net Position - ending	$404.1	$389.6	$323.8	$314.1	$727.9	$703.7

FY 2018 Governmental Program Revenues and Expenses

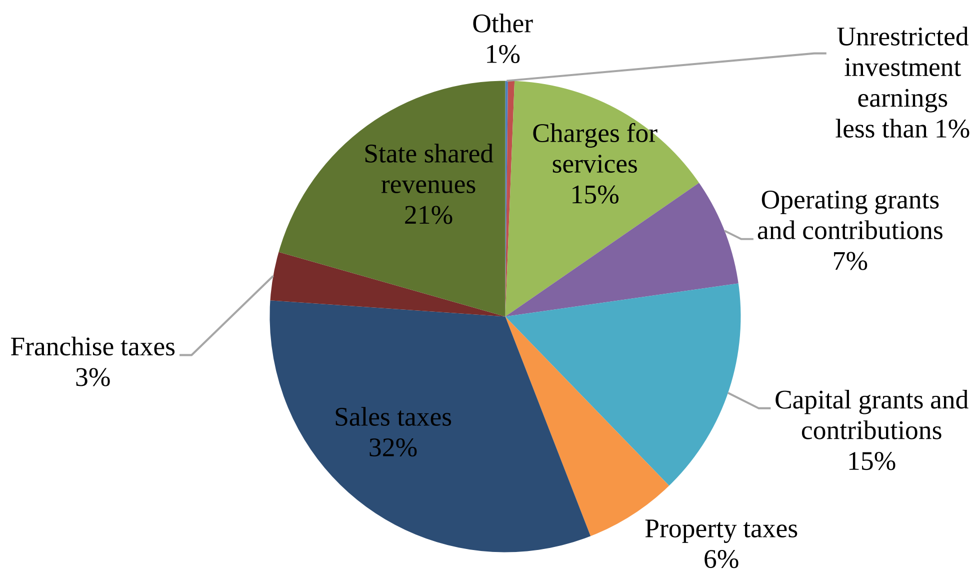


For fiscal year 2018, governmental program expenses exceeded program specific revenues by $91.2 million. The remaining expenses were supported by general governmental revenues.

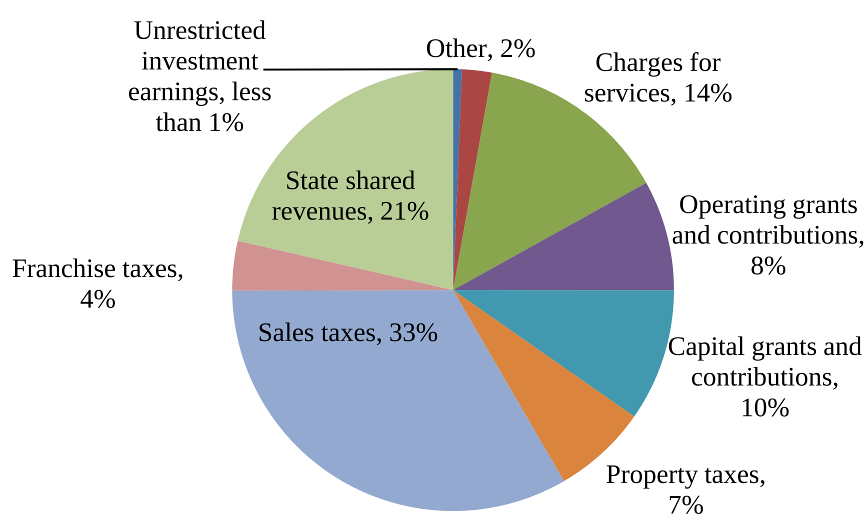
- Charges for services, operating grants and contributions, and capital grants and contributions account for 37% of total governmental revenues.
- Community oriented programs such as **Public Safety** (police, fire, and courts) and **Culture and Recreation** (parks, recreation, youth, and senior services) 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, 2018 totaled $168.6 million and have been identified by major revenue source in percentage format. The prior year percentages have also been provided for comparison.

Fiscal Year 2018 Governmental Activities Revenues



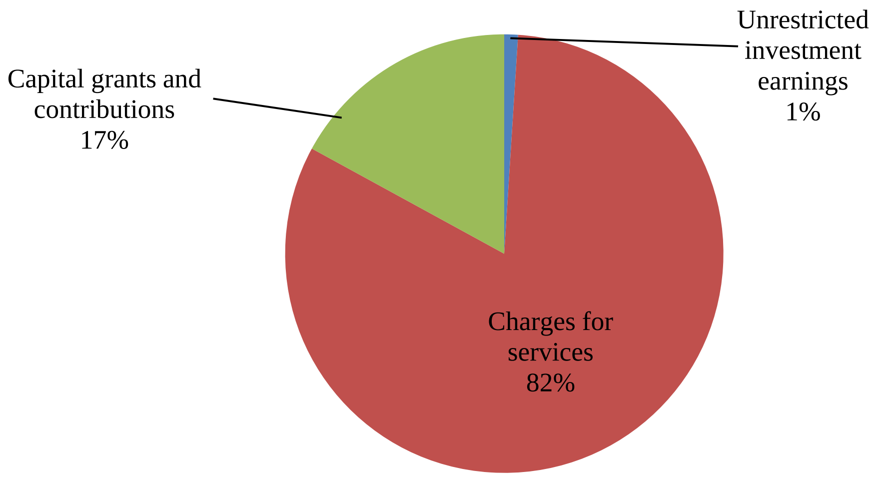
Fiscal Year 2017 Governmental Activities Revenues



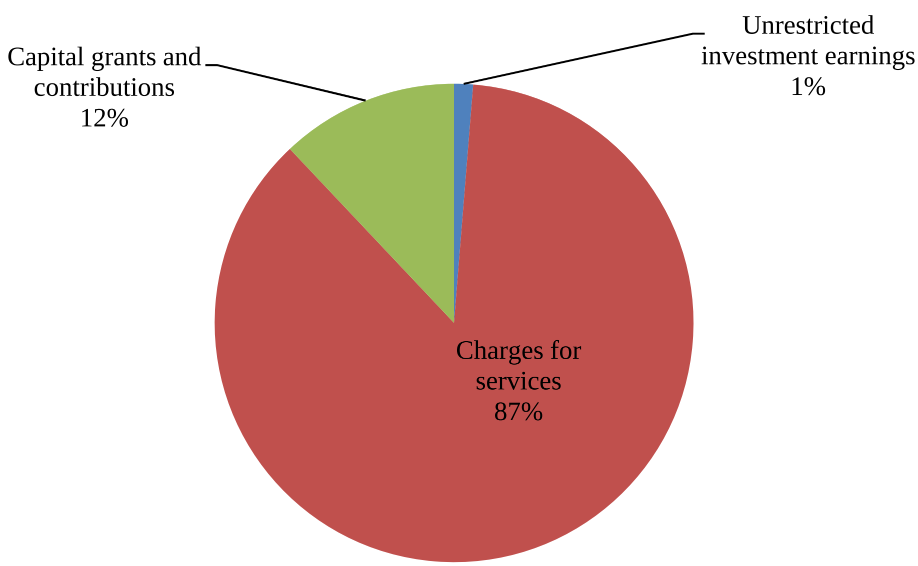
- The City's largest revenue source is sales taxes at $54.4 million. This is followed by state shared revenues totaling $35.1 million.
- Total governmental activities revenues increased $21.5 million from the prior year as a result of the following changes in revenue: sales taxes increased $5.0 million and state shared revenues increased $3.3 million due to an improving local economy. Charges for services increased $4.8 million, operating grants and contributions increased $0.4 million, capital grants and contributions increased $11.1 million due to increased development activity and property taxes increased $0.4 million from a 5.3% increase in property values.

Business Type Revenues for the fiscal year ended June 30, 2018 totaled $53.7 million are identified by major revenue source in percentage format. The prior year percentages have also been provided for comparison.

Fiscal Year 2018 Business Type Revenues

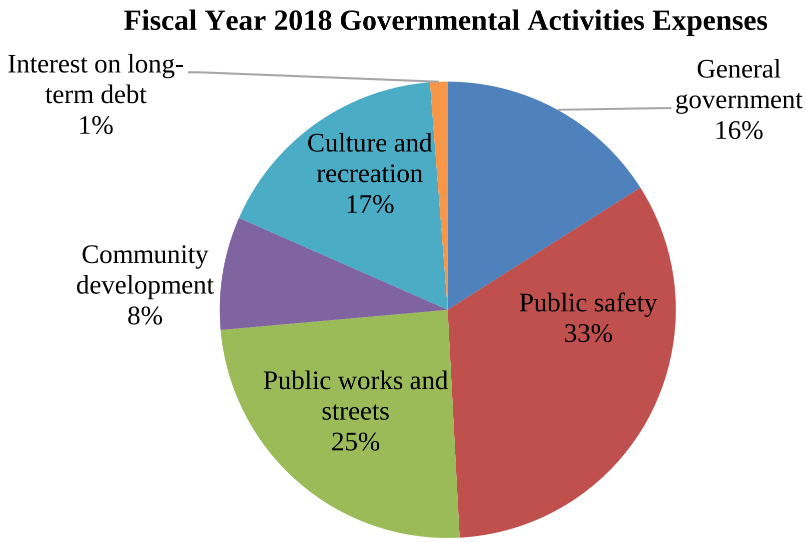


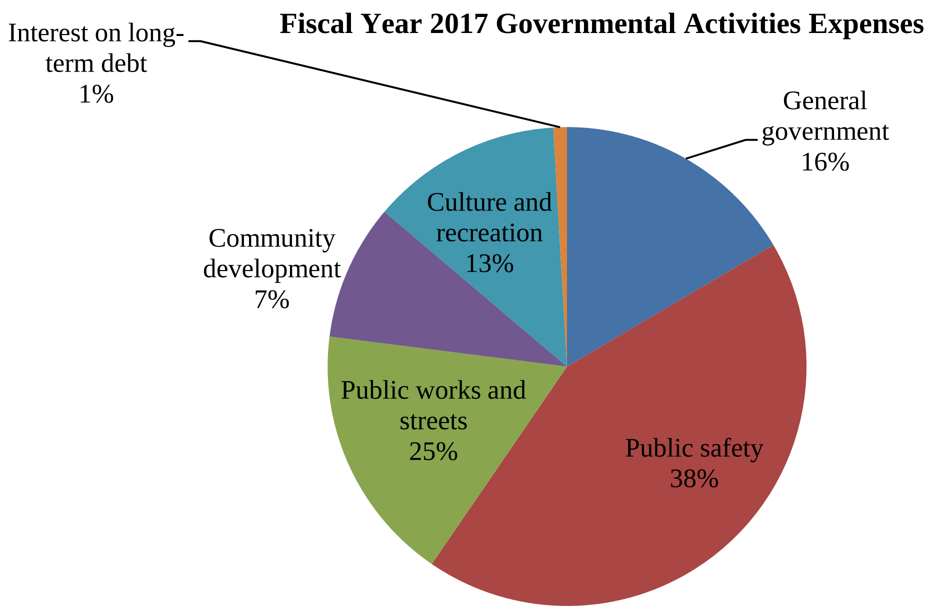
Fiscal Year 2017 Business Type Revenues



- Total Business Type Revenues increased $7.8 million from the prior fiscal year. The increase is the result of the Ground Ambulance Services fund moving from being a part of the General Fund to an enterprise fund during the fiscal year, an 8.25% increase in water utility rates and an increase in capital grants and contributions as a result of increased development activities within the City during the current year.

Governmental Activities Expenses for the fiscal year ended June 30, 2018 totaled $154.3 million and are identified by function in percentage format. The prior year percentages have also been provided for comparison.

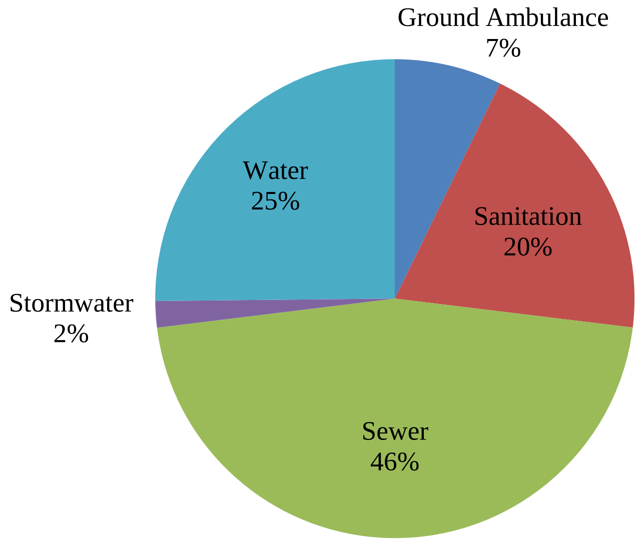




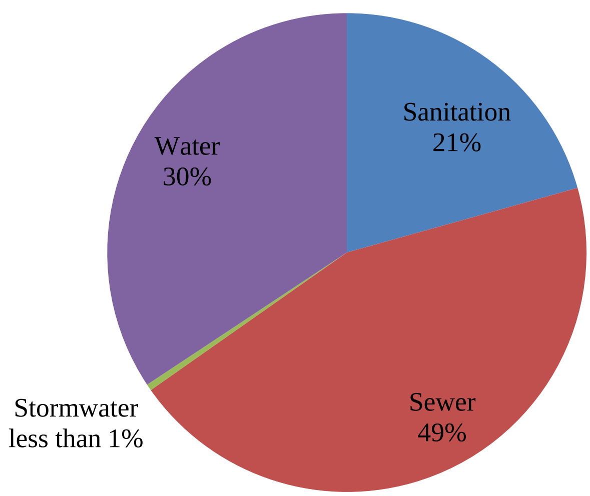
- Current year costs decreased by $15.4 million or 9.1% as result of one-time public safety pension expenses of $9.3 million in the prior year related to the Public Safety Public Retirement System (PSPRS) Hall and Parker lawsuit settlement and reduced depreciation expense for public works and streets. 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 $51.2 million.

Business Type Expenses for the fiscal year ended June 30, 2018 totaled $43.4 million and are identified by function in percentage format. The prior year percentages have also been provided for comparison.

Fiscal year 2018 Business Type Expenses



Fiscal year 2017 Business Type Expenses



- ❖ Business Type expenses decreased by $0.3 million or 0.7% from the prior year. The Water Fund mainly contributed to this decrease in expenses when combined with the new expenses related to the Ground Ambulance Services Fund as a result of a reduction in developer reimbursements and supplies and services expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

- **Total Governmental Funds** fund balance increased $49.9 million from $60.3 million to $110.2 million. The increase was primarily due to $43.2 million in new bond and note issuances, a $5.5 million increase in tax revenues, and a $4.3 million increase in intergovernmental revenues. Of the total ending fund balance, $2.2 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 $67.7 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, $3.5 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 $3.3 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 $33.5 million which can be used for any purpose.
    - The General Fund balance increased $3.7 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 income.
    - The General Capital Projects Fund balance increased $5.6 million. This change was due to the issuance of new general obligation bonds of $39.9 million which was offset partially by the forgiveness of the advance to the General Government Development Fee Fund of $36.0 million. The remaining increase was the result of an increases in construction sales taxes and interest income.
    - The General Government Development Fee Fund contains $6.0 million in advances from other funds. The outstanding advances from other funds was reduced in the current year by $36.0 million as the result of the forgiveness of the advance from the General Capital Projects Fund. The cash on hand in the fund is maintained to meet future debt service obligations in accordance with a settlement during the year. The advance will be reimbursed once sufficient resources are accumulated to meet future debt service obligations.
    - The Highway User Revenue Fund balance increased $0.4 million as a result of increased intergovernmental revenues exceeding the increases in expenditures.
    - The Transportation Improvement fund balance decreased $0.6 million from $3.6 million to $2.9 million. This decrease is the result of an increase in capital outlays related to construction projects during the current year.
    - The Non-Major Governmental Funds fund balance increased $3.9 million. The increase was due to transfers in from other funds of $3.6 million for debt service and capital projects exceeding transfers out to other funds of $1.1 million by $2.5 million. The remaining increase was the result of the $3.0 million series 2017 Marley Park Community Facilities District bond issuance.

- **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 $105.5 million. Budget adjustments throughout the year increased total budgeted expenditures by $5.3 million. Of that increase, $3.2 million resulted from increased Arizona State Retirement System (ASRS), Public Safety Personnel Retirement System (PSPRS), Elected Officials Retirement Plan (EORP) expenditures related to the Hall, Parker, Wade and Paddock lawsuits. An additional increase of $1.1 million resulted from increased sales tax revenue to the City which resulted in increases in reimbursements to developers as part of the City's developer agreements. The remaining increase of $1.0 million was spread among the various departments for increased personnel and supplies and services.
- ❖ Actual General Fund expenditures totaling $102.6 million were $8.2 million less than budgeted. Of that variance, $0.9 million of costs budgeted for Culture and Recreation Services within the General Fund were assumed by the Spring Training Ticket Surcharge Fund. $1.7 million and $1.2 million of the variance is attributable to vacancy savings from the City of Surprise Police and Fire-Medical Departments, respectively. Further, $1.0 million of the savings was the result of economic development reimbursements being less than estimated. An additional $0.9 million in savings was the result of supplies and services in the Public Works and Streets Department being less than budgeted. The remaining variance 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	
	2018	2017	2018	2017	2018	2017
Land and improvements	$ 49.7	$ 39.9	$ 5.1	$ 5.1	$ 54.8	$ 45.0
Parks	9.1	10.2	-	-	9.1	10.2
Water rights	-	-	10.0	11.5	10.0	11.5
Construction in progress	3.0	1.7	0.7	2.4	3.7	4.1
Buildings and improvements	131.0	137.5	276.2	277.9	407.2	415.4
Improvements other than buildings	21.2	19.1	5.3	5.4	26.5	24.5
Equipment and vehicles	18.3	17.8	13.6	10.6	31.9	28.4
Intangibles	4.3	4.3	0.3	0.5	4.6	4.8
Infrastructure	198.7	202.9	-	-	198.7	202.9
Total capital assets, net	$435.3	$433.4	$ 311.2	$313.4	$746.5	$746.8

The capital assets of the Governmental Activities increased by $1.9 million from the prior fiscal year, net of depreciation ($24.0 million increase before depreciation).

- ❖ Changes to the Governmental Activities capital assets for fiscal year 2018 were the result of:
  - Current year depreciation expense of $26.2 million.
  - Capital asset donations made to the City. The assets donated consisted of land, streets infrastructure and right-of-ways.
    - ➢ $6.1 million – right-of-ways throughout the city

- ❖ $10.3 million – streets infrastructure throughout the city
- ❖ $3.8 million – land donations throughout the city

❖ Governmental Activities construction in process includes:
- $1.4 million – Bullard Avenue Greenway to Peoria
- $0.8 million – 107th & Union Hills Drainage
- $0.3 million – Fire engine replacement
- $0.2 million – Network Micro-segmentation
- $0.2 million – Reems Fiber Optic Waddell to Peoria

The capital assets of the Business Type Activities funds decreased by $2.2 million from the prior fiscal year, net of depreciation ($9.7 million increase before depreciation).

❖ Changes to the Business Type Activities capital assets for fiscal year 2018 were the result of:
- Current year depreciation expense of $12.3 million.
- Capital asset infrastructure donations made to the City. The assets donated consisted of water, sewer, and stormwater utilities.
  - ➢ $0.6 million – Stormwater improvements
  - ➢ $5.2 million – Sewer lines
  - ➢ $0.5 million – Water lines

❖ Business Type Activities construction in process - includes:
- $0.3 million – Circle City Water Acquisition
- $0.2 million – SPA1 WRF N. Entrance Gate and Wall
- $0.1 million – SPA1 Rancho Gabriela WSF-Arsenic Treatment Facility

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

Outstanding Debt at Year-End (in Millions)

	Governmental		Business Type		Total	
	2018	2017	2018	2017	2018	2017
General obligations	$40.2	$ -	$ -	$ -	$ 40.2	$ -
Pledged revenue obligations	26.6	29.2	4.6	5.2	31.2	34.4
Municipal property corporation bonds	-	-	33.7	35.7	33.7	35.7
Community facilities district bonds	11.8	12.1	-	-	11.8	12.1
Community facilities district notes	2.9	-	-	-	2.9	-
Total debt outstanding	$81.5	$41.3	$38.3	$40.9	$119.8	$82.2

❖ **Long-term debt**, including amounts due within one year, increased $37.6 million this year from $82.2 million to $119.8 million. The increase was the result of the issuance of the City of Surprise General Obligation Bonds, Series 2018 for $37.7 million and the Marley Park Community Facilities District Notes, Series 2017 for $3.0 million.

❖ 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 11.5% or $5.4 million over last year's budget as consumer spending continues to improve with the economy. State shared revenues are projected to increase 5.9%. Currently, the City of Surprise is the tenth most populated city in Arizona.
- **Personnel increase –** For the FY2019 budget, city employees received a cost-of-living increase of 2% 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 Public Safety Personnel Retirement System (PSPRS) in FY2019. The FY2019 budget also includes the addition of 20.0 full-time equivalents (FTE) compared to the FY2018 adopted budget primarily to support public safety, human services and community vitality, and culture and recreation services. 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 2019 is $109.8 million, an increase of $5.9 million over the FY2018 adopted budged of $103.9 million. The increase in the budget is primarily due to PSPRS increases, personnel increases, and expected increases in payments related to development agreements as a result of the expected increase in sales tax revenue.

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.

SURPRISE

ARIZONA

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, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	$ 85,095,425	$ 37,238,121	$ 122,333,546
Restricted cash and investments	47,397,821	15,532,062	62,929,883
Receivables (net of allowances)			
Accounts	250,088	5,493,999	5,744,087
Taxes and franchise fees	9,194,091	-	9,194,091
Grants	697,798	-	697,798
Intergovernmental	865,550	-	865,550
Other	505,364	20,340	525,704
Prepaid items and other assets	474,398	334,543	808,941
Inventory	1,169,665	478,730	1,648,395
Internal balances	(9,691,046)	9,691,046	-
Total current assets	135,959,154	68,788,841	204,747,995
Noncurrent assets:			
Equity interest in joint venture	1,100,488	-	1,100,488
Net other postemployment benefits asset	157,736	41,438	199,174
Capital assets, non-depreciable	61,843,402	15,800,482	77,643,884
Capital assets, depreciable	713,708,309	412,711,667	1,126,419,976
Accumulated depreciation	(340,298,739)	(117,344,911)	(457,643,650)
Total noncurrent assets	436,511,196	311,208,676	747,719,872
Total assets	572,470,350	379,997,517	952,467,867
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources - Pension related	30,429,381	2,061,273	32,490,654
Deferred Outflows of Resources - Loss on refunding	217,809	-	217,809
Deferred Outflows of Resources - Other postemployment benefits	278,188	47,010	325,198
Total deferred outflows of resources	30,925,378	2,108,283	33,033,661
Total assets and deferred outflows of resources	603,395,728	382,105,800	985,501,528
LIABILITIES			
Current liabilities:			
Accounts payable	4,734,463	1,460,232	6,194,695
Accrued payroll and related taxes	2,903,359	370,394	3,273,753
Deposits	71,685	292,424	364,109
Unearned revenues	2,180,253	623,103	2,803,356
Contracts payable, due in less than one year	2,358,440	298,039	2,656,479
Claims payable	1,451,175	-	1,451,175
Other liabilities	354,849	-	354,849
Compensated absences payable, due in less than one	2,908,645	388,671	3,297,316
Matured bond and loan interest payable	1,017,419	511,369	1,528,788
Matured bond and loans payable	2,776,050	598,950	3,375,000
Bonds, loans and payables due in less than one year	5,352,900	617,100	5,970,000
Total current liabilities	26,109,238	5,160,282	31,269,520
Noncurrent liabilities:			
Contracts payable, due in more than one year	-	2,448,475	2,448,475
Compensated absences payable, due in more than one	4,016,699	536,734	4,553,433
Bonds, loans and payables due in more than one year	76,119,964	37,725,228	113,845,192
Net pension liability	89,150,085	11,704,330	100,854,415
Net other postemployment benefits liability	365,351	27,327	392,678
Total noncurrent liabilities	169,652,099	52,442,094	222,094,193
Total liabilities	$ 195,761,337	$ 57,602,376	$ 253,363,713

See accompanying Notes to Financial Statements

City of Surprise, Arizona
Statement of Net Position
June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources - Pension Related	$ 3,077,042	$ 700,941	$ 3,777,983
Deferred Inflows of Resources - other postemployment benefits related	482,504	50,800	533,304
Total deferred inflows of resources	3,559,546	751,741	4,311,287
Total liabilites and deferred inflows of resources	199,320,883	58,354,117	257,675,000
NET POSITION			
Net investment in capital assets	393,984,378	277,989,957	671,974,335
Restricted for:			
City Manager's Office	397	-	397
Court	173,901	-	173,901
Debt Service	16,269	8,736,068	8,752,337
Economic Development	15,333	-	15,333
Fire	4,044,835	-	4,044,835
Human Services and Community Vitality	18,775	-	18,775
Library	4,631,154	-	4,631,154
Parks and recreation	2,431,984	-	2,431,984
Police	3,997,655	-	3,997,655
Public Works	8,389,258	-	8,389,258
Sewer system repair and replacement	-	5,629,057	5,629,057
Transportation	4,049,363	-	4,049,363
Public Safety	16,804,791	-	16,804,791
Traffic Mitigation	13,107,767	-	13,107,767
Pavement Preservation	10,001,958	-	10,001,958
Unrestricted	(57,592,973)	31,396,601	(26,196,372)
Total net position	$ 404,074,845	$ 323,751,683	$ 727,826,528

See accompanying Notes to Financial Statements

SURPRISE

ARIZONA

City of Surprise, Arizona
Statement of Activities
For the Year Ended June 30, 2018

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	$ 24,693,086	$ 7,171,091	$ 304,167	$ 11,097,076
Public Safety	51,157,392	2,801,908	1,576,095	3,161,292
Public works and streets	37,661,923	2,252,924	8,756,121	10,257,938
Community Development	12,345,202	7,384,028	487,092	-
Culture and recreation	26,471,045	5,507,476	1,407,428	969,484
Interest on long-term debt	1,927,016	-	-	-
Total governmental activities	154,255,664	25,117,427	12,530,903	25,485,790
Business-type activities:				
Ground Ambulance Services	3,141,623	2,974,704	-	12,518
Sanitation Fund	8,557,348	7,485,027	-	-
Sewer Fund	20,039,173	17,345,559	-	7,624,036
Stormwater Fund	775,651	1,834,202	-	594,082
Water Fund	10,926,918	14,227,502	-	1,451,755
Total business-type activities	43,440,713	43,866,994	-	9,682,391
Total primary governmen	$ 197,696,377	$ 68,984,421	$ 12,530,903	$ 35,168,181

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 - previously stated
Prior period adjustment
Net position - beginning -restated
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
$ (6,120,752)	$ -	$ (6,120,752)
(43,618,097)	-	(43,618,097)
(16,394,940)	-	(16,394,940)
(4,474,082)	-	(4,474,082)
(18,586,657)	-	(18,586,657)
(1,927,016)	-	(1,927,016)
(91,121,544)	-	(91,121,544)
-	(154,401)	(154,401)
-	(1,072,321)	(1,072,321)
-	4,930,422	4,930,422
-	1,652,633	1,652,633
-	4,752,339	4,752,339
-	10,108,672	10,108,672
(91,121,544)	10,108,672	(81,012,872)
10,813,317	-	10,813,317
54,419,572	-	54,419,572
5,643,876	-	5,643,876
35,032,519	-	35,032,519
324,501	141,108	465,609
(753,721)	-	(753,721)
1,355,582	(1,355,582)	-
106,835,646	(1,214,474)	105,621,172
15,714,102	8,894,198	24,608,300
389,592,550	314,145,791	703,738,341
(1,231,807)	711,694	(520,113)
388,360,743	314,857,485	703,218,228
$ 404,074,845	$ 323,751,683	$ 727,826,528

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

ARIZONA

SURPRISE

ARIZONA

City of Surprise, Arizona
Balance Sheet
Governmental Funds
June 30, 2018

	General Fund	General Capital Projects Fund	General Government Development Fee Fund
ASSETS			
Cash and investments	$ 39,765,608	$ 4,225,602	$ 425,532
Restricted cash and investments	1,676,490	39,979,104	-
Receivables (net of allowances)			
Accounts	250,088	-	-
Taxes and franchise fees	9,143,649	-	-
Grants	-	-	-
Intergovernmental	88,056	-	-
Due from other funds	331,890	-	-
Other	298,931	-	-
Prepaid items and other assets	436,686	4,191	-
Inventory	541,062	-	-
Advances to other funds	624,850	-	-
Total assets	$ 53,157,310	$ 44,208,897	$ 425,532
LIABILITIES			
Accounts payable	$ 2,137,957	$ 1,377,834	$ 661
Accrued payroll and related taxes	2,784,910	-	-
Due to other funds	-	-	-
Deposits	16,658	-	-
Unearned revenue	1,371,742	-	-
Contracts payable	2,129,910	-	-
Other liabilities	264,581	-	-
Matured bond interest payable	-	-	-
Matured bonds payable	-	-	-
Advances from other funds	-	-	5,993,321
Total liabilities	8,705,758	1,377,834	5,993,982
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Unavailable revenue	267,193	-	-
Total deferred inflow of resources	267,193	-	-
Total liabilities and deferred inflows of resources	8,972,951	1,377,834	5,993,982
FUND BALANCES (DEFICITS)			
Nonspendable	1,602,598	4,191	-
Restricted	480,554	39,914,529	-
Committed	-	-	-
Assigned	338,167	2,912,343	-
Unassigned	41,763,040	-	(5,568,450)
Total fund balances (deficits)	44,184,359	42,831,063	(5,568,450)
Total liabilities and fund balances (deficits)	$ 53,157,310	$ 44,208,897	$ 425,532

See accompanying Notes to Financial Statements.

