



City of Surprise, Arizona
Annual Expenditure Limitation Report
For the Fiscal Year Ended June 30, 2017



CliftonLarsonAllen

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INDEPENDENT ACCOUNTANTS' REPORT

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

We have examined the accompanying Annual Expenditure Limitation Report of the City of Surprise, Arizona (City), for the year ended June 30, 2017. 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 accordance with the uniform expenditure reporting system as described in Note 1 in all material respects.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
December 29, 2017

City of Surprise
Annual Expenditure Limitation Report—Part I
Year ended June 30, 2017

| | | | |
|---|----|--------------------|---------------------------|
| 1. Economic Estimates Commission expenditure limitation | \$ | <u>981,408,916</u> | |
| 2. Voter-approved alternative expenditure limitation | | <u>-</u> | |
| 3. Enter applicable amount from line 1 or line 2 | | | \$ <u>981,408,916</u> |
| 4. Amount subject to the expenditure limitation (total amount from part II, line C) | | <u>160,258,803</u> | |
| 11. Amount under (in excess of) the expenditure limitation | \$ | | <u><u>821,150,113</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 financial officer:

L. Duncan

Name and title: Lindsey Duncan, Chief Financial Officer/Finance Director

Telephone number: (623) 222-1820

Date: 12/29/2017

See accompanying notes to report.

City of Surprise
Annual Expenditure Limitation Report—part II
Year ended June 30, 2017

| Description | Governmental funds | Enterprise funds | Internal service funds | Total |
|---|-----------------------|----------------------|------------------------------|-----------------------|
| A. Amounts reported on the reconciliation, line D | \$ 127,642,152 | \$ 47,374,980 | \$ 12,453,746 | \$ 187,470,878 |
| B. Less exclusions claimed: | | | | |
| Debt service requirements (See Note 2) | 3,435,596 | 4,441,122 | - | 7,876,718 |
| Grants and aid from the federal government (See Note 3) | 1,644,632 | - | - | 1,644,632 |
| Amounts received from the State of Arizona (See Note 5) | 370,419 | - | - | 370,419 |
| Quasi-external interfund transactions (See Note 10) | - | - | 9,435,281 | 9,435,281 |
| Highway user revenues in excess of those received in fiscal year 1979-80 (See Note 4) | 7,885,025 | - | - | 7,885,025 |
| Total exclusions claimed | <u>13,335,672</u> | <u>4,441,122</u> | <u>9,435,281</u> | <u>27,212,075</u> |
| C. Amounts subject to the expenditure limitation | <u>\$ 114,306,480</u> | <u>\$ 42,933,858</u> | <u>\$ 3,018,465</u> | <u>\$ 160,258,803</u> |

See accompanying notes to report.

City of Surprise
Annual expenditure limitation report—reconciliation
Year ended June 30, 2017

| 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 financial statements | \$ 142,979,435 | \$ 43,946,826 | \$ 12,506,882 | \$ 199,433,143 |
| B. Subtractions: | | | | |
| Items not requiring use of current financial resources: | | | | |
| Depreciation | - | 11,443,973 | - | 11,443,973 |
| Bad debt expense (See Note 11) | 364,400 | 743,301 | - | 1,107,701 |
| Claims incurred but not reported (IBNR) (See Note 6) | - | - | 575,800 | 575,800 |
| Pension expense (See Note 7) | - | 503,950 | 19,860 | 523,810 |
| Expenditures of separate legal entities established under Arizona Revised Statutes (See Note 8) | 14,972,883 | - | - | 14,972,883 |
| Total subtractions | <u>15,337,283</u> | <u>12,691,224</u> | <u>595,660</u> | <u>28,624,167</u> |
| C. Additions: | | | | |
| Principal payments on long-term debt (See Note 2) | - | 2,441,262 | - | 2,441,262 |
| Capital asset acquisitions (See Note 9) | - | 12,907,348 | - | 12,907,348 |
| Amounts paid in the current year but reported as expenses in previous years: | | | | |
| Claims previously recognized as IBNR (See Note 6) | - | - | 512,149 | 512,149 |
| Pension contributions paid in the current year (See Note 7) | - | 770,768 | 30,375 | 801,143 |
| Total additions | <u>-</u> | <u>16,119,378</u> | <u>542,524</u> | <u>16,661,902</u> |
| D. Amounts reported on part II, line A | <u>\$ 127,642,152</u> | <u>\$ 47,374,980</u> | <u>\$ 12,453,746</u> | <u>\$ 187,470,878</u> |

See accompanying notes to report.

City of Surprise
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, 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.

NOTE 2 – DEBT SERVICE

The exclusion claimed for debt service requirements on bonded indebtedness in the Governmental and Enterprise Funds consists of principal retirement and interest expenditures/expenses.

