



CITY OF SURPRISE
City Audit Committee Meeting
16000 N. Civic Center Plaza
Surprise, AZ 85374

Thursday, March 31, 2022 @ 3:30 PM
COUNCIL CHAMBERS OVERFLOW ROOM

- A. Call To Order
- B. Roll Call
- C. Pledge of Allegiance
- D. Current Events and Reports
- E. Staff Reports
- F. City Audit Committee Agenda

CALL TO THE PUBLIC:

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

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

CONSENT AGENDA:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

- | | | | |
|----|--|---|---------------------|
| 1. | Citywide | Consideration and action to elect a Chairperson and Vice-Chairperson for the Audit Committee. | City Manager Office |
| 2. | Citywide | Consideration and action pertaining to the February 16, 2022 meeting minutes. | City Manager Office |
| 3. | Citywide | Consideration and action pertaining to the March 2022 Associational of Local Government Auditors Peer Review. | City Manager Office |
| 4. | Citywide | Presentation and discussion pertaining to the fiscal year 2021 annual audit and Comprehensive Annual Financial Report and associated reports. | Finance |
| 5. | Citywide | Consideration and action pertaining to the Quarterly Summary of Audit Recommendations Status Report. | City Manager Office |
| 6. | Citywide | Consideration and action pertaining to Accounts Payable Trends and Analysis. | City Manager Office |
| 7. | Citywide | Consideration and action pertaining to an amendment to the Audit Committee Bylaws. | City Manager Office |
| G. | Other Business and Future Agenda Items | | |
| H. | Executive Session | | |

For information purposes: Upon a public majority vote of a quorum ("Commission"), the Commission may hold an executive session, which will not be open to the public, but for only the

following purposes: discussion or consideration of records exempt by law from public inspection (A.R.S. §38-431.03(A)(2));

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

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

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

I. Adjournment

SHERRY ANN AGUILAR, CITY CLERK, MMC

POSTED: March 29, 2022 at 8:25 AM

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



CITY OF SURPRISE City Audit Committee Meeting

Council Meeting Date: March 31, 2022
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Consideration and action to elect a Chairperson and Vice-Chairperson for the Audit Committee.

Motion:

I move to approve the selection of the Audit Committee Chairperson and Vice-Chairperson.

Background:

This item was placed on the agenda in compliance with Section III of the Surprise Audit Committee Bylaws, which requires the annual selection by a majority vote of an Audit Committee Chairperson and Vice-Chairperson.

Objective Analysis:

The role of the Chairperson, or Vice-Chairperson when the Chairperson is absent, is to preside over Audit Committee meetings. The Chairperson has the authority to sign correspondence as the official representative of the Audit Committee. During the absence of the Chairperson, the Vice-Chairperson shall act as the presiding officer over all Audit Committee meetings and activities.

Policy Compliant:

Sec. 2-304 of the Surprise Municipal Code directs the establishment of the Surprise Audit Committee. It authorizes the adoption of Audit Committee Bylaws. Section III of the Bylaws requires the Audit Committee members to select and vote to designate a Chairperson and Vice-Chairperson annually.

Financial Impact:

There is no financial impact associated with this item.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:



CITY OF SURPRISE City Audit Committee Meeting

Council Meeting Date: March 31, 2022
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:

Consideration and action pertaining to the February 16, 2022 meeting minutes.

Motion:

I move to approve the minutes of the February 16, 2022 City Audit Committee meeting.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2021-2022 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement. City staff does not anticipate any negative impacts at this time.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

This item relates to work performed as part of the FY2021-2022 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. 2022-02-16 Summary AC-Draft
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CITY OF SURPRISE
Audit Committee Meeting
16000 North Civic Center Plaza
Surprise, AZ 85374

Wednesday, February 16, 2022 – 3:30 p.m.

CALL TO ORDER

Chair Connie Bowers called the **Audit Committee Meeting** to order at 3:30 p.m. at Surprise City Hall, Overflow Room, 16000 North Civic Center Plaza Surprise, Arizona 85374, on Wednesday, February 16, 2022.

ROLL CALL

Connie Bowers, Chair, Alan Meyer, Committee Member, Brenda Kiner, Committee Member, Councilmember Chris Judd, Seth Dyson HSCV Director, Andrea Davis, Director of Finance, Councilmember Ken Remley (Absent-Excused), Vice Mayor Aly Cline.

PLEDGE OF ALLEGIANCE

CURRENT EVENTS AND REPORTS

None.

STAFF REPORTS

None.

STAFF PRESENT

Carol Holley, Internal Auditor-Sr., Jackie Moucheron, Staff Liaison, Genevieve Martin Del Campo, Staff Liaison.

CALL TO THE PUBLIC

None.

REGULAR AGENDA ITEM

1. Action item: Consideration and action to approve or disapprove the November 10, 2021 City Audit Committee meeting Minutes:

Committee Member Meyer moved to approve the November 10, 2021, Audit Committee Meeting minutes, and Committee Member Kiner seconded the motion. Motion carried 4-0.

2. Discussion & Possible Action item: pertaining to Quarterly Summary and Audit Recommendations Status Report:

Committee Member Meyer asked why exhibit A date moved from December 31, 2021, to July 1, 2022. Carol Holley answered that departments could start working on the audit recommendation, and something could occur that would cause the date to be moved back.

Chair Bowers asked when the Property Evidence and Readiness center is going to be ready, and Carol Holley answered she was unsure but will find out and get back to her. Committee Member Davis added that it is in the final stages and almost complete

Committee Member Kiner asked if a budget restraint was delaying the LIS upgrade. Carol Holley answered that the delay is not budget-related. She added that the overseeing department could be invited to attend the next meeting to explain the delay further.

Committee Member Meyer moved to approve the audit recommendations status report, and Committee Member Kiner seconded the motion. Motion carried 4-0.

3. Presentation & Discussion item: Presentation and status discussion of current audit projects:

Carol Holley explained the status of current audit projects.

4. Discussion item: Discussion pertaining to the Association of Local Government Auditors (ALGA) 2022 Peer Review.

Carol Holley updated the Audit Committee concerning preparations related to the March 2022 ALGA peer review.

Chair Bowers asked if Carol was willing to discuss what area of the audit could be in question. Several continuous monitoring projects were treated as non-audit services that might be viewed as an audit. An audit requires more documentations.

Chair Bowers asked if it would take a lot of work to correct the non-audit services. Carol replied that she had already started working to correct the non-audit services documentation.

Committee Member Meyer asked what the consequences are if they find any diffencies. Carol stated that we could no longer say that we are completing our projects according to its standards.

Carol Holley discussed what the (ALGA) peer review audit team might talk about with committee members and to know the by-laws.

OTHER BUSINESS AND FUTURE AGENDA ITEMS

The next Audit Committee Meeting will be held on March 31, 2022 at 3:30 p.m.

EXECUTIVE SESSION

None.

ADJOURNMENT

Vice Mayor Cline moved to adjourn. Committee Member Kiner seconded the motion. Motion carried 4-0. The meeting was adjourned at 3:55 p.m.

ATTEST:

Connie Bowers, Chair

Jackie Moucheron, Staff Liaison

CERTIFICATION:

I, Sherry Ann Aguilar, City Clerk for the City of Surprise, Maricopa County, Arizona, do hereby verify that these are the true and correct minutes of the Audit Committee Meeting of **Wednesday, November 10, 2021.**

Sherry Ann Aguilar, City Clerk, MMC



CITY OF SURPRISE City Audit Committee Meeting

Council Meeting Date: March 31, 2022
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Consideration and action pertaining to the March 2022 Associational of Local Government Auditors Peer Review.

Motion:

I move to approve and distribute the 2022 Association of Local Government Auditors Peer Review report.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY 2021-2022 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

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

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

There is no financial impact associated with this item.

Budget Impact:

There is no budget associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:



CITY OF SURPRISE City Audit Committee Meeting

Council Meeting Date: March 31, 2022
Submitting Department: Finance
Staff Recommendations:

Contact Person:
District: Citywide

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

Presentation and discussion pertaining to the fiscal year 2021 annual audit and Comprehensive Annual Financial Report and associated reports.

Motion:

N/A Informational only

Background:

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

Objective Analysis:

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

Policy Compliant:

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

Financial Impact:

N/A - Informational only

Budget Impact:

N/A - Informational only

FTE Impact:

N/A - Informational only

ATTACHMENTS:

1. City of Surprise HURF Report 21
 2. City of Surprise Management Letter 21
 3. City of Surprise SA 21
 4. Finance Docs for 31Mar2022 AC Meeting
 5. FY21 City of Surprise ACFR General Rep Letter
 6. FY21 City of Surprise ACFR
 7. General Rep Single Audit 21 Surprise City - signed
 8. FY21 City of Surprise AELR
 9. GRL ELR Examination 21 Surprise City - signed
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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the City of Surprise, Arizona's (City) compliance as to whether highway user revenue fund monies received by the City of Surprise, Arizona pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the City of Surprise, Arizona, were used solely for authorized transportation purposes during the year ended June 30, 2021. Management is responsible for the City of Surprise, Arizona's compliance with those requirements. Our responsibility is to express an opinion on the City of Surprise, Arizona's compliance based on our examination.

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

In our opinion, the City of Surprise, Arizona complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2021.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona
January 25, 2022

City of Surprise, Arizona
Management Letter
Year Ended June 30, 2021

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

Members of the City Council and Management:

In planning and conducting our single audit of the City of Surprise, Arizona for the year ended June 30, 2021, 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 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, 2021. However, during our audit we noted certain immaterial matters that are opportunities for strengthening internal controls and instances of noncompliance with laws and regulations that did not meet that reporting criteria. Management should address these items to ensure that it fulfills its responsibility to establish and maintain adequate internal controls and comply with laws, regulations, contracts, and grant agreements. Those items and our related recommendations are briefly described in the accompanying summary. The items discussed in the accompanying summary are only a result of audit procedures performed based on risk assessment procedures and not all deficiencies or weaknesses in controls may have been identified.

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

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

Sincerely,



Heinfeld, Meech & Co., P.C.

Scottsdale, Arizona

January 25, 2022

**CITY OF SURPRISE, ARIZONA
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2021**

Financial Reporting

During the course of the audit immaterial audit adjustments were recommended to properly state the financial statements. A summary of the adjustments are listed below.

- The restricted net position for capital projects in the water fund was understated by \$2.5 million.
- The restricted net position for debt service in the sewer fund was overstated by \$3.0 million.
- The City improperly reported restrictions of net position for system repair and replacement in the ambulance fund and sanitation fund in the amount of \$38,190 and \$212,846, respectively.
- The City did not account for the recognition of unavailable revenue in the restricted net position balances.
- Several errors were made in recording deferred outflows of resources for contributions subsequent to the measurement date for the public safety pension plans. The errors included not properly accounting for prepaid contributions to the plans, clerical errors on the spreadsheet associated with the fire insurance premium tax and including OPEB contributions in the calculation. The net effect of all errors was approximately \$11,000.

It is recommended that the City take note of these adjustments and add them to the year-end adjustments checklist. Additionally, it is recommended that the review procedures are thoroughly performed prior to providing the financial statements to the audit team.

City of Surprise, Arizona
Single Audit Reporting Package
Year Ended June 30, 2021

**CITY OF SURPRISE, ARIZONA
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2021**

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**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of 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, 2021, 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 January 25, 2022.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item FS-2021-001 that we consider to be a significant deficiency.

Report on 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 financial statements. 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*.

City of Surprise, Arizona's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the City of Surprise, Arizona's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Surprise, Arizona's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona
January 25, 2022

**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

Opinion on Each Major Federal Program

We have audited City of Surprise, Arizona's compliance with the types of compliance requirements identified as subject to audit 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, 2021. 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.

In our opinion, City of Surprise, Arizona complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Surprise, Arizona and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of City of Surprise, Arizona's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to City of Surprise, Arizona's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Surprise, Arizona's compliance based on our audit.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate it would influence the judgment made by a reasonable user of the report on compliance about City of Surprise, Arizona's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Surprise, Arizona's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Surprise, Arizona's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Surprise, Arizona's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 2021, 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 January 25, 2022, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona
January 25, 2022

CITY OF SURPRISE, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Period 7/1/2020 - 6/30/2021

<i>Federal Awarding Agency/Program Title</i>	<i>Federal CFDA Number</i>	<i>Additional Award Identification (Optional)</i>	<i>Name of Funder Pass-Through Entity</i>	<i>Identifying Number Assigned By Funder Pass-Through Entity</i>	<i>Total Amount Provided to Sub-Recipients</i>	<i>Federal Expenditures</i>	<i>Federal Program Total</i>	<i>Cluster Name</i>	<i>Cluster Total</i>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT									
COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS	14.218	NEIGHBORHOOD STABILIZATION PROGRAM NSP1				\$625,341	\$1,904,277	CDBG - ENTITLEMENT GRANTS CLUSTER	\$1,904,277
COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS	14.218	2019 COMMUNITY DEVELOPMENT BLOCK GRANT			\$83,646	\$946,453	\$1,904,277	CDBG - ENTITLEMENT GRANTS CLUSTER	\$1,904,277
COVID-19 COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS	14.218	COVID 19 - COMMUNITY DEV BLOCK GRANT - CARES ACT				\$279,135	\$1,904,277	CDBG - ENTITLEMENT GRANTS CLUSTER	\$1,904,277
COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS	14.218	NEIGHBORHOOD STABILIZATION PROGRAM NSP1 PRG INCOME				\$50,973	\$1,904,277	CDBG - ENTITLEMENT GRANTS CLUSTER	\$1,904,277
COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS	14.218	COMMUNITY DEVELOPMENT BLOCK GRANT - PROGRAM INCOME				\$2,375	\$1,904,277	CDBG - ENTITLEMENT GRANTS CLUSTER	\$1,904,277
HOME INVESTMENT PARTNERSHIPS PROGRAM	14.239		MARICOPA COUNTY / THE MARICOPA HOME CONSORTIUM	C-22-17-046-3-01		\$90,600	\$217,306	N/A	\$0
HOME INVESTMENT PARTNERSHIPS PROGRAM	14.239		MARICOPA COUNTY / THE MARICOPA HOME CONSORTIUM	C-22-17-046-3-02		\$42,291	\$217,306	N/A	\$0
HOME INVESTMENT PARTNERSHIPS PROGRAM	14.239		MARICOPA COUNTY / THE MARICOPA HOME CONSORTIUM	C-22-17-046-3-03		\$38,694	\$217,306	N/A	\$0
HOME INVESTMENT PARTNERSHIPS PROGRAM	14.239		MARICOPA COUNTY / THE MARICOPA HOME CONSORTIUM	C-22-17-046-3-04		\$45,721	\$217,306	N/A	\$0
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					\$83,646	\$2,121,583			
DEPARTMENT OF JUSTICE									
LAW ENFORCEMENT ASSISTANCE, NARCOTICS AND DANGEROUS DRUGS TRAINING	16.004	FY21 DEA TASK FORCE				\$34,789	\$38,560	N/A	\$0
LAW ENFORCEMENT ASSISTANCE, NARCOTICS AND DANGEROUS DRUGS TRAINING	16.004	FY20 DEA TASK FORCE				\$3,771	\$38,560	N/A	\$0
COVID-19 CORONAVIRUS EMERGENCY SUPPLEMENTAL FUNDING PROGRAM	16.034	COVID-19				\$32,220	\$32,220	N/A	\$0
CRIME VICTIM ASSISTANCE	16.575		ARIZONA DEPARTMENT OF PUBLIC SAFETY	VOCA-2021-SPD-00158		\$109,391	\$178,913	N/A	\$0
CRIME VICTIM ASSISTANCE	16.575		ARIZONA DEPARTMENT OF PUBLIC SAFETY	VOCA-2018-CSPO-00293		\$34,342	\$178,913	N/A	\$0
CRIME VICTIM ASSISTANCE	16.575		ARIZONA DEPARTMENT OF PUBLIC SAFETY	2018-212		\$35,180	\$178,913	N/A	\$0
PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS	16.710	2018-212				\$44,101	\$44,101	N/A	\$0
EQUITABLE SHARING PROGRAM	16.922	AZ0072700				\$110,015	\$110,015	N/A	\$0
TOTAL DEPARTMENT OF JUSTICE						\$403,809			
DEPARTMENT OF TRANSPORTATION									
HIGHWAY PLANNING AND CONSTRUCTION	20.205		ARIZONA DEPARTMENT OF TRANSPORTATION	SUR-O(233)D		\$8,390	\$25,170	HIGHWAY PLANNING AND CONSTRUCTION CLUSTER	\$25,170
HIGHWAY PLANNING AND CONSTRUCTION	20.205		ARIZONA DEPARTMENT OF TRANSPORTATION	SUR-O(232)D		\$8,390	\$25,170	HIGHWAY PLANNING AND CONSTRUCTION CLUSTER	\$25,170
HIGHWAY PLANNING AND CONSTRUCTION	20.205		ARIZONA DEPARTMENT OF TRANSPORTATION	SUR-O(234)D		\$8,390	\$25,170	HIGHWAY PLANNING AND CONSTRUCTION CLUSTER	\$25,170
STATE AND COMMUNITY HIGHWAY SAFETY	20.600		ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2021-PTS-067		\$12,079	\$37,293	HIGHWAY SAFETY CLUSTER	\$127,849
STATE AND COMMUNITY HIGHWAY SAFETY	20.600		ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2021-MC-003		\$7,722	\$37,293	HIGHWAY SAFETY CLUSTER	\$127,849

STATE AND COMMUNITY HIGHWAY SAFETY	20.600		ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2021-AI-009	\$10,940	\$37,293	HIGHWAY SAFETY CLUSTER	\$127,849
STATE AND COMMUNITY HIGHWAY SAFETY	20.600		ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2020-PTS-061	\$6,552	\$37,293	HIGHWAY SAFETY CLUSTER	\$127,849
NATIONAL PRIORITY SAFETY PROGRAMS	20.616		ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2021-405B-007	\$8,180	\$90,556	HIGHWAY SAFETY CLUSTER	\$127,849
NATIONAL PRIORITY SAFETY PROGRAMS	20.616		ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2021-II-006	\$30,111	\$90,556	HIGHWAY SAFETY CLUSTER	\$127,849
NATIONAL PRIORITY SAFETY PROGRAMS	20.616		ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2021-405D-039	\$5,451	\$90,556	HIGHWAY SAFETY CLUSTER	\$127,849
NATIONAL PRIORITY SAFETY PROGRAMS	20.616		ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2020-405H-017	\$6,758	\$90,556	HIGHWAY SAFETY CLUSTER	\$127,849
NATIONAL PRIORITY SAFETY PROGRAMS	20.616		ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2021-405H-019	\$7,635	\$90,556	HIGHWAY SAFETY CLUSTER	\$127,849
NATIONAL PRIORITY SAFETY PROGRAMS	20.616		ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2021-405B-008	\$1,531	\$90,556	HIGHWAY SAFETY CLUSTER	\$127,849
NATIONAL PRIORITY SAFETY PROGRAMS	20.616		ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2020-405B-009	\$5,487	\$90,556	HIGHWAY SAFETY CLUSTER	\$127,849
NATIONAL PRIORITY SAFETY PROGRAMS	20.616	2020-COIT-024	ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2020-COIT-024	\$4,000	\$90,556	HIGHWAY SAFETY CLUSTER	\$127,849
NATIONAL PRIORITY SAFETY PROGRAMS	20.616	2021-COIT-024	ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2021-COIT-024	\$4,000	\$90,556	HIGHWAY SAFETY CLUSTER	\$127,849
NATIONAL PRIORITY SAFETY PROGRAMS	20.616		ARIZONA GOVERNORS OFFICE OF HIGHWAY SAFETY	2020-II-006	\$17,403	\$90,556	HIGHWAY SAFETY CLUSTER	\$127,849
TOTAL DEPARTMENT OF TRANSPORTATION					\$153,019			
DEPARTMENT OF TREASURY								
COVID-19 CORONAVIRUS RELIEF FUND	21.019	COVID-19 - ERMT-20-008	EXECUTIVE OFFICE OF THE STATE OF ARIZONA	ERMT-20-008	\$7,232,419	\$7,232,419	N/A	\$0
TOTAL DEPARTMENT OF TREASURY					\$7,232,419			
DEPARTMENT OF HEALTH AND HUMAN SERVICES								
SPECIAL PROGRAMS FOR THE AGING, TITLE III, PART C, NUTRITION SERVICES	93.045		AREA AGENCY ON AGING, REGION ONE	2021-36-SUR	\$133,475	\$133,475	AGING CLUSTER	\$133,475
COVID-19 PROVIDER RELIEF FUND	93.498	COVID-19	UNITED HEALTH GROUP	E00002	\$14,820	\$14,820	N/A	\$0
COMMUNITY SERVICES BLOCK GRANT	93.569		MARICOPA COUNTY HUMAN SERVICES	C-22-19-038-3-01	\$100,000	\$100,000	N/A	\$0
SOCIAL SERVICES BLOCK GRANT	93.667		MARICOPA COUNTY HUMAN SERVICES	C-22-16-043-3-03	\$393,115	\$393,115	N/A	\$0
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES					\$641,410			
DEPARTMENT OF HOMELAND SECURITY								
COVID-19 DISASTER GRANTS - PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS)	97.036	COVID-19 - CV-037			\$82,174	\$82,174	N/A	\$0
HOMELAND SECURITY GRANT PROGRAM	97.067		ARIZONA DEPARTMENT OF HOMELAND SECURITY	2008822-01	\$27,165	\$90,112	N/A	\$0
HOMELAND SECURITY GRANT PROGRAM	97.067		ARIZONA DEPARTMENT OF HOMELAND SECURITY	190822-01	\$8,806	\$90,112	N/A	\$0
HOMELAND SECURITY GRANT PROGRAM	97.067		ARIZONA DEPARTMENT OF HOMELAND SECURITY	200823-01	\$14,014	\$90,112	N/A	\$0
HOMELAND SECURITY GRANT PROGRAM	97.067		ARIZONA DEPARTMENT OF HOMELAND SECURITY	190821-01	\$20,501	\$90,112	N/A	\$0
HOMELAND SECURITY GRANT PROGRAM	97.067	190213-01	ARIZONA DEPARTMENT OF HOMELAND SECURITY	190213-01	\$19,626	\$90,112	N/A	\$0
STAFFING FOR ADEQUATE FIRE AND EMERGENCY RESPONSE (SAFER)	97.083		ARIZONA DEPARTMENT OF HOMELAND SECURITY	EMW-2018-FH-00377	\$541,588	\$541,588	N/A	\$0
TOTAL DEPARTMENT OF HOMELAND SECURITY					\$713,874			
TOTAL EXPENDITURE OF FEDERAL AWARDS					\$83,646	\$11,266,114		

Please Note:

Italicized award lines indicate pass-through funding

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of the schedule.

CITY OF SURPRISE, ARIZONA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021

Significant Accounting Policies Used in Preparing the SEFA

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of City of Surprise, Arizona under programs of the federal government for the year ended June 30, 2021. The information in the Schedule is presented in accordance with the 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). 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. 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. Any negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Indirect Cost Rate

The auditee did not use the de minimis indirect cost rate.

Assistance Listing Numbers

The program titles and Assistance Listing numbers were obtained from the federal or pass-through grantor or through sam.gov. If the three-digit Assistance Listing extension is unknown, there is a U followed by a two-digit number in the Assistance Listing extension to identify one or more Federal award lines from that program. The first Federal program with an unknown three-digit extension is indicated with U01 for all award lines associated with that program, the second is U02, etc.

**CITY OF SURPRISE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Significant deficiency(ies) identified: Yes
- Material weakness(es) identified: No

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

- Significant deficiency(ies) identified: No
- Material weakness(es) identified: 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: No

Identification of major programs:

Assistance Listing Number
21.019

Name of Federal Program or Cluster
COVID 19 – Coronavirus Relief Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee: No

Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*: Yes

Findings and Questioned Costs Related to Federal Awards: No

Summary Schedule of Prior Audit Findings required to be reported: No

**CITY OF SURPRISE, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

**FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Finding Number: FS-2021-001

Repeat Finding: No

Type of Finding: Significant Deficiency

Description: Non-Routine Cutoff Error

CRITERIA

The processing of non-routine transactions should be subject to increased levels of review to ensure transactions are recorded in accordance with generally accepted accounting principles.

CONDITION

The City did not properly accrue a \$1.5 million developer reimbursement.

CAUSE

Due to the unusual nature of the transaction, the City elected not to accrue the expense. The invoice was received in August 2021 and included developer reimbursement fees from multiple prior years through fiscal year 2021.

EFFECT

Cutoff errors and misreporting of non-routine transactions could result in material misstatements to the financial statements. This misstatement was corrected in the financial statements.

CONTEXT

Obligations were incurred over the course of several years to a developer pursuant to a developer agreement entered into in a previous year. The developer was eligible for reimbursement of impact fees for permits issued through March of 2021. After receiving approval from legal counsel in August of 2021 the City reimbursed the developer from water impact fee funds and recorded the expense in fiscal year 2022.

RECOMMENDATION

Management should consider adjusting approval workflows to ensure non-routine, material transactions are subject to additional levels of approval.

VIEWS OF RESPONSIBLE OFFICIALS

See Corrective Action Plan.

January 25, 2022

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 names 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.

Sincerely,

Jon Gake
Accounting Manager

**CITY OF SURPRISE, ARIZONA
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2021**

Findings Related to Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding Number: FS-2021-001

Contact Person: Jon Gake, Accounting Manager

Anticipated Completion Date: 6/30/2022

Planned Corrective Action: The City concurs with the finding and will improve internal controls to ensure non-routine subsequent disbursements are properly accrued at year-end.

From: [Susan Alderete](#)
To: [Carol Holley](#)
Cc: [Andrea Davis](#)
Subject: RE: Docs for Next Audit Committee Meeting
Date: Tuesday, March 15, 2022 8:41:59 AM
Attachments: [FY21 City of Surprise ACFR.pdf](#)
[FY21 City of Surprise ACFR General Rep Letter.pdf](#)
[City of Surprise Management Letter 21.pdf](#)
[City of Surprise SA 21.pdf](#)
[General Rep Single Audit 21 Surprise City - signed.pdf](#)
[City of Surprise HURF Report 21.pdf](#)

Good morning, Carol.

See attached FY21 audit reports and related documents as requested.

The only items still outstanding are the FY21 AELR and the FY21 AELR signed General Rep Letter. I anticipate getting those to you in the next few days.

Let me know if I'm missing anything!

Thanks!

Susan

From: Carol Holley <Carol.Holley@surpriseaz.gov>
Sent: Friday, February 25, 2022 10:52 AM
To: Susan Alderete <Susan.Alderete@surpriseaz.gov>
Cc: Jon Gake <Jon.Gake@surpriseaz.gov>; Andrea Davis <Andrea.Davis@surpriseaz.gov>
Subject: RE: Docs for Next Audit Committee Meeting

Hi Susan,

Please provide the documents by March 15, 2022. I have attached a copy of the documents that were provided in March 2021.

Thank you for following up on this. Have an amazing weekend!

Stay safe,

Carol Holley, Sr. Internal Auditor
City of Surprise
16000 N. Civic Center Plaza
Surprise, AZ 85374
 623-222-1027

carol.holley@surpriseaz.gov

From: Susan Alderete <Susan.Alderete@surpriseaz.gov>

Sent: Friday, February 25, 2022 9:53 AM

To: Carol Holley <Carol.Holley@surpriseaz.gov>

Subject: Docs for Next Audit Committee Meeting

Good morning, Carol.

Jon Gake mentioned that you will be needing our recent audit reports and other related documentation for the next Audit Committee meeting. When do you need these documents? And which ones in particular do you need?

I will forward these on to you once I know we have all that you need.

Thank you!

Susan Alderete

Senior Accountant

City of Surprise | 16000 N. Civic Center Plaza | Surprise, AZ 85374

(623) 222-1825

susan.alderete@surpriseaz.gov

Heinfeld, Meech & Co., P.C.
1365 N. Scottsdale Rd., Suite 300
Scottsdale, AZ 85257

This representation letter is provided in connection with your audit of the financial statements of City of Surprise, Arizona, which comprise the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows for the period then ended, and the disclosures (collectively the “financial statements”), for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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

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

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.
8. The effects of all known actual or possible litigation, claims, and assessments have been evaluated, and if necessary, have been accounted for and disclosed in accordance with U.S. GAAP.
9. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records (including information obtained from outside of the general and subsidiary ledgers), documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13. We have no knowledge of any fraud or suspected fraud that affects the City and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, grantors, regulators, or others.
15. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or waste or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions, including any side agreements.

Government-specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. If applicable, we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements that you have reported to us.
20. We have a process to track the status of audit findings and recommendations.
21. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.
23. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
24. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.
25. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.

26. We have appropriately disclosed all information for conduit debt obligations in accordance with U.S. GAAP.
27. We have identified and disclosed to you all instances of identified fraud and suspected fraud that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
28. We have identified and disclosed to you all instances of identified noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
29. We have identified and disclosed to you all instances of identified abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
30. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
31. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
32. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
33. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
34. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
35. The financial statements include all fiduciary activities required by U.S. GAAP.
36. The financial statements properly classify all funds and activities in accordance with U.S. GAAP.
37. All funds that meet the quantitative criteria for presentation as a major fund are identified and presented as such and all other funds that are presented as a major fund are particularly important to financial statement users.
38. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

39. Investments are properly valued.
40. With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
41. If applicable, provisions for uncollectible receivables have been properly identified and recorded.
42. All payroll information and the individual employment data have been properly submitted to the state retirement systems, and the employer contributions have been properly submitted to the retirement systems.
43. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
44. Revenues are appropriately classified in the statement of activities within program revenues, and general revenues.
45. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
46. Special and extraordinary items, if any, are appropriately classified and reported.
47. Deposits and investment securities are properly classified as to risk and are properly disclosed.
48. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.
49. We have identified and disclosed to you all programs, agreements, and transactions that result in a tax abatement for financial reporting purposes. Tax abatement agreements and programs have been properly disclosed in the notes to the financial statements.
50. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
51. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

52. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
53. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
54. With respect to the supplementary information presented, such as the combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards.
- a. We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
55. With respect to federal award programs:
- a. We are responsible for understanding and complying with and have complied with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).
 - b. We acknowledge our responsibility for preparing and presenting the schedule of expenditures of federal awards and related disclosures in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
 - c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.

- d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e. We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g. We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards, if any.
- j. We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR Part 200, Subpart E).
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

- n. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report.
- r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t. If applicable, we have monitored subrecipients to determine that they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.
- u. If applicable, we have issued management decisions for audit findings that relate to federal awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient.
- v. If applicable, we have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- w. We have charged costs to federal awards in accordance with applicable cost principles.
- x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- y. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information

- z. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- aa. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.
- bb. If applicable, we have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

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

Andrea Davis

Andrea Davis (Jan 25, 2022 10:51 MST)

Andrea Davis, Chief Financial Officer
City of Surprise, Arizona

01/25/2022

Date

Jon Gake

Jon Gake (Jan 24, 2022 12:32 MST)

Jon Gake, Accounting Manager
City of Surprise, Arizona

01/24/2022

Date



SURPRISE
ARIZONA

City of Surprise, Arizona

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2021



CITY OF SURPRISE, ARIZONA

ANNUAL COMPREHENSIVE FINANCIAL REPORT
For the fiscal year ended
June 30, 2021

Prepared by:
Finance Department



SURPRISE

ARIZONA

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ARIZONA



INTRODUCTORY SECTION

The Introductory Section is the first of three essential components of the City's Annual Comprehensive Financial Report (ACFR). 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 ACFR to the intended readers.



SURPRISE

ARIZONA

January 25, 2022

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 Annual Comprehensive Financial Report (ACFR) of the City of Surprise, Arizona (the City), for the fiscal year ended June 30, 2021. 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, 2021, 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, 2021, 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 ACFR. 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 140,000 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, City Attorney, and the Presiding Judge. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for selecting department directors.

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

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

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

Economic Condition and Outlook

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

Local Economy

FY2021 budget was set flat to the FY2020 budget due to the financial uncertainty of national shutdowns caused by the COVID-19 global pandemic. The budget was set to provide flexibility as we monitored the economic state of our city; we were planning for the worst, but hopeful for the best. The financial outlook was surprisingly better than anticipated, and the contingency we built into the budget was utilized to implement the pre-COVID budget. This allowed us to keep up with the growing needs of our city, adding public safety funding and setting aside one-time funds for Public Safety Pension debt, future land purchases, and park improvement and expansion projects. While the national shutdown impacted the city's non-essential amenities, we continued to provide essential services to our residents such as fire, police, and utilities. The economic position coming out of the global pandemic is one of optimism in Surprise as we adjust to the new normal.

Despite the global economic impacts of the pandemic, the City's year-end financial results were strong in both sales tax revenues, population growth, and commercial and residential development. The General Fund ended the year with sales tax exceeding budget by 32.3% or \$16M. In addition, the City received \$16.3 million of Coronavirus Aid, Relief, and Economic Security (CARES) Act funding in FY2020, and the City was able to continue utilizing those funds in FY2021. During FY21, the American Rescue Plan Act (ARPA) was signed into law to provide additional relief from COVID-19. The City was allocated \$15.5M and received the first half early in FY2022, and is expected to receive the second half in late FY2022 or early FY2023.

Throughout the year, the city experienced residential population growth and significant residential and commercial permit activity. The city continues to exceed the statewide average in population growth and the trend 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 a 28.0% increase in sales tax collections while state shared sales tax revenues increased by 14.9% over the previous year. The population and commercial square footage growth has been a factor in the improved economic performance for the city.

Further information on the history of City revenues and expenses can be found in the MD&A, pages 21 through 34, and the statistical section that begins on page 190, of this financial report.

Long-Term Financial Planning

The City continues to plan for investment in maintaining facilities, infrastructure, and equipment that allow for the continued delivery of high quality services to the residents of Surprise. The asset replacement policy was updated for FY2021, and new funds were created to allow departments to carry funding into future years for long-term planning. In addition, the policy dedicated 100% of construction sales tax to the General Capital Fund for asset replacement and capital projects.

During FY2021, the City established a Public Safety Pension Reserve dedicated for the Public Safety Personnel Retirement System (PSPRS) unfunded liability. Council approved a one-time funding of \$13M, and an update to the Comprehensive Financial Management Policies that provides ongoing pension reserve funding generated from year savings from both the police and fire departments.

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.

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%. The process for the acquisition of the water company has begun and is expected to be finalized within the next few years.

In fiscal year 2019, the City completed a five-year comprehensive utility rate study of the Water, Sewer, and Sanitation Funds. This study resulted in rates for the Water and Sewer funds remaining unchanged for next five fiscal years, 2020-2024. The study resulted in Sanitation Fund rates increasing from \$16.96 in fiscal year 2019 to \$23.70 in fiscal year 2024, an increase of 39.74%. In addition, the Development Impact Fee Study was updated. In conjunction with the study update, a 10-year land use assumptions and infrastructure improvements plan is developed and approved by the City Council laying out planned projects for which development fees may be used to fund. The infrastructure improvement plan includes necessary public services for Parks and Recreation, Police, Fire, Water System, Water Resources, and Wastewater (Sewer).

The City continues to work in partnership with Ottawa University Arizona and the surrounding landowners to develop the City Center. In the last year, this has seen the completion of the Residential Housing Facility and the O'Dell Center which includes athletic facilities for the University. Additionally, the Texas Rangers have completed construction on their team housing complex, Rangers' Village. The Kansas City Royals are slated to finish construction on their team housing complex, The Fountains at Surprise Center in January of 2022. Both projects are multi-story team complexes located at City Center near Surprise Stadium. Finally, the City continues to see development in the Entertainment District of City Center.

During fiscal year 2021, a number of projects were completed that strengthened the City's ability to provide services to the public. The construction of Fire Station 304 was completed in early FY21, this station will serve the City's northwestern area that is rapidly developing. In addition, the City finished construction on Fire Station 308, which is located in the City's robust Industrial Park.

The City also finished three major road improvement projects that will help to mitigate traffic congestion and increase mobility in the City. First, the widening on Litchfield Road from Cactus Road to Waddell Road was finished. This project provided much needed access to the City's Industrial Park and helped to spur continued development. Second, the widening on Waddell Road from Sarival Avenue to Reems Road was completed. Lastly, the widening of Greenway Road achieved substantial completion just before the end of the fiscal year. This project provided another fully developed east/west corridor in the City to help relieve traffic along Bell Road.

In addition to art, the City also dedicated funding for the construction of a new park. This project is currently under design, and will provide another dedicated location for the Parks Department to provide much needed programming for City residents. Finally, design is currently underway on the renovations

for the Surprise Community Park. Located in the heart of the City, this project is going to provide much needed improvements to the existing park and better serve the needs of the City's residents.

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 fiscal year 2021, the City created or revised a number of policies and desk procedures. A few of those policies include, an accounts payable policy and vendor setup policy to mitigate fraud. Some of the desk procedures include, a Community Facilities District desk procedure to assist staff during application review, Public Safety Pension Funding, and Finance Administration of City Leases.

Budgetary Controls

The adopted level of budget control is appropriated by department within each fund. The Capital Improvement Plan (CIP) is appropriated by project.

Awards and Acknowledgments

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 Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2020. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized ACFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgments

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.

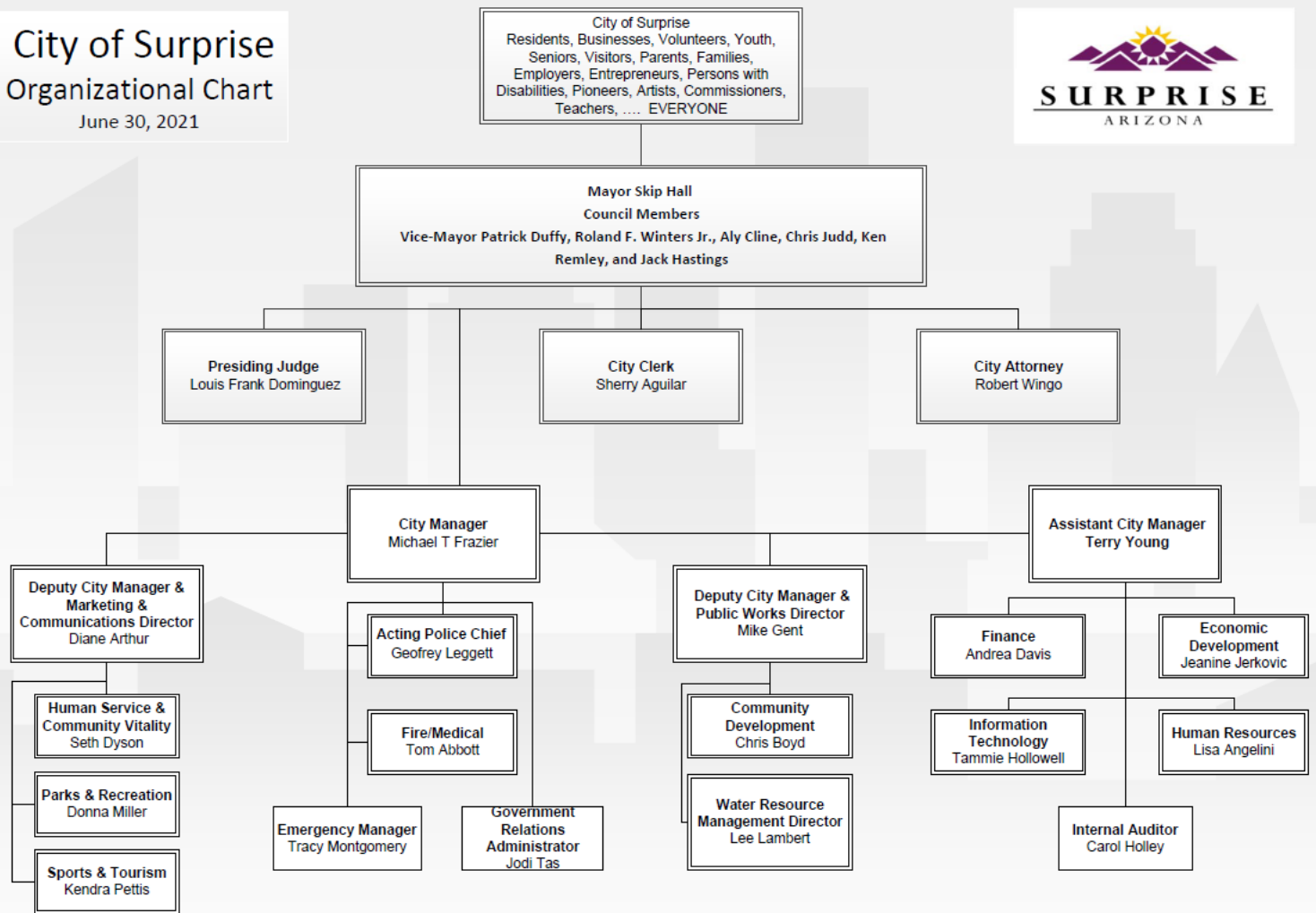
Respectfully submitted,



Andrea Davis
Chief Financial Officer

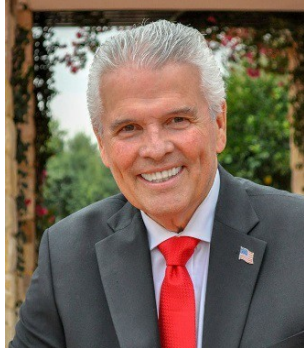
City of Surprise Organizational Chart

June 30, 2021



Mayor and City Council Members

MAYOR SKIP HALL – Mayor@surpriseaz.gov



Mayor Hall was elected to serve as Mayor in August 2020. His four-year term began on January 1, 2021 and ends on December 31, 2024.

He was first elected to the City Council in an April 2008 special election and re-elected to office in 2009 to a full term. Redistricting placed him in the newly- configured District 5, and on August 27, 2013, he was elected to the District 5 seat. He was re-elected to that seat in the August 2018 Primary Election and resigned that seat to fulfill the remaining two-year mayoral term. He was elected to serve as Mayor in August 2020. His term ends on December 31, 2024. He also served as Vice Mayor in 2011 and 2014.

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

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

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

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

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

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

VICE MAYOR PATRICK DUFFY – Patrick.Duffy@surpriseaz.gov



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

Duffy replaced John Williams, who resigned from Council on August 15, 2017. Duffy is a Financial Advisor for Merrill Lynch and for the past 9 years he worked part-time as a City of Surprise Recreation Leader 3.

He has lived in Surprise for 12 years, four of them in D3. Duffy was a member of the Surprise Municipal Property Corporation Board and through his city service has been part of numerous Community and Recreation Services events including Spring Training support, Relay for Life events and Cal Ripken All-Star games. He holds a Bachelor of Arts in Political Science from Arizona State University.

Duffy's appointment expired December 31, 2018; and he was elected in the August 2018, and August 2020 Primary Elections. His four year term began January 1, 2021 and will expire December 31, 2024.

ROLAND WINTERS – Roland.Winters@surpriseaz.gov



Roland F. Winters Jr. was first elected to City Council in 2013 with a term beginning January 2014. He was re-elected in 2018 and began his new four-year term in January 2019.

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

He worked thirty-five years at Hughes Air Craft Company in Fullerton, Ca. and also owned and operated a photo studio in Fullerton and Placentia, Ca.

He served on the State Board of Directors for Californians for Disability Rights.

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

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

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

ALY CLINE – Aly.Kline@surpriseaz.gov



Aly Kline was elected to serve a four year term as the District 2 (D2) Council member in August of 2020. She moved here in 2002 after looking at many various active living communities in many states.

In the last 11 years, she has been able to volunteer more than 19,000 hours within the City of Surprise. She has volunteered as a representative on the Disability Advisory Commission; as a volunteer coach for the City's Parks and Recreation Department for nine years and 18 teams; as a volunteer scorekeeper for the last 10 years for Cal Ripkin and Babe Ruth baseball tournaments; and participating in the leadership of the American Cancer Society Relay For Life of Surprise for five years, including Event Chair in 2013 and 2014.

She has also been a lifetime member, volunteer and board member of Friends of the Surprise Libraries Inc. for the past 10 years, serving as the volunteer President for the last eight years. I recently served on the Financial Advisory Committee and the Long Range Planning Committee for the Sun City Grand Homeowners Association.

Before she retired in 2008, she worked for 35 years in the financial services industry, managing staff and developing training for management and staff. She has a Certificate in Business Management from UCLA.

