

**CITY OF TEMPE, ARIZONA
REPORT ON EXAMINATION OF ANNUAL EXPENDITURE
LIMITATION REPORT
YEAR ENDED JUNE 30, 2014**

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<u>CONTENTS</u>	<u>PAGE</u>
Independent Accountants' Report	1
Annual Expenditure Limitation Report - Part I	2
Annual Expenditure Limitation Report - Part II	3
Annual Expenditure Limitation Report - Reconciliation	4
Notes to Annual Expenditure Limitation Report	5

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, 2014. 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.

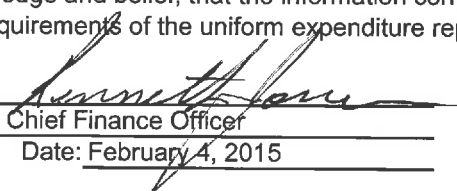
HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

February 4, 2015

**CITY OF TEMPE, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - PART I
YEAR ENDED JUNE 30, 2014**

1.	Economic Estimates Commission expenditure limitation	\$301,998,196	
2.	Voter-approved alternative expenditure limitation (Approved - N/A)	-	
3.	Enter applicable amount from line 1 or 2		\$301,998,196
4.	Amount subject to the expenditure limitation (total amount from Part II, Line C)	294,591,072	
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	294,591,072	
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>294,591,072</u>
11.	Amount under (in excess of) the expenditure limitation (if excess expenditures are reported, provide an explanation)		<u><u>\$7,407,124</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, Chief Finance Officer
Telephone No.: (480) 350-8504 Date: February 4, 2015

**CITY OF TEMPE, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - PART II
YEAR ENDED JUNE 30, 2014**

<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>\$323,819,856</u>	<u>\$ 93,891,515</u>	<u>\$ 26,616,452</u>	<u>\$ 444,327,823</u>
B. Less exclusions claimed:				
1. (a) Bond proceeds (Note 2)	11,650,000	1,966,593	-	13,616,593
(b) Debt service requirements on bonded indebtedness (Note 3)	44,457,193	31,115,411	-	75,572,604
(c) Debt service requirements on other long-term obligations (Note 4)	31,080	223,175	-	254,254
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)	19,533,107	-	-	19,533,107
4. Amounts received from the state	273,081	-	-	273,081
5. Quasi-external interfund transaction (Note 5)	-	3,090,652	26,616,452	29,707,104
6. Highway user revenues in excess of fiscal year 1979-80 highway user revenues (Note 6)	6,662,709	-	-	6,662,709
7. Contracts with other political subdivisions (Note 7)	743,789	1,090,799	-	1,834,588
8. Reimbursements (Note 8)	174,954	-	-	174,954
9. Prior years' carryforward (Note 2, 12)	2,107,757	-	-	2,107,757
10. Total exclusions claimed	<u>85,633,670</u>	<u>37,486,630</u>	<u>26,616,452</u>	<u>149,736,751</u>
C. Amount subject to the expenditure limitation. (If an individual fund type amount is negative, reduce exclusions claimed to net to zero.)	<u>\$ 238,186,187</u>	<u>\$ 56,404,885</u>	<u>\$ -</u>	<u>\$ 294,591,072</u>

**CITY OF TEMPE, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - RECONCILIATION
YEAR ENDED JUNE 30, 2014**

<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.	\$324,997,211	\$91,387,469	\$26,616,452	\$443,001,132
B. Subtractions				
1. Items not requiring the use of working capital:				
Depreciation	-	19,898,243	-	19,898,243
Loss on Joint Venture	-	7,297,400	-	7,297,400
OPEB Expense (Note 10)	-	1,150,575	-	1,150,575
2. Expenditures of separate legal entity established under Arizona Revised Statutes (Note 9)	1,177,355	-	-	1,177,355
Total subtractions	<u>1,177,355</u>	<u>28,346,218</u>	<u>-</u>	<u>29,523,573</u>
C. Additions:				
1. Principal payments on long-term debt (Note 13)	-	19,131,340	-	19,131,340
2. Acquisition of capital assets	-	10,259,305	-	10,259,305
3. Other postemployment benefits paid in the current year but reported as expenses in the prior year (Note 10)	-	1,459,619	-	1,459,619
Total additions	<u>-</u>	<u>30,850,264</u>	<u>-</u>	<u>30,850,264</u>
D. Amounts reported on Part II, Line A	<u>\$ 323,819,856</u>	<u>\$ 93,891,515</u>	<u>\$ 26,616,452</u>	<u>\$ 444,327,823</u>

CITY OF TEMPE, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2014

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 6/30/13	\$ 2,107,757	\$ 1,966,593
Current year bond proceeds and premium	11,650,000	-
Prior year bond proceeds utilized	(2,107,757)	(1,966,593)
Current year bond proceeds and premium utilized	<u>(11,650,000)</u>	<u>-</u>
Carryforward exclusions as of 6/30/14	<u>\$ -</u>	<u>\$ -</u>

	<u>Governmental</u>	<u>Enterprise</u>
Carryforward interest exclusions as of 6/30/13	\$ 51,312,238	\$ 17,415,276
Current year interest earnings	725,099	436,821
Current year interest earnings used	<u>-</u>	<u>-</u>
Carryforward interest exclusions as of 6/30/14	<u>\$ 52,037,337</u>	<u>\$ 17,852,097</u>

CITY OF TEMPE, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2014

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	\$ 12,196,061
Principal paid on bonds – Water and Wastewater	18,919,350
	\$ 31,115,411

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 \$223,175 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 equipment and was charged to the golf fund.

NOTE 5 - The exclusion of \$3,090,652 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 \$26,616,452 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 \$7,515,941 and is included in “State Sales Tax”. Of the \$7,515,941 earned as exclusions in 2013-14, \$6,662,709 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 6/30/13	\$ 17,387,092
Current year HURF funds received	7,515,941
Current year HURF funds utilized	(6,662,709)
Retired HURF exclusions	(8,901,553)
Carryforward HURF funds as of 6/30/14	\$ 9,338,771

CITY OF TEMPE, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2014

NOTE 7 - The exclusions claimed for the contracts with other political subdivisions in the Enterprise Funds of \$1,090,799 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 \$743,789 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".

Parks Capital Improvements	\$ 47,500
Community Development Capital Improvements	89,954
Signal Capital Improvements	37,500
Total Reimbursements	\$ 174,954

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	\$ 5,086,545
Debt service expenditures	(2,931,402)
City's portion of expenditure (not deductible)	(977,788)
Total expenditure deducted as a separate legal entity (Line B2)	\$ 1,177,355

NOTE 10 - The subtraction for OPEB expense of \$1,150,575 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 \$1,459,619 was reported as personnel services expenses.

CITY OF TEMPE, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2014

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. Of the \$18,822,435 in current year federal grant revenues, only \$18,691,812 was utilized in the current year. In addition, of the \$1,915,025 of Unavailable revenue-grants, \$841,295 related to expenditures of Federal grants.

NOTE 12 - The prior years' carryforward exclusions for the governmental funds are comprised of bond proceeds totaling \$2,107,757.

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

	Enterprise
Water and wastewater bond principal payments	\$ 18,919,350
Golf capital lease payments	211,990
Total principal payments on long-term debt	\$ 19,131,340