



CITY OF TEMPE, ARIZONA

**Annual Expenditure Limitation Report
Year Ended June 30, 2017**

CITY OF TEMPE, ARIZONA

Annual Expenditure Limitation Report Year Ended June 30, 2017

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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 the City of Tempe, Arizona for the year ended June 30, 2017, 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., P.C.

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
March 15, 2018

**CITY OF TEMPE, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - PART I
YEAR ENDED JUNE 30, 2017**

1.	Economic Estimates Commission expenditure limitation	\$322,879,964	
2.	Voter-approved alternative expenditure limitation (Approved - N/A)	-	
3.	Enter applicable amount from line 1 or 2		\$322,879,964
4.	Amount subject to the expenditure limitation (total amount from Part II, Line C)	312,436,535	
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	312,436,535	
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>312,436,535</u>
11.	Amount under (in excess of) the expenditure limitation (if excess expenditures are reported, provide an explanation)		<u>\$10,443,429</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, Deputy City Manager- Chief Financial Officer
Telephone No.: (480) 350-8504 Date: February 26, 2018

See accompanying notes to report.

CITY OF TEMPE, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - PART II
YEAR ENDED JUNE 30, 2017

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Fund	Total
A. Amounts reported on the Reconciliation, Line D	<u>\$374,648,457</u>	<u>\$ 129,291,031</u>	<u>\$ 34,067,799</u>	<u>\$ 6,759,218</u>	<u>\$544,766,505</u>
B. Less exclusions claimed:					
1. Debt proceeds (Note 2)	13,332,421	19,386,794	-	-	32,719,216
2. (a) Debt service requirements on bonded indebtedness (Note 3)	70,887,151	39,611,544	-	-	110,498,695
(b) Debt service requirements on other long-term obligations (Note 4)	28,490	312,416	-	-	340,906
3. Trustee	-	-	-	6,759,218	6,759,218
4. Grants and aid from the federal government (Note 5)	19,904,757	-	-	-	19,904,757
5. Amounts received from the State	452,168	-	-	-	452,168
6. Quasi-external interfund transaction (Note 6)	-	3,504,507	33,250,517	-	36,755,024
7. Highway user revenues in excess of fiscal year 1979-80 highway user revenues (Note 7)	8,370,335	-	-	-	8,370,335
8. Contracts with other political subdivisions (Note 8)	889,856	1,132,657	-	-	2,022,513
9. Reimbursements (Note 6)	0	-	-	-	-
9. Prior years' carryforward (Note 2)	2,454,392	11,235,464	817,282	-	14,507,138
Total exclusions claimed	<u>116,319,570</u>	<u>75,183,382</u>	<u>34,067,799</u>	<u>6,759,218</u>	<u>232,329,970</u>
		-			
C. Amount subject to the expenditure limitation. (If an individual fund type amount is negative, reduce exclusions claimed to net to zero.)	<u>\$ 258,328,887</u>	<u>\$ 54,107,649</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 312,436,535</u>

CITY OF TEMPE, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT - RECONCILIATION
YEAR ENDED JUNE 30, 2017

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Fund	Total
A. Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund-based financial statements.	\$376,193,533	\$88,803,030	\$34,095,656	\$6,759,218	\$505,851,437
B. Subtractions					
1. Items not requiring the use of working capital:					
Depreciation	-	20,433,717	-	-	20,433,717
Loss on Joint Venture	-	5,973,511	-	-	5,973,511
OPEB Expense (Note 9)	-	892,613	-	-	892,613
Pension Expense (Note 10)	-	347,612	33,616	-	381,228
Claims incurred but not reported (Note 11)	-	-	3,091,425	-	3,091,425
2. Expenditures of separate legal entity established under Arizona Revised Statutes (Note 12)	1,186,715	-	-	-	1,186,715
3. Required fees paid to the Arizona Department of Revenue (Note 13)	358,361	-	-	-	358,361
Total subtractions	<u>1,545,076</u>	<u>27,647,453</u>	<u>3,125,041</u>	<u>-</u>	<u>32,317,570</u>
C. Additions:					
1. Principal payments on long-term debt (Note 14)	-	32,001,476	-	-	32,001,476
2. Acquisition of capital assets (Note 15)	-	33,741,817	-	-	33,741,817
3. Amounts paid in the current year but reported as expenses in previous years:					
OPEB (Note 9)	-	969,618	-	-	969,618
Claims previously recognized as IBNR (Note 11)	-	-	3,047,912	-	3,047,912
4. Pension contributions (Note 10)	-	1,422,543	49,272	-	1,471,815
Total additions	<u>-</u>	<u>68,135,454</u>	<u>3,097,184</u>	<u>-</u>	<u>71,232,638</u>
D. Amounts reported on Part II, Line A	<u>\$ 374,648,457</u>	<u>\$ 129,291,031</u>	<u>\$ 34,067,799</u>	<u>\$ 6,759,218</u>	<u>\$ 544,766,505</u>

See accompanying notes to report.

