City of Tempe, Arizona Annual Expenditure Limitation Report Year Ended June 30, 2016

CONTENTS	<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, 2016. The City's management is responsible for this report. 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, melch & Co., P.C.

Phoenix, Arizona March 27, 2017

CITY OF TEMPE, ARIZONA ANNUAL EXPENDITURE LIMITATION REPORT - PART I YEAR ENDED JUNE 30, 2016

1.	Economic Estimates Commission expenditure limitation	\$313,889,296	
2.	Voter-approved alternative expenditure limitation (Approved - N/A)	л	
3.	Enter applicable amount from line 1 or 2		\$313,889,296
4.	Amount subject to the expenditure limitation (total amount from Part II, Line C)	313,889,296	
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	313,889,296	
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		313,889,296
11.	Amount under (in excess of) the expenditure limitation (if excess expenditures are reported, provide an explanation)		(\$0)
	eby certify, to the best of my knowledge and belief, that the requirements of the unif		
	Signature of Chief Fiscal Officer: Name and Title: Kenneth Jones, Deputy City Manager Telephone No.: (480) 350-8504 Date: 3/27	- Chief Financial Of	ficer

See accompanying notes to report.

CITY OF TEMPE, ARIZONA ANNUAL EXPENDITURE LIMITATION REPORT - PART II YEAR ENDED JUNE 30, 2016

	Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
A.	Amounts reported on the Reconciliation, Line D	\$388,697,645	\$ 101,606,591	\$ 30,941,076	\$ 521,245,312
В.	Less exclusions claimed: 1. (a) Bond proceeds (Note 2) (b) Debt service requirements on	11,156,235	11,764,536	-	22,920,771
	bonded indebtedness (Note 3) (c) Debt service requirements on other long-term obligations	79,367,971	24,351,530		103,719,501
	(Note 4)2. Dividends, interest and gains on the sale or redemption of investment	28,490	223,175	-	251,665
	securities (Note 2) 3. Grants and aid from the federal	1,683,445	841,726	-	2,525,171
	government (Note 5)	19,835,560	-	-	19,835,560
	 4. Amounts received from grants and donations (Note 6) 5. Amounts received from the State 6. Quasi-external interfund transaction 	498,887 382,471	-	-	498,887 382,471
	(Note 7) 7. Highway user revenues in excess of	-	3,113,412	30,941,076	34,054,488
	fiscal year 1979-80 highway user revenues (Note 8) 8. Contracts with other political	8,694,668	-	-	8,694,668
	subdivisions (Note 9)	889,152	1,082,819	-	1,971,971
	9. Prior years' carryforward (Note 2)	11,294,962	1,205,901		12,500,863
	Total exclusions claimed	133,831,841	42,583,099	30,941,076	207,356,016
C.	Amount subject to the expenditure limitation. (If an individual fund type amount is negative, reduce exclusions				
	claimed to net to zero.)	\$ 254,865,804	\$ 59,023,492	\$ -	\$ 313,889,296

CITY OF TEMPE, ARIZONA ANNUAL EXPENDITURE LIMITATION REPORT - RECONCILIATION YEAR ENDED JUNE 30, 2016

	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-based financial statements.	\$390,361,899	\$93,131,514	\$31,175,295	\$514,668,708
B.	Subtractions 1. Items not requiring the use of working capital:				
	Depreciation	-	20,260,558	-	20,260,558
	Loss on Joint Venture	-	6,573,500	-	6,573,500
	OPEB Expense (Note 10)	-	845,573	-	845,573
	Pension Expense (Note 11)	-	(2,791,885)	417,455	(2,374,430)
	Claims incurred but not reported (Note 12) 2. Expenditures of separate legal entity established under	-	-	3,208,872	3,208,872
	Arizona Revised Statutes (Note 13) 3 Required fees paid to the	1,190,100	-	-	1,190,100
	Arizona Department of Revenue (Note 14)	474,154			474,154
	Total subtractions	1,664,254	24,887,746	3,626,327	30,178,327
C.	Additions:				
	1. Principal payments on long-term				
	debt (Note 15)	-	13,532,798	-	13,532,798
	2. Acquisition of capital assets (Note 16)	-	17,505,222	-	17,505,222
	3. Amounts paid in the current year but				
	reported as expenses in previous years:		000 026		000 026
	OPEB (Note 10) Claims previously recognzied as	-	900,926	-	900,926
	IBNR (Note 12)	_	-	3,343,208	3,343,208
	4 Pension contributions (Note 11)		1,423,877	48,900	1,472,777
	Total additions	-	33,362,823	3,392,108	36,754,931
D.	Amounts reported on Part II, Line A	\$ 388,697,645	\$ 101,606,591	\$30,941,076	\$ 521,245,312

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 or notes to the 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 for *bond proceeds* and *interest earnings* are as follows:

	Governmental	Enterprise
Carryforward exclusions as of 6/30/15	\$ 8,744,176	\$ 940,788
Current year bond proceeds and premium	13,630,000	23,000,000
Carryforward and prior year bond exclusions		
utilized	(8,744,176)	(940,788)
Prior year bond exclusions retired	(19,373)	-
Current year bond proceeds and premium	, ,	
utilized	(11,156,235)	(11,764,536)
Carryforward bond proceeds exclusions as		
of 6/30/16	\$ 2,454,392	\$11,235,464
	_	
	Governmental	Enterprise
Carryforward interest exclusions as of		
6/30/15	\$ 52,926,931	\$ 18,340,574
Current year interest earnings	1,683,445	841,726
Current year interest earnings used	(1,683,445)	(841,726)
Carryforward interest earnings used	(2,550,786)	(265,113)
Carryforward interest exclusions as of		
6/30/16	\$ 50,376,145	\$ 18,075,461

NOTE 2 - Total *prior year's carryforward used* is summarized as follows: (continued)

	Governmental	Enterprise
Carryforward bond proceeds	\$ 8,744,176	\$ 940,788
Carryforward interest earnings	2,550,786	265,113
Total prior year's carryforward used	\$ 11,294,962	\$ 1,205,901

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:

Transipal pala on bondo Tratol and Tractomato.	\$	24,351,530
Principal paid on bonds – Water and Wastewater	Ψ	13,312,954
Interest and fiscal fees	¢	11,038,576

NOTE 4 - The \$28,490 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 internal services 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 - Federal grant revenues are claimed as exclusions in the year the expenditure occurs and any unused amounts are carried forward for future years. The current year federal grant exclusion utilized is a follows:

Federal grant revenue	\$ 22,205,097
Current year unavailable revenue- Federal grants	625,407
Prior year unavailable revenue- Federal grants	(1,229,133)
Prior year Federal grant not utilized	(1,765,811)
Current year exclusion used	\$19,835,560

NOTE 6 - The following exclusions are included in Governmental Funds "Other Entities' Participation":

Amounts received from other grants and donations:

Donations and Court Awards	\$ 323,887
Police Capital Improvements	175,000
Total amounts received from other grants and donations	\$ 498,887

- NOTE 7 The exclusion of \$3,113,412 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 \$30,941,076 in the Internal Service Funds relates to charges for services paid to the Internal Service Funds for risk management, worker's compensation 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 8 The highway user revenue earned in excess of the amounts received in fiscal year 1979-80 was \$8,694,668 and is included in "State Sales Tax". The entire balance earned was used as an exclusion in the current year. The carryforward balance is as follows:

Carryforward HURF funds as of 6/30/15	\$ 8,589,804
Current year HURF funds available for exclusion	8,694,668
Current year HURF funds utilized	(8,694,668)
Carryforward HURF funds as of 6/30/16	\$ 8,589,804

- NOTE 9 The exclusions claimed for the contracts with other political subdivisions in the Enterprise Funds of \$1,082,819 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 \$889,152 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 10 The subtraction for OPEB expense of \$845,573 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 \$900,926 was reported as personnel services expenses.

- NOTE 11 The subtraction of a negative \$2,791,885 and \$417,455 of pension expense consists of the change in the net pension liability recognized in the current year in the Enterprise and Internal Service Funds, respectively. The negative pension expense in the Enterprise funds was due to a change in the allocation percentage in the current year. The addition of \$1,423,877 and \$48,900 for pension contributions paid in the current year consists of the required pension contribution made to the Arizona State Retirement System from the Enterprise and Internal Service Funds, respectively.
- NOTE 12 The subtraction of \$3,208,872 of claims incurred but not reported consists of the change in the claims incurred net of the change in estimates in the current year in the Internal Service Funds which were recorded as operating expenses- fees and services. The addition of \$3,343,208 for claims previously recognized as incurred but not reported (IBNR) consisted of payments made in the current year in the Internal Service Funds.
- NOTE 13 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 44.99% 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 \$ 5,210,975

Debt service expenditures (3,047,551)

City's portion of expenditure (not deductible) (973,324)

Total expenditure deducted as a separate legal entity \$ 1,190,100

- NOTE 14 The \$474,154 of required fees paid to the Arizona Department of Revenue represents the fees assessed pursuant to A.R.S. 42-5041 for the State to recover a portion of the operating costs incurred in providing administrative and collection services to local governments. The expenditure is recorded in the Internal Services department of the General Fund.
- **NOTE 15** Principal payments on long-term debt for the Enterprise Funds consists of the following:

Total principal payments on long-term debt	\$ 13,532,798
Golf capital lease payments	219,844
Water and wastewater bond principal payments	\$ 13,312,954

NOTE 16 - The \$17,505,222 of additions from the acquisition of capital assets in the Enterprise Funds consists of \$14,395,376 of net CIP additions and \$3,109,846 of additions in depreciable assets.