Highway User Revenue Fund	Transportation Improvement Fund	Total Nonmajor Funds	Total Governmental Funds
$ 1,206,647	$ 3,124,476	25,323,537	$ 74,071,402
2,000	75,080	5,665,147	47,397,821
-	-	-	250,088
-	-	50,442	9,194,091
-	-	697,798	697,798
777,494	-	-	865,550
-	-	-	331,890
-	-	-	298,931
3,795	-	1,782	446,454
628,603	-	-	1,169,665
-	-	-	624,850
$ 2,618,539	$ 3,199,556	$ 31,738,706	$ 135,348,540
$ 422,497	$ 130,470	$ 571,791	$ 4,641,210
98,461	4,515	1,034	2,888,920
-	-	331,890	331,890
-	53,653	1,374	71,685
2,000	-	806,511	2,180,253
-	21,428	207,102	2,358,440
43,459	46,809	-	354,849
-	-	798,573	798,573
-	-	2,776,050	2,776,050
-	-	2,506,971	8,500,292
566,417	256,875	8,001,296	24,902,162
-	-	16,592	283,785
-	-	16,592	283,785
566,417	256,875	8,017,888	25,185,947
632,398	-	1,782	2,240,969
1,419,724	-	25,868,633	67,683,440
-	2,942,681	540,620	3,483,301
-	-	-	3,250,510
-	-	(2,690,217)	33,504,373
2,052,122	2,942,681	23,720,818	110,162,593
$ 2,618,539	$ 3,199,556	$ 31,738,706	$ 135,348,540

City of Surprise, Arizona
Reconciliation of the Governmental Funds Balance Sheet Fund Balances
to the Statement of Net Position
June 30, 2018

Fund balances - total governmental funds		$ 110,162,593
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	775,551,711	
Less accumulated depreciation	(340,298,739)	
		435,252,972
Some revenues will not be available to pay for current-period expenditures and, therefore, are unavailable in the funds.		283,785
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)	7,883,928	
Net pension liability	(404,200)	
Deferred Outflows	71,185	
Deferred Inflows	(24,207)	
Compensated absences	(36,633)	
Net OPEB asset	1,432	
Net OPEB asset/liability deferred outflows	1,623	
Net OPEB asset/liability deferred inflows	(1,754)	
Net OPEB liability	(944)	
		7,490,430
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	30,358,197	
Deferred inflows of resources related to pensions	(3,052,835)	
		27,305,362
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds payable	(76,226,588)	
Issuance premium (to be amortized as interest expense)	(5,246,276)	
Net pension liability	(88,745,885)	
Compensated absences payable	(6,888,711)	
Deferred outflow of resources related to loss on refunding	217,809	
Net OPEB Asset	156,304	
Net OPEB Liability	(364,407)	
Interest Payable	(218,846)	
		$ (177,316,600)

City of Surprise, Arizona
Reconciliation of the Governmental Funds Balance Sheet Fund Balances
to the Statement of Net Position
June 30, 2018

The equity interest in the joint venture, Regional Wireless Cooperative, is not a financial resource and, therefore, is not reported in the funds.		$ 1,100,488
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	276,565	
Deferred inflows of resources related to OPEB	(480,750)	
		(204,185)
Net position of governmental activities		$ 404,074,845

City of Surprise, Arizona
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

	General Fund	General Capital Projects Fund	General Government Development Fee Fund	Highway User Revenue Fund
REVENUES				
Taxes	$ 53,052,926	$ 4,353,850	$ -	$ -
Licenses and permits	5,817,956	-	-	-
Intergovernmental revenues	35,699,515	-	-	8,639,682
Charges for services	14,195,809	-	-	8,250
Grants revenue	-	-	-	-
Fines	1,373,122	-	-	-
Rents	601,628	-	-	-
Development fees	-	-	1,230,718	-
Interest revenue(loss)	82,859	140,958	-	(332)
Donations	183,307	-	-	-
Indirect charges	5,249,200	-	-	-
Other revenue	493,347	3,573	-	1,970
Total revenues	116,749,669	4,498,381	1,230,718	8,649,570
EXPENDITURES				
Current:				
General Government	16,864,752	-	-	-
Public Safety	50,466,843	-	-	-
Public works and streets	6,529,969	-	-	7,283,681
Community Development	11,091,251	-	-	-
Culture and recreation	17,475,224	-	-	-
Debt service:				
Administrative charges	-	-	-	-
Principal retirement	-	-	-	-
Interest	-	-	-	-
Bond issuance costs	-	-	-	-
Capital outlay:				
General Government	20,773	2,584,898	-	-
Public Safety	128,819	1,797,746	-	-
Public works and streets	1,246	4,117,156	-	881,271
Community Development	-	384,237	-	-
Culture and recreation	33,175	3,384,970	-	-
Total expenditures	102,612,052	12,269,007	-	8,164,952
Excess (deficiency) of revenues over expenditures	14,137,617	(7,770,626)	1,230,718	484,618
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	136,426	-	-	-
Transfers in	1,256,630	9,694,200	-	-
Transfers out	(11,814,467)	(146,566)	(367,166)	(109,738)
Issuance of debt	-	37,612,501	-	-
Premium on debt issuance	-	2,257,500	-	-
Total other financing sources (uses)	(10,421,411)	49,417,635	(367,166)	(109,738)
SPECIAL ITEM				
Special Item - Forgiveness of advance from General Capital Projects Fund	-	(36,019,204)	36,019,204	-
Total special items	-	(36,019,204)	36,019,204	-
Net change in fund balances	3,716,206	5,627,805	36,882,756	374,880
Fund balances - beginning - previously stated	40,538,742	37,203,258	(42,451,206)	1,652,218
Prior period adjustment	(80,275)	-	-	-
Fund balances - beginning - restated	40,458,467	37,203,258	(42,451,206)	1,652,218
Increase in inventories	9,686	-	-	25,024
Fund Balances (deficits) - ending	$ 44,184,359	$ 42,831,063	$ (5,568,450)	$ 2,052,122

See accompanying Notes to Financial Statements

Transportation Improvement Fund	Total Nonmajor Funds	Total Governmental Funds
$ 3,820,807	$ 4,029,745	$ 65,257,328
-	-	5,817,956
-	433,807	44,773,004
-	982,040	15,186,099
25,500	2,666,430	2,691,930
-	908,876	2,281,998
-	-	601,628
-	4,075,647	5,306,365
15,002	71,551	310,038
-	-	183,307
-	-	5,249,200
-	23,855	522,745
3,861,309	13,191,951	148,181,598
-	100,468	16,965,220
-	1,005,051	51,471,894
3,002,896	3,042,241	19,858,787
81,007	718,558	11,890,816
-	2,065,720	19,540,944
-	4,251	4,251
-	2,776,050	2,776,050
-	1,578,092	1,578,092
-	468,626	468,626
-	2,830,000	5,435,671
-	69,618	1,996,183
1,420,423	45,327	6,465,423
-	-	384,237
-	367,396	3,785,541
4,504,326	15,071,398	142,621,735
(643,017)	(1,879,447)	5,559,863
-	-	136,426
-	3,553,945	14,504,775
(1,228)	(1,091,474)	(13,530,639)
-	3,117,500	40,730,001
-	223,606	2,481,106
(1,228)	5,803,577	44,321,669
-	-	-
-	-	-
(644,245)	3,924,130	49,881,532
3,586,926	19,790,121	60,320,059
-	6,567	(73,708)
3,586,926	19,796,688	60,246,351
-	-	34,710
$ 2,942,681	$ 23,720,818	$ 110,162,593

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, 2018

Net change in fund balances - total governmental funds		$ 49,881,532
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	10,117,577	
Less current year depreciation	(26,174,801)	
		(16,057,224)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.		
Capital Contributions	20,145,099	
Disposals of assets	(1,619,194)	
		18,525,905
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		119,986
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		34,710
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	12,827,290	
Pension expense	(13,254,830)	
		(427,540)
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	317,353	
Principal Paid	2,776,050	
Issuance Premium	(2,481,105)	
Bond Proceeds	(40,730,000)	
Amortization of Loss on refunding	(108,902)	
		(40,226,604)
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	(825,601)	
PSPRS and EORP Excess Contribution Refund	2,944,226	
Interest Expense	(218,846)	
		1,899,779

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, 2018

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)	1,494,069	
Transfers	381,446	
		$ 1,875,515
Change in equity interest in joint venture		(28,506)
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	330,717	
OPEB expense	(214,168)	
		116,549
Change in net position of governmental activities		$ 15,714,102

See accompanying Notes to Financial Statements

City of Surprise, Arizona
Statement of Net Position
Proprietary Funds
June 30, 2018

	Ground Ambulance Services Fund	Business-Type Activities Water Fund	Sewer Fund
ASSETS			
Current assets:			
Cash and investments	$ 163,951	$ 18,206,313	$ 13,513,738
Restricted cash and investments	-	80,506	15,265,259
Receivables (net of allowances)			
Accounts	986,705	1,704,445	1,482,900
Other	-	20,340	-
Other assets	1,393	313,540	14,726
Inventory	20,508	149,759	222,584
Total current assets	1,172,557	20,474,903	30,499,207
Noncurrent assets:			
Advances to other funds	-	-	8,500,292
Net other postemployment benefits asset	2,776	11,466	16,133
Capital assets	970,389	128,853,135	287,937,004
Accumulated depreciation	(104,434)	(29,466,107)	(83,541,374)
Total noncurrent assets	868,731	99,398,494	212,912,055
Total assets	2,041,288	119,873,397	243,411,262
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	138,093	570,366	802,484
Deferred outflows related to other postemployment benefits	3,149	13,008	18,302
Total deferred outflows of resources	141,242	583,374	820,786
Total assets and deferred outflows of resources	$ 2,182,530	$ 120,456,771	$ 244,232,048
LIABILITIES			
Current liabilities:			
Accounts payable	$ 111,835	$ 713,199	$ 368,115
Accrued payroll and related taxes	43,829	103,046	125,583
Deposits	4	71,418	113,402
Unearned revenue	-	-	504,926
Claims payable	-	-	-
Compensated absences payable, due in less than one year	12,957	108,196	178,475
Contracts payable	-	8,766	289,273
Matured bond interest payable	-	-	511,369
Matured bonds and loans payable	-	-	598,950
Bonds, loans and payables, due in less than one year	-	-	617,100
Advances from other funds	624,850	-	-
Total current liabilities	793,475	1,004,625	3,307,193
Noncurrent liabilities:			
Compensated absences payable, due in more than one year	17,893	149,413	246,465
Contracts payable, due in more than one year	-	2,448,475	-
Bonds, loans and payables, due in more than one year	-	-	37,725,228
Net pension liability	784,120	3,238,657	4,556,667
Net other postemployment benefits liability	1,831	7,561	10,639
Total noncurrent liabilities	803,844	5,844,106	42,538,999
Total liabilities	1,597,319	6,848,731	45,846,192
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	46,959	193,954	272,887
Deferred inflows related to other postemployment benefits	3,403	14,057	19,777
Total deferred inflows of resources	50,362	208,011	292,664
Total liabilities and deferred inflows of resources	1,647,681	7,056,742	46,138,856
NET POSITION			
Net investment in capital assets	865,956	99,387,028	171,218,347
Restricted for:	-	-	-
Debt service	-	-	8,736,068
Sewer system repair and replacement	-	-	5,629,057
Unrestricted	(331,107)	14,013,001	12,509,720
Total net position	$ 534,849	$ 113,400,029	$ 198,093,192

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

See accompanying Notes to Financial Statements

	Sanitation Fund	Stormwater Fund	Total Enterprise Funds	Governmental Activities Internal Service Funds
	$ 3,806,231	$ 1,547,888	$ 37,238,121	$ 11,024,023
	186,297	-	15,532,062	-
	630,664	689,285	5,493,999	-
	-	-	20,340	206,433
	3,712	1,172	334,543	27,944
	85,879	-	478,730	-
	4,712,783	2,238,345	59,097,795	11,258,400
	-	-	8,500,292	-
	11,063	-	41,438	1,432
	9,476,716	1,274,905	428,512,149	-
	(4,190,835)	(42,161)	(117,344,911)	-
	5,296,944	1,232,744	319,708,968	1,432
	10,009,727	3,471,089	378,806,763	11,259,832
	550,330	-	2,061,273	71,185
	12,551	-	47,010	1,623
	562,881	-	2,108,283	72,808
	$ 10,572,608	$ 3,471,089	$ 380,915,046	$ 11,332,640
	$ 259,461	$ 7,622	$ 1,460,232	$ 93,253
	83,455	14,481	370,394	14,439
	107,600	-	292,424	-
	78,697	39,480	623,103	-
	-	-	-	1,451,175
	80,914	8,129	388,671	15,386
	-	-	298,039	-
	-	-	511,369	-
	-	-	598,950	-
	-	-	617,100	-
	-	-	624,850	-
	610,127	69,712	5,785,132	1,574,253
	111,738	11,225	536,734	21,247
	-	-	2,448,475	-
	-	-	37,725,228	-
	3,124,886	-	11,704,330	404,200
	7,296	-	27,327	944
	3,243,920	11,225	52,442,094	426,391
	3,854,047	80,937	58,227,226	2,000,644
	187,141	-	700,941	24,207
	13,563	-	50,800	1,754
	200,704	-	751,741	25,961
	4,054,751	80,937	58,978,967	2,026,605
	5,285,882	1,232,744	277,989,957	-
	-	-		
	-	-	8,736,068	-
	-	-	5,629,057	-
	1,231,975	2,157,408	29,580,997	9,306,035
	$ 6,517,857	$ 3,390,152	$ 321,936,079	$ 9,306,035
			1,815,604	
			$ 323,751,683	

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, 2018

	Business-Type Activities		
	Ground Ambulance Services Fund	Water Fund	Sewer Fund
OPERATING REVENUES			
Charges for services	$ 2,932,804	$ 14,993,619	$ 17,045,994
Other revenue	41,900	169,404	318,789
Total operating revenues	2,974,704	15,163,023	17,364,783
OPERATING EXPENSES			
Costs of sales and services	2,946,187	6,094,874	8,553,734
Indirect costs	194,400	1,300,100	1,554,100
Depreciation	81,943	3,444,602	7,762,004
Total operating expenses	3,222,530	10,839,576	17,869,838
Operating income (loss)	(247,826)	4,323,447	(505,055)
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental revenues	-	-	-
Interest revenue	(861)	35,778	87,105
Developer reimbursement	-	(202,643)	(577,941)
Gain\(Loss) on disposal of capital assets	-	(935,522)	(19,225)
Amortization on premium	-	-	78,152
Interest and fiscal charges	-	-	(1,870,109)
Total nonoperating revenues (expenses)	(861)	(1,102,387)	(2,302,018)
Income (loss) before contributions and transfers	(248,687)	3,221,060	(2,807,073)
Transfers in	73,000	1,148,102	-
Transfers out	(11,601)	(512,811)	(1,937,290)
Capital contributions	12,518	1,451,755	7,624,036
Change in net position	(174,770)	5,308,106	2,879,673
Total net position - beginning - previously stated	-	108,091,269	195,212,733
Prior period adjustment	709,619	654	786
Total net position - beginning - restated	709,619	108,091,923	195,213,519
Total net position - ending	$ 534,849	$ 113,400,029	$ 198,093,192

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
$ 7,293,209	$ 1,834,202	$ 44,099,828	$ 15,309,590
162,738	-	692,831	-
7,455,947	1,834,202	44,792,659	15,309,590
5,551,991	757,766	23,904,552	13,261,359
2,200,600	-	5,249,200	-
962,407	31,914	12,282,870	-
8,714,998	789,680	41,436,622	13,261,359
(1,259,051)	1,044,522	3,356,037	2,048,231
-	-	-	-
17,299	1,788	141,109	14,466
-	-	(780,584)	-
29,080	-	(925,667)	-
-	-	78,152	-
-	-	(1,870,109)	-
46,379	1,788	(3,357,099)	14,466
(1,212,672)	1,046,310	(1,062)	2,062,697
-	-	1,221,102	381,446
(114,982)	-	(2,576,684)	-
-	594,082	9,682,391	-
(1,327,654)	1,640,392	8,325,747	2,444,143
7,844,876	1,749,760	312,898,638	6,861,810
635	-	711,694	82
7,845,511	1,749,760	313,610,332	6,861,892
$ 6,517,857	$ 3,390,152	$ 321,936,079	$ 9,306,035
		568,451	
		$ 8,894,198	

City of Surprise, Arizona
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018

	Business-Type Activities			
	Ground Ambulance Services Fund	Water Fund	Sewer Fund	Sanitation Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	$ 2,644,518	$ 15,276,606	$ 17,332,676	$ 7,433,908
Cash Other	41,900	169,404	318,789	162,738
Payments to employees	(1,311,929)	(2,961,815)	(3,919,204)	(2,809,551)
Payments to suppliers	(1,048,910)	(4,903,860)	(5,966,380)	(5,073,521)
Net cash provided (used) by operating activities	325,579	7,580,335	7,765,881	(286,426)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash received from other governments	-	-	-	-
Cash received from other funds	155,000	-	1,071,528	-
Cash paid to other funds	(11,601)	(512,811)	(789,188)	(114,982)
Net cash provided (used) by noncapital financing activities	143,399	(512,811)	282,340	(114,982)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds received from development fees	-	917,177	2,407,952	-
Proceeds received from extension fees	-	-	57,332	-
Principal and interest paid on bonds, loans and payables	-	-	(4,430,808)	-
Sale/Acquisition of capital assets	(306,036)	226,817	(2,473,475)	(1,449,259)
Developer reimbursements	-	(438,131)	(577,941)	-
Net cash provided (used) by capital and related financing activities	(306,036)	705,863	(5,016,940)	(1,449,259)
CASH FLOWS FROM INVESTING ACTIVITIES				
Sales of investments	-	-	6,810,892	-
Purchases of investments	-	-	-	-
Cash received from interest income/(loss)	(861)	35,778	87,105	17,299
Net cash provided (used) by investing activities	(861)	35,778	6,897,997	17,299
Net increase (decrease) in cash and cash equivalents	162,081	7,809,165	9,929,278	(1,833,368)
Balances - beginning of year	1,870	10,477,654	18,849,719	5,825,896
Balances - end of the year	$ 163,951	$ 18,286,819	$ 28,778,997	$ 3,992,528
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating Income	$ (247,826)	$ 4,323,447	$ (505,055)	$ (1,259,051)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	81,943	3,444,602	7,762,004	962,407
Changes in assets and liabilities:				
Accounts receivable	(286,719)	262,963	441,269	167,011
Other receivables	-	40,100	-	-
Other assets	(471)	(144,759)	(14,726)	1,924
Inventory	(13,837)	6,554	291,856	72,350
Accounts payable	58,038	(129,085)	(382,087)	20,328
Accrued payroll and related taxes	12,872	4,986	(28,225)	(1,051)
Deposits	(1,566)	(20,076)	(54,724)	(13,863)
Unearned revenue	-	-	(99,862)	(12,449)
Compensated absences	30,850	18,249	38,871	10,174
Net pension liability	692,986	(223,136)	319,793	(232,086)
Claims payable	-	-	-	-
Net other postemployment asset/liability	(691)	(3,510)	(3,233)	(2,120)
Net cash provided (used) by operating activities	$ 325,579	$ 7,580,335	$ 7,765,881	$ (286,426)
Noncash investing, capital and financing activities				
Capital asset contributions from developers/governmental activities	$ -	$ 534,578	$ 5,158,752	$ -
Capital asset contributions to/from other funds	12,621	1,148,102	(1,148,102)	-
Decrease in the fair market value of investments	(1,004)	(92,274)	(121,759)	(36,056)
Total noncash investing, capital and financing activities	$ 11,617	$ 1,590,406	$ 3,888,891	$ (36,056)
Reconciliation to Statement of Net Position				
Cash and investments	$ 163,951	$ 18,206,313	$ 13,513,738	$ 3,806,231
Restricted cash and investments	-	80,506	15,265,259	186,297
Total cash and investments	$ 163,951	$ 18,286,819	$ 28,778,997	$ 3,992,528
Less investments	-	-	-	-
Total Cash	$ 163,951	$ 18,286,819	$ 28,778,997	$ 3,992,528

See accompanying Notes to Financial Statements

		Governmental Activities
Stormwater Fund	Total Enterprise Funds	Internal Service Funds
$ 1,374,219	$ 44,061,927	$ 15,113,157
-	692,831	-
(434,773)	(11,437,272)	(427,917)
(282,708)	(17,275,379)	(12,733,629)
656,738	16,042,107	1,951,611
-	-	-
-	1,226,528	381,446
-	(1,428,582)	-
-	(202,054)	381,446
-	3,325,129	-
-	57,332	-
-	(4,430,808)	-
(20,439)	(4,022,392)	-
-	(1,016,072)	-
(20,439)	(6,086,811)	-
-	6,810,892	-
-	-	-
1,788	141,109	14,466
1,788	6,952,001	14,466
638,087	16,705,243	2,347,523
909,801	36,064,940	8,676,500
$ 1,547,888	$ 52,770,183	$ 11,024,023
$ 1,044,522	3,356,037	$ 2,048,231
31,914	12,282,870	-
(455,800)	128,724	-
-	40,100	(196,433)
(1,172)	(159,204)	(19,462)
-	356,923	-
7,622	(425,184)	39,635
14,481	3,063	(379)
-	(90,229)	-
(4,183)	(116,494)	-
19,354	117,498	15,627
-	557,557	(28,451)
-	-	93,118
-	(9,554)	(275)
$ 656,738	$ 16,042,107	$ 1,951,611
$ 601,031	$ 6,294,361	$ -
-	12,621	-
(10,064)	(261,157)	(42,832)
$ 590,967	$ 6,045,825	$ (42,832)
$ 1,547,888	$ 37,238,121	$ 11,024,023
-	15,532,062	-
$ 1,547,888	$ 52,770,183	$ 11,024,023
-	-	-
$ 1,547,888	$ 52,770,183	$ 11,024,023

City of Surprise, Arizona

Statement of Fiduciary Net Position

Fiduciary Fund

June 30, 2018

		Agency funds
ASSETS		
Cash and investments	$	78,169
Total assets		78,169
LIABILITIES		
Deposits held for others	$	78,169
Total liabilities		78,169

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, 2018, the City implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; GASB Statement No. 81, *Irrevocable Split-Interest Agreements*; GASB Statement No. 85, *Omnibus 2017*; GASB Statement No. 86, *Certain Debt Extinguishment Issues*; GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements;* and GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* GASB Statement No.75 addresses accounting and financial reporting for Other Postemployment Benefits (OPEB) that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB Statement No. 81 provides recognition and measurement guidance for situations in which a government is a beneficiary of an irrevocable split-trust agreement. GASB Statement No. 85 addresses practice issues that have been identified during implementation of certain GASB statements. GASB Statement No. 86 improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. GASB Statement No. 88 improves the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements, and clarifies which liabilities governments should include when disclosing information related to debt. GASB Statement No. 89 improves financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period by enhancing the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities.

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, 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, 2018, 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. Agency funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements 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.

Proprietary Funds

All proprietary funds are accounted for on the flow of economic resources measurement focus and use of accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. 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.

Agency fund (not included in government-wide statements) accounts for employee contributions to their flexible spending accounts. The City staff performs all administrative and accounting functions for this fund.

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 non-major fund SPD Towing 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.

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

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 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, 2018 this balance totaled $1.8 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 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, 2018 this balance totaled $11.2 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 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, 2018 this balance totaled $5.6 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 and proprietary 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, 2018 are listed below:

Fund	Repair & Replacement Reserve	Operating Reserve	Total Reserve
Water Fund	$ 2,333,555	$ 1,525,000	$ 3,858,555
Sewer Fund	5,629,057	1,851,600	7,480,657
Sanitation Fund	159,967	941,800	1,101,767
Stormwater Fund	13,208	138,300	151,508

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.

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.