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 re-elected in August 2020.

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.

JACK HASTINGS – Jack.Hastings@surpriseaz.gov



Jack Hastings was elected in August of 2020 to represent the residents of District 5 (D5).

Jack is a third-generation Surprise resident. He is engaged to his fiancée Olivia, and is getting married in October. Jack teaches US Civics in Surprise at Valley Vista, the high school he graduated from. He has a Bachelor's Degree from Arizona State University and earned his Master's Degree in Educational Leadership.

Councilman Hastings has helped pass balanced budgets on the Surprise City Council and currently serves on the Sports & Tourism and the Community Outreach, Partnerships & Grants Subcommittees. He serves as an ambassador to the Greater Phoenix Economic Council (GPEC) to help promote our city and bring jobs and businesses to Surprise. Councilman Hastings is a strong supporter of public safety and an outspoken advocate for our first responders.

CHRIS JUDD – Chris.Judd@surpriseaz.gov



Chris Judd was elected as the District 6 (DC6) Councilmember in the August 2018 Primary Election to serve a four-year term beginning January 1, 2019.

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

As an independent businessman and former owner and manager of local small businesses, Chris was very active with the Rotary Club of Surprise, and the Surprise Regional Chamber of Commerce. He served as the Rotary Club President in 2015-2016, and currently serves on the Board of Directors for the Rotary Club of Surprise Community Foundation.

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

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

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



City of Surprise Appointed Officials

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



Government Finance Officers Association

**Certificate of
Achievement
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Reporting**

Presented to

**City of Surprise
Arizona**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2020

Christopher P. Morill

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 Subsections

- ❖ Independent Auditor’s Report
- ❖ Management’s Discussion and Analysis
- ❖ Government Wide Financial Statements
- ❖ Fund Financial Statements
- ❖ Notes to the Financial Statements



SURPRISE

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Independent Auditor's Report

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

Report on Audit of Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Surprise, Arizona (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Surprise, Arizona, as of June 30, 2021, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Surprise, Arizona, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

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

because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary 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 Combining and Individual Fund Financial Statements and Schedules are presented for purposes of additional analysis and are 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. 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section and Statistical Section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information and we do not express an opinion or any form of assurance thereon. In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on other work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 25, 2022, on our consideration of City of Surprise, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Surprise, Arizona's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Surprise, Arizona's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

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

January 25, 2022



SURPRISE

ARIZONA



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.



SURPRISE

ARIZONA

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, 2021. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing a summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation. Amounts presented may reflect some minor differences due to rounding. This analysis is meant to be read in conjunction with the letter of transmittal.

FINANCIAL HIGHLIGHTS

- ❖ **Governmental Activities net position.** The City's net position increased 27.4% or \$133.2 million from \$485.2 million to \$618.4 million. This increase is attributable to an increase in sales taxes and intergovernmental revenues. Sales taxes increased due to continued economic and population growth.
- ❖ **Business-Type Activities net position.** The City's net position increased by 14.0% or \$48.9 million from \$348.4 million to \$397.3 million. Continued growth in the City accounts for the change, with \$31.9 million of the increase resulting from developer capital contributions.
- ❖ **Governmental Activities expenses** of \$177.3 million exceeded program revenues of \$149.7 million, a difference of \$27.6 million. The remaining \$27.6 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 Activities expenses** were \$57.3 million, while program revenues totaled \$107.3 million, a difference of \$50.0 million. The current year excess will be added to net position.
- ❖ **Component units.** The City includes two separate legal entities in its report: 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 35-36 and 38-39) 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 44. 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 35. 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. The City's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – is 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. Consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

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

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

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 46 where the fund financial statements begin. These provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

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

(or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is included in the reconciliations following the fund financial statements.

- ❖ **Proprietary Funds** – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net position and the statement of activities. In fact, the City’s enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. The City uses an internal service fund (the other component of proprietary funds) to report activities that provide supplies and services for the City’s other programs and activities, specifically the City’s Employee Healthcare Fund, the Risk Management Fund, and the Workers’ Compensation Fund.
- ❖ **Fiduciary Funds** – The City is the fiduciary for the Flexible Spending Account. All of the City’s fiduciary activities are reported in the separate statement of fiduciary net position and statement of changes in fiduciary net position on pages 60-61.

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, 2021 and June 30, 2020.

City of Surprise’s Net Position (in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
ASSETS						
Current and other assets	\$ 246.7	\$ 179.1	\$ 101.7	\$ 88.1	\$ 348.4	\$ 267.2
Capital assets, net	578.1	499.1	348.5	312.6	926.6	811.7
Total assets	824.8	678.2	450.2	400.7	1,275.0	1,078.9
DEFERRED OUTFLOWS OF RESOURCES	35.5	26.7	3.3	2.0	38.8	28.7
LIABILITIES						
Current liabilities	43.2	45.4	11.8	9.7	55.1	55.1
Long-term liabilities	194.6	167.5	44.0	43.7	238.6	211.2
Total liabilities	237.8	212.9	55.8	53.4	293.6	266.3
DEFERRED INFLOWS OF RESOURCES	4.1	6.8	0.3	0.9	4.5	7.7
NET POSITION						
Net investment in capital assets	503.0	435.2	320.3	282.4	823.3	717.6
Restricted	39.6	21.8	9.4	13.7	49.0	35.5
Unrestricted	75.8	28.2	67.6	52.3	143.4	80.5
Total net position	\$ 618.4	\$ 485.2	\$ 397.3	\$ 348.4	\$ 1,015.7	\$ 833.6

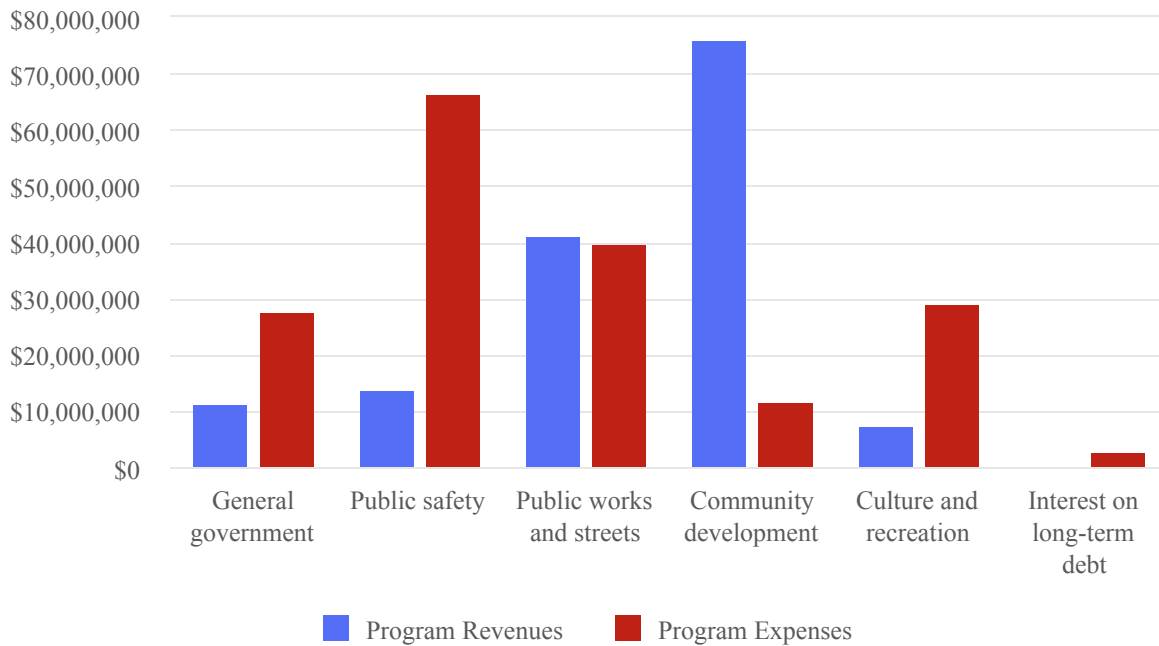
Net position is a good indicator of a city's overall financial standing. For fiscal year 2021, the City had total combined net position of \$1,015.7 million. This was an increase of \$182.1 million, or 21.8% over the prior year's net position of \$833.6 million. The increase is attributed to continued economic strength, population growth, and capital grants and contributions, including a wastewater treatment plant.

Not all of the \$1,015.7 million is available for the City to use without restraint. The largest portion of the City's total net position, \$823.3 million, or 81.1%, represents the City's net investment in capital assets. Of the remaining net position, \$49.0 million is restricted for various purposes with the remaining \$143.4 million unrestricted as to its use.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
REVENUES						
Program revenues:						
Charges for services	\$ 34.8	\$ 27.4	\$ 60.4	\$ 53.6	\$ 95.2	\$ 81.0
Operating grants and contributions	22.7	21.5	—	0.1	22.7	21.6
Capital grants and contributions	92.2	42.2	46.9	15.0	139.1	57.2
General Revenues:						
Property taxes	17.7	17.0	—	—	17.7	17.0
Sales taxes	90.7	70.9	—	—	90.7	70.9
Franchise taxes	5.7	5.5	—	—	5.7	5.5
State shared revenues	44.1	38.4	—	—	44.1	38.4
Unrestricted investment earnings	0.2	3.4	0.1	1.6	0.3	5.0
Other	1.0	0.4	0.2	—	1.2	0.4
Total revenues	309.1	226.7	107.6	70.3	416.7	297.0
EXPENSES						
Program activities:						
Governmental activities:						
General government	27.7	30.7	—	—	27.7	30.7
Public Safety	66.4	60.0	—	—	66.4	60.0
Public works and streets	39.7	46.3	—	—	39.7	46.3
Community development	11.6	12.8	—	—	11.6	12.8
Culture and recreation	29.2	20.9	—	—	29.2	20.9
Interest on long-term debt	2.7	2.6	—	—	2.7	2.6
Business-type activities:						
Ground Ambulance Services	—	—	4.7	4.4	4.7	4.4
Sanitation	—	—	7.7	9.0	7.7	9.0
Sewer	—	—	24.7	19.4	24.7	19.4
Stormwater	—	—	1.2	1.2	1.2	1.2
Water	—	—	19.0	18.4	19.0	18.4
Total expenses	177.3	173.3	57.3	52.4	234.6	225.7
Excess before transfers	131.8	53.4	50.3	17.9	182.1	71.3
Transfers in (out)	1.4	1.1	(1.4)	(1.1)	—	—
Increase/(Decrease) in net position	133.2	54.5	48.9	16.8	182.1	71.3
Net position - beginning	485.2	430.7	348.4	331.6	833.6	762.3
Net position - ending	<u>\$ 618.4</u>	<u>\$ 485.2</u>	<u>\$ 397.3</u>	<u>\$ 348.4</u>	<u>\$ 1,015.7</u>	<u>\$ 833.6</u>

FY 2021 Governmental Activities Program Revenues and Expenses

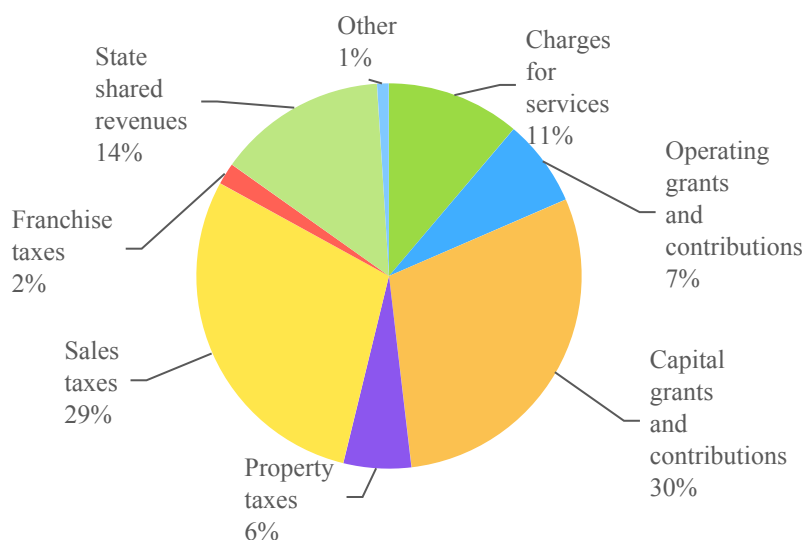


For fiscal year 2021, governmental activities program expenses exceeded program specific revenues by \$27.6 million. The remaining expenses were supported by general governmental revenues.

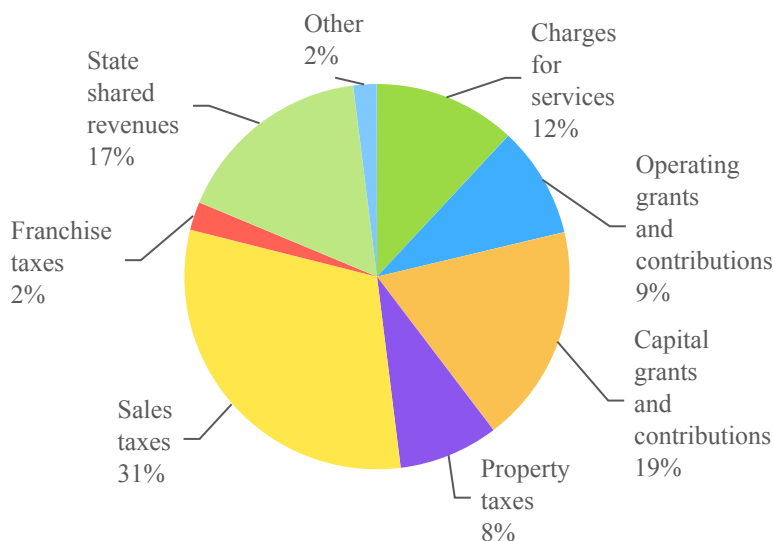
- ❖ Charges for services, operating grants and contributions, and capital grants and contributions account for 48.4% of total governmental revenues.
- ❖ Community oriented programs such as **Public Safety** (police, fire, and courts) and **Culture and Recreation** (parks, recreation, youth, and senior 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, 2021 totaled \$309.1 million and have been identified by major revenue source in percentage format. The prior year percentages have also been provided for comparison.

FY 2021 Governmental Activities Revenues



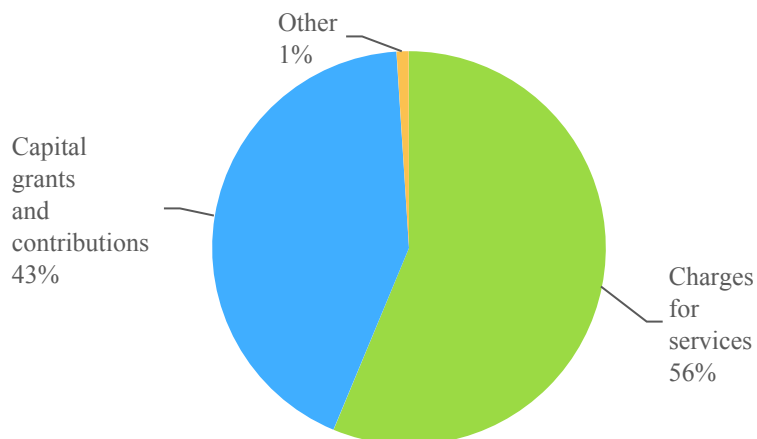
FY 2020 Governmental Activities Revenues



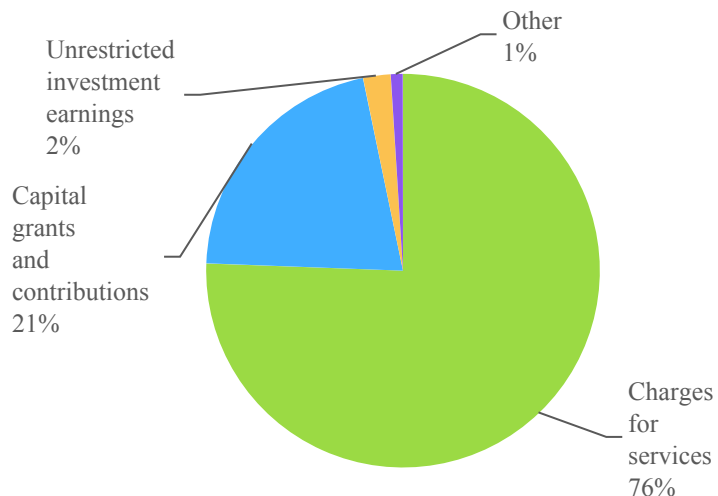
- ❖ The City's largest revenue source is capital grants and contributions at \$92.2 million, followed by sales tax revenue totaling \$90.7 million. Total governmental activities revenues increased \$82.4 million from the prior year as a result of the following changes in revenue: Charges for services increased \$7.4 million, local sales taxes increased \$19.8 million due to local economic and population growth, State shared revenues also increased \$5.7 million from continued state economic growth, and capital grants and contributions increased \$50.0 million from developer donated infrastructure.

Business-Type Activities revenues for the fiscal year ended June 30, 2021 totaling \$107.6 million are identified by major revenue source in percentage format. The prior year percentages have also been provided for comparison.

FY 2021 Business-Type Activities Revenues



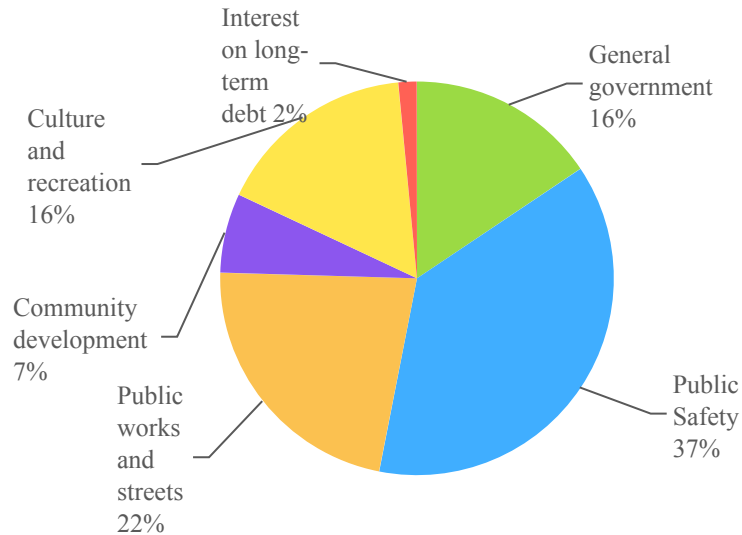
FY 2020 Business-Type Activities Revenues



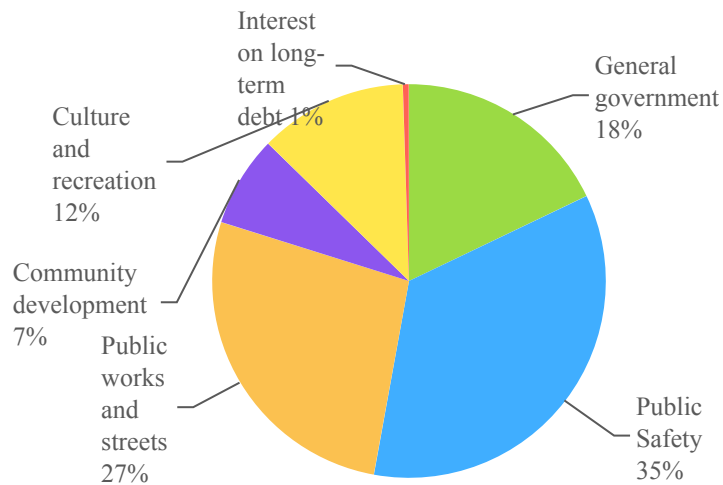
- ❖ Total Business-Type Activities revenues increased 53.1% or \$37.3 million from the prior fiscal year. Capital grants and contributions increased by 212.9% or \$31.9 million due to developer donated infrastructure, including a wastewater treatment plant. Charges for services increased by 12.7% or \$6.8 million from increase in customers due to population growth. In addition to growth, the sanitation fund had a \$2.70 rate increase effective July 1, 2020.

Governmental Activities expenses for the fiscal year ended June 30, 2021 totaled \$177.3 million and are identified by function in percentage format. The prior year percentages have also been provided for comparison.

FY 2021 Governmental Activities Expenses

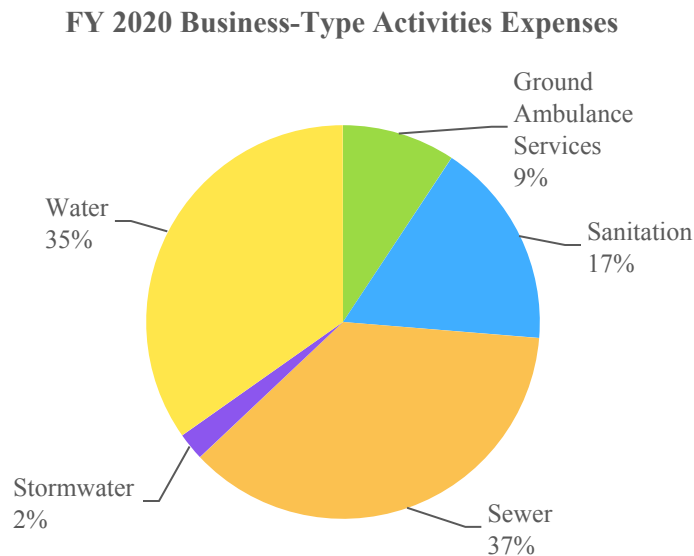
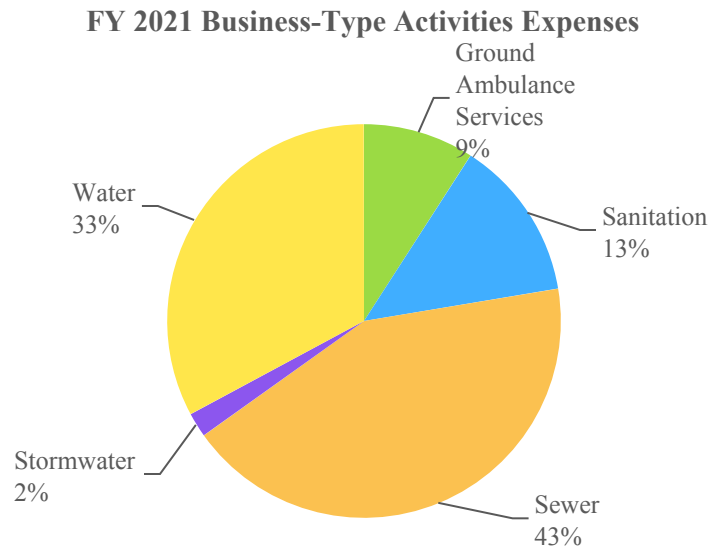


FY 2020 Governmental Activities Expenses



- ❖ Current year expenses increased by \$4.0 million or 2.3% as result of increases in personnel and services. 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 \$66.4 million.

Business-Type Activities expenses for the fiscal year ended June 30, 2021 totaled \$57.3 million and are identified by function in percentage format. The prior year percentages have also been provided for comparison.



- ❖ Business-Type Activities expenses increased by \$4.9 million or 9.4% from the prior year. The Sewer Fund and Ground Ambulance Services Fund mainly contributed to the increase in expenses with the remaining increase spread evenly amongst the other programs. The increase in expenses was the result of personnel cost increases, increases in supplies, and developer reimbursements for sewer system expansion.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

- ❖ **Total Governmental Funds** fund balance increased \$70.4 million from \$129.8 million to \$200.2 million. The increase was primarily due to increase in tax revenue. Of the total ending fund balance, \$4.0 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 \$39.6 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, \$14.4 million has been committed to recognize a specific council determined purpose which may not be used for another purpose without council's direction, but the purpose can be changed by council. There is \$55.6 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 \$86.6 million which can be used for any purpose.
 - The General Fund balance increased \$34.6 million. This change was the result of increases in property taxes, sales taxes, state shared revenues, intergovernmental revenues, and charges for services.
 - The General Capital Projects Fund balance increased \$24.8 million. This increase was due to issuance of debt and premium on debt issuance, offsetting a decrease to transfers in.
 - The General Government Development Fee Fund contains \$5.4 million in advances from other funds. The cash on hand in the fund is maintained to meet future debt service obligations in accordance with a settlement agreement. The advance will be repaid once sufficient resources are accumulated to meet future debt service obligations.
 - The Transportation Improvement Fund balance increased \$5.0 million from \$8.2 million to \$13.2 million. This increase is the result of increased construction sales taxes.
 - The Nonmajor Governmental Funds fund balance increased \$5.2 million. The increase was due to an increase in development fees, coupled with a decrease in capital outlay, as multiple large construction projects were completed in the prior year.
- ❖ **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 \$118.9 million. Budget adjustments throughout the year resulted in total budgeted expenditures of \$131.0 million. Of the \$12.1 million budget increase, \$7.2 million was to account for the CARES Act funding.
- ❖ Actual General Fund expenditures totaling \$110.5 million was \$20.5 million less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land and improvements	\$ 146.6	\$ 86.9	\$ 5.3	\$ 4.8	\$ 151.9	\$ 91.7
Parks	8.6	8.6	—	—	8.6	8.6
Water rights	—	—	21.3	17.5	21.3	17.5
Construction in progress	16.6	25.0	4.5	3.5	21.1	28.5
Buildings and improvements	136.8	134.8	294.3	265.3	431.1	400.1
Improvements other than buildings	22.4	21.7	8.3	8.1	30.7	29.8
Equipment and vehicles	19.6	19.8	14.7	13.1	34.3	32.9
Intangibles	5.9	7.5	0.1	0.2	6.0	7.7
Infrastructure	221.6	194.8	—	—	221.6	194.8
Total capital assets, net	<u>\$ 578.1</u>	<u>\$ 499.1</u>	<u>\$ 348.5</u>	<u>\$ 312.5</u>	<u>\$ 926.6</u>	<u>\$ 811.6</u>

The capital assets of the Governmental Activities increased by \$79.0 million from the prior fiscal year, net of depreciation (\$104.3 million increase before depreciation).

- ❖ Changes to the Governmental Activities capital assets for fiscal year 2021 were the result of:
 - Current year depreciation expense of \$28.6 million.
 - Capital contributions made to the City by developers. The assets donated consisted of land, streets infrastructure and right-of-ways.
 - \$59.7 million – right-of-ways throughout the city
 - \$26.3 million – streets infrastructure throughout the city
- ❖ Governmental Activities construction in progress includes:
 - \$5.2 million – Fire Station 308
 - \$5.2 million – Public Safety Evidence & Readiness Center
 - \$4.1 million – Greenway Road and Cotton Lane
 - \$0.4 million – Regional Communications Tower #1

The capital assets of the Business-Type Activities funds increased by \$36.0 million from the prior fiscal year, net of depreciation (\$49.5 million increase before depreciation).

- ❖ Changes to the Business-Type Activities capital assets for fiscal year 2021 were the result of:
 - Current year depreciation expense of \$14.4 million.
 - Capital contributions made to the City by developers. The assets donated consisted of water, sewer, and stormwater utilities.
 - \$1.3 million – Stormwater improvements
 - \$10.5 million – Sewer lines
 - \$6.1 million – Water lines
- ❖ Business-Type Activities construction in progress includes:
 - \$1.0 million – Circle City Water Acquisition
 - \$1.0 million – South Plant Operations Building Remodel
 - \$0.9 million – SPA1 Recharge Expansion
- ❖ For more detailed information on Capital Assets, see Note 4 of this report.

Outstanding Debt at Year-End (in Millions)

	Governmental		Business-Type		Total	
	2021	2020	2021	2020	2021	2020
General obligations	\$ 50.3	\$ 34.2	\$ —	\$ —	\$ 50.3	\$ 34.2
Pledged revenue obligations	18.3	21.2	2.4	3.2	20.7	24.4
Senior lien utility system revenue refunding obligations	—	—	25.8	27.0	25.8	27.0
Community facilities district bonds	18.9	19.4	—	—	18.9	19.4
Community facilities district notes	2.4	2.6	—	—	2.4	2.6
Total debt outstanding	<u>\$ 89.9</u>	<u>\$ 77.4</u>	<u>\$ 28.2</u>	<u>\$ 30.2</u>	<u>\$ 118.1</u>	<u>\$ 107.6</u>

❖ **Long-term debt**, including amounts due within one year, increased \$10.5 million this year from \$107.6 million to \$118.1 million.

❖ For more detailed information on long-term debt, see Note 7 of this report.

ECONOMIC FACTORS, RATES, AND NEXT YEAR'S BUDGET

FY2021 budget was set flat to the FY2020 budget due to the financial uncertainty of national shutdowns caused by the COVID-19 global pandemic. The budget was set to provide flexibility as we monitored the economic state of our city; we were planning for the worst, but hopeful for the best. The financial outlook was surprisingly better than anticipated, and the contingency we built into the budget was utilized to implement the pre-COVID budget. This allowed us to keep up with the growing needs of our city, adding public safety funding and setting aside one-time funds for Public Safety Pension debt, future land purchases, and park improvement and expansion projects. While the national shutdown impacted the city's non-essential amenities, we continued to provide essential services to our residents such as fire, police, and utilities. The economic position coming out of the global pandemic is one of optimism in Surprise as we adjust to the new normal.

Despite the global economic impacts of the pandemic, the City's year-end financial results were strong in both sales tax revenues, population growth, and commercial and residential development. The General Fund ended the year with sales tax exceeding budget by 32.3% or \$16 million. In addition, the City received \$16.3 million of Coronavirus Aid, Relief, and Economic Security (CARES) Act funding in FY2020, and the City was able to continue utilizing those funds in FY2021. During FY21, the American Rescue Plan Act (ARPA) was signed into law to provide additional relief from COVID-19. The City was allocated \$15.5 million and received the first half early in FY2022, and is expected to receive the second half in late FY2022 or early FY2023.

Throughout the year, the city experienced residential population growth and significant residential and commercial permit activity. The city continues to exceed the statewide average in population growth and the trend 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 a 28.0% increase in sales tax collections while state shared sales tax revenues increased by 14.9% over the previous year. The population and commercial square footage growth has been a factor in the improved economic performance for the city.

- ❖ **Revenues are expected to decrease slightly** – Sales tax revenues are estimated to increase due to a strengthening local economy, offset by decreases in other revenue categories.
- ❖ **Personnel increase** – For the FY2022 budget, city employees received merit/step increases of 2% and COLA increases of 1.5%. Further, increases in personnel costs are also attributable to the increase in the employer contribution rates to the City's pension plans (PSPRS and ASRS).
- ❖ **Next year's budget** – Total budgeted expenditures for the City's FY2022 is \$485.9 million, a \$70.4 million increase over the FY2021 adopted budget of \$415.5 million. The FY2021 adopted budget was decreased due to the unknown impacts of COVID-19.

FINANCIAL CONTACT

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



FINANCIAL SECTION – BASIC FINANCIAL STATEMENTS GOVERNMENT-WIDE FINANCIAL STATEMENTS

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



SURPRISE

ARIZONA

City of Surprise, Arizona
Statement of Net Position
June 30, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 199,037,171	\$ 71,107,568	\$ 270,144,739
Restricted cash and investments	34,529,635	12,520,709	47,050,344
Receivables (net of allowances)			
Accounts	365,050	9,395,439	9,760,489
Taxes and franchise fees	13,132,599	—	13,132,599
Grants	692,773	—	692,773
Intergovernmental	1,153,833	—	1,153,833
Other	1,323,796	90,339	1,414,135
Prepaid items and other assets	429,776	503,728	933,504
Inventory	1,487,373	1,274,403	2,761,776
Internal balances	(6,707,017)	6,707,017	—
Total current assets	245,444,989	101,599,203	347,044,192
Noncurrent assets:			
Equity interest in joint venture	969,335	—	969,335
Net other postemployment benefits asset	361,103	60,545	421,648
Capital assets, non-depreciable	171,824,427	31,093,577	202,918,004
Capital assets, depreciable	817,429,799	472,533,955	1,289,963,754
Accumulated depreciation	(411,196,402)	(155,132,966)	(566,329,368)
Total noncurrent assets	579,388,262	348,555,111	927,943,373
Total assets	824,833,251	450,154,314	1,274,987,565
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pension related	34,679,609	3,075,007	37,754,616
Deferred outflows of resources - other postemployment benefits related	839,541	175,869	1,015,410
Total deferred outflows of resources	35,519,150	3,250,876	38,770,026
Total assets and deferred outflows of resources	860,352,401	453,405,190	1,313,757,591
LIABILITIES			
Current liabilities:			
Accounts payable	8,409,910	4,878,585	13,288,495
Accrued payroll and related taxes	4,278,228	615,729	4,893,957
Deposits	255,539	427,111	682,650
Unearned revenues	1,542,168	603,789	2,145,957
Contracts payable, due in less than one year	8,666,397	835,260	9,501,657
Claims payable	2,060,114	—	2,060,114
Other liabilities	29,682	—	29,682
Compensated absences payable, due in less than one year	3,176,635	424,574	3,601,209
Matured bond and loan interest payable	1,678,425	653,375	2,331,800
Matured bond and loans payable	6,429,038	1,645,962	8,075,000
Bonds, loans and payables due in less than one year	6,712,274	1,727,725	8,439,999
Total current liabilities	43,238,410	11,812,110	55,050,520
Noncurrent liabilities:			
Contracts payable, due in more than one year	—	1,690,078	1,690,078
Compensated absences payable, due in more than one year	5,182,929	692,726	5,875,655
Bonds, loans and payables due in more than one year	83,189,547	26,467,555	109,657,102
Net pension liability	105,963,687	15,047,516	121,011,203
Net other postemployment benefits liability	244,311	64,936	309,247
Total noncurrent liabilities	194,580,474	43,962,811	238,543,285
Total liabilities	\$ 237,818,884	\$ 55,774,921	\$ 293,593,805

See accompanying Notes to Financial Statements

City of Surprise, Arizona
Statement of Net Position
June 30, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension related	\$ 3,075,563	\$ 219,780	\$ 3,295,343
Deferred inflows of resources - other postemployment benefits related	1,069,501	128,924	1,198,425
Total deferred inflows of resources	4,145,064	348,704	4,493,768
Total liabilities and deferred inflows of resources	241,963,948	56,123,625	298,087,573
NET POSITION			
Net investment in capital assets	502,976,390	320,299,739	823,276,129
Restricted for:			
Capital Projects	12,253,701	9,401,711	21,655,412
Court	376,034	—	376,034
Debt Service	331,700	23,466	355,166
Economic Development	19,574	—	19,574
Fire-Medical	9,566,504	—	9,566,504
Human Services and Community Vitality	34,173	—	34,173
Parks and recreation	5,659,993	—	5,659,993
Police	6,074,269	—	6,074,269
Public Works	675,031	—	675,031
Transportation	4,566,066	—	4,566,066
Unrestricted	75,855,018	67,556,649	143,411,667
Total net position	<u>\$ 618,388,453</u>	<u>\$ 397,281,565</u>	<u>\$ 1,015,670,018</u>



SURPRISE

ARIZONA

City of Surprise, Arizona
Statement of Activities
For the Year Ended June 30, 2021

Functions/Programs		Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:	Expenses			
Governmental activities:				
General Government	\$ 27,692,032	\$ 8,125,797	\$ 91,082	\$ 3,129,161
Public Safety	66,442,651	1,754,361	9,427,762	2,764,507
Public works and streets	39,687,896	5,283,508	10,246,388	25,622,219
Community Development	11,564,452	16,185,099	109,340	59,653,587
Culture and recreation	29,248,928	3,480,856	2,835,217	998,975
Interest on long-term debt	2,695,568	—	—	—
Total governmental activities	177,331,527	34,829,621	22,709,789	92,168,449
Business-type activities:				
Ground Ambulance Services	4,696,823	4,541,588	14,820	—
Sanitation	7,669,633	12,271,547	—	—
Sewer	24,744,000	20,301,588	—	34,281,223
Stormwater	1,167,538	2,554,905	—	1,339,504
Water	19,000,628	20,727,214	—	11,314,779
Total business-type activities	57,278,622	60,396,842	14,820	46,935,506
Total primary government	\$ 234,610,149	\$ 95,226,463	\$ 22,724,609	\$ 139,103,955

General revenues:

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

City of Surprise, Arizona
Statement of Activities
For the Year Ended June 30, 2021

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (16,345,992)	\$ —	\$ (16,345,992)
(52,496,021)	—	(52,496,021)
1,464,219	—	1,464,219
64,383,574	—	64,383,574
(21,933,880)	—	(21,933,880)
(2,695,568)	—	(2,695,568)
(27,623,668)	—	(27,623,668)
—	(140,415)	(140,415)
—	4,601,914	4,601,914
—	29,838,811	29,838,811
—	2,726,871	2,726,871
—	13,041,365	13,041,365
—	50,068,546	50,068,546
(27,623,668)	50,068,546	22,444,878
17,675,230	—	17,675,230
90,643,310	—	90,643,310
5,654,379	—	5,654,379
44,122,121	—	44,122,121
228,665	115,514	344,179
1,040,102	185,489	1,225,591
1,443,311	(1,443,311)	—
160,807,118	(1,142,308)	159,664,810
133,183,450	48,926,238	182,109,688
485,205,003	348,355,327	833,560,330
\$ 618,388,453	\$ 397,281,565	\$ 1,015,670,018

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.



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City of Surprise, Arizona
Balance Sheet
Governmental Funds
June 30, 2021

	General Fund	General Capital Projects Fund	General Government Development Fee Fund
ASSETS			
Cash and investments	\$ 100,125,922	\$ 39,545,995	\$ 1,093,285
Restricted cash and investments	10,055,085	14,820,387	—
Receivables (net of allowances)			
Accounts	365,050	—	—
Taxes and franchise fees	12,962,657	—	—
Grants	82,174	—	—
Intergovernmental	263,070	—	—
Due from other funds	397,281	—	—
Other	1,008,879	—	—
Prepaid items and other assets	409,221	3,637	—
Inventory	1,098,612	—	—
Advances to other funds	2,058,069	—	—
Total assets	<u>\$ 128,826,020</u>	<u>\$ 54,370,019</u>	<u>\$ 1,093,285</u>
LIABILITIES			
Accounts payable	\$ 2,533,337	\$ 3,259,620	\$ —
Accrued payroll and related taxes	4,008,818	—	—
Due to other funds	—	—	—
Deposits	202,862	—	—
Unearned revenue	1,116,877	—	—
Contracts payable	8,549,538	—	—
Other liabilities	29,682	—	—
Matured bond interest payable	—	—	—
Matured bonds and notes payable	—	—	—
Advances from other funds	—	—	5,366,279
Total liabilities	<u>16,441,114</u>	<u>3,259,620</u>	<u>5,366,279</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - unavailable revenue	257,489	—	—
Total deferred inflow of resources	<u>257,489</u>	<u>—</u>	<u>—</u>
Total liabilities and deferred inflows of resources	<u>16,698,603</u>	<u>3,259,620</u>	<u>5,366,279</u>
FUND BALANCES (DEFICITS)			
Nonspendable	3,565,902	3,637	—
Restricted	525,607	12,253,702	—
Committed	—	—	—
Assigned	16,732,161	38,853,060	—
Unassigned	91,303,747	—	(4,272,994)
Total fund balances (deficits)	<u>112,127,417</u>	<u>51,110,399</u>	<u>(4,272,994)</u>
Total liabilities, deferred inflows and fund balances (deficits)	<u>\$ 128,826,020</u>	<u>\$ 54,370,019</u>	<u>\$ 1,093,285</u>

Highway User Revenue Fund	Transportation Improvement Fund	Debt Service Fund	Total Nonmajor Funds	Total Governmental Funds
\$ 4,199,018	\$ 14,353,308	\$ —	\$ 22,991,919	\$ 182,309,447
45,459	99,024	7,165,027	2,344,653	34,529,635
—	—	—	—	365,050
—	—	101,067	68,875	13,132,599
—	—	—	610,599	692,773
890,763	—	—	—	1,153,833
—	—	—	—	397,281
—	—	—	146,657	1,155,536
1,502	—	—	11,427	425,787
378,723	—	—	10,038	1,487,373
—	—	—	—	2,058,069
<u>\$ 5,515,465</u>	<u>\$ 14,452,332</u>	<u>\$ 7,266,094</u>	<u>\$ 26,184,168</u>	<u>\$ 237,707,383</u>
\$ 499,646	\$ 1,136,940	\$ —	\$ 854,965	\$ 8,284,508
147,239	4,767	—	100,679	4,261,503
—	—	—	397,281	397,281
—	52,215	—	462	255,539
2,000	—	—	423,291	1,542,168
43,459	46,809	—	26,591	8,666,397
—	—	—	—	29,682
—	—	1,339,047	339,378	1,678,425
—	—	5,734,038	695,000	6,429,038
—	—	—	—	5,366,279
<u>692,344</u>	<u>1,240,731</u>	<u>7,073,085</u>	<u>2,837,647</u>	<u>36,910,820</u>
—	—	34,982	349,503	641,974
—	—	34,982	349,503	641,974
<u>692,344</u>	<u>1,240,731</u>	<u>7,108,067</u>	<u>3,187,150</u>	<u>37,552,794</u>
380,225	—	—	21,465	3,971,229
4,442,896	—	158,027	22,176,814	39,557,046
—	13,211,601	—	1,194,917	14,406,518
—	—	—	—	55,585,221
—	—	—	(396,178)	86,634,575
<u>4,823,121</u>	<u>13,211,601</u>	<u>158,027</u>	<u>22,997,018</u>	<u>200,154,589</u>
<u>\$ 5,515,465</u>	<u>\$ 14,452,332</u>	<u>\$ 7,266,094</u>	<u>\$ 26,184,168</u>	<u>\$ 237,707,383</u>

City of Surprise, Arizona
 Reconciliation of the Governmental Funds Balance Sheet Fund Balances
 to the Statement of Net Position
 June 30, 2021

Fund balances - total governmental funds		\$ 200,154,589
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	989,254,226	
Less accumulated depreciation	<u>(411,196,402)</u>	
		578,057,824
Some revenues will not be available to pay for current-period expenditures and, therefore, are unavailable in the funds.		
		641,974
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)	11,298,925	
Net pension liability	(455,543)	
Deferred outflows	87,356	
Deferred inflows	(5,253)	
Compensated absences payable	(27,631)	
Net OPEB asset	1,892	
Net OPEB asset/liability deferred outflows	5,405	
Net OPEB asset/liability deferred inflows	(3,812)	
Net OPEB liability	<u>(2,013)</u>	
		10,899,326
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	34,592,253	
Deferred inflows of resources related to pensions	<u>(3,070,310)</u>	
		31,521,943
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds payable	(84,370,952)	
Issuance premium (to be amortized as interest expense)	(5,530,869)	
Net pension liability	(105,508,144)	
Compensated absences payable	(8,331,933)	
Net OPEB asset	359,211	
Net OPEB liability	<u>(242,298)</u>	
		(203,624,985)
The equity interest in the joint venture, Regional Wireless Cooperative, is not a financial resource and, therefore, is not reported in the funds.		
		969,335
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	834,136	
Deferred inflows of resources related to OPEB	<u>(1,065,689)</u>	
		<u>(231,553)</u>
Net position of governmental activities		\$ <u>618,388,453</u>



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City of Surprise, Arizona
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2021

	General Fund	General Capital Projects Fund	General Government Development Fee	Highway User Revenue Fund
REVENUES				
Taxes	\$ 74,796,921	\$ 14,339,521	\$ —	\$ —
Licenses and permits	6,168,794	—	—	—
Intergovernmental revenues	44,699,113	—	—	9,822,481
Charges for services	22,705,823	—	—	12,750
Grants revenue	7,314,593	—	—	—
Fines	1,250,670	—	—	—
Rents	303,717	—	—	—
Development fees	—	—	694,000	—
Interest revenue	99,411	40,650	2,239	8,041
Donations	52,541	—	—	—
Indirect charges	6,348,174	—	—	—
Other revenue	649,130	111,544	—	84,936
Total revenues	<u>164,388,887</u>	<u>14,491,715</u>	<u>696,239</u>	<u>9,928,208</u>
EXPENDITURES				
Current:				
General Government	20,515,495	—	—	94,800
Public Safety	55,637,756	—	—	—
Public works and streets	7,746,380	—	—	6,835,877
Community Development	13,529,326	—	—	—
Culture and recreation	12,652,410	—	—	—
Debt service:				
Administrative charges	—	—	—	—
Principal retirement	—	—	—	—
Interest	—	—	—	—
Bond issuance costs	—	—	—	—
Capital outlay:				
General Government	9,339	1,330,434	—	—
Public Safety	97,060	12,628,942	—	—
Public works and streets	233,729	8,042,306	—	2,056,054
Community Development	92,184	78,344	—	—
Culture and recreation	3,308	2,488,065	—	—
Total expenditures	<u>110,516,987</u>	<u>24,568,091</u>	<u>—</u>	<u>8,986,731</u>
Excess (deficiency) of revenues over expenditures	<u>53,871,900</u>	<u>(10,076,376)</u>	<u>696,239</u>	<u>941,477</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	159,875	—	—	—
Transfers in	1,515,611	15,303,200	—	—
Transfers out	(21,213,754)	(38,900)	(367,221)	(105,213)
Issuance of debt	—	17,460,000	—	—
Premium on debt issuance	—	2,133,059	—	—
Total other financing sources (uses)	<u>(19,538,268)</u>	<u>34,857,359</u>	<u>(367,221)</u>	<u>(105,213)</u>
Net change in fund balances	34,333,632	24,780,983	329,018	836,264
Fund balances - beginning	77,519,410	26,329,416	(4,602,012)	3,999,671
Increase (decrease) in inventories	274,376	—	—	(12,814)
Fund balances (deficits) - ending	<u>\$ 112,127,418</u>	<u>\$ 51,110,399</u>	<u>\$ (4,272,994)</u>	<u>\$ 4,823,121</u>

Transportation Improvement Fund	Debt Service Fund	Total Nonmajor Funds	Total Governmental Funds
\$ 9,776,946	\$ 4,645,013	\$ 4,836,302	\$ 108,394,703
—	—	—	6,168,794
—	—	531,311	55,052,905
—	—	1,599,593	24,318,166
334,945	—	3,826,759	11,476,297
—	—	191,165	1,441,835
—	—	317,481	621,198
—	—	6,198,441	6,892,441
13,493	8,881	34,620	207,335
—	—	250	52,791
—	—	—	6,348,174
—	—	9,887	855,497
10,125,384	4,653,894	17,545,809	221,830,136
—	—	225,655	20,835,950
—	—	1,242,976	56,880,732
2,976,546	—	2,728,982	20,287,785
—	—	25,169	13,554,495
—	—	7,461,364	20,113,774
—	14,887	400	15,287
—	5,734,038	695,000	6,429,038
—	2,549,044	678,755	3,227,799
—	175,072	32,550	207,622
—	—	—	1,339,773
—	—	495,504	13,221,506
2,107,457	—	—	12,439,546
—	—	—	170,528
—	—	676,314	3,167,687
5,084,003	8,473,041	14,262,669	171,891,522
5,041,381	(3,819,147)	3,283,140	49,938,614
—	—	—	159,875
—	3,433,062	3,100,885	23,352,758
(34,700)	—	(1,223,925)	(22,983,713)
—	—	32,250	17,492,250
—	—	—	2,133,059
(34,700)	3,433,062	1,909,210	20,154,229
5,006,681	(386,085)	5,192,350	70,092,843
8,204,920	544,112	17,802,574	129,798,091
—	—	2,093	263,655
\$ 13,211,601	\$ 158,027	\$ 22,997,017	\$ 200,154,589

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, 2021

Net change in fund balances - total governmental funds	\$ 70,092,843
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Amounts reported for governmental activities in the statement of activities 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	22,504,014	
Less current year depreciation	<u>(28,640,760)</u>	
		(6,136,746)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.

