



CITY AUDITOR'S OFFICE

FY 2018/19 Annual Expenditure Limitation Report

December 30, 2019

AUDIT REPORT NO. 2001.01

CITY COUNCIL

Mayor W.J. "Jim" Lane

Suzanne Klapp

Virginia Korte

Vice Mayor Kathy Littlefield

Linda Milhaven

Guy Phillips

Solange Whitehead



December 30, 2019

Honorable Mayor and Members of the City Council:

Enclosed is the *FY 2018/19 Annual Expenditure Limitation Report (AELR)*, with the accompanying independent accountant's report, which is required to satisfy a state reporting requirement.

Arizona Revised Statutes §41-1279.07 requires the certified public accountant performing a city's audit to attest to its AELR. Accordingly, the City's audit firm for the FY 2018/19 Comprehensive Annual Financial Report, Heinfeld, Meech and Co., P.C., performed this attestation examination. The AELR, with the independent accountant's report, is then required to be filed with the state Auditor General's office. The City Treasurer's office submitted this AELR to the Auditor General's office on December 27, 2019.

The City Auditor's Office manages the City's audit contract and submits the resulting reports to the Audit Committee and then to the City Council for review in November or December. The AELR and related review are typically completed and submitted in the following January or February, although this year's report was completed in December.

Arizona Revised Statutes §9-481 requires the AELR to be posted on the City's website. Therefore, we post the AELR on the Audit Reports webpage where the associated annual financial audit reports are currently available. As well, the City Treasurer's office posts the AELR with the annual financial reports.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

Audit Team:

Paul Christiansen, CPA, CIA – Senior Auditor

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

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

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INDEPENDENT ACCOUNTANTS' REPORT

The Auditor General of the State of Arizona and
The Honorable Mayor and City Council
of the City of Scottsdale, Arizona

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

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

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

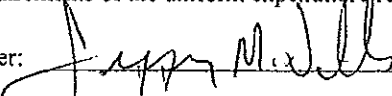
Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
December 20, 2019

CITY OF SCOTTSDALE, ARIZONA
 ANNUAL EXPENDITURE LIMITATION REPORT - PART I
 FISCAL YEAR ENDED JUNE 30, 2019
 (in thousands of dollars)

1. Economic Estimates Commission expenditure limitation	\$	491,373
2. Voter-approved alternative expenditure limitation		<u>N/A</u>
3. Enter applicable amount from line 1 or line 2		<u>\$ 491,373</u>
4. Amount subject to the expenditure limitation (total amount from Part II, Line C)	\$	422,366
5. Board-authorized expenditures necessitated by a disaster declared by the Governor (Article IX, Sec. 20(2)(a), Arizona Constitution)		-
6. Board-authorized expenditures necessitated by a disaster not declared by the Governor (Article IX, Sec 20(2)(b), Arizona Constitution)		-
7. Prior-year, voter-approved expenditures to exceed the expenditure limitation for the reporting fiscal year (Article IX, Sec 20(2)(c), Arizona Constitution)		<u>-</u>
8. Subtotal		<u>422,366</u>
9. Board-authorized excess expenditures for the previous fiscal year necessitated by a disaster not declared by the Governor and not approved by the voters (Article IX, Sec 20(2)(b), Arizona Constitution)		<u>-</u>
10. Total adjusted amount subject to expenditure limitation; add lines 8 and 9	\$	<u>422,366</u>
11. Amount under (in excess of) the expenditure limitation (Subtract Line 10 from Line 3)	\$	<u><u>69,007</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 Fiscal Officer: 

Name and Title: Jeffery M. Nichols, City Treasurer/Chief Financial Officer

Telephone Number (480) 312-2364

Date: 12/27/19

See accompanying notes to report

CITY OF SCOTTSDALE, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - PART II
FISCAL YEAR ENDED JUNE 30, 2019
(in thousands of dollars)