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, 2018, 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. INTERFUND TRANSACTIONS

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

T. 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.

U. PRIOR PERIOD ADJUSTMENT

The City's Ground Ambulance Services Fund was previously reported as part of the General Fund. Effective July 1, 2017, the City now reports this fund as a major enterprise fund. The City corrected an error related to the accounting for property taxes for the Non-Major Governmental Fund - Street Lighting Improvement Districts. Further, net position as of July 1, 2017, has been restated for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), as amended by GASB Statement No. 85, *Omnibus 2017*. Upon restatement, the City reported the following adjustments to beginning fund balance and net position:

	Governmental Activities	Business-Type Activities	General Fund	Non-Major Governmental Funds	Water Fund	Sewer Fund	Sanitation Fund	Ground Ambulance Services Fund	Internal Service Funds
Beginning of the year, as previously reported Net Position/Fund Balance at June 30, 2017	$ 389,592,550	$ 314,145,791	$ 40,538,742	$ 19,790,121	$ 108,091,269	$ 195,212,733	$ 7,844,876	$ -	$ 6,861,810
Effect of reclassifying the Ground Ambulance Services Fund from a Governmental Fund to an Enterprise Fund	(709,619)	709,619	(80,275)	-	-	-	-	709,619	-
Prior Period adjustment - implementation of GASB 75:									
Net OPEB asset (measurement date as of June 30, 2016)	-	-	-	-	-	-	-	-	-
Net OPEB liability (measurement date as of June 30, 2016)	(824,590)	(47,910)	-	-	(15,105)	(18,149)	(14,656)	-	(1,888)
Deferred outflows-City contributions made during fiscal year 2017	295,835	49,985	-	-	15,759	18,935	15,291	-	1,970
Prior Period adjustment - error correction	6,567	-	-	6,567	-	-	-	-	-
Total prior period adjustment	(1,231,807)	711,694	(80,275)	6,567	654	786	635	709,619	82
Beginning of the year, as restated Net Position/Fund Balance, July 1, 2017	$ 388,360,743	$ 314,857,485	$ 40,458,467	$ 19,796,688	$ 108,091,923	$ 195,213,519	$ 7,845,511	$ 709,619	$ 6,861,892

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 $52,887,469 and the bank balance was $53,419,852. At year end, $500,000 of the City's deposits was covered by federal depository insurance. The remaining bank balance not covered by federal depository insurance $52,919,852 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, 2018 follows:

Cash in bank	$	53,419,852
Reconciling items:		
Outstanding checks		(946,774)
Deposits in transit		365,661
Other		48,730
	$	52,887,469
Less:		
Fiduciary Fund		78,169
Total City deposits	$	52,809,300

The City's investments consisted of the following as of June 30, 2018:

Investment Type	Total Fair Value	Less than 1 year	1-2 years	2-3 years
U. S. government securities	$ 71,651,937	$ 14,274,723	$ 29,591,159	$27,786,055
Government sponsored entity debt	50,869,206	14,808,944	25,148,056	10,912,206
Money Market mutual funds	8,244,753	8,244,753	-	-
Local government investment pool	411,031	411,031	-	-
	$ 131,176,927	$ 37,739,451	$ 54,739,215	$38,698,261

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, 2018, are as follows:

City's deposits	$	52,887,469
Cash on hand		7,000
City's investments		131,176,927
Cash held by trustee		1,270,202
Total	$	185,341,598

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 $50,869,206 of government sponsored entity debt. At June 30, 2018, these investments were rated by Standard and Poor's at AAm. 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 III). 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 I – 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 II – 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 III – 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	$ 75,225,475	$ 75,225,475	$ -	$ -
Federal Agency	47,295,668	-	47,295,668	-
Total investments by fair value level	$122,521,143	$ 75,225,475	$ 47,295,668	$ -
Investments measured at net asset value				
LGIP	411,031			
Total investments measured at fair value	$122,932,174			
Investments measured at amortized cost				
Money market funds	8,244,753			
Total investments:	$131,176,927			

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	$ 122,333,546
Total restricted cash and investments	62,929,883
Subtotal	185,263,429
Government-wide total cash and investments	185,263,429
Plus: Fiduciary Fund cash and cash equivalents	78,169
Total	$ 185,341,598

Fund Financial Statements

Governmental Funds	
Cash and investments	$ 74,071,402
Restricted cash and cash equivalents	47,397,821
Enterprise Funds	
Cash and investments	37,238,121
Restricted cash and cash equivalents	15,532,062
Internal Service Fund	
Cash and investments	11,024,023
Fiduciary Fund	
Cash and cash equivalents	78,169
Total	$ 185,341,598

NOTE 3 – ACCOUNTS RECEIVABLE

The amount due from other governments of $865,550, as reported in the statement of net position includes $777,494 in highway user tax and $88,056 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, 2018 are as follows:

CAFR Fund Name	Unearned	Unavailable
General Fund	$ 1,371,742	$ 267,193
Highway User Revenue Fund	2,000	-
Non-major Governmental Funds	806,511	16,592
	$ 2,180,253	$ 283,785

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, 2018 are as follows:

CAFR Fund Name	Unearned
Sewer Fund	$ 504,926
Sanitation Fund	78,697
Stormwater Fund	39,480
	$ 623,103

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018, was as follows:

	Primary Government				
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Not being depreciated:					
Land and land improvements	$ 39,915,589	$ 10,005,196	$ -	$ (264,307)	$ 49,656,478
Parks	10,256,905	-	-	(1,111,742)	9,145,163
Construction in process	1,659,311	2,523,164	(150,000)	(990,714)	3,041,761
Total Not Being Depreciated	51,831,805	12,528,360	(150,000)	(2,366,763)	61,843,402
Other capital assets:					
Buildings and improvements	203,650,942	229,626	(170,081)	69,189	203,779,676
Improvements other than buildings	26,312,540	2,128,400	(39,898)	1,446,592	29,847,634
Equipment and vehicles	50,528,664	3,896,465	(3,132,637)	119,501	51,411,993
Intangibles	5,755,555	526,185	-	70,708	6,352,448
Infrastructure	413,486,327	10,953,641	(2,132,348)	8,938	422,316,558
Total Other Capital Assets	699,734,028	17,734,317	(5,474,964)	1,714,928	713,708,309
Total Assets before Depreciation	751,565,833	30,262,677	(5,624,964)	(651,835)	775,551,711
Accumulated depreciation:					
Building and improvements	(66,143,787)	(6,780,717)	138,004	-	(72,786,500)
Improvements other than buildings	(7,186,628)	(1,424,035)	-	-	(8,610,663)
Equipment and vehicles	(32,762,943)	(3,368,174)	2,989,717	22,491	(33,118,909)
Intangibles	(1,461,180)	(644,752)	-	-	(2,105,932)
Infrastructure	(210,597,660)	(13,957,124)	878,049	-	(223,676,735)
Total Accumulated Depreciation	(318,152,198)	(26,174,802)	4,005,770	22,491	(340,298,739)
Net Capital Assets - Governmental Activities	$ 433,413,635	$ 4,087,875	$ (1,619,194)	$ (629,344)	$ 435,252,972

Depreciation was charged by function as follows:

General government	$ 2,378,124
Public safety	2,577,989
Public works and streets, includes depreciation for infrastructure	16,395,534
Community development	32,139
Culture and recreation	4,791,015
Total governmental activities depreciation expense	$ 26,174,801

	Primary Government				
	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Not being depreciated:					
Land	$ 5,162,310	$ -	$ -	$ -	$ 5,162,310
Water Rights	11,499,040	3,394,442	(4,925,840)	-	9,967,642
Construction in progress	2,405,326	448,475	-	(2,183,271)	670,530
Total not being depreciated	19,066,676	3,842,917	(4,925,840)	(2,183,271)	15,800,482
Other capital assets:					
Buildings and system	376,037,123	7,885,108	(24,647)	634,386	384,531,970
Improvements other than buildings	5,621,112	27,243	(9,681)	-	5,638,674
Vehicles and equipment	17,563,437	2,612,325	(357,316)	2,200,720	22,019,166
Intangibles	521,857	-	-	-	521,857
Total other capital assets	399,743,529	10,524,676	(391,644)	2,835,106	412,711,667
Total assets before depreciation	418,810,205	14,367,593	(5,317,484)	651,835	428,512,149
Accumulated depreciation:					
Buildings and system	(98,120,755)	(10,259,882)	5,421	-	(108,375,216)
Improvements other than buildings	(237,976)	(146,627)	-	-	(384,603)
Vehicles and equipment	(6,991,370)	(1,771,990)	357,316	(22,491)	(8,428,535)
Intangibles	(52,186)	(104,371)	-	-	(156,557)
Total accumulated depreciation	(105,402,287)	(12,282,870)	362,737	(22,491)	(117,344,911)
Net capital assets - business activities	$ 313,407,918	$ 2,084,723	$ (4,954,747)	$ 629,344	$ 311,167,238

Depreciation was charged by function as follows:

Ground Ambulance	$ 81,943
Water	3,444,602
Sewer	7,762,004
Sanitation	962,407
Stormwater	31,914
Total Depreciation Expense	$ 12,282,870

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 and water resource 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 fifteen years. Once an agreement expires, water system and water resource impact fees are no longer eligible for developer reimbursement. As of June 30, 2018, the City has reimbursed $11,052,373, leaving a potential remaining balance of $14,577,617.

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-two years. Once the agreements expire, the remaining unpaid balance of these infrastructure costs is no longer subject to repayment. As of June 30, 2018, the amount the City has reimbursed is $95,016, leaving a potential remaining balance of $13,907,579.

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, 2018. Depending on the terms of the specific agreements, this value is eligible for reimbursement over the next thirty-two years. Once the agreements expire, no further developer reimbursement of the unpaid balance is required. As of June 30, 2018, the City has reimbursed $855,685 to developers, leaving a potential remaining balance of $64,747,619.

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 during the next two years. Once an agreement expires, park impact fees are no longer eligible for developer reimbursement. As of June 30, 2018, the City has reimbursed $307,486, leaving a potential balance remaining of $4,470,396.

Development agreements related to fire infrastructure will be reimbursed using fire development impact fees. The total net value reimbursable for fire infrastructure is $496,663. Depending on the terms of the specific agreement, this value is eligible for reimbursement during the next two years. Once the agreements expire, the remaining unpaid balance of these infrastructure costs is no longer subject to repayment. As of June 30, 2018, the amount the City has reimbursed is $440,469, leaving a potential remaining balance of $56,194.

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 2018, $16,230 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 2018 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, 2018, the city reimbursed $3,282,281.

NOTE 6 – SIGNIFICANT COMMITMENTS

Construction Commitments

The City of Surprise has active construction projects as of June 30, 2018. At year end, the City commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment	Funding Source
Roseview Well By-Pass Line	$ 16,100	$ 4,240	Water Utility Capital
EOne Truck Replacement	288,145	305,614	Vehicle Replacement
F350 Brush Truck Replacement	-	238,619	Vehicle Replacement
Network Microsegmentation	64,387	64,387	General Capital Projects Fund
District Fire Station 304	-	582,661	Public Safety Election 2017
Fire Station 308	-	14,710	Public Safety Election 2017
Ambulance #4 & FS301 Remodel	97,063	23,619	Ground Ambulance Capital Fund
107th & Union Hills Drainage	500,000	1,484,906	General Capital Projects Fund
Bullard Ave Greenway to Peoria	1,420,423	(5,600)	Transportation Improvement
Bullard Ave Greenway to Peoria	12,700	-	Public Works Dev Fee
Peoria & Litchfield Drainage Improvements	20,439	28,991	Stormwater Capital
Waddell Rd (SR303-Reems Rd)	15,078	549,616	Traffic Election 2017
Litchfield Rd (Waddell Rd-Peoria)	8,332	421,847	Traffic Election 2017
Bond Pavement Preservation	-	4,481,481	Pavement Preservation Election 2017
Greenway Rd Cotton Ln-Sarival	-	378,945	Traffic Election 2017
Public Works Yard	39,365	868,364	Public Safety Election 2017
SPA1 WRF N Entrance Gate & Wall	16,721	428,415	Sewer Utility Capital
SPA1 Recharge Expansion	31,322	205,802	Sewer Utility Capital
SPA1 Rancho Gabriela WSF-Arsenic	45,075	974,258	Water Utility Capital
	$ 2,575,150	$ 11,050,875	

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	$ 515,951
General Capital Projects Fund	3,217,355
General Government Development Fee Fund	-
Highway User Revenue Fund	211,952
Transportation Improvement Fund	-
Non-Major Funds	502,184
Ground Ambulance Services Fund	23,619
Water Fund	483,758
Sewer Fund	511,342
Sanitation Fund	22,581
Stormwater Fund	239
Total encumbrances	$ 5,488,981

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 and a balance outstanding at June 30, 2018 of $33,770,000. The Bonds are secured by a pledge of the City's wastewater development impact fee collections as well as a subordinate pledge of wastewater utility revenue collections, net of specified operating expenses. The wastewater development impact fees and utility revenue collections are recorded in the Sewer Fund. Required reserves for the MPC issuance have been met by the City. Principal and interest paid and system net revenues for the current year were $3,633,015 and $10,785,497 respectively. Next year's interest payments will be $1,589,133 and will constitute approximately 15% of the current year's system net revenues. Of the total system net revenues, $2,407,952 are development impact fee revenues that have been specifically designated for debt service payments per the bond issuance statement. The remaining $8,377,545 represents net revenues from wastewater operations during the year, and is available to meet debt service payment obligations.

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, 2018 (revenues to debt service payable) is 25.8.

The Pledged Revenue Obligations, Series 2015, were issued in the amount of $17,385,000, and have an outstanding principal balance at June 30, 2018 of $14,705,000. 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 $1,582,200 and $109,306,994, respectively. Next year's principal and interest payments of $1,584,300 constitute approximately 1.4% 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, 2018 of $13,565,000. 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 $2,654,850 and $109,306,994, respectively. Next year's principal and interest payments totaling $2,655,450 constitute approximately 2.4% of current year pledged revenue.

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, 2018, $2,470,000 of defeased bonds remain outstanding.

Long-term debt as of June 30, 2018 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.	$ 14,705,000
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.	9,461,588
Total 2015 Pledged Revenue Obligation	24,166,588
2015, Pledged Revenue Revenue Obligations, Issuance Premium	2,475,819
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.	37,730,000
2018, General Obligation Bonds, Issuance Premium	2,481,105
Total General and Revenue Obligations	$ 66,853,512

Community Facilities District General Obligation Bonds and Notes	Long-Term Debt Outstanding
2007 Marley Park Community Facilities District General Obligation Bonds due in annual installments of $80,000 to $375,000 beginning July 15, 2008 through July 15, 2032; interest at 4.35 percent to 6.10 percent. Original issue amount $3,950,000. In October 2016, $2,685,000 of these bonds was refunded by the 2016 Marley Park Community Facilities District General Obligation Refunding Bonds.	$ 130,000
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.	190,000
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.	11,140,000
2016 Marley Park Community Facilities District General Obligation and General Obligation Refunding Bonds, Issuance Premium	289,352
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.	2,870,000
Total Community Facilities Districts General Obligation Bonds and Notes Outstanding	14,619,352
Total Bonds and Notes Payable Recorded in Governmental Activities	$ 81,472,864

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

	Long-Term Debt Outstanding
Revenue Obligations	
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.	$ 4,103,412
2015, Pledged Revenue Refunding Obligation, Issuance Premium	468,915
Municipal Property Corporation Bonds	
2007, Municipal Property Corporation Wastewater Development Impact Fee and Subordinate Lien Wastewater Utility Revenue Bonds (issued May 1, 2007) due in installments of $4,675,000 to $25,000,000 through October 1, 2031; interest at 4.25 percent to 4.90 percent. Original issue amount $50,675,000.	33,770,000
Total Bonds Payable Recorded in Business-type Activities	38,342,327
Total Long-Term Bonds Payable	$ 119,815,191

The following is a summary of long-term liabilities for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due within 1 year
Governmental activities					
Bonds payable:					
City of Surprise, Series 2015 Pledged revenue obligations $28,701,375 ($36,665,000 issued)	$ 26,477,637	$ -	$ (2,311,050)	$ 24,166,588	$ 2,382,900
City of Surprise, Series 2018 General obligations $37,730,000	-	37,730,000	-	37,730,000	2,515,000
For issuance premium 2015	2,772,239	-	(296,420)	2,475,819	-
For issuance premium 2018	-	2,481,105	-	2,481,105	-
Community Facilities District					
Series 2006 Bonds, $1,365,000 issued	50,000	-	(50,000)	-	-
Series 2007 Bonds, $3,950,000 issued	250,000	-	(120,000)	130,000	130,000
Series 2008 Bonds, $3,395,000 issued	275,000	-	(85,000)	190,000	90,000
Series 2016 Bonds, $11,365,000 issued	11,220,000		(80,000)	11,140,000	135,000
Series 2017 Direct Placement Note, $3,000,000 issued	-	3,000,000	(130,000)	2,870,000	100,000
For issuance premium 2016	310,285	-	(20,933)	289,352	-
Total bonds payable	41,355,161	43,211,105	(3,093,403)	81,472,864	5,352,900
Net pension liabilities	88,090,954	8,584,944	(7,525,813)	89,150,085	-
Net OPEB liabilities	-	365,351	-	365,351	-
Compensated absences payable	6,084,114	4,951,969	(4,110,739)	6,925,344	2,908,645
Total governmental activities long-term liabilities	$ 135,530,229	$ 57,113,369	$ (14,729,955)	$ 177,913,644	$ 8,261,545
Business-type activities					
City of Surprise, Series 2015 Pledged revenue obligations $5,278,625 ($36,665,000 issued)	$ 4,702,363	$ -	$ (598,950)	$ 4,103,413	$ 617,100
General municipal property corporation fund obligation Series 2007 Bonds, $50,675,000 issued	35,720,000	-	(1,950,000)	33,770,000	-
For issuance premium 2015	547,067	-	(78,152)	468,915	
Total bonds payable	40,969,430	-	(2,627,102)	38,342,328	617,100
Net pension liabilities	11,529,785	945,313	(770,768)	11,704,330	-
Net OPEB liabilities	-	27,327	-	27,327	-
Compensated absences payable	807,907	727,510	(610,012)	925,405	388,671
Contracts and developer payable	2,967,119	298,039	(518,644)	2,746,514	298,039
Total business-type activities long-term liabilities	$ 56,274,241	$ 1,998,189	$ (4,526,526)	$ 53,745,904	$ 1,303,810

At June 30, 2018, the City's outstanding bonds had the following ratings:

Description	Fitch Rating	Standard & Poor's Rating
City of Surprise Municipal Property Corporation Wastewater Development Impact Fee and Subordinate Lien Wastewater Utility Revenue Bonds SERIES 2007	A+	Not rated
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
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
Marley Park Community Facilities District General Obligation Bonds SERIES 2007	Not rated	Not rated
Marley Park Community Facilities District General Obligation Bonds SERIES 2006	Not rated	Not rated

* insured by Building America Mutual

The following is a summary of debt service requirements for the year ended June 30, 2018. Deferred amounts are not included:

	Governmental Activities							
Year Ended	Refunding/Stadium Imp 2015		GO Bonds 2018		Marley Park CFD 2007		Marley Park CFD 2008	
June 30	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 2,382,900	$ 1,053,576	$ 2,515,000	$ 1,763,639	$ 130,000	$ 7,800	$ 90,000	$ 12,350
2020	2,473,700	958,260	2,865,000	1,415,294	-	-	100,000	6,500
2021	2,549,037	884,050	1,205,000	1,272,044	-	-	-	-
2022	2,677,275	756,598	1,265,000	1,211,794	-	-	-	-
2023	2,812,488	622,734	1,330,000	1,148,544				
2024-2028	8,306,188	1,460,560	7,720,000	4,676,470	-	-	-	-
2029-2033	2,965,000	197,950	9,580,000	2,815,320	-	-	-	-
2034-2038	-	-	11,250,000	1,152,819	-	-	-	-
Total	$ 24,166,588	$ 5,933,728	$ 37,730,000	$ 15,455,924	$ 130,000	$ 7,800	$ 190,000	$ 18,850

	Governmental Activities					
	Marley Park CFD 2016		Marley Park CFD 2017		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 135,000	$ 356,888	$ 100,000	$ 77,203	$ 5,352,900	$ 3,271,456
2020	275,000	354,188	195,000	74,513	5,908,700	2,808,755
2021	385,000	348,688	185,000	69,268	4,324,037	2,574,050
2022	395,000	340,988	190,000	64,291	4,527,275	2,373,671
2023	405,000	329,138	195,000	59,180	4,742,488	2,159,596
2024-2028	2,180,000	1,479,494	1,055,000	214,528	19,261,188	7,831,052
2029-2033	2,565,000	1,089,606	950,000	64,559	16,060,000	4,167,435
2034-2038	2,860,000	581,713	-	-	14,110,000	1,734,532
2039-2041	1,940,000	122,341	-	-	1,940,000	122,341
Total	$ 11,140,000	$ 5,003,044	$ 2,870,000	$ 623,542	$ 76,226,588	$ 27,042,888

	Business-Type Activities					
Year Ended	Refunding/Stadium Imp 2015		2007 MPC		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 617,100	$ 186,174	$ -	$ 1,589,133	$ 617,100	$ 1,775,307
2020	641,300	161,490	-	1,490,785	641,300	1,652,275
2021	660,963	142,250	-	1,387,855	660,963	1,530,105
2022	692,725	109,202	8,770,000	1,280,108	9,462,725	1,389,310
2023	727,513	74,566	-	1,176,245	727,513	1,250,811
2024-2028	763,813	38,190	-	4,279,415	763,813	4,317,605
2029-2032	-	-	25,000,000	1,158,359	25,000,000	1,158,359
Total	$ 4,103,414	$ 711,872	$ 33,770,000	$ 12,361,900	$ 37,873,414	$ 13,073,772

Contracts Payable

General Government Activities

A balance of $2,358,440 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 $2,746,514 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, 2018:

20% Limitation		6% Limitation	
20% Constitutional Limit	$ 237,905,123	6% Constitutional Limit	$ 71,371,537
Less General Obligation 20% Bonds Outstanding	(37,730,000)	Less General Obligation 6% Bonds Outstanding	-
Reduction for Excess Premium	(2,257,500)	Reduction for Excess Premium	-
Available 20% Limitation Borrowing Capacity	$ 197,917,623	Available 6% Limitation Borrowing Capacity	$ 71,371,537

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, 2018 was $94,050.

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

Year Ending June 30:	
2019	$ 37,808
2020	26,511
2021	1,630
2022	-
2023	-
Total minimum payments required	$ 65,949

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 $8,029,524 (cost of $11,572,223 less accumulated depreciation of $3,542,699). The lease properties and building are included as capital assets in the government-wide financial statements. Operating lease revenues for fiscal year 2018 were $378,943.

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, 2018, 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	$ 157,736	$ 41,438	$ 199,174
Net pension liabilities	89,150,085	11,704,330	100,854,415
Net OPEB liabilities	365,351	27,327	392,678
Deferred outflows of resources related to pensions	30,429,381	2,061,273	32,490,654
Deferred outflows of resources related to OPEB	278,188	47,010	325,198
Deferred inflows of resources related to pensions	3,077,042	700,941	3,777,983
Deferred inflows of resources related to OPEB	482,504	50,800	533,304
Pension expense	13,677,960	1,163,820	14,841,780
OPEB expense	215,515	38,816	254,331

The City reported accrued payroll and employee benefits of $204,837 for outstanding pension and OPEB contribution amounts payable to all plans for the year ended June 30, 2018. Also, the City reported $13,082,605 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 $150 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, 2018, statute required active ASRS members to contribute at the actuarially determined rate of 11.50 percent (11.34 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 11.50 percent (10.90 percent for retirement, 0.44 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 9.49 percent (9.26 percent for retirement, 0.10 percent for health insurance premium benefit, and 0.13 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, 2018, were $4,084,163, $164,581, and $61,374, respectively.

During fiscal year 2018, the City paid for ASRS pension and OPEB contributions as follows: 71 percent from the general fund, 28 percent from major funds, and 1 percent from other funds.

Liability — At June 30, 2018, 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	$ 56,257,015
Health insurance premium benefit	(199,174)
Long-term disability	131,344

The net asset and net liabilities were measured as of June 30, 2017. 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, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

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, 2017. The City's proportions measured as of June 30, 2017, and the change from its proportions measured as of June 30, 2016, were:

ASRS	Proportion June 30, 2017	Increase (decrease) from June 30, 2016
Pension	0.36%	0.01%
Health insurance premium benefit	0.37%	0.00%
Long-term disability	0.36%	0.00%

The net asset and net liabilities measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the City's net asset and net liabilities as a result of these changes is not known.

Expense — For the year ended June 30, 2018, the City recognized the following pension and OPEB expense.

ASRS	Pension/OPEB Expense
Pension	$ 5,593,917
Health insurance premium benefit	116,497
Long-term disability	70,075

Deferred outflows/inflows of resources — At June 30, 2018, 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
Differences between expected and actual experience	$ -	$ 1,686,896
Changes of assumptions or other inputs	2,443,371	1,682,186
Net difference between projected and actual earnings on pension plan investments	403,887	-
Changes in proportion and differences between City contributions and proportionate share of contributions	2,976,116	-
City contributions subsequent to the measurement date	4,084,163	-
Total	$ 9,907,537	$ 3,369,082

	Health insurance premium benefit	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions or other inputs	-	-
Difference between projected and actual investment earnings	-	224,262
Changes in proportion and differences between City contributions and proportionate share of contributions	-	244
City contributions subsequent to the measurement date	164,581	-
Total	$ 164,581	$ 224,506

	Long-term disability	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions or other inputs	-	-
Difference between projected and actual investment earnings	-	19,647
Changes in proportion and differences between City contributions and proportionate share of contributions	-	19
City contributions subsequent to the measurement date	61,374	-
Total	$ 61,374	$ 19,666

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, 2019. 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
2019	$ 3,071,171	$ (56,116)	$ (4,915)
2020	782,950	(56,116)	(4,915)
2021	(1,294,079)	(56,116)	(4,915)
2022	-	(44)	(3)
2023	-	-	(4)
Thereafter	-	-	-

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

Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3–6.75% for pensions/not applicable for OPEB
Inflation	3%
Permanent benefit increase	Included for pensions/nota applicable for OPEB
Mortality rates	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS plan investments was determined to be 8.7 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASRS Asset Class	Target Allocation	Real Return Arithmetic Basis	Long-term Expected Nominal Return
Equity	58%	6.73%	3.87%
Fixed income	25%	3.70%	0.91%
Real estate	10%	4.25%	0.08%
Multi-asset	5%	3.41%	0.42%
Commodities	2%	3.84%	0.17%
Total	100%		5.45%
Inflation			3.25%
Expected arithmetic nominal return			8.70%

Discount rate — The discount rate used to measure the ASRS total pension/OPEB liability was 8 percent, which is less than the long-term expected rate of return of 8.7 percent. 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 8 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 (7 percent) or 1 percentage point higher (9 percent) than the current rate.

ASRS City's proportionate share of the	1% Decrease (7%)	Current discount rate (8%)	1% Increase (9%)
Net pension liability	$ 72,206,856	$ 56,257,015	$ 42,929,556
Net health insurance premium benefit liability (asset)	330,771	(199,174)	(649,537)
Net long-term disability liability	157,054	131,344	109,544

Plan 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). 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). 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 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

PSPRS Retirement and disability	Initial membership date: Before January 1, 2012 (Tier 1)	On or after January 1, 2012 and before July 1, 2017 (Tier 2)
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. The adjustments are based on inflation for PSPRS. 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. 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 $150 per month to $260 per month depending on the age of the member and dependents.

Employees covered by benefit terms — At June 30, 2018, 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	38	38	10	10
Inactive employees entitled to but not yet receiving benefits	18	3	4	1
Active employees	129	129	116	116
Total	185	170	130	127

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, 2018, are indicated below. Rates are a percentage of active members' annual covered payroll.

Contribution rates	PSPRS			
	Police		Fire	
	Tier 1 & 2	Tier 3	Tier 1 & 2	Tier 3
Active members - pension	7.65%	7.14%	7.65%	7.14%
Active members - Health benefit	0.00%	0.17%	0.00%	0.17%
City				
Pension	30.36%	22.17%	24.52%	16.45%
Health insurance premium benefit	0.48%	0.32%	0.42%	0.33%

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	15.03%	9.31%
Health insurance premium benefit	0.15%	0.16%

The City's contributions to the plans for the year ended June 30, 2018, were:

	PSPRS Police	PSPRS Fire
Contributions made		
Pension	$5,056,552	$4,499,428
Health Insurance premium benefit	79,382	77,072

During fiscal year 2018, the City paid for PSPRS pension and OPEB contributions as follows: 100 percent from the general fund.

Liability — At June 30, 2018, the City reported the following net pension/OPEB liabilities:

	Net pension liability	Net OPEB liability
PSPRS Police	$ 26,825,217	$ 126,635
PSPRS Fire	15,737,524	134,698

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. The total liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012, and before July 1, 2017, and a court decision that decreased the contribution rates for employees who became members before July 20, 2011.