Capital contributions	85,273,955	
Disposals of assets	<u>(197,264)</u>	
		85,076,691

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

136,543

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		263,655
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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	11,530,002	
Pension expense	<u>(16,919,489)</u>	
		(5,389,487)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. There is the same effect with premiums, discounts and similar items when debt is first issued. These items are current finance resources or uses to governmental funds, whereas, the 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	707,702	
Principal Paid	6,429,037	
Issuance Premium	(2,133,059)	
Bond Proceeds	<u>(17,460,000)</u>	
		(12,456,320)

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		(70,747)
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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, 2021**

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)	305,838	
Transfers	<u>1,306,100</u>	1,611,938

Change in equity interest in joint venture		(82,581)
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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	273,192	
OPEB expense	<u>(135,531)</u>	<u>137,661</u>

Change in net position of governmental activities		<u><u>\$ 133,183,450</u></u>
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City of Surprise, Arizona
Statement of Net Position
Proprietary Funds
June 30, 2021

	Business-Type Activities		
	Ground Ambulance Service Fund	Water Fund	Sewer Fund
ASSETS			
Current assets:			
Cash and investments	\$ 760,689	\$ 33,140,942	\$ 30,814,174
Restricted cash and investments	—	2,649,388	9,607,960
Receivables (net of allowances)			
Accounts	2,217,461	2,423,241	2,177,752
Other	—	74,345	15,994
Other assets	300	473,684	23,199
Inventory	—	529,052	692,430
Total current assets	<u>2,978,450</u>	<u>39,290,652</u>	<u>43,331,509</u>
Noncurrent assets:			
Advances to other funds	—	—	5,366,279
Net other postemployment benefits asset	11,079	14,667	18,906
Capital assets	1,909,483	153,236,663	330,040,944
Accumulated depreciation	(700,233)	(40,158,296)	(108,265,970)
Total noncurrent assets	<u>1,220,329</u>	<u>113,093,034</u>	<u>227,160,159</u>
Total assets	<u>4,198,779</u>	<u>152,383,686</u>	<u>270,491,668</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	791,380	677,110	872,818
Deferred outflows related to other postemployment benefits	34,594	41,889	53,996
Total deferred outflows of resources	<u>825,974</u>	<u>718,999</u>	<u>926,814</u>
Total assets and deferred outflows of resources	<u>\$ 5,024,753</u>	<u>\$ 153,102,685</u>	<u>\$ 271,418,482</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 37,900	\$ 3,535,608	\$ 895,235
Accrued payroll and related taxes	148,454	136,540	181,219
Deposits	—	103,621	246,501
Unearned revenue	—	57,106	412,819
Claims payable	—	—	—
Compensated absences payable, due in less than one year	35,870	122,981	174,564
Contracts payable	—	129,890	705,370
Matured bond interest payable	—	—	653,375
Matured bonds and loans payable	—	—	1,645,962
Bonds, loans and payables, due in less than one year	—	—	1,727,725
Advances from other funds	2,058,069	—	—
Total current liabilities	<u>2,280,293</u>	<u>4,085,746</u>	<u>6,642,770</u>
Noncurrent liabilities:			
Compensated absences payable, due in more than one year	58,524	200,654	284,815
Contracts payable, due in more than one year	—	1,690,078	—
Bonds, loans and payables, due in more than one year	—	—	26,467,555
Net pension liability	3,138,992	3,530,956	4,551,518
Net other postemployment benefits liability	12,326	15,599	20,108
Total noncurrent liabilities	<u>3,209,842</u>	<u>5,437,287</u>	<u>31,323,996</u>
Total liabilities	<u>5,490,135</u>	<u>9,523,033</u>	<u>37,966,766</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	82,464	40,715	52,483
Deferred inflows related to other postemployment benefits	29,268	29,549	38,089
Total deferred inflows of resources	<u>111,732</u>	<u>70,264</u>	<u>90,572</u>
Total liabilities and deferred inflows of resources	<u>5,601,867</u>	<u>9,593,297</u>	<u>38,057,338</u>
NET POSITION			
Net investment in capital assets	1,209,250	113,078,367	193,580,147
Restricted for:			
Capital projects	—	8,828,832	572,879
Debt service	—	—	23,466
Unrestricted	(1,786,364)	21,602,189	39,184,652
Total net position	<u>\$ (577,114)</u>	<u>\$ 143,509,388</u>	<u>\$ 233,361,144</u>
Difference between business-type adjustments to assets and liabilities			
Net position of business-type activities			

		Governmental Activities	
Sanitation Fund	Stormwater Fund	Total Enterprise Funds	Internal Service Funds
\$ 4,166,781	\$ 2,224,982	\$ 71,107,568	\$ 16,727,724
152,605	110,756	12,520,709	—
1,449,916	1,127,069	9,395,439	—
—	—	90,339	168,260
5,036	1,509	503,728	3,989
52,921	—	1,274,403	—
5,827,259	3,464,316	94,892,186	16,899,973
—	—	5,366,279	—
13,033	2,860	60,545	1,892
12,799,294	5,641,148	503,627,532	—
(5,703,180)	(305,287)	(155,132,966)	—
7,109,147	5,338,721	353,921,390	1,892
12,936,406	8,803,037	448,813,576	16,901,865
601,673	132,026	3,075,007	87,356
37,222	8,168	175,869	5,405
638,895	140,194	3,250,876	92,761
\$ 13,575,301	\$ 8,943,231	\$ 452,064,452	\$ 16,994,626
\$ 401,447	\$ 8,395	\$ 4,878,585	\$ 125,402
127,457	22,059	615,729	16,275
64,040	12,949	427,111	—
88,565	45,299	603,789	—
—	—	—	2,060,114
89,482	1,677	424,574	10,500
—	—	835,260	—
—	—	653,375	—
—	—	1,645,962	—
—	—	1,727,725	—
—	—	2,058,069	—
770,991	90,379	13,870,179	2,212,291
145,997	2,736	692,726	17,131
—	—	1,690,078	—
—	—	26,467,555	—
3,137,568	688,482	15,047,516	455,543
13,861	3,042	64,936	2,013
3,297,426	694,260	43,962,811	474,687
4,068,417	784,639	57,832,990	2,686,978
36,179	7,939	219,780	5,253
26,257	5,762	128,925	3,812
62,436	13,701	348,705	9,065
4,130,853	798,340	58,181,695	2,696,043
7,096,114	5,335,861	320,299,739	—
—	—	9,401,711	—
—	—	23,466	—
2,348,334	2,809,030	64,157,841	14,298,583
\$ 9,444,448	\$ 8,144,891	\$ 393,882,757	\$ 14,298,583
		3,398,808	
		\$ 397,281,565	

City of Surprise, Arizona
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2021

	Business-Type Activities		
	Ground Ambulance Services Fund	Water Fund	Sewer Fund
OPERATING REVENUES			
Charges for services	\$ 4,525,346	\$ 20,618,963	\$ 19,975,046
Other revenue	31,062	351,184	305,955
Total operating revenues	4,556,408	20,970,147	20,281,001
OPERATING EXPENSES			
Costs of sales and services	4,448,392	11,207,794	10,362,789
Personnel services	—	—	—
Contractual services, materials & supplies	—	—	—
Insurance claims, premiums, and administrative expenses	—	—	—
Indirect costs	745,722	1,677,913	1,781,757
Depreciation	251,882	3,844,043	8,969,366
Total operating expenses	5,445,996	16,729,750	21,113,912
Operating income (loss)	(889,588)	4,240,397	(832,911)
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	1,509	47,188	56,956
Developer reimbursement	—	(1,514,270)	(1,249,367)
Gain\ (Loss) on disposal of capital assets	—	(71,652)	28,860
Amortization on premium	—	—	309,604
Interest and fiscal charges	—	—	(1,308,698)
Total nonoperating revenues (expenses)	1,509	(1,538,734)	(2,162,645)
Income (loss) before contributions and transfers	(888,079)	2,701,663	(2,995,556)
Transfers in	—	1,274,478	—
Transfers out	(41,689)	(618,050)	(2,143,329)
Capital contributions	—	11,314,779	34,283,074
Change in net position	(929,768)	14,672,870	29,144,189
Total net position - beginning	352,654	128,836,518	204,216,955
Total net position - ending	\$ (577,114)	\$ 143,509,388	\$ 233,361,144

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

Business-Type Activities		Governmental Activities	
Sanitation Fund	Stormwater Fund	Total Enterprise Funds	Internal Service Funds
\$ 12,127,715	\$ 2,554,905	\$ 59,801,975	\$ 16,468,976
115,547	5,935	809,683	1,093,411
12,243,262	2,560,840	60,611,658	17,562,387
6,374,125	1,001,179	33,394,279	—
—	—	—	355,280
—	—	—	258,669
—	—	—	15,911,342
1,901,270	241,513	6,348,175	—
1,173,348	134,892	14,373,531	—
9,448,743	1,377,584	54,115,985	16,525,291
2,794,519	1,183,256	6,495,673	1,037,096
6,757	3,104	115,514	21,331
—	—	(2,763,637)	—
28,286	—	(14,506)	—
—	—	309,604	—
—	—	(1,308,698)	—
35,043	3,104	(3,661,723)	21,331
2,829,562	1,186,360	2,833,950	1,058,427
—	—	1,274,478	1,306,100
(127,798)	(18,757)	(2,949,623)	—
—	1,339,504	46,937,357	—
2,701,764	2,507,107	48,096,162	2,364,527
6,742,684	5,637,784	345,786,595	11,934,056
\$ 9,444,448	\$ 8,144,891	\$ 393,882,757	\$ 14,298,583
		830,076	
		\$ 48,926,238	

City of Surprise, Arizona
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2021

	Business-Type Activities			
	Ground Ambulance Services Fund	Water Fund	Sewer Fund	Sanitation Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 3,966,309	\$ 20,079,406	\$ 19,414,449	\$ 11,666,716
Cash receipts from interfund services provided	—	—	—	—
Payments to employees	(3,157,316)	(3,278,695)	(3,851,253)	(2,952,940)
Payments to suppliers	(1,318,508)	(8,162,931)	(8,177,784)	(5,495,045)
Payments for insurance claims and expenses	—	—	—	—
Other operating cash receipts	31,062	351,184	305,955	115,547
Net cash provided (used) by operating activities	(478,453)	8,988,964	7,691,367	3,334,278
CASH FLOWS FROM NONCAPITAL FINANCING				
Cash received from other governments	—	97,061	—	—
Cash received from other funds	733,586	—	627,042	—
Cash paid to other funds	(41,689)	(618,050)	(2,143,329)	(127,798)
Net cash provided (used) by noncapital financing activities	691,897	(520,989)	(1,516,287)	(127,798)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds received from development fees	—	5,076,531	2,595,690	—
Proceeds received from extension fees	—	—	87,737	—
Principal and interest paid on bonds, loans and payables	—	—	(2,923,119)	(2,406,165)
Sale/Acquisition of capital assets	—	(3,941,170)	(2,668,750)	28,286
Developer reimbursements	—	(1,654,759)	(942,401)	—
Net cash provided (used) by capital and related financing	—	(519,398)	(3,850,843)	(2,377,879)
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash received from interest income/(loss)	1,509	47,188	56,958	6,757
Net cash provided (used) by investing activities	1,509	47,188	56,958	6,757
Net increase (decrease) in cash and cash equivalents	214,953	7,995,765	2,381,195	835,358
Balances - beginning of year	545,736	27,794,565	38,040,939	3,484,028
Balances - end of the year	\$ 760,689	\$ 35,790,330	\$ 40,422,134	\$ 4,319,386
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income/(loss)	\$ (889,588)	\$ 4,240,397	\$ (832,911)	\$ 2,794,519
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	251,882	3,844,043	8,969,366	1,173,348
Changes in assets and liabilities:				
Accounts receivable	(544,167)	(542,275)	(563,551)	(457,470)
Other receivables	—	(16,366)	77,263	—
Other assets	10,882	(182,661)	(20,680)	177
Inventory	39,511	(57,995)	(15,343)	42,437
Accounts payable	(43,176)	1,623,639	72,053	(108,196)
Accrued payroll and related taxes	27,549	16,022	40,599	23,024
Deposits	(50)	9,039	(44,588)	368
Unearned revenue	(14,820)	10,045	(29,721)	(3,897)
Compensated absences	—	2,251	57,849	(2,439)
Net pension liability	10,676	47,009	(13,763)	(124,296)
Claims payable	675,140	—	—	—
Net other postemployment asset/liability	(2,292)	(4,184)	(5,206)	(3,297)
Net cash provided (used) by operating activities	\$ (478,453)	\$ 8,988,964	\$ 7,691,367	\$ 3,334,278
Noncash investing, capital and financing activities				
Capital asset contributions from developers	\$ —	\$ 6,141,187	\$ 31,599,647	\$ —
Capital asset contributions to/from other funds/governmental activities	—	1,274,478	—	—
Increase in the fair market value of investments	—	(27,645)	(111,280)	(13,903)
Total noncash investing, capital and financing activities	\$ —	\$ 7,388,020	\$ 31,488,367	\$ (13,903)
Reconciliation to Statement of Net Position				
Cash and investments	\$ 760,689	\$ 33,140,942	\$ 30,814,174	\$ 4,166,781
Restricted cash and investments	—	2,649,388	9,607,960	152,605
Total cash and investments	\$ 760,689	\$ 35,790,330	\$ 40,422,134	\$ 4,319,386
Total cash	\$ 760,689	\$ 35,790,330	\$ 40,422,134	\$ 4,319,386

		Governmental Activities	
Stormwater Fund	Total Enterprise Funds	Internal Service Funds	
\$ 2,277,810	\$ 57,404,690	\$ 615,390	
—	—	15,963,575	
(625,405)	(13,865,609)	(414,854)	
(564,297)	(23,718,565)	(181,382)	
—	—	(15,982,356)	
5,935	809,683	1,694,248	
1,094,043	20,630,199	1,694,621	
—	97,061	—	
—	1,360,628	1,306,100	
(18,757)	(2,949,623)	—	
(18,757)	(1,491,934)	1,306,100	
—	7,672,221	—	
—	87,737	—	
(1,028,811)	(6,358,095)	—	
—	(6,581,634)	—	
—	(2,597,160)	—	
(1,028,811)	(7,776,931)	—	
3,104	115,516	21,331	
3,104	115,516	21,331	
49,579	11,476,850	3,022,052	
2,286,159	72,151,427	13,705,672	
\$ 2,335,738	\$ 83,628,277	\$ 16,727,724	
\$ 1,183,256	\$ 6,495,673	\$ 1,037,096	
134,892	14,373,531	—	
(299,828)	(2,407,291)	—	
—	60,897	710,826	
(1,363)	(193,645)	19,434	
—	8,610	—	
(59,073)	1,485,247	57,853	
(1,940)	105,254	(854)	
12,253	(22,978)	—	
10,480	(27,913)	—	
—	57,661	5,871	
(13,287)	(93,661)	(64,229)	
129,774	804,914	(71,014)	
(1,121)	(16,100)	(362)	
\$ 1,094,043	\$ 20,630,199	\$ 1,694,621	
\$ 1,339,504	\$ 39,080,338	\$ —	
—	1,274,478	—	
(8,636)	(161,464)	(41,965)	
\$ 1,330,868	\$ 40,193,352	\$ (41,965)	
\$ 2,224,982	\$ 71,107,568	\$ 16,727,724	
110,756	12,520,709	—	
\$ 2,335,738	\$ 83,628,277	\$ 16,727,724	
\$ 2,335,738	\$ 83,628,277	\$ 16,727,724	

City of Surprise, Arizona
 Statement of Fiduciary Net Position
 Fiduciary Fund
 June 30, 2021

	<u>Custodial Fund</u>
ASSETS	
Cash and investments	\$ 52,756
Total assets	<u>52,756</u>
LIABILITIES	
Accounts Payable	<u>30,000</u>
Total liabilities	<u>30,000</u>
NET POSITION	
Restricted for:	
Individuals	<u>22,756</u>
Total net position	<u><u>\$ 22,756</u></u>

City of Surprise, Arizona
 Statement of Changes in Fiduciary Net Position
 Fiduciary Fund
 For the Year Ended June 30, 2021

	<u>Custodial Fund</u>
ADDITIONS	
Contributions:	
Employee contributions	\$ 456,360
Total contributions	<u>456,360</u>
Total additions	<u>456,360</u>
DEDUCTIONS	
Claim settlement	<u>453,862</u>
Total deductions	<u>453,862</u>
Net increase (decrease) in fiduciary net position	2,498
Net Position - beginning	<u>20,258</u>
Net Position - end of the year	<u>\$ 22,756</u>



SURPRISE

ARIZONA



Financial Section – Notes to the Financial Statements

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



SURPRISE

ARIZONA

NOTES TO THE FINANCIAL STATEMENTS

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.

A. REPORTING ENTITY

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

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, 2021, 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.

NOTES TO THE FINANCIAL STATEMENTS

EXCLUDED ORGANIZATIONS

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

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

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

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Fund Financial Statements

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

Governmental Funds

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

The ***General Fund*** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The ***General Capital Projects Fund***, a capital projects fund, accounts for revenues and expenditures relating to the acquisition of capital items.

The ***General Government Development Fee Fund***, a special revenue fund, accounts for revenues and expenditures associated with general government development impact fees assessed to fund infrastructure and other expenditures for growth-related general government projects.

The ***Highway User Revenue Fund****, a special revenue fund, accounts for State shared highway user revenues consisting of state taxes collected on gasoline, vehicle registration, vehicle license tax, and a number of other additional transportation related fees and expenditures that are legally restricted to expenditures for transportation and the construction, repairs, and maintenance of public works and streets.

The ***Transportation Improvement Fund****, a special revenue fund, accounts for revenues and expenditures that are legally restricted to expenditures for existing roadway corridor improvements and the related costs of the construction of new roadways.

The ***Debt Service Fund***, a debt service fund, accounts for revenues and expenditures that are legally restricted for the payment of principal and interest on long-term debt of the City.

NOTES TO THE FINANCIAL STATEMENTS

Proprietary and Fiduciary Funds

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

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

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

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

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

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

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

In addition, the City reports the following fund types:

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

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

C. DEPOSITS AND INVESTMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS

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.

NOTES TO THE FINANCIAL STATEMENTS

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:

<u>Assets</u>	<u>Useful life</u> <u>(Years)</u>
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 post employment benefits (OPEB), and bond refunding.

I. COMPENSATED ABSENCES

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

J. LONG-TERM OBLIGATIONS

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

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

K. POSTEMPLOYMENT BENEFITS

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plans' fiduciary net position and additions to/ deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For the governmental activities, the General Fund, Highway User Revenue Fund, Transportation Improvement Fund, the nonmajor funds - SPD Towing Fund, Grants Fund, Neighborhood Revitalization Fund, Municipal Court FARE Fund, Municipal Court JCEF Fund, and the Municipal Court MFTG Fund; the Employee Healthcare Fund, Worker's Compensation Fund, and the Risk Management Fund have been used in prior years to liquidate the Pension and OPEB liabilities.

L. DEFERRED INFLOWS OF RESOURCES

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

M. FUND BALANCE

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

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

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

Committed fund balances are self-imposed limitations by the highest level of decision making authority, namely Mayor and City Council, prior to the end of the reporting period. Mayor and City Council approval is required to commit resources or to rescind the commitment through a City Council ordinance. Only City Council can remove or change the constraints placed on committed fund balance through formal council ordinance.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

Minimum fund balance requirements will be evaluated annually for long-term adequacy and use requirements.

The City has formally adopted a minimum fund balance policy for the following governmental funds:

The General Fund will maintain a reserve equal to two months of budgeted personnel, supplies, and services for the General Fund, Ground Ambulance Fund, and Highway User Revenue Fund. This amount will be allocated across a three-part reserve as follows:

- i. Ten percent (10%) will be dedicated to an Emergency Reserve 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 within the next fiscal year following the fiscal year in which the event occurred. For the year ended June 30, 2021 this balance totaled \$2.2 million.
- ii. Sixty percent (60%) will be dedicated to an Operating Reserve 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 within two fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2021 this balance totaled \$12.9 million.
- iii. Thirty percent (30%) will be dedicated to a Stabilization Reserve 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

NOTES TO THE FINANCIAL STATEMENTS

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 within the three fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2021 this balance totaled \$6.4 million.

General Capital Projects Fund - \$1.0 million

Transportation Improvement Fund - \$0.5 million

Tourism Fund - \$5,000

Sports & Tourism Fund - will have a minimum fund balance of \$600,000. Any excess fund balance remaining as of June 30 shall be remitted to the General Fund.

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

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

O. NET POSITION

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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.

The Ground Ambulance Service Fund will have a reserve as follows:

- i. The City will maintain an amount equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year for repair and replacement. For the year ended June 30, 2021 this balance totaled \$38,190.

The Water Fund will have a four-part reserve as follows:

- i. The City will maintain an Operating Reserve equal to the average of budgeted personnel, supplies, and services expenses over a three-month period for that year's Council Adopted Budget for the Water Fund. For the year ended June 30, 2021 this balance totaled \$3,319,100.
- ii. The City will maintain an Asset Reserve equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year. For the year ended June 30, 2021 this balance totaled \$2,488,661.
- iii. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the total charges for services revenue. Monies may be withdrawn from this reserve to supplement operating revenue shortfalls caused by various economic factors which may cause either reduced revenues or an unforeseen increase in expenses. Any use of the Rate 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 Rate Stabilization Reserve within the four fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2021 this balance totaled \$942,000.
- iv. The City will maintain a Resource Portfolio Reserve equal to fifteen percent (15%) of the total cost of delivery and capital charges for Municipal and Industrial plus the Phoenix Active Management Area (AMA) Underground Storage charges multiplied by the total amount of the City's Central Arizona Project (CAP) allocation. For the year ended June 30, 2021 this balance totaled \$399,800.

The Sewer Fund will have a three-part reserve as follows:

- i. The City will maintain an Operating Reserve equal to the average of budgeted personnel, supplies, and services expenses over a three-month period for that year's Council Adopted Budget for the Wastewater Fund. For the year ended June 30, 2021 this balance totaled \$3,013,600.
- ii. The City will maintain an Asset Reserve equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year. For the year ended June 30, 2021 this balance totaled \$5,916,051.

NOTES TO THE FINANCIAL STATEMENTS

iii. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the total revenues collected through charges for services. Monies may be withdrawn from this reserve to supplement operating revenue shortfalls caused by various economic factors which may cause either reduced revenues or an unforeseen increase in expenses. Any use of the Rate 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 Rate Stabilization Reserve within the four fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2021 this balance totaled \$993,000.

The Sanitation Fund will have a four-part reserve as follows:

- i. The City will maintain an Operating Reserve equal to the average of budgeted personnel, supplies, and services expenses over a three-month period for that year's Council Adopted Budget for the Sanitation Fund. For the year ended June 30, 2021 this balance totaled \$1,707,900.
- ii. The City will maintain an Asset Reserve equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year. For the year ended June 30, 2021 this balance totaled \$212,846.
- iii. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the total revenues collected through charges for services. Monies may be withdrawn from this reserve to supplement operating revenue shortfalls caused by various economic factors which may cause either reduced revenues or an unforeseen increase in expenses. Any use of the Rate 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 Rate Stabilization Reserve within the four fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2021 this balance totaled \$601,400.
- iv. As the Sanitation Fund has excess revenues, the City will maintain a phased Contingency Reserve equal to one-half percent (0.5%) beginning in FY2022 and increase to one percent (1%) for each subsequent year through FY2024. For the year ended June 30, 2021, this balance was \$0.

The Stormwater Fund will have a three-part reserve as follows:

- i. The City will maintain an amount equal to the average budgeted personnel, supplies, and services expenses over a two-month period for that year's Council Adopted Budget for the Stormwater Fund. For the year ended June 30, 2021 this balance totaled \$179,500.
- ii. The City will maintain an amount equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year for repair and replacement. For the year ended June 30, 2021 this balance totaled \$65,455.
- iii. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the total revenues collected through charges for services. Monies may be withdrawn from this reserve to supplement operating revenue shortfalls caused by various economic factors which may cause either reduced revenues or an unforeseen increase in expenses. Any use of the Rate 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 Rate Stabilization Reserve within the four fiscal years following the fiscal year in which the event occurred. For the year ended June 30, 2021 this balance totaled \$173,000.

NOTES TO THE FINANCIAL STATEMENTS

The Risk Management Fund will maintain an amount that, together with purchased insurance policies, will adequately indemnify the City. The appropriate funding level will be set at three times the maximum annual loss of \$250,000 which is equal to \$750,000, which will be approved by the City Council.

The Employee Healthcare Trust Fund (“Trust Fund”) will maintain an amount 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. If, at any time prior to the end of the fiscal year, the Trust Fund’s target reserve is met and fully funded for the entire fiscal year based on the original budget projections approved by the City Council, the Finance Director shall document such funding and, after consulting with the City Manager, may conduct an evaluation of the claims incurred by the Trust Fund year to date, and if fiscally and financially prudent based on the claims incurred, transfer from the City’s various operating funds only that portion of the employer premium necessary to cover actual claims incurred, such that the Trust Fund revenues are equal to the Trust Fund expenses, and the Trust Fund account experiences a zero change in net position. At all times the City will continue to transfer and deposit into the Trust Fund 100% of the monthly employee premiums collected.

The Workers’ Compensation Fund will maintain an amount which, together with the purchased excess insurance policy, will adequately indemnify the City. The City has established an Adverse Times Reserve of \$3,000,000. The purpose of this reserve is to maintain the regulatory required reserve. For the year ended June 30, 2021, the balance was \$3,236,985 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.

NOTES TO THE FINANCIAL STATEMENTS

S. INTEREST REVENUE

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

T. INTERFUND TRANSACTIONS

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

U. ESTIMATES

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

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 \$163,404,846 and the bank balance was \$159,667,144. At year end, \$500,000 of the City's deposits were covered by federal depository insurance. The remaining bank balance not covered by federal depository insurance \$159,167,144 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, 2021 follows:

Cash in bank	\$ 159,667,144
<i>Reconciling items:</i>	
Outstanding checks	(1,320,988)
Deposits in transit	5,128,618
Other	(17,172)
	<u>\$ 163,457,602</u>
Less:	
Custodial Fund	52,756
Total City deposits	<u><u>\$ 163,404,846</u></u>

NOTES TO THE FINANCIAL STATEMENTS

The City's investments consisted of the following as of June 30, 2021:

Investment Type	Total Fair Value	Less than 1 year	1-2 years	2-3 years
U. S. government securities	\$ 78,342,370	\$ 12,252,595	\$ 32,120,648	\$ 33,969,127
Debt Securities	3,723,153	3,723,153	—	—
Government sponsored entity debt	44,850,680	5,222,230	21,150,737	18,477,713
Money market mutual funds	5,577,141	5,577,141	—	—
Local government investment pool	20,445,178	20,445,178	—	—
	<u>\$ 152,938,522</u>	<u>\$ 47,220,297</u>	<u>\$ 53,271,385</u>	<u>\$ 52,446,840</u>

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, 2021, are as follows:

City's deposits	\$ 163,404,846
Cash on hand	4,350
City's investments	152,938,522
Cash held by trustee	847,365
Total	<u>\$ 317,195,083</u>

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 \$48,573,833 of government sponsored entity debt. At June 30, 2021, these investments were rated by Standard and Poor's at AA+. The money market mutual funds and local government investment pool are not rated. The City's formal investment policy limits investment choices to the following:

- (1) Certificates of deposit in eligible depositories that must be insured or fully collateralized;
- (2) Interest bearing savings accounts in banks and savings and loan institutions doing business in the State of Arizona whose accounts are insured by federal deposit insurance for their industry, but only if deposits in excess of the insured amount are secured by the eligible depository to the same extent and in the same manner as required under Arizona Revised Statute 35-323 (A);
- (3) The pooled investment funds established by the State Treasurer pursuant to Arizona Revised Statute 35-326;
- (4) Obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities;

NOTES TO THE FINANCIAL STATEMENTS

- (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.

NOTES TO THE FINANCIAL STATEMENTS

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

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

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

Investments are measured as follows:

	Disclosure of Fair Value Inputs		
	FYE	Level 1	Level 2
Investments by Fair Value Level			
Debt Securities	\$ 3,723,153	\$ 3,723,153	\$ —
U. S. Treasury Notes	78,342,370	78,342,370	—
Federal Agency	44,850,680	—	44,850,680
Total investments by fair value level	<u>\$ 126,916,203</u>	<u>\$ 82,065,523</u>	<u>\$ 44,850,680</u>
Investments measured at net asset value			
LGIP	20,445,178		
Total investments measured at fair value	<u>\$ 147,361,381</u>		
Investments measured at amortized cost			
Money market funds	5,577,141		
Total investments	<u><u>\$ 152,938,522</u></u>		

NOTES TO THE FINANCIAL STATEMENTS

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	\$ 270,144,739
Total restricted cash and investments	47,050,344
Subtotal	<u>317,195,083</u>
Government-wide total cash and investments	317,195,083
Plus: Fiduciary Fund cash and cash equivalents	52,756
Total	<u><u>\$ 317,247,839</u></u>

Fund Financial Statements

<i>Governmental Funds</i>	
Cash and investments	\$ 182,309,447
Restricted cash and cash equivalents	34,529,635
<i>Enterprise Funds</i>	
Cash and investments	71,107,568
Restricted cash and cash equivalents	12,520,709
<i>Internal Service Fund</i>	
Cash and investments	16,727,724
<i>Fiduciary Fund</i>	
Cash and cash equivalents	52,756
Total	<u><u>\$ 317,247,839</u></u>

NOTE 3 – ACCOUNTS RECEIVABLE

The intergovernmental receivable of \$1,153,833, as reported in the statement of net position includes \$890,763 in highway user tax and \$263,070 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, 2021 are as follows:

ACFR Fund Name	Unearned	Unavailable
General Fund	\$ 1,116,877	\$ 257,489
Highway User Revenue Fund	2,000	—
Debt Service Fund	—	34,982
Nonmajor Governmental Funds	423,291	349,503
	<u>\$ 1,542,168</u>	<u>\$ 641,974</u>

NOTES TO THE FINANCIAL STATEMENTS

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, 2021 are as follows:

ACFR Fund Name	Unearned
Water	\$ 57,106
Sewer	412,819
Sanitation	88,565
Stormwater	45,299
	<u>\$ 603,789</u>

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2021, was as follows:

	Primary Government				Ending Balance
	Beginning Balance	Increases	Decreases	Transfers	
Governmental activities:					
Not being depreciated:					
Land and land improvements	\$ 86,921,874	59,654,273	\$ —	\$ —	\$ 146,576,147
Parks	8,607,783	—	—	—	8,607,783
Construction in progress	25,031,669	19,114,706	—	(27,505,878)	16,640,497
Total Not Being Depreciated	<u>120,561,326</u>	<u>78,768,979</u>	<u>—</u>	<u>(27,505,878)</u>	<u>171,824,427</u>
Other capital assets:					
Buildings and improvements	221,517,003	3,812	—	9,594,775	231,115,590
Improvements other than buildings	32,729,166	—	—	1,946,550	34,675,716
Equipment and vehicles	55,892,880	3,381,413	(3,523,174)	969,913	56,721,032
Intangibles	11,415,102	72,578	—	76,214	11,563,894
Infrastructure	442,882,921	25,552,220	—	14,918,426	483,353,567
Total Other Capital Assets	<u>764,437,072</u>	<u>29,010,023</u>	<u>(3,523,174)</u>	<u>27,505,878</u>	<u>817,429,799</u>
Total Assets before Depreciation	<u>884,998,398</u>	<u>107,779,002</u>	<u>(3,523,174)</u>	<u>—</u>	<u>989,254,226</u>
Accumulated depreciation:					
Building and improvements	(86,670,629)	(7,672,427)	—	—	(94,343,056)
Improvements other than buildings	(11,004,885)	(1,272,501)	—	—	(12,277,386)
Equipment and vehicles	(36,115,805)	(4,293,153)	3,325,911	—	(37,083,047)
Intangibles	(3,958,570)	(1,673,544)	—	—	(5,632,114)
Infrastructure	(248,131,664)	(13,729,135)	—	—	(261,860,799)
Total Accumulated Depreciation	<u>(385,881,553)</u>	<u>(28,640,760)</u>	<u>3,325,911</u>	<u>—</u>	<u>(411,196,402)</u>
Net Capital Assets - Governmental Activities	<u>\$ 499,116,845</u>	<u>\$ 79,138,242</u>	<u>\$ (197,263)</u>	<u>\$ —</u>	<u>\$ 578,057,824</u>

Depreciation was charged by function as follows:

General government	\$ 1,772,438
Public safety	3,167,106
Public works and streets	17,703,612
Community development	40,175
Culture and recreation	5,957,429
Total governmental activities depreciation expense	<u>\$ 28,640,760</u>

NOTES TO THE FINANCIAL STATEMENTS

	Primary Government				Ending Balance
	Beginning Balance	Increases	Decreases	Transfers	
Business-type activities:					
Not being depreciated:					
Land	\$ 4,770,746	\$ 561,298	\$ —	\$ —	\$ 5,332,044
Water Rights	17,511,637	3,793,751	—	—	21,305,388
Construction in progress	3,465,526	2,443,902	—	(1,453,283)	4,456,145
Total not being depreciated	25,747,909	6,798,951	—	(1,453,283)	31,093,577
Other capital assets:					
Buildings and system	394,852,004	39,117,065	(115,923)	1,284,383	435,137,529
Improvements other than buildings	8,976,467	575,000	—	—	9,551,467
Vehicles and equipment	24,004,636	4,037,972	(917,641)	168,900	27,293,867
Intangibles	551,092	—	—	—	551,092
Total other capital assets	428,384,199	43,730,037	(1,033,564)	1,453,283	472,533,955
Total assets before depreciation	454,132,108	50,528,988	(1,033,564)	—	503,627,532
Accumulated depreciation:					
Buildings and system	(129,403,707)	(11,466,977)	5,796	—	(140,864,888)
Improvements other than buildings	(909,786)	(320,083)	—	—	(1,229,869)
Vehicles and equipment	(10,937,751)	(2,479,176)	855,698	—	(12,561,229)
Intangibles	(369,685)	(107,295)	—	—	(476,980)
Total accumulated depreciation	(141,620,929)	(14,373,531)	861,494	—	(155,132,966)
Net capital assets Business type activities	\$312,511,179	\$ 36,155,457	\$ (172,070)	\$ —	\$348,494,566

Depreciation was charged by function as follows:

Ground Ambulance	\$ 251,882
Water	3,844,043
Sewer	8,969,366
Sanitation	1,173,348
Stormwater	134,892
Total Depreciation Expense	<u>\$ 14,373,531</u>

NOTE 5 - DEVELOPER AGREEMENTS

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

Development agreements related to water system infrastructure will be reimbursed using water system impact fees. Total water system infrastructure value conveyed is \$25,629,990. Depending on the terms of the specific agreement, this value is eligible for reimbursement during the next twelve years. Once an agreement expires, water system fees are no longer eligible for developer reimbursement. As of June 30, 2021, \$17,245,637 had expired or been reimbursed, leaving a potential remaining balance of \$8,384,353.

NOTES TO THE FINANCIAL STATEMENTS

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 \$15,348,976. Depending on the terms of the specific agreements, this value is eligible for reimbursement over the next twenty-nine years. Once the agreements expire, the remaining unpaid balance of these infrastructure costs is no longer subject to repayment. As of June 30, 2021, \$451,520 had expired or been reimbursed, leaving a potential remaining balance of \$14,897,456.

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 \$71,728,513 at June 30, 2021. Depending on the terms of the specific agreements, this value is eligible for reimbursement over the next twenty-nine years. Once the agreements expire, no further developer reimbursement of the unpaid balance is required. As of June 30, 2021, \$3,954,189 had expired or been reimbursed, leaving a potential remaining balance of \$67,774,324.

Development agreements related to park infrastructure will be reimbursed using park impact fees. Total park infrastructure value conveyed is \$4,777,882. Depending on the terms of the specific agreement, this value is eligible for reimbursement through November 2030. Once an agreement expires, park impact fees are no longer eligible for developer reimbursement. As of June 30, 2021, the City has reimbursed \$799,697 leaving a potential balance remaining of \$3,978,185.

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 2021, \$29,811 of property taxes were abated by this program.

NOTES TO THE FINANCIAL STATEMENTS

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 2021 cannot be disclosed in accordance with Ariz. Rev. Stat. § 42-2002.

In addition, the City has entered into a development agreement to reimburse developers for the construction of public infrastructure that will benefit the community. These reimbursements are paid over time from collections within a defined area. For the fiscal year ended June 30, 2021, the city reimbursed \$6,933,222.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – SIGNIFICANT COMMITMENTS

The City of Surprise has active construction projects as of June 30, 2021. At year end, the City commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment	Funding Source
Advanced Metering Infrastructure	\$ 5,836,935	\$ 37,954	Water Utility Capital
Art - Fire Station 308	33,600	46,400	Public Safety Election 2017
Bell Road Landscaping	22,216	127,226	General Capital Projects Fund
Cactus & Cotton Intersection Improvement	378,465	44,270	Stormwater Capital
Camino Permit Intake Platform	93,976	325,265	General Capital Projects Fund
Circle City Water Acquisition	1,039,020	300,000	Water Utility Capital
Desert Oasis Facility Security	95,056	13,751	Water Utility Capital
Fire Station 308	144,264	544,038	Fire/EMS Dev Fee 2020
Fire Station 308	4,961,252	1,970,123	Public Safety Election 2017
Greenway Rd Cotton Ln-Sarival	3,501,580	6,343	Traffic Election 2017
Greenway Rd Cotton Ln-Sarival	602,577	1,415,985	Transportation Improvement
Improv - Regional Communication Tower #1	435,240	1,396,552	General Capital Projects Fund
Improv - Regional Communication Tower #1	53,568	174,569	Sewer Utility Capital
Improv - Regional Communication Tower #1	53,568	174,569	Water Utility Capital
Infrastructure - SPA 2 Influent Line	430,328	356,496	Sewer Utility Capital
Plant Capacity Increase / Enhancement	—	1,420,450	Sewer Utility Capital
Police Training Facility	46,078	822,852	Public Safety Election 2017
Public Safety Evidence & Readiness	—	498,176	Fire/EMS Dev Fee 2020
Public Safety Evidence & Readiness	—	1,063,400	Police Development Fee
Public Safety Evidence & Readiness	5,147,342	5,621,685	Public Safety Election 2017
Reems Rd Flooding Control Cactus & Waddell	48,933	359,344	Stormwater Capital
SCADA Integration/Enhancement	127,473	60,027	Sewer Utility Capital
South Plant Ops Bldg Remodel	216,693	2,221,972	Sewer Utility Capital
South Plant Ops Bldg Remodel	298,590	1,026,500	Water Utility Capital
South Plant Ops Bldg Remodel	500,000	650,000	Wtr Sys SPA 1 Dev Fee 2014 Law
SPA1 Recharge Expansion	730,838	7,138	Sewer Utility Capital
Traffic Signal - Waddell & La Cometa	114,227	331,328	Transportation Improvement
Xeriscape Garden	27,939	3,500	Water Resource Management CIP
Xeriscape Garden	39,955	928,607	Water Utility Capital
	<u>\$ 24,979,713</u>	<u>\$ 21,948,520</u>	

NOTE 7 - LONG-TERM DEBT & OTHER PAYABLES

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, 2021 (revenues to debt service payable) is 37.7.

The Pledged Revenue Obligations, Series 2015, were issued in the amount of \$17,385,000, and have an outstanding principal balance at June 30, 2021 of \$11,725,000. 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 \$1,581,050 and \$159,728,822, respectively. Next year's principal and interest payments of \$1,584,800 constitute approximately 1.0% 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, 2021 of \$7,220,002. The proceeds of these obligations were used to refund (extinguish the debt) of the former MPC Series 2003 Bonds and pay costs of issuance. The refunding obligations are payable solely from pledged revenue and mature in 2024. Principal and interest payable and pledged revenues for the current year were \$2,655,250 and \$159,728,822, respectively. Next year's principal and interest payments totaling \$2,651,000 constitute approximately 1.7% of current year pledged revenue.

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

The Senior Lien Utility System Revenue Refunding Obligations, Series 2018, were issued in the amount of \$25,255,000, and have an outstanding principal balance at June 30, 2021 of \$22,305,000. The refunding obligations have interest rates that range between 4%-5%, are payable solely from pledged revenue, and mature in 2036. Principal and interest payable and pledged revenues for the current year were \$2,149,500 and \$17,691,238, respectively. Current year pledged revenue equals approximately 823 percent of next year's principal and interest payments, which total \$2,150,250.

The issuance requires pledged revenues to be at least 175 percent of the Parity Lien Test Debt Service. Parity Lien Test Debt Service is the highest aggregate Principal Requirement and Interest Requirement of all Series 2018 Senior Lien Utility System obligations and additional Utility System obligations then outstanding, to fall due and payable in the current or any future Bond Year. At June 30, 2021 the Parity Lien Test Debt Service is \$2,952,713 and pledged revenues are \$17,691,238. The current year ratio is 599 percent of the Parity Lien Test Debt Service.

