

**CITY OF TEMPE, ARIZONA
REPORT ON EXAMINATION OF ANNUAL EXPENDITURE
LIMITATION REPORT
YEAR ENDED JUNE 30, 2013**

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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 Tempe, Arizona

We have examined the accompanying Annual Expenditure Limitation Report of City of Tempe, Arizona for the year ended June 30, 2013. This report is the responsibility of the City of Tempe, Arizona management. 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 and, accordingly, included examining, on a test basis, evidence supporting the amounts and disclosures in the report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Annual Expenditure Limitation Report of City of Tempe, Arizona referred to above presents, in all material respects, the information prescribed by the uniform expenditure reporting system as described in Note 1.

Heinfeld, Meech & Co., P.C.

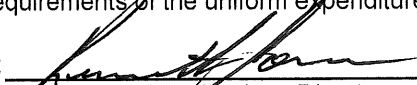
HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

February 21, 2014

**CITY OF TEMPE, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - PART I
YEAR ENDED JUNE 30, 2013**

1.	Economic Estimates Commission expenditure limitation	\$293,088,986	
2.	Voter-approved alternative expenditure limitation (Approved - N/A)	-	
3.	Enter applicable amount from line 1 or 2		\$293,088,986
4.	Amount subject to the expenditure limitation (total amount from Part II, Line C)	244,394,515	
5.	Board-authorized expenditures necessitated by a disaster declared by the Governor and not approved by the voters (Article IX, section 20 [2] [a], Arizona Constitution)	-	
6.	Board-authorized expenditures necessitated by a disaster not declared by the Governor (Article IX, section 20 [2] [b], Arizona Constitution)	-	
7.	Prior-year voter-approved expenditures to exceed the expenditure limitation for the reporting fiscal year (Article IX, section 20 [2] [c], Arizona Constitution)	-	
8.	Subtotal	244,394,515	
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, section 20 [2] [b], Arizona Constitution)	-	
10.	Total adjusted amount subject to the expenditure limitation		<u>244,394,515</u>
11.	Amount under (in excess of) the expenditure limitation (if excess expenditures are reported, provide an explanation)		<u><u>\$48,694,471</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: Kenneth Jones, Finance and Technology Director
Telephone No.: (480) 350-8504 Date: February 21, 2014

**CITY OF TEMPE, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - PART II
YEAR ENDED JUNE 30, 2013**

<u>Description</u>	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Total</u>
A. Amounts reported on the Reconciliation, Line D	<u>\$414,340,330</u>	<u>\$ 97,741,555</u>	<u>\$ 28,023,010</u>	<u>\$ 540,104,895</u>
B. Less exclusions claimed:				
1. (a) Bond proceeds (Note 2)	11,277,763	27,993,407	-	39,271,170
(b) Debt service requirements on bonded indebtedness (Note 3)	150,895,793	31,349,474	-	182,245,267
(c) Debt service requirements on other long-term obligations (Note 4)	31,080	205,564	-	236,644
2. Dividends, interest and gains on the sale or redemption of investment securities (Note 2)	-	-	-	-
3. Grants and aid from the federal government (Note 11)	24,896,778	-	-	24,896,778
4. Amounts received from the state	703,770	-	-	703,770
5. Quasi-external interfund transaction (Note 5)	-	3,082,186	26,993,757	30,075,943
6. Highway user revenues in excess of fiscal year 1979-80 highway user revenues (Note 6)	5,588,308	-	-	5,588,308
7. Contracts with other political subdivisions (Note 7)	8,170,946	1,058,459	-	9,229,405
8. Reimbursements (Note 8)	196,106	-	-	196,106
9. Prior years' carryforward (Note 2, 12)	3,266,990	-	-	3,266,990
10. Total exclusions claimed	<u>205,027,533</u>	<u>63,689,090</u>	<u>26,993,757</u>	<u>295,710,380</u>
C. Amount subject to the expenditure limitation. (If an individual fund type amount is negative, reduce exclusions claimed to net to zero.)	<u>\$ 209,312,797</u>	<u>\$ 34,052,465</u>	<u>\$ 1,029,253</u>	<u>\$ 244,394,515</u>