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

PSPRS	
Actuarial valuation date	June 30, 2017
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
Permanent benefit increase	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, 2017, 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%
Absolute return	2%	3.75%
Risk parity	4%	5.00%
Fixed income	5%	1.25%
Real assets	9%	4.52%
GTAA	10%	3.96%
Private credit	12%	6.75%
Real estate	10%	3.75%
Credit opportunities	16%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	100%	

Discount rate — At June 30, 2017, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.40 percent, which was a decrease of 0.1 from 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, 2017	$ 55,516,501	$ 30,118,298	$ 25,398,203
Changes for the year:			
Service cost	2,580,430	-	2,580,430
Interest on the total pension liability	4,152,228	-	4,152,228
Changes of benefit terms	431,035	-	431,035
Difference between expected and actual experience of the Total Pension Liability	884,245	-	884,245
Changes of assumptions	950,588	-	950,588
Contributions—employer	-	2,601,364	(2,601,364)
Contributions—employee	-	1,376,163	(1,376,163)
Net investment income	-	3,589,391	(3,589,391)
Benefit payments, including refunds of employee contributions	(2,887,339)	(2,887,339)	-
Administrative expense	-	(32,160)	32,160
Other changes	-	36,754	(36,754)
Net changes	6,111,187	4,684,173	1,427,014
Balances at June 30, 2018	$ 61,627,688	$ 34,802,471	$ 26,825,217

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, 2017	$ 1,251,818	$ 922,600	$ 329,218
Changes for the year:			
Service cost	37,056	-	37,056
Interest on the total OPEB liability	94,154	-	94,154
Changes of benefit terms	6,912	-	6,912
Difference between expected and actual experience of the Total OPEB Liability	(68,029)	-	(68,029)
Changes of assumptions	(107,363)	-	(107,363)
Contributions—employer	-	55,927	(55,927)
Contributions—employee	-	-	-
Net investment income	-	110,362	(110,362)
Benefit payments, including refunds of employee contributions	(29,932)	(29,932)	-
OPEB Plan Administrative expense	-	(976)	976
Other changes	-	-	-
Net changes	(67,202)	135,381	(202,583)
Balances at June 30, 2018	$ 1,184,616	$ 1,057,981	$ 126,635

PSPRS - Fire - Pension	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) – (b)
Balances at June 30, 2017	$ 46,435,206	$ 30,839,347	$ 15,595,859
Changes for the year:			
Service cost	2,540,844	-	2,540,844
Interest on the total pension liability	3,537,634	-	3,537,634
Changes of benefit terms	324,839	-	324,839
Difference between expected and actual experience of the Total Pension Liability	721,498	-	721,498
Changes of assumptions	36,178	-	36,178
Contributions—employer	-	1,828,952	(1,828,952)
Contributions—employee	-	1,340,153	(1,340,153)
Net investment income	-	3,742,608	(3,742,608)
Benefit payments, including refunds of employee contributions	(1,074,336)	(1,074,336)	-
Administrative expense	-	(33,516)	33,516
Other changes	-	141,131	(141,131)
Net changes	6,086,657	5,944,992	141,665
Balances at June 30, 2018	$ 52,521,863	$ 36,784,339	$ 15,737,524

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, 2017	$ 1,033,554	$ 726,279	$ 307,275
Changes for the year:			
Service cost	28,898	-	28,898
Interest on the total OPEB liability	78,136	-	78,136
Changes of benefit terms	8	-	8
Difference between expected and actual experience of the Total OPEB Liability	(28,004)	-	(28,004)
Changes of assumptions	(124,948)	-	(124,948)
Contributions—employer	-	40,649	(40,649)
Contributions—employee	-	-	-
Net investment income	-	86,787	(86,787)
Benefit payments, including refunds of employee contributions	(12,382)	(12,382)	-
OPEB Plan Administrative expense	-	(769)	769
Other changes	-	-	-
Net changes	(58,292)	114,285	(172,577)
Balances at June 30, 2018	$ 975,262	$ 840,564	$ 134,698

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	$ 36,920,341	$ 26,825,217	$18,740,585
Net OPEB liability/(asset)	291,606	126,635	(9,354)
PSPRS Fire			
Net pension liability	$ 25,080,509	$ 15,737,524	$ 8,258,340
Net OPEB liability	284,982	134,698	11,838

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, 2018, the City recognized the following pension and OPEB expense:

	Pension expense	OPEB expense
PSPRS Police	$ 5,500,109	$ 37,066
PSPRS Fire	3,133,218	30,693

Deferred outflows/inflows of resources — At June 30, 2018, 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	$ 4,685,742	$ -
Changes in assumptions	3,561,904	-
Net difference between projected and actual earnings on pension plan investments	422,647	-
City contributions subsequent to the measurement date	5,056,552	-
Total	$ 13,726,845	$ -

PSPRS - Police - Health insurance premium benefit	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ -	$ 58,777
Changes in assumptions	-	92,762
Net difference between projected and actual earnings on OPEB plan investments	(32,183)	-
City contributions subsequent to the measurement date	79,382	-
Total	$ 47,199	$ 151,539

PSPRS - Fire - Pension	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ 1,433,354	$ 345,524
Changes in assumptions	2,349,182	-
Net difference between projected and actual earnings on pension plan investments	402,265	-
City contributions subsequent to the measurement date	4,499,428	-
Total	$ 8,684,229	$ 345,524

PSPRS - Fire - Health insurance premium benefit	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ -	$ 25,192
Changes in assumptions	-	112,401
Net difference between projected and actual earnings on OPEB plan investments	(25,028)	-
City contributions subsequent to the measurement date	77,072	-
Total	$ 52,044	$ 137,593

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, 2019. 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				
2019	$2,017,099	$ (31,899)	$ 573,211	$ (21,616)
2020	2,254,147	(31,899)	818,346	(21,616)
2021	2,038,853	(31,899)	597,852	(21,616)
2022	1,330,794	(31,898)	169,832	(21,616)
2023	802,922	(23,853)	439,244	(15,359)
Thereafter	226,478	(32,274)	1,240,792	(60,798)

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 excess investment earning. 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 $150 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, 2018, statute required active EORP members to contribute 7 or 13 percent of the members' annual covered payroll and the City to contribute 23.5 percent of all active EORP members' annual covered payroll. Also, statute required the City to contribute 12.16 percent to EORP of the annual covered payroll of elected officials and judges who were ASRS members and 17.50 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, 2018, were $66,206 and $0, respectively.

During fiscal year 2018, the City paid for EORP pension contributions as follows: 100 percent from the general fund.

Liability — At June 30, 2018, 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	$ 2,034,660
State's proportionate share of the EORP net pension liability associated with the City	213,700
Total	$ 2,248,360

The net liability was measured as of June 30, 2017, 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, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return to from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liability also reflects changes-of-benefit terms for a court decision that increased cost-of-living adjustments for retirees and decreased the contribution rates for employees who became members before July 20, 2011. The court decision will also affect the net pension liability measured as of June 30, 2018, because of refunds of excess member contributions. The change in the City's net pension liability as a result of the refunds is not known.

The City's proportion of the net pension liability was based on the City's actual contributions to the pension plan relative to the total of all participating employers' actual contributions for the year ended June 30, 2017. The City's proportion measured as of June 30, 2017, and the change from its proportions measured as of June 30, 2016, was:

EORP	Proportion June 30, 2017	Increase (decrease) from June 30, 2016
Pension	0.166973%	-0.02%

Expense — For the year ended June 30, 2018, the City recognized pension expense for EORP of $614,536 and revenue of $213,700 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, 2018, 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	$ -	$ 17,636
Changes of assumptions or other inputs	79,417	-
Net difference between projected and actual earnings on plan investments	12,471	-
Changes in proportion and differences between City contributions and proportionate share of contributions	13,952	45,741
City contributions subsequent to the measurement date	66,206	-
Total	$ 172,046	$ 63,377

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, 2019. 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
2019	$ 36,590
2020	6,602
2021	3,295
2022	(4,025)

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

EORP	
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.40%
Wage inflation	3.5% for pensions
Price inflation	2.5% for pensions
Permanent benefit increase	Included for pensions
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience.
Healthcare cost rend 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 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%
Real estate	10%	3.75%
Real assets	9%	4.52%
GTAA	10%	3.96%
Absolute return	2%	3.75%
Private credit	16%	5.83%
Fixed income	5%	1.25%
Private equity	12%	6.75%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	100%	

Discount rates — At June 30, 2017, the discount rates used to measure the EORP total pension liability and total OPEB liability were 3.91 percent and 7.4 percent, respectively, which was an increase of 0.23 for pension and a decrease of 0.1 for OPEB from the discount rates used as of June 30, 2016. 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 statutorily set rates, and state contributions will be made as currently required by statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. Therefore, to determine the total pension liability for the plan, the long-term expected rate of return on pension plan investments of 7.4 percent was applied to periods of projected benefit payments through the year ended June 30, 2026. A municipal bond rate of 3.56 percent obtained from the Fidelity 20-year Municipal GO AA Index as of June 30, 2017, was applied to periods of projected benefit payments after June 30, 2026. The OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB 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	2.91%	3.91%	4.91%
City's proportionate share of the net pension liability	$ 2,403,471	$ 2,034,660	$ 1,733,870

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, 2018, 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, 2018, the City recognized pension expense of $1,654.

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 2018, 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 $612,912 for the year ended June 30, 2018. 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 Agency 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. The City was not required to and did not contribute to PEHP for the year ended June 30, 2018 as the account that accepts City contributions was frozen during the year.

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'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 Agency 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, 2018, unpaid claims were as follows:

	Risk Management Fund	
	2017	2018
Beginning unpaid claims	$ -	$ -
Claims incurred and changes in estimates	278,010	463,782
Payments made	(278,010)	(283,782)
Ending unpaid claims	$ -	$ 180,000

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 $586,950 of the total claims payable reported. The remaining $670,648 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, 2018, unpaid claims were as follows:

	Employee Healthcare Fund	
	2017	2018
Beginning unpaid claims	$ 1,226,062	$ 1,358,057
Claims incurred and changes in estimates	8,136,372	9,478,152
Payments made	(8,004,377)	(9,578,611)
Ending unpaid claims	$ 1,358,057	$ 1,257,598

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 newly developed 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. Expenditures 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.

As of June 30, 2018, unpaid claims were as follows:

	Workers' Compensation Fund	
	2017	2018
Beginning unpaid claims	$ -	$ -
Claims incurred and changes in estimates	-	188,621
Payments made	-	(175,044)
Ending unpaid claims	$ -	$ 13,577

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, 2018 the City had reimbursed the developer as part of the settlement agreement $474,240 leaving up to $325,760 to be reimbursed to the developer in future years.

NOTE 11 - INTERFUND BORROWING AND TRANSFERS

As of June 30, 2018, interfund balances were as follows:

Due to/from other funds:

Due from	Due to General Fund
Non-Major Governmental Fund - Grants Fund	$ 331,890

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	-	2,506,971	2,506,971
Ground Ambulance Services Fund	624,850	-	624,850
Total	$ 624,850	$8,500,292	$ 9,125,142

As of June 30, 2018, 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 the ground ambulance services are fully operational.

Interfund Transfers:

	Transfers in						
Transfers Out	General Fund	General Capital Projects Fund	Non-Major Governmental Funds	Ground Ambulance Services Fund	Water Fund	Internal Service Funds	Total
General Fund	$ -	$9,694,200	$ 2,021,739	$ -	$ -	$ 98,528	$11,814,467
General Capital Projects Fund	-	-	73,566	73,000	-	-	146,566
General Government Development Fee Fund	-	-	367,166	-	-	-	367,166
Highway User Revenue Fund	-	-	-	-	-	109,738	109,738
Transportation Improvement Fund	-	-	-	-	-	1,228	1,228
Non-Major Governmental Funds	-	-	1,091,474	-	-	-	1,091,474
Ground Ambulance Services Fund	205	-	-	-	-	11,396	11,601
Water Fund	479,745	-	-	-	-	33,066	512,811
Sewer Fund	739,707	-	-	-	1,148,102	49,481	1,937,290
Sanitation Fund	36,973	-	-	-	-	78,009	114,982
Total	$1,256,630	$9,694,200	$ 3,553,945	$ 73,000	$1,148,102	$381,446	$16,107,323

Transfers between funds were used to (1) record payments in lieu of franchise fees, payments in lieu of property taxes and license fees from the enterprise funds to the General Fund (2) to support as needed replacement of vehicles and maintenance, construction or purchase of city assets (3) move amounts for debt service payments (4) to fund the required reserves for the new self-insured Worker's Compensation program (5) to return prior year vehicle replacement funding for Ground Ambulance Service vehicle replacements that had previously been transferred to the governmental vehicle replacement fund (6) to fund municipal arts projects, and (7) to transfer water rights (capital assets) generated by the Sewer Fund to the Water Fund to be used for water services.

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	Non-Major Governmental Fund	Total
Fund balance							
Nonspendable:							
Advance to other funds	$ 624,850	$ -	$ -	$ -	$ -	$ -	$ 624,850
Inventory	541,062	-	-	628,603	-	-	1,169,665
Prepaids	436,686	4,191	-	3,795	-	1,782	446,454
Total Nonspendable	1,602,598	4,191	-	632,398	-	1,782	2,240,969
Restricted:							
City Manager's Office	397	-	-	-	-	-	397
Court	-	-	-	-	-	173,901	173,901
Debt Service	-	13	-	-	-	16,256	16,269
Economic Development	15,333	-	-	-	-	-	15,333
Fire and Medical	6,485	-	-	-	-	4,038,350	4,044,835
Human Services and Community Vitality	18,775						18,775
Library	-	-	-	-	-	4,631,154	4,631,154
Parks and recreation	400,412	-	-	-	-	2,031,572	2,431,984
Police	39,152	-	-	-	-	3,958,503	3,997,655
Public works	-	-	-	-	-	8,389,258	8,389,258
Transportation	-	-	-	1,419,724	-	2,629,639	4,049,363
Unspent Bond Proceeds - Public Safety	-	16,804,791	-	-	-	-	16,804,791
Unspent Bond Proceeds - Traffic Mitigation	-	13,107,767	-	-	-	-	13,107,767
Unspent Bond Proceeds - Pavement Preservation	-	10,001,958	-	-	-	-	10,001,958
Total Restricted	480,554	39,914,529	-	1,419,724	-	25,868,633	67,683,440
Committed:							
Transportation	-	-	-	-	2,942,681	-	2,942,681
Tourism	-	-	-	-	-	540,620	540,620
Total Committed	-	-	-	-	2,942,681	540,620	3,483,301
Assigned:							
Construction projects	-	2,912,343	-	-	-	-	2,912,343
Parks and recreation	32,445	-	-	-	-	-	32,445
Public Safety	8,749	-	-	-	-	-	8,749
Wildland Vehicle Replacement	290,294	-	-	-	-	-	290,294
Other	6,679		-	-	-	-	6,679
Total Assigned	338,167	2,912,343	-	-	-	-	3,250,510
Unassigned:							
Unassigned or negative fund balance	41,763,040	-	(5,568,450)	-	-	(2,690,217)	33,504,373
Total	$ 44,184,359	$ 42,831,063	$ (5,568,450)	$ 2,052,122	$ 2,942,681	$ 23,720,818	$110,162,593

NOTE 13 – DEFICIT FUND BALANCES

As of June 30, 2018, the following individual governmental funds reported deficits in fund balances:

Fund	Deficit
Major Funds:	
General Government Development Fee Fund	$ 5,568,450
Non-Major Governmental Funds	
Fire Development Fee Grandfathered Fund	2,551,644
Grants Fund	2,187
Neighborhood Revitalization Fund	53,846
Street Lighting Districts Fund	80,758

Deficits arose due to project, grant, and street lighting expenses incurred in current and prior years exceeding impact fee, available grant, and property tax revenues. The deficit fund balances are expected to be funded with future development impact fees, grant, and property tax revenues received.

NOTE 14 – BUDGET BASIS OF ACCOUNTING

The City records bad debt expense as an expenditure in the general operations department in the General Fund and the non-major Grants Fund which is not budgetary. These amounts of $27,351 and $1,921 are not budgeted as it is a reduction of revenues received rather than an actual cash outlay. Further, 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. This difference in basis resulted in the Human Resources Department appearing to be over budget in the General Fund by $29,245; however, on the budgetary basis of accounting the Human Resources Department spent within budget.

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, 2018, was $1,100,488.

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

NOTE 16 – SPECIAL ITEM

On June 26, 2018, the Mayor and City Council approved Resolution No. 2018-105 settling a lawsuit filed against the City related to the collection of the City's General Government Development Fee. As a result of the settlement, it was determined that the advance of $36,019,204 from the General Capital Projects Fund to the General Government Development Fee Fund would not be repaid. Further, effective July 1, 2018, the settlement reduced the single family residential general government development fee from $661 per unit to $235 per unit until such time as the outstanding bond debt service attributable to the General Government Development Fee Fund and any and all General Fund subsidies paid to the General Government Development Fee Fund to make bond debt service payments are repaid in full. Thereafter, the fee drops to $208 per unit until such time as the outstanding advance from the Sewer Fund to the General Government Development Fee Fund is paid in full. Once the Sewer Fund advance is paid in full the fee will be eliminated.

NOTE 17 – SUBSEQUENT EVENTS

On August 7, 2018, the City issued $25,255,000 in Senior Lien Utility System Revenue Refunding Obligations, Series 2018. The obligations were issued to refund the Municipal Property Corporation (MPC) Wastewater Development Impact Fee and Subordinate Lien Wastewater Revenue Bonds, Series 2007. The refunding obligations are payable in annual installments through July 1, 2036 of $940,000 to $2,045,000 with coupon rates of 4.0% to 5.0%. The refunding obligations have a net present value benefit of $5,310,835.

REQUIRED SUPPLEMENTARY INFORMATION

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)				
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2009
City's proportion of the net pension liability	0.36%	0.35%	0.32%	0.29%	Information
City's proportionate share of the net pension liability	$56,257,015	$56,796,968	$50,841,272	$ 42,980,167	not
City's covered payroll	$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	159.64%	172.46%	168.79%	161.97%	
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%	69.49%	

Arizona State Retirement System - Health insurance premium benefit	Reporting fiscal year (measurement date)	
	2018 (2017)	2017 through 2009
City's proportion of the net OPEB (asset)	0.37%	Information
City's proportionate share of the net OPEB (asset)	$ (199,174)	not
City's covered payroll	$ 35,238,842	available
City's proportionate share of the net OPEB (asset) as a percentage of its covered payroll	-0.57%	
Plan fiduciary net position as a percentage of the total OPEB liability	103.57%	

Arizona State Retirement System - Long-term disability	Reporting fiscal year (measurement date)	
	2018 (2017)	2017 through 2009
City's proportion of the net OPEB liability	0.36%	Information
City's proportionate share of the net OPEB liability	$ 131,344	not
City's covered payroll	$ 35,238,842	available
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.37%	
Plan fiduciary net position as a percentage of the total OPEB liability	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)				
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2009
City's proportion of the net pension liability	0.17%	0.19%	0.16%	0.22%	Information
City's proportionate share of the net pension liability	$ 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	$ 213,700	$ 100,812	$ 107,037	$ 136,820	
Total	$ 2,248,360	$ 1,930,521	$ 1,383,067	$ 1,642,282	
City's covered payroll	$ 154,566	$ 155,470	$ 155,470	$ 154,983	
City's proportionate share of the net pension liability as a percentage of its covered payroll	1454.63%	1241.73%	889.60%	1059.65%	
Plan fiduciary net position as a percentage of the total pension liability	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)				
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2009
Total pension liability					Information
Service cost	$ 2,580,430	$ 2,064,206	$ 1,663,042	$ 1,565,018	not available
Interest on the total pension liability	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	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	(2,887,339)	(1,829,352)	(965,851)	(1,157,301)	
Net change in total pension liability	$ 6,111,187	$ 10,665,632	$ 9,104,921	$ 6,638,202	
Total pension liability-beginning	55,516,501	44,850,869	35,745,948	29,107,746	
Total pension liability-ending (a)	$ 61,627,688	$ 55,516,501	$ 44,850,869	$ 35,745,948	
Plan fiduciary net position					
Contributions-employer	$ 2,601,364	$ 2,303,420	$ 1,729,946	$ 1,359,213	
Contributions-employee	1,376,163	1,496,064	1,196,870	977,373	
Net investment income	3,589,391	168,147	951,951	2,875,527	
Benefit payments, including refunds of employee contributions	(2,887,339)	(1,829,352)	(965,851)	(1,157,301)	
Pension plan dministrative expense	(32,160)	(24,595)	(23,613)	-	
Other changes	36,754	138,888	210,447	(462,996)	
Net change in plan fiduciary net position	$ 4,684,173	$ 2,252,572	$ 3,099,750	$ 3,591,816	
Plan fiduciary net position-beginning	30,118,298	27,865,726	24,765,976	21,174,160	
Plan fiduciary net position-ending (b)	$ 34,802,471	$ 30,118,298	$ 27,865,726	$ 24,765,976	
City's net pension (asset) liability-ending (a) - (b)	$ 26,825,217	$ 25,398,203	$ 16,985,143	$ 10,979,972	
Plan fiduciary net position as a percentage of the total pension liability	56.47%	54.25%	62.13%	69.28%	
Covered payroll	$ 11,769,882	$ 11,159,388	$ 10,682,880	$ 8,730,979	
City's net pension (asset) liability as a percentage of covered payroll	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) 2018 (2017)	2014 through 2009
Total OPEB liability		Information
Service cost	$ 37,056	not available
Interest on the total OPEB liability	94,154	
Changes of benefit terms	6,912	
Differences between expected and actual experience of the total OPEB liability	(68,029)	
Changes of assumptions	(107,363)	
Benefit payments, including refunds of employee contributions	(29,932)	
Net change in total OPEB liability	$ (67,202)	
Total OPEB liability-beginning	1,251,818	
Total OPEB liability-ending (a)	$ 1,184,616	
Plan fiduciary net position		
Contributions-employer	$ 55,927	
Contributions-employee	$ -	
Net investment income	110,362	
Benefit payments, including refunds of employee contributions	(29,932)	
OPEB plan dministrative expense	(976)	
Other changes	-	
Net change in plan fiduciary net position	$ 135,381	
Plan fiduciary net position-beginning	922,600	
Plan fiduciary net position-ending (b)	$ 1,057,981	
City's net OPEB (asset) liability-ending (a) - (b)	$ 126,635	
Plan fiduciary net position as a percentage of the total OPEB liability	89.31%	
Covered payroll	$ 11,769,882	
City's net OPEB (asset) liability as a percentage of covered payroll	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) 2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2009
Total pension liability					Information
Service cost	$ 2,540,844	$ 1,944,045	$ 1,709,096	$ 1,635,304	not
Interest on the total pension liability	3,537,634	2,858,919	2,480,922	2,170,938	available
Changes of benefit terms	324,839	4,813,386	-	25,204	
Differences between expected and actual experience in the measurement of the pension liability	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	(1,074,336)	(485,385)	(481,494)	(1,740,565)	
Net change in total pension liability	$ 6,086,657	$ 10,745,185	$ 4,699,725	$ 3,282,408	
Total pension liability-beginning	46,435,206	35,690,021	30,990,296	27,707,888	
Total pension liability-ending (a)	$ 52,521,863	$ 46,435,206	$ 35,690,021	$ 30,990,296	
Plan fiduciary net position					
Contributions-employer	$ 1,828,952	$ 1,773,960	$ 1,394,750	$ 1,298,311	
Contributions-employee	1,340,153	1,188,041	1,085,819	916,860	
Net investment income	3,742,608	170,022	956,696	2,973,644	
Benefit payments, including refunds of employee contributions	(1,074,336)	(485,385)	(481,494)	(1,740,565)	
Pension plan administrative expense	(33,516)	(24,864)	(23,732)	-	
Other changes	141,131	30,036	23,521	(491,977)	
Net change in plan fiduciary net position	$ 5,944,992	$ 2,651,810	$ 2,955,560	$ 2,956,273	
Plan fiduciary net position-beginning	30,839,347	28,187,537	25,231,977	22,275,704	
Plan fiduciary net position-ending (b)	$ 36,784,339	$ 30,839,347	$ 28,187,537	$ 25,231,977	
City's net pension (asset) liability-ending (a) - (b)	$ 15,737,524	$ 15,595,859	$ 7,502,484	$ 5,758,319	
Plan fiduciary net position as a percentage of the total pension liability	70.04%	66.41%	78.98%	81.42%	
Covered payroll	$ 11,296,060	$ 10,648,460	$ 9,802,389	$ 8,942,409	
City's net pension (asset) liability as a percentage of covered payroll	139.32%	146.46%	76.54%	64.39%	

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 - OPEB	Reporting fiscal year (measurement date) 2018 (2017)	2014 through 2009
Total OPEB liability		Information
Service cost	$ 28,898	not available
Interest on the total OPEB liability	78,136	
Changes of benefit terms	8	
Differences between expected and actual experience of the total OPEB liability	(28,004)	
Changes of assumptions	(124,948)	
Benefit payments, including refunds of employee contributions	(12,382)	
Net change in total OPEB liability	$ (58,292)	
Total OPEB liability-beginning	1,033,554	
Total OPEB liability-ending (a)	$ 975,262	
Plan fiduciary net position		
Contributions-employer	$ 40,649	
Contributions-employee	$ -	
Net investment income	86,787	
Benefit payments, including refunds of employee contributions	(12,382)	
OPEB plan dministrative expense	(769)	
Other changes	-	
Net change in plan fiduciary net position	$ 114,285	
Plan fiduciary net position-beginning	726,279	
Plan fiduciary net position-ending (b)	$ 840,564	
City's net OPEB (asset) liability-ending (a) - (b)	$ 134,698	
Plan fiduciary net position as a percentage of the total OPEB liability	86.19%	
Covered payroll	$ 11,296,060	
City's net OPEB (asset) liability as a percentage of covered payroll	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					
	2018	2017	2016	2015	2014	2013 through 2009
Statutorily required contribution	$ 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	4,084,163	3,773,263	3,569,994	3,259,073	2,801,701	
City's contribution deficiency	$ -	$ -	$ -	$ -	$ -	
City's covered payroll	$ 37,581,388	$ 35,238,842	$ 32,932,534	$ 30,121,665	$ 26,536,195	
City's contributions as a percentage of covered payroll	10.87%	10.71%	10.84%	10.82%	10.56%	

Arizona State Retirement System - Health insurance premium benefit

	Reporting fiscal year		
	2018	2017	2016 through 2009
Statutorily required contribution	$ 164,581	$ 196,952	Information not available
City's contributions in relation to the statutorily required contribution	164,581	196,952	
City's contribution deficiency	$ -	$ -	
City's covered payroll	$ 37,581,388	$ 35,238,842	
City's contributions as a percentage of covered payroll	0.44%	0.56%	

Arizona State Retirement System - Long-term disability

	Reporting fiscal year		
	2018	2017	2016 through 2009
Statutorily required contribution	$ 61,374	$ 49,278	Information not available
City's contributions in relation to the statutorily required contribution	61,374	49,278	
City's contribution deficiency	$ -	$ -	
City's covered payroll	$ 37,581,388	$ 35,238,842	
City's contributions as a percentage of covered payroll	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					
	2018	2017	2016	2015	2014	2013 through 2009
Statutorily required contribution	$ 66,206	$ 34,133	$ 36,535	$ 35,199	$ 47,836	Information
City's contributions in relation to the statutorily required contribution	66,206	34,133	36,535	35,199	47,836	not available
City's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	
City's covered payroll	$ 150,767	$ 154,566	$ 155,470	$ 155,470	$ 154,983	
City's contributions as a percentage of covered payroll	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 2018 or 2017. Information for fiscal years 2016 through 2009 is not available.