DESCRIPTION	GOVERNMENTAL FUNDS	ENTERPRISE FUNDS	INTERNAL SERVICE FUNDS	FIDUCIARY FUNDS	TOTAL
A. Amounts reported on the Reconciliation, Line D	\$ 444,883	\$ 188,495	\$ 63,605	\$ -	\$ 696,983
B. Less exclusions claimed:					
1. Debt proceeds (Part II, Note B-1)	5,313	-	-	-	5,313
2. Debt service requirements (Part II, Note B-2)	64,646	31,964	-	-	96,610
3. Dividends, interest, and gains on the sale or redemption of investment securities (Part II, Note B-3)	4,495	1,758	-	-	6,253
4. Trustee or custodian (Part II, Note B-4)	-	-	-	-	-
5. Grants and aid from the Federal Government (Part II, Note B-5)	8,576	-	-	-	8,576
6. Grants, aid, contributions, or gifts from private agency or organization or individual except amounts received in lieu of taxes. (Part II, Note B-6)	1,792	-	-	-	1,792
7. Amounts received from the State of Arizona (Part II, Note B-7)	444	-	-	-	444
8. Quasi-external interfund transactions (Part II, Note B-8)	6,899	-	55,032	-	61,931
9. Amounts accumulated for purchase of land, and the purchase or construction of buildings or improvements (Part II, Note B-9)	42,158	31,774	-	-	73,932
10. Highway user revenues in excess of those received in fiscal year 1979-80 (Part II, Note B-10)	15,606	-	-	-	15,606
11. Contracts with other political subdivisions (Part II, Note B-11)	1,150	-	-	-	1,150
12. Refunds, reimbursements, and other recoveries (Part II, Note B-12)	3,010	-	-	-	3,010
13. Voter-approved exclusions not identified above (attach resolution)	-	-	-	-	-
14. Prior years carryforward (Part II, Note B-14)	-	-	-	-	-
15. Qualifying capital improvement expenditures repaid in accordance with A.R.S. Sec. 41-1279.07	-	-	-	-	-
16. Total Exclusions Claimed:	154,089	65,496	55,032	-	274,617
C. Amounts subject to expenditure limitation	\$ 290,794	\$ 122,999	\$ 8,573	\$ -	\$ 422,366

See accompanying notes to report.

CITY OF SCOTTSDALE, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - RECONCILIATION
FISCAL YEAR ENDED JUNE 30, 2019
(in thousands of dollars)

DESCRIPTION	GOVERNMENTAL FUNDS	ENTERPRISE FUNDS	INTERNAL SERVICE FUNDS	FIDUCIARY FUNDS	TOTAL
A. Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund financial statements (Reconciliation Note A-2, CAFR pgs. 41 and 49).	\$ 483,419	\$ 174,438	\$ 61,109	\$ -	\$ 718,966
B. Subtractions:					
1. Items not requiring use of current financial resources:					
a. Depreciation and amortization (CAFR pg. 49)	\$ -	\$ 53,323	\$ 8,270	\$ -	\$ 61,593
b. Loss on disposal of capital assets (CAFR pg. 49)	-	-	-	-	-
c. Bad debt expense	-	-	-	-	-
d. Pension expense (CAFR pg. 49 (included in operating expense)), fire insurance premium tax (CAFR pg. 41 (included in total expenditures)) and other postemployment benefits expense (OPEB) (N/A)	1,921	(429)	215	-	1,707
e. Claims incurred but not reported (IBNR) (CAFR pg. 105)	-	-	22,447	-	22,447
f. Landfill closure and postclosure care costs and pollution remediation	-	-	-	-	-
2. Expenditures of separate legal entities established under Arizona Revised Statutes (Reconciliation, Note B-2).	35,771	-	-	-	35,771
3. Required fees paid to the Arizona Department of Revenue (Reconciliation, Note B-3).	600	-	-	-	600
4. Present value of net minimum capital lease and installment purchase contract payments recorded as expenditures at inception of the agreement (Reconciliation, Note B-4).	244	-	-	-	244
5. Involuntary court judgements (Reconciliation, Note B-5).	-	-	340	-	340
6. Total subtractions	\$ 38,536	\$ 52,894	\$ 31,272	\$ -	\$ 122,702
C. Additions:					
1. Principal payments on long-term debt (Part II-Note B-2)	\$ -	\$ 18,460	\$ -	\$ -	\$ 18,460
2. Acquisition of capital assets (CAFR pg. 51)	-	45,965	10,422	-	56,387
3. Amounts paid in the current year but reported as expenses in previous years:					
Claims previously recognized as IBNR (CAFR pg. 105)	-	-	22,933	-	22,933
Landfill closure and postclosure care costs and pollution remediation (N/A)	-	-	-	-	-
4. Pension contributions (CAFR pg. 52) and OPEB contributions (N/A) paid in the current year	-	2,526	413	-	2,939
5. Total additions	-	66,951	33,768	-	100,719
D. Amounts reported on Part II, line A	\$ 444,883	\$ 188,495	\$ 63,605	\$ -	\$ 696,983