The issuance also requires the City to establish and maintain rates, fees, and charges for all services supplied by the System, to provide Pledged Revenues fully sufficient to produce pledged revenue in each fiscal year equal to at least 125 percent of the Principal Requirement and Interest Requirement on all Series 2018 Senior Lien Utility System Obligations and Additional Utility Obligations then outstanding

NOTES TO THE FINANCIAL STATEMENTS

for the corresponding Bond Year. At June 30, 2021 pledged revenue equals 599 percent of the Principal Requirement and Interest Requirement.

GENERAL OBLIGATIONS

The City of Surprise has two issues of General Obligation Bonds, secured by secondary property taxes, which are currently outstanding. 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, and 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 were 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 projects including improvements to Greenway, Litchfield, and Waddell Roads, and the costs of issuance of the Bonds.

Series 2018 of the General Obligation Bonds were issued in May 2018 in the amount of \$37,730,000. These bonds have coupon rates ranging from 3%-5% with final maturity occurring in 2038, and a principal balance at June 30, 2021 of \$31,145,000.

The Series 2020 General Obligation Bonds were issued in September 2020 in the amount of \$17,460,000, and represent the second and last installment of general obligation bonds approved at the Election. The Bonds carry interest rates ranging from 2% to 4%, have a final maturity in 2038, and have a remaining principal balance at June 30, 2021 of \$15,480,000.

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 2016, Marley Park Community Facilities District defeased certain general obligation bonds related to the Series 2006, 2007 and 2008 Bond Series' through a new issuance of Marley Park Series 2016 general obligation bonds. The new bonds were issued in the original amount of \$11,365,000 of which \$4,800,000 was new issuance and \$6,565,000 was in refunding obligations for the purpose of accomplishing the aforementioned defeasance.

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. These 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 2019, Marley Park Community Facilities District issued \$8,470,000 in new general obligation bonds. The proceeds were used for the cost of issuance as well as the acquisition of capital assets. The bonds carry interest rates from 3% to 4% with final maturity occurring in 2044.

At June 30, 2021, there remained \$55,020,000 in authorized but unissued debt authority. Such debt could be issued in future years, when and if qualifying infrastructure costs are incurred and presented for acceptance by the District.

NOTES TO THE FINANCIAL STATEMENTS

Long-term debt as of June 30, 2021 is comprised of the following:

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

	Long-Term Debt Outstanding
City of Surprise General and Revenue Obligations	
2015, Pledged Revenue Obligation (issued June 23, 2015) due in annual installments of \$1,025,000 to \$1,505,000 through July 1, 2030; interest at 3 percent to 5 percent. Original issue amount \$17,385,000.	\$ 11,725,000
2015, Pledged Revenue Refunding Obligation (issued June 23, 2015) due in annual installments of \$2,185,000 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.	5,035,952
Total 2015 Pledged Revenue Obligation	16,760,952
2015, Pledged Revenue Revenue Obligations, Issuance Premium	1,586,560
2018, General Obligation Bonds, (issued May 9, 2018) due in annual installments of \$1,205,000 to \$2,400,000 through July 1, 2038; interest at 3 percent to 5 percent. Original issue amount of \$37,730,000.	31,145,000
2018, General Obligation Bonds, Issuance Premium	1,863,499
2020, General Obligation Bonds, (issued September 30, 2020) due in annual installments of \$260,000 to \$3,010,000 through July 1, 2028; interest at 2 percent to 4 percent. Original issue amount of \$17,460,000.	15,480,000
2020, General Obligation Bonds, Issuance Premium	1,816,451
Total General and Revenue Obligations	\$ 68,652,462
	Long-Term Debt Outstanding
Community Facilities District General Obligation Bonds and Notes	
2016 Marley Park Community Facilities District General Obligation and General Obligation Refunding Bonds, due in annual installments of \$385,000 to \$665,000 through July 15, 2041; interest from 2 to 4%. Original issue amount \$11,365,000 of which \$4,800,000 was new issuance and \$6,565,000 was refunding obligations.	\$ 10,345,000
2016 Marley Park Community Facilities District General Obligation and General Obligation Refunding Bonds, Issuance Premium	226,553
2017 Marley Park Community Facilities District General Obligation Notes, directly placed borrowing, due in annual installments of \$185,000 to \$245,000 through July 15, 2032; interest at 2.690%. Original issue amount \$3,000,000.	2,390,000
2019 Marley Park Community Facilities District General Obligation Bonds, due in annual installments of \$50,000 to \$1,260,000 through July 15, 2044; interest from 3% to 4%. Original issue amount \$8,470,000.	8,250,000
2019 Marley Park Community Facilities District General Obligation Bonds, Issuance Premium	37,806
Total Community Facilities Districts General Obligation Bonds and Notes Outstanding	21,249,359
Total Bonds and Notes Payable Recorded in Governmental Activities	\$ 89,901,821

NOTES TO THE FINANCIAL STATEMENTS

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

Revenue Obligations	Long-Term Debt Outstanding
2015, Pledged Revenue Refunding Obligation (issued June 23, 2015) due in annual installments of \$2,185,000 to \$2,525,000 through July 1, 2024; interest at 3% to 5%. Original issue amount \$19,280,000. 30.25% of this issue pertains to business-type activities.	\$ 2,184,050
2015, Pledged Revenue Refunding Obligation, Issuance Premium	234,458
2018, Senior Lien Utility System Revenue Refunding Obligations (issued August 7, 2018) due in installments of \$985,000 to \$2,045,000 through July 1, 2036; interest from 4% to 5%. Original issue amount \$25,255,000.	22,305,000
2018, Senior Lien Utility System Revenue Refunding Obligations, Issuance Premium	3,471,772
Total Bonds Payable Recorded in Business-type Activities	28,195,280
Total Long-Term Bonds Payable	\$ 118,097,101

NOTES TO THE FINANCIAL STATEMENTS

The following is a summary of long-term liabilities for the year ended June 30, 2021:

	Balance July 1, 2020	Additions	Reductions	Balance July 1, 2021	Due within 1 Year
Governmental activities					
Bonds and Notes payable:					
City of Surprise, Series 2015 Pledged revenue obligations \$28,701,375 (\$36,665,000 issued)	\$ 19,309,989	\$ —	\$ (2,549,037)	\$ 16,760,952	\$ 2,677,274
City of Surprise, Series 2018 General obligations \$37,730,000	32,350,000	—	(1,205,000)	31,145,000	1,265,000
City of Surprise, Series 2020 General obligations \$17,460,000	—	17,460,000	(1,980,000)	15,480,000	2,135,000
For issuance premium 2015	1,882,979	—	(296,419)	1,586,560	—
For issuance premium 2018	1,935,598	—	(72,099)	1,863,499	—
For issuance premium 2020		2,133,059	(316,608)	1,816,451	
Community Facilities District				—	
Series 2016 Bonds \$11,365,000 issued	10,730,000	—	(385,000)	10,345,000	395,000
Series 2017 Direct Placement Note, \$3,000,000 issued	2,575,000	—	(185,000)	2,390,000	190,000
Series 2019 Bonds, \$8,470,000 issued	8,375,000	—	(125,000)	8,250,000	50,000
For issuance premium 2016	247,486	—	(20,933)	226,553	—
For issuance premium 2019	39,449		(1,643)	37,806	—
Total bonds and notes payable	77,445,501	19,593,059	(7,136,739)	\$ 89,901,821	6,712,274
Net pension liabilities	89,185,194	27,366,210	(10,587,717)	105,963,687	—
Net OPEB liabilities	197,600	363,341	(316,630)	244,311	—
Compensated absences payable	8,424,441	5,047,001	(5,111,878)	8,359,564	3,176,635
Total governmental activities long-term liabilities	\$ 175,252,736	\$ 52,369,611	\$ (23,152,964)	\$ 204,469,383	\$ 9,888,909
Business-type activities					
City of Surprise, Series 2015 Pledged revenue obligations \$5,278,625 (\$36,665,000 issued)	\$ 2,845,014	\$ —	\$ (660,964)	\$ 2,184,050	\$ 692,725
Senior Lien Utility System Revenue Refunding Obligations, Series 2018	23,290,000	—	(985,000)	22,305,000	1,035,000
For issuance premium 2015	312,609	—	(78,151)	234,458	—
For issuance premium 2018	3,703,224	—	(231,452)	3,471,772	—
Total bonds payable	30,150,847	—	(1,955,567)	28,195,280	1,727,725
Net pension liabilities	12,525,486	3,641,191	(1,119,161)	15,047,516	—
Net OPEB liabilities	55,825	52,731	(43,620)	64,936	—
Compensated absences payable	1,062,250	750,237	(695,187)	1,117,300	424,574
Contracts and developer payable	2,358,861	835,259	(668,782)	2,525,338	835,260
Total business-type activities long-term liabilities	\$ 46,153,269	\$ 5,279,418	\$ (4,482,317)	\$ 46,950,370	\$ 2,987,559

NOTES TO THE FINANCIAL STATEMENTS

At June 30, 2021, the City's outstanding bonds had the following ratings:

Description	Fitch Rating	Standard & Poor's Rating
City of Surprise, Arizona, Pledged Revenue and Revenue Refunding Obligations SERIES 2015	AA+	AA+
City of Surprise, Arizona, General Obligation Bonds SERIES 2018	Not rated	AA
City of Surprise, Arizona, General Obligation Bonds SERIES 2020	Not rated	AA
City of Surprise, Arizona, Senior Lien Utility System Revenue Refunding Obligations SERIES 2018	Not rated	AA+
Marley Park Community Facilities District General Obligation Bonds SERIES 2019*	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

* Insured by Building America Mutual

NOTES TO THE FINANCIAL STATEMENTS

The following is a summary of debt service requirements for the year ended June 30, 2021. Deferred amounts are not included:

Year Ended June 30	Governmental Activities					
	Refunding/Stadium Imp 2015		GO Bonds 2018		GO Bonds 2020	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 2,677,274	\$ 756,598	\$ 1,265,000	\$ 1,211,794	\$ 2,135,000	\$ 482,400
2023	2,812,487	622,734	1,330,000	1,148,544	2,280,000	439,700
2024	2,951,188	482,109	1,395,000	1,082,044	2,425,000	394,100
2025	1,250,000	334,550	1,465,000	1,012,294	2,580,000	345,600
2026	1,310,000	272,050	1,540,000	939,044	2,790,000	242,400
2027-2031	5,760,000	569,800	8,870,000	3,532,770	3,270,000	141,200
2032-2036	—	—	10,560,000	1,838,157	—	—
2037-2041	—	—	4,720,000	240,300	—	—
2042-2044	—	—	—	—	—	—
Total	\$ 16,760,949	\$ 3,037,841	\$ 31,145,000	\$ 11,004,947	\$ 15,480,000	\$ 2,045,400

Year Ended June 30	Governmental Activities					
	Marley Park CFD 2016		Marley Park CFD 2017 Direct Placement		Marley Park CFD 2019	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 395,000	\$ 340,987	\$ 190,000	\$ 64,291	\$ 50,000	\$ 257,050
2023	405,000	329,138	195,000	59,180	55,000	255,550
2024	415,000	316,987	200,000	53,934	60,000	253,900
2025	425,000	304,538	205,000	48,555	65,000	252,100
2026	435,000	296,037	210,000	43,040	65,000	250,150
2027-2031	2,380,000	1,276,375	1,145,000	126,968	355,000	1,219,900
2032-2036	2,750,000	779,063	245,000	6,591	1,630,000	1,083,900
2037-2041	3,140,000	300,156	—	—	2,295,000	762,300
2042-2044	—	—	—	—	3,675,000	222,600
Total	\$ 10,345,000	\$ 3,943,281	\$ 2,390,000	\$ 402,559	\$ 8,250,000	\$ 4,557,450

Year Ended June 30	Governmental Activities	
	Total	
	Principal	Interest
2022	\$ 6,712,274	\$ 3,113,120
2023	7,077,487	2,854,846
2024	7,446,188	2,583,074
2025	5,990,000	2,297,637
2026	6,350,000	2,042,721
2027-2031	21,780,000	6,867,013
2032-2036	15,185,000	3,707,711
2037-2041	10,155,000	1,302,756
2042-2044	3,675,000	222,600
Total	\$ 84,370,949	\$ 24,991,478

NOTES TO THE FINANCIAL STATEMENTS

Business-Type Activities						
Year Ended June 30	Refunding/Stadium Imp 2015		Sr. Lien Utility System Revenue Refunding 2018		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 692,725	\$ 109,203	\$ 1,035,000	\$ 1,115,250	\$ 1,727,725	\$ 1,224,453
2023	727,513	74,566	1,085,000	1,063,500	1,812,513	1,138,066
2024	763,812	38,190	1,140,000	1,009,250	1,903,812	1,047,440
2025	—	—	1,195,000	952,250	1,195,000	952,250
2026	—	—	1,255,000	892,500	1,255,000	892,500
2027-2031	—	—	7,290,000	3,455,250	7,290,000	3,455,250
2032-2036	—	—	9,305,000	1,440,750	9,305,000	1,440,750
Total	\$ 2,184,050	\$ 221,959	\$ 22,305,000	\$ 9,928,750	\$ 24,489,050	\$ 10,150,709

Contracts Payable

General Government Activities

A balance of \$8,666,397 is owed based on improvements and deposits paid toward 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 \$2,525,338 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 assessed full cash value 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 assessed full cash value of the taxable property of the city. The following summarizes the City of Surprise, Arizona's legal general obligation bonded debt borrowing capacity at June 30, 2021:

20% Limitation		6% Limitation	
20% Constitutional Limit	\$ 319,294,035	6% Constitutional Limit	\$ 95,788,210
Less General Obligation 20% Bonds Outstanding	(46,625,000)	Less General Obligation 6% Bonds Outstanding	—
Reduction for Excess Premium	(3,679,950)	Reduction for Excess Premium	—
Available 20% Limitation Borrowing Capacity	<u>\$ 268,989,085</u>	Available 6% Limitation Borrowing Capacity	<u>\$ 95,788,210</u>

NOTES TO THE FINANCIAL STATEMENTS

OPERATING LEASES

The City leases copiers, trash compactors, and land under certain cancellable 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, 2021 was \$68,283.

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

Year Ending June 30:	
2022	\$ 72,662
2023	47,052
2024	<u>4,690</u>
Total minimum payments required	<u><u>\$ 124,404</u></u>

Operating Lease Revenue

The City leases various City-owned properties and buildings under cancellable long-term lease agreements. The carrying value of leased assets is \$8,971,463 (cost of \$13,149,588 less accumulated depreciation of \$4,178,125). The lease properties and building are included as capital assets in the government-wide financial statements. Operating lease revenues for fiscal year 2021 were \$499,690.

NOTES TO THE FINANCIAL STATEMENTS

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, 2021, 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	\$ 361,103	\$ 60,545	\$ 421,648
Net pension liabilities	105,963,687	15,047,516	121,011,203
Net OPEB liabilities	244,311	64,936	309,247
Deferred outflows of resources related to pensions	34,679,609	3,075,007	37,754,616
Deferred outflows of resources related to OPEB	839,541	175,869	1,015,410
Deferred inflows of resources related to pensions	3,075,563	219,780	3,295,343
Deferred inflows of resources related to OPEB	1,069,501	128,924	1,198,425
Pension expense	16,919,489	1,904,180	18,823,669
OPEB expense	135,531	40,603	176,134
Pension contributions	11,530,002	1,190,316	12,720,318
OPEB contributions	273,192	56,706	329,898

The City reported accrued payroll and employee benefits of \$530,104 for outstanding pension and OPEB contribution amounts payable to all plans for the year ended June 30, 2021. Also, the City reported \$13,050,216 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:

NOTES TO THE FINANCIAL STATEMENTS

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 is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

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

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction equal to 10% 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, 2021, statute required active ASRS members to contribute at the actuarially determined rate of 12.22 percent (12.04 percent for retirement and 0.18 percent for long-term disability) of the members' annual covered payroll, and statute required the City to contribute at the actuarially determined rate of 12.22 percent (11.65 percent for retirement, 0.39 percent for health insurance premium benefit, and 0.18 percent for long-term disability) of the active members' annual covered payroll.

In addition, the City was required by statute to contribute at the actuarially determined rate of 10.21 percent (10.14 percent for retirement and 0.07 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-

NOTES TO THE FINANCIAL STATEMENTS

term disability plans for the year ended June 30, 2021, were \$4,940,338, \$172,796, and \$76,187, respectively.

During fiscal year 2021, the City paid for ASRS pension and OPEB contributions as follows: 73% from the general fund, 22% from enterprise funds, and 5% from other funds.

Liability/(Asset) — At June 30, 2021, 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	\$ 65,171,972
Health insurance premium benefit	(270,717)
Long-term disability	287,923

The net asset and net liabilities were measured as of June 30, 2020. 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, 2019, to the measurement date of June 30, 2020.

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, 2020. The City's proportions measured as of June 30, 2020, and the change from its proportions measured as of June 30, 2019, were:

ASRS	Proportion	Increase (decrease) from
	June 30, 2020	June 30, 2019
Pension	0.38%	—%
Health insurance premium benefit	0.38%	(0.01)%
Long-term disability	0.38%	(0.01)%

Expense — For the year ended June 30, 2021, the City recognized the following pension and OPEB expense.

ASRS	Pension/OPEB expense
Pension	\$ 6,908,757
Health insurance premium benefit	77,598
Long-term disability	91,352

NOTES TO THE FINANCIAL STATEMENTS

Deferred outflows/inflows of resources — At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension	
	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 589,593	\$ —
Changes in assumptions or other inputs	—	—
Difference between projected and actual investment earnings	6,285,913	—
Changes in proportion and differences between City contributions and proportionate share of contributions	681,797	751,495
City contributions subsequent to the measurement date	4,940,338	—
Total	<u>\$ 12,497,641</u>	<u>\$ 751,495</u>

	Health insurance premium benefit	
	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ —	\$ 533,429
Changes in assumptions or other inputs	150,083	—
Difference between projected and actual investment earnings	276,992	—
Changes in proportion and differences between City contributions and proportionate share of contributions	981	232
City contributions subsequent to the measurement date	172,796	—
Total	<u>\$ 600,852</u>	<u>\$ 533,661</u>

	Long-term disability	
	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 25,055	\$ 7,414
Changes in assumptions or other inputs	31,022	—
Difference between projected and actual investment earnings	31,699	—
Changes in proportion and differences between City contributions and proportionate share of contributions	8,343	4,316
City contributions subsequent to the measurement date	76,187	—
Total	<u>\$ 172,306</u>	<u>\$ 11,730</u>

NOTES TO THE FINANCIAL STATEMENTS

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, 2022. 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
2022	\$ 1,016,388	\$ (57,363)	\$ 13,977
2023	1,571,538	1,237	19,123
2024	2,273,682	14,028	20,066
2025	1,944,200	(14,625)	18,107
2026	—	(48,882)	9,896
Thereafter	—	—	3,221

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

Actuarial valuation date	June 30, 2019
Actuarial roll forward date	June 30, 2020
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7–7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

NOTES TO THE FINANCIAL STATEMENTS

The long-term expected rate of return on ASRS plan investments was determined to be 7.5% 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 geometric real rates of return for each major asset class are summarized in the following table:

ASRS Asset Class	Target Asset Allocation	Long-term expected geometric real rate of return
Equity	50%	6.39%
Credit	20%	5.44%
Interest rate sensitive bonds	10%	0.22%
Real estate	20%	5.85%
Total	100%	

Discount rate — At June 30, 2019, the discount rate used to measure the ASRS total pension/OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

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

ASRS City's proportionate share of the	1% Decrease (6.5%)	Current discount rate (7.5%)	1% Increase (8.5%)
Net pension liability	\$ 89,121,788	\$ 65,171,972	\$ 45,151,157
Net health insurance premium benefit liability (asset)	355,209	(270,717)	(803,401)
Net long-term disability liability	314,365	287,923	262,258

Plan fiduciary net position — Detailed information about the plans' fiduciary net position is available in the separately issued ASRS financial report. The report is available on the ASRS website at www.azasrs.gov.

Public Safety Personnel Retirement System

Plan descriptions — City police employees and City firefighters who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS) or employees who became

NOTES TO THE FINANCIAL STATEMENTS

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

Benefits provided — The PSPRS 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 monthly compensation, and service credit based on initial membership date as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

Employees covered by benefit terms — At June 30, 2021, 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	50	50	15	15
Inactive employees entitled to but not yet receiving benefits	25	8	10	8
Active employees	107	107	111	1,111
Total	182	165	136	1,134

Contributions — 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, 2021, 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% - 11.65%	9.21%	7.65% - 11.65%	9.21%
Active members - Health benefit	0.00%	0.14%	0.00%	0.14%
City				
Pension	32.54%	9.21%	24.78%	9.21%
Health insurance premium benefit	0.32%	0.14%	0.32%	0.14%

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.

	Tier 1 & 2 PSPRS	
	Police	Fire
Alternative contribution rate- Pension and Health	17.72 %	8.91 %

NOTES TO THE FINANCIAL STATEMENTS

The City's contributions to the plans for the year ended June 30, 2021, were:

	PSPRS Police	PSPRS Fire
Contributions made		
Pension	\$ 4,094,704	\$ 3,569,521
Health Insurance premium benefit	40,791	40,124

During fiscal year 2021, the City paid for PSPRS pension and OPEB contributions primarily from the General Fund.

Liability — At June 30, 2021, the City reported the following net pension/OPEB liabilities/(assets):

	Net pension liability	Net OPEB liability/(asset)
PSPRS Police	\$ 34,373,744	\$ (150,932)
PSPRS Fire	19,719,546	21,324

The net assets and net liabilities were measured as of June 30, 2020, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date.

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

PSPRS

Actuarial valuation date	June 30, 2020
Actuarial cost method	Entry age normal
Investment rate of return	7.3%
Wage inflation	3.5% for pensions/not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Cost-of-living adjustment	1.75% for pensions/not applicable for OPEB
Mortality rates	PubS-2010 tables
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.3% 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
U.S. Public Equity	23%	4.93%
International Public Equity	15%	6.09%
Global Private Equity	18%	8.42%
Other Assets (Capital Appreciation)	7%	5.61%
Core Bonds	2%	0.22%
Private Credit	22%	5.31%
Diversifying Strategies	12%	3.22%
Cash Mellon	1%	(0.60)%
Total	100%	

Discount rate — At June 30, 2020, the discount rate used to measure the PSPRS total pension/OPEB liability was 7.3%. 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 (asset).

NOTES TO THE FINANCIAL STATEMENTS

Changes in the net pension/OPEB liability (asset) – The following tables present changes in the City’s net pension/OPEB liability (asset) 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, 2020	\$ 74,766,358	\$ 44,930,566	\$ 29,835,792
Adjustment to Beginning of Year	—	3	(3)
Changes for the year:			
Service cost	2,500,116	—	2,500,116
Interest on the total pension liability	5,548,786	—	5,548,786
Changes of benefit terms	—	—	—
Difference between expected and actual experience of the total pension liability	1,718,866	—	1,718,866
Changes of assumptions	—	—	—
Contributions—employer	—	3,698,985	(3,698,985)
Contributions—employee	—	972,696	(972,696)
Net investment income	—	607,678	(607,678)
Benefit payments, including refunds of employee contributions	(2,511,403)	(2,511,403)	—
Administrative expense	—	(49,546)	49,546
Other changes	—	—	—
Net changes	7,256,365	2,718,410	4,537,955
Balances at June 30, 2021	\$ 82,022,723	\$ 47,648,979	\$ 34,373,744

NOTES TO THE FINANCIAL STATEMENTS

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, 2020	\$ 1,099,087	\$ 1,234,735	\$ (135,648)
Adjustment to Beginning of Year	—	—	—
Changes for the year:			
Service cost	47,355	—	47,355
Interest on the total OPEB liability	83,812	—	83,812
Difference between expected and actual experience of the total OPEB liability	(97,685)	—	(97,685)
Changes of assumptions	—	—	—
Contributions—employer	—	34,570	(34,570)
Contributions—employee	—	—	—
Net investment income	—	15,453	(15,453)
Benefit payments, including refunds of employee contributions	(27,706)	(27,706)	—
OPEB plan administrative expense	—	(1,257)	1,257
Other changes	—	—	—
Net changes	5,776	21,060	(15,284)
Balances at June 30, 2021	\$ 1,104,863	\$ 1,255,795	\$ (150,932)

PSPRS - Fire - Pension	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) – (b)
Balances at June 30, 2020	\$ 63,464,250	\$ 48,925,283	\$ 14,538,967
Adjustment to Beginning of Year	—	2	(2)
Changes for the year:			
Service cost	2,585,747	—	2,585,747
Interest on the total pension liability	4,775,536	—	4,775,536
Difference between expected and actual experience of the total pension liability	2,107,451	—	2,107,451
Changes of assumptions	—	—	—
Contributions—employer	—	2,592,924	(2,592,924)
Contributions—employee	—	1,086,498	(1,086,498)
Net investment income	—	662,772	(662,772)
Benefit payments, including refunds of employee contributions	(1,263,395)	(1,263,395)	—
Administrative expense	—	(54,041)	54,041
Other changes	—	—	—
Net changes	8,205,339	3,024,758	5,180,581
Balances at June 30, 2021	\$ 71,669,589	\$ 51,950,043	\$ 19,719,546

NOTES TO THE FINANCIAL STATEMENTS

PSPRS - Fire - Health insurance premium benefit	Total OPEB liability	Plan fiduciary net position	Net OPEB liability (asset)
	(a)	(b)	(a) - (b)
Balances at June 30, 2020	\$ 945,143	\$ 1,002,681	\$ (57,538)
Adjustment to Beginning of Year	—	—	—
Changes for the year:			
Service cost	42,441	—	42,441
Interest on the total OPEB liability	72,508	—	72,508
Difference between expected and actual experience of the total OPEB liability	11,259	—	11,259
Changes of assumptions	—	—	—
Contributions—employer	—	35,723	(35,723)
Net investment income	—	12,652	(12,652)
Benefit payments, including refunds of employee contributions	(15,486)	(15,486)	—
OPEB plan administrative expense	—	(1,029)	1,029
Other changes	—	—	—
Net changes	110,722	31,860	78,862
Balances at June 30, 2021	\$ 1,055,865	\$ 1,034,541	\$ 21,324

Sensitivity of the City's net pension/OPEB liability/(asset) to changes in the discount rate — The following table presents the City's net pension/OPEB liabilities (assets) calculated using the discount rate of 7.3%, as well as what the City's net pension/OPEB liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.3%) or 1 percentage point higher (8.3%) than the current rate:

	1% Decrease (6.3%)	Current discount rate (7.3%)	1% Increase (8.3%)
PSPRS Police			
Net pension liability	\$ 47,314,708	\$ 34,373,744	\$ 23,979,732
Net OPEB liability (asset)	(9,113)	(150,932)	(269,474)
PSPRS Fire			
Net pension liability	\$ 31,817,231	\$ 19,719,546	\$ 9,973,756
Net OPEB liability (asset)	159,732	21,324	(94,844)

Plan fiduciary net position — Detailed information about the plans' fiduciary net position is available in the separately issued PSPRS financial reports. These reports are available on the PSPRS website at www.psprs.com.

Expense — For the year ended June 30, 2021, the City recognized the following pension and OPEB expense:

	Pension expense	OPEB expense
PSPRS Police	\$ 7,300,878	\$ (7,609)
PSPRS Fire	4,636,270	14,793

NOTES TO THE FINANCIAL STATEMENTS

Deferred outflows/inflows of resources — At June 30, 2021, 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	\$ 4,005,966	\$ 381,432
Changes in assumptions or other inputs	2,764,660	—
Net difference between projected and actual earnings on pension plan investments	2,442,530	—
City contributions subsequent to the measurement date	4,094,703	—
Total	\$ 13,307,859	\$ 381,432

PSPRS - Police - Health insurance premium benefit	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ —	\$ 330,985
Changes in assumptions or other inputs	18,174	48,959
Net difference between projected and actual earnings on OPEB plan investments	67,238	—
City contributions subsequent to the measurement date	40,791	—
Total	\$ 126,203	\$ 379,944

PSPRS - Fire - Pension	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 2,974,481	\$ 2,160,983
Changes in assumptions or other inputs	2,446,898	—
Net difference between projected and actual earnings on pension plan investments	2,707,300	—
City contributions subsequent to the measurement date	3,569,520	—
Total	\$ 11,698,199	\$ 2,160,983

PSPRS - Fire - Health insurance premium benefit	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	\$ 10,135	\$ 198,330
Changes in assumptions or other inputs	10,503	74,760
Net difference between projected and actual earnings on OPEB plan investments	55,288	—
City contributions subsequent to the measurement date	40,124	—
Total	\$ 116,050	\$ 273,090

NOTES TO THE FINANCIAL STATEMENTS

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 (asset) in the year ending June 30, 2022. 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	PSPRS			
	Police		Fire	
	Pension	Health	Pension	Health
2022	\$ 2,672,130	\$ (57,271)	\$ 1,069,504	\$ (22,973)
2023	2,144,257	(49,228)	1,338,916	(16,714)
2024	1,536,706	(50,124)	1,299,447	(17,483)
2025	1,163,971	(39,219)	1,101,458	(21,154)
2026	622,570	(45,775)	376,448	(33,403)
Thereafter	692,090	(52,915)	781,923	(85,438)

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

For the year ended June 30, 2021, active PSPDCRP members were required by statute to contribute at least 9% of the members' annual covered payroll, and the City was required by statute to contribute 9% of active members' annual covered payroll to an individual employee account. Employees are immediately vested in their own contributions and the earnings on those contributions. Employees vest in a portion of the City's contributions each year as set forth in statute. The plan retains nonvested City contributions when forfeited because of employment terminations. For the year ended June 30, 2021, the City recognized pension expense of \$86,452.

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.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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, 2021, statute required active EORP members to contribute 7% or 13% of the members' annual covered payroll and the City to contribute at the actuarially determined rate of 61.43% of all active EORP members' annual covered payroll. Also, statute required the City to contribute 49.39% to EORP of the annual covered payroll of elected officials and judges who were ASRS members and 55.43% 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, 2021, were \$115,754 and \$223, respectively.

During fiscal year 2021, the City paid for EORP pension contributions as follows: 100% from the General Fund.

Liability — At June 30, 2021, the City reported a liability for its proportionate share of the EORP's net pension liability that reflected a reduction for the City's proportionate share of the State's appropriation for EORP. The amount the City recognized as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the EORP net pension liability	\$ 1,745,940
State's proportionate share of the EORP net pension liability associated with the City	165,938
Total	<u><u>\$ 1,911,878</u></u>

The net liability was measured as of June 30, 2020, and the total liability used to calculate the net liability was determined by an actuarial valuation as of that date.

The City's proportion of the net pension liability was based on the City's required contributions to the pension plan relative to the total of all participating employers' required contributions for the year ended June 30, 2020. The City's proportion measured as of June 30, 2020, and the change from its proportions measured as of June 30, 2019, were:

EORP	Proportion June 30, 2020	Increase (decrease) from June 30, 2019
Pension	0.258673%	0.03%

Expense — For the year ended June 30, 2021, the City recognized pension expense for EORP of (\$22,235) and revenue of \$45,653 for the City's proportionate share of the State's appropriation to EORP and the designated court fees.

NOTES TO THE FINANCIAL STATEMENTS

Deferred outflows/inflows of resources — At June 30, 2021, 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	\$ —	\$ 1,433
Changes of assumptions or other inputs	—	—
Net difference between projected and actual earnings on plan investments	33,646	—
Changes in proportion and differences between City contributions and proportionate share of contributions	101,517	—
City contributions subsequent to the measurement date	115,754	—
Total	<u>\$ 250,917</u>	<u>\$ 1,433</u>

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, 2022. 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
2022	\$ 104,692
2023	10,844
2024	10,609
2025	7,585
2026	—

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

Actuarial Valuation Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	7.3%
Wage Inflation	3.75%
Price Inflation	2.5%
Cost of Living Adjustment	1.75%
Mortality rate	PUBG-2010 Tables

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2017.

The long-term expected rate of return on EORP plan investments was determined to be 7.3% 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.

NOTES TO THE FINANCIAL STATEMENTS

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
U. S. Public Equity	23%	4.93%
International Public Equity	15%	6.09%
Global Private Equity	18%	8.42%
Other Assets (Capital Appreciation)	7%	5.61%
Core Bonds	2%	0.22%
Private Credit	22%	5.31%
Diversifying Strategies	12%	3.22%
Cash-Mellon	1%	(0.60)%
Total	100%	

Discount rates — At June 30, 2020, the discount rate used to measure the EORP total pension liability was 7.3%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the actuarially determined rates, and State contributions will be made as currently required by statute. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the EORP net pension liability to changes in the discount rate The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.3%, 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 (6.3%) or 1 percentage point higher (8.3%) than the current rate:

EORP	1% Decrease	Current discount rate	1% Increase
Rate - pension	6.3 %	7.3 %	8.3 %
City's proportionate share of the net pension liability	\$ 1,991,753	\$ 1,745,940	\$ 1,535,761

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2021, active EODCRS members were required by statute to contribute 8% of the members' annual covered payroll, and the City was required by statute to contribute 6% 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, 2021, the City recognized pension expense of \$5,476.

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 2021, 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 \$709,476 for the year ended June 30, 2021. The deferred compensation is not available to participants until termination, retirement, death, or an unforeseeable emergency.

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

Defined Contribution Other Postemployment Plans

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

The City is contributing \$25 per pay period to the plan for members of the Surprise Police Employees Association and the Northwest Valley Fire Fighters Association Local 4361. Employees are not required to contribute in order to receive the City's contribution.

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

The City contributed \$521,017 for the year ended June 30, 2021.

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

NOTES TO THE FINANCIAL STATEMENTS

employees. Employee assets held in post-employment health plans are not the property of the City and are not subject to claims of the City's general creditors. Therefore, the Deferred Compensation Custodial Fund is not included in the City's Financial Statements.

NOTE 9 - RISK MANAGEMENT

Risk Management Fund

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

The limit for basic coverage is \$2 million per occurrence and \$13 million under an umbrella policy for a total of \$15 million on a claim made basis. The AMRRP is structured such that member premiums are based on actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligation. The Pool has the authority to assess its members' additional premiums should reserves 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, 2021, unpaid claims were as follows:

	Risk Management Fund	
	2020	2021
Beginning unpaid claims	\$ 147,533	\$ 117,564
Claims incurred and changes in estimates	180,407	854,618
Payments made	(210,376)	(727,100)
Ending unpaid claims	<u>\$ 117,564</u>	<u>\$ 245,082</u>

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 \$864,183 of the total claims payable reported. The remaining \$647,188 is made up of outstanding claims at year end. The City's loss has not exceeded its coverage over the last year.

NOTES TO THE FINANCIAL STATEMENTS

As of June 30, 2021, unpaid claims were as follows:

	Employee Healthcare Fund	
	2020	2021
Beginning unpaid claims	\$ 1,445,621	\$ 1,810,817
Claims incurred and changes in estimates	11,170,957	12,271,613
Payments made	(10,805,761)	(12,571,059)
Ending unpaid claims	<u>\$ 1,810,817</u>	<u>\$ 1,511,371</u>

Worker's Compensation Fund

Following in-depth analysis including an actuarial study to determine feasibility, the Mayor and City Council approved establishing a Workers' 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 commendable, while leaving liability of prior claims with the previous insurance carrier.

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

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

The Workers' Compensation fund currently has an established reserve of \$3,000,000, which exceeds the required amount designated by the Industrial Commission of Arizona. The funds held in this reserve account are maintained by the City following approval from both City Council and the ICA for exemption from posting security for outstanding workers' compensation claims, per Arizona Administrative Code R20-5-114.

The claims liability includes an estimated amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends and other economic and social factors. Claims that have been incurred but not reported make up \$281,650 of the total claims payable reported. The remaining \$22,011 is made up of outstanding claims at year end. The City's loss has not exceeded its coverage over the last year.

NOTES TO THE FINANCIAL STATEMENTS

As of June 30, 2021, unpaid claims were as follows:

	Workers' Compensation Fund	
	2020	2021
Beginning unpaid claims	\$ 171,335	\$ 202,747
Claims incurred and changes in estimates	379,262	660,908
Payments made	(347,850)	(559,994)
Ending unpaid claims	<u>\$ 202,747</u>	<u>\$ 303,661</u>

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.

NOTE 11 - INTERFUND BORROWING AND TRANSFERS

As of June 30, 2021, interfund balances were as follows:

Due to/from other funds:

Due from	Due to General Fund
Non-Major Governmental Funds	
Grants	\$ 363,492
Marley Park Community Facility District	33,789

At year end, the Grants Fund and Marley Park Community Facility District Fund, non-major governmental funds, had negative cash balances in the pooled cash account. The short-term negative cash balances were eliminated by interfund borrowing with the General Fund and are expected to be paid within one year.

NOTES TO THE FINANCIAL STATEMENTS

Advances to/from other funds:

Advances to	Advances from		
	General Fund	Sewer Fund	Total
General Government Development Fee Fund	\$ —	\$ 5,366,279	\$ 5,366,279
Ground Ambulance Services Fund	2,058,069	—	2,058,069
Total	<u>\$ 2,058,069</u>	<u>\$ 5,366,279</u>	<u>\$ 7,424,348</u>

As of June 30, 2021, 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 for ground ambulance services.

Interfund Transfers:

Transfers Out	Transfers in						Total
	General Fund	General Capital Projects Fund	Debt Service Fund	Non-Major Governmental Funds	Water Fund	Internal Service Funds	
General Fund	\$ —	\$ 15,303,200	\$ 1,852,836	\$ 3,100,885	\$ —	\$ 956,833	\$ 21,213,754
General Capital Projects Fund	38,900	—	—	—	—	—	38,900
General Government Development Fee Fund	—	—	367,221	—	—	—	367,221
Highway User Revenue Fund	—	—	—	—	—	105,213	105,213
Transportation Improvement Fund	33,400	—	—	—	—	1,300	34,700
Non-Major Governmental Funds	—	—	1,213,005	—	—	10,920	1,223,925
Ground Ambulance Services Fund	1,736	—	—	—	—	39,953	41,689
Water Fund	578,270	—	—	—	—	39,780	618,050
Sewer Fund	816,850	—	—	—	1,274,478	52,001	2,143,329
Sanitation Fund	39,225	—	—	—	—	88,573	127,798
Stormwater Fund	7,230	—	—	—	—	11,527	18,757
Total	<u>\$ 1,515,611</u>	<u>\$ 15,303,200</u>	<u>\$ 3,433,062</u>	<u>\$ 3,100,885</u>	<u>\$ 1,274,478</u>	<u>\$ 1,306,100</u>	<u>\$ 25,933,336</u>

Transfers between funds were used to (1) record payments in lieu of franchise fees from the enterprise funds to the General Fund (2) record payments in lieu of property taxes from the enterprise funds to the General Fund and Debt Service Fund (3) to support as needed replacement of vehicles and maintenance, construction or purchase of city assets (4) move amounts for debt service payments (5) to fund municipal arts projects, and (6) to transfer water rights (capital assets) generated by the Sewer Fund to the Water Fund to be used for water services.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – FUND BALANCE CLASSIFICATION

The fund balance classification of the governmental funds as of June 30, 2021, were as follows:

	General Fund	General Capital Projects Fund	General Govt Development Fee Fund	Highway User Revenue Fund	Transportation Improvement Fund	Debt Service Fund	Non-Major Governmental Fund	Total
Fund balance								
Nonspendable:								
Advance to other funds	\$ 2,058,069	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,058,069
Inventory	1,098,612	—	—	378,723	—	—	11,427	1,488,762
Prepays	409,221	3,638	—	1,502	—	—	10,038	424,399
Total Nonspendable	3,565,902	3,638	—	380,225	—	—	21,465	3,971,230
Restricted:								
Court	—	—	—	—	—	—	376,034	376,034
Debt Service	—	—	—	—	—	158,027	173,673	331,700
Economic Development	19,574	—	—	—	—	—	—	19,574
Fire and Medical	9,370	—	—	—	—	—	9,557,134	9,566,504
Human Services and Community Vitality	34,173	—	—	—	—	—	—	34,173
Parks and recreation	365,822	—	—	—	—	—	5,294,171	5,659,993
Police	96,668	—	—	—	—	—	5,977,601	6,074,269
Public works	—	—	—	—	—	—	675,031	675,031
Transportation	—	—	—	4,442,896	—	—	123,170	4,566,066
Unspent Bond Proceeds - Public Safety	—	10,803,510	—	—	—	—	—	10,803,510
Unspent Bond Proceeds - Traffic Mitigation	—	686,320	—	—	—	—	—	686,320
Unspent Bond Proceeds - Pavement Preservation	—	763,871	—	—	—	—	—	763,871
Total Restricted	525,607	12,253,701	—	4,442,896	—	158,027	22,176,814	39,557,045
Committed:								
Transportation	—	—	—	—	13,211,601	—	—	13,211,601
Tourism	—	—	—	—	—	—	1,194,917	1,194,917
Total Committed	—	—	—	—	13,211,601	—	1,194,917	14,406,518
Assigned:								
Construction projects	—	34,111,297	—	—	—	—	—	34,111,297
FS Package Replacement Reserve	—	105,439	—	—	—	—	—	105,439
Vehicle Replacement	—	3,046,354	—	—	—	—	—	3,046,354
IT Asset Replacement	—	1,011,442	—	—	—	—	—	1,011,442
Parks and recreation	—	509,423	—	—	—	—	—	509,423
PSPRS Funding	16,125,600	—	—	—	—	—	—	16,125,600
Public Safety	12,421	—	—	—	—	—	—	12,421
Wildland Vehicle Replacement	355,195	—	—	—	—	—	—	355,195
Other	238,945	69,105	—	—	—	—	—	308,050
Total Assigned	16,732,161	38,853,060	—	—	—	—	—	55,585,221
Unassigned:								
Unassigned or negative fund balance	\$ 91,303,747	\$ —	\$ (4,272,994)	\$ —	\$ —	\$ —	\$ (396,178)	86,634,575
Total	<u>\$112,127,417</u>	<u>\$ 51,110,399</u>	<u>\$ (4,272,994)</u>	<u>\$ 4,823,121</u>	<u>\$ 13,211,601</u>	<u>\$ 158,027</u>	<u>\$ 22,997,018</u>	<u>\$200,154,589</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – DEFICIT FUND BALANCES

As of June 30, 2021, the following individual governmental funds reported deficits in fund balances:

Fund	Deficit
Major Funds:	
General Government Development Fee Fund	\$ 4,272,994
Non-Major Governmental Funds	
Grants Fund	293,193
Neighborhood Revitalization Fund	102,310
Proprietary Funds:	
Ground Ambulance Services Fund	577,114

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

NOTE 14 – BUDGET BASIS OF ACCOUNTING

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

NOTE 15 – JOINT VENTURE

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

The City has an ongoing financial responsibility as a result of the agreement to participate in the cost to construct, operate and maintain the network. The City's share of costs is determined based on the proportionate number of subscriber units in use at the time of assessment. The equity interest for the City at June 30, 2021, was \$969,335.

Separate financial statements may be obtained from RWC Director's Office, 200 W. Washington Street, 14th Floor, Phoenix, Arizona 85003.