PSPRS - Police - Pension	Reporting fiscal year					
	2018	2017	2016	2015	2014	2013 through 2009
Actuarially determined contribution	$ 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	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	$ 12,326,006	$ 11,769,882	$ 11,159,388	$ 10,682,880	$ 8,730,979	
City's contributions as a percentage of covered payroll	41.02%	22.08%	20.62%	16.42%	15.57%	

PSPRS - Police - OPEB	Reporting fiscal year		
	2018	2017	2016 through 2009
Actuarially determined contribution	$ 79,382	$ 58,849	Information
City's contributions in relation to the actuarially determined contribution	79,382	58,849	not
City's contribution deficiency (excess)	$ -	$ -	available
City's covered payroll	$ 12,326,006	$ 11,769,882	
City's contributions as a percentage of covered payroll	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					
	2018	2017	2016	2015	2014	2013 through 2009
Actuarially determined contribution	$ 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	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	$ 11,534,304	$ 11,296,060	$ 10,648,460	$ 9,802,389	$ 8,942,409	
City's contributions as a percentage of covered payroll	39.01%	16.23%	16.12%	14.46%	14.52%	

PSPRS - Fire - OPEB

	Reporting fiscal year		
	2018	2017	2016 through 2009
Actuarially determined contribution	$ 77,072	$ 40,740	Information
City's contributions in relation to the actuarially determined contribution	77,072	40,740	not available
City's contribution deficiency (excess)	$ -	$ -	
City's covered payroll	$ 11,534,304	$ 11,296,060	
City's contributions as a percentage of covered payroll	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, which are 12 months 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	Individual entry age normal
Amortization method	Level percentage of payroll, Closed
Remaining amortization period	21 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; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%, net of investment and administrative expenses. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Salary increases	4.00% to 8.00% including inflation. In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0%. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%-9.0% to 4.5%-8.5%.
Wage inflation	4.00%. 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%.
Assumed Future Permanent Benefit Increases	Members Retired on or before July 1, 2011: 2% of overall average benefit compounded annually. All members receive the same dollar amount of increase. Members Retired on or after August 1, 2011: 0.5% of overall average benefit compounded annually. All members receive the same dollar amount of increase.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

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 will increase 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.

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	$ 50,164,100	$ 50,164,100	$ 53,052,926	$ 2,888,826
Licenses and permits	5,758,200	5,758,200	5,817,956	59,756
Intergovernmental revenues	34,516,100	34,516,100	35,699,515	1,183,415
Charges for services	7,698,800	7,611,400	14,195,809	6,584,409
Fines	1,111,700	1,111,700	1,373,122	261,422
Rents	625,700	737,000	601,628	(135,372)
Interest revenue(loss)	74,900	74,900	82,859	7,959
Donations	538,900	592,900	183,307	(409,593)
Indirect charges	5,249,200	5,249,200	5,249,200	-
Other revenue	235,000	235,000	493,347	258,347
Total revenues	105,972,600	106,050,500	116,749,669	10,699,169
EXPENDITURES				
Current:				
General Government				
City council	463,900	609,600	568,576	41,024
City manager	3,395,400	3,400,600	3,129,716	270,884
City attorney	1,948,900	1,960,300	1,895,881	64,419
City clerk	817,300	817,300	747,805	69,495
Finance	4,228,600	4,228,600	3,711,863	516,737
Human resources	2,255,500	2,321,500	2,350,745	(29,245)
Information technology	4,817,100	4,817,100	4,432,815	384,285
General operations	-	-	27,351	(27,351)
Total general government	17,926,700	18,155,000	16,864,752	1,290,248
Public Safety				
Police	27,572,100	29,082,600	27,335,363	1,747,237
Fire	20,410,100	22,113,400	20,920,685	1,192,715
Court	2,313,900	2,313,900	2,210,795	103,105
Total public safety	50,296,100	53,509,900	50,466,843	3,043,057
Community Developmen				
Economic developmen	6,556,700	7,772,200	6,764,098	1,008,102
Community development	4,420,700	4,513,000	4,327,153	185,847
Total community development	10,977,400	12,285,200	11,091,251	1,193,949
Culture and Recreation				
Human services and community vitality	1,442,400	1,637,400	1,367,339	270,061
Culture and recreation services	16,656,500	17,015,400	16,107,885	907,515
Total culture and recreation	18,098,900	18,652,800	17,475,224	1,177,576
Public Works and Streets				
Public works and streets	7,339,800	7,416,600	6,529,969	886,631
Total public works and streets	7,339,800	7,416,600	6,529,969	886,631
Contingency				
Contingency	671,100	563,100	-	563,100
Total contingency	671,100	563,100	-	563,100
Total current	105,310,000	110,582,600	102,428,039	8,154,561
Capital outlay:				
General Government				
City manager	$ -	$ -	$ 334	$ (334)
Finance	-	-	18,541	(18,541)
Human resources	5,800	-	-	-
Information technology	40,000	40,000	1,898	38,102
Public Safety				
Police	66,500	66,500	63,391	3,109
Fire	65,000	65,000	65,428	(428)
Public works and streets				
Public works and streets	-	1,300	1,246	54
Culture and recreation				
Culture and recreation services	-	34,000	33,175	825
Total capital outlay	177,300	206,800	184,013	22,787
Total expenditures	105,487,300	110,789,400	102,612,052	8,177,348
Excess (deficiency) of revenues over expenditures	485,300	(4,738,900)	14,137,617	18,876,517
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	136,426	136,426
Transfers in	1,203,400	1,256,630	1,256,630	-
Transfers out	(21,125,300)	(21,128,500)	(11,814,467)	9,314,033
Total other financing sources (uses)	(19,921,900)	(19,871,870)	(10,421,411)	9,450,459
Net change in fund balances	$ (19,436,600)	$ (24,610,770)	$ 3,716,206	$ 28,326,976

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, 2018

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Development fees	$ 659,400	$ 659,400	$ 1,230,718	$ 571,318
Interest revenue	-	-	-	-
Total revenues	659,400	659,400	1,230,718	571,318
EXPENDITURES				
Current:				
General Government				-
General Operations	10,400	-	-	-
Contingency				
Contingency	-	10,400	-	10,400
Total current	10,400	10,400	-	10,400
Total expenditures	10,400	10,400	-	10,400
Excess (deficiency) of revenues over expenditures	649,000	649,000	1,230,718	581,718
OTHER FINANCING SOURCES (USES)				
Transfers out	(649,000)	(649,000)	(367,166)	281,834
Total other financing sources (uses)	(649,000)	(649,000)	(367,166)	281,834
SPECIAL ITEM				
Special Item - Forgiveness of advance from General Capital Projects Fund	-	36,019,204	36,019,204	-
Total special items	-	36,019,204	36,019,204	-
Net change in fund balances	$ -	$ 36,019,204	$ 36,882,756	$ 863,552

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, 2018

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Intergovernmental revenues	$ 8,347,700	$ 8,347,700	$ 8,639,682	$ 291,982
Charges for services	5,000	5,000	8,250	3,250
Interest revenue	-	-	(332)	(332)
Other revenue	4,000	4,000	1,970	(2,030)
Total revenues	8,356,700	8,356,700	8,649,570	292,870
EXPENDITURES				
Current:				
Public Works and Streets				
Public works and streets	7,872,800	7,847,500	7,283,681	563,819
Contingency				
Contingency	42,000	65,000	-	65,000
Total current	7,914,800	7,912,500	7,283,681	628,819
Capital outlay:				
Public Works and Streets				
Public works and streets	1,339,500	1,269,000	881,271	387,729
Total capital outlay	1,339,500	1,269,000	881,271	387,729
Total expenditures	9,254,300	9,181,500	8,164,952	1,016,548
Excess (deficiency) of revenues over expenditures	(897,600)	(824,800)	484,618	1,309,418
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(109,738)	(109,738)	-
Total other financing sources (uses)	-	(109,738)	(109,738)	-
Net change in fund balances	$ (897,600)	$ (934,538)	$ 374,880	$ 1,309,418

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, 2018

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Taxes	$ 2,037,800	$ 2,037,800	$ 3,820,807	$ 1,783,007
Interest revenue	-	-	15,002	15,002
Grants revenue	-	-	25,500	25,500
Total revenues	2,037,800	2,037,800	3,861,309	1,823,509
EXPENDITURES				
Current:				
Public Works and Streets				
Public works and streets	3,324,400	3,136,700	3,002,896	133,804
Community Development				
Economic development	90,500	113,200	81,007	32,193
Contingency				
Contingency	-	100	-	100
Total current	3,414,900	3,250,000	3,083,903	166,097
Capital outlay:				
Public works and streets				
Public works and streets	835,000	1,422,600	1,420,423	2,177
Total capital outlay	835,000	1,422,600	1,420,423	2,177
Total expenditures	4,249,900	4,672,600	4,504,326	168,274
Excess (deficiency) of revenues over expenditures	(2,212,100)	(2,634,800)	(643,017)	1,991,783
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(1,228)	(1,228)	-
Total other financing sources (uses)	-	(1,228)	(1,228)	-
Net change in fund balances	$ (2,212,100)	$ (2,636,028)	$ (644,245)	$ 1,991,783

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 14^{th} 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.

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	$ 1,738,800	$ 1,738,800	$ 4,353,850	$ 2,615,050
Interest revenue	-	-	140,958	140,958
Other revenue	-	75,600	3,573	(72,027)
Total revenues	1,738,800	1,814,400	4,498,381	2,683,981
EXPENDITURES				
Capital outlay:				
General Government				
City manager	225,000	225,000	221,446	3,554
City attorney	388,400	484,800	43,740	441,060
Finance	14,500	-	-	-
Human resources	66,300	-	-	-
Information technology	2,731,700	2,814,900	2,315,231	499,669
General operations	-	4,600	4,481	119
Public Safety				
Police	350,500	350,900	328,174	22,726
Fire	2,940,300	3,883,600	1,358,923	2,524,677
Court	112,000	112,000	110,649	1,351
Public works and streets				
Public works and streets	9,322,200	12,264,300	4,117,156	8,147,144
Community Development				
Economic development	20,000	20,000	20,000	-
Community development	357,900	1,025,700	364,237	661,463
Culture and recreation				
Culture and recreation services	3,461,800	3,422,600	3,384,970	37,630
Contingency				
Contingency	736,000	135,500	-	135,500
Total capital outlay	20,726,600	24,743,900	12,269,007	12,474,893
Total expenditures	20,726,600	24,743,900	12,269,007	12,474,893
Excess (deficiency) of revenues over expenditures	(18,987,800)	(22,929,500)	(7,770,626)	15,158,874
OTHER FINANCING SOURCES (USES)				
Transfers in	19,006,100	19,009,300	9,694,200	(9,315,100)
Transfers out	-	(146,566)	(146,566)	-
Issuance of debt	-	-	37,612,501	37,612,501
Premium on issuance of debt	-	-	2,257,500	2,257,500
Total other financing sources (uses)	19,006,100	18,862,734	49,417,635	30,554,901
SPECIAL ITEM				
Special Item - Forgiveness of advance from General Capital Projects Fund	-	(36,019,204)	(36,019,204)	-
Total special items	-	(36,019,204)	(36,019,204)	-
Net change in fund balances	$ 18,300	$ (40,085,970)	$ 5,627,805	$ 45,713,775

City of Surprise, Arizona
Combining Governmental Balance Sheet
Nonmajor Governmental Funds
Summary by Fund Type
June 30, 2018

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
ASSETS			
Cash and investments	$ 25,323,537	$ -	$ 25,323,537
Restricted cash and investments	2,782,944	2,882,203	5,665,147
Receivables (net of allowances)			
Taxes and franchise fees	50,442	-	50,442
Grants	697,798	-	697,798
Prepaid items and other assets	1,782	-	1,782
Total assets	$ 28,856,503	$ 2,882,203	$ 31,738,706
LIABILITIES			
Accounts payable	$ 570,291	$ 1,500	$ 571,791
Accrued payroll and related taxes	1,034	-	1,034
Due to other funds	331,890	-	331,890
Deposits	1,374	-	1,374
Unearned revenue	806,511	-	806,511
Contracts payable	207,102	-	207,102
Matured bond interest payable	237,119	561,454	798,573
Matured bonds payable	465,000	2,311,050	2,776,050
Advances from other funds	2,506,971	-	2,506,971
Total liabilities	5,127,292	2,874,004	8,001,296
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows - Unavailable revenue	16,592	-	16,592
Total deferred inflow of resources	16,592	-	16,592
Total liabilities and deferred inflows of resources	5,143,884	2,874,004	8,017,888
FUND BALANCES (DEFICITS)			
Nonspendable	1,782	-	1,782
Restricted	25,860,434	8,199	25,868,633
Committed	540,620	-	540,620
Unassigned	(2,690,217)	-	(2,690,217)
Total fund balances (deficits)	23,712,619	8,199	23,720,818
Total liabilities and fund balances (deficits)	$ 28,856,503	$ 2,882,203	$ 31,738,706

City of Surprise, Arizona
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Summary by Fund Type
For the Year Ended June 30, 2018

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds
REVENUES			
Taxes	$ 4,029,745	$ -	$ 4,029,745
Intergovernmental revenues	433,807	-	433,807
Charges for services	982,040	-	982,040
Grants revenue	2,666,430	-	2,666,430
Fines	908,876	-	908,876
Development fees	4,075,647	-	4,075,647
Interest revenue	70,462	1,089	71,551
Other revenue	23,855	-	23,855
Total revenues	13,190,862	1,089	13,191,951
EXPENDITURES			
Current:			
General Government	100,468	-	100,468
Public Safety	1,005,051	-	1,005,051
Public works and streets	3,042,241	-	3,042,241
Community Development	718,558	-	718,558
Culture and recreation	2,065,720	-	2,065,720
Debt service:			
Administrative charges	3,197	1,054	4,251
Principal retirement	465,000	2,311,050	2,776,050
Interest	455,183	1,122,909	1,578,092
Bond issuance costs	133,100	335,526	468,626
Capital outlay:			
General Government	2,830,000	-	2,830,000
Public Safety	69,618	-	69,618
Public works and streets	45,327	-	45,327
Culture and recreation	367,396	-	367,396
Total expenditures	11,300,859	3,770,539	15,071,398
Excess (deficiency) of revenues over expenditures	1,890,003	(3,769,450)	(1,879,447)
OTHER FINANCING SOURCES (USES)			
Transfers in	118,275	3,435,670	3,553,945
Transfers out	(1,091,474)	-	(1,091,474)
Issuance of debt	3,000,000	117,500	3,117,500
Premium on debt issuance	-	223,606	223,606
Total other financing sources (uses)	2,026,801	3,776,776	5,803,577
Net change in fund balances	3,916,804	7,326	3,924,130
Fund balances - beginning - previously stated	19,789,248	873	19,790,121
Prior period adjustment	6,567	-	6,567
Fund balances - beginning - restated	19,795,815	873	19,796,688
Fund balances - ending	$ 23,712,619	$ 8,199	$ 23,720,818

NON-MAJOR GOVERNMENTAL FUND DESCRIPTIONS

- Special Revenue Funds – 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.

❖ <u>Debt Service Funds</u> – Used to track those activities relating to the issuance and repayment of debt.

- *Debt Service Fund* – This fund was created to track the issuance and repayment of debt

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2018

	Grants Fund	LTAF II/ALF Fund	Municipal Court Enhancement Fund	Municipal Court FARE Fund	Municipal Court JCEF Fund
ASSETS					
Cash and investments	$ -	$ 79,649	$ 78,590	$ 27,691	$ 24,177
Restricted cash and investments	-	-	-	-	-
Receivables (net of allowances)					
Taxes and franchise fees	-	-	-	-	-
Grants	344,241	-	-	-	-
Prepaid items and other assets	1,782	-	-	-	-
Total assets	$ 346,023	$ 79,649	$ 78,590	$ 27,691	$ 24,177
LIABILITIES					
Accounts payable	$ 10,106	$ 79,649	$ 3,958	$ -	$ -
Accrued payroll and related taxes	-	-	-	-	-
Due to other funds	331,890	-	-	-	-
Deposits	-	-	-	-	-
Unearned revenue	6,214	-	-	-	-
Contracts payable	-	-	-	-	-
Matured bond interest payable	-	-	-	-	-
Matured bonds payable	-	-	-	-	-
Advances from other funds	-	-	-	-	-
Total liabilities	348,210	79,649	3,958	-	-
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows - Unavailable revenue	-	-	-	-	-
Total deferred inflow of resources	-	-	-	-	-
Total liabilities and deferred inflows of resources	348,210	79,649	3,958	-	-
FUND BALANCES (DEFICITS)					
Nonspendable	1,782	-	-	-	-
Restricted	-	-	74,632	27,691	24,177
Committed	-	-	-	-	-
Unassigned	(3,969)	-	-	-	-
Total fund balances (deficits)	(2,187)	-	74,632	27,691	24,177
Total liabilities and fund balances (deficits)	$ 346,023	$ 79,649	$ 78,590	$ 27,691	$ 24,177

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds (Continued)
June 30, 2018

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
$ 47,401	$ -	$ 62,541	$ 376	$ 16,345	$ -	$ -	$ 320,626
-	581,891	-	-	-	16,055	1,260,945	-
-	-	-	-	-	-	-	-
-	353,557	-	-	-	-	-	-
-	-	-	-	-	-	-	-
$ 47,401	$ 935,448	$ 62,541	$ 376	$ 16,345	$ 16,055	$ 1,260,945	$ 320,626
$ -	$ 188,997	$ -	$ -	$ -	$ -	$ 468	$ 132
-	-	-	-	-	-	-	1,034
-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,374	-
-	800,297	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	989,294	-	-	-	-	1,842	1,166
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	989,294	-	-	-	-	1,842	1,166
-	-	-	-	-	-	-	-
47,401	-	-	376	16,345	16,055	1,259,103	319,460
-	-	62,541	-	-	-	-	-
-	(53,846)	-	-	-	-	-	-
47,401	(53,846)	62,541	376	16,345	16,055	1,259,103	319,460
$ 47,401	$ 935,448	$ 62,541	$ 376	$ 16,345	$ 16,055	$ 1,260,945	$ 320,626

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds (Continued)
June 30, 2018

	Spring Training Ticket Surcharge Fund	Tourism Fund	163rd Ave Development Fee Fund	Fire Development Fee 2014 Law Fund	Fire Development Fee Grandfathered Fund
ASSETS					
Cash and investments	$ 603,533	$ 478,079	$ 108,802	$ 4,039,030	$ -
Restricted cash and investments	-	-	-	-	-
Receivables (net of allowances)					
Taxes and franchise fees	-	-	-	-	-
Grants	-	-	-	-	-
Prepaid items and other assets	-	-	-	-	-
Total assets	$ 603,533	$ 478,079	$ 108,802	$ 4,039,030	$ -
LIABILITIES					
Accounts payable	$ -	$ -	$ -	$ 680	$ 688
	-	-	-	-	-
Due to other funds	-	-	-	-	-
Deposits	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Contracts payable	-	-	-	-	43,985
Matured bond interest payable	-	-	-	-	-
Matured bonds payable	-	-	-	-	-
Advances from other funds	-	-	-	-	2,506,971
Total liabilities	-	-	-	680	2,551,644
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows - Unavailable revenue	-	-	-	-	-
Total deferred inflow of resources	-	-	-	-	-
Total liabilities and deferred inflows of resources	-	-	-	680	2,551,644
FUND BALANCES (DEFICITS)					
Nonspendable	-	-	-	-	-
Restricted	603,533	-	108,802	4,038,350	-
Committed	-	478,079	-	-	-
Unassigned	-	-	-	-	(2,551,644)
Total fund balances (deficits)	603,533	478,079	108,802	4,038,350	(2,551,644)
Total liabilities and fund balances (deficits)	$ 603,533	$ 478,079	$ 108,802	$ 4,039,030	$ -

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds (Continued)
June 30, 2018

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
$ 4,631,154	$ 1,356,307	$ 2,347,911	$ 8,390,908	$ 2,496,682	$ 23,779	$ 104,509
-	163,117	-	-	-	-	-
-	-	-	-	-	-	44,639
-	-	-	-	-	-	-
-	-	-	-	-	-	-
$ 4,631,154	$ 1,519,424	$ 2,347,911	$ 8,390,908	$ 2,496,682	$ 23,779	$ 149,148
$ -	$ 785	$ 371	$ 1,650	$ -	$ -	$ 213,314
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	163,117	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	163,902	371	1,650	-	-	213,314
-	-	-	-	-	-	16,592
-	-	-	-	-	-	16,592
-	163,902	371	1,650	-	-	229,906
-	-	-	-	-	-	-
4,631,154	1,355,522	2,347,540	8,389,258	2,496,682	23,779	-
-	-	-	-	-	-	-
-	-	-	-	-	-	(80,758)
4,631,154	1,355,522	2,347,540	8,389,258	2,496,682	23,779	(80,758)
$ 4,631,154	$ 1,519,424	$ 2,347,911	$ 8,390,908	$ 2,496,682	$ 23,779	$ 149,148

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds (Continued)
June 30, 2018

	Marley Park Community Facility District Fund	Total Nonmajor Special Revenue Funds
ASSETS		
Cash and investments	$ 85,447	$ 25,323,537
Restricted cash and investments	760,936	2,782,944
Receivables (net of allowances)		
Taxes and franchise fees	5,803	50,442
Grants	-	697,798
Prepaid items and other assets	-	1,782
Total assets	$ 852,186	$ 28,856,503
LIABILITIES		
Accounts payable	$ 69,493	$ 570,291
	-	1,034
Due to other funds	-	331,890
Deposits	-	1,374
Unearned revenue	-	806,511
Contracts payable	-	207,102
Matured bond interest payable	237,119	237,119
Matured bonds payable	465,000	465,000
Advances from other funds	-	2,506,971
Total liabilities	771,612	5,127,292
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Unavailable revenue	-	16,592
Total deferred inflow of resources	-	16,592
Total liabilities and deferred inflows of resources	771,612	5,143,884
FUND BALANCES (DEFICITS)		
Nonspendable	-	1,782
Restricted	80,574	25,860,434
Committed	-	540,620
Unassigned	-	(2,690,217)
Total fund balances (deficits)	80,574	23,712,619
Total liabilities and fund balances (deficits)	$ 852,186	$ 28,856,503

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, 2018

	Grants Fund	LTAF II/ALF Fund	Municipal Court Enhancement Fund	Municipal Court FARE Fund	Municipal Court JCEF Fund
REVENUES					
Taxes	$ -	$ -	$ -	$ -	$ -
Intergovernmental revenues	-	354,942	-	2,530	-
Charges for services	-	-	-	-	-
Grants revenue	1,630,250	-	-	-	-
Fines	-	-	82,120	-	18,715
Development fees	-	-	-	-	-
Interest revenue(loss)	-	-	84	80	(6)
Other revenue	-	-	-	-	-
Total revenues	1,630,250	354,942	82,204	2,610	18,709
EXPENDITURES					
Current:					
General Government	89,132	-	-	-	-
Public Safety	860,721	-	8,946	-	-
Public works and streets	-	354,942	-	-	-
Community Development	479,892	-	-	-	-
Culture and recreation	188,352	-	-	-	-
Debt service:					
Administrative charges	-	-	-	-	-
Principal retirement	-	-	-	-	-
Interest	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay:					
General Government	-	-	-	-	-
Public Safety	14,340	-	-	-	-
Public works and streets	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Total expenditures	1,632,437	354,942	8,946	-	-
Excess (deficiency) of revenues over expenditures	(2,187)	-	73,258	2,610	18,709
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Issuance of debt	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	(2,187)	-	73,258	2,610	18,709
Fund balances - beginning - previously stated	-	-	1,374	25,081	5,468
Prior period adjustment	-	-	-	-	-
Fund balances - beginning - restated	-	-	1,374	25,081	5,468
Fund balances - ending	$ (2,187)	$ -	$ 74,632	$ 27,691	$ 24,177

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, 2018

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
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
8,103	-	-	-	-	-	-	-
-	-	25,992	-	-	-	-	92,850
-	1,036,180	-	-	-	-	-	-
-	-	-	-	20,377	-	787,664	-
-	-	-	-	-	-	-	-
109	-	719	288	(23)	49	6,416	787
-	-	-	-	-	-	23,855	-
8,212	1,036,180	26,711	288	20,354	49	817,935	93,637
-	-	-	-	-	-	-	-
-	-	-	-	9,693	-	78,455	47,236
-	-	-	47,600	-	-	-	-
-	-	-	-	-	-	-	-
-	722,630	149,934	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	55,278	-
-	-	-	-	-	-	-	-
-	367,396	-	-	-	-	-	-
-	1,090,026	149,934	47,600	9,693	-	133,733	47,236
8,212	(53,846)	(123,223)	(47,312)	10,661	49	684,202	46,401
-	-	117,786	-	-	-	489	-
-	-	-	-	-	(489)	-	-
-	-	-	-	-	-	-	-
-	-	117,786	-	-	(489)	489	-
8,212	(53,846)	(5,437)	(47,312)	10,661	(440)	684,691	46,401
39,189	-	67,978	47,688	5,684	16,495	574,412	273,059
-	-	-	-	-	-	-	-
39,189	-	67,978	47,688	5,684	16,495	574,412	273,059
$ 47,401	$ (53,846)	$ 62,541	$ 376	$ 16,345	$ 16,055	$ 1,259,103	$ 319,460

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, 2018

	Spring Training Ticket Surcharge Fund	Tourism Fund	163rd Ave Development Fee Fund	Fire Development Fee 2014 Law Fund	Fire Development Fee Grandfathered Fund
REVENUES					
Taxes	$ -	$ 601,553	$ -	$ -	$ -
Intergovernmental revenues	-	68,232	-	-	-
Charges for services	863,198	-	-	-	-
Grants revenue	-	-	-	-	-
Fines	-	-	-	-	-
Development fees	-	-	897	1,345,081	1,208,857
Interest revenue(loss)	2,614	48	327	6,093	-
Other revenue	-	-	-	-	-
Total revenues	865,812	669,833	1,224	1,351,174	1,208,857
EXPENDITURES					
Current:					
General Government	-	-	-	11,336	-
Public Safety	-	-	-	-	-
Public works and streets	-	-	-	-	-
Community Development	-	-	-	-	88,016
Culture and recreation	863,204	72,100	-	-	-
Debt service:					
Administrative charges	-	-	-	-	-
Principal retirement	-	-	-	-	-
Interest	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay:					
General Government	-	-	-	-	-
Public Safety	-	-	-	-	-
Public works and streets	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Total expenditures	863,204	72,100	-	11,336	88,016
Excess (deficiency) of revenues over expenditures	2,608	597,733	1,224	1,339,838	1,120,841
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	(451,165)	-	-	(66,902)
Bond Proceeds	-	-	-	-	-
Total other financing sources (uses)	-	(451,165)	-	-	(66,902)
Net change in fund balances	2,608	146,568	1,224	1,339,838	1,053,939
Fund balances - beginning - previously stated	600,925	331,511	107,578	2,698,512	(3,605,583)
Prior period adjustment	-	-	-	-	-
Fund balances - beginning - restated	600,925	331,511	107,578	2,698,512	(3,605,583)
Fund balances - ending	$ 603,533	$ 478,079	$ 108,802	$ 4,038,350	$ (2,551,644)

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, 2018

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
$ -	$ -	$ -	$ -	$ -	$ -	$ 2,551,957
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	925,459	595,353	-	-	-	-
13,918	56	5,425	25,488	7,501	72	417
-	-	-	-	-	-	-
13,918	925,515	600,778	25,488	7,501	72	2,552,374
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	2,639,699
-	150,650	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	45,327	-	-	-
-	-	-	-	-	-	-
-	150,650	-	45,327	-	-	2,639,699
13,918	774,865	600,778	(19,839)	7,501	72	(87,325)
-	-	-	-	-	-	-
-	(437,520)	(135,398)	-	-	-	-
-	-	-	-	-	-	-
-	(437,520)	(135,398)	-	-	-	-
13,918	337,345	465,380	(19,839)	7,501	72	(87,325)
4,617,236	1,018,177	1,882,160	8,409,097	2,489,181	23,707	-
-	-	-	-	-	-	6,567
4,617,236	1,018,177	1,882,160	8,409,097	2,489,181	23,707	6,567
$ 4,631,154	$ 1,355,522	$ 2,347,540	$ 8,389,258	$ 2,496,682	$ 23,779	$ (80,758)