See accompanying notes to report.

CITY OF SCOTTSDALE, ARIZONA
 NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
 FISCAL YEAR ENDED JUNE 30, 2019
 (in thousands of dollars)

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, Section 41-1279.07. The AELR excludes expenditures, expenses, or deductions of certain revenues specified in the Arizona Constitution, Article IX, Section 20, from the total expenditures, expenses, or deductions reported in the fund financial statements.

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

PART II - NOTE B-1 - DEBT PROCEEDS

Governmental Funds

General Obligation Bond Construction Fund expenditures that were paid from bond proceeds	CAFR pg. 161	5,313
		\$ 5,313

PART II - NOTE B-2 - DEBT SERVICE REQUIREMENTS

Governmental Funds

Debt Service (General Obligation Bond)

Principal	CAFR pg. 41	\$ 42,250
Interest and fiscal charges	CAFR pg. 41	19,786
		62,036

General Fund:

Principal (partial)	CAFR pg. 41	\$ 2,477
Interest (partial)	CAFR pg. 41	133
		2,610

Total Governmental Funds Debt Service Requirements		\$ 64,646
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Enterprise Funds:

Principal Payments on Long-Term Debt	CAFR pg. 51	\$ 18,460
Interest Payments on Long-Term Debt	CAFR pg. 49	13,504
Total Principal & Interest on Long-Term Debt		\$ 31,964

CITY OF SCOTTSDALE, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
FISCAL YEAR ENDED JUNE 30, 2019
(in thousands of dollars)

PART II - NOTE B-3 - DIVIDENDS, INTEREST, AND GAINS ON SALE OF SECURITIES

General Fund:		
Interest earnings	CAFR pg. 40	\$ 4,328
Special Revenue Funds:		
Special Programs - Interest earnings	CAFR pg. 144	<u>\$ 151</u>
Permanent Funds:		
Rassner Library Endowment - Interest earnings	CAFR pg. 163	\$ 10
Scottsdale Community Endowment - Interest earnings	CAFR pg. 163	4
Scottsdale Employee Endowment - Interest earnings	CAFR pg. 163	1
Herbert R. Drinkwater Youth Services Endowment - Interest earnings	CAFR pg. 163	1
		<u>\$ 16</u>
Total Governmental Funds Dividends, Interest, and Gains on Sale of Securities:		<u>\$ 4,495</u>
Enterprise Funds Investment Income:		
Interest earnings (partial)	CAFR pg. 49	<u>\$ 1,758</u>

PART II - NOTE B-4 - TRUSTEE OR CUSTODIAN

Fiduciary Funds - deductions	N/A	<u>\$ -</u>
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PART II - NOTE B-5 - GRANTS AND AID FROM FEDERAL GOVERNMENT

Special Revenue Funds:		
CDBG-Grants and aid from federal government	CAFR pg. 143	\$ 1,304
HOME-Grants and aid from federal government	CAFR pg. 143	234
Grants-Grants and aid from federal government	CAFR pg. 143	942
Section 8-Grants and aid from federal government	CAFR pg. 143	5,632
Governmental Funds (included in intergovernmental miscellaneous)	CAFR pg. 40	575
Grants-Grants and aid from federal government (non-excludable amount; to be carried forward)		(111)
		<u>\$ 8,576</u>