SURPRISE

ARIZONA



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)							2014 through 2012	
	2021	2020	2019	2018	2017	2016	2016		
	(2020)	(2019)	(2018)	(2017)	(2016)	(2015)	(2015)		
City's proportion of the net pension liability	0.38%	0.38%	0.37%	0.36%	0.35%	0.32%	0.29%	Information not available	
City's proportionate share of the net pension liability	\$65,171,972	\$55,824,084	\$51,433,226	\$56,257,015	\$56,796,968	\$50,841,272	\$42,980,167		
City's covered payroll	\$42,439,245	\$38,971,217	\$37,581,388	\$35,238,842	\$32,932,534	\$30,121,665	\$26,536,195		
City's proportionate share of the net pension liability as a percentage of its covered payroll	153.57%	143.24%	136.86%	159.64%	172.46%	168.79%	161.97%		
Plan fiduciary net position as a percentage of the total pension liability	69.33%	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%		
Arizona State Retirement System - Health insurance premium benefit					Reporting fiscal year (measurement date)				2017 through 2012
	2021	2020	2019	2018					
	(2020)	(2019)	(2018)	(2017)					
City's proportion of the net OPEB (asset)	0.38 %	0.39 %	0.38 %	0.37 %	Information not available				
City's proportionate share of the net OPEB (asset)	\$ (270,717)	\$ (108,422)	\$ (135,084)	\$ (199,174)					
City's covered payroll	\$ 42,439,245	\$ 38,971,217	\$ 37,581,388	\$ 35,238,842					
City's proportionate share of the net OPEB (asset) as a percentage of its covered payroll	-0.64%	-0.28%	-0.36%	-0.57%					
Plan fiduciary net position as a percentage of the total OPEB liability	104.33%	101.62%	102.20%	103.57%					
Arizona State Retirement System - Long-term disability					Reporting fiscal year (measurement date)				2017 through 2012
	2021	2020	2019	2018					
	(2020)	(2019)	(2018)	(2017)					
City's proportion of the net OPEB liability	0.38%	0.39%	0.37%	0.36%	Information not available				
City's proportionate share of the net OPEB liability	\$ 287,923	\$ 253,425	\$ 193,112	\$ 131,344					
City's covered payroll	\$ 42,439,245	\$ 38,971,217	\$ 37,581,388	\$ 35,238,842					
City's proportionate share of the net OPEB liability) as a percentage of its covered payroll	0.68%	0.65%	0.51%	0.37%					
Plan fiduciary net position as a percentage of the total OPEB liability	68.01%	72.85%	77.83%	84.44%					
Elected Official Retirement Plan - Pension	Reporting fiscal year (measurement date)							2014 through 2012	
	2021	2020	2019	2018	2017	2016	2015		
	(2020)	(2019)	(2018)	(2017)	(2016)	(2015)	(2014)		
City's proportion of the net pension liability	0.26%	0.23%	0.29%	0.17%	0.19%	0.16%	0.22%	Information not available	
City's proportionate share of the net pension liability	\$1,745,940	\$1,511,837	\$1,849,518	\$2,034,660	\$1,829,709	\$1,276,030	\$1,505,462		
State's proportionate share of the net pension liability associated with the city	\$ 165,938	\$ 142,097	\$ (90,103)	\$ 213,700	\$ 100,812	\$ 107,037	\$ 136,820		
Total	\$1,911,878	\$1,653,934	\$1,759,415	\$2,248,360	\$1,930,521	\$1,383,067	\$1,642,282		
City's covered payroll	\$ 206,644	\$ 176,123	\$ 150,767	\$ 154,566	\$ 155,470	\$ 155,470	\$ 154,983		
City's proportionate share of the net pension liability as a percentage of its covered payroll	925.20%	939.08%	1166.98%	1454.63%	1241.73%	889.60%	1059.65%		
Plan fiduciary net position as a percentage of the total pension liability	29.80%	30.14%	30.36%	19.66%	23.42%	28.32%	31.91%		

See accompanying notes to this schedule.

Required supplementary information
Schedule of changes in the City's net pension/OPEB liability (asset) and related ratios
Agent plans

PSPRS - Police - Pension	Reporting fiscal year (measurement date)							2014 through 2012
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability								Information not available
Service cost	\$ 2,500,116	\$ 2,625,724	\$ 2,432,053	\$ 2,580,430	\$ 2,064,206	\$ 1,663,042	\$ 1,565,018	
Interest on the total pension liability	5,548,786	4,977,350	4,564,294	4,152,228	3,530,011	2,833,422	2,300,961	
Changes of benefit terms	—	—	—	431,035	4,507,117	—	241,790	
Differences between expected and actual experience in the measurement of the pension liability	1,718,866	1,469,073	(615,366)	884,245	144,478	5,574,308	1,218,340	
Changes of assumptions or other inputs	—	2,103,228	—	950,588	2,249,172	—	2,469,394	
Benefit payments, including refunds of employee contributions	(2,511,403)	(2,089,561)	(2,328,125)	(2,887,339)	(1,829,352)	(965,851)	(1,157,301)	
Net change in total pension liability	\$ 7,256,365	\$ 9,085,814	\$ 4,052,856	\$ 6,111,187	\$ 10,665,632	\$ 9,104,921	\$ 6,638,202	
Total pension liability-beginning	74,766,358	65,680,544	61,627,688	55,516,501	44,850,869	35,745,948	29,107,746	
Total pension liability-ending (a)	\$ 82,022,723	\$ 74,766,358	\$ 65,680,544	\$ 61,627,688	\$ 55,516,501	\$ 44,850,869	\$ 35,745,948	
Plan fiduciary net position								
Contributions-employer	\$ 3,698,985	\$ 4,065,062	\$ 3,608,348	\$ 2,601,364	\$ 2,303,420	\$ 1,729,946	\$ 1,359,213	
Contributions-employee	972,696	1,015,880	1,121,032	1,376,163	1,496,064	1,196,870	977,373	
Net investment income	607,678	2,315,207	2,508,024	3,589,391	168,147	951,951	2,875,527	
Benefit payments, including refunds of employee contributions	(2,511,403)	(2,089,561)	(2,328,125)	(2,887,339)	(1,829,352)	(965,851)	(1,157,301)	
Pension plan administrative expense	(49,546)	(41,215)	(38,871)	(32,160)	(24,595)	(23,613)	—	
Other changes	—	—	20,867	36,754	138,888	210,447	(462,996)	
Net change in plan fiduciary net position	\$ 2,718,410	\$ 5,265,373	\$ 4,891,275	\$ 4,684,173	\$ 2,252,572	\$ 3,099,750	\$ 3,591,816	
Plan fiduciary net position-beginning	44,930,566	39,693,746	34,802,471	30,118,298	27,865,726	24,765,976	21,174,160	
Adjustment to Beginning of Year	3	(28,553)	—	—	—	—	—	
Plan fiduciary net position-ending (b)	\$ 47,648,979	\$ 44,930,566	\$ 39,693,746	\$ 34,802,471	\$ 30,118,298	\$ 27,865,726	\$ 24,765,976	
City's net pension (asset) liability-ending (a) - (b)	\$ 34,373,744	\$ 29,835,792	\$ 25,986,798	\$ 26,825,217	\$ 25,398,203	\$ 16,985,143	\$ 10,979,972	
Plan fiduciary net position as a percentage of the total pension liability	58.09%	60.09%	60.43%	56.47%	54.25%	62.13%	69.28%	
Covered payroll	\$ 12,989,361	\$ 13,066,419	\$ 12,326,006	\$ 11,769,882	\$ 11,159,388	\$ 10,682,880	\$ 8,730,979	
City's net pension (asset) liability as a percentage of covered payroll	264.63%	228.34%	210.83%	227.91%	227.59%	158.99%	125.76%	

See accompanying notes to this schedule.

Required supplementary information
Schedule of changes in the City's net pension/OPEB liability (asset) and related ratios
Agent plans

PSPRS - Police - OPEB

	Reporting fiscal year (measurement date)				2017 through 2012 Information not available
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	
Total OPEB liability					
Service cost	\$ 47,355	\$ 33,493	\$ 34,574	\$ 37,056	
Interest on the total pension liability	83,812	88,366	87,925	94,154	
Changes of benefit terms	—	—	—	6,912	
Differences between expected and actual experience of the total OPEB liability	(97,685)	(194,295)	(105,683)	(68,029)	
Changes of assumptions or other inputs	—	24,230	—	(107,363)	
Benefit payments, including refunds of employee contributions	(27,706)	(26,693)	(27,446)	(29,932)	
Net change in total pension liability	\$ 5,776	\$ (74,899)	\$ (10,630)	\$ (67,202)	
Total OPEB liability-beginning	\$ 1,099,087	\$ 1,173,986	\$ 1,184,616	\$ 1,251,818	
Total OPEB liability-ending (a)	\$ 1,104,863	\$ 1,099,087	\$ 1,173,986	\$ 1,184,616	
Plan fiduciary net position					
Contributions-employer	\$ 34,570	\$ 42,535	\$ 26,730	\$ 55,927	
Contributions-employee	—	—	—	—	
Net investment income	15,453	61,524	73,735	110,362	
Benefit payments, including refunds of employee contributions	(27,706)	(26,693)	(27,446)	(29,932)	
OPEB plan administrative expense	(1,257)	(1,062)	(1,122)	(976)	
Other changes	—	—	1	—	
Net change in plan fiduciary net position	\$ 21,060	\$ 76,304	\$ 71,898	\$ 135,381	
Plan fiduciary net position-beginning	1,234,735	1,158,431	1,057,981	922,600	
Plan fiduciary net position-ending (b)	\$ 1,255,795	\$ 1,234,735	\$ 1,129,879	\$ 1,057,981	
City's net OPEB (asset) liability-ending (a) - (b)	\$ (150,932)	\$ (135,648)	\$ 44,107	\$ 126,635	
Plan fiduciary net position as a percentage of the total OPEB liability	113.66%	112.34%	96.24%	89.31%	
Covered payroll	\$ 12,989,361	\$ 13,066,419	\$ 12,326,006	\$ 11,769,882	
City's net OPEB (asset) liability as a percentage of covered payroll	-1.16%	-1.04%	0.36%	1.08%	

See accompanying notes to this schedule.

Required supplementary information
Schedule of changes in the City's net pension/OPEB liability (asset) and related ratios
Agent plans

PSPRS - Fire - Pension

	Reporting fiscal year (measurement date)							
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2012
Total pension liability								Information not available
Service cost	\$ 2,585,747	\$ 2,703,787	\$ 2,629,254	\$ 2,540,844	\$ 1,944,045	\$ 1,709,096	\$ 1,635,304	
Interest on the total pension liability	4,775,536	4,299,178	3,959,756	3,537,634	2,858,919	2,480,922	2,170,938	
Changes of benefit terms	—	—	—	324,839	4,813,386	—	25,204	
Differences between expected and actual experience in the measurement of the pension liability	2,107,451	223,172	(2,685,396)	721,498	(428,646)	991,201	122,957	
Changes of assumptions or other inputs	—	1,224,623	—	36,178	2,042,866	—	1,068,570	
Benefit payments, including refunds of employee contributions	(1,263,395)	(759,444)	(652,543)	(1,074,336)	(485,385)	(481,494)	(1,740,565)	
Net change in total pension liability	\$ 8,205,339	\$ 7,691,316	\$ 3,251,071	\$ 6,086,657	\$ 10,745,185	\$ 4,699,725	\$ 3,282,408	
Total pension liability-beginning	63,464,250	55,772,934	52,521,863	46,435,206	35,690,021	30,990,296	27,707,888	
Total pension liability-ending (a)	\$ 71,669,589	\$ 63,464,250	\$ 55,772,934	\$ 52,521,863	\$ 46,435,206	\$ 35,690,021	\$ 30,990,296	
Plan fiduciary net position								
Contributions-employer	\$ 2,592,924	\$ 3,232,317	\$ 3,149,148	\$ 1,828,952	\$ 1,773,960	\$ 1,394,750	\$ 1,298,311	
Contributions-employee	1,086,498	955,090	1,036,287	1,340,153	1,188,041	1,085,819	916,860	
Net investment income	662,772	2,477,023	2,659,343	3,742,608	170,022	956,696	2,973,644	
Benefit payments, including refunds of employee contributions	(1,263,395)	(759,444)	(652,543)	(1,074,336)	(485,385)	(481,494)	(1,740,565)	
Pension plan administrative expense	(54,041)	(44,033)	(41,175)	(33,516)	(24,864)	(23,732)	—	
Other changes	—	—	147,401	141,131	30,036	23,521	(491,977)	
Net change in plan fiduciary net position	\$ 3,024,758	\$ 5,860,953	\$ 6,298,461	\$ 5,944,992	\$ 2,651,810	\$ 2,955,560	\$ 2,956,273	
Plan fiduciary net position-beginning	48,925,283	43,082,800	36,784,339	30,839,347	28,187,537	25,231,977	22,275,704	
Adjustment to Beginning of Year	2	(18,470)	—	—	—	—	—	
Plan fiduciary net position-ending (b)	\$ 51,950,043	\$ 48,925,283	\$ 43,082,800	\$ 36,784,339	\$ 30,839,347	\$ 28,187,537	\$ 25,231,977	
City's net pension (asset) liability-ending (a) - (b)	\$ 19,719,546	\$ 14,538,967	\$ 12,690,134	\$ 15,737,524	\$ 15,595,859	\$ 7,502,484	\$ 5,758,319	
Plan fiduciary net position as a percentage of the total pension liability	72.49%	77.09%	77.25%	70.04%	66.41%	78.98%	81.42%	
Covered payroll	\$ 11,738,436	\$ 11,767,811	\$ 11,534,304	\$ 11,296,060	\$ 10,648,460	\$ 9,802,389	\$ 8,942,409	
City's net pension (asset) liability as a percentage of covered payroll	167.99%	123.55%	110.02%	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 (asset) and related ratios

Agent plans

PSPRS - Fire - OPEB	Reporting fiscal year (measurement date)				
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 through 2012
Total OPEB liability					Information not available
Service cost	\$ 42,441	\$ 28,223	\$ 28,223	\$ 28,898	
Interest on the total pension liability	72,508	78,968	72,743	78,136	
Changes of benefit terms	—	—	—	8	
Differences between expected and actual experience of the total OPEB liability	11,259	(206,517)	(17,297)	(28,004)	
Changes of assumptions or other inputs	—	12,836	—	(124,948)	
Benefit payments, including refunds of employee contributions	(15,486)	(14,571)	(12,727)	(12,382)	
Net change in total pension liability	\$ 110,722	\$ (101,061)	\$ 70,942	\$ (58,292)	
Total OPEB liability-beginning	945,143	1,046,204	975,262	1,033,554	
Total OPEB liability-ending (a)	<u>\$ 1,055,865</u>	<u>\$ 945,143</u>	<u>\$ 1,046,204</u>	<u>\$ 975,262</u>	
Plan fiduciary net position					
Contributions-employer	\$ 35,723	\$ 34,300	\$ 29,385	\$ 40,649	
Contributions-employee	—	—	—	—	
Net investment income	12,652	50,072	58,948	86,787	
Benefit payments, including refunds of employee contributions	(15,486)	(14,571)	(12,727)	(12,382)	
OPEB plan administrative expense	(1,029)	(864)	(897)	(769)	
Other changes	—	—	1	—	
Net change in plan fiduciary net position	\$ 31,860	\$ 68,937	\$ 74,710	\$ 114,285	
Plan fiduciary net position-beginning	1,002,681	915,274	840,564	726,279	
Adjust to Beginning of Year	—	18,470	—	—	
Plan fiduciary net position-ending (b)	<u>\$ 1,034,541</u>	<u>\$ 1,002,681</u>	<u>\$ 915,274</u>	<u>\$ 840,564</u>	
City's net OPEB (asset) liability-ending (a) - (b)	<u>\$ 21,324</u>	<u>\$ (57,538)</u>	<u>\$ 130,930</u>	<u>\$ 134,698</u>	
Plan fiduciary net position as a percentage of the total OPEB liability	97.98%	106.09%	87.49%	86.19%	
Covered payroll	\$11,738,436	\$11,767,811	\$11,534,304	\$11,296,060	
City's net OPEB (asset) liability as a percentage of covered payroll	0.18%	-0.49%	1.14%	1.19%	

See accompanying notes to this schedule.

Required supplementary information
Schedule of City pension/OPEB contributions

Arizona State Retirement System - Pension

	Reporting fiscal year							
	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 4,940,338	\$ 4,678,053	\$ 4,349,366	\$ 4,084,163	\$ 3,773,263	\$ 3,569,994	\$ 3,259,073	\$ 2,801,701
City's contributions in relation to the statutorily required contribution	4,940,338	4,678,053	4,349,366	4,084,163	3,773,263	3,569,994	3,259,073	2,801,701
City's contribution deficiency	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
City's covered payroll	\$ 42,528,059	\$ 42,439,245	\$ 38,971,217	\$ 37,581,388	\$ 35,238,842	\$ 32,932,534	\$ 30,121,665	\$ 26,536,195
City's contributions as a percentage of covered payroll	11.62%	11.02%	11.16%	10.87%	10.71%	10.84%	10.82%	10.56%

Reporting fiscal years 2013 through 2012 information not available.

Arizona State Retirement System - Health insurance premium benefit

	Reporting fiscal year				
	2021	2020	2019	2018	2017
Statutorily required contribution	\$ 172,796	\$ 191,599	\$ 178,575	\$ 164,581	\$ 196,952
City's contributions in relation to the statutorily required contribution	172,796	191,599	178,575	164,581	196,952
City's contribution deficiency	\$ —	\$ —	\$ —	\$ —	\$ —
City's covered payroll	\$ 42,528,059	\$ 42,439,245	\$ 38,971,217	\$ 37,581,388	\$ 35,238,842
City's contributions as a percentage of covered payroll	0.41%	0.45%	0.46%	0.44%	0.56%

Reporting fiscal years 2016 through 2012 information not available.

Arizona State Retirement System - Long-term disability

	Reporting fiscal year				
	2021	2020	2019	2018	2017
Statutorily required contribution	\$ 76,187	\$ 69,064	\$ 62,149	\$ 61,374	\$ 49,278
City's contributions in relation to the statutorily required contribution	76,187	69,064	62,149	61,374	49,278
City's contribution deficiency	\$ —	\$ —	\$ —	\$ —	\$ —
City's covered payroll	\$ 42,528,059	\$ 42,439,245	\$ 38,971,217	\$ 37,581,388	\$ 35,238,842
City's contributions as a percentage of covered payroll	0.18%	0.16%	0.16%	0.16%	0.14%

Reporting fiscal years 2016 through 2012 information not available.

See accompanying notes to this schedule.

Required supplementary information
Schedule of City pension/OPEB contributions

Elected Official Retirement Plan - Pension

	Reporting fiscal year							
	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 115,754	\$ 117,327	\$ 101,371	\$ 66,206	\$ 34,133	\$ 36,535	\$ 35,199	\$ 47,836
City's contributions in relation to the statutorily required contribution	115,754	117,327	101,371	66,206	34,133	36,535	35,199	47,836
City's contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
City's covered payroll	\$ 205,523	\$ 206,644	\$ 176,123	\$ 150,767	\$ 154,566	\$ 155,470	\$ 155,470	\$ 154,983
City's contributions as a percentage of covered payroll	56.32%	56.78%	57.56%	43.91%	22.08%	23.50%	22.64%	30.87%

Reporting fiscal years 2013 through 2012 information not available.

The City was not required and did not contribute to the EORP health insurance premium benefit plan for fiscal years 2021, 2020, 2019, 2018, or 2017. Information for fiscal years 2016 through 2012 is not available.

PSPRS - Police - Pension

	Reporting fiscal year							
	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$4,094,704	\$3,850,896	\$3,977,387	\$5,056,552	\$2,598,440	\$2,301,028	\$1,753,988	\$1,359,213
City's contributions in relation to the actuarially determined contribution	4,094,704	3,850,896	3,977,387	5,056,552	2,598,440	2,301,028	1,753,988	1,359,213
City's contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
City's covered payroll	\$13,066,287	\$12,989,361	\$13,066,419	\$12,326,006	\$11,769,882	\$11,159,388	\$10,682,880	\$ 8,730,979
City's contributions as a percentage of covered payroll	31.34 %	29.65 %	30.44 %	41.02 %	22.08 %	20.62 %	16.42 %	15.57 %

Reporting fiscal years 2013 through 2012 information not available.

PSPRS - Police - OPEB

	Reporting fiscal year				
	2021	2020	2019	2018	2017
Statutorily required contribution	\$ 40,791	\$ 37,796	\$ 44,365	\$ 79,382	\$ 58,849
City's contributions in relation to the actuarially determined contribution	40,791	37,796	44,365	79,382	58,849
City's contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —
City's covered payroll	\$ 13,066,287	\$ 12,989,361	\$ 13,066,419	\$ 12,326,006	\$ 11,769,882
City's contributions as a percentage of covered payroll	0.31%	0.29%	0.34%	0.64%	0.50%

Reporting fiscal years 2016 through 2012 information not available.

See accompanying notes to this schedule.

Required supplementary information
Schedule of City pension/OPEB contributions

PSPRS - Fire - Pension

	Reporting fiscal year							
	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 3,569,521	\$ 3,060,602	\$ 2,977,137	\$ 4,499,428	\$ 1,832,987	\$ 1,716,087	\$ 1,417,546	\$ 1,298,311
City's contributions in relation to the actuarially determined contribution	3,569,521	3,060,602	2,977,137	4,499,428	1,832,987	1,716,087	1,417,546	1,298,311
City's contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
City's covered payroll	\$ 13,277,038	\$ 11,738,436	\$ 11,767,811	\$ 11,534,304	\$ 11,296,060	\$ 10,648,460	\$ 9,802,389	\$ 8,492,409
City's contributions as a percentage of covered payroll	26.88%	26.07%	25.30%	39.01%	16.23%	16.12%	14.46%	15.29%

Reporting fiscal years 2013 through 2012 information not available.

PSPRS - Fire - OPEB

	Reporting fiscal year				
	2021	2020	2019	2018	2017
Actuarially determined contribution	\$ 40,124	\$ 36,517	\$ 35,366	\$ 77,072	\$ 40,740
City's contributions in relation to the actuarially determined contribution	40,124	36,517	35,366	77,072	40,740
City's contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —
City's covered payroll	\$ 13,277,038	\$ 11,738,436	\$ 11,767,811	\$ 11,534,304	\$ 11,296,060
City's contributions as a percentage of covered payroll	0.30%	0.31%	0.30%	0.67%	0.36%

Reporting fiscal years 2016 through 2012 information not available.

See accompanying notes to this schedule.

Required supplementary information
Schedule of City pension/OPEB contributions

Note 1 – Actuarially determined contribution rates

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

Actuarial cost method	Entry age normal
Amortization method	Level percent-of-pay, Closed
Remaining amortization period as of the 2017 actuarial valuation	20 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce normal cost which otherwise would be payable.
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2017 actuarial valuation, projected salary increases were decreased from 4.0%–8.0% to 3.5%–7.5% for PSPRS. In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS.
Wage growth	In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5% for PSPRS. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales. RP-2000 mortality table (adjusted by 105% for both males and females).

See accompanying notes to this schedule.

Note 2 – Factors that affect trends

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

The fiscal year 2020 (measurement date 2019) pension liabilities for EORP reflects the replacement of the permanent benefit increase (PBI) for retirees based on investment returns with a cost of living adjustment based on inflation. Also, the EORP liability and required pension contributions for fiscal year 2020 reflect a statutory change that requires the employer contribution rate to be actuarially determined. This change increased the discount rate used to calculate the liability thereby reducing the total pension liability.

The actuarial assumptions used in the June 30, 2019, valuation for ASRS were based on the results of an actuarial experience study for the five-year period ended June 30, 2016. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The ASRS Board adopted the experience study recommended changes which were applied to the June 30, 2017, actuarial valuation.

The actuarial assumptions used in the June 30, 2020, valuation for PSPRS were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The purpose of the experience study was to review actual experience in relation to the actuarial assumptions in effect. The PSPRS Board adopted the experience study and recommended changes which were applied to the June 30, 2017 actuarial valuation. The total liabilities as of June 30, 2020 reflect changes of actuarial assumptions to decrease the investment rate of return from 7.4% to 7.3% and update the mortality rates.



SURPRISE

ARIZONA

City of Surprise, Arizona
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
General Fund
For the Year Ended June 30, 2021

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Taxes	\$ 58,894,200	\$ 58,894,200	\$ 74,796,921	\$ 15,902,721
Licenses and permits	5,902,700	5,902,700	6,168,794	266,094
Intergovernmental revenues	38,141,100	38,141,100	44,699,113	6,558,013
Charges for services	10,849,900	10,861,400	22,705,823	11,844,423
Grants	—	7,232,500	7,314,593	82,093
Fines	1,416,300	1,416,300	1,250,670	(165,630)
Rents	288,000	288,000	303,717	15,717
Interest revenue(loss)	477,500	477,500	99,411	(378,089)
Donations	142,500	142,500	52,541	(89,959)
Indirect charges	6,348,500	6,348,500	6,348,174	(326)
Other revenue	388,300	388,300	649,130	260,830
Total revenues	122,849,000	130,093,000	164,388,887	34,295,887
EXPENDITURES				
Current:				
General Government				
City council	671,900	682,500	390,863	291,637
City manager	3,331,700	3,382,900	3,180,338	202,562
City attorney	2,350,900	2,463,500	2,289,477	174,023
City clerk	835,500	903,500	618,774	284,726
Finance	4,424,700	5,027,600	4,493,571	534,029
Human resources	2,600,300	2,659,000	2,375,908	283,092
Information technology	5,755,700	6,285,900	5,859,964	425,936
General operations	6,959,200	8,699,200	1,306,600	7,392,600
Total general government	26,929,900	30,104,100	20,515,495	9,588,605
Public Safety				
Police	29,868,800	35,393,400	29,347,889	6,045,511
Fire-Medical	22,813,900	28,004,000	23,770,404	4,233,596
Court	2,598,600	2,666,500	2,519,463	147,037
Total public safety	55,281,300	66,063,900	55,637,756	10,426,144
Community Development				
Economic development	1,471,600	2,076,600	8,652,652	(6,576,052)
Community development	4,685,800	5,591,600	4,876,674	714,926
Total community development	6,157,400	7,668,200	13,529,326	(5,861,126)
Culture and Recreation				
Human services and community vitality	2,482,200	2,798,300	2,086,857	711,443
Parks and recreation	12,429,000	12,867,600	10,564,953	2,302,647
Sports and Tourism	193,800	193,800	600	193,200
Total culture and recreation	15,105,000	15,859,700	12,652,410	3,207,290
Public Works and Streets				
Public works and streets	8,631,100	8,725,300	7,746,380	978,920
Total public works and streets	8,631,100	8,725,300	7,746,380	978,920
Contingency				
Contingency	6,616,100	1,437,100	—	1,437,100
Total contingency	6,616,100	1,437,100	—	1,437,100
Total current	118,720,800	129,858,300	110,081,367	19,776,933

Capital outlay:

General Government				
City manager	11,000	—	—	—
Information technology	10,000	10,000	9,339	661
Public Safety				
Police	106,300	433,300	97,060	336,240
Fire-medical	—	165,000	—	165,000
Public works and streets				
Public works and streets	60,000	320,600	233,729	86,871
Community Development		—		
Economic development	—	143,500	92,184	51,316
Culture and recreation				
Human services and community vitality	—	34,700	3,308	31,392
Total capital outlay	<u>187,300</u>	<u>1,107,100</u>	<u>435,620</u>	<u>671,480</u>
Total expenditures	<u>118,908,100</u>	<u>130,965,400</u>	<u>110,516,987</u>	<u>20,448,413</u>
Excess (deficiency) of revenues over expenditures	<u>3,940,900</u>	<u>(872,400)</u>	<u>53,871,900</u>	<u>54,744,300</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	77,100	77,100	159,875	82,775
Transfers in	1,517,300	1,517,300	1,515,611	(1,689)
Transfers out	<u>(7,727,500)</u>	<u>(14,298,200)</u>	<u>(21,213,754)</u>	<u>(6,915,554)</u>
Total other financing sources (uses)	<u>(6,133,100)</u>	<u>(12,703,800)</u>	<u>(19,538,268)</u>	<u>(6,834,468)</u>
Net change in fund balances	<u>\$ (2,192,200)</u>	<u>\$ (13,576,200)</u>	<u>\$ 34,333,632</u>	<u>\$ 47,909,832</u>

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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Development fees	\$ 475,400	\$ 475,400	\$ 694,000	\$ 218,600
Interest revenue	—	—	2,239	2,239
Total revenues	475,400	475,400	696,239	220,839
EXPENDITURES				
Current:				
Contingency				
Contingency	—	—	—	—
Total current	—	—	—	—
Total expenditures	—	—	—	—
Excess (deficiency) of revenues over	475,400	475,400	696,239	220,839
OTHER FINANCING SOURCES (USES)				
Transfers out	(367,300)	(367,300)	(367,221)	79
Total other financing sources (uses)	(367,300)	(367,300)	(367,221)	79
Net change in fund balances	\$ 108,100	\$ 108,100	\$ 329,018	\$ 220,918

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, 2021

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues	\$ 8,560,000	\$ 8,560,000	\$ 9,822,481	\$ 1,262,481
Charges for services	8,000	8,000	12,750	4,750
Interest revenue	—	—	8,041	8,041
Other revenue	1,500	1,500	84,936	83,436
Total revenues	8,569,500	8,569,500	9,928,208	1,358,708
EXPENDITURES				
Current:				
General Government	94,800	94,800	94,800	—
Public Works and Streets				
Public works and streets	8,626,300	7,931,800	6,835,877	1,095,923
Contingency				
Contingency	660,500	1,563,300	—	1,563,300
Total current	9,381,600	9,589,900	6,930,677	2,659,223
Capital outlay:				
Public Works and Streets				
Public works and streets	3,369,600	3,249,800	2,056,054	1,193,746
Total capital outlay	3,369,600	3,249,800	2,056,054	1,193,746
Total expenditures	12,751,200	12,839,700	8,986,731	3,852,969
Excess (deficiency) of revenues over	(4,181,700)	(4,270,200)	941,477	5,211,677
OTHER FINANCING SOURCES (USES)				
Transfers out	(121,400)	(121,400)	(105,213)	16,187
Total other financing sources (uses)	(121,400)	(121,400)	(105,213)	16,187
Net change in fund balances	\$ (4,303,100)	\$ (4,391,600)	\$ 836,264	\$ 5,227,864

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, 2021

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Taxes	\$ 3,101,900	\$ 3,101,900	\$ 9,776,946	\$ 6,675,046
Grants revenue	250,000	250,000	334,945	84,945
Interest revenue	107,800	107,800	13,493	(94,307)
Total revenues	3,459,700	3,459,700	10,125,384	6,665,684
EXPENDITURES				
Current:				
Public Works and Streets				
Public works and streets	4,623,200	3,238,500	2,976,546	261,954
Contingency				
Contingency	1,002,900	2,845,500	—	2,845,500
Total current	5,626,100	6,084,000	2,976,546	3,107,454
Capital outlay:				
Public works and streets				
Public works and streets	6,190,800	4,892,900	2,107,457	2,785,443
Community Development	560,600	550,000	—	550,000
Total capital outlay	6,751,400	5,442,900	2,107,457	3,335,443
Total expenditures	12,377,500	11,526,900	5,084,003	6,442,897
Excess (deficiency) of revenues over	(8,917,800)	(8,067,200)	5,041,381	13,108,581
OTHER FINANCING SOURCES (USES)				
Transfers out	(34,900)	(34,900)	(34,700)	200
Total other financing sources (uses)	(34,900)	(34,900)	(34,700)	200
Net change in fund balances	\$ (8,952,700)	\$ (8,102,100)	\$ 5,006,681	\$ 13,108,781

Note to Required Supplementary Information

Note 1 – BUDGETARY BASIS OF ACCOUNTING

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds with the following exceptions: (1) Capital Projects, the Grants, and Neighborhood Revitalization Funds adopt project-length budgets which normally extend beyond the fiscal year (2) Compensated absences are expended when paid, (3) Capital outlays within the enterprise funds are expended on a budget basis, (4) Bad debt expense represents revenue the City won't receive, rather than an actual cash outlay, and (5) Prepaid items and inventory are expended when paid not when the goods or services are received or used.

Prior to the third Monday in July, the City Manager submits to the City Council, and Council adopts a tentative budget for the fiscal year commencing on July 1. The tentative budget includes a schedule of the estimated expenditures and revenues. The proposed budget sets the maximum limit. The tentative budget is then published once a week for two consecutive weeks in a local newspaper. Finally, the City holds a public hearing on the budget and convenes a special meeting to adopt the final proposed budget on or before the 14th day before the tax levy is adopted.

The annual budget is adopted by resolution and serves as the foundation for the City of Surprise's financial planning and control. It has been programmed to allow as much flexibility as possible while still establishing useful guidelines. The maximum legal expenditure permitted for the fiscal year is the total budget as adopted. The City budget is adopted by department within each fund and by project in the capital funds. In addition, the full-time equivalent (FTE) position count is adopted by department within each fund. Changes to the adopted budget must be made in accordance with the City's Budget Amendment Policy. This policy specifies the approval levels required for various types of budget amendments. During the fiscal year, amendment requests are submitted to the Finance Department for preparation and processing. Changes can be made pursuant to the policy only if funds are unencumbered and available.



SURPRISE

ARIZONA



**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**



SURPRISE

ARIZONA

City of Surprise, Arizona

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

General Capital Projects Fund

For the Year Ended June 30, 2021

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	\$ 6,396,000	\$ 6,396,000	\$ 14,339,521	\$ 7,943,521
Licenses and permits	—	—	—	—
Interest revenue	601,500	601,500	40,650	(560,850)
Other revenue	—	—	111,544	111,544
Total revenues	6,997,500	6,997,500	14,491,715	7,494,215
EXPENDITURES				
Current:				
General Government	—	—	—	—
Community Development	—	—	—	—
Culture and recreation	—	—	—	—
Total current	—	—	—	—
Capital outlay:				
General Government				
City manager	750,600	82,300	51,435	30,865
Information technology	1,847,200	4,290,800	1,269,149	3,021,651
General operations	35,400	35,400	9,850	25,550
Public Safety				
Police	10,166,200	10,227,300	4,668,498	5,558,802
Fire-Medical	14,235,500	13,577,500	7,960,444	5,617,056
Public works and streets				
Public works and streets	17,785,600	12,707,000	8,042,306	4,664,694
Community Development				
Economic development	405,200	369,200	9,568	359,632
Community development	1,029,000	1,297,600	68,776	1,228,824
Culture and recreation				
Human services and community vitality	7,000	459,400	190,468	268,932
Parks and recreation	1,718,900	5,682,400	1,004,875	4,677,525
Sports and Tourism	480,100	1,677,000	1,292,722	384,278
Contingency				
Contingency	7,650,100	12,700,600	—	12,700,600
Total capital outlay	56,110,800	63,106,500	24,568,091	38,538,409
Total expenditures	56,110,800	63,106,500	24,568,091	38,538,409
Excess (deficiency) of revenues over expenditures	(49,113,300)	(56,109,000)	(10,076,376)	46,032,624
OTHER FINANCING SOURCES (USES)				
Transfers in	1,500,000	8,070,700	15,303,200	7,232,500
Transfers out	(38,900)	(38,900)	(38,900)	—
Issuance of debt	20,700,000	20,700,000	17,460,000	(3,240,000)
Premium on issuance of debt	—	—	2,133,059	2,133,059
Total other financing sources (uses)	22,161,100	28,731,800	34,857,359	6,125,559
Net change in fund balances	\$ (26,952,200)	\$ (27,377,200)	\$ 24,780,983	\$ 52,158,183

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, 2021

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	\$ 4,669,500	\$ 4,669,500	\$ 4,645,013	\$ (24,487)
Interest revenue	—	—	8,881	8,881
Total revenues	4,669,500	4,669,500	4,653,894	(15,606)
EXPENDITURES				
Debt service:				
Administrative charges	—	—	14,887	(14,887)
Principal retirement	5,349,100	5,349,100	5,734,038	(384,938)
Interest	2,937,100	2,937,100	2,549,044	388,056
Bond issuance costs	4,000	179,500	175,072	4,428
Total debt service	8,290,200	8,465,700	8,473,041	(7,341)
Total expenditures	8,290,200	8,465,700	8,473,041	(7,341)
Excess (deficiency) of revenues over expenditures	(3,620,700)	(3,796,200)	(3,819,147)	(22,947)
OTHER FINANCING SOURCES (USES)				
Transfers in	3,435,200	3,435,200	3,433,062	(2,138)
Total other financing sources (uses)	3,435,200	3,435,200	3,433,062	(2,138)
Net change in fund balances	\$ (185,500)	\$ (361,000)	\$ (386,085)	\$ (25,085)



SURPRISE

ARIZONA

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/ALF 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.
 - *Sports & Tourism Fund* - This fund is used to track all revenues 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.

- *Smart & Safe Police Fund* - This fund is used to track Police revenues and expenditures related to Prop 207.
- *Smart & Safe Fire-Medical Fund* - This fund is used to track Fire revenues and expenditures related to Prop 207.
- *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 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.
- *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.
- *Street Lighting District Fund* – Eighty-four Street Light Improvement Districts (SLIDs) have been established by ordinance to provide a centralized location for the collection of taxes from properties located in the district. These proceeds are legally restricted to the payment of electricity to operate the street lights within the district.
- *Marley Park Community Facility District Fund* – This fund was established to provide a location to process operating expenditures and for the collection of the related portion of the property taxes from properties located in the district. These proceeds are legally restricted to the payment of operations and debt service within the district.

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2021

	Grants Fund	LTAF II/ALF Fund	Municipal Court Enhancement Fund	Municipal Court FARE Fund	Municipal Court JCEF Fund
ASSETS					
Cash and investments	\$ —	\$ 150,610	\$ 236,719	\$ 18,708	\$ 81,902
Restricted cash and investments	—	—	—	—	—
Receivables (net of allowances)					
Taxes and franchise fees	—	—	—	—	—
Grants	411,169	—	—	—	—
Other	—	—	—	—	—
Prepaid items and other assets	675	—	—	—	—
Inventory	—	—	—	—	—
Total assets	<u>\$ 411,844</u>	<u>\$ 150,610</u>	<u>\$ 236,719</u>	<u>\$ 18,708</u>	<u>\$ 81,902</u>
LIABILITIES					
Accounts payable	\$ 40,931	\$ 142,152	\$ —	\$ —	\$ —
Accrued payroll and related taxes -	—	—	—	—	—
Due to other fund	363,492	—	—	—	—
Deposits -	—	—	—	—	—
Unearned revenue	47,693	—	—	—	—
Contracts payable	—	—	—	—	—
Matured bond interest payable -	—	—	—	—	—
Matured bonds payable -	—	—	—	—	—
Total liabilities	<u>452,116</u>	<u>142,152</u>	<u>—</u>	<u>—</u>	<u>—</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows - Unavailable revenue	252,921	—	—	—	—
Total deferred inflow of resources	<u>252,921</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total liabilities and deferred inflows of resources	<u>705,037</u>	<u>142,152</u>	<u>—</u>	<u>—</u>	<u>—</u>
FUND BALANCES (DEFICITS)					
Nonspendable	675	—	—	—	—
Restricted	—	8,458	236,719	18,708	81,902
Committed	—	—	—	—	—
Unassigned	(293,868)	—	—	—	—
Total fund balances (deficits)	<u>(293,193)</u>	<u>8,458</u>	<u>236,719</u>	<u>18,708</u>	<u>81,902</u>
Total liabilities and fund balances (deficits)	<u>\$ 411,844</u>	<u>\$ 150,610</u>	<u>\$ 236,719</u>	<u>\$ 18,708</u>	<u>\$ 81,902</u>

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds (Continued)
June 30, 2021

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
\$ 38,705	\$ —	\$ 133,340	\$ 395	\$ 28,779	\$ —	\$ —	\$ 78,545
—	249,411	—	—	—	16,870	881,510	—
—	—	—	—	—	—	—	—
—	199,430	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	749	—
—	—	—	—	—	—	—	—
<u>\$ 38,705</u>	<u>\$ 448,841</u>	<u>\$ 133,340</u>	<u>\$ 395</u>	<u>\$ 28,779</u>	<u>\$ 16,870</u>	<u>\$ 882,259</u>	<u>\$ 78,545</u>
\$ —	\$ 104,581	\$ —	\$ —	\$ —	\$ —	\$ 10,140	\$ 22
—	—	—	—	—	—	—	1,598
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	375,598	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
<u>—</u>	<u>480,179</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,140</u>	<u>1,620</u>
—	70,972	—	—	—	—	—	—
<u>—</u>	<u>70,972</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
—	551,151	—	—	—	—	10,140	1,620
—	—	—	—	—	—	749	—
38,705	—	—	395	28,779	16,870	871,370	76,925
—	—	133,340	—	—	—	—	—
—	(102,310)	—	—	—	—	—	—
<u>38,705</u>	<u>(102,310)</u>	<u>133,340</u>	<u>395</u>	<u>28,779</u>	<u>16,870</u>	<u>872,119</u>	<u>76,925</u>
<u>\$ 38,705</u>	<u>\$ 448,841</u>	<u>\$ 133,340</u>	<u>\$ 395</u>	<u>\$ 28,779</u>	<u>\$ 16,870</u>	<u>\$ 882,259</u>	<u>\$ 78,545</u>

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds (Continued)
June 30, 2021

	Sports & Tourism Fund	Smart & Safe Police Fund	Smart & Safe Fire-Medical Fund	Tourism Fund
ASSETS				
Cash and investments	\$ 671,909	\$ 65,514	\$ 47,561	\$ 1,070,357
Restricted cash and	—	—	—	—
Receivables (net of				
Taxes and franchise fees	—	—	—	—
Grants	—	—	—	—
Other	114,407	—	—	—
Prepaid items and other assets	10,003	—	—	—
Inventory	10,038	—	—	—
Total assets	<u>\$ 806,357</u>	<u>\$ 65,514</u>	<u>\$ 47,561</u>	<u>\$ 1,070,357</u>
LIABILITIES				
Accounts payable	\$ 121,400	\$ —	\$ —	\$ 8,780
Accrued payroll and related	99,081	—	—	—
Due to other funds	—	—	—	—
Deposits	—	—	—	—
Unearned revenue	—	—	—	—
Contracts payable	—	—	—	—
Matured bond interest payable	—	—	—	—
Matured bonds payable	—	—	—	—
Total liabilities	<u>220,481</u>	<u>—</u>	<u>—</u>	<u>8,780</u>
DEFERRED INFLOWS OF				
Deferred Inflows - Unavailable	—	—	—	—
Total deferred inflow of	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total liabilities and deferred inflows of	<u>220,481</u>	<u>—</u>	<u>—</u>	<u>8,780</u>
FUND BALANCES				
Nonspendable	20,041	—	—	—
Restricted	565,835	65,514	47,561	—
Committed	—	—	—	1,061,577
Unassigned	—	—	—	—
Total fund balances	<u>585,876</u>	<u>65,514</u>	<u>47,561</u>	<u>1,061,577</u>
Total liabilities and fund balances (deficits)	<u>\$ 806,357</u>	<u>\$ 65,514</u>	<u>\$ 47,561</u>	<u>\$ 1,070,357</u>

City of Surprise, Arizona
Combining Balance Sheet
Nonmajor Special Revenue Funds (Continued)
June 30, 2021

163rd Ave Development Fee Fund	Fire Development Fee Fund	Parks and Recreation Development Fee Fund	Police Development Fee Fund	Street Lighting Districts Fund
\$ 114,317	\$ 9,566,129	\$ 4,735,007	\$ 4,918,143	\$ 891,032
—	—	—	—	—
—	—	—	—	48,577
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
<u>\$ 114,317</u>	<u>\$ 9,566,129</u>	<u>\$ 4,735,007</u>	<u>\$ 4,918,143</u>	<u>\$ 939,609</u>
\$ —	\$ 56,556	\$ —	\$ —	\$ 244,875
—	—	—	—	—
—	—	—	—	—
—	—	—	—	462
—	—	—	—	—
—	—	26,591	—	—
—	—	—	—	—
—	—	—	—	—
<u>—</u>	<u>56,556</u>	<u>26,591</u>	<u>—</u>	<u>245,337</u>
—	—	—	—	19,241
—	—	—	—	19,241
<u>—</u>	<u>56,556</u>	<u>26,591</u>	<u>—</u>	<u>264,578</u>
—	—	—	—	—
114,317	9,509,573	4,708,416	4,918,143	675,031
—	—	—	—	—
—	—	—	—	—
<u>114,317</u>	<u>9,509,573</u>	<u>4,708,416</u>	<u>4,918,143</u>	<u>675,031</u>
<u>\$ 114,317</u>	<u>\$ 9,566,129</u>	<u>\$ 4,735,007</u>	<u>\$ 4,918,143</u>	<u>\$ 939,609</u>

City of Surprise, Arizona
 Combining Balance Sheet
 Nonmajor Special Revenue Funds (Continued)
 June 30, 2021