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, 2018

	Marley Park Community Facility District Fund	Total Nonmajor Special Revenue Funds
REVENUES		
Taxes	$ 876,235	$ 4,029,745
Intergovernmental revenues	-	433,807
Charges for services	-	982,040
Grants revenue	-	2,666,430
Fines	-	908,876
Development fees	-	4,075,647
Interest revenue(loss)	-	70,462
Other revenue	-	23,855
Total revenues	876,235	13,190,862
EXPENDITURES		
Current:		
General Government	-	100,468
Public Safety	-	1,005,051
Public works and streets	-	3,042,241
Community Development	-	718,558
Culture and recreation	69,500	2,065,720
Debt service:		
Administrative charges	3,197	3,197
Principal retirement	465,000	465,000
Interest	455,183	455,183
Bond issuance costs	133,100	133,100
Capital outlay:		
General Government	2,830,000	2,830,000
Public Safety	-	69,618
Public works and streets	-	45,327
Culture and recreation	-	367,396
Total expenditures	3,955,980	11,300,859
Excess (deficiency) of revenues over expenditures	(3,079,745)	1,890,003
OTHER FINANCING SOURCES (USES)		
Transfers in	-	118,275
Transfers out	-	(1,091,474)
Bond Proceeds	3,000,000	3,000,000
Total other financing sources (uses)	3,000,000	2,026,801
Net change in fund balances	(79,745)	3,916,804
Fund balances - beginning - previously stated	160,319	19,789,248
Prior period adjustment	-	6,567
Fund balances - beginning - restated	160,319	19,795,815
Fund balances - ending	$ 80,574	$ 23,712,619

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Grants Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Grants revenue	$ 14,952,000	$ 14,623,200	$ 1,630,250	$ (12,992,950)
Total revenues	14,952,000	14,623,200	1,630,250	(12,992,950)
EXPENDITURES				
Current:				
General Government				
City attorney	20,300	348,300	87,211	261,089
General operations	-	-	1,921	(1,921)
Public Safety				
Police	341,000	951,600	332,948	618,652
Fire	729,500	757,100	527,773	229,327
Community Development				
Community development	712,300	649,400	479,892	169,508
Culture and recreation				
Human services and community vitality	137,500	202,500	188,352	14,148
Contingency				
Contingency	13,000,000	4,713,400	-	4,713,400
Total current	14,940,600	7,622,300	1,618,097	6,004,203
Capital outlay:				
Public Safety				
Police	11,400	51,400	-	51,400
Fire	-	15,700	14,340	1,360
Total capital outlay	11,400	67,100	14,340	52,760
Total expenditures	14,952,000	7,689,400	1,632,437	6,056,963
Excess (deficiency) of revenues over expenditures	-	6,933,800	(2,187)	(6,935,987)
Net change in fund balances	$ -	$ 6,933,800	$ (2,187)	$ (6,935,987)

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, 2018

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Intergovernmental revenues	$ 350,000	$ 350,000	$ 354,942	$ 4,942
Total revenues	350,000	350,000	354,942	4,942
EXPENDITURES				
Current:				
Public Works and Streets				
Public works and streets	350,000	357,400	354,942	2,458
Total current	350,000	357,400	354,942	2,458
Total expenditures	350,000	357,400	354,942	2,458
Excess (deficiency) of revenues over expenditures	-	(7,400)	-	7,400
Net change in fund balances	$ -	$ (7,400)	$ -	$ 7,400

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Fines	$ 90,000	$ 90,000	$ 82,120	$ (7,880)
Interest revenue	-	-	84	84
Total revenues	90,000	90,000	82,204	(7,796)
EXPENDITURES				
Current:				
Public Safety				
Court	85,000	85,000	8,946	76,054
Contingency				
Contingency	11,700	11,700	-	11,700
Total current	96,700	96,700	8,946	87,754
Total expenditures	96,700	96,700	8,946	87,754
Excess (deficiency) of revenues over expenditures	(6,700)	(6,700)	73,258	79,958
Net change in fund balances	$ (6,700)	$ (6,700)	$ 73,258	$ 79,958

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, 2018

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget
REVENUES				
Intergovernmental revenues	$ 4,000	$ 4,000	$ 2,530	$ (1,470)
Interest revenue	-	-	80	80
Total revenues	4,000	4,000	2,610	(1,390)
EXPENDITURES				
Current:				
Public Works				
Court	-	-	-	-
Contingency				
Contingency	29,400	29,400	-	29,400
Total current	29,400	29,400	-	29,400
Total expenditures	29,400	29,400	-	29,400
Excess (deficiency) of revenues over expenditures	(25,400)	(25,400)	2,610	28,010
Net change in fund balances	$ (25,400)	$ (25,400)	$ 2,610	$ 28,010

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Fines	$ 22,000	$ 22,000	$ 18,715	$ (3,285)
Interest revenue	-	-	(6)	(6)
Total revenues	22,000	22,000	18,709	(3,291)
EXPENDITURES				
Current:				
Contingency				
Contingency	22,000	22,000	-	22,000
Total current	22,000	22,000	-	22,000
Total expenditures	22,000	22,000	-	22,000
Excess (deficiency) of revenues over expenditures	-	-	18,709	18,709
Net change in fund balances	$ -	$ -	$ 18,709	$ 18,709

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Intergovernmental revenues	$ 11,000	$ 11,000	$ 8,103	$ (2,897)
Interest revenue	-	-	109	109
Total revenues	11,000	11,000	8,212	(2,788)
EXPENDITURES				
Current:				
Contingency				
Contingency	53,500	53,500	-	53,500
Total current	53,500	53,500	-	53,500
Total expenditures	53,500	53,500	-	53,500
Excess (deficiency) of revenues over expenditures	(42,500)	(42,500)	8,212	50,712
Net change in fund balances	$ (42,500)	$ (42,500)	$ 8,212	$ 50,712

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Grants revenue	$ 2,585,900	$ 2,574,300	$ 1,036,180	$ (1,538,120)
Total revenues	2,585,900	2,574,300	1,036,180	(1,538,120)
EXPENDITURES				
Current:				
Culture and Recreation				
Human services and community vitality	2,585,900	2,039,300	722,630	1,316,670
Total current	2,585,900	2,039,300	722,630	1,316,670
Capital outlay:				
Culture and Recreation				
Human services and community vitality	-	535,000	367,396	167,604
Total capital outlay	-	535,000	367,396	167,604
Total expenditures	2,585,900	2,574,300	1,090,026	1,484,274
Excess (deficiency) of revenues over expenditures	-	-	(53,846)	(53,846)
Net change in fund balances	$ -	$ -	$ (53,846)	$ (53,846)

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, 2018

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Charges for services	$ 30,000	$ 30,000	$ 25,992	$ (4,008)
Interest revenue(loss)	-	-	719	719
Total revenues	30,000	30,000	26,711	(3,289)
EXPENDITURES				
Current:				
Culture and Recreation				
Culture and recreation	165,000	165,000	149,934	15,066
Contingency				
Contingency	53,600	53,600	-	53,600
Total current	218,600	218,600	149,934	68,666
Total expenditures	218,600	218,600	149,934	68,666
Excess (deficiency) of revenues over expenditures	(188,600)	(188,600)	(123,223)	65,377
OTHER FINANCING SOURCES (USES)				
Transfers in	120,000	120,000	117,786	(2,214)
Total other financing sources (uses)	120,000	120,000	117,786	(2,214)
Net change in fund balances	$ (68,600)	$ (68,600)	$ (5,437)	$ 63,163

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Interest revenue	$ -	$ -	$ 288	$ 288
Total revenues	-	-	288	288
EXPENDITURES				
Current:				
Public Works and Streets				
Public works and streets	47,600	47,600	47,600	-
Total current	47,600	47,600	47,600	-
Total expenditures	47,600	47,600	47,600	-
Excess (deficiency) of revenues over expenditures	(47,600)	(47,600)	(47,312)	288
Net change in fund balances	$ (47,600)	$ (47,600)	$ (47,312)	$ 288

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, 2018

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Fines	$ 15,900	$ 15,900	$ 20,377	$ 4,477
Interest revenue	-	-	(23)	(23)
Total revenues	15,900	15,900	20,354	4,454
EXPENDITURES				
Current:				
Public Safety				
Police	15,900	15,900	9,693	6,207
Total current	15,900	15,900	9,693	6,207
Total expenditures	15,900	15,900	9,693	6,207
Excess (deficiency) of revenues over expenditures	-	-	10,661	10,661
Net change in fund balances	$ -	$ -	$ 10,661	$ 10,661

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Interest revenue	$ -	$ -	$ 49	$ 49
Total revenues	-	-	49	49
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)	49	16,549
OTHER FINANCING SOURCES (USES)				
Total other financing sources (uses)	-	(489)	(489)	-
Net change in fund balances	$ (16,500)	$ (16,989)	$ (440)	$ 16,549

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, 2018

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Fines	$ 245,000	$ 245,000	$ 787,664	$ 542,664
Interest revenue	-	-	6,416	6,416
Other revenue	-	-	23,855	23,855
Total revenues	245,000	245,000	817,935	572,935
EXPENDITURES				
Current:				
Public Safety				
Police	510,800	450,300	78,455	371,845
Contingency				
Contingency	544,600	544,600	-	544,600
Total current	1,055,400	994,900	78,455	916,445
Capital outlay:				
Public Safety				
Police	-	60,500	55,278	5,222
Total capital outlay	-	60,500	55,278	5,222
Total expenditures	1,055,400	1,055,400	133,733	921,667
Excess (deficiency) of revenues over expenditures	(810,400)	(810,400)	684,202	1,494,602
OTHER FINANCING SOURCES (USES)				
Transfers in	-	489	489	-
Total other financing sources (uses)	-	489	489	-
Net change in fund balances	$ (810,400)	$ (809,911)	$ 684,691	$ 1,494,602

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Charges for services	$ 105,000	$ 105,000	$ 92,850	$ (12,150)
Interest revenue	-	-	787	787
Total revenues	105,000	105,000	93,637	(11,363)
EXPENDITURES				
Current:				
Public Safety				
Police	110,900	110,900	47,236	63,664
Contingency				
Contingency	302,800	302,800	-	302,800
Total current	413,700	413,700	47,236	366,464
Total expenditures	413,700	413,700	47,236	366,464
Excess (deficiency) of revenues over expenditures	(308,700)	(308,700)	46,401	355,101
Net change in fund balances	$ (308,700)	$ (308,700)	$ 46,401	$ 355,101

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Charges for services	$ 689,000	$ 863,200	$ 863,198	$ (2)
Interest revenue	-	-	2,614	2,614
Total revenues	689,000	863,200	865,812	2,612
EXPENDITURES				
Current:				
Culture and Recreation				
Culture and recreation services	689,000	863,300	863,204	96
Total current	689,000	863,300	863,204	96
Total expenditures	689,000	863,300	863,204	96
Excess (deficiency) of revenues over expenditures	-	(100)	2,608	2,708
Net change in fund balances	$ -	$ (100)	$ 2,608	$ 2,708

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
Tourism Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	$ 553,700	$ 553,700	$ 601,553	$ 47,853
Intergovernmental revenues	100,000	100,000	68,232	(31,768)
Interest revenue	-	-	48	48
Total revenues	653,700	653,700	669,833	16,133
EXPENDITURES				
Current:				
Culture and Recreation				
Culture and recreation services	100,000	100,000	72,100	27,900
Contingency				
Contingency	458,800	459,800	-	459,800
Total current	558,800	559,800	72,100	487,700
Capital outlay:				
Culture and Recreation				
Culture and recreation services	2,200	-	-	-
Total capital outlay	2,200	-	-	-
Total expenditures	561,000	559,800	72,100	487,700
Excess (deficiency) of revenues over expenditures	92,700	93,900	597,733	503,833
OTHER FINANCING SOURCES (USES)				
Transfers out	(413,100)	(451,165)	(451,165)	-
Total other financing sources (uses)	(413,100)	(451,165)	(451,165)	-
Net change in fund balances	$ (320,400)	$ (357,265)	$ 146,568	$ 503,833

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, 2018

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Development fees	$ 48,500	$ 48,500	$ 897	$ (47,603)
Interest revenue	-	-	327	327
Total revenues	48,500	48,500	1,224	(47,276)
EXPENDITURES				
Current:				
Contingency				
Contingency	142,400	142,400	-	142,400
Total current	142,400	142,400	-	142,400
Total expenditures	142,400	142,400	-	142,400
Excess (deficiency) of revenues over expenditures	(93,900)	(93,900)	1,224	95,124
Net change in fund balances	$ (93,900)	$ (93,900)	$ 1,224	$ 95,124

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Development fees	$ 666,100	$ 666,100	$ 1,208,857	$ 542,757
Total revenues	666,100	666,100	1,208,857	542,757
EXPENDITURES				
Current:				
Community Development				-
Economic development	49,100	88,100	88,016	84
Total current	49,100	88,100	88,016	84
Total expenditures	49,100	88,100	88,016	84
Excess (deficiency) of revenues over expenditures	617,000	578,000	1,120,841	542,841
OTHER FINANCING SOURCES (USES)				
Transfers out	(617,000)	(617,000)	(66,902)	550,098
Total other financing sources (uses)	(617,000)	(617,000)	(66,902)	550,098
Net change in fund balances	$ -	$ (39,000)	$ 1,053,939	$ 1,092,939

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, 2018

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Development fees	$ 816,500	$ 816,500	$ 1,345,081	$ 528,581
Interest revenue	-	-	6,093	6,093
Total revenues	816,500	816,500	1,351,174	534,674
EXPENDITURES				
Current:				
General Government				-
General operations	20,600	16,800	11,336	5,464
Contingency				
Contingency	3,187,900	3,190,500	-	3,190,500
Total current	3,208,500	3,207,300	11,336	3,195,964
Total expenditures	3,208,500	3,207,300	11,336	3,195,964
Excess (deficiency) of revenues over expenditures	(2,392,000)	(2,390,800)	1,339,838	3,730,638
Net change in fund balances	$ (2,392,000)	$ (2,390,800)	$ 1,339,838	$ 3,730,638

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Interest revenue	$ -	$ -	$ 13,918	13,918
Total revenues	-	-	13,918	13,918
EXPENDITURES				
Current:				
General Government				
General operations	10,400	-	-	-
Contingency				
Contingency	4,602,000	4,612,400	-	4,612,400
Total current	4,612,400	4,612,400	-	4,612,400
Total expenditures	4,612,400	4,612,400	-	4,612,400
Excess (deficiency) of revenues over expenditures	(4,612,400)	(4,612,400)	13,918	4,626,318
Net change in fund balances	$ (4,612,400)	$ (4,612,400)	$ 13,918	$ 4,626,318

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, 2018

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Development fees	$ 320,700	$ 320,700	$ 925,459	$ 604,759
Interest revenue	-	-	56	56
Total revenues	320,700	320,700	925,515	604,815
EXPENDITURES				
Current:				
General Government				
General operations	10,400	-	-	-
Community Development				
Economic development	91,800	190,000	150,650	39,350
Contingency				
Contingency	733,200	644,200	-	644,200
Total current	835,400	834,200	150,650	683,550
Total expenditures	835,400	834,200	150,650	683,550
Excess (deficiency) of revenues over expenditures	(514,700)	(513,500)	774,865	1,288,365
OTHER FINANCING SOURCES (USES)				
Transfers out	(437,500)	(437,520)	(437,520)	-
Total other financing sources (uses)	(437,500)	(437,520)	(437,520)	-
Net change in fund balances	$ (952,200)	$ (951,020)	$ 337,345	$ 1,288,365

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, 2018

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Development fees	$ 322,000	$ 322,000	$ 595,353	$ 273,353
Interest revenue	-	-	5,425	5,425
Total revenues	322,000	322,000	600,778	278,778
EXPENDITURES				
Current:				
General Government				
General operations	10,400	-	-	-
Contingency				
Contingency	1,999,000	2,008,200	-	2,008,200
Total current	2,009,400	2,008,200	-	2,008,200
Total expenditures	2,009,400	2,008,200	-	2,008,200
Excess (deficiency) of revenues over expenditures	(1,687,400)	(1,686,200)	600,778	2,286,978
OTHER FINANCING SOURCES (USES)				
Transfers out	(135,400)	(135,400)	(135,398)	2
Total other financing sources (uses)	(135,400)	(135,400)	(135,398)	2
Net change in fund balances	$ (1,822,800)	$ (1,821,600)	$ 465,380	$ 2,286,980

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Interest revenue	$ -	$ -	$ 25,488	25,488
Other revenue	-	12,700	-	(12,700)
Total revenues	-	12,700	25,488	12,788
EXPENDITURES				
Current:				
Unassigned				
General Government				
General operations	10,400	-	-	-
Contingency				-
Contingency	8,248,200	8,258,600	-	8,258,600
Total Current	8,258,600	8,258,600	-	8,258,600
Capital outlay:				
Public Works and Streets				
Public Works and Streets	142,600	183,400	45,327	138,073
Total capital outlay	142,600	183,400	45,327	138,073
Total expenditures	8,401,200	8,442,000	45,327	8,396,673
Excess (deficiency) of revenues over expenditures	(8,401,200)	(8,429,300)	(19,839)	8,409,461
Net change in fund balances	$ (8,401,200)	$ (8,429,300)	$ (19,839)	$ 8,409,461

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Interest revenue	$ -	$ -	$ 7,501	$ 7,501
Total revenues	-	-	7,501	7,501
EXPENDITURES				
Current:				
Contingency				
Contingency	2,486,500	2,486,500	-	2,486,500
Total current	2,486,500	2,486,500	-	2,486,500
Total expenditures	2,486,500	2,486,500	-	2,486,500
Excess (deficiency) of revenues over expenditures	(2,486,500)	(2,486,500)	7,501	2,494,001
Net change in fund balances	$ (2,486,500)	$ (2,486,500)	$ 7,501	$ 2,494,001

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, 2018

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
REVENUES				
Interest revenue	$ -	$ -	$ 72	$ 72
Total revenues	-	-	72	72
EXPENDITURES				
Current:				
Contingency				
Contingency	23,700	23,700	-	23,700
Total current	23,700	23,700	-	23,700
Total expenditures	23,700	23,700	-	23,700
Excess (deficiency) of revenues over expenditures	(23,700)	(23,700)	72	23,772
Net change in fund balances	$ (23,700)	$ (23,700)	$ 72	$ 23,772

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, 2018

	Budgeted Amounts						Variance with	
	Original		Final		Actual		Final Budget	
REVENUES								
Taxes	$	2,549,900	$	2,549,900	$	2,551,957	$	2,057
Charges for services		3,700		3,700		-		(3,700)
Interest revenue(loss)		-		-		417		417
Other revenue		15,600		15,600		-		(15,600)
Total revenues		2,569,200		2,569,200		2,552,374		(16,826)
EXPENDITURES								
Current:								
Public Works and Streets								
Public works and streets		2,599,700		2,689,900		2,639,699		50,201
Total current		2,599,700		2,689,900		2,639,699		50,201
Total expenditures		2,599,700		2,689,900		2,639,699		50,201
Excess (deficiency) of revenues over expenditures		(30,500)		(120,700)		(87,325)		33,375
Net change in fund balances	$	(30,500)	$	(120,700)	$	(87,325)	$	33,375

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	$ 902,000	$ 902,000	$ 876,235	$ (25,765)
Total revenues	902,000	902,000	876,235	(25,765)
EXPENDITURES				
Current:				
Culture and Recreation				
Culture and recreation services	69,500	69,500	69,500	-
Contingency				
Contingency	239,800	239,800	-	239,800
Total current	309,300	309,300	69,500	239,800
Debt service:				
Administrative charges	3,000	3,000	3,197	(197)
Principal retirement	406,700	406,700	465,000	(58,300)
Interest	551,700	551,700	455,183	96,517
Bond issuance costs	400,000	400,000	133,100	266,900
Total debt service	1,361,400	1,361,400	1,056,480	304,920
Capital outlay:				
General Government				
General operations	3,800,000	3,800,000	2,830,000	970,000
Total capital outlay	3,800,000	3,800,000	2,830,000	970,000
Total expenditures	5,470,700	5,470,700	3,955,980	1,514,720
Excess (deficiency) of revenues over expenditures	(4,568,700)	(4,568,700)	(3,079,745)	1,488,955
OTHER FINANCING SOURCES (USES)				
Issuance of debt	4,000,000	4,000,000	3,000,000	(1,000,000)
Total other financing sources (uses)	4,000,000	4,000,000	3,000,000	(1,000,000)
Net change in fund balances	$ (568,700)	$ (568,700)	$ (79,745)	$ 488,955

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, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Interest revenue	$ -	$ -	$ 1,089	$ 1,089
Total revenues	-	-	1,089	1,089
EXPENDITURES				
Debt service:				
Administrative charges	-	-	1,054	(1,054)
Principal retirement	2,311,100	2,311,100	2,311,050	50
Interest	1,122,900	1,122,900	1,122,909	(9)
Bond issuance costs	4,300	346,300	335,526	10,774
Total debt service	3,438,300	3,780,300	3,770,539	9,761
Total expenditures	3,438,300	3,780,300	3,770,539	9,761
Excess (deficiency) of revenues over expenditures	(3,438,300)	(3,780,300)	(3,769,450)	10,850
OTHER FINANCING SOURCES (USES)				
Transfers in	3,438,300	3,438,300	3,435,670	(2,630)
Issuance of debt	-	-	117,500	117,500
Premium on debt issuance	-	-	223,606	223,606
Total other financing sources (uses)	3,438,300	3,438,300	3,776,776	338,476
Net change in fund balances	$ -	$ (342,000)	$ 7,326	$ 349,326

- Internal Service Funds – 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, 2018

	Risk Management Fund	Employee Healthcare Trust	Workers' Compensation Fund	Total Internal Service funds
ASSETS				
Current assets:				
Cash and investments	$ 2,461,426	$ 7,041,127	$ 1,521,470	$ 11,024,023
Receivables (net of allowances)				
Other	-	206,433	-	206,433
Other assets	3,403	2,730	21,811	27,944
Total current assets	2,464,829	7,250,290	1,543,281	11,258,400
Noncurrent assets:				
Net other postemployment benefits asset	969	428	35	1,432
Total noncurrent assets	969	428	35	1,432
Total assets	2,465,798	7,250,718	1,543,316	11,259,832
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	48,186	21,281	1,718	71,185
Deferred outflows related to other postemployment benefits	1,099	485	39	1,623
Total deferred outflows of resources	49,285	21,766	1,757	72,808
Total assets and deferred outflows of resources	$ 2,515,083	$ 7,272,484	$ 1,545,073	$ 11,332,640
LIABILITIES				
Current liabilities:				
Accounts payable	21,386	61,731	10,136	93,253
Accrued payroll and related taxes	8,640	3,408	2,391	14,439
Claims payable	180,000	1,257,598	13,577	1,451,175
Compensated absences payable, due in less than one year	11,844	2,767	775	15,386
Total current liabilities	221,870	1,325,504	26,879	1,574,253
Noncurrent liabilities:				
Compensated absences payable, due in more than one year	16,356	3,821	1,070	21,247
Net pension liability	273,608	120,836	9,756	404,200
Net other postemployment benefits liability	639	282	23	944
Total noncurrent liabilities	290,603	124,939	10,849	426,391
Total liabilities	512,473	1,450,443	37,728	2,000,644
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	16,386	7,237	584	24,207
Deferred inflows related to other postemployment benefits	1,188	524	42	1,754
Total deferred inflows of resources	17,574	7,761	626	25,961
Total liabilities and deferred inflows of resources	530,047	1,458,204	38,354	2,026,605
NET POSITION				
Unrestricted	1,985,036	5,814,280	1,506,719	9,306,035
Total net position	$ 1,985,036	$ 5,814,280	$ 1,506,719	$ 9,306,035

City of Surprise, Arizona

Combining Statement of Revenues, Expenditures, and Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2018

	Risk Management Fund	Employee Healthcare Trust	Workers' Compensation Fund	Total Internal Service Funds
OPERATING REVENUES				
Charges for services	$ 2,279,358	$ 12,168,777	$ 861,455	$ 15,309,590
Total operating revenues	2,279,358	12,168,777	861,455	15,309,590
OPERATING EXPENSES				
Costs of sales and services	1,955,532	10,845,442	460,385	13,261,359
Total operating expenses	1,955,532	10,845,442	460,385	13,261,359
Operating income (loss)	323,826	1,323,335	401,070	2,048,231
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	4,813	7,186	2,467	14,466
Total nonoperating revenues (expenses)	4,813	7,186	2,467	14,466
Income (loss) before contributions and transfers	328,639	1,330,521	403,537	2,062,697
Transfers in	-	-	381,446	381,446
Change in net position	328,639	1,330,521	784,983	2,444,143
Total net position - beginning - previously stated	1,656,339	4,483,735	721,736	6,861,810
Change in accounting principle	58	24	-	82
Total net position - beginning - restated	1,656,397	4,483,759	721,736	6,861,892
Total net position - ending	$ 1,985,036	$ 5,814,280	$ 1,506,719	$ 9,306,035

City of Surprise, Arizona
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2018

	Risk Management Fund	Employee Healthcare Trust	Workers' Compensation Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	$ 2,279,358	$ 11,972,344	$ 861,455	$ 15,113,157
Payments to employees	(254,685)	(103,307)	(69,925)	(427,917)
Payments to suppliers	(1,564,168)	(10,790,960)	(378,501)	(12,733,629)
Net cash provided (used) by operating activities	460,505	1,078,077	413,029	1,951,611
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash received from other funds	-	-	381,446	381,446
Net cash provided (used) by noncapital financing activities	-	-	381,446	381,446
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash received from interest income	4,813	7,186	2,467	14,466
Net cash provided (used) by investing activities	4,813	7,186	2,467	14,466
Net increase (decrease) in cash and cash equivalents	465,318	1,085,263	796,942	2,347,523
Balances - beginning of year	1,996,108	5,955,864	724,528	8,676,500
Balances - end of the year	$ 2,461,426	$ 7,041,127	$ 1,521,470	$ 11,024,023
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating Income (loss)	$ 323,826	$ 1,323,335	$ 401,070	$ 2,048,231
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Changes in assets and liabilities:				
Other receivables	-	(196,433)	-	(196,433)
Other assets	2,049	300	(21,811)	(19,462)
Accounts payable	(23,076)	52,584	10,127	39,635
Accrued payroll and related taxes	(223)	(85)	(71)	(379)
Compensated absences	11,096	3,007	1,524	15,627
Net pension liability	(32,984)	(4,089)	8,622	(28,451)
Claims payable	180,000	(100,459)	13,577	93,118
Net other postemployment asset/liability	(183)	(83)	(9)	(275)
Net cash provided (used) by operating activities	$ 460,505	$ 1,078,077	$ 413,029	$ 1,951,611

SURPRISE

ARIZONA

SURPRISE
ARIZONA

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

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities										
Net investment of capital assets	$ 355,991,192	$ 437,142,472	$ 425,526,375	$ 445,035,827	$ 428,076,477	$ 413,717,047	$ 409,274,827	$ 405,111,110	$ 392,458,485	$ 393,984,378
Restricted	28,504,107	27,494,001	27,405,931	27,011,749	28,105,434	29,650,958	27,948,361	22,743,525	24,613,341	67,683,440
Unrestricted	16,550,858	5,285,625	1,266,669	4,750,944	19,164,721	25,538,922	(18,482,747)	(16,896,594)	(27,479,276)	(57,592,973)
Total governmental activities net position	$ 401,046,157	$ 469,922,098	$ 454,198,975	$ 476,798,520	$ 475,346,632	$ 468,906,927	$ 418,740,441	$ 410,958,041	$ 389,592,550	$ 404,074,845
Business-type activities										
Net investment of capital assets	$ 256,006,743	$ 250,936,354	$ 257,403,366	$ 269,712,138	$ 262,605,698	$ 263,420,571	$ 264,678,599	$ 270,081,565	$ 279,249,380	$ 277,989,957
Restricted*	-	13,841,284	21,445,388	6,673,158	6,867,426	6,895,582	5,381,403	13,039,887	12,326,207	14,365,125
Unrestricted	43,044,370	40,360,365	39,592,483	54,053,088	60,409,577	57,257,700	44,564,505	29,979,759	22,570,204	31,396,601
Total business-type activities net position	$ 299,051,113	$ 305,138,003	$ 318,441,237	$ 330,438,384	$ 329,882,701	$ 327,573,853	$ 314,624,507	$ 313,101,211	$ 314,145,791	$ 323,751,683
Primary government										
Net investment of capital assets	$ 611,997,935	$ 688,078,826	$ 682,929,741	$ 714,747,965	$ 690,682,175	$ 677,137,618	$ 673,953,426	$ 675,192,675	$ 671,707,865	$ 671,974,335
Restricted	28,504,107	41,335,285	48,851,319	33,684,907	34,972,860	36,546,540	33,329,764	35,783,412	36,939,548	82,048,565
Unrestricted	59,595,228	45,645,990	40,859,152	58,804,032	79,574,298	82,796,622	26,081,758	13,083,165	(4,909,072)	(26,196,372)
Total primary government net position	$ 700,097,270	$ 775,060,101	$ 772,640,212	$ 807,236,904	$ 805,229,333	$ 796,480,780	$ 733,364,948	$ 724,059,252	$ 703,738,341	$ 727,826,528

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.