PART II - NOTE B-6 - GRANTS AND DONATIONS FROM PRIVATE DONORS

Governmental Funds		
Grants Fund - grants/donations	CAFR pg. 143	\$ 1,560
Special Programs Fund - grants/donations	CAFR pg. 144	214
Rassner Library Endowment - grants/donations	CAFR pg. 163	18
Total expenditures from grants and donations from private donors		<u>\$ 1,792</u>

CITY OF SCOTTSDALE, ARIZONA
 NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
 FISCAL YEAR ENDED JUNE 30, 2019
 (in thousands of dollars)

PART II - NOTE B-7 - EXPENDITURES FROM AMOUNTS RECEIVED FROM THE STATE

Governmental Funds			
Grants Fund	CAFR pg. 144	\$	410
Special Programs (included in intergovernmental miscellaneous)	CAFR pg. 143		34
Total expenditures of amounts received from the State		\$	<u>444</u>

PART II - NOTE B-8 - QUASI-EXTERNAL INTERFUND TRANSACTIONS

The following expenses/expenditures are from amounts included in General Fund, Transportation Fund, or Internal Service Fund revenues. Therefore, these expenses are excluded in the General Fund, Transportation Fund and Internal Services Funds. The amounts excluded do not exceed expenditures of these revenues.

	CAFR pg. 166 charges for sales and services/billings	\$	55,099
Governmental Fund and Enterprise expenses included in Internal Service Fund revenues			(67)
Computer Replacement (non-excludable amount; to be carried forward)		\$	<u>55,032</u>
Enterprise Funds expenses included in General Fund - indirect costs	CAFR pg. 40, 49	\$	6,475
Enterprise Funds expenses included in Transportation Fund - indirect costs	CAFR pg. 143, 49		424
		\$	<u>6,899</u>

PART II - NOTE B-9 - AMOUNTS ACCUMULATED FOR CONSTRUCTION*

Governmental Funds			
Capital Improvement Expenditures			
General CIP Construction Capital Project Fund	CAFR pg. 41	\$	14,973
Preserve Privilege Tax Capital Project Fund	CAFR pg. 161		6,963
Transportation Privilege Tax Capital Project Fund	CAFR pg. 161		22,608
External Sources Capital Project Fund	CAFR pg. 161		9,913
Less: Furniture, Machinery & Equipment purchases, operating expenses			(12,299)
Total amount accumulated for construction		\$	<u>42,158</u>
Enterprise Funds			
Capital improvements purchases	CAFR pg. 51	\$	45,965
Less: Furniture, Machinery & Equipment purchases, operating expenses			(14,191)
Total amount accumulated for construction		\$	<u>31,774</u>

* Amounts of property accumulated and used for the acquisition of land, and the purchase or construction of buildings and improvements, which received a permanent voter exclusion in 1982.

CITY OF SCOTTSDALE, ARIZONA
 NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
 FISCAL YEAR ENDED JUNE 30, 2019
 (in thousands of dollars)

PART II - NOTE B-10 - EXPENDITURES FROM HIGHWAY USER REVENUES IN EXCESS OF FISCAL YEAR 1979-80 SPECIAL

Total HURF revenue	CAFR pg. 143	\$	17,073
Less:			
1979-80 HURF base			(1,467)
Maximum HURF exclusion available		\$	<u>15,606</u>
 Total HURF expenditures	CAFR pg. 143	\$	24,587
Less:			
Maximum HURF exclusion available			(15,606)
Reimbursements from Outside Sources (includes intergovt. misc. amount)	CAFR pg. 143		(378)
Indirect Costs	CAFR pg. 143		(424)
Total HURF expenditures not covered by non-local revenue		\$	<u>8,179</u>
 HURF exclusion claimed		\$	<u>15,606</u>
 HURF carryforward		\$	<u>-</u>

PART II - NOTE B-11 - CONTRACTS WITH OTHER POLITICAL SUBDIVISIONS

Governmental Funds			
General Fund - intergovernmental miscellaneous (partial)	CAFR pg. 40	\$	1,150
		\$	<u>1,150</u>