Governmental

| | <i>Bonded Indebtedness</i> | |
|------------------------------|----------------------------|---------------------|
| 2015 Bond Issuance Principal | | \$ 2,223,738 |
| 2015 Bond Issuance Interest | | 1,211,858 |
| Total | | <u>\$ 3,435,596</u> |

Enterprise

| | <i>Bonded Indebtedness</i> | |
|------------------------------|----------------------------|---------------------|
| 2007 Bond Issuance Principal | | \$ 1,865,000 |
| 2007 Bond Issuance Interest | | 1,772,668 |
| 2015 Bond Issuance Principal | | 576,262 |
| 2015 Bond Issuance Interest | | 227,192 |
| Total | | <u>\$ 4,441,122</u> |

NOTE 3 – GRANTS AND AID FROM FEDERAL GOVERNMENT

Expenditures of grants and aid from the Federal Government consist of the following:

| | | |
|---|----|------------------|
| Federal | | |
| U.S Department of Housing and Urban Development | \$ | 623,265 |
| U.S. Department of Defense | | 384,017 |
| U.S. Department of Justice | | 211,316 |
| U.S. Department of Transportation | | 81,526 |
| U.S. Department of Health and Human Services | | 128,468 |
| U.S Department of Homeland Security | | 216,040 |
| Total | \$ | <u>1,644,632</u> |

City of Surprise
Notes to annual expenditure limitation report
Year ended June 30, 2017

NOTE 4 – HIGHWAY USER REVENUES

Highway user revenues for the current fiscal year were \$7,634,613 which is \$7,572,182 more than the highway user revenues received by the City in fiscal year 1980. Excludable revenues expended in the current fiscal year totaled \$7,885,025, which exceeded current revenues by \$312,843, reducing the carryforward balance to \$657,530.

NOTE 5 – AMOUNTS RECEIVED FROM THE STATE

Expenditures of amounts received from the State consist of the following:

| | | |
|--|----|----------------|
| Local Transportation Assistance Funds II/Arizona Lottery Funds | \$ | 344,813 |
| Judicial Collection Enhancement Fee | | 25,606 |
| Total | \$ | <u>370,419</u> |

NOTE 6 – CLAIMS INCURRED BUT NOT REPORTED

The subtraction of \$575,800 for claims incurred but not reported consists of the estimated costs of claims incurred and expensed in the current year but not yet paid in the internal service funds. The addition of \$512,149 for claims paid in the current year, but reported as expenses incurred but not reported in previous years, consists of cash payments in the current year for claims recognized as an expense in previous years in the internal service funds.

NOTE 7- PENSION PLANS

The subtraction of pension expense consists of the change in the net pension liability recognized in the current year in the enterprise and internal service funds. The addition of pension contributions paid in the current year consists of the required pension contributions made to the Arizona State Retirement System from the enterprise and internal service funds.

| | | |
|---------------------------|----|----------------|
| Pension Expense | | |
| Enterprise Funds | \$ | 503,950 |
| Internal Service | | 19,860 |
| Total | \$ | <u>523,810</u> |
| Pension Contributions | | |
| Enterprise Funds | \$ | 770,768 |
| Internal Service | | 30,375 |
| Total | \$ | <u>801,143</u> |

City of Surprise
Notes to annual expenditure limitation report
Year ended June 30, 2017

NOTE 8 – SEPARATE LEGAL ENTITIES

The subtraction of \$14,972,883 for separate legal entities established under Arizona Revised Statutes consists of expenditures of special assessment districts 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:

| | |
|--|-----------------------------|
| Street Lighting Districts Funds | |
| Public works and streets | \$ 2,500,848 |
| Subtotal | <u>\$ 2,500,848</u> |
| Marley Park Community Facility District Fund | |
| Culture and Recreation | \$ 67,015 |
| Principal | 390,000 |
| Interest and other charges | 1,099,224 |
| Capital outlay | 4,415,179 |
| Refunded bond escrow agent | 6,500,617 |
| Subtotal | <u>\$ 12,472,035</u> |
| Total separate legal entities | <u><u>\$ 14,972,883</u></u> |

NOTE 9 – ACQUISITION OF CAPITAL ASSETS

The amount reported for the acquisition of capital assets within the enterprise funds was computed as follows:

| | |
|-------------------------------|-----------------------------|
| Enterprise | |
| Total capital asset additions | \$ 16,124,293 |
| Less: capital contributions | <u>(3,216,945)</u> |
| Total | <u><u>\$ 12,907,348</u></u> |

NOTE 10 – QUASI-EXTERNAL INTERFUND TRANSACTIONS

There are certain transactions that are recorded between the City’s funds as if the transaction was with an entity external to the City. The Employee Healthcare Fund Charged other funds \$7,828,181 in order to meet the costs of providing health insurance claims coverage, plan administration, stop loss premiums and reserves. The Risk Management Fund charged other funds \$1,607,100 to provide risk management, loss control and safety programs citywide.

NOTE 11 – BAD DEBT EXPENSE

The City records bad debt expense which is a reduction of revenues for revenues that have billed that the City has determined are not likely to be collected as the accounts receivable is greater than 90 days old. The City reported the following bad debt expense by fund type:

| | |
|------------------------|----------------------------|
| Bad debt expense | |
| Governmental | \$ 364,400 |
| Enterprise | 743,301 |
| Total bad debt expense | <u><u>\$ 1,107,701</u></u> |