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses										
Governmental Activities:										
General government	$ 20,248,301	$ 21,961,410	$ 18,092,847	$ 17,438,582	$ 14,958,702	$ 16,079,202	$ 21,038,892	$ 18,906,430	$ 27,733,034	$ 24,693,086
Public safety	39,409,554	33,876,919	38,760,889	39,628,843	39,096,150	40,931,709	44,415,505	47,273,449	64,148,194	51,157,392
Public works & streets	26,621,704	28,392,783	29,748,611	29,415,043	33,710,624	34,988,682	35,141,030	38,670,796	41,540,981	37,661,923
Community development	4,824,047	6,484,414	4,915,385	7,401,566	7,668,373	8,388,639	5,205,925	10,235,430	12,326,274	12,345,202
Culture and recreation	21,138,623	16,399,646	15,229,013	16,189,568	16,285,289	17,228,719	21,863,417	25,690,406	22,555,794	26,471,045
Interest	5,124,808	2,044,603	1,919,145	1,594,060	1,505,313	1,378,709	1,635,320	1,472,910	1,381,807	1,927,016
Total governmental activities expenses	117,367,037	109,159,775	108,665,890	111,667,662	113,224,451	118,995,660	129,300,089	142,249,421	169,686,084	154,255,664
Business-type Activities:										
Ground ambulance services	-	-	-	-	-	-	-	-	-	3,141,623
Sanitation	4,269,858	4,559,778	5,603,983	6,047,844	5,934,789	7,144,521	7,883,309	7,972,061	9,034,441	8,557,348
Sewer	16,315,148	16,665,251	20,090,934	19,325,017	18,717,547	20,072,400	20,360,031	20,399,067	19,519,303	20,039,173
Stormwater	-	-	-	-	-	-	-	-	187,744	775,651
Water	11,629,143	9,792,043	11,188,199	10,792,041	10,849,653	10,546,378	10,619,858	11,823,538	15,013,661	10,926,918
Total business-type activities	32,214,149	31,017,072	36,883,116	36,164,902	35,501,989	37,763,299	38,863,198	40,194,666	43,755,149	43,440,713
Total primary government expenses	$ 149,581,186	$ 140,176,847	$ 145,549,006	$ 147,832,564	$ 148,726,440	$ 156,758,959	$ 168,163,287	$ 182,444,087	$ 213,441,233	$ 197,696,377
Program Revenues										
Governmental Activities:										
Charges for services:										
General government	$ 7,762,750	$ 5,630,748	$ 7,947,615	$ 6,435,843	$ 6,313,245	$ 8,494,212	$ 5,301,697	$ 5,041,335	$ 5,863,856	$ 7,171,091
Public safety	3,132,368	1,257,537	1,522,658	3,096,058	2,922,055	1,306,553	2,963,326	3,778,584	3,600,402	2,801,908
Public works & streets	3,004,313	328,230	3,786,620	3,238,179	792,288	499,338	507,198	853,321	1,445,873	2,252,924
Community development	1,436,629	868,305	1,315,799	1,622,594	2,003,777	1,697,315	2,005,421	2,552,293	3,770,393	7,384,028
Culture and recreation	3,539,257	3,783,816	3,838,003	5,307,491	4,837,786	4,917,918	5,313,203	5,894,021	5,586,303	5,507,476
Operating grants and contributions	1,774,977	13,157,726	10,404,916	8,207,130	10,139,981	9,833,470	9,908,788	11,178,339	12,097,958	12,530,903
Capital grants and contributions	21,552,356	31,142,608	8,655,730	32,449,260	5,925,348	2,877,937	11,561,202	11,558,409	14,356,832	25,485,790
Total governmental activities program revenues	42,202,650	56,168,970	37,471,341	60,356,555	32,934,480	29,626,743	37,560,835	40,856,302	46,721,617	63,134,120
Business-type activities:										
Charges for services:										
Ground ambulance services	-	-	-	-	-	-	-	-	-	2,974,704
Sanitation	5,627,829	6,175,989	6,598,929	6,700,961	6,862,696	7,000,935	6,952,296	7,099,896	7,525,140	7,485,027
Sewer	13,587,358	14,857,689	15,303,709	15,481,721	15,904,030	16,046,564	17,950,085	16,151,096	17,190,499	17,345,559
Stormwater	-	-	-	-	-	-	-	-	1,282,788	1,834,202
Water	10,282,626	9,711,411	9,841,874	10,047,169	10,073,124	9,987,819	10,814,903	12,195,621	14,048,726	14,227,502
Capital grants and contributions	12,856,449	51,714,784	16,878,654	14,502,214	4,427,857	3,270,131	129,722	3,107,265	5,788,132	9,682,391
Total business-type activities program revenues	42,354,262	82,459,873	48,623,166	46,732,065	37,267,707	36,305,449	35,847,006	38,553,878	45,835,285	53,549,385
Total primary government program revenues	$ 84,556,912	$ 138,628,843	$ 86,094,507	$ 107,088,620	$ 70,202,187	$ 65,932,192	$ 73,407,841	$ 79,410,180	$ 92,556,902	$ 116,683,505
Net revenue/expense:										
Governmental activities	$ (75,164,387)	$ (52,990,805)	$ (71,194,549)	$ (51,311,107)	$ (80,289,971)	$ (89,368,917)	$ (91,739,254)	$ (101,393,119)	$ (122,964,467)	$ (91,121,544)
Business-type activities	10,140,113	51,442,801	11,740,050	10,567,163	1,765,718	(1,457,850)	(3,016,192)	(1,640,788)	2,080,136	10,108,672
Total primary government net expense	$ (65,024,275)	$ (1,548,004)	$ (59,454,499)	$ (40,743,944)	$ (78,524,253)	$ (90,826,767)	$ (94,755,446)	$ (103,033,907)	$ (120,884,331)	$ (81,012,872)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	$ 7,403,211	$ 6,831,553	$ 7,018,180	$ 6,112,789	$ 9,274,735	$ 9,401,277	$ 9,713,903	$ 9,962,925	$ 10,441,730	$ 10,813,317
Sales taxes	33,241,899	29,144,497	29,826,572	33,266,049	37,836,088	39,685,844	42,111,177	46,807,817	49,416,383	54,419,572
Franchise taxes	4,073,771	4,309,896	4,448,614	4,547,621	4,732,649	5,159,956	5,249,320	5,062,719	5,674,974	5,643,876
State shared revenue	20,546,483	21,234,739	18,767,966	23,434,911	25,983,982	26,722,541	29,879,804	30,560,635	31,755,661	35,032,519
Unrestricted investment earnings	422,965	414,492	488,919	304,846	164,984	329,637	400,260	607,602	26,274	324,501
Other	3,545,306	1,425,472	489,667	297,016	562,787	482,776	1,146,649	407,445	3,129,094	(753,721)
Transfers	4,050,107	(6,195,179)	946,818	968,148	1,068,522	1,147,181	1,132,145	201,576	1,154,860	1,355,582
Total governmental activities	73,283,742	57,165,470	61,986,736	68,931,380	79,623,747	82,929,212	89,633,258	93,610,719	101,598,976	106,835,646
Business-type activities:										
Unrestricted investment earnings	365,454	423,050	552,583	331,127	150,350	296,183	253,407	319,068	119,304	141,108
Other	-	110,149	483,773	-	-	-	-	-	-	-
Special item - Extinguishment of debt	-	2,821,348	-	-	-	-	-	-	-	-
Transfers	(4,373,199)	6,195,179	(946,818)	(968,148)	(1,068,522)	(1,147,181)	(1,132,145)	(201,576)	(1,154,860)	(1,355,582)
Total business-type activities	(4,007,745)	9,549,726	89,538	(637,021)	(918,172)	(850,998)	(878,738)	117,492	(1,035,556)	(1,214,474)
Total primary government	$ 69,275,997	$ 66,715,196	$ 62,076,274	$ 68,294,359	$ 78,705,575	$ 82,078,214	$ 88,754,520	$ 93,728,211	$ 100,563,420	$ 105,621,172
Change in Net Position										
Governmental activities	$ (1,880,645)	$ 4,174,665	$ (9,207,813)	$ 17,620,273	$ (666,224)	$ (6,439,705)	$ (2,105,996)	$ (7,782,400)	$ (21,365,491)	$ 15,714,102
Business-type activities	6,132,368	60,992,527	11,829,588	9,930,142	847,546	(2,308,848)	(3,894,930)	(1,523,296)	1,044,580	8,894,198
Prior period adjustments	-	-	-	-	-	-	-	-	-	(520,113)
Total primary government	$ 4,251,722	$ 65,167,192	$ 2,621,775	$ 27,550,415	$ 181,322	$ (8,748,553)	$ (6,000,926)	$ (9,305,696)	$ (20,320,911)	$ 24,088,187

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.

City of Surprise, Arizona
Fund Balances of Governmental Funds
Last Ten Years
(modified accrual basis of accounting)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General fund										
Nonspendable	$ -	$ -	$ 327,420	$ 637,513	$ 626,565	$ 821,009	$ 1,313,505	$ 1,287,510	$ 1,262,361	$ 1,602,598
Restricted	-	-	129,117	79,170	77,439	66,385	-	-	501,278	480,554
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	1,334,202	317,343	327,182	360,030	578,518	542,821	338,555	338,167
Unassigned	-	-	239,533	4,459,773	17,166,622	26,849,205	34,324,717	37,385,696	38,436,548	41,763,040
Reserved	4,048,909	2,692,681	-	-	-	-	-	-	-	-
Unreserved	17,105,789	12,527,329	-	-	-	-	-	-	-	-
Total general fund	$ 21,154,698	$ 15,220,010	$ 2,030,272	$ 5,493,799	$ 18,197,808	$ 28,096,629	$ 36,216,740	$ 39,216,027	$ 40,538,742	$ 44,184,359
All other governmental funds										
Nonspendable	$ -	$ -	$ 125,744	$ 106,844	$ 134,673	$ 206,294	$ 195,374	$ 368,126	$ 618,466	$ 638,371
Restricted	-	-	27,151,070	26,932,579	28,027,995	29,584,573	46,848,361	23,064,256	24,112,063	67,202,886
Committed	-	-	7,767,079	7,915,957	7,266,032	47,607,527	42,241,616	40,246,190	40,005,619	3,483,301
Assigned	-	-	41,951,897	42,460,372	44,505,144	1,173,198	1,209,403	469,830	1,109,942	2,912,343
Unassigned			(50,850,735)	(50,409,260)	(49,901,573)	(50,029,315)	(49,288,936)	(47,671,784)	(46,064,773)	(8,258,667)
Reserved	2,289,308	57,870,335	-	-	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	22,123,789	(37,216,769)	-	-	-	-	-	-	-	-
Capital projects funds	2,895,166	(8,724,406)	-	-	-	-	-	-	-	-
Debt service funds	27,832	6,236,019	-	-	-	-	-	-	-	-
Total all other governmental funds	$ 27,336,095	$ 18,165,179	$ 26,145,055	$ 27,006,492	$ 30,032,271	$ 28,542,277	$ 41,205,818	$ 16,476,618	$ 19,781,317	$ 65,978,234

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.

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues										
Taxes	$ 40,645,112	$ 38,940,670	$ 39,445,440	$ 42,290,109	$ 47,442,186	$ 48,262,126	$ 52,178,522	$ 56,908,903	$ 59,749,360	$ 65,257,328
Licenses and permits	4,073,771	4,342,546	4,490,664	4,586,621	4,771,649	5,197,956	4,975,398	5,121,719	5,811,255	5,817,956
Intergovernmental revenues	29,229,811	28,985,886	25,743,085	30,476,028	33,441,035	35,923,296	37,947,604	39,209,688	40,430,400	44,773,004
Charges for services	9,511,853	4,963,482	5,708,552	7,052,487	7,943,039	7,896,783	9,241,853	11,363,453	13,127,359	15,186,099
Grants revenue	1,314,944	2,855,614	3,010,650	1,626,534	2,443,199	2,131,707	1,659,609	3,060,620	1,856,830	2,691,930
Fines	1,862,634	1,930,945	1,827,127	1,870,202	1,986,692	1,498,451	1,768,671	1,214,978	1,052,366	2,281,998
Rents	7,789,822	4,000,944	611,019	580,820	584,972	606,679	549,400	630,514	621,033	601,628
Development fees	3,929,986	1,721,280	2,494,845	2,415,290	2,240,664	1,790,461	2,224,125	3,297,082	4,413,714	5,306,365
Interest revenue	403,629	391,530	464,496	278,177	149,655	307,139	400,260	607,602	24,449	310,038
Special assessments*	2,186,412	-	-	-	-	-	-	-	-	-
Donations	-	-	429,237	257,372	344,589	148,062	245,671	228,316	160,706	183,307
Indirect charges**	-	-	3,660,700	3,660,700	3,660,700	4,682,772	4,682,772	4,884,443	4,768,960	5,249,200
Other revenue	1,451,216	2,286,355	2,047,634	1,175,823	960,297	482,776	1,155,192	392,199	2,908,665	522,745
Total revenues	102,399,190	90,419,252	89,933,449	96,270,163	105,968,677	108,928,208	117,029,077	126,919,517	134,925,097	148,181,598
Expenditures										
Current										
General government	17,770,249	17,750,497	12,073,329	12,627,722	11,925,890	13,674,046	20,291,986	16,306,183	16,675,593	16,965,220
Public safety	34,769,733	30,461,294	34,968,406	35,592,854	35,984,984	38,018,470	41,862,877	44,433,546	47,036,287	51,471,894
Public works and streets	14,831,441	15,573,166	15,425,981	14,706,512	15,350,181	16,784,098	17,314,612	20,492,467	20,116,384	19,858,787
Community development	4,707,176	6,447,218	4,802,971	7,336,377	7,605,656	8,344,991	5,074,395	10,080,446	12,225,155	11,890,816
Culture and recreation	18,110,338	13,393,070	12,373,798	13,421,538	13,210,175	14,912,746	19,301,123	18,416,339	17,998,257	19,540,944
Capital outlay	56,371,993	12,918,988	6,186,111	5,177,828	3,215,160	6,409,054	8,604,468	36,511,052	17,501,271	18,067,055
Debt Service										
Principal	3,376,652	2,137,075	2,328,300	2,449,900	2,533,138	2,661,713	2,786,800	2,361,425	2,613,738	2,776,050
Interest	4,987,153	1,973,329	1,898,152	1,594,060	1,505,313	1,378,709	1,245,447	1,749,568	1,587,151	1,578,092
Other charges	231,221	-	-	-	-	-	389,873	19,762	724,982	472,877
Total expenditures	155,155,956	100,654,637	90,057,048	92,906,791	91,330,497	102,183,827	116,871,581	150,370,788	136,478,818	142,621,735
Excess of revenues over (under) expenses	(52,756,766)	(10,235,385)	(123,599)	3,363,372	14,638,180	6,744,381	157,496	(23,451,271)	(1,553,721)	5,559,863
Other financing sources (uses)										
Proceeds from sale of assets	-	-	-	-	33,035	240,830	226,080	336,821	368,156	136,426
Transfers in (out)	4,373,199	(6,167,991)	946,818	968,148	1,068,522	4,803,747	1,132,145	1,150,009	354,860	974,136
From bonding	3,395,000	-	-	-	-	(3,656,566)	19,320,205	-	11,696,218	43,211,107
Payments to refunded bond escrow agent	-	-	-	-	-	-		-	(6,500,617)	-
Total other financing sources (uses)	7,768,199	(6,167,991)	946,818	968,148	1,101,557	1,388,011	20,678,430	1,486,830	5,918,617	44,321,669
Special items										
Advance forgiveness	-	-	-	-	-	-	-	-	-	-
Total special items	-	-	-	-	-	-	-	-	-	-
Net change in fund balances	$ (44,988,567)	$ (16,403,376)	$ 823,219	$ 4,331,520	$ 15,739,737	$ 8,132,392	$ 20,835,926	$ (21,964,441)	$ 4,364,896	$ 49,881,532
Debt service as a percentage of noncapital expenditures***	8.7%	4.7%	5.0%	4.6%	4.6%	4.2%	4.1%	3.6%	4.1%	3.3%

Source: The source of this information is the City's financial records.

* Beginning in fiscal year 2010, the revenue related to Street Light Improvement Districts are reflected in the taxes category rather than special assessments as in previous years.
** 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.

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
2009	$ 6,349,918	$ 33,241,899	$ 4,073,771	$ 43,665,588
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

Source: The source of this information is the City's financial records.

* Fiscal year 2009 excludes tax assessments for Communities Facilities Districts, improvement districts, and secondary taxes for specific debt.

City of Surprise, Arizona
Major Sources of Municipal Sales Tax
Last Ten Fiscal Years

Description of Payers Business	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Construction	$ 10,173,434	$ 4,391,089	$ 3,870,561	$ 4,936,286	$ 7,071,711	$ 5,702,652	$ 5,318,361	$ 8,429,076	$ 7,444,202	$ 9,424,657
Retail trade	9,839,563	10,886,710	11,258,630	12,588,859	13,831,839	15,319,378	17,897,576	18,608,256	20,578,048	24,170,542
Communications and utilities	4,278,158	4,706,978	4,558,281	4,813,827	5,053,313	5,230,594	5,379,741	5,609,855	5,682,238	5,010,541
Restaurant and bar	3,509,150	3,704,296	3,910,930	4,254,798	4,877,292	5,262,786	5,600,500	5,933,745	6,543,214	7,673,195
Real estate, rental and leasing	2,576,629	2,618,870	2,824,605	3,160,567	3,610,593	3,872,029	4,077,066	4,246,757	4,790,722	4,858,025
Other	2,559,706	2,833,644	2,858,970	3,278,980	3,488,295	3,439,338	4,188,861	4,109,905	4,377,959	3,282,612
Total	$ 32,936,640	$ 29,141,587	$ 29,281,977	$ 33,033,317	$ 37,933,043	$ 38,826,777	$ 42,462,105	$ 46,937,594	$ 49,416,383	$ 54,419,572

Source: City of Surprise "Sales, Use, and Bed Tax Report" as of June 30, 2018.

Beginning in January 2004, the Arizona Department of Revenue began using a new reporting software system for classifying business establishments call the North American Industry Classification System (NAICS). Under the new system, the category may be defined a little differently. In addition, more categories were established.

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.

City of Surprise, Arizona
Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year		Real Property: Assessed Value Residential Property	Real Property: Assessed Value Commercial Property	Exemptions: Real Property	Total: Full Cash Value	Total: Direct Tax Rate	Total: Estimated Actual Taxable Full Cash Value	Ratio of Total Assessed Value to Total Estimated Actual Value
2009	P	1,074,552,857	326,443,400	(68,872,401)	1,332,123,856	0.5939	9,935,245,974	13.41%
2009	S	1,079,864,541	510,525,409	(133,155,590)	1,457,234,360	0.0195	13,645,111,961	10.68%
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%

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.

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

				Overlapping Rates								
	City of Surprise			Maricopa County					Dysart School District				
Fiscal Year	Operating Tax Rate	Debt Service Tax Rate	Total City Tax Rate	Operating Tax Rate	Debt Service Tax Rate	County Library	Flood Control	Total County Tax Rate	Operating Tax Rate	Debt Service Tax Rate	Total School District Tax Rate	Other	Total Direct & Overlapping Rates
2009	0.5939	0.0195	0.6134	1.0327	-	0.0353	-	1.0680	4.0525	1.5226	5.5751	1.2662	8.5227
2010	0.5661	-	0.5661	0.9909	-	0.0353	-	1.0262	3.0430	1.7251	4.7681	1.2182	7.5786
2011	0.6735	-	0.6735	1.0508	-	0.0412	-	1.0920	2.9051	2.0919	4.9970	1.3405	8.1030
2012	0.6700	-	0.6700	1.2407	-	0.0492	-	1.2899	3.4104	2.5820	5.9924	1.6440	9.5963
2013	0.7383	-	0.7383	1.2407	-	0.0492	-	1.2899	4.6547	2.7317	7.3864	1.8351	11.2497
2014	0.7783	-	0.7783	1.2807	-	0.0492	-	1.3299	4.3492	2.9538	7.3030	1.6356	11.0468
2015	0.7591	-	0.7591	1.3209	-	0.0556	-	1.3765	3.9957	2.7750	6.7707	1.7472	10.6535
2016	0.7591	-	0.7591	1.4009	-	0.0556	-	1.4565	3.0640	2.9085	5.9725	1.7120	9.9001
2017	0.7591	-	0.7591	1.4009	-	0.0556	-	1.4565	4.1562	2.8032	6.9594	2.5181	11.6931
2018	0.7591	-	0.7591	1.4009	-	0.0556	0.1792	1.6357	4.1562	2.8032	6.9594	2.5104	11.8646

Source: Maricopa County Finance Department's "Maricopa County 2017 Tax Levy" report.

Note: Prior to fiscal year 2018, the Maricopa County Flood Control District tax rate was included in the other column.

City of Surprise, Arizona
Principal Property Taxpayers
June 30, 2018 and 2009

	2018			2009		
Taxpayer	Primary Assessed Valuation	Rank	Percentage of Total	Primary Assessed Valuation	Rank	Percentage of Total
Arizona Public Service Company	$ 27,645,378	1	2.83%			
Southwest Gas Corporation (T&D)	5,680,491	2	0.58%			
EPCOR (Agua Fria Water Division)	4,468,289	3	0.46%			
G&I VII Stadium Village LLC	4,206,740	4	0.43%			
CCD Real Estate Holdings LLC	4,128,363	5	0.42%			
Sands Surprise Real Estate Chevy LLC	3,531,960	6	0.36%			
Harmony at Surprise SPE LLC	3,388,510	7	0.35%			
Wal Mart Stores Inc	3,125,232	8	0.32%			
Surprise Industrial NCP LLC	2,909,934	9	0.30%			
Smith's Food & drug Centers InC	2,475,072	10	0.25%			
Arizona Public Service Company				$ 21,425,937	1	1.99%
Surprise Grand Vista JV I LLC				9,468,239	2	0.88%
AAWC: Agua Fria Water Division				5,010,580	3	0.47%
Southwest Gas Corporation (T&D)				4,821,955	4	0.45%
LCD Asante LLC				4,440,059	5	0.41%
Asante LH LLC				4,349,933	6	0.40%
Suburban Land Reserve Inc				3,882,585	7	0.36%
BMY Happy Valley North Investment LLC				3,693,174	8	0.34%
SHR Greer Ranch LLC				3,438,188	9	0.32%
Surprise Towne Center Holdings				3,226,775	10	0.30%
Total	$ 61,559,969		6.30%	$ 63,757,425		5.93%
Primary Assessed Valuation	978,036,420			1,074,552,857		

Source: Maricopa County Assessor's Office

City of Surprise, Arizona
Primary Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Collected within the Fiscal Year of the Levy		Tax Collections in Subsequent Years	Total Collections to Date	
		Current Tax Collections	Percentage of Levy		Tax Collections	Percentage of Levy
2009	$ 6,381,730	$ 6,166,879	96.6%	$ 184,269	$ 6,351,148	99.5%
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%	172,477	7,064,727	98.5%
2012	6,200,706	6,021,059	97.1%	118,493	6,139,552	99.0%
2013	6,295,546	6,159,818	97.8%	95,511	6,255,329	99.4%
2014	6,350,356	6,249,156	98.4%	69,195	6,318,351	99.5%
2015	6,509,332	6,425,856	98.7%	62,486	6,488,342	99.7%
2016	6,754,752	6,661,068	98.6%	49,016	6,710,084	99.3%
2017	7,037,842	6,947,745	98.7%	71,304	7,019,049	99.7%
2018	7,424,272	7,321,178	98.6%	-	7,321,178	98.6%

Source: Maricopa County Treasurer's Office "Secured Levy Report" through June 30, 2018.

City of Surprise, Arizona
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

	Governmental Activities				Business-Type Activities					
Fiscal Year	General Obligation Bonds	Special (CFD) Assessment Bonds and Notes	Municipal Property Corp. Bonds	Pledged Revenue Obligations	Municipal Property Corp. Bonds	Water Infrastructure Financing Authority Loan	Pledged Revenue Obligations	Total Primary Government	Percentage of Personal Income	Per Capita
2009	$ -	$ 8,495,000	$ 94,560,000	$ -	$ -	$ -	$ -	$ 103,055,000	4.4%	$ 954
2010*	-	8,290,000	28,677,713	-	63,112,287	1,500,000	-	101,580,000	4.0%	864
2011	-	7,935,000	24,489,225	-	61,295,775	1,324,760	-	95,044,760	4.0%	803
2012	-	7,745,000	22,229,325	-	60,315,675	-	-	90,290,000	3.4%	755
2013	-	7,545,000	19,896,188	-	59,303,813	-	-	86,745,001	3.3%	713
2014	-	7,335,000	17,444,474	-	53,565,524	-	-	78,344,998	3.0%	633
2015	-	7,115,000	-	30,832,800	39,365,000	-	5,832,000	83,144,800	3.1%	658
2016	-	6,885,000	-	31,770,034	37,585,000	-	5,903,844	82,143,878	3.0%	640
2017	-	12,105,285	-	29,249,876	35,720,000	-	5,249,430	82,324,591	2.8%	620
2018	37,730,000	14,330,000	-	24,166,587	33,770,000	-	4,103,413	114,100,000	3.8%	851

* 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.