	Marley Park Community Facility District Fund	Total Nonmajor Special Revenue Funds
ASSETS		
Cash and investments	\$ 144,247	\$ 22,991,919
Restricted cash and investments	1,196,862	2,344,653
Receivables (net of allowances)		
Taxes and franchise fees	20,298	68,875
Grants	—	610,599
Other	32,250	146,657
Prepaid items and other assets	—	11,427
Inventory	—	10,038
Total assets	<u>\$ 1,393,657</u>	<u>\$ 26,184,168</u>
LIABILITIES		
Accounts payable	\$ 125,528	\$ 854,965
Accrued payroll and related taxes	—	100,679
Due to other funds	33,789	397,281
Deposits	—	462
Unearned revenue	—	423,291
Contracts payable	—	26,591
Matured bond interest payable	339,378	339,378
Matured bonds and notes payable	695,000	695,000
Total liabilities	<u>1,193,695</u>	<u>2,837,647</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Unavailable revenue	6,369	349,503
Total deferred inflow of resources	<u>6,369</u>	<u>349,503</u>
Total liabilities and deferred inflows of resources	<u>1,200,064</u>	<u>3,187,150</u>
FUND BALANCES (DEFICITS)		
Nonspendable	—	21,465
Restricted	193,593	22,176,814
Committed	—	1,194,917
Unassigned	—	(396,178)
Total fund balances (deficits)	<u>193,593</u>	<u>22,997,018</u>
Total liabilities and fund balances (deficits)	<u>\$ 1,393,657</u>	<u>\$ 26,184,168</u>



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, 2021

	Grants Fund	LTAIF II/ALF Fund	Municipal Court Enhancement Fund	Municipal Court FARE Fund	Municipal Court JCEF Fund
REVENUES					
Taxes	\$ —	\$ —	\$ —	\$ —	\$ —
Intergovernmental revenues	—	347,127	—	1,792	—
Charges for services	—	—	—	—	—
Grants revenue	1,702,193	—	—	—	—
Fines	—	—	58,091	—	16,598
Rents	—	—	—	—	—
Development fees	—	—	—	—	—
Interest revenue	—	—	284	32	112
Donations	—	—	—	—	—
Other revenue	—	—	—	—	—
Total revenues	1,702,193	347,127	58,375	1,824	16,710
EXPENDITURES					
Current:					
General Government	37,150	—	—	—	—
Public Safety	1,052,096	—	—	—	—
Public works and streets	—	339,166	—	—	—
Community Development	25,169	—	—	—	—
Culture and recreation	633,589	—	—	—	—
Debt service:					
Administrative charges	—	—	—	—	—
Principal retirement	—	—	—	—	—
Interest	—	—	—	—	—
Bond issuance costs	—	—	—	—	—
Capital outlay:					
Public Safety	52,437	—	—	—	—
Culture and recreation	—	—	—	—	—
Total expenditures	1,800,441	339,166	—	—	—
Excess (deficiency) of revenues over expenditures	(98,248)	7,961	58,375	1,824	16,710
OTHER FINANCING SOURCES (USES)					
Transfers in	—	—	—	—	—
Transfers out	—	—	—	—	—
Issuance of debt	—	—	—	—	—
Total other financing sources (uses)	—	—	—	—	—
Net change in fund balance	(98,248)	7,961	58,375	1,824	16,710
Fund balances - beginning, as restated	(194,945)	497	178,344	16,884	65,192
Increase / (Decrease) in inventories	—	—	—	—	—
Fund balances - ending	\$ (293,193)	\$ 8,458	\$ 236,719	\$ 18,708	\$ 81,902

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, 2021

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
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
9,038	—	—	—	—	—	—	—
—	—	11,091	—	—	—	—	22,200
—	2,124,566	—	—	—	—	—	—
—	—	—	—	15,069	—	101,407	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
51	—	488	—	50	34	8,258	204
—	—	—	—	—	—	—	—
—	—	—	—	—	—	708	—
9,089	2,124,566	11,579	—	15,119	34	110,373	22,404
—	—	—	—	—	—	—	—
—	—	—	—	15,900	—	135,978	39,002
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	1,445,270	75,651	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	88,293	—
—	676,314	—	—	—	—	—	—
—	2,121,584	75,651	—	15,900	—	224,271	39,002
9,089	2,982	(64,072)	—	(781)	34	(113,898)	(16,598)
—	—	136,998	—	—	—	—	—
—	—	—	—	—	—	—	(173)
—	—	—	—	—	—	—	—
9,089	2,982	72,926	—	(781)	34	(113,898)	(16,771)
29,616	(105,292)	60,414	395	29,560	16,836	986,017	93,696
—	—	—	—	—	—	—	—
\$ 38,705	\$ (102,310)	\$ 133,340	\$ 395	\$ 28,779	\$ 16,870	\$ 872,119	\$ 76,925

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, 2021

	Sports & Tourism Fund	Smart & Safe Police Fund	Smart & Safe Fire-Medical Fund	Tourism Fund
REVENUES				
Taxes	\$ —	\$ —	\$ —	\$ 764,120
Intergovernmental revenues	—	65,514	47,561	60,279
Charges for services	1,557,582	—	—	—
Grants revenue	—	—	—	—
Fines	—	—	—	—
Rents	317,481	—	—	—
Development fees	—	—	—	—
Interest revenue	906	—	—	610
Donations	250	—	—	—
Other revenue	3,071	—	—	—
Total revenues	<u>1,879,290</u>	<u>65,514</u>	<u>47,561</u>	<u>825,009</u>
EXPENDITURES				
Current:				
General Government	—	—	—	—
Public Safety	—	—	—	—
Public works and streets	—	—	—	—
Community Development	—	—	—	—
Culture and recreation	5,139,747	—	—	41,263
Debt service:				
Administrative charges	—	—	—	—
Principal retirement	—	—	—	—
Interest	—	—	—	—
Bond issuance costs	—	—	—	—
Capital outlay:				
Public Safety	—	—	—	—
Culture and recreation	—	—	—	—
Total expenditures	<u>5,139,747</u>	<u>—</u>	<u>—</u>	<u>41,263</u>
Excess (deficiency) of revenues over expenditures	<u>(3,260,457)</u>	<u>65,514</u>	<u>47,561</u>	<u>783,746</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,963,887	—	—	—
Transfers out	(10,747)	—	—	(573,090)
Issuance of debt	—	—	—	—
Total other financing sources (uses)	<u>2,953,140</u>	<u>—</u>	<u>—</u>	<u>(573,090)</u>
Net change in fund balances	<u>(307,317)</u>	<u>65,514</u>	<u>47,561</u>	<u>210,656</u>
Fund balances - beginning, as restated	<u>891,099</u>	<u>—</u>	<u>—</u>	<u>850,921</u>
Increase / (Decrease) in inventories	<u>2,093</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund balances - ending	<u>\$ 585,875</u>	<u>\$ 65,514</u>	<u>\$ 47,561</u>	<u>\$ 1,061,577</u>

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, 2021

163rd Ave Development Fee Fund	Fire Development Fee Fund	Parks and Recreation Development Fee Fund	Police Development Fee Fund	Street Lighting Districts Fund
\$ —	\$ —	\$ —	\$ —	\$ 2,612,651
—	—	—	—	—
—	—	—	—	8,720
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	2,485,479	2,473,480	1,239,482	—
222	12,503	3,539	6,860	467
—	—	—	—	—
—	2,036	2,036	2,036	—
222	2,500,018	2,479,055	1,248,378	2,621,838
—	22,878	77,155	22,878	65,594
—	—	—	—	—
—	—	—	—	2,389,816
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	200,460	—	154,314	—
—	—	—	—	—
—	223,338	77,155	177,192	2,455,410
222	2,276,680	2,401,900	1,071,186	166,428
—	—	—	—	—
—	(66,912)	(437,586)	(135,417)	—
—	—	—	—	—
—	(66,912)	(437,586)	(135,417)	—
222	2,209,768	1,964,314	935,769	166,428
114,095	7,299,805	2,744,102	3,982,374	508,603
—	—	—	—	—
\$ 114,317	\$ 9,509,573	\$ 4,708,416	\$ 4,918,143	\$ 675,031

City of Surprise, ArizonaCombining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2021

	Marley Park Community Facility District Fund	Total Nonmajor Special Revenue Funds
REVENUES		
Taxes	\$ 1,459,531	\$ 4,836,302
Intergovernmental revenues	—	531,311
Charges for services	—	1,599,593
Grants revenue	—	3,826,759
Fines	—	191,165
Rents	—	317,481
Development fees	—	6,198,441
Interest revenue	—	34,620
Donations	—	250
Other revenue	—	9,887
Total revenues	1,459,531	17,545,809
EXPENDITURES		
Current:		
General Government	—	225,655
Public Safety	—	1,242,976
Public works and streets	—	2,728,982
Community Development	—	25,169
Culture and recreation	125,844	7,461,364
Debt service:		
Administrative charges	400	400
Principal retirement	695,000	695,000
Interest	678,755	678,755
Bond issuance costs	32,550	32,550
Capital outlay:		
Public Safety	—	495,504
Culture and recreation	—	676,314
Total expenditures	1,532,549	14,262,669
Excess (deficiency) of revenues over expenditures	(73,018)	3,283,140
OTHER FINANCING SOURCES (USES)		
Transfers in	—	3,100,885
Transfers out	—	(1,223,925)
Issuance of debt	32,250	32,250
Premium on debt issuance	—	—
Total other financing sources (uses)	32,250	5,192,350
Net change in fund balances	(40,768)	
Fund balances - beginning, as restated	234,361	17,802,574
Increase / (Decrease) in inventories	—	2,093
Fund balances - ending	\$ 193,593	\$ 22,997,017

City of Surprise, Arizona

Schedule of Revenues, Expenditures, and changes in Fund Balances - Budget to Actual

Grants Fund

For the Year Ended June 30, 2021

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Grants revenue	\$ 26,585,000	\$ 18,216,900	\$ 1,702,193	\$ (16,514,707)
Total revenues	26,585,000	18,216,900	1,702,193	(16,514,707)
EXPENDITURES				
Current:				
General Government				
City manager	—	18,200	—	18,200
City attorney	86,800	94,500	36,442	58,058
Parks and recreation	—	800	708	92
Public Safety				
City manager	—	1,000	—	1,000
Police	450,900	851,900	431,563	420,337
Fire-Medical	683,400	731,200	620,533	110,667
Community Development				
Community development	203,500	181,200	25,169	156,031
Culture and recreation				
Human services and community vitality	58,400	712,400	633,589	78,811
Contingency				
Contingency	25,000,000	332,000	—	332,000
Total current	26,483,000	2,923,200	1,748,004	1,175,196
Capital Outlay:				
Public Safety				
Police	96,900	50,300	32,811	17,489
Fire-medical	20,000	20,000	19,626	374
Total capital outlay	116,900	70,300	52,437	17,863
Total expenditures	26,599,900	2,993,500	1,800,441	1,193,059
Excess (deficiency) of revenues over expenditures	(14,900)	15,223,400	(98,248)	(15,321,648)
Net change in fund balances	\$ (14,900)	\$ 15,223,400	\$ (98,248)	\$ (15,321,648)

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, 2021

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues	\$ 369,100	\$ 369,100	\$ 347,127	\$ (21,973)
Interest revenue	—	—	—	—
Total revenues	369,100	369,100	347,127	(21,973)
EXPENDITURES				
Current:				
Public Works and Streets				
Public works and streets	355,000	355,000	339,166	15,834
Contingency	14,300	14,300	—	14,300
Total current	369,300	369,300	339,166	30,134
Total expenditures	369,300	369,300	339,166	30,134
revenues over expenditures	(200)	(200)	7,961	8,161
Net change in fund balances	\$ (200)	\$ (200)	\$ 7,961	\$ 8,161

City of Surprise, Arizona

Schedule of Revenues, Expenditure, and Changes in Fund Balances - Budget to Actual

Municipal Court Enhancement Fund

For the Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines	\$ 85,800	\$ 85,800	\$ 58,091	\$ (27,709)
Interest revenue	—	—	284	284
Total revenues	85,800	85,800	58,375	(27,425)
EXPENDITURES				
Current:				
Public Safety				
Court	40,000	40,000	—	40,000
Contingency				
Contingency	—	—	—	—
Total current	40,000	40,000	—	40,000
Total expenditures	40,000	40,000	—	40,000
Excess (deficiency) of revenues over expenditures	45,800	45,800	58,375	12,575
Net change in fund balances	\$ 45,800	\$ 45,800	\$ 58,375	\$ 12,575

City of Surprise, Arizona

Schedule of Revenues, Expenditure, and Changes in Fund Balances - Budget to Actual

Municipal Court FARE Fund

For the Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ 5,500	\$ 5,500	\$ 1,792	\$ (3,708)
Interest revenue	—	—	32	32
Total revenues	5,500	5,500	1,824	(3,676)
EXPENDITURES				
Contingency				
Contingency	—	—	—	—
Total current	—	—	—	—
Total expenditures	—	—	—	—
expenditures	5,500	5,500	1,824	(3,676)
Net change in fund balances	\$ 5,500	\$ 5,500	\$ 1,824	\$ (3,676)

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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines	\$ 20,000	\$ 20,000	\$ 16,598	\$ (3,402)
Interest revenue	—	—	112	112
Total revenues	20,000	20,000	16,710	(3,290)
EXPENDITURES				
Current:				
Contingency				
Contingency	—	—	—	—
Total current	—	—	—	—
Total expenditures	—	—	—	—
expenditures	20,000	20,000	16,710	(3,290)
Net change in fund balances	\$ 20,000	\$ 20,000	\$ 16,710	\$ (3,290)

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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental revenues	\$ 6,500	\$ 6,500	\$ 9,038	\$ 2,538
Interest revenue	—	—	51	51
Total revenues	6,500	6,500	9,089	2,589
EXPENDITURES				
Current:				
Contingency				
Contingency	—	—	—	—
Total current	—	—	—	—
Total expenditures	—	—	—	—
expenditures	6,500	6,500	9,089	2,589
Net change in fund balances	\$ 6,500	\$ 6,500	\$ 9,089	\$ 2,589

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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Grants revenue	\$ 3,430,100	\$ 4,311,700	\$ 2,124,566	\$ (2,187,134)
Total revenues	3,430,100	4,311,700	2,124,566	(2,187,134)
EXPENDITURES				
Current:				
Culture and Recreation				
Human services and community vitality	3,439,300	4,290,200	1,445,270	2,844,930
Total current	3,439,300	4,290,200	1,445,270	2,844,930
Capital outlay:				
Culture and Recreation				
Human services and community vitality	—	—	676,314	(676,314)
Total capital outlay	—	—	676,314	(676,314)
Total expenditures	3,439,300	4,290,200	2,121,584	2,168,616
Excess (deficiency) of revenues over expenditures	(9,200)	21,500	2,982	(18,518)
Net change in fund balances	\$ (9,200)	\$ 21,500	\$ 2,982	\$ (18,518)

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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 26,400	\$ 26,400	\$ 11,091	\$ (15,309)
Interest revenue	3,600	3,600	488	(3,112)
Total revenues	30,000	30,000	11,579	(18,421)
EXPENDITURES				
Current:				
Culture and Recreation				
Sports and Tourism	165,000	165,000	75,651	89,349
Contingency	—	—	—	—
Total current	165,000	165,000	75,651	89,349
Total expenditures	165,000	165,000	75,651	89,349
Excess (deficiency) of revenues over expenditures	(135,000)	(135,000)	(64,072)	70,928
OTHER FINANCING SOURCES (USES)				
Transfers in	125,800	125,800	136,998	11,198
Total other financing sources (uses)	125,800	125,800	136,998	11,198
Net change in fund balances	\$ (9,200)	\$ (9,200)	\$ 72,926	\$ 82,126

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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines	\$ 15,900	\$ 15,900	\$ 15,069	\$ (831)
Interest revenue	—	—	50	50
Total revenues	15,900	15,900	15,119	(781)
EXPENDITURES				
Current:				
Public Safety				
Police	15,900	15,900	15,900	—
Contingency				
Contingency	—	—	—	—
Total current	15,900	15,900	15,900	—
Total expenditures	15,900	15,900	15,900	—
Excess (deficiency) of revenues over expenditures	—	—	(781)	(781)
Net change in fund balances	\$ —	\$ —	\$ (781)	\$ (781)

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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Interest revenue	\$ —	\$ —	\$ 34	\$ 34
Total revenues	—	—	34	34
EXPENDITURES				
Current:				
Contingency				
Contingency	—	—	—	—
Total current	—	—	—	—
Total expenditures	—	—	—	—
Excess (deficiency) of revenues over expenditures	—	—	34	34
OTHER FINANCING SOURCES (USES)				
Total other financing sources (uses)	—	—	—	—
Net change in fund balances	\$ —	\$ —	\$ 34	\$ 34

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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines	\$ 245,000	\$ 245,000	\$ 101,407	\$ (143,593)
Interest revenue	—	—	8,258	\$ 8,258
Other revenue	—	—	708	708
Total revenues	245,000	245,000	110,373	(134,627)
EXPENDITURES				
Current:				
Public Safety				
Police	510,800	390,800	135,978	254,822
Contingency	—	—	—	—
Total current	510,800	390,800	135,978	254,822
Capital outlay:				
Public Safety				
Police	—	120,000	88,293	31,707
Total capital outlay	—	120,000	88,293	31,707
Total expenditures	510,800	510,800	224,271	286,529
Excess (deficiency) of revenues over expenditures	(265,800)	(265,800)	(113,898)	151,902
OTHER FINANCING SOURCES (USES)				
Transfers in	—	—	—	—
Total other financing sources (uses)	—	—	—	—
Net change in fund balances	\$ (265,800)	\$ (265,800)	\$ (113,898)	\$ 151,902

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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 62,500	\$ 62,500	\$ 22,200	\$ (40,300)
Interest revenue	—	—	204	204
Total revenues	62,500	62,500	22,404	(40,096)
EXPENDITURES				
Current:				
Public Safety				
Police	114,300	115,500	39,002	76,498
Contingency				
Contingency	1,200	—	—	—
Total current	115,500	115,500	39,002	76,498
Capital outlay:				
Public Safety				
Police	—	—	—	—
Total capital outlay	—	—	—	—
Total expenditures	115,500	115,500	39,002	76,498
Excess (deficiency) of revenues over expenditures	(53,000)	(53,000)	(16,598)	36,402
OTHER FINANCING SOURCES (USES)				
Transfers out	(200)	(200)	(173)	27
Total other financing sources (uses)	(200)	(200)	(173)	27
Net change in fund balances	\$ (53,200)	\$ (53,200)	\$ (16,771)	\$ 36,429

City of Surprise, Arizona

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

Sports & Tourism Fund

For the Year Ended June 30, 2021

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Charges for services	\$ 2,914,400	\$ 2,914,400	\$ 1,557,582	\$ (1,356,818)
Rents	263,900	263,900	317,481	53,581
Interest revenue	—	—	906	906
Donations	4,000	4,000	250	(3,750)
Other Revenue	—	—	3,071	3,071
Total revenues	3,182,300	3,182,300	1,879,290	(1,303,010)
EXPENDITURES				
Current:				
General Government	1,150,200	1,183,500	—	1,183,500
Sports and Tourism	5,004,500	5,102,100	5,139,747	(37,647)
Contingency	656,300	600,000	—	600,000
Total current	6,811,000	6,885,600	5,139,747	1,745,853
Total expenditures	6,811,000	6,885,600	5,139,747	1,745,853
Excess (deficiency) of revenues over expenditures	(3,628,700)	(3,703,300)	(3,260,457)	442,843
OTHER FINANCING SOURCES				
Transfers in	3,041,100	3,041,100	2,963,887	(77,213)
Transfers out	(12,400)	(12,400)	(10,747)	1,653
Total other financing sources (uses)	3,028,700	3,028,700	2,953,140	(75,560)
Net change in fund balances	\$ (600,000)	\$ (674,600)	\$ (307,317)	\$ 367,283

City of Surprise, Arizona

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

Smart & Safe Police Fund

For the Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ —	\$ —	\$ —	\$ —
Intergovernmental revenues	—	—	65,514	65,514
Charges for Services	—	—	—	—
Interest revenue	—	—	—	—
Total revenues	—	—	65,514	65,514
EXPENDITURES				
Current:				
Culture and Recreation				
Sports and Tourism	—	—	—	—
Contingency				
Contingency	—	—	—	—
Total current	—	—	—	—
Total expenditures	—	—	—	—
Excess (deficiency) of revenues over	—	—	65,514	65,514
OTHER FINANCING SOURCES (USES)				
Transfers out	—	—	—	—
Total other financing sources (uses)	—	—	—	—
Net change in fund balances	\$ —	\$ —	\$ 65,514	\$ 65,514

City of Surprise, Arizona

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

Smart & Safe Fire-Medical Fund

For the Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ —	\$ —	\$ —	\$ —
Intergovernmental revenues	—	—	47,561	47,561
Charges for Services	—	—	—	—
Interest revenue	—	—	—	—
Total revenues	—	—	47,561	47,561
EXPENDITURES				
Current:				
Culture and Recreation				
Sports and Tourism	—	—	—	—
Contingency				
Contingency	—	—	—	—
Total current	—	—	—	—
Total expenditures	—	—	—	—
Excess (deficiency) of revenues over expenditures	—	—	47,561	47,561
OTHER FINANCING SOURCES (USES)				
Transfers out	—	—	—	—
Total other financing sources (uses)	—	—	—	—
Net change in fund balances	\$ —	\$ —	\$ 47,561	\$ 47,561

City of Surprise, Arizona

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

Tourism Fund

For the Year Ended June 30, 2021

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Taxes	\$ 605,400	\$ 655,400	\$ 764,120	\$ 108,720
Intergovernmental revenues	106,800	106,800	60,279	(46,521)
Charges for Services	—	—	—	—
Interest revenue	—	—	610	610
Total revenues	712,200	762,200	825,009	62,809
EXPENDITURES				
Current:				
Culture and Recreation				
Sports and Tourism	106,800	156,800	41,263	115,537
Contingency				
Contingency	5,000	5,000	—	5,000
Total current	111,800	161,800	41,263	120,537
Total expenditures	111,800	161,800	41,263	120,537
Excess (deficiency) of revenues over	600,400	600,400	783,746	183,346
OTHER FINANCING SOURCES (USES)				
Transfers out	(464,400)	(464,400)	(573,090)	(108,690)
Total other financing sources (uses)	(464,400)	(464,400)	(573,090)	(108,690)
Net change in fund balances	\$ 136,000	\$ 136,000	\$ 210,656	\$ 74,656

City of Surprise, ArizonaSchedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual
163rd Ave Development Fee Fund
For the Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Interest revenue	\$ 2,000	\$ 2,000	\$ 222	\$ (1,778)
Total revenues	2,000	2,000	222	(1,778)
EXPENDITURES				
Capital outlay:				
Public works and streets	115,500	115,500	—	115,500
Total capital outlay	115,500	115,500	—	115,500
Total expenditures	115,500	115,500	—	115,500
Excess (deficiency) of revenues over expenditures	(113,500)	(113,500)	222	113,722
Net change in fund balances	\$ (113,500)	\$ (113,500)	\$ 222	\$ 113,722

City of Surprise, Arizona

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

Fire Development Fee Fund

For the Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Development fees	\$ 1,237,700	\$ 1,237,700	\$ 2,485,479	\$ 1,247,779
Other revenue	—	—	2,036	2,036
Interest revenue	—	—	12,503	12,503
Total revenues	1,237,700	1,237,700	2,500,018	1,262,318
EXPENDITURES				
Current				
General operations	29,300	29,300	22,878	6,422
Fire-medical	262,000	350,000	—	350,000
Contingency	500,000	—	—	—
Debt Service				
Fire-medical	—	—	—	—
Capital outlay				
Fire-medical	—	1,696,300	200,460	1,495,840
Total expenditures	791,300	2,075,600	223,338	1,852,262
Excess (deficiency) of revenues over expenditures	446,400	(837,900)	2,276,680	3,114,580
OTHER FINANCING SOURCES (USES)				
Transfers In	—	—	—	—
Transfers Out	(66,900)	(66,900)	(66,912)	(12)
Total other financing sources (uses)	(66,900)	(66,900)	(66,912)	(12)
Net change in fund balances	\$ 379,500	\$ (904,800)	\$ 2,209,768	\$ 3,114,568

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, 2021

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Development fees	\$ 2,090,300	\$ 2,090,300	\$ 2,473,480	\$ 383,180
Other revenue	—	—	2,036	2,036
Interest revenue	—	—	3,539	3,539
Total revenues	2,090,300	2,090,300	2,479,055	388,755
EXPENDITURES				
Current:				
General Government				
General operations	279,300	279,300	77,155	202,145
Community Development				
Economic development	59,800	59,800	—	59,800
Culture and Recreation				
Culture and recreation	—	—	—	—
Contingency	—	—	—	—
Total current	339,100	339,100	77,155	261,945
Capital outlay:				
Parks and Recreation	13,800	13,800	—	13,800
Total capital outlay	13,800	13,800	—	13,800
Total expenditures	352,900	352,900	77,155	275,745
Excess (deficiency) of revenues over expenditures	1,737,400	1,737,400	2,401,900	664,500
OTHER FINANCING SOURCES (USES)				
Transfers in	—	—	—	—
Transfers out	(437,600)	(437,600)	(437,586)	14
Total other financing sources (uses)	(437,600)	(437,600)	(437,586)	14
Net change in fund balances	\$ 1,299,800	\$ 1,299,800	\$ 1,964,314	\$ 664,514

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, 2021

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Development fees	\$ 756,600	\$ 756,600	\$ 1,239,482	\$ 482,882
Other revenue	—	—	2,036	2,036
Interest revenue	—	—	6,860	6,860
Total revenues	756,600	756,600	1,248,378	491,778
EXPENDITURES				
Current:				
General Government				
General operations	27,800	27,800	22,878	4,922
Contingency				
Contingency	—	—	—	—
Total current	27,800	27,800	22,878	4,922
Public Safety				
Police	50,000	1,309,000	154,314	1,154,686
Total capital outlay	50,000	1,309,000	154,314	1,154,686
Total expenditures	77,800	1,336,800	177,192	1,159,608
Excess (deficiency) of revenues over expenditures	678,800	(580,200)	1,071,186	1,651,386
OTHER FINANCING SOURCES (USES)				
Transfers in	—	—	—	—
Transfers out	(135,400)	(135,400)	(135,417)	(17)
Total other financing sources (uses)	(135,400)	(135,400)	(135,417)	(17)
Net change in fund balances	\$ 543,400	\$ (715,600)	\$ 935,769	\$ 1,651,369

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, 2021

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Taxes	\$ 2,646,300	\$ 2,646,300	\$ 2,612,651	\$ (33,649)
Charges for services	—	—	8,720	8,720
Interest revenue	—	—	467	467
Total revenues	2,646,300	2,646,300	2,621,838	(24,462)
EXPENDITURES				
Current:				
General Government				
General operations	—	—	65,594	(65,594)
Public Works and Streets				
Public works and streets	2,962,900	2,962,900	2,389,816	573,084
Total current	2,962,900	2,962,900	2,455,410	507,490
Total expenditures	2,962,900	2,962,900	2,455,410	507,490
Excess (deficiency) of revenues over expenditures	(316,600)	(316,600)	166,428	483,028
Net change in fund balances	\$ (316,600)	\$ (316,600)	\$ 166,428	\$ 483,028

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, 2021

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Taxes	\$ 1,481,600	\$ 1,481,600	\$ 1,459,531	\$ (22,069)
Other revenue	—	—	—	—
Total revenues	1,481,600	1,481,600	1,459,531	(22,069)
EXPENDITURES				
Current:				
Culture and Recreation				
Parks and recreation	127,800	127,800	125,844	1,956
Contingency	100,000	100,000	—	100,000
Total current	227,800	227,800	125,844	101,956
Debt service:				
Administrative charges	4,000	4,000	400	3,600
Principal retirement	695,000	695,000	695,000	—
Interest	678,800	678,800	678,755	45
Bond issuance costs	—	—	32,550	(32,550)
Total debt service	1,377,800	1,377,800	1,406,705	(28,905)
Capital outlay:				
General Government				
General operations	—	—	—	—
Total capital outlay	—	—	—	—
Total expenditures	1,605,600	1,605,600	1,532,549	73,051
Excess (deficiency) of revenues over expenditures	(124,000)	(124,000)	(73,018)	50,982
OTHER FINANCING SOURCES (USES)				
Issuance of debt	—	—	32,250	32,250
Premium on debt issuance	—	—	—	—
Total other financing sources (uses)	—	—	32,250	32,250
Net change in fund balances	\$ (124,000)	\$ (124,000)	\$ (40,768)	\$ 83,232

- ❖ 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, 2021

	Risk Management Fund	Employee Healthcare Trust	Workers' Compensation Fund	Total Internal Service funds
ASSETS				
Current assets:				
Cash and investments	\$ 4,643,315	\$ 8,463,001	\$ 3,621,408	\$ 16,727,724
Receivables (net of allowances)				
Other	—	168,260	—	168,260
Other assets	1,626	2,363	—	3,989
Total current assets	4,644,941	8,633,624	3,621,408	16,899,973
Noncurrent assets:				
Net other postemployment benefits asset	1,049	464	379	1,892
Total noncurrent assets	1,049	464	379	1,892
Total assets	4,645,990	8,634,088	3,621,787	16,901,865
RESOURCES				
Deferred outflows related to pensions	48,428	21,430	17,498	87,356
Deferred outflows related to other postemployment benefits	2,996	1,326	1,083	5,405
Total deferred outflows of resources	51,424	22,756	18,581	92,761
Total assets and deferred outflows of resources	<u>\$ 4,697,414</u>	<u>\$ 8,656,844</u>	<u>\$ 3,640,368</u>	<u>\$ 16,994,626</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 16,556	\$ 107,315	\$ 1,531	\$ 125,402
Accrued payroll and related taxes	10,841	4,534	900	16,275
Claims payable	245,082	1,511,371	303,661	2,060,114
Compensated absences payable, due in less than one year	4,801	4,246	1,453	10,500
Total current liabilities	277,280	1,627,466	307,545	2,212,291
Noncurrent liabilities:				
Compensated absences payable, due in more than one year	7,833	6,928	2,370	17,131
Net pension liability	252,541	111,753	91,249	455,543
Net other postemployment benefits liability	1,116	494	403	2,013
Total noncurrent liabilities	261,490	119,175	94,022	474,687
Total liabilities	538,770	1,746,641	401,567	2,686,978
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	2,912	1,289	1,052	5,253
Deferred inflows related to other postemployment benefits	2,113	935	764	3,812
Total deferred inflows of resources	5,025	2,224	1,816	9,065
Total liabilities and deferred inflows of resources	543,795	1,748,865	403,383	2,696,043
NET POSITION				
Unrestricted	4,153,619	6,907,979	3,236,985	14,298,583
Total net position	<u>\$ 4,153,619</u>	<u>\$ 6,907,979</u>	<u>\$ 3,236,985</u>	<u>\$ 14,298,583</u>

City of Surprise, Arizona

Combining Statement of Revenues, Expenditures, and Changes in Net Position

Internal Service Funds

For the Year Ended June 30, 2021

	Risk Management Fund	Employee Healthcare Trust	Workers' Compensation Fund	Total Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 2,280,550	\$ 12,979,017	\$ 1,209,409	\$ 16,468,976
Other revenue	1,086,156	5,691	1,564	1,093,411
Total operating revenues	3,366,706	12,984,708	1,210,973	17,562,387
OPERATING EXPENSES				
Personnel services	205,540	99,316	50,424	355,280
Contractual services, materials & supplies	29,179	111,068	118,422	258,669
Insurance claims, premiums, and administrative expenses	2,466,309	12,574,605	870,428	15,911,342
Total operating expenses	2,701,028	12,784,989	1,039,274	16,525,291
Operating income (loss)	665,678	199,719	171,699	1,037,096
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	6,457	9,980	4,894	21,331
Total nonoperating revenues (expenses)	6,457	9,980	4,894	21,331
Income (loss) before contributions and transfers	672,135	209,699	176,593	1,058,427
Transfers in	2,000	—	1,304,100	1,306,100
Change in net position	674,135	209,699	1,480,693	2,364,527
Total net position - beginning	3,479,484	6,698,280	1,756,292	11,934,056
Total net position - ending	\$ 4,153,619	\$ 6,907,979	\$ 3,236,985	\$ 14,298,583

City of Surprise, Arizona
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2021

	Risk Management Fund	Employee Healthcare Trust	Workers' Compensation Fund	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ —	\$ 609,317	\$ 6,073	\$ 615,390
Cash receipts from interfund services provided	2,280,550	12,479,689	1,203,336	15,963,575
Payments to employees	(256,510)	(102,470)	(55,874)	(414,854)
Payments to suppliers	(14,781)	(60,676)	(105,925)	(181,382)
Payments for insurance claims and expenses	(2,338,791)	(12,874,051)	(769,514)	(15,982,356)
Other receipts	1,686,993	5,691	1,564	1,694,248
Net cash provided (used) by operating activities	1,357,461	57,500	279,660	1,694,621
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Cash received from other funds	2,000	—	1,304,100	1,306,100
Net cash provided (used) by noncapital financing activities	2,000	—	1,304,100	1,306,100
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash received from interest income	6,457	9,980	4,894	21,331
Net cash provided (used) by investing activities	6,457	9,980	4,894	21,331
Net increase (decrease) in cash and cash equivalents	1,365,918	67,480	1,588,654	3,022,052
Balances - beginning of year	3,277,397	8,395,521	2,032,754	13,705,672
Balances - end of the year	\$ 4,643,315	\$ 8,463,001	\$ 3,621,408	\$ 16,727,724
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating Income (loss)	\$ 665,678	\$ 199,719	\$ 171,699	\$ 1,037,096
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Changes in assets and liabilities:				
Other receivables	600,837	109,989	—	710,826
Other assets	181	948	18,305	19,434
Accounts payable	14,217	49,444	(5,808)	57,853
Accrued payroll and related taxes	835	698	(2,387)	(854)
Compensated absences	5,321	5,158	(4,608)	5,871
Net pension liability	(56,979)	(8,904)	1,654	(64,229)
Claims payable	127,518	(299,446)	100,914	(71,014)
Net other postemployment asset/liability	(147)	(106)	(109)	(362)
Net cash provided (used) by operating activities	\$ 1,357,461	\$ 57,500	\$ 279,660	\$ 1,694,621
Noncash investing, capital and financing				
Increase in the fair market value of investments	\$ (13,911)	\$ (16,354)	\$ (11,700)	\$ (41,965)
Total noncash investing, capital and financing activities	\$ (13,911)	\$ (16,354)	\$ (11,700)	\$ (41,965)



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 Annual Comprehensive Reports for the relevant year.



SURPRISE

ARIZONA



SURPRISE

ARIZONA

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

	2012	2013	2014	2015
Governmental activities				
Net investment of capital assets	\$ 445,035,827	\$ 428,076,477	\$ 413,717,047	\$ 409,274,827
Restricted	27,011,749	28,105,434	29,650,958	27,948,361
Unrestricted	4,750,944	19,164,721	25,538,922	(18,482,747)
Total governmental activities net position	<u>\$ 476,798,520</u>	<u>\$ 475,346,632</u>	<u>\$ 468,906,927</u>	<u>\$ 418,740,441</u>
Business-type activities				
Net investment of capital assets	\$ 269,712,138	\$ 262,605,698	\$ 263,420,571	\$ 264,678,599
Restricted	6,673,158	6,867,426	6,895,582	5,381,403
Unrestricted	54,053,088	60,409,577	57,257,700	44,564,505
Total business-type activities net position	<u>\$ 330,438,384</u>	<u>\$ 329,882,701</u>	<u>\$ 327,573,853</u>	<u>\$ 314,624,507</u>
Primary government				
Net investment of capital assets	\$ 714,747,965	\$ 690,682,175	\$ 677,137,618	\$ 673,953,426
Restricted	33,684,907	34,972,860	36,546,540	33,329,764
Unrestricted	58,804,032	79,574,298	82,796,622	26,081,758
Total primary government net position	<u>\$ 807,236,904</u>	<u>\$ 805,229,333</u>	<u>\$ 796,480,780</u>	<u>\$ 733,364,948</u>

Source: City financial records

	2016	2017	2018	2019	2020	2021
\$	405,111,110	\$ 392,458,485	\$ 393,984,378	\$ 399,420,150	\$ 435,144,710	\$ 502,976,390
	22,743,525	24,613,341	67,683,440	29,462,370	21,821,951	39,557,045
	(16,896,594)	(27,479,276)	(57,592,973)	1,815,847	28,238,342	75,855,018
\$	<u>410,958,041</u>	<u>\$ 389,592,550</u>	<u>\$ 404,074,845</u>	<u>\$ 430,698,367</u>	<u>\$ 485,205,003</u>	<u>\$ 618,388,453</u>
\$	270,081,565	\$ 279,249,380	\$ 277,989,957	\$ 274,750,943	\$ 282,360,332	\$ 320,299,739
	13,039,887	12,326,207	14,365,125	12,932,109	13,735,679	9,425,177
	29,979,759	22,570,204	31,396,601	43,938,146	52,259,316	67,556,649
\$	<u>313,101,211</u>	<u>\$ 314,145,791</u>	<u>\$ 323,751,683</u>	<u>\$ 331,621,198</u>	<u>\$ 348,355,327</u>	<u>\$ 397,281,565</u>
\$	675,192,675	\$ 671,707,865	\$ 671,974,335	\$ 674,171,093	\$ 717,505,042	\$ 823,276,129
	35,783,412	36,939,548	82,048,565	42,394,479	35,557,630	48,982,222
	13,083,165	(4,909,072)	(26,196,372)	45,753,993	80,497,658	143,411,667
\$	<u>724,059,252</u>	<u>\$ 703,738,341</u>	<u>\$ 727,826,528</u>	<u>\$ 762,319,565</u>	<u>\$ 833,560,330</u>	<u>\$ 1,015,670,018</u>

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

	2012	2013	2014	2015
Expenses				
Governmental Activities:				
General government	\$ 17,438,582	\$ 14,958,702	\$ 16,079,202	\$ 21,038,892
Public safety	39,628,843	39,096,150	40,931,709	44,415,505
Public works & streets	29,415,043	33,710,624	34,988,682	35,141,030
Community development	7,401,566	7,668,373	8,388,639	5,205,925
Culture and recreation	16,189,568	16,285,289	17,228,719	21,863,417
Interest	1,594,060	1,505,313	1,378,709	1,635,320
Total governmental activities expenses	111,667,662	113,224,451	118,995,660	129,300,089
Business-type Activities:				
Ground ambulance services	—	—	—	—
Sanitation	6,047,844	5,934,789	7,144,521	7,883,309
Sewer	19,325,017	18,717,547	20,072,400	20,360,031
Stormwater	—	—	—	—
Water	10,792,041	10,849,653	10,546,378	10,619,858
Total business-type activities	36,164,902	35,501,989	37,763,299	38,863,198
Total primary government expenses	\$ 147,832,564	\$ 148,726,440	\$ 156,758,959	\$ 168,163,287
Program Revenues				
Governmental Activities:				
Charges for services:				
General government	\$ 6,435,843	\$ 6,313,245	\$ 8,494,212	\$ 5,301,697
Public safety	3,096,058	2,922,055	1,306,553	2,963,326
Public works & streets	3,238,179	792,288	499,338	507,198
Community development	1,622,594	2,003,777	1,697,315	2,005,421
Culture and recreation	5,307,491	4,837,786	4,917,918	5,313,203
Operating grants and contributions	8,207,130	10,139,981	9,833,470	9,908,788
Capital grants and contributions	32,449,260	5,925,348	2,877,937	11,561,202
Total governmental activities program revenues	60,356,555	32,934,480	29,626,743	37,560,835
Business-type activities:				
Charges for services:				
Ground ambulance services	—	—	—	—
Sanitation	6,700,961	6,862,696	7,000,935	6,952,296
Sewer	15,481,721	15,904,030	16,046,564	17,950,085
Stormwater	—	—	—	—
Water	10,047,169	10,073,124	9,987,819	10,814,903
Operating grants and contributions	—	—	—	—
Capital grants and contributions	14,502,214	4,427,857	3,270,131	129,722
Total business-type activities program revenues	46,732,065	37,267,707	36,305,449	35,847,006
Total primary government program revenues	\$ 107,088,620	\$ 70,202,187	\$ 65,932,192	\$ 73,407,841

	2016	2017	2018	2019	2020	2021
\$	18,906,430	\$ 27,733,034	\$ 24,693,086	\$ 18,847,192	\$ 30,683,840	\$ 27,692,032
	47,273,449	64,148,194	51,157,392	60,235,535	60,035,327	66,442,651
	38,670,796	41,540,981	37,661,923	41,578,280	46,270,405	39,687,896
	10,235,430	12,326,274	12,345,202	12,382,036	12,764,778	11,564,452
	25,690,406	22,555,794	26,471,045	24,970,626	20,925,306	29,248,928
	1,472,910	1,381,807	1,927,016	2,473,876	2,635,766	2,695,568
	142,249,421	169,686,084	154,255,664	160,487,545	173,315,422	177,331,527
	—	—	3,141,623	3,375,334	4,407,898	4,696,823
	7,972,061	9,034,441	8,557,348	8,657,107	9,077,490	7,669,633
	20,399,067	19,519,303	20,039,173	19,340,045	19,418,478	24,744,000
	—	187,744	775,651	1,363,889	1,209,576	1,167,538
	11,823,538	15,013,661	10,926,918	11,690,946	18,376,477	19,000,628
	40,194,666	43,755,149	43,440,713	44,427,321	52,489,919	57,278,622
\$	182,444,087	\$ 213,441,233	\$ 197,696,377	\$ 204,914,866	\$ 225,805,341	\$ 234,610,149
\$	5,041,335	\$ 5,863,856	\$ 7,171,091	\$ 6,744,068	\$ 6,729,339	\$ 8,125,797
	3,778,584	3,600,402	2,801,908	1,948,725	1,581,814	1,754,361
	853,321	1,445,873	2,252,924	4,100,847	3,570,832	5,283,508
	2,552,293	3,770,393	7,384,028	9,901,258	12,206,567	16,185,099
	5,894,021	5,586,303	5,507,476	5,590,198	3,311,464	3,480,856
	11,178,339	12,097,958	12,530,903	11,555,218	21,503,712	22,709,789
	11,558,409	14,356,832	25,485,790	22,468,016	42,184,054	92,168,449
	40,856,302	46,721,617	63,134,120	62,308,330	91,087,782	149,707,859
	—	—	2,974,704	3,284,354	3,946,881	4,541,588
	7,099,896	7,525,140	7,485,027	7,859,915	10,380,560	12,271,547
	16,151,096	17,190,499	17,345,559	17,612,146	19,142,098	20,301,588
	—	1,282,788	1,834,202	1,987,661	1,934,275	2,554,905
	12,195,621	14,048,726	14,227,502	16,125,842	18,226,759	20,727,214
	—	—	—	—	60,647	14,820
	3,107,265	5,788,132	9,682,391	5,509,692	15,030,201	46,935,506
	38,553,878	45,835,285	53,549,385	52,379,610	68,721,421	107,347,168
\$	79,410,180	\$ 92,556,902	\$ 116,683,505	\$ 114,687,940	\$ 159,809,203	\$ 257,055,027

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

	2012	2013	2014	2015
Net revenue/expense:				
Governmental activities	\$ (51,311,107)	\$ (80,289,971)	\$ (89,368,917)	\$ (91,739,254)
Business-type activities	10,567,163	1,765,718	(1,457,850)	(3,016,192)
Total primary government net expense	<u>\$ (40,743,944)</u>	<u>\$ (78,524,253)</u>	<u>\$ (90,826,767)</u>	<u>\$ (94,755,446)</u>
<u>General Revenues and Other Changes in Net Position</u>				
Governmental activities:				
Taxes				
Property taxes	\$ 6,112,789	\$ 9,274,735	\$ 9,401,277	\$ 9,713,903
Sales taxes	33,266,049	37,836,088	39,685,844	42,111,177
Franchise taxes	4,547,621	4,732,649	5,159,956	5,249,320
Unrestricted State shared revenue	23,434,911	25,983,982	26,722,541	29,879,804
Unrestricted investment earnings	304,846	164,984	329,637	400,260
Other	297,016	562,787	482,776	1,146,649
Transfers	968,148	1,068,522	1,147,181	1,132,145
Total governmental activities	<u>68,931,380</u>	<u>79,623,747</u>	<u>82,929,212</u>	<u>89,633,258</u>
Business-type activities:				
Unrestricted investment earnings	331,127	150,350	296,183	253,407
Other	—	—	—	—
Transfers	(968,148)	(1,068,522)	(1,147,181)	(1,132,145)
Total business-type activities	<u>(637,021)</u>	<u>(918,172)</u>	<u>(850,998)</u>	<u>(878,738)</u>
Total primary government	<u>\$ 68,294,359</u>	<u>\$ 78,705,575</u>	<u>\$ 82,078,214</u>	<u>\$ 88,754,520</u>
<u>Change in Net Position</u>				
Governmental activities	\$ 17,620,273	\$ (666,224)	\$ (6,439,705)	\$ (2,105,996)
Business-type activities	9,930,142	847,546	(2,308,848)	(3,894,930)
Prior period adjustments	—	—	—	—
Total primary government	<u>\$ 27,550,415</u>	<u>\$ 181,322</u>	<u>\$ (8,748,553)</u>	<u>\$ (6,000,926)</u>

Source: City 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 years' financial statements were not restated.