PART II - NOTE B-12 - REFUNDS, REIMBURSEMENTS, AND OTHER RECOVERIES

Governmental Funds			
General Fund - reimbursements from outside sources and partial intergovernmental miscellaneous	CAFR pg. 40	\$	2,374
Transportation Fund - reimbursements from outside sources and intergovernmental miscellaneous	CAFR pg. 143		378
Section 8 Housing Fund - reimbursements from outside sources	CAFR pg. 143		4
Special Programs Fund - reimbursements from outside sources	CAFR pg. 144		239
Tourism Development Fund - reimbursements from outside sources	CAFR pg. 144		15
		\$	<u>3,010</u>

CITY OF SCOTTSDALE, ARIZONA
 NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
 FISCAL YEAR ENDED JUNE 30, 2019
 (in thousands of dollars)

RECONCILIATION - NOTE A-2 - TOTAL EXPENDITURES/EXPENSES/DEDUCTIONS REPORTED IN THE FUND FINANCIAL STATEMENTS

Governmental Funds:			
Total expenditures	CAFR pg. 41	\$	483,419
Enterprise Funds:			
Total operating expenses	CAFR pg. 49	\$	160,934
Interest paid	CAFR pg. 49		13,504
Total expenses		\$	174,438

RECONCILIATION - NOTE B-2 - EXPENDITURES WHICH ARE NOT INCLUDED IN EEC BASE LIMITATION

The \$35,771 subtraction for separate legal entities established under Arizona Revised Statutes consists of expenditures of streetlight and service districts, community facility districts, a preserve authority, and a municipal property corporation 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:

Streetlight and Service Districts	CAFR pg. 144	\$	584
Municipal Property Corporation			
Principal	CAFR pg. 155	\$	14,157
Interest and other charges	CAFR pg. 155		8,377
Capital project expenses	CAFR pg. 161		4,253
Total		\$	26,787
Community Facilities Districts			
Operating expenditures	CAFR pg. 143-144	\$	112
Principal	CAFR pg. 155		2,475
Interest and other charges	CAFR pg. 155		686
Total		\$	3,273
Scottsdale Preserve Authority			
Operating expenditures	CAFR pg. 143	\$	5
Principal	CAFR pg. 155		4,540
Interest and other charges	CAFR pg. 155		582
Total		\$	5,127
Total Expenditures not included in EEC Base Limitation:		\$	35,771

RECONCILIATION - NOTE B-3 - REQUIRED FEES PAID TO THE ARIZONA DEPARTMENT OF REVENUE

The subtraction of \$600 is the result of fees paid to the Arizona Department of Revenue for administrative and collection services provided to the City.

General Fund			
Total expenditures (partial)	CAFR pg. 41	\$	600

RECONCILIATION - NOTE B-4 - PRESENT VALUE OF NET MINIMUM CAPITAL LEASE AND INSTALLMENT PURCHASE CONTRACT PAYMENTS RECORDED AS EXPENDITURES AT INCEPTION OF THE AGREEMENT

General Fund	CAFR pg. 41	\$	244
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RECONCILIATION - NOTE B-5 - INVOLUNTARY COURT JUDGMENTS OR INVOLUNTARY SETTLEMENTS

The subtraction of \$340 is the result of tortious acts for which the City was required to pay involuntarily.

Internal Service Funds			
Operating expenses included in the Internal Service Funds (partial)	CAFR pg. 166	\$	340

City Auditor's Office

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Scottsdale, Arizona 85251

OFFICE (480) 312-7756
INTEGRITY LINE (480) 312-8348

www.ScottsdaleAZ.gov/auditor



Audit Committee

Vice Mayor Kathy Littlefield, Chair
Councilmember Virginia Korte
Councilwoman Solange Whitehead

City Auditor's Office

Kyla Anderson, Senior Auditor
Paul Christiansen, Senior Auditor
Lai Cluff, Senior Auditor
Cathleen Davis, Senior Auditor
Brad Hubert, Senior Auditor
Sharron Walker, City Auditor

The City Auditor's Office conducts audits to promote operational efficiency, effectiveness, accountability and integrity.