**CITY OF TEMPE, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2017**

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, interest earnings and internal service charges for services 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 each category is as follows:

Bond Proceeds

	Governmental	Enterprise
Carryforward exclusions as of 6/30/16	\$ 2,454,392	\$ 11,235,464
Current year bond proceeds and premium	13,900,000	23,200,000
Carryforward and prior year bond exclusions utilized	(2,454,392)	(11,235,464)
Prior year bond exclusions retired	(338,490)	-
Current year bond proceeds and premium utilized	(13,332,421)	(19,386,794)
Carryforward exclusions as of 6/30/17	\$ 229,089	\$ 3,813,206

Interest Earnings

	Governmental	Enterprise
Carryforward exclusions as of 6/30/16	\$ 50,376,145	\$ 18,075,461
Current year interest earnings	662,115	351,831
Carryforward exclusions as of 6/30/17	\$ 51,038,260	\$ 18,472,292

**CITY OF TEMPE, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2017**

Charges for Services

	<u>Internal Services</u>
Carryforward exclusions as of 6/30/16	\$ 5,011,545
Current year charges for services	32,250,517
Current year exclusion used	(32,250,517)
Carryforward exclusion used	(817,282)
Carryforward exclusions as of 6/30/17	\$ 4,194,263

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 - Water and Wastewater	\$ 7,899,134
Principal paid on bonds - Water and Wastewater	31,712,410
	\$ 39,611,544

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 \$312,416 of exclusions claimed for debt service requirements in the Enterprise Funds on other long-term obligations is for the following: \$129,966 relates to capital leases on golf carts and golf equipment and was charged to the golf fund; \$182,450 relates to the principal and interest on the golf fund advance from the water/wastewater fund for capital expenditures.

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 as follows:

Federal grant revenue	\$ 20,300,927
Current year unavailable revenue- Federal grants	621,316
Prior year unavailable revenue- Federal grants	(625,407)
Prior year Federal grant not utilized	(392,079)
Current year exclusion used	\$ 19,904,757

CITY OF TEMPE, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2017

NOTE 6 - The exclusion of \$3,504,507 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 \$33,250,517 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 7 - The highway user revenue earned in excess of the amounts received in fiscal year 1979-80 was \$8,370,335 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 6/30/16	\$ 8,589,804
Current year HURF funds available for exclusion	9,573,670
Current year HURF funds utilized	<u>(8,370,335)</u>
Carryforward HURF funds as of 6/30/17	<u>\$ 9,793,139</u>

NOTE 8 - The exclusions claimed for the contracts with other political subdivisions in the Enterprise Funds of \$1,132,657 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 \$889,856 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 9 - The subtraction for OPEB expense of \$892,613 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 \$969,618 was reported as personnel services expenses.

NOTE 10 - The subtraction of \$347,612 and \$ 33,616 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 addition of \$1,422,543 and \$ 49,272 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.

CITY OF TEMPE, ARIZONA
NOTES TO ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2017

NOTE 11 - The subtraction of \$3,091,425 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 \$3,047,912 for claims previously recognized as incurred but not reported (IBNR) consisted of payments made in the current year in the Internal Service Funds.

NOTE 12 - 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 44.97% 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	\$ 18,067,822
Debt service expenditures	(15,911,335)
City's portion of expenditure (not deductible)	<u>(969,772)</u>
Total expenditure deducted as a separate legal entity	<u>\$ 1,186,715</u>

NOTE 13 - The \$358,361 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 14 - Principal payments on long-term debt for the Enterprise Funds consists of the following:

Water and wastewater bond principal payments	\$ 31,712,410
Golf capital lease payments and advance	<u>289,066</u>
Total principal payments on long-term debt	<u>\$ 32,001,476</u>

NOTE 15 - The \$33,741,816 of additions from the acquisition of capital assets in the Enterprise Funds consists of \$31,056,241 of net CIP additions and \$ 2,685,575 of additions in depreciable assets.