**CITY OF TEMPE, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - RECONCILIATION
YEAR ENDED JUNE 30, 2013**

<u>Description</u>	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Total</u>
A. Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund-based financial statements.	\$415,510,338	\$92,965,827	\$28,023,010	\$536,499,175
B. Subtractions				
1. Items not requiring the use of working capital:				
Depreciation	-	18,994,883	-	18,994,883
Loss on Joint Venture	-	8,037,868	-	8,037,868
Loss on Transfer of Asset	-	3,130,942	-	3,130,942
OPEB Expense (Note 10)	-	1,215,254	-	1,215,254
2. Expenditures of separate legal entity established under Arizona Revised Statutes (Note 9)	1,170,008	-	-	1,170,008
Total subtractions	<u>1,170,008</u>	<u>31,378,947</u>	<u>-</u>	<u>32,548,955</u>
C. Additions:				
1. Principal payments on long-term debt (Note 13)	-	20,468,377	-	20,468,377
2. Acquisition of capital assets	-	14,458,201	-	14,458,201
3. Other postemployment benefits paid in the current year but reported as expenses in the prior year (Note 10)	-	1,228,097	-	1,228,097
Total additions	<u>-</u>	<u>36,154,675</u>	<u>-</u>	<u>36,154,675</u>
D. Amounts reported on Part II, Line A	<u>\$ 414,340,330</u>	<u>\$ 97,741,555</u>	<u>\$ 28,023,010</u>	<u>\$ 540,104,895</u>

CITY OF TEMPE, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2013

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 requirements, 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, the Combining Statement of Revenues, Expenditures and Changes in Fund Balances for the Non-major Governmental Funds, the Statement of Revenues, Expenses and Changes in Net Position for the Proprietary Funds or the Statement of Cash Flows for the Proprietary Funds.*

NOTE 2 - Bond proceeds and interest earnings are claimed as exclusions in the year the expenditure occurs and any unused amounts are carried forward for future years. The rollforward of carryforward exclusions is as follows:

	<u>Governmental</u>	<u>Enterprise</u>
Carryforward exclusions as of 6/30/12	\$ 3,243,740	\$ -
Current year bond proceeds and premium	13,675,000	29,960,000
Prior year bond proceeds utilized	(3,150,479)	-
Prior year expenditures utilized	(382,741)	
Current year bond proceeds and premium utilized	<u>(11,277,763)</u>	<u>(27,993,407)</u>
Carryforward exclusions as of 6/30/13	<u>\$ 2,107,757</u>	<u>\$ 1,996,593</u>

	<u>Governmental</u>	<u>Enterprise</u>
Carryforward interest exclusions as of 6/30/12	\$ 50,211,236	\$ 16,964,617
Current year interest earnings	822,900	355,297
Carryforward interest exclusions as of 6/30/13	<u>\$ 51,034,136</u>	<u>\$ 17,299,914</u>

Of the \$29,960,000 in current year bond proceeds and premium in the Enterprise Funds, \$27,240,000 is included in "Proceeds from Sale of Bonds" and the premium of \$2,720,000 is included in "Interest and Fiscal Fees" on the *Statement of Cash Flows – Proprietary Funds.*

CITY OF TEMPE, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2013

NOTE 3 - The exclusions claimed for debt service requirements on bonded indebtedness in the Governmental Funds consisted of principal retirement, interest and fiscal fees, and payment to refunded bond escrow agent.

The exclusion claimed for debt service requirements on bonded indebtedness in the Enterprise funds was comprised of the following:

Interest and fiscal fees	\$ 11,076,632
Principal paid on bonds – Water and Wastewater	18,519,742
Principal paid on bonds – Cemetery	1,753,100
	<u>\$ 31,349,474</u>

NOTE 4 - The \$31,080 of exclusions claimed for debt service requirements in the Governmental Funds on other long-term obligations relate to a capital lease on a copier and was charged to the finance and technology department.

The \$205,564 of exclusions claimed for debt service requirements in the Enterprise Funds on other long-term obligations relate to capital leases on golf carts and golf equipments and was charged to the two golf departments.