2016	2017	2018	2019	2020	2021
\$ (101,393,119)	\$ (122,964,467)	\$ (91,121,544)	\$ (98,179,215)	\$ (82,227,640)	\$ (27,623,668)
(1,640,788)	2,080,136	10,108,672	7,952,289	16,231,502	50,068,546
\$ (103,033,907)	\$ (120,884,331)	\$ (81,012,872)	\$ (90,226,926)	\$ (65,996,138)	\$ 22,444,878

\$ 9,962,925	\$ 10,441,730	\$ 10,813,317	\$ 16,143,232	\$ 17,015,618	\$ 17,675,230
46,807,817	49,416,383	54,419,572	61,596,634	70,904,612	90,643,310
5,062,719	5,674,974	5,643,876	5,609,625	5,514,602	5,654,379
30,560,635	31,755,661	35,032,519	35,899,596	38,379,519	44,122,121
607,602	26,274	324,501	3,494,962	3,403,862	228,665
407,445	3,129,094	(753,721)	517,587	418,161	1,040,102
201,576	1,154,860	1,355,582	1,541,101	1,097,902	1,443,311
93,610,719	101,598,976	106,835,646	124,802,737	136,734,276	160,807,118

319,068	119,304	141,108	1,458,327	1,556,564	115,514
—	—	—	—	43,965	185,489
(201,576)	(1,154,860)	(1,355,582)	(1,541,101)	(1,097,902)	(1,443,311)
117,492	(1,035,556)	(1,214,474)	(82,774)	502,627	(1,142,308)
\$ 93,728,211	\$ 100,563,420	\$ 105,621,172	\$ 124,719,963	\$ 137,236,903	\$ 159,664,810

\$ (7,782,400)	\$ (21,365,491)	\$ 15,714,102	\$ 26,623,522	\$ 54,506,636	\$ 133,183,450
(1,523,296)	1,044,580	8,894,198	7,869,515	16,734,129	48,926,238
—	—	(520,113)	—	—	—
\$ (9,305,696)	\$ (20,320,911)	\$ 24,088,187	\$ 34,493,037	\$ 71,240,765	\$ 182,109,688

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

	2012	2013	2014	2015	2016
General fund					
Nonspendable	\$ 637,513	\$ 626,565	\$ 821,009	\$ 1,313,505	\$ 1,287,510
Restricted	79,170	77,439	66,385	—	—
Committed	—	—	—	—	—
Assigned	317,343	327,182	360,030	578,518	542,821
Unassigned	4,459,773	17,166,622	26,849,205	34,324,717	37,385,696
Total general fund	\$ 5,493,799	\$ 18,197,808	\$ 28,096,629	\$ 36,216,740	\$ 39,216,027
All other governmental funds					
Nonspendable	\$ 106,844	\$ 134,673	\$ 206,294	\$ 195,374	\$ 368,126
Restricted	26,932,579	28,027,995	29,584,573	46,848,361	23,064,256
Committed	7,915,957	7,266,032	47,607,527	42,241,616	40,246,190
Assigned	42,460,372	44,505,144	1,173,198	1,209,403	469,830
Unassigned	(50,409,260)	(49,901,573)	(50,029,315)	(49,288,936)	(47,671,784)
Total all other governmental funds	\$ 27,006,492	\$ 30,032,271	\$ 28,542,277	\$ 41,205,818	\$ 16,476,618

Source: City financial records

	2017	2018	2019	2020	2021
\$	1,262,361	\$ 1,602,598	\$ 2,197,168	\$ 2,563,831	\$ 3,565,902
	501,278	480,554	454,024	491,526	525,607
	—	—	—	—	—
	338,555	338,167	393,622	490,732	16,732,161
	38,436,548	41,763,040	42,252,127	73,973,321	91,303,747
\$	40,538,742	\$ 44,184,359	\$ 45,296,941	\$ 77,519,410	\$ 112,127,417
\$	618,466	\$ 638,371	\$ 664,672	\$ 415,537	\$ 405,327
	24,112,063	67,202,886	61,562,397	29,864,806	39,031,439
	40,005,619	3,483,301	6,446,528	9,115,539	14,406,518
	1,109,942	2,912,343	19,690,585	17,786,146	38,853,060
	(46,064,773)	(8,258,667)	(5,888,966)	(4,903,347)	(4,669,172)
\$	19,781,317	\$ 65,978,234	\$ 82,475,216	\$ 52,278,681	\$ 88,027,172

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

	2012	2013	2014	2015	2016
Revenues					
Taxes	\$ 42,290,109	\$ 47,442,186	\$ 48,262,126	\$ 52,178,522	\$ 56,908,903
Licenses and permits	4,586,621	4,771,649	5,197,956	4,975,398	5,121,719
Intergovernmental revenues	30,476,028	33,441,035	35,923,296	37,947,604	39,209,688
Charges for services	7,052,487	7,943,039	7,896,783	9,241,853	11,363,453
Grants revenue	1,626,534	2,443,199	2,131,707	1,659,609	3,060,620
Fines	1,870,202	1,986,692	1,498,451	1,768,671	1,214,978
Rents	580,820	584,972	606,679	549,400	630,514
Development fees	2,415,290	2,240,664	1,790,461	2,224,125	3,297,082
Interest revenue	278,177	149,655	307,139	400,260	607,602
Donations	257,372	344,589	148,062	245,671	228,316
Indirect charges	3,660,700	3,660,700	4,682,772	4,682,772	4,884,443
Other revenue	1,175,823	960,297	482,776	1,155,192	392,199
Total revenues	96,270,163	105,968,677	108,928,208	117,029,077	126,919,517
Expenditures					
Current					
General government	12,627,722	11,925,890	13,674,046	20,291,986	16,306,183
Public safety	35,592,854	35,984,984	38,018,470	41,862,877	44,433,546
Public works and streets	14,706,512	15,350,181	16,784,098	17,314,612	20,492,467
Community development	7,336,377	7,605,656	8,344,991	5,074,395	10,080,446
Culture and recreation	13,421,538	13,210,175	14,912,746	19,301,123	18,416,339
Capital outlay	5,177,828	3,215,160	6,409,054	8,604,468	36,511,052
Debt Service					
Principal	2,449,900	2,533,138	2,661,713	2,786,800	2,361,425
Interest	1,594,060	1,505,313	1,378,709	1,245,447	1,749,568
Other charges	—	—	—	389,873	19,762
Total expenditures	92,906,791	91,330,497	102,183,827	116,871,581	150,370,788
Excess of revenues over (under) expenses	3,363,372	14,638,180	6,744,381	157,496	(23,451,271)
Other financing sources (uses)					
Proceeds from sale of assets	—	33,035	240,830	226,080	336,821
Transfers in (out)	968,148	1,068,522	4,803,747	1,132,145	1,150,009
From bonding	—	—	(3,656,566)	19,320,205	—
Insurance recoveries	—	—	—	—	—
Payments to refunded bond escrow agent	—	—	—	—	—
Total other financing sources (uses)	968,148	1,101,557	1,388,011	20,678,430	1,486,830
Net change in fund balances	\$ 4,331,520	\$ 15,739,737	\$ 8,132,392	\$ 20,835,926	\$ (21,964,441)
Debt service as a percentage of noncapital expenditures	4.6 %	4.6 %	4.2 %	4.1 %	3.6 %

Source: City financial records

2017	2018	2019	2020	2021
\$ 59,749,360	\$ 65,257,328	\$ 77,739,476	\$ 87,768,923	\$ 108,394,703
5,811,255	5,817,956	5,991,243	5,944,921	6,168,794
40,430,400	44,773,004	45,774,226	48,421,077	55,052,905
13,127,359	15,186,099	19,189,262	18,680,847	24,318,166
1,856,830	2,691,930	1,581,233	11,165,982	11,476,297
1,052,366	2,281,998	1,788,745	1,340,263	1,441,835
621,033	601,628	724,073	620,862	621,198
4,413,714	5,306,365	6,482,159	5,321,641	6,892,441
24,449	310,038	3,299,929	3,169,797	207,335
160,706	183,307	125,872	103,910	52,791
4,768,960	5,249,200	5,481,600	5,591,100	6,348,174
2,908,665	522,745	726,564	670,836	855,497
134,925,097	148,181,598	168,904,382	188,800,159	221,830,136
16,675,593	16,965,220	17,358,137	18,294,432	20,835,950
47,036,287	51,471,894	51,993,630	53,778,182	56,880,732
20,116,384	19,858,787	20,580,186	20,721,301	20,287,785
12,225,155	11,890,816	12,141,786	12,024,962	13,554,495
17,998,257	19,540,944	19,613,758	19,275,188	20,113,774
17,501,271	18,067,055	22,824,600	62,975,337	30,339,040
2,613,738	2,776,050	5,352,900	6,003,700	6,429,038
1,587,151	1,578,092	3,271,455	3,015,280	3,227,799
724,982	472,877	4,851	453,307	222,909
136,478,818	142,621,735	153,141,303	196,541,689	171,891,522
(1,553,721)	5,559,863	15,763,079	(7,741,530)	49,938,614
368,156	136,426	276,091	205,824	159,875
354,860	974,136	1,607,973	951,667	369,045
11,696,218	43,211,107	—	8,511,093	19,625,309
—	—	—	7,249	—
(6,500,617)	—	—	—	—
5,918,617	44,321,669	1,884,064	9,675,833	20,154,229
\$ 4,364,896	\$ 49,881,532	\$ 17,647,143	\$ 1,934,303	\$ 70,092,843
4.1 %	3.3 %	6.2 %	6.1 %	7.5 %

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
2012	\$ 6,112,789	\$ 33,266,049	\$ 4,547,621	\$ 43,926,459
2013	9,274,735	37,836,088	4,732,649	51,843,472
2014	9,401,277	39,685,844	5,159,956	54,247,077
2015	9,713,903	42,111,177	5,249,320	57,074,400
2016	9,962,925	46,807,817	5,062,719	61,833,461
2017	10,441,730	49,416,383	5,674,974	65,533,087
2018	10,813,317	54,419,572	5,643,876	70,876,765
2019	16,143,232	61,596,634	5,609,625	83,349,491
2020	17,015,618	70,904,612	5,514,602	93,434,832
2021	17,675,230	90,643,310	5,654,379	113,972,919

Source: City financial records



SURPRISE

ARIZONA

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

	2012	2013	2014	2015
<u>Description of Payers Business</u>				
Construction	\$ 4,936,286	\$ 7,071,711	\$ 5,702,652	\$ 5,318,361
Retail trade	12,588,859	13,831,839	15,319,378	17,897,576
Communications and utilities	4,813,827	5,053,313	5,230,594	5,379,741
Restaurant and bar	4,254,798	4,877,292	5,262,786	5,600,500
Real estate, rental and leasing	3,160,567	3,610,593	3,872,029	4,077,066
Other	3,278,980	3,488,295	3,439,338	4,188,861
Total	\$ 33,033,317	\$ 37,933,043	\$ 38,826,777	\$ 42,462,105

Source: City of Surprise "Sales, Use, and Bed Tax Report" as of June 30, 2021.

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.

2016		2017		2018		2019		2020		2021	
\$	8,429,076	\$	7,444,202	\$	9,424,657	\$	13,938,324	\$	17,529,115	\$	24,116,467
	18,608,256		20,578,048		24,170,542		25,309,922		30,133,931		39,817,504
	5,609,855		5,682,238		5,010,541		4,873,454		4,804,402		5,218,205
	5,933,745		6,543,214		7,673,195		8,226,189		8,368,795		9,966,480
	4,246,757		4,790,722		4,858,025		5,495,101		6,013,853		6,798,088
	4,109,905		4,377,959		3,282,612		3,753,644		4,054,516		4,726,567
\$	46,937,594	\$	49,416,383	\$	54,419,572	\$	61,596,634	\$	70,904,612	\$	90,643,311

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

		Real Property		Exemptions	Total			Ratio of Total
		Assessed Value	Assessed Value				Estimated	Assessed Value
Fiscal Year		Residential Property	Commercial Property	Real Property	Net Assessed Valuation	Direct Tax Rate	Actual Taxable Full Cash Value	to Total Estimated Actual Value
2012	P	653,425,523	390,774,648	(112,327,444)	931,872,727	0.6700	8,729,697,453	10.67%
2012	S	653,862,821	414,853,720	(131,986,535)	936,730,006	—	8,883,000,424	10.55%
2013	P	613,827,446	355,335,651	(117,175,984)	851,987,113	0.7383	8,131,671,314	10.48%
2013	S	614,117,003	369,093,201	(128,526,531)	854,683,673	—	8,219,696,417	10.40%
2014	P	590,891,318	352,740,031	(120,457,469)	823,173,880	0.7783	7,921,310,783	10.39%
2014	S	592,539,973	366,349,440	(128,753,963)	830,135,450	—	8,021,860,448	10.35%
2015	P	635,011,041	351,426,277	(128,356,166)	858,081,152	0.7591	8,378,359,740	10.24%
2015	S	674,517,543	367,445,212	(137,241,712)	904,721,043	—	8,871,516,138	10.20%
2016	P	659,032,840	359,978,533	(129,767,780)	889,243,593	0.7591	8,723,777,883	10.19%
2016	S	775,338,584	403,053,294	(146,482,133)	1,031,909,745	—	10,151,951,511	10.16%
2017	P	703,447,546	353,382,997	(127,933,738)	928,896,805	0.7591	9,188,106,400	10.11%
2017	S	832,582,676	418,393,201	(151,461,223)	1,099,514,654	—	10,888,981,453	10.10%
2018	P	742,214,719	372,303,716	(136,482,015)	978,036,420	0.7591	9,704,804,426	10.08%
2018	S	883,909,865	470,218,102	(164,602,354)	1,189,525,613	—	11,739,266,942	10.13%
2019	P	786,977,862	394,591,418	(132,661,610)	1,048,907,670	0.7591	10,275,630,683	10.21%
2019	S	979,109,102	501,184,044	(163,680,703)	1,316,612,443	0.4200	12,872,480,509	10.23%
2020	P	844,245,064	406,984,939	(141,141,959)	1,110,088,044	0.7591	10,927,509,235	10.16%
2020	S	1,064,787,961	529,620,552	(185,022,186)	1,409,386,327	0.3880	13,911,798,083	10.13%
2021	P	911,365,696	443,779,946	(149,135,143)	1,206,010,499	0.7591	11,823,893,218	10.20%
2021	S	1,192,185,322	601,386,798	(197,101,947)	1,596,470,173	0.3880	15,624,599,329	10.22%

Source: Maricopa County Assessor's Office State Abstract

Direct Tax Rate is From the Maricopa County Finance Department's "Tax Levy Book for the City of Surprise" for the applicable tax year.



SURPRISE

ARIZONA

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

Fiscal Year	City of Surprise			Overlapping Rates				
				Maricopa County				
	Operating (Primary) Tax Rate	Debt Service (Secondary) Tax Rate	Total City Tax Rate	Operating Tax Rate	Debt Service Tax Rate	County Library	Flood Control	Total County Tax Rate
2012	0.6700	—	0.6700	1.2407	—	0.0492	—	1.2899
2013	0.7383	—	0.7383	1.2407	—	0.0492	—	1.2899
2014	0.7783	—	0.7783	1.2807	—	0.0492	—	1.3299
2015	0.7591	—	0.7591	1.3209	—	0.0556	—	1.3765
2016	0.7591	—	0.7591	1.4009	—	0.0556	—	1.4565
2017	0.7591	—	0.7591	1.4009	—	0.0556	—	1.4565
2018	0.7591	—	0.7591	1.4009	—	0.0556	0.1792	1.6357
2019	0.7591	0.4200	1.1791	1.4009	—	0.0556	0.1792	1.6357
2020	0.7591	0.3880	1.1471	1.4009	—	0.0556	0.1792	1.6357
2021	0.7591	0.3880	1.1471	1.4009	—	0.0556	0.1792	1.6357

Source: Maricopa County Finance Department's "Maricopa County 2021 Tax Levy" report.

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

Overlapping Rates				
Dysart School District				
Operating Tax Rate	Debt Service Tax Rate	Total School District Tax Rate	Other	Total Direct & Overlapping Rates
3.4104	2.5820	5.9924	1.6440	9.5963
4.6547	2.7317	7.3864	1.8351	11.2497
4.3492	2.9538	7.3030	1.6356	11.0468
3.9957	2.7750	6.7707	1.7472	10.6535
3.0640	2.9085	5.9725	1.7120	9.9001
4.1562	2.8032	6.9594	2.5181	11.6931
4.1562	2.8032	6.9594	2.5104	11.8646
4.1089	2.7859	6.8948	2.4330	12.1426
3.9117	2.6680	6.5797	2.4218	11.7843
3.8251	2.6201	6.4452	2.3408	11.5688

City of Surprise, Arizona
Principal Property Taxpayers
June 30, 2021 and 2012

Taxpayer	2021			2012		
	Assessed Valuation	Rank	Percentage of Total	Assessed Valuation	Rank	Percentage of Total
Arizona Public Service Company	\$ 31,961,882	1	2.65%	\$ 22,329,140	1	2.40%
SFI Grand Vista LLC	10,260,986	2	0.85%			
Southwest Gas Corporation (T&D)	7,232,263	3	0.60%	5,953,817	2	0.64%
Toll Prasada LLC	4,696,301	4	0.39%			
EPCOR (Agua Fria Water Division)	4,617,793	5	0.38%			
CCD Real Estate Holdings LLC	3,501,114	6	0.29%	4,261,805	3	0.46%
DG Industrial Portfolio I Property Owner LP	3,368,612	7	0.28%			
Wal Mart Stores Inc	3,161,826	8	0.26%			
BFM IV AZ Harmony at Surprise SPE LLC	3,072,240	9	0.25%			
LAACO Ltd.	2,950,949	10	0.24%			
Surprise Holdings LLC				4,034,041	4	0.43%
Mci Communications Services Inc				3,840,649	5	0.41%
Karlin Surprise LLC				3,675,182	6	0.39%
Surprise Towne Center Holdings LLC				2,834,021	7	0.30%
Roskamp/Sun Health Management Services LLP				2,783,839	8	0.30%
Aawc: Agua Fria Water Division				2,754,531	9	0.30%
Dco Realty Surprise LLC				2,715,290	10	0.29%
Total	<u>\$ 74,823,966</u>		<u>6.19%</u>	<u>\$ 22,637,553</u>		<u>5.92%</u>
Total Net Limited Assessed Valuation	1,206,010,499			931,872,727		

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
2012	\$ 6,200,706	\$ 6,021,059	97.1%	\$ 118,638	\$ 6,139,697	99.0%
2013	6,295,546	6,159,818	97.8%	95,673	6,255,491	99.4%
2014	6,350,356	6,249,156	98.4%	69,251	6,318,407	99.5%
2015	6,509,332	6,425,856	98.7%	62,517	6,488,373	99.7%
2016	6,754,752	6,661,068	98.6%	39,168	6,700,236	99.3%
2017	7,037,842	6,947,745	98.7%	53,915	7,001,660	99.7%
2018	7,424,272	7,321,178	98.6%	64,283	7,385,461	99.7%
2019	7,962,251	7,862,533	98.7%	(20,976)	7,841,557	99.7%
2020	8,426,674	8,293,892	98.4%	105,969	8,399,861	99.7%
2021	9,154,803	9,037,554	98.7%	—	9,037,554	98.7%

Source: Maricopa County Treasurer's Office "Secured Levy Report" through June 30, 2021.

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

Fiscal Year	Governmental Activities			
	General Obligation Bonds	Special (CFD) Assessment Bonds and Notes	Municipal Property Corp. Bonds	Pledged Revenue Obligations
2012	\$ —	\$ 7,745,000	\$ 22,229,325	\$ —
2013	—	7,545,000	19,896,188	—
2014	—	7,335,000	17,444,474	—
2015	—	7,115,000	—	30,832,800
2016	—	6,885,000	—	31,770,034
2017	—	12,105,285	—	29,249,876
2018	40,211,105	14,619,352	—	24,166,587
2019	37,322,019	14,143,419	—	23,963,088
2020	34,285,598	21,966,935	—	21,192,968
2021	50,304,950	21,249,359	—	18,347,512

Source: City financial records

Business-Type Activities						
Municipal						
Property Corp.	Utility Revenue	Pledged Revenue	Total Primary	Percentage		
Bonds	Obligations	Obligations	Government	of Personal	Income	Per Capita
\$ 60,315,675	\$ —	\$ —	\$ 90,290,000	3.4%		755
59,303,813	—	—	86,745,001	3.3%		713
53,565,524	—	—	78,344,998	3.0%		633
39,365,000	—	5,832,000	83,144,800	3.1%		658
37,585,000	—	5,903,844	82,143,878	3.0%		640
35,720,000	—	5,249,430	82,324,591	2.8%		620
33,770,000	—	4,103,413	116,870,457	3.9%		872
—	28,164,675	3,877,076	107,470,277	3.4%		778
—	26,993,224	3,157,623	107,596,348	3.2%		760
—	25,776,772	2,418,508	118,097,101	3.2%		798

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
2012	\$ —	\$ —	\$ —	0.000%	—
2013	—	—	—	0.000%	—
2014	—	—	—	0.000%	—
2015	—	—	—	0.000%	—
2016	—	—	—	0.000%	—
2017	—	—	—	0.000%	—
2018	37,730,000	5,857	37,724,143	3.171%	281
2019	35,215,000	483,319	34,731,681	2.638%	251
2020	32,350,000	544,112	31,805,888	2.257%	225
2021	46,625,000	158,771	46,466,229	0.393%	314

Source: City financial records

City of Surprise, Arizona
Direct and Overlapping Governmental Activities Debt
As of June 30, 2021

Overlapping Jurisdiction	General Obligation and Pledged Revenue Bonded Debt	Proportion Applicable to the City	
		Approximate Percent	Net Debt Amount
State of Arizona	None	1.72 %	None
Maricopa County	None	2.63 %	None
Maricopa County Community College District	\$ 250,065,000	2.63 %	\$ 4,858,006
Maricopa County Special Health Care District	657,695,000	2.63 %	16,850,279
Western Maricopa Education Center	144,220,000	7.14 %	9,295,923
Dysart Unified School District No. 89	97,086,000	78.12 %	75,843,583
Peoria Unified School District No. 11	185,125,000	0.38 %	703,475
Nadaburg Unified School District No. 81	—	30.33 %	—
Wickenburg Unified School District No. 9	6,800,000	1.68 %	114,240
Subtotal, overlapping debt	<u>\$ 1,340,991,000</u>		<u>\$ 107,665,506</u>
City of Surprise	\$ 68,652,462	100.00 %	\$ 68,652,462
Marley Park Community Facilities District	21,249,359	100.00 %	21,249,359
Subtotal, direct debt	<u>\$ 89,901,821</u>		<u>\$ 89,901,821</u>
Total Direct and Overlapping General Obligation and Pledged Revenue Bonded Debt			<u><u>\$ 197,567,327</u></u>

Source: The various jurisdictions

Proportion applicable to City of Surprise, Arizona is computed on the ratio of net limited property valuation for fiscal year 2021/2022.

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.

Includes: Excise Tax Revenue obligations for City of Surprise

City of Surprise, Arizona
Legal Debt Margin Information Unrestricted and Restricted
Last Ten Fiscal Years

Unrestricted

	2012	2013	2014	2015
Debt limit 6%	\$ 56,203,800	\$ 51,281,020	\$ 49,298,862	\$ 54,283,263
Unrestricted legal debt margin	\$ 56,203,800	\$ 51,281,020	\$ 49,298,862	\$ 54,283,263
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00 %

Restricted

	2012	2013	2014	2015
Debt limit 20%	\$ 187,346,001	\$ 170,936,735	\$ 164,329,540	\$ 180,944,209
Total net debt applicable to limit	—	—	—	—
Restricted legal debt margin	\$ 187,346,001	\$ 170,936,735	\$ 164,329,540	\$ 180,944,209
Total net debt applicable to the limit as a percentage of 20% debt limit	0.00%	0.00%	0.00%	0.00 %

2016	2017	2018	2019	2020	2021
\$ 61,914,585	\$ 65,970,879	\$ 71,371,537	\$ 78,996,747	\$ 84,563,180	\$ 95,788,210
\$ 61,914,585	\$ 65,970,879	\$ 71,371,537	\$ 78,996,747	\$ 84,563,180	\$ 95,788,210
0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %

2016	2017	2018	2019	2020	2021
\$206,381,949	\$219,902,931	\$237,905,123	\$263,322,489	\$281,877,265	\$319,294,035
—	—	39,987,500	37,322,019	34,285,598	50,304,950
\$206,381,949	\$219,902,931	\$197,917,623	\$226,000,470	\$247,591,667	\$268,989,085
0.00 %	0.00 %	16.81 %	14.17 %	12.16 %	15.76 %

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

Year	Population	Personal Income	Median Household Income	Median Age	Unemployment Rate
2012	119,530	\$ 2,624,633,827	\$ 62,141	35.9	4.3%
2013	121,629	2,608,232,906	60,687	36.8	5.0%
2014	123,797	2,623,490,276	59,973	36.0	5.4%
2015	126,275	2,684,147,318	58,455	37.0	9.8%
2016	128,422	2,779,842,369	59,094	38.7	9.4%
2017	132,677	2,911,895,653	59,916	39.0	4.5%
2018	134,085	2,997,757,500	61,035	39.9	4.6%
2019	138,161	3,184,636,354	62,927	41.3	3.7%
2020	141,664	3,381,255,033	65,160	41.2	5.4%
2021	147,965	3,743,919,200	69,076	41.4	6.8%

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

**City of Surprise, Arizona
Principal Employers
June 30, 2021 and Nine Years Prior**

Employer	2021 ¹			2012 ²		
	Employees	Rank	% of Total	Employees	Rank	% of Total
Dysart School District (Surprise Schools Only)	1,610	1	7.54%	1,654	1	13.79%
City of Surprise	1,230	2	5.76%	867	2	7.23%
Wal-Mart	860	3	4.03%	549	4	4.58%
Fry's Food Store	560	4	2.62%	549	3	4.58%
Rousseau Farming Company	340	5	1.59%			
Home Depot	280	6	1.31%	166	9	1.38%
McDonald's	270	7	1.27%			
Maricopa County	220	8	1.03%	202	5	1.68%
Safeway Food Store	180	9	0.84%	188	8	1.57%
Sun City Grand Community Assoc. Inc.	170	10	0.80%			
Crescent Crown				200	6	1.67%
Kohl's Department Store				195	7	1.63%
Sam's Club				134	10	1.12%
Total	<u>5,720</u>		26.79%	<u>4,704</u>		39.23%
Total City Employment	21,340			11,990		

Sources:

¹ Maricopa Association of Governments, as of June 30, 2021

² Emsi

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

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Function										
General government	118	123	123	136	134	140	142	146	150	150
Public safety:										
Police:										
Officer	132	133	134	130	139	158	159	159	155	154
Civilians	49	49	48	54	49	43	42	45	55	55
Fire:										
Firefighters and officers	112	111	111	113	113	128	127	126	132	138
Civilians	6	7	7	7	8	8	7	7	7	9
Public works and streets:										
All others	87	83	83	83	84	84	80	84	90	92
Community development	36	40	40	43	40	41	41	42	43	43
Economic development	—	—	—	—	8	8	8	7	9	9
Parks and recreation	97	110	110	122	118	117	116	120	105	84
Sports and tourism	—	—	—	—	—	—	—	—	18	39
Human service and community vitality	—	—	—	—	9	15	16	18	24	25
Water	29	25	25	24	29	33	36	35	42	43
Sanitation	34	31	31	32	33	35	37	37	41	41
Sewer	36	36	36	37	39	50	45	45	47	49
Stormwater	—	—	—	—	—	—	6	5	6	6
Ground ambulance services	—	—	—	—	—	—	19	26	32	32
Total	736	748	748	781	804	861	881	902	956	969

Source: Fiscal year 2021 Adopted Budget



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

Function	2012	2013	2014	2015
Public safety:				
Police:				
Calls - incidents responded to	42,010	39,866	37,566	38,191
Citations issued	7,856	9,673	7,020	7,524
Officers per 1,000 residents	1.1	1.1	1.1	1.1
Fire-Medical:				
Number of responses	12,313	13,649	14,004	15,750
Inspections	1,122	1,184	1,411	1,885
Public works and streets:				
Sq. ft. of buildings to maintain	830,431	830,271	830,271	830,271
Vehicles/equipment maintained per month	494	403	392	405
Number of street lights repaired	291	300	377	43
Street miles maintained	539	607	607	627
Community development:				
Building safety inspections performed	13,257	20,150	18,220	15,624
Annual new residential starts	395	554	385	417
Parks and recreation:				
Organized recreation program participants	185,232	191,648	192,300	178,186
Special events/open facility participants	256,674	269,823	278,980	321,214
Sports and Tourism				
Special events/open facility participants	N/A	N/A	N/A	N/A
Water:				
Water service connections	14,329	14,570	14,740	14,971
Water main breaks	N/A	N/A	N/A	N/A
Average daily consumption (thousands of gallons)	N/A	N/A	N/A	N/A
Sewer:				
Sewage treated (million gallons per day)	7.6	8.1	8.1	8.4
Sewer service connections	44,583	45,802	45,984	44,923
Sanitation:				
Refuse collected (tons/annually)	30,289	29,400	30,583	33,351
Number of routes	33	33	32	32
Total services	32,357	32,975	33,321	32,683
Stormwater:				
Customers	—	—	—	—

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

2016	2017	2018	2019	2020	2021
39,511	40,909	41,806	40,541	42,306	41,430
5,971	6,358	5,136	8,602	6,350	6,098
1.0	1.0	1.0	1.0	1.0	1.0
16,896	16,546	17,435	10,865	18,195	19,493
2,745	2,407	1,810	1,595	2,391	1,781
855,774	855,774	855,774	855,774	973,187	1,016,276
334	375	397	415	425	353
44	38	79	52	71	68
627	627	627	629	630	665
20,320	22,407	31,063	34,598	45,750	51,542
486	600	1,288	1,303	2,076	2,856
160,535	163,580	162,012	141,189	85,362	70,873
307,475	306,714	343,868	120,114	78,548	22,935
N/A	N/A	N/A	253,823	240,065	143,728
15,362	15,499	16,331	16,729	17,886	19,705
N/A	N/A	4	2	6	15
N/A	N/A	7,322	7,416	7,402	7,776
8.4	8.4	8.4	9	9	9.1
47,273	48,196	50,303	48,451	53,164	55,796
32,787	33,671	34,979	36,757	48,905	56,781
56	56	57	59	55	58
35,366	36,421	36,657	35,510	39,676	41,212
—	49,429	50,594	47,235	51,199	54,177

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

Function	2012	2013	2014	2015
Public safety:				
Police:				
Stations	2	2	2	2
Patrol units	64	63	63	68
Fire:				
Fire stations	7	7	7	7
Fire engines and ladder trucks	11	11	12	12
Ambulances	0	0	0	0
Public works and streets:				
Street miles	539	607	607	627
Street lighting improvement districts	103	101	101	107
Traffic Signals	45	51	51	50
Bridges	19	19	19	19
Community development:				
Inspection vehicles	12	12	10	10
Parks and recreation:				
Parks acreage	393	393	393	393
Parks	12	12	12	12
Swimming pools	2	2	2	2
Softball fields	11	11	11	11
Baseball fields	21	21	21	21
Libraries	2	2	2	2
Water:				
Well Production Maximum Daily Capacity (millions of gallons)	31.0	31	31	32
Sewer:				
Sewer treatment plants	2	2	2	2
Maximum daily treatment capacity	18.3	18.3	18.3	18.3
Sanitation:				
Collection trucks	26	26	26	26

Sources: Various government departments

2016	2017	2018	2019	2020	2021
2	2	2	2	2	2
72	90	73	87	87	87
7	7	7	7	7	7
12	12	13	13	13	13
1	3	4	5	5	5
627	627	627	629	630	665
107	123	132	146	155	156
50	50	50	52	58	61
19	19	19	19	21	21
10	11	11	11	11	13
393	393	393	393	393	393
12	12	12	12	12	12
2	2	2	2	2	2
11	11	11	11	11	11
21	21	21	21	21	21
2	2	2	2	3	3
32	33	33	33	34	30
2	2	2	2	2	3
18.3	18.3	18.3	18.3	18.3	20.1
27	27	27	27	27	28



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City of Surprise, Arizona

ANNUAL COMPREHENSIVE FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Heinfeld, Meech & Co., P.C.
1365 N. Scottsdale Rd., Suite 300
Scottsdale, AZ 85257

This representation letter is provided in connection with your audit of the financial statements of City of Surprise, Arizona, which comprise the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows for the period then ended, and the disclosures (collectively the “financial statements”), for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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

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

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
7. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.
8. The effects of all known actual or possible litigation, claims, and assessments have been evaluated, and if necessary, have been accounted for and disclosed in accordance with U.S. GAAP.
9. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records (including information obtained from outside of the general and subsidiary ledgers), documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13. We have no knowledge of any fraud or suspected fraud that affects the City and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, grantors, regulators, or others.
15. We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or waste or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
17. We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions, including any side agreements.

Government-specific

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. If applicable, we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements that you have reported to us.
20. We have a process to track the status of audit findings and recommendations.
21. We have identified and communicated to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
22. We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.
23. If applicable, we have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
24. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, deferred outflows/inflows of resources, and fund balance or net position.
25. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.

26. We have appropriately disclosed all information for conduit debt obligations in accordance with U.S. GAAP.
27. We have identified and disclosed to you all instances of identified fraud and suspected fraud that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
28. We have identified and disclosed to you all instances of identified noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
29. We have identified and disclosed to you all instances of identified abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
30. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
31. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
32. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
33. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
34. If applicable, the financial statements include all component units, appropriately present majority equity interest in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
35. The financial statements include all fiduciary activities required by U.S. GAAP.
36. The financial statements properly classify all funds and activities in accordance with U.S. GAAP.
37. All funds that meet the quantitative criteria for presentation as a major fund are identified and presented as such and all other funds that are presented as a major fund are particularly important to financial statement users.
38. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

39. Investments are properly valued.
40. With regard to investments and other instruments reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
41. If applicable, provisions for uncollectible receivables have been properly identified and recorded.
42. All payroll information and the individual employment data have been properly submitted to the state retirement systems, and the employer contributions have been properly submitted to the retirement systems.
43. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
44. Revenues are appropriately classified in the statement of activities within program revenues, and general revenues.
45. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
46. Special and extraordinary items, if any, are appropriately classified and reported.
47. Deposits and investment securities are properly classified as to risk and are properly disclosed.
48. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.
49. We have identified and disclosed to you all programs, agreements, and transactions that result in a tax abatement for financial reporting purposes. Tax abatement agreements and programs have been properly disclosed in the notes to the financial statements.
50. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
51. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

52. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
53. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
54. With respect to the supplementary information presented, such as the combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards.
- a. We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
55. With respect to federal award programs:
- a. We are responsible for understanding and complying with and have complied with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).
 - b. We acknowledge our responsibility for preparing and presenting the schedule of expenditures of federal awards and related disclosures in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
 - c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.

- d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e. We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g. We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards, if any.
- j. We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR Part 200, Subpart E).
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

- n. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report.
- r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- t. If applicable, we have monitored subrecipients to determine that they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.
- u. If applicable, we have issued management decisions for audit findings that relate to federal awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient.
- v. If applicable, we have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- w. We have charged costs to federal awards in accordance with applicable cost principles.
- x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- y. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information

- z. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- aa. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.
- bb. If applicable, we have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

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

Andrea Davis

Andrea Davis (Jan 25, 2022 10:51 MST)

Andrea Davis, Chief Financial Officer
City of Surprise, Arizona

01/25/2022

Date

Jon Gake

Jon Gake (Jan 24, 2022 12:32 MST)

Jon Gake, Accounting Manager
City of Surprise, Arizona

01/24/2022

Date



City of Surprise, Arizona
Annual Expenditure Limitation Report
For the Fiscal Year Ended June 30, 2021

City of Surprise, Arizona
Annual Expenditure Limitation Report
Year ended June 30, 2021

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INDEPENDENT ACCOUNTANT'S REPORT

The Auditor General of the State of Arizona

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

We have examined the accompanying Annual Expenditure Limitation Report of the City of Surprise, Arizona for the year ended June 30, 2021, and the related notes to the report. The City's management is responsible for presenting this report in accordance with the Uniform Expenditure Reporting System as described in Note 1. Our responsibility is to express an opinion on this report based on our examination.

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

In our opinion, the Annual Expenditure Limitation Report referred to above is presented, in all material respects, in accordance with the Uniform Expenditure Reporting System as described in Note 1.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Scottsdale, Arizona
March 16, 2022

City of Surprise, Arizona
Annual Expenditure Limitation Report—Part I
Year ended June 30, 2021

1. Economic Estimates Commission expenditure limitation	\$ <u>1,143,825,592</u>
2. Amount subject to the expenditure limitation (total amount from Part II, line C)	<u>193,285,185</u>
3. Amount under the expenditure limitation	\$ <u><u>950,540,407</u></u>

I hereby certify, to the best of my knowledge and belief, that the information contained in this report is accurate and in accordance with the requirements of the Uniform Expenditure Reporting System.

Signature of chief financial officer: Andrea Davis

Name and title: Andrea Davis, CFO

Telephone number: 623-222-1853

Date: 3/16/2022

See accompanying notes to report.

City of Surprise, Arizona
Annual Expenditure Limitation Report—Part II
Year ended June 30, 2021

Description	Governmental funds	Enterprise funds	Internal service funds	Total
A. Amounts reported on the Reconciliation, line D	\$ 167,854,644	\$ 55,562,185	\$ 16,301,353	\$ 239,718,182
B. Less exclusions claimed:				
Debt proceeds	175,072	-	-	175,072
Debt service requirements (see Note 2)	8,283,082	2,954,662	-	11,237,744
Dividends, interest, and gains on the sale or redemption of investment securities (see Note 3)	958,866	361,144	63,296	1,383,306
Grants and aid from the federal government (see Note 4)	11,249,667	16,447	-	11,266,114
Amounts received from the State of Arizona (see Note 5)	339,166	-	-	339,166
Quasi-external interfund transactions (see Note 6)	-	-	12,816,241	12,816,241
Highway user revenues in excess of those received in fiscal year 1979-80 (see Note 7)	8,924,300	-	-	8,924,300
Refunds, reimbursements, and other recoveries (see Note 8)	106,672	168,525	15,857	291,055
Total exclusions claimed	<u>30,036,825</u>	<u>3,500,778</u>	<u>12,895,394</u>	<u>46,432,997</u>
C. Amounts subject to the expenditure limitation	<u>\$ 137,817,819</u>	<u>\$ 52,061,407</u>	<u>\$ 3,405,959</u>	<u>\$ 193,285,185</u>

See accompanying notes to report.

City of Surprise, Arizona
Annual Expenditure Limitation Report—Reconciliation
Year ended June 30, 2021

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	\$ 171,891,522	\$ 58,202,826	\$ 16,525,291	\$ 246,619,639
B. Subtractions:				
Items not requiring use of current financial resources:				
Depreciation	-	14,373,531	-	14,373,531
Loss on disposal of capital assets	-	14,506	-	14,506
Bad debt expense (Note 9)	3,266	859,260	-	862,526
Pension and other postemployment benefits (OPEB) expense (see Note 10)	45,653	1,591,440	49,738	1,686,831
Claims incurred but not reported (IBNR) (see Note 11)		-	1,145,833	1,145,833
Expenditures of separate legal entities established under Arizona Revised Statutes (see Note 12)	3,987,959	-	-	3,987,959
Total subtractions	<u>4,036,878</u>	<u>16,838,737</u>	<u>1,195,571</u>	<u>22,071,186</u>
C. Additions:				
Principal payments on long-term debt (see Note 2)	-	1,645,964	-	1,645,964
Capital asset acquisitions (see Note 13)	-	11,391,545	-	11,391,545
Amounts paid in the current year but reported as expenses in previous years:				
Claims previously recognized as IBNR (see Note 11)	-	-	935,360	935,360
Pension and OPEB contributions paid in the current year (see Note 10)	-	1,160,587	36,273	1,196,860
Total additions	<u>-</u>	<u>14,198,096</u>	<u>971,633</u>	<u>15,169,729</u>
D. Amounts reported on Part II, line A	<u>\$ 167,854,644</u>	<u>\$ 55,562,185</u>	<u>\$ 16,301,353</u>	<u>\$ 239,718,182</u>

See accompanying notes to report.

City of Surprise, Arizona
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2021

Note 1 - Summary of significant accounting policies

The Annual Expenditure Limitation Report (AELR) is presented as prescribed by the Uniform Expenditure Reporting System (UERS), as required by Arizona Revised Statutes §41-1279.07. The AELR excludes expenditures, expenses, or deductions of certain revenues specified in the Arizona Constitution, Article IX, §20, from the total expenditures, expenses, or deductions reported in the fund financial statements.

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

Note 2

The exclusion claimed for debt service requirements on bonded indebtedness of \$8,283,082 in the governmental funds consists of principal and interest payments of \$5,734,038 and \$2,549,044, respectively. The exclusion claimed for debt service requirements on bonded indebtedness of \$2,954,662 in the enterprise funds consists of principal and interest payments of \$1,645,964 and \$1,306,750, respectively, and \$1,948 in miscellaneous administrative expenses.

Note 3

The exclusions claimed for dividends, interest, and gains on the sale or redemption of investment securities in the governmental, enterprise and internal service funds includes investment earnings expended of \$958,866, \$361,144, and \$63,296, respectively, which are recorded as Interest Revenue in the fund financial statements.

Note 4

The following schedule presents revenues from which exclusions have been claimed for grants and aid from the federal government in the governmental and enterprise funds.

Federal Agency		
U.S. Department of Housing and Urban Development	\$	2,121,583
U.S. Department of Justice		403,809
U.S. Department of Transportation		153,019
U.S. Department of the Treasury		7,232,419
U.S. Department of Health and Human Services		641,410
U.S. Department of Homeland Security		713,874
Total	\$	<u>11,266,114</u>

Note 5

The exclusion claimed for amounts received from the State of Arizona in the governmental funds consist of intergovernmental revenues received in the following funds:

Governmental Fund		
Local Transportation Assistance II / Arizona Lottery	\$	<u>339,166</u>
	\$	<u>339,166</u>

City of Surprise, Arizona
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2021

Note 6

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 \$9,599,042 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 \$2,276,800 to provide risk management, loss control and safety programs citywide. The Worker's Compensation Fund charged other funds \$1,203,336 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 Fund totaled \$2,445,043, which is comprised of current revenues of \$2,276,800 and prior year carryforward balance of \$168,243 resulting in a current year carryforward balance of zero. Excludable revenues expended in the current fiscal year for the Worker's Compensation Fund totaled \$772,156, which is less than current year revenues by \$431,180 increasing the carryforward balance to \$1,065,553.

Note 7

Highway user revenues for the current fiscal year were \$9,822,481 which is \$9,760,050 more than the highway user revenues received by the City in fiscal year 1980. Excludable revenues expended in the current fiscal year totaled \$8,924,300, which is less than current excludable revenues by \$835,750, increasing the carryforward balance to \$4,063,736.