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
2009	$ -	$ -	$ -	0.000%	$ -
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

City of Surprise, Arizona
Direct and Overlapping Governmental Activities Debt
As of June 30, 2018

Overlapping Jurisdiction	General Obligation and Pledged Revenue Bonded Debt	Proportion Applicable to the City: Approximate Percent	Proportion Applicable to the City: Net Debt Amount
State of Arizona	None	1.69%	None
Maricopa County	None	2.56%	None
Maricopa County Community College District	$ 380,740,000	2.56%	$ 9,746,944
Maricopa County Special Health Care District	75,000,000	2.56%	1,920,000
Western Maricopa Education Center	126,600,000	6.99%	8,849,340
Dysart Unified School District No. 89	131,923,000	77.68%	102,477,786
Peoria Unified School District No. 11	215,435,000	0.39%	840,197
Nadaburg Unified School District No. 81	365,000	26.00%	94,900
Wickenburg Unified School District No. 9	11,251,000	2.79%	313,903
Subtotal, overlapping debt	$ 941,314,000		$ 124,243,070
City of Surprise	$ 61,896,587	100.00%	$ 61,896,587
Marley Park Community Facilities District	14,330,000	100.00%	14,330,000
Subtotal, direct debt	76,226,587		$ 76,226,587
Total Direct and Overlapping General Obligation and Pledged Revenue Bonded Debt			$ 200,469,657

Source: The various jurisdictions

Proportion applicable to City of Surprise, Arizona is computed on the ratio of limited property valuation for fiscal year 2017/2018.
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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Debt limit 6%	$ 87,434,062	$ 81,197,672	$ 67,742,464	$ 56,203,800	$ 51,281,020	$ 49,298,862	$ 54,283,263	$ 61,914,585	$ 65,970,879	$ 71,371,537
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Unrestricted legal debt margin	$ 87,434,062	$ 81,197,672	$ 67,742,464	$ 56,203,800	$ 51,281,020	$ 49,298,862	$ 54,283,263	$ 61,914,585	$ 65,970,879	$ 71,371,537
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Restricted

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Debt limit 20%	$ 291,446,872	$ 270,658,907	$ 225,808,214	$ 187,346,001	$ 170,936,735	$ 164,329,540	$ 180,944,209	$ 206,381,949	$ 219,902,931	$ 237,905,123
Total net debt applicable to limit	243,175	-	-	-	-	-	-	-	-	39,987,500
Restricted legal debt margin	$ 291,203,697	$ 270,658,907	$ 225,808,214	$ 187,346,001	$ 170,936,735	$ 164,329,540	$ 180,944,209	$ 206,381,949	$ 219,902,931	$ 197,917,623
Total net debt applicable to the 20% limit as a percentage of the 20% debt limit	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	16.81%

Source: Maricopa County Assessor's Office - 2017 Levy Limit Worksheet

City of Surprise, Arizona
Demographic and Economic Statistics
Last Ten Fiscal Years

Year	Population	Personal Income	Median Household Income	Median Age	Unemployment Rate
2009	108,010	$ 2,337,443,265	$ 61,244	40.2	8.3%
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%

Data Sources: Office of Economic Opportunity
Maricopa Association of Governments
US Department of Labor, Bureau of Labor Statistics
US Census Bureau

N/A: Information was not available

City of Surprise, Arizona
Principal Employers
June 30, 2018 and Nine Years Prior

	2018 [1]			2009 [2]		
Employer	**Employees**	**Rank**	**%of Total**	**Employees**	**Rank**	**%of Total**
Dysart School District (Surprise Schools Only)	1,680	1	7.98%	2,300	1	6.30%
City of Surprise	1,110	2	5.27%	725	2	1.99%
Wal-Mart	720	3	3.42%	715	3	1.96%
Fry's Food Store	550	4	2.61%	445	4	1.22%
McDonalds	320	5	1.52%			
Maricopa County	230	6	1.09%			
Home Depot	210	7	1.00%			
Kohl's Department Store	180	8	0.86%	237	10	0.65%
State of Arizona	180	9	0.86%			
Sun City Grand Community Assoc Inc.	170	10	0.81%			
Safeway Food Store				445	5	1.22%
APS				275	6	0.74%
Charter Schools				270	7	0.74%
Albertson's Food Store				250	8	0.68%
Crescent Crown				225	9	0.62%

Sources:
[1] Maricopa Association of Governments, as of June 30, 2018

[2] Prior Years CAFR

City of Surprise, Arizona
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General government	140	124	124	118	123	123	136	134	140	142
Public safety:										
Police:										
Officers	134	132	130	132	133	134	130	139	158	159
Civilians	53	56	58	49	49	48	54	49	43	42
Fire:										
Firefighters and officers	110	110	114	112	111	111	113	113	128	127
Civilians	15	9	8	6	7	7	7	8	8	7
Public works and streets:										
All others	113	100	96	87	83	83	83	84	84	80
Community development	43	40	36	36	40	40	43	40	41	41
Economic Development	-	-	-	-	-	-	-	8	8	8
Culture and recreation	117	95	97	97	110	110	122	118	117	116
Human Service and Communtiy Vitality	-	-	-	-	-	-	-	9	15	16
Water	31	31	33	29	25	25	24	29	33	36
Sanitation	32	32	34	34	31	31	32	33	35	37
Sewer	39	39	39	36	36	36	37	39	50	45
Stormwater	-	-	-	-	-	-	-	-	-	6
Ground ambulance services	-	-	-	-	-	-	-	-	-	19
Total	827	769	769	736	748	748	781	804	861	881

Source: Fiscal year 2018 Adopted Budget

City of Surprise, Arizona
Operating Indicators by Function
Last Ten Fiscal Years

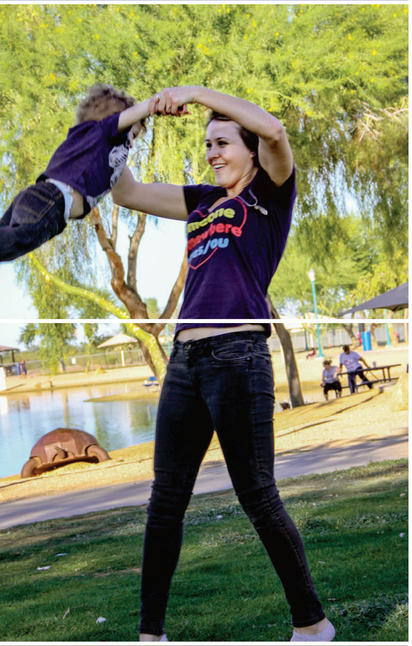
Function	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Public safety:										
Police:										
Calls- incidents responded to	43,002	41,495	40,779	42,010	39,866	37,566	38,191	39,511	40,909	41,806
Citations issued	13,728	12,455	8,233	7,856	9,673	7,020	7,524	5,971	6,358	5,136
Officers per 1,000 residents	1.2	1.2	1.5	1.1	1.1	1.1	1.1	1.0	1.0	1.0
Fire:										
Number of responses	10,523	10,998	11,620	12,313	13,649	14,004	15,750	16,896	16,546	17,435
Inspections	2,114	639	1,101	1,122	1,184	1,411	1,885	2,745	2,407	1,810
Public works and streets:										
Sq. ft. of buildings to maintain	567,245	830,271	830,431	830,431	830,271	830,271	830,271	855,774	855,774	855,774
Vehicles/equipment maintained per month	484	444	387	494	403	392	405	334	375	397
Number of street lights repaired	212	249	270	291	300	377	43	44	38	79
Street miles maintained	592	526	536	539	607	607	627	627	627	627
Community development:										
Building safety inspections performed	17,749	11,349	11,106	13,257	20,150	18,220	15,624	20,320	22,407	31,063
Annual new residential starts	373	291	206	395	554	385	417	486	600	1,288
Culture and recreation:										
Organized recreation program participants	186,139	170,336	176,569	185,232	191,648	192,300	178,186	160,535	163,580	162,012
Special events/open facility participants	259,731	242,759	261,327	256,674	269,823	278,980	321,214	307,475	306,714	343,868
Water:										
Water service connections	14,472	14,519	14,130	14,329	14,570	14,740	14,971	15,362	15,499	16,331
Water main breaks	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4
Average daily consumption (thousands of gallons)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7,322
Sewer:										
Sewage treated (million gallons per day)	6.0	7.6	7.4	7.6	8.1	8.1	8.4	8.4	8.4	8.4
Sewer service connections	45,032	46,448	44,077	44,583	45,802	45,984	44,923	47,273	48,196	50,303
Sanitation:										
Refuse collected (tons/annually)	29,757	30,398	30,803	30,289	29,400	30,583	33,351	32,787	33,671	34,979
Number of routes	26	34	34	33	33	32	32	56	56	57
Total services	32,719	33,797	37,144	32,357	32,975	33,321	32,683	35,366	36,421	36,657
Stormwater:										
Customers	-	-	-	-	-	-	-	-	49,429	50,594

Sources: Various government departments
N/A - This information is not available.

City of Surprise, Arizona
Capital Asset Statistics by Function
Last Ten Years

Function	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Public safety:										
Police:										
Stations	2	2	2	2	2	2	2	2	2	2
Patrol units	81	73	80	64	63	63	68	72	90	73
Fire:										
Fire stations	7	7	7	7	7	7	7	7	7	7
Fire engines and ladder trucks	10	11	11	11	11	12	12	12	12	13
Ambulances	0	0	0	0	0	0	0	1	3	4
Public works and streets:										
Street miles	592	592	536	539	607	607	627	627	627	627
Street lighting improvement districts	79	83	98	103	101	105	107	107	123	132
Traffic Signals	41	42	42	45	51	51	50	50	50	50
Bridges	12	15	15	19	19	19	19	19	19	19
Community development:										
Inspection vehicles	12	12	12	12	12	10	10	10	11	11
Culture and recreation:										
Parks acreage	383	393	393	393	393	393	393	393	393	393
Parks	12	12	12	12	12	12	12	12	12	12
Swimming pools	2	2	2	2	2	2	2	2	2	2
Softball fields	9	11	11	11	11	11	11	11	11	11
Baseball fields	21	21	21	21	21	21	21	21	21	21
Libraries	2	2	2	2	2	2	2	2	2	2
Water:										
Well production maximum daily	20.7	24.6	31.0	31.0	31	31	32	32	33	33
Sewer:										
Sewer treatment plants	1	1	2	2	2	2	2	2	2	2
Maximum daily treatment capacity	16.3	16.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3
Sanitation:										
Collection trucks	26	26	26	26	26	26	26	27	27	27

Sources: Various government departments



SURPRISE
ARIZONA

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FINANCE DEPARTMENT

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December 18, 2018

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of City of Surprise, Arizona for the year ended June 30, 2018. 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 No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2018. GASB Statement No. 75 requires governments providing defined benefit postemployment benefits other than pensions to recognize the long-term obligation for those benefits as a liability, and to more comprehensively and comparably measure the annual costs of those benefits. This Statement also enhances accountability and transparency through revised note disclosures and new required supplementary information.

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

The most sensitive estimates affecting the financial statements are:

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

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. During the course of the audit we did not identify any misstatements which require communication.

Disagreements with Management

For purposes of this letter, 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 of Surprise, Arizona**'s financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. 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
- Impact Fees AUP
- HURF Report
- Management Letter

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., P.C.

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?**

City of Surprise, Arizona
Management Letter
Year Ended June 30, 2018

HeinfeldMeech

Tucson • Phoenix • Flagstaff
HeinfeldMeech.com

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

Members of the City Council:

In planning and conducting our single audit of the City of Surprise, Arizona for the year ended June 30, 2018, 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, 2018. Our audit disclosed 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.

This information is intended for the City of Surprise, Arizona's management, City Council and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 17, 2018

Conflicts of Interest

There is no established process for documenting conflicts of interest and ensuring the disclosures are maintained in a way which prevents the City from entering into a related party transaction.

It is recommended that the City adopt formal policies and procedures over documenting conflicts of interest.

Cash Reconciliations

At fiscal year end unreconciled differences remained in the General Operating bank account and Utility Lockbox bank account of $27,060 and $2,188, respectively.

It is recommended that complete bank reconciliations are performed monthly.

Bad Debt Expense

The City is reporting bad debt as an expense rather than a contra-revenue, which is required by Generally Accepted Accounting Principles.

It is recommended that the City classify bad debt related to current year revenues as contra-revenue.

Capital Assets

During our review of the prior year capital asset balance, we noted that the construction of Surprise Stadium in 2003 is not supported by purchase documents.

It is recommended that the City locate complete cost documentation for capital assets and attach he support to the assets using the City's document management system, Tyler Content Manager.

Federal Procurement Compliance

No written documentation was maintained indicating the City would be delaying the implementation of Uniform Guidance procurement policies and procedures through accepting the extension period offered.

The City should actively monitor federal compliance requirements to ensure compliance with Uniform Guidance. Beginning in fiscal year 2019, the City must ensure procurements are conducted in accordance with Uniform Guidance.

City of Surprise, Arizona
Single Audit Reporting Package
Year Ended June 30, 2018

CITY OF SURPRISE, ARIZONA
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2018

CONTENTS **Page**

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, 2018, 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 17, 2018. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 75.

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., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 17, 2018

**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, 2018. 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 the requirements of 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.

Opinion on Each Major Federal Program

In our opinion, 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 each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

City of Surprise, Arizona's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Surprise, Arizona's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

City of Surprise, Arizona's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Surprise, Arizona's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, 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, 2018, 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 17, 2018, which contained unmodified opinions on those basic 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 taken as a whole.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 17, 2018

City of Surprise
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

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 Defense					
Direct Program					
12 610	Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies		EN-1567-61-01	$ 358,182	$ 358,182
	Total U.S. Department of Defense			358,182	358,182
U.S. Department of Housing and Urban Development					
Direct Program					
14 218	Community Development Block Grants/Entitlement Grants	CDBG–Entitlement Grants Cluster			
	Community Development Block Grant/Entitlement Grants		Program Income	53,701	-
	2014 Community Development Block Grant/Entitlement Grants		B14-MC-04-0514	1,698	-
	2015 Community Development Block Grant/Entitlement Grants		B15-MC-04-0514	52,417	-
	2016 Community Development Block Grant/Entitlement Grants		B16-MC-04-0514	405,808	58,251
	2017 Community Development Block Grant/Entitlement Grants		B17-MC-04-0514	370,050	21,637
	Total Community Development Block Grant Cluster			883,674	79,888
Passed through Maricopa County/the Maricopa HOME Consortium					
14 239	Home Investment Partnership Programs				
	2014 HOME Investment Partnership Programs		COS-09-017	120,868	-
	2015 HOME Investment Partnership Programs		3230	8,549	-
	2016 HOME Investment Partnership Programs		C-22-17-046-3-00	74,988	-
	Total HOME Investment Partnership			204,405	-
	Total U.S. Department of Housing and Urban Development			1,088,078	79,888
U.S. Department of Justice					
Direct Program					
16 U01	DEA Task Force - FY17			3,447	-
	DEA Task Force - FY18			26,868	-
	Total DEA Task Force			30,315	-
Passed through Arizona Department of Public Safety					
16 575	Crime Victim Assistance				
	Crime Victim Assistance		2015-VA-GX-0032	8,858	-
	Crime Victim Assistance		2015-VA-GX-0032	4,879	-
	Crime Victim Assistance		2015-VA-GX-0032	70,674	-
	Crime Victim Assistance		2015-VA-GX-0032	28,906	-
	Crime Victim Assistance		2015-VA-GX-0032	82,779	-
	Total Crime Victim Assistance			196,096	-
16 710	Public Safety Partnership and Community Policing Grants		2016UMWX0122	9,068	-
	Total U.S. Department of Justice			235,479	-
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	28,804	-
	Highway Planning and Construction		SUR-0(227)T	37,783	-
	Highway Planning and Construction		SUR-0(228)T	8,913	-
	Highway Planning and Construction		SUR-0(229)T	46,210	-
	Total Highway Planning and Construction Cluster			121,710	-
Passed through Governor's Office of Highway Safety					
20 600	State and Community Highway Safety	Highway Safety Cluster			
	State and Community Highway Safety		2017-II-015	8,260	-
	State and Community Highway Safety		2017-II-016	1,459	-
	State and Community Highway Safety		2018-AL-028	9,700	-
	State and Community Highway Safety		2017-PTS-076	10,000	-
	State and Community Highway Safety		2018-PTS-066	8,109	-
	State and Community Highway Safety		2018-OP-016	12,837	-
	State and Community Highway Safety		2018-AL-027	1,812	-
	State and Community Highway Safety		2018-OP-015	8,503	-
	Subtotal 20.600 State and Community Highway Safety			60,678	-

See accompanying Notes to Schedule of Expenditures of Federal Awards

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	14,090	-
	National Priority Safety Programs		2018-405h-016	7,415	-
	National Priority Safety Programs		2018-405h-015	5,997	-
	National Priority Safety Programs		2018-CIOT-023	4,000	-
	Subtotal 20.616 National Priority Safety Programs			31,502	-
	Total Highway Safety Cluster			92,180	-
	Total U.S. Department of Transportation			213,890	-
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	55,000	-
	Total Aging Cluster			55,000	-
Passed through Maricopa County Human Services					
93 667	Social Services Block Grant		C-22-16-043-3-00	79,602	-
	Total U.S. Department of Health and Human Services			134,602	-
U.S. Department of Homeland Security					
Passed through Arizona Department of Homeland Security					
97 067	Homeland Security Grant Program				
	Homeland Security Grant Program		160823-01	21,674	-
	Homeland Security Grant Program		150822-02	168	-
	Homeland Security Grant Program		170822-01	55,421	-
	Homeland Security Grant Program		160822-01	7,079	-
	Homeland Security Grant Program		170212-01	3,193	-
	Homeland Security Grant Program		170821-01	46,750	-
	Total Homeland Security Grant Program			134,285	-
97 083	Staffing for Adequate Fire and Emergency Response (SAFER)		EMW-2015-FH-00791	454,070	-
	Total U.S. Department of Homeland Security			588,355	-
	Total Expenditures of Federal Awards			$ 2,618,587	$ 438,070

See accompanying Notes to Schedule of Expenditures of Federal Awards

CITY OF SURPRISE, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the City of Surprise, Arizona under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance 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)*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Surprise, Arizona.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the Assistance Listing. When no CFDA number had been assigned to a program, the two-digit federal agency identifier and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier and U for unknown plus the number in the sequence of unknown awards for the federal agency were used.

NOTE 4 – INDIRECT COST RATE

The City did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414 Indirect (F&A) costs.

CITY OF SURPRISE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

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: Yes
- Material weakness(es) identified: No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516 of Uniform Guidance: Yes

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
14.218	Community Development Block Grants-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: 2018-001
Repeat Finding: Yes - 2017-001

Program Names/CFDA Titles:	CFDA Numbers:	Federal Award Numbers:	Questioned Costs:
Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies	12.610	EN-1567-61-01	N/A
Community Development Block Grants-Entitlement Grants Cluster	14.218	B14-MC-04-0514 B15-MC-04-0514 B16-MC-04-0514 B17-MC-04-0514	N/A

Federal Agencies: Department of Defense, Department of Housing and Urban Development
Pass-Through Agency: N/A
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirements: Reporting

CRITERIA
2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* requires compliance with the provisions of reporting. Internal controls over compliance would dictate that reports be submitted in accordance with grant requirements, including the timeliness of the submission to the federal agency.

CONDITION
Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies - Semi-annual performance reports were not submitted timely.

Community Development Block Grants-Entitlement Grants Cluster - Quarterly financial reports were not submitted timely.

CAUSE
The City lacked internal controls over reporting to ensure reports are submitted to the federal agency in accordance with grant requirements.

EFFECT
The City was not compliant with grant requirements.

FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Finding Number: 2018-001

CONTEXT

Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies - The final performance report due April 30, 2018 was not filed timely.

Community Development Block Grants-Entitlement Grants Cluster - The SF-425 quarterly financial reports for quarters one through three were filed on June 25, 2018.

RECOMMENDATION

A system of internal controls should be implemented to monitor federal program reporting requirements to ensure compliance.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.

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

December 17, 2018

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

Findings and Questioned Costs Related to Federal Awards

Finding Number: 2018-001

Program Names/CFDA Titles:	CFDA Numbers:
Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies	12.610
Community Development Block Grants/ Entitlement Grants Cluster	14.218

Contact Person: Nick Sarpy, Accounting Manager
Anticipated Completion Date: June 25, 2018
Planned Corrective Action: The City has submitted all required reports as of June 25, 2018. The City will monitor the program to ensure effective internal controls are in place for timely submission of reports.

CITY OF SURPRISE, ARIZONA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018

Status of Findings and Questioned Costs Related to Federal Awards

Finding Number: 2017-001
Program Name/CFDA Title: Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies
CFDA Number: 12.610
Status: Not corrected. See current year finding 2018-001.
Planned Corrective Action: The City was aware of the deadlines but unable to produce the information necessary in accordance with the grant timeline. The City will monitor the program to ensure effective internal controls are in place for timely submission of reports.

SURPRISE

ARIZONA

City of Surprise, Arizona

Annual Expenditure Limitation Report

For the Fiscal Year Ended June 30, 2018

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, 2018, 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., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
January 3, 2019

1.	Economic Estimates Commission expenditure limitation	$ 1,014,546,578		
2.	Voter-approved alternative expenditure limitation	-		
3.	Enter applicable amount from line 1 or line 2		$	1,014,546,578
4.	Amount subject to the expenditure limitation (total amount from part II, line C)	160,287,053		
11.	Amount under (in excess of) the expenditure limitation		$	854,259,525

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: ADavis

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

Telephone number: (623) 222-1853 Date: 12/27/18

See accompanying notes to report.

	Description	Governmental funds	Enterprise funds	Internal service funds	Total
A.	Amounts reported on the reconciliation, line D	$ 135,994,838	$ 41,750,193	$ 13,191,204	$ 190,936,235
B.	Less exclusions claimed:				
	Debt service requirements (See Note 2)	3,433,959	4,413,194	-	7,847,153
	Grants and aid from the federal government (See Note 3)	2,618,587	-	-	2,618,587
	Amounts received from the State of Arizona (See Note 5)	354,942	-	-	354,942
	Quasi-external interfund transactions (See Note 10)	-	-	11,725,979	11,725,979
	Highway user revenues in excess of those received in fiscal year 1979-80 (See Note 4)	8,102,521	-	-	8,102,521
	Total exclusions claimed	14,510,009	4,413,194	11,725,979	30,649,181
C.	Amounts subject to the expenditure limitation	$ 121,484,829	$ 37,337,000	$ 1,465,225	$ 160,287,053

See accompanying notes to report.

City of Surprise
Annual Expenditure Limitation Report—reconciliation
Year ended June 30, 2018

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	$ 142,621,735	$ 44,087,315	$ 13,261,359	$199,970,409
B. Subtractions:				
Items not requiring use of current financial resources:				
Depreciation	-	12,282,870	-	12,282,870
Bad debt expense (See Note 11)	31,219	471,903	-	503,122
Claims incurred but not reported (IBNR) (See Note 6)	-	-	586,950	586,950
Pension/OPEB expense (See Note 7)	-	1,202,636	41,532	1,244,168
Expenditures of separate legal entities established under Arizona Revised Statutes (See Note 8)	6,595,679	-	-	6,595,679
Total subtractions	6,626,897	13,957,409	628,482	21,212,789
C. Additions:				
Principal payments on long-term debt (See Note 2)	-	2,548,950	-	2,548,950
Capital asset acquisitions (See Note 9)	-	8,174,613	-	8,174,613
Amounts paid in the current year but reported as expenses in previous years:				
Claims previously recognized as IBNR (See Note 6)	-	-	527,359	527,359
Pension/OPEB contributions paid in the current year (See Note 7)	-	896,724	30,968	927,692
Total additions	-	11,620,288	558,327	12,178,614
D. Amounts reported on part II, line A	$ 135,994,838	$ 41,750,193	$ 13,191,204	$190,936,235

See accompanying notes to report.

City of Surprise
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2018

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; statement of cash flows for the proprietary funds; and the statement of changes in fiduciary net position for the fiduciary 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	$	2,311,050
2015 Bond Issuance Interest		1,122,909
Total	$	3,433,959

Enterprise

	Bonded Indebtedness	
2007 Bond Issuance Principal	$	1,950,000
2007 Bond Issuance Interest		1,660,103
2015 Bond Issuance Principal		598,950
2015 Bond Issuance Interest		204,141
Total	$	4,413,194

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	$	1,088,079
U.S. Department of Defense		358,182
U.S. Department of Justice		235,479
U.S. Department of Transportation		213,889
U.S. Department of Health and Human Services		134,602
U.S Department of Homeland Security		588,356
Total	$	2,618,587

City of Surprise
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2018

NOTE 4 – HIGHWAY USER REVENUES

Highway user revenues for the current fiscal year were $8,639,682 which is $8,577,251 more than the highway user revenues received by the City in fiscal year 1980. Excludable revenues expended in the current fiscal year totaled $8,102,521, which is less than current revenues by $474,730, increasing the carryforward balance to $1,132,259.

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	$	354,942
Total	$	354,942

NOTE 6 – CLAIMS INCURRED BUT NOT REPORTED

The subtraction of $586,950 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 $527,359 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.

NOTE 7- PENSION AND OPEB PLANS

The subtraction of pension and 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 from the enterprise and internal service funds.

Pension Expense		
Enterprise Funds	$	1,163,820
Internal Service		40,192
Total	$	1,204,012
Pension Contributions		
Enterprise Funds	$	849,714
Internal Service		29,344
Total	$	879,059
OPEB Expense		
Enterprise Funds	$	38,816
Internal Service		1,340
Total	$	40,156
OPEB Contributions		
Enterprise Funds	$	47,010
Internal Service		1,623
Total	$	48,634

City of Surprise
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2018

NOTE 8 – SEPARATE LEGAL ENTITIES

The subtraction of $6,595,679 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	$	2,639,699
Subtotal	$	2,639,699
Marley Park Community Facility District Fund		
Culture and Recreation	$	69,500
Principal		465,000
Interest and other charges		591,480
Capital outlay		2,830,000
Subtotal	$	3,955,980
Total separate legal entities	$	6,595,679

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	$	15,019,428
Less: capital contributions		(6,192,980)
Less: transfer of capital assets from governmental funds		(651,835)
Total	$	8,174,613

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 $9,317,469 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 $2,013,100 to provide risk management, loss control and safety programs citywide. The Worker's Compensation Fund charged other funds $844,047 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 and Worker's Compensation Funds totaled $1,948,380 and $460,130, which is less than current revenues by $64,720 and $383,917, increasing the carryforward balances to $64,720 and $383,917, respectively.

NOTE 11 – BAD DEBT EXPENSE

The City records bad debt expense which is a reduction of revenues that the City has determined are not likely to be collected as the accounts receivable is greater than 90 days old. The City reported the following bad debt expense by fund type:

Bad debt expense		
Governmental	$	31,219
Enterprise		471,903
Total bad debt expense	$	503,122

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 pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the City, were used solely for authorized transportation purposes during the year ended June 30, 2018. Management is responsible for the City'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's compliance with the requirements referred to above, in all material respects. An examination involves performing procedures to obtain evidence about the City'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'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, 2018.

Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 17, 2018

SURPRISE
ARIZONA

FY2018 Annual Audit and Comprehensive Annual Financial Report

Finance Department February 19, 2019

Communications/Audit Reports

- Comprehensive Annual Financial Report (CAFR)
- Management Letter
- Communication with Governance
- Single Audit Report
- Annual Expenditure Limitation Report (AELR)
- Highway User Revenue Fund (HURF) Report

Comprehensive Annual Financial Report (CAFR)

- Unmodified opinion
  - "good" or "clean" opinion
    - This is the best possible opinion the City can receive.

Communication Letters

Management Letters

- Conflicts of Interest
  - No process for documenting conflicts of interest
- Cash Reconciliations
  - Unreconciled differences in two accounts due to transaction timing
- Bad Debt Expense
  - Reported as an expense rather than reduction of revenue

Communication Letters

Management Letters

- Capital Assets
  - Original Surprise Stadium construction not supported by purchase documents
- Federal Procurement Compliance
  - No written documentation delaying the implementation of Uniform Guidance procurement policies and procedures

Communication Letters

Communication with Governance

- Uncorrected Misstatements
  - None

Single Audit Report

- No questioned costs
- Prior year audit findings
  - Submission of performance reports for the Arizona Military Energy Land Use Plan (AME-UP) grant were not submitted timely

Single Audit Report

- Current year audit findings
  - Submission of performance reports for the Arizona Military Energy Land Use Plan (AME-UP) grant were not submitted timely
  - Submission of quarterly financial reports for the Community Development Block Grants (CDBG) not submitted timely

Other Reports

- Annual Expenditure Limitation Report (AELR)
  – No issues
- Highway User Revenue Fund (HURF) Report
  – No issues

SURPRISE
ARIZONA

QUESTIONS OR COMMENTS?

Thank You

FY2018 Annual Audit and Comprehensive Annual Financial Report

Finance Department February 19, 2019

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SURPRISE
ARIZONA

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