NOTE 5 - The exclusion of \$3,082,186 claimed for quasi-external interfund transactions in the Enterprise Funds relate to charges to other divisions of the City for water, refuse and sewer services. The exclusion of \$26,993,757 in the Internal Service Funds relates to charges for services paid to the Internal Service Funds for risk management and employee health self-insurance services. The interfund charges are included in “Charges for Services” in the Enterprise and Internal Service Funds and as a current expenditure in various departments in the Governmental Funds.

NOTE 6 - The highway user revenue earned in excess of the amounts received in fiscal year 1979-80 was \$7,218,627 and is included in “State Sales Tax”. Of the \$7,218,627 earned as exclusions in 2012-13, \$5,588,308 was used for the current year exclusion and the remainder will be carried forward to future years.

	<u>Governmental</u>
Carryforward HURF funds as of 6/30/12	\$ 15,756,773
Current year HURF funds received	7,218,627
Current year HURF funds utilized	(5,588,308)
Prior year HURF funds utilized	-
Carryforward HURF funds as of 6/30/13	<u>\$ 17,387,092</u>

CITY OF TEMPE, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2013

NOTE 7 - The exclusions claimed for the contracts with other political subdivisions in the Enterprise Funds of \$1,058,459 relates to charges to the Town of Guadalupe for water and sewer services. These charges are included in "Charges for Services". In addition, the City had \$8,170,946 of excludable revenue in the Governmental Funds related to bus services. These revenues are included in the Transit Special Revenue Fund's "Charges for Services" revenue.

NOTE 8 - The following reimbursements are included in Governmental Funds "Other Entities' Participation".

Transit Capital Improvements	\$ 15,856
Parks and Recreation Capital Improvements	49,281
Community Development Capital Improvements	28,085
Signal Capital Improvements	102,884
Total Reimbursements	\$ 196,106

NOTE 9 - On February 20, 1997 the Rio Salado Community Facilities District (CFD) was organized under the laws of the State of Arizona to facilitate development of the Rio Salado Town Lake project. The CFD is a separate legal entity established under the Arizona Revised Statutes and therefore the expenditures are deductible. The City is 45.37% owner in the CFD and its portion of the expenditures are not deductible.

Total CFD expenditures as reported on the Combining Statement of Revenues, Expenditures and Changes in Fund Balance	\$ 5,127,853
Debt service expenditures	(2,996,158)
City's portion of expenditure (not deductible)	(1,826,150)
Total expenditure deducted as a separate legal entity (Line B2)	\$ 1,170,008

NOTE 10 - The subtraction for OPEB expense of \$1,215,254 in the Enterprise Funds was reported as water and wastewater, solid waste and golf course operating expenses. The addition for OPEB paid in the current year but reported as expenses in previous years of \$1,228,097 was reported as personnel services expenses.

CITY OF TEMPE, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2013

NOTE 11 - Federal grant revenues are claimed as exclusions in the year the expenditure occurs and any unused amounts are carried forward for future years. The rollforward of carryforward exclusions is as follows:

	Governmental
Carryforward exclusions as of 6/30/12	\$ 2,872,851
Current year federal grant revenues	25,520,962
Retired exclusions	(3,497,035)
Current year federal grant revenues utilized	(24,896,778)
Carryforward exclusions as of 6/30/13	\$ -

NOTE 12 - Prior years' carryforward exclusions for the governmental funds consists of the following:

	Governmental
Bond Proceeds	\$ 3,150,479
State LTAF Funds	116,511
Special Revenue Other Entities Participation	1,861,579
Special Revenue Other Entities Participation Exclusion Retired	(1,861,579)
Total exclusions used as of 06/30/13	\$ 3,266,990

NOTE 13 - Principal payments on long-term debt for the Enterprise Funds consists of the following:

	Enterprise
Water and wastewater bond principal payments	\$ 18,519,742
Cemetery bond principal payments	1,753,100
Golf capital lease payments	195,535
Total principal payments on long-term debt	\$ 20,468,377