Note 8

The exclusions claimed for refunds, reimbursements, and other recoveries includes recovery of prior year expenses of \$36,336, \$5,897, and \$15,857 in the governmental, enterprise and internal service funds, respectively; miscellaneous refunds and reimbursements of \$69,261 and \$162,628 in the governmental and enterprise funds, respectively; and insurance recoveries of \$1,075 in the governmental funds.

Note 9

The subtraction of \$3,266 and \$859,260 of bad debt expense in the governmental and enterprise funds, respectively, are reported as an offset to revenue under Charges for Services.

Note 10

The \$1,591,440 and \$49,738 subtraction amounts for pension and other post employment benefit (OPEB) expense in the enterprise funds and internal service funds, respectively, consists of changes in the net pension and OPEB assets and liabilities, and changes in deferred inflows and outflows related to pensions and OPEB recognized in the current year in the enterprise funds and internal service funds. The \$1,160,587 and \$36,273 addition amounts for pension and OPEB contributions paid in the current year consists of the required pension and OPEB contributions made to the Arizona State Retirement System from the enterprise funds and internal service funds.

	Enterprise funds	Internal service funds
Subtractions - Pension/OPEB Expense		
Pension expense	\$ 1,551,707	\$ 48,497
OPEB expense	<u>39,732</u>	<u>1,242</u>
Total	1,591,440	49,738
Additions - Pension/OPEB Contributions		
Pension contributions	\$ 1,104,902	\$ 34,532
OPEB contributions	<u>55,685</u>	<u>1,740</u>
Total	1,160,587	36,273

City of Surprise, Arizona
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2021

The subtraction of \$45,653 for pension expense in the governmental funds consists of nonemployer contributions to the Elected Officials Retirement Plan (EORP) that was reported as a revenue and an offsetting expenditure in the governmental funds. Consequently, this expenditure has been subtracted on the reconciliation.

Note 11

The subtraction of \$1,145,833 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 \$935,360 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 12

The subtraction in the governmental funds of \$3,987,959 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 Fund		
General government		\$ 65,594
Public works and streets		2,389,816
	Subtotal	<u>\$ 2,455,410</u>
Marley Park Community Facility District Fund		
Culture and recreation		\$ 125,844
Principal payments on debt		695,000
Interest payments on debt and other charges		711,705
	Subtotal	<u>\$ 1,532,549</u>
Total separate legal entities		<u><u>\$ 3,987,959</u></u>

Note 13

The addition of \$11,391,545 for the acquisition of capital assets in the enterprise funds is comprised of total capital asset increases of \$50,528,988 less \$39,137,443 in capital contributions.

Heinfeld, Meech & Co., P.C.
1365 N. Scottsdale Rd., Suite 300
Scottsdale, AZ 85257

In connection with your examination of the Annual Expenditure Limitation Report (AELR) for the year ended June 30, 2021, for the purpose of expressing an opinion about whether the AELR is presented, in all material respects, in accordance with the Uniform Expenditure Reporting System, we confirm, to the best of our knowledge and belief, as of the date of our signature, the following representations made to you during your examination.

1. The AELR for the year ended June 30, 2021 is presented in accordance with the Uniform Expenditure Reporting System.
2. We are responsible for the AELR and for our assertion that it is presented in accordance with the Uniform Expenditure Reporting System.
3. We have provided you with all relevant information and access to information and personnel in connection with your examination of the AELR.
4. We have disclosed to you all deficiencies in internal control relevant to the engagement of which we are aware.
5. We have disclosed to you knowledge of any actual, suspected, or alleged fraud or noncompliance with laws or regulations affecting the AELR.
6. All relevant matters are reflected in the measurement and/or evaluation of the AELR.
7. We believe that significant assumptions used in making any material estimates are reasonable.
8. We have disclosed to you all known matters that may contradict the AELR, and we have disclosed to you all communications from regulatory agencies, received through the date of your report affecting the AELR.

9. We have disclosed to you all events subsequent to June 30, 2021 that would have a material effect on the AELR.

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

Andrea Davis

Andrea Davis, Finance Director
City of Surprise, Arizona

03/16/2022

Date



CITY OF SURPRISE City Audit Committee Meeting

Council Meeting Date: March 31, 2022
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:

Consideration and action pertaining to the Quarterly Summary of Audit Recommendations Status Report.

Motion:

I move to approve and distribute the Quarterly Summary of Audit Recommendations Status report.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2021-2022 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

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

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

This item relates to work performed as part of the FY2021-2022 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:

There is no budget impact with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. Status of Audit Recommendations 22Mar2022
 2. Qrtly Audit CMTE 31March2022
-



Audit Recommendation Status Report

March 31, 2022

Carol Holley, City Auditor

Summary

Periodically, Internal Audit (IA) reports to the City of Surprise (City) Audit Committee on actions taken by staff to address audit recommendations. This report summarizes actions taken by staff from February 3, 2022 to March 22, 2022.

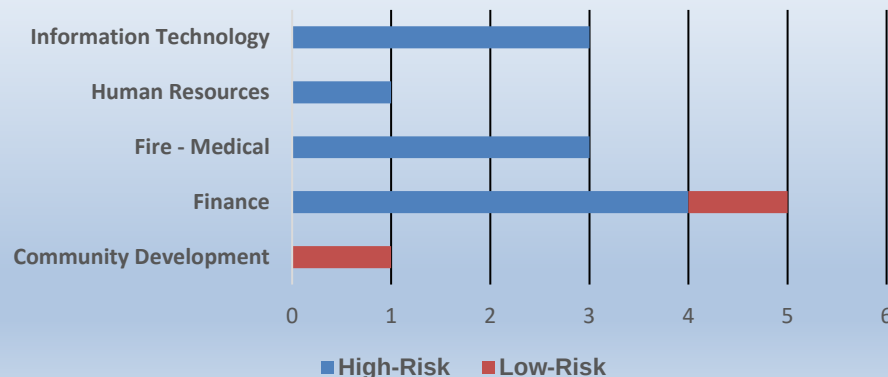
During the period, 13 audit recommendations were tracked and monitored by IA. Nine (69%) new recommendations were added to the SharePoint Database used for tracking and monitoring audit recommendations. Four (31%) recommendations continue to be monitored by IA staff from the previous period. Exhibit A summarizes the nine new and four OnGoing audit recommendations.

IA appreciates the time and resources allocated by the Finance, Fire-Medical, Human Resources, and Information Technology departments to develop action plans to address identified risks to City assets and information.

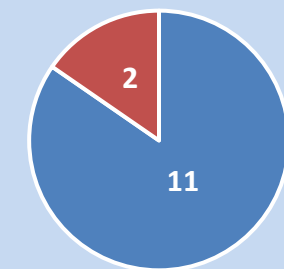
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**Open Audit Recommendation by Department
as of 3/22/2022**



**69% (+9) Increase in Number of Open Audit
Recommendations Since 2/16/2022**



■ High-Risk ■ Low-Risk

Purpose and Standards

The recommendations referenced in each audit report were designed to decrease the risk to City assets and improve the efficiency and effectiveness of operations. In response to each audit recommendation, management developed an action plan to address identified risks.

The purpose of performing audit follow-up procedures is to determine the status of management action plans. *Governmental Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing* reference the need for audit follow-up procedures:

Governmental Auditing Standards:

GAGAS 8.30 – *“Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives.”*

International Standards for the Professional Practice of Internal Auditing:

2500 – Monitoring Progress

“The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.”

2500.A1 – *“The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.”*

Methodology

After completing each audit, audit observations and recommendations are tracked in SharePoint by IA. Periodically, IA performs follow-up procedures on the status of audit recommendations with the appropriate City departments. Departments self-report the status of management action plans via SharePoint. Testimonial or documentary evidence is obtained and reviewed by IA. In some cases, IA will go beyond the standard process and perform more in-depth verification of the extent to which specific audit recommendations have been implemented and issue a separate report on this work.

All recommendations reviewed were categorized as follows:

OnGoing – City staff partially concurred or concurred with the audit recommendation. Staff is currently working on implementing the audit recommendation by the management assigned completion date **(See Exhibit A.)**

Not Implemented – City staff concurred with audit recommendations and are in the process of implementing a management action plan to address the identified risk to City assets and information.

Section ID	Department	Report Date	Recommendation	Current Status	Management Update Comments	Risk Level
AP Trends and Analysis						
1A	Human Resources	9/8/2021 12:00:00 AM	Protect confidential PII recorded on AP invoices by: • Reviewing and updating the TCM AP Confidential role for all applicable AP invoices stored in Munis for vendor #10146 • Using professional judgment, assess potential HR AP vendors that might require flagging the TCM AP Confidential role to protect PII data and take the appropriate action. • Developing departmental policy and procedures for protecting PII recorded on AP invoices. The policy and procedures should include, but not be limited to, complying with the City's Information Security Policies and Procedures, redacting PII on AP invoices before scanning invoices into Munis, and flagging TCM AP Confidential role when redacting is not an option. • Training applicable staff on the new policy and procedures, at least annually and when new staff is hired, staff transfer, or job duties are changed.	Not Implemented	Concur. HR staff will update AP and PCard procedures and train applicable team members by June 30, 2022. HR will collaborate with IT to review TCM AP Confidential roles and update roles and permissions by August 31, 2022. HR will audit invoices for vendor 10146 and restrict access or redact PII by August 31, 2022.	High
1B	Finance	9/8/2021 12:00:00 AM	Work with IT to develop a policy and procedure for processing and protecting PII recorded on AP invoices. This should include but is not limited to requiring City departments to access the need for recording PII on AP invoices and to redact PII before saving AP documents in Munis when PII is not necessary for AP payment processing.	Not Implemented	Concur. Finance will work with other City departments to ensure recommendations are implemented by October 31, 2022.	High
1C	Information Technology	9/8/2021 12:00:00 AM	Assess if PII recorded on AP invoices is appropriately stored in the Munis AP Module in compliance with the City's Information Security Policies and Procedures related to encryption of confidential, sensitive, or vulnerable information during transit and rest.	Not Implemented	Concur: IT will work with Finance to develop a policy and procedure for processing and protecting PII invoices, include this same policy language in the IT Security Policy, and work with Finance Accounts Payable and City departments to ensure AP invoices scanned and stored in the Munis AP Module are void of PII by redacting PII prior to scanning/storing. Estimated completion date: April 29, 2022	High
2A	Information Technology	9/8/2021 12:00:00 AM	Document and communicate the availability and purpose of the TCM AP Confidential security roles to all City departments.	Not Implemented	Concur: The IT Security Manager will work with the IT Applications Manager to document and communicate the TCM AP Confidential roles to all departments. Estimated completion date: April 15, 2022	High
3A	Information Technology	9/8/2021 12:00:00 AM	Conduct a citywide survey to identify PII residing within City departments. Appropriate action should be taken to ensure compliance with NIST and city policies and procedures.	Not Implemented	Concur: The IT Security Manager will survey all departments and document PII use. Findings will be recorded and audited annually. Estimated completion date: May 15, 2022.	High
3B	Finance	9/8/2021 12:00:00 AM	Work in conjunction with the IT Department to assess and develop an action plan to address the access to PII recorded on AP invoices stored in Munis. The Finance Department should function as the action plan coordinator by monitoring, tracking, and reporting on the progress through an automated procedure.	Not Implemented	Concur. Finance will work with other City departments to ensure recommendations are implemented by October 31, 2022.	High

Exhibit A

Section ID	Department	Report Date	Recommendation	Current Status	Management Update Comments	Risk Level
4A	Finance	9/8/2021 12:00:00 AM	At least quarterly, review all paid invoices for potential duplicate transactions. Results of quarterly reviews should be documented and used as a training tool for City staff. As staff continues to update their policy and procedures, staff should use Excel fuzzy matching function to identify potential duplicate transactions resulting from altered invoice numbers.	Not Implemented	Concur. Finance will work with other City departments to ensure recommendations are implemented by October 31, 2022.	High
4B	Finance	9/8/2021 12:00:00 AM	Review and update their Accounts-Payable-Guidelines, train staff on updates, and ensure compliance with policies and procedures.	Not Implemented	Concur. Finance will work with other City departments to ensure recommendations are implemented by October 31, 2022.	High
4C	Fire - Medical	9/8/2021 12:00:00 AM	Provide additional invoice data entry training to Fire-Medical staff to avoid potential duplicate transactions. This should include, but not be limited to, at least quarterly, reviewing Fire-Medical Munis expenditure and purchase order reports for accuracy and completeness and requiring staff to review and comply with the Finance Department's Accounts-Payable-Guidelines.	Not Implemented	Concur. SFMD concurs with this recommendation after duplication of payment for four invoices occurred during a software transition. In July 2021, SFMD was provided training by Accounts Payable regarding entries into Munis. In July 2021, SFMD established a single point for invoice submission to prevent payment duplication in the future. The Senior Financial Management Analyst reviews and approves payment. By June 30, 2022, an additional step SMFD has taken is an update of the SFMD Administrative Services Manual.	High
Building Safety Permit Processing						
3A	Community Development	6/16/2019 12:00:00 AM	At least annually, request a printout of the database fee tables from IT and perform a comprehensive review of the tables for accuracy and completeness. - The LIS "End Date" field should be updated when fees expire. - Any corrections should be submitted to IT for processing.	OnGoing - OnTrack	Management requested an extension of February 1, 2023. The extension date correlates with the implementation of LIS upgrades.	Low
3B	Information Technology	9/16/2019 12:00:00 AM	Work with the developer to address database duplications, such as in the LIS Development Fee and LU_Flat_Fee tables. Assess how redundancy in tables might impact future data migration efforts, time and impact of making adjustments now. Any potential updates should be discussed with the Division.	OnGoing - OnTrack	When the Property Evidence and Readiness Center is finally completed, then the DEA pharmaceutical refrigerator will be installed.	Low
1A	Fire - Medical	12/30/2020 12:00:00 AM	Collaborate with the Surprise Police Department to conduct a security assessment of SFMD. Where feasible, implement assessment recommendations to ensure the safety of the City's first responders and City assets.	OnGoing - OnTrack	This recommendation is still valid and will be completed by July 1, 2022.	High
1C	Fire - Medical	12/30/2020 12:00:00 AM	Ensure compliance with the DEA pharmaceutical refrigerator protocol.	OnGoing - OnTrack	When the Property Evidence and Readiness Center is finally completed, then the DEA pharmaceutical refrigerator will be installed.	High
	Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to city assets.					
	Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate potential risk of loss to city assets.					
	Represents an observation for consideration by management for correction or implementation associated the process being audited. Low risk observations should be implemented to improve efficiency and effectiveness of operations.					



SURPRISE
ARIZONA

AUDIT COMMITTEE MEETING

March 31, 2022
3:30 pm

Status of Audit Recommendations

Three Audit Reports – Total of 13 Recommendations

1. FY2019-2020 – Community Development (2)
 - LIS/System Update Status
2. FY2020-2021 – Fire-Medical (2)
 - 3 out of 5 completed
 - Two reliant on collaboration with other entities
3. FY2021-2022 – Citywide AP Trends & Analysis (9)
 - Ongoing review project completed approximately every two years
 - High-risk area due to nature of transactions

AP Trends & Analysis Audit Report

Objective: To determine if controls are in place and effectively working to identify duplicate transactions, unapplied credits, split transactions, and to protect sensitive data.

Conclusion: Control activities, such as policies and procedures, have been developed and are not consistently fully implemented and documented to reduce risk to City resources.

AP Trends & Analysis Audit Report

FY2018-2019

Opportunities requiring action:

- PII security concerns
- Duplicate payments
- Duplicate vendors
- Missed vendor discount
- Unapplied credits
- PO not obtained or not linked to payment in Munis



FY2021-2022

Ongoing Opportunities requiring action:

- PII security concerns
- Duplicate payments

Improvements:

- No PO limit violations
- Improvement in monitoring unapplied credits
- No new employee conflict of interest
- No duplicate vendors

Pending Internal Audit Projects

Audit Reports:

- PCard
- Payroll
- Utility Billing

Annual Reports:

- FY2022-2023 Annual Audit Plan
- FY2021-2022 Annual Activity Report

Personnel:

- Vacant Internal Audit Position – 3/31/2022

Standards:

- ALGA Peer Review recommendations



SURPRISE
ARIZONA

QUESTIONS OR COMMENTS?

Thank You



CITY OF SURPRISE City Audit Committee Meeting

Council Meeting Date: March 31, 2022
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:

Consideration and action pertaining to Accounts Payable Trends and Analysis.

Motion:

I move to approve and distribute the Accounts Payable Trends audit report.

Background:

This item has been placed on the agenda to discuss the results of work performed as part of the FY2021-2022 Annual Audit Plan approved by the Audit Committee at the start of the fiscal year.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement. City staff does not anticipate any negative impacts at this time.

Policy Compliant:

Sec. 2-304 (c) (6-8) of the Surprise Municipal Code directs the Audit Committee to: In coordination with the internal auditor, review significant audit findings and monitor responses thereto; provide independent review and oversight of the internal and external auditor including any audits either performs; and evaluate internal and external audits for performance and compliance with accepted professional standards.

Financial Impact:

This item relates to work performed as part of the FY2021-2022 Annual Audit Plan approved by the Audit Committee with the objective of identifying opportunities to minimize operational and financial risk to City assets.

Budget Impact:

There is no budget impact associated with this item.

FTE Impact:

There is no FTE impact associated with this item.

ATTACHMENTS:

1. FINAL - AP Trends and Analysis_15Feb22
-



S U R P R I S E

A R I Z O N A

Accounts Payable Trends and Analysis Report

September 8, 2021

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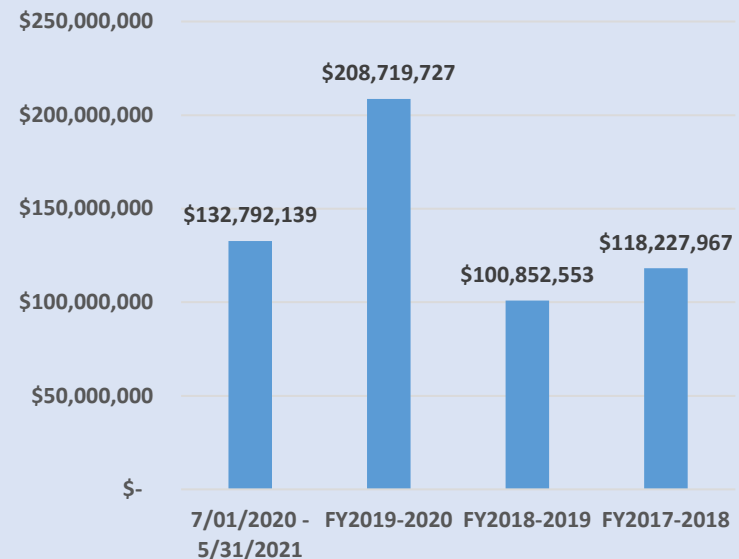
Internal Audit Report

Executive Summary and Observations	Page 3
Background, Objectives, and Scope	Page 4
Detailed Observations	Page 5
<i>High Risk Observations</i>	<i>Page 5</i>

Appendices

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B – Standards and Acknowledgements	Page 12

4-YR AP PAYMENT TRANSACTIONS TREND



The above data was generated from the Munis Invoice Tracking Report. The chart reflects a 4-year trend of paid transactions, excluding procurement card payments.

Five City Departments Represent 76% of the Total Dollar Amount of AP Transactions for July 2020 to May 2021

Department Name	Key Purchases	Dept. No.	Record Count	Total Payment
Public Works	Pavement Preservation, Road Improvement,	61	5,208	\$ 31,437,418
Finance	Developer Cost Reimbursement, Bond Series, and Financial Services Fees	15	1,456	\$ 23,992,491
Human Resources	Employee Benefits and Retirement Contributions	16	839	\$ 23,154,256
Water Resource Management	Central Arizona Project Charges, Infrastructure maintenance, Landfill Services	71	1,899	\$ 13,181,831
Fire-Medical	Radio Dispatch Services, Fire Stations 301 & 308, Medical Supplies and Screenings	34	1,420	\$ 8,624,077
Total				\$ 100,390,072

Executive Summary and Observations

Executive Summary

In June 2021, Internal Audit (IA) assessed citywide Accounts Payable (AP) Trends and Analysis as part of the FY2021-2022 Annual Audit Plan. The purpose of the audit was to determine whether AP transactions from July 1, 2020, through May 31, 2021, were processed in compliance with the Finance Department AP Guidelines and the City of Surprise (City) Information Security Policies and Procedures. AP transactions were reviewed and analyzed for duplicate payments, unapplied credits, aging of invoices, purchase order (PO) \$5,000 threshold, potential split transactions, potential employee conflict of interest, and security safeguards over personal identifiable information (PII) recorded on AP invoices.

In April 2019, IA reviewed AP transactions, in which audit findings included opportunities to improve internal controls over duplicate payments and access to PII recorded on AP invoices. Similar audit opportunities are referenced in the Detailed Observations section of this report.

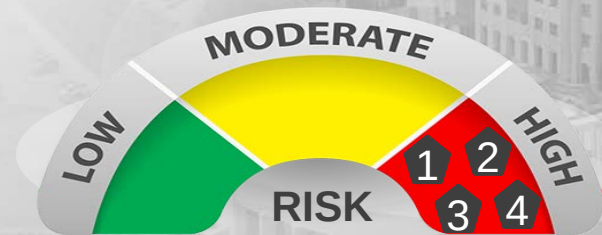
IA assessed internal controls' design and operating effectiveness around AP transactions processed through the City's financial system (Munis). Based on audit testing performed, internal controls are documented and in place to materially ensure the accuracy of AP transactions processed through the Munis AP workflow process. Munis system limitations allow Munis users to surpass internal controls and process duplicate invoices. Monitoring controls defined in the Finance Department AP Guidelines to identify duplicate payments have not been implemented. PII security controls are documented at a high level of operation. At a lower transactional level, adequate procedures are not in place to identify and limit access to PII recorded on AP invoices stored in the Munis AP Module. The Detailed Observations section of this report identifies opportunities to strengthen internal controls over monitoring AP transactions, protecting PII, and enhancing documentation and implementation of policies and procedures.

Transactions tested identified no incidents of split transactions to avoid the \$5,000 PO threshold. Internal controls were in place and effectively working to monitor unapplied credits. No incidents of new employee conflict of interests were identified.

Observations

1. Security for PII should include the principle of least privilege access rights and appropriate encryption at rest and in transit. (Page 5)
2. New Munis AP security roles should be documented and communicated to all City departments. (Page 7)
3. All PII residing in the City should be identified. (Page 8)
4. City staff should strengthen monitoring controls to identify duplicate paid invoices. (Page 9)

Observation Risk Rating



Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction. Refer to the rating definitions in Appendix A.

Background, Objectives, and Scope

Background

Munis system design uses workflow procedures to hold City departments accountable for verifying the accuracy of AP invoice entries made by their departments' AP liaisons. After City departments have completed their workflow process, Finance AP Specialists review the invoice details, approve invoices when applicable, and place a "HOLD" when additional information is required. Munis system controls will not process an invoice flagged as "HOLD" for payment. The final Munis automated workflow goes to the Accounting Manager, who performs a secondary Finance AP verification for accuracy and timeliness of invoice payment. For July 1, 2020, to May 31, 2021, six payment methods were used to process AP transactions in Munis. Table 1 and Table 2 summarize the AP payment totals for the period. The audit does not include the review of P-Card transactions, as they are reviewed in a separate audit report.

Table 1 - AP Payments July 1, 2020 to May 31, 2021

Munis Payment Type	Payment Total
Active Card Integration	\$ 4,107,625
Direct Disbursement	\$ 17,989,331
Electronic Funds Transfer	\$ 48,557,101
Normal Check	\$ 59,066,363
P-Card	\$ 2,108,903
Wire Transfer	\$ 3,071,721
Total	\$ 134,901,043

Table 2 - Five Vendors Represented 25% of the Total AP Payments for July 1, 2020 to May 31, 2021

Vendor Name	Primary Commodity/Service	Total Paid
BlueCross BlueShield of Arizona	Employee Health Benefits	\$ 8,758,306
Public Safety Personnel Retirement System	Employee Retirement Fund	\$ 7,823,630
BBVA USA	Employee City Issued PCard Monthly Statements & Vendor Active Card Integration Payments	\$ 6,619,790
DCS Contracting, Inc.	Road Improvements(Greenway, Reems, and Waddle)	\$ 5,658,934
Willmeng Construction, Inc.	South Plant Operations Building Remodel, Onsite Fuel Management, and Fire Station 304 and 308	\$ 5,288,426
Total Paid		\$ 34,149,086

Audit Objective

To determine whether citywide Finance AP practices are documented and in place to provide reasonable assurance that:

- Duplicate vendors, invoices, and payments are prevented or identified and corrected
- Potential employee conflict of interest are documented in compliance with City policies and procedures
- POs are processed for AP transactions over \$5,000
- Request for refunds and outstanding credits are processed in compliance with City policies and procedures
- PII data included on AP invoices is protected in accordance with City policies and procedures and the National Institute of Standards and Technology Guide (NIST)

Scope / Methodology

The audit scope was from July 1, 2020 to May 31, 2021. Procedures included:

- Interviews and discussions with Finance, Human Resources, and IT staff members
- Review of Finance, Procurement and Accounts Payable Division policy and procedures
- Review of the City's Information Security Policies and Procedures and NIST Section 2.1
- User access review for Munis invoice transactions containing PII data
- Analysis and sample-based testing of AP transactions and supporting documentation for compliance with City procurement requirements

Detailed Observations – High Risk

Observation	Recommendation	Management Response
1. Security for PII should include the principle of least privilege access rights and appropriate encryption at rest and in transit. The City's Information Security Policies and Procedures requires: • Implementation of host computer and network system access controls to ensure that only authorized persons are using the system resources and information necessary to perform their job duties • Encryption of confidential, sensitive, or vulnerable information during transit and at rest Through professional judgment, IA selected and reviewed 22 out of 1,548 AP invoices for potential PII data: • Two out of 22 invoices for vendors #10146 and #20005 contained a birthdate or utility account number, individual names, and addresses. • Nine out of 22 invoices correctly restricted access to PII invoice data. • Eleven out of 22 invoices contained no PII data. Human Resources invoice #471946 for vendor #10146 was approved through the Munis workflow process by three staff members, posted by a fourth staff member, and not appropriately flagged to restrict access to invoice PII. Three hundred and seven individual Munis users have access to the PII recorded on invoice #471946. IA was unable to determine if PII is appropriately encrypted in compliance with the City's Information Security Policies and Procedures. Continuation on Page 6	Human Resources should: A. Protect confidential PII recorded on AP invoices by: • Reviewing and updating the TCM AP Confidential role for all applicable AP invoices stored in Munis for vendor #10146 • Using professional judgment, assess potential HR AP vendors that might require flagging the TCM AP Confidential role to protect PII data and take the appropriate action. • Developing departmental policy and procedures for protecting PII recorded on AP invoices. The policy and procedures should include, but not be limited to, complying with the City's Information Security Policies and Procedures, redacting PII on AP invoices before scanning invoices into Munis, and flagging TCM AP Confidential role when redacting is not an option. • Training applicable staff on the new policy and procedures, at least annually and when new staff is hired, staff transfer, or job duties are changed.	A. Concur. HR staff will update AP and PCard procedures and train applicable team members by June 30, 2022. HR will collaborate with IT to review TCM AP Confidential roles and update roles and permissions by August 31, 2022. HR will audit invoices for vendor 10146 and restrict access or redact PII by August 31, 2022.

Detailed Observations – High Risk

Observation	Recommendation	Management Response
Continuation from Page 5 A process for tracking and monitoring PII stored on AP invoices is not in place. Risk Unprotected PII data violates City policy and increases the potential for a violation of Arizona Revised Statutes (A.R.S.) §§ 18-551 et seq. by providing the opportunity for a breach or unauthorized access to PII, exposing the City to civil penalties.	Finance should: B. Work with IT to develop a policy and procedure for processing and protecting PII recorded on AP invoices. This should include but is not limited to requiring City departments to access the need for recording PII on AP invoices and to redact PII before saving AP documents in Munis when PII is not necessary for AP payment processing. IT should: C. Assess if PII recorded on AP invoices is appropriately stored in the Munis AP Module in compliance with the City's Information Security Policies and Procedures related to encryption of confidential, sensitive, or vulnerable information during transit and rest.	B. Concur. Finance will work with other City departments to ensure recommendations are implemented by October 31, 2022. C. Concur: IT will work with Finance to develop a policy and procedure for processing and protecting PII invoices, include this same policy language in the IT Security Policy, and work with Finance Accounts Payable and City departments to ensure AP invoices scanned and stored in the Munis AP Module are void of PII by redacting PII prior to scanning/storing. Estimated completion date: April 29, 2022

Detailed Observations – High Risk

Observation	Recommendation	Management Response
2. New Munis AP security roles should be documented and communicated to all City departments. The City's Information Security Policies and Procedures assign responsibility to the IT Security Manager for coordinating and overseeing citywide compliance with policies and procedures regarding confidentiality, integrity, and security of City information assets. The Munis AP security roles are not consistently used by City staff to limit access to PII recorded on AP invoices stored in Munis. In May 2019, IT created TCM AP Confidential roles to limit access to PII stored in the Munis AP Module. The availability and purpose of the new security roles were not communicated to all City departments. Risk Increased potential of identify theft or misuse of sensitive PII	Information Technology IT Security Manager should: A. Document and communicate the availability and purpose of the TCM AP Confidential security roles to all City departments.	A. Concur: The IT Security Manager will work with the IT Applications Manager to document and communicate the TCM AP Confidential roles to all departments. Estimated completion date: April 15, 2022.

Detailed Observations – High Risk

Observation	Recommendation	Management Response
3. All PII residing in the City should be identified. The NIST Guide to Protecting the Confidentiality of PII, Section 2.1, requires organizations to identify all PII residing within their organization. The Munis AP Module has an unknown number of AP invoices containing PII. On a high level, IT Security has identified and documented applications, systems, computers, and servers using PII, but has not surveyed City departments to determine how they process, store, and manage PII. Risk Unidentified PII is at an increased risk of not being appropriately protected from misuse.	IT Department should: A. Conduct a citywide survey to identify PII residing within City departments. Appropriate action should be taken to ensure compliance with NIST and city policies and procedures. Finance Department should: B. Work in conjunction with the IT Department to assess and develop an action plan to address the access to PII recorded on AP invoices stored in Munis. The Finance Department should function as the action plan coordinator by monitoring, tracking, and reporting on the progress through an automated procedure.	A. Concur: The IT Security Manager will survey all departments and document PII use. Findings will be recorded and audited annually. Estimated completion date: May 15, 2022. B. Concur. Finance will work with other City departments to ensure recommendations are implemented by October 31, 2022.

Detailed Observations – High Risk

Observation	Recommendation	Management Response
4. City staff should strengthen monitoring controls to identify duplicate paid invoices. Finance Department Accounts-Payable-Guidelines requires the AP Division to review, at least quarterly, all paid invoices for potential duplicate transactions. IA reviewed 19,083 paid AP transactions from July 1, 2020 to May 31, 2021. The review did not include transactions paid with a City-issued procurement card. Duplicate transaction testing was based on the vendor's name, invoice number, invoice date, and invoice gross amount: - IA identified a total of five Fire-Medical duplicate invoice payments for two vendors, totaling \$2,953. Payments were processed between May 2020 and September 2020. During the audit, in July 2021, Fire-Medical staff requested and obtained a refund or credit memo for the duplicate payments. - A City vendor identified the receipt of a duplicate payment of \$42,228 for employee retirement contributions for the pay period ending August 9, 2020. The vendor issued a refund to the City in May 2021. Munis is designed to detect and prevent duplicate invoice entries based on the comparison of exact invoice numbers and vendor names. When an invoice number is altered by adding a space or character to the original invoice number, duplicate invoices can be entered into the City's financial system. <i>Continuation on Page 10</i>	Finance should: A. At least quarterly, review all paid invoices for potential duplicate transactions. Results of quarterly reviews should be documented and used as a training tool for City staff. As staff continues to update their policy and procedures, staff should use Excel fuzzy matching function to identify potential duplicate transactions resulting from altered invoice numbers. B. Review and update their Accounts-Payable-Guidelines, train staff on updates, and ensure compliance with policies and procedures.	A. Concur. Finance will work with other City departments to ensure recommendations are implemented by October 31, 2022. B. Concur. Finance will work with other City departments to ensure recommendations are implemented by October 31, 2022.

Detailed Observations – High Risk

Observation	Recommendation	Management Response
Continue from Page 9 As part of the FY2018-2019 AP Monitoring Audit Report, Excel “fuzzy matching” function was recommended as a method to identify potential duplicate invoice payments. Documentation was not available to support staff’s quarterly review for possible duplicate invoice payments. The Finance Department is in the process of updating its policy and procedures. Risk: • Duplicate payments are not identified quarterly, and refunds or credits for overpayments were received 9-14 months after overpayments were processed	Fire-Medical should: C. Provide additional invoice data entry training to Fire-Medical staff to avoid potential duplicate transactions. This should include, but not be limited to, at least quarterly, reviewing Fire-Medical Munis expenditure and purchase order reports for accuracy and completeness and requiring staff to review and comply with the Finance Department’s Accounts-Payable-Guidelines.	C. Concur. SFMD concurs with this recommendation after duplication of payment for four invoices occurred during a software transition. In July 2021, SFMD was provided training by Accounts Payable regarding entries into Munis. In July 2021, SFMD established a single point for invoice submission to prevent payment duplication in the future. The Senior Financial Management Analyst reviews and approves payment. By June 30, 2022, an additional step SMFD has taken is an update of the SFMD Administrative Services Manual.

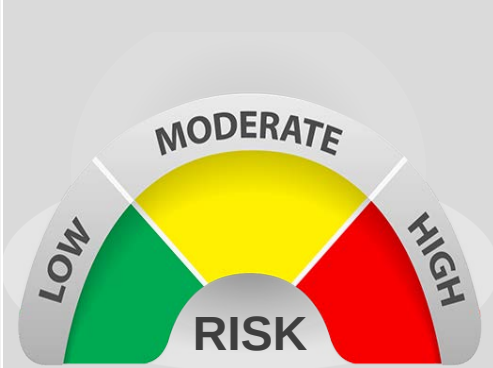
Appendix A – Data Reliability and Risk Rating

Data Reliability

The data utilized for the work performed was either obtained directly from Munis, the City of Surprise's financial system of record, or received directly from the various City departments and agreed to Munis. Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Comprehensive Annual Financial Report (CAFR) performed by the City's external auditor.

Internal Audit determined the data utilized is sufficiently reliable given its intended use.

Audit Observation Risk Rating



Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction:

- High – Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets.
- Moderate – Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate the potential risk of loss to City assets.
- Low – Represents an observation for consideration by management for correction or implementation associated the process being audited. Low-risk observations should be implemented to improve efficiency and effectiveness of operations.

Appendix B – Standards and Acknowledgements

Audit Standards

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This project was not intended or designed to be a detailed study of every relevant procedure, regulation, system, or transaction. The conclusion and recommendations in this report might not include all areas that could need improvement.

Acknowledgements

IA appreciates the time City staff contributed to this review. IA would like to take this opportunity to thank all of the departments and individuals involved in the AP Trends and Analysis Report for their considerable cooperation.

We received input and assistance from the following:

- Accounts Payable Division
- Finance
- Fire Medical
- Information Technology Department
- Procurement Division
- Public Works
- Utility Billing Division
- Water Resource Management

Auditors:

Carol Holley, Sr. Internal Auditor
Charis Newberry, Internal Auditor

Surprise Internal Audit

Vision

The development of people, systems, and processes that delivers innovative and effective auditing services to the City of Surprise.

Mission

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

For more information or to contact Internal Audit:
<https://www.surpriseaz.gov/2561/Internal-Auditor>



CITY OF SURPRISE City Audit Committee Meeting

Council Meeting Date: March 31, 2022
Submitting Department: City Manager Office
Staff Recommendations:

Contact Person:
District: Citywide

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

Agenda Wording:

Consideration and action pertaining to an amendment to the Audit Committee Bylaws.

Motion:

I move to approve the amendment to the Audit Committee Bylaws.

Background:

This item has been placed on the agenda to discuss changes to the Audit Committee Bylaws to clarify Audit Committee terms.

Objective Analysis:

The mission of the City Audit Committee is to provide advice to city council in respect to fulfilling its oversight responsibilities regarding the integrity of the city's annual comprehensive financial statements and to assist and advise the internal auditor and city council on matters relating to the city's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. This discussion and possible action will lend itself to the oversight and advisory components of the mission statement. City staff does not anticipate any negative impacts at this time.

Policy Compliant:

Sec. 2-304 (b) of the Surprise Municipal Code directs the Audit Committee to adopt bylaws that will, at a minimum, include and address voting rights, meetings, and member terms. The bylaws may include any rules or policies which enable the audit committee to perform and carry out any of the duties enumerated herein.

Financial Impact:

No financial impact.

Budget Impact:

No budget impact.

FTE Impact:

No FTE impact.

ATTACHMENTS:

1. 22.03.10 Audit Committee By Laws -Revised (002)
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Audit Committee Bylaws

Created: December 2015

Revised: March 22, 2017

March 2, 2022

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I. Ordinance

On September 6, 2016, Ordinance #2016-25 of the Mayor and Council of the City of Surprise amended Chapter 2, Article VIII of the Surprise Municipal Code by adding Section 2-304, Audit Committee, that formally established an Audit Committee and its powers and duties .

II. Purpose

The purpose of the Audit Committee (AC) shall be to provide advice to City Council in respect to fulfilling its oversight responsibilities regarding the integrity of the financial statements of the City of Surprise, Arizona (City). The AC will further assist and advise the Internal Auditor (IA) and City Council on matters relating to the City's compliance with legal and regulatory requirements, systems of internal controls, management of citywide risk environment and the performance of internal and external auditors. Consistent with this function, the AC endeavors to encourage continuous improvement of, and foster adherence to, City policies, procedures and practices at all levels.

III. Composition

The AC shall consist of seven (7) members ~~appointed by the Mayor~~: two (2) elected City council members appointed by the Mayor, three (3) citizens, and two City department executives appointed by the City Manager.

AC members should have an understanding of financial reporting, accounting, auditing, or related business field(s), be familiar with local government operations, and have sufficient time to effectively perform the duties listed herein. At least one (1) member shall be designated as the "financial expert".

The members of the AC will designate a Chairperson and Vice Chairperson by majority vote. The Chairperson has the authority to sign correspondence and resolutions as the official representative of the AC. During the absence of the Chairperson, the Vice Chairperson shall act as the presiding officer over all AC meetings and activities.

Members will be appointed for a period not exceeding two (2) years, after which they will be eligible for ~~extension or~~ re-appointment for one (1) additional term. Each term shall start on July 1st of the applicable year. Any vacancy shall be filled in a timely manner. Members shall be appointed to achieve staggered two (2) year terms.

Nevertheless, mMembers appointed to filling a vacancy in an unexpired term before the

~~end of a term will serve through the immediately succeeding June 30th of the vacancy's unexpired term, current year and then automatically serve a their full two (2)-year term shall starting on July 1st of the respective current year.~~ Terms for council members appointed by the Mayor will expire at the discretion of the Mayor.

IV. Voting

Each member of the AC shall have one (1) vote. AC members must be present at the time of the vote. The act of the majority of AC members present at the meeting, at which a quorum is present, is the act of the AC. A quorum shall consist of four (4) AC members, one (1) of whom shall be a City council member.

AC members cannot vote on any matter in which they, directly or indirectly, have a material interest.

V. Conflict of Interest

AC members will annually provide written declarations to the Chairperson stating they do not have any conflicts of interest that would preclude them from being members of the AC.

VI. Responsibility

The AC's primary duties and responsibilities include:

- ❖ Reporting to the City Council on problem areas as deemed appropriate
- ❖ Reviewing and approving the internal Annual Audit Plan. In making its pre-approval determination, the AC shall consider whether providing any non-audit services is compatible with maintaining the IA's independence.
- ❖ Considering and reviewing with the IA:
 - ✓ Significant audit findings during the year and management's responses to them
 - ✓ Monitoring follow up on reported findings to assure corrective action is taken
 - ✓ Any difficulties encountered during the performance of an audit conducted, including any restrictions or limitations on audit scope or access to required information
 - ✓ Any changes required in the planned scope of the Annual Audit Plan
 - ✓ The internal Audit Charter
 - ✓ The Internal Audit Office's overall performance and its compliance with accepted standards for the professional practice of internal auditing
- ❖ Evaluating findings and recommendations resulting from the Internal Audit Office peer review

- ❖ Meeting at least once annually with the City's external auditor to discuss the City's Comprehensive Annual Financial Report and other applicable risk management and City financial concerns.
- ❖ The AC may, in its discretion, also review reports from City management on other finance, legal, and administrative issues to the extent that it deems appropriate or necessary.
- ❖ Periodically assess the AC's performance under the bylaws, reassess the adequacy of the bylaws, and report to the City Council the results of the evaluation and any recommendations for proposed changes to the bylaws
- ❖ Performing other functions as requested by City Council

VII. Compliance

The AC shall:

- ❖ Discuss significant risk exposures periodically with the independent external auditor, City management and the IA
- ❖ Review the steps and programs that City management and the IA have taken to identify, monitor, control and report such exposures
- ❖ Establish procedures whereby employees can confidentially and anonymously submit to the AC concerns or issues regarding the City's accounting, compliance, ethical, or auditing matters
- ❖ Periodically require City management, the IA and the independent external auditor to review, report and comment on significant City risks or exposures and actions needed to minimize such risks or exposures
- ❖ Review the City code of ethics and recommend any changes or additions
- ❖ Consider any emerging issues that the AC should become involved with in the future

VIII. Other Responsibilities

The AC shall oversee the IA's receipt, retention and treatment of fraud hotline complaints regarding accounting, internal accounting controls or auditing matters. The IA shall keep a record of complaints and inform the AC periodically of complaints received and actions taken for resolution.

IX. Meetings

The AC shall meet as frequently as circumstances dictate, but no less than four times annually. All AC members are expected to attend each meeting, in person or via tele or video-conference. The AC will invite members of City management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors and executive sessions. The AC shall name a Chairperson, who

shall prepare and/or approve an agenda in advance of each meeting. A majority of the members of the AC shall constitute a quorum. The AC shall maintain minutes or other records of meetings and activities of the AC.

The AC shall, through its Chairperson, report regularly to the City Council following the meetings of the AC, addressing such matters as the quality of the City's financial statements, compliance with legal or regulatory requirements, the performance and independence of the external auditors, the performance of the internal audit function or other matters related to the AC's functions and responsibilities.

X. Access

The AC may request reports from the Chief Financial Officer or City department heads. The AC may retain (and determine the funding for) experts to advise or assist it, including outside counsel, accountants, financial analysts or others, and the organization shall provide sufficient funding therefore.

XI. Limitation of Audit Committee's Role

While the AC has the responsibilities and powers set forth in the bylaws, it is not the duty of the AC to plan or conduct audits or to determine that the City's financial statements and disclosures are complete and accurate and are in accordance with GAAP and applicable rules and regulation. These are the responsibilities of City management and the independent external auditor.

Members of the AC are entitled to rely on the expertise, knowledge, and professional judgment of City management, the IA, the independent external auditor(s), and any consultant or expert retained by the AC. The AC's responsibilities are not to be interpreted as a substitute for the professional obligations of others.

Nothing contained in the bylaws are is intended to expand the applicable standards of liability under statutory or regulatory requirements for the City Council.

XII. Authority

The AC has authority to conduct or authorized investigations into any matters within its scope of responsibility. It is empowered to:

- ❖ Advise City Council on the appointment, compensation, and oversee the work of any registered public accounting firm hired by the City
- ❖ Resolve any disagreements between City Management and the independent external auditor regarding financial reporting, and other non-auditing services

- ❖ Resolve any disagreements between City Management and the IA regarding audit scope, observations, and recommendations
- ❖ Obtain any information it requires from any City employee, volunteer, or other external parties, subject to legal confidentiality restrictions, necessary to complete AC responsibilities
- ❖ Request attendance of any employee or volunteer of the City and its enterprises at AC meetings
- ❖ Pre-approve all auditing and non-audit services
- ❖ Retain independent counsel or others to advise the AC or assist in the conduction of an investigation
- ❖ Request from City Council, sufficient funds to exercise the powers and duties set forth herein

These bylaws and the policies therein become effective immediately upon adoption by the Audit Committee.

Audit Committee Chair

Date