



City of Surprise, Arizona
Annual Expenditure Limitation Report
For the Fiscal Year Ended June 30, 2018

INDEPENDENT ACCOUNTANT'S REPORT

The Auditor General of the State of Arizona

The Honorable Mayor and City Council
of the City of Surprise, Arizona

We have examined the accompanying Annual Expenditure Limitation Report of the City of Surprise, Arizona for the year ended June 30, 2018, 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
January 3, 2019

City of Surprise
Annual Expenditure Limitation Report—Part I
Year ended June 30, 2018

1. Economic Estimates Commission expenditure limitation	\$	<u>1,014,546,578</u>	
2. Voter-approved alternative expenditure limitation		<u>-</u>	
3. Enter applicable amount from line 1 or line 2			\$ <u>1,014,546,578</u>
4. Amount subject to the expenditure limitation (total amount from part II, line C)		<u>160,287,053</u>	
11. Amount under (in excess of) the expenditure limitation	\$		<u><u>854,259,525</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: ADavis

Name and title: Andrea Davis, Chief Financial Officer/Finance Director

Telephone number: (623) 222-1853 Date: 12/27/18

See accompanying notes to report.

City of Surprise
Annual Expenditure Limitation Report—part II
Year ended June 30, 2018

Description	Governmental funds	Enterprise funds	Internal service funds	Total
A. Amounts reported on the reconciliation, line D	\$ 135,994,838	\$ 41,750,193	\$ 13,191,204	\$ 190,936,235
B. Less exclusions claimed:				
Debt service requirements (See Note 2)	3,433,959	4,413,194	-	7,847,153
Grants and aid from the federal government (See Note 3)	2,618,587	-	-	2,618,587
Amounts received from the State of Arizona (See Note 5)	354,942	-	-	354,942
Quasi-external interfund transactions (See Note 10)	-	-	11,725,979	11,725,979
Highway user revenues in excess of those received in fiscal year 1979-80 (See Note 4)	8,102,521	-	-	8,102,521
Total exclusions claimed	<u>14,510,009</u>	<u>4,413,194</u>	<u>11,725,979</u>	<u>30,649,181</u>
C. Amounts subject to the expenditure limitation	<u>\$ 121,484,829</u>	<u>\$ 37,337,000</u>	<u>\$ 1,465,225</u>	<u>\$ 160,287,053</u>

See accompanying notes to report.

City of Surprise
Annual Expenditure Limitation Report—reconciliation
Year ended June 30, 2018

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	\$ 142,621,735	\$ 44,087,315	\$ 13,261,359	\$ 199,970,409
B. Subtractions:				
Items not requiring use of current financial resources:				
Depreciation	-	12,282,870	-	12,282,870
Bad debt expense (See Note 11)	31,219	471,903	-	503,122
Claims incurred but not reported (IBNR) (See Note 6)	-	-	586,950	586,950
Pension/OPEB expense (See Note 7)	-	1,202,636	41,532	1,244,168
Expenditures of separate legal entities established under Arizona Revised Statutes (See Note 8)	6,595,679	-	-	6,595,679
Total subtractions	<u>6,626,897</u>	<u>13,957,409</u>	<u>628,482</u>	<u>21,212,789</u>
C. Additions:				
Principal payments on long-term debt (See Note 2)	-	2,548,950	-	2,548,950
Capital asset acquisitions (See Note 9)	-	8,174,613	-	8,174,613
Amounts paid in the current year but reported as expenses in previous years:				
Claims previously recognized as IBNR (See Note 6)	-	-	527,359	527,359
Pension/OPEB contributions paid in the current year (See Note 7)	-	896,724	30,968	927,692
Total additions	<u>-</u>	<u>11,620,288</u>	<u>558,327</u>	<u>12,178,614</u>
D. Amounts reported on part II, line A	<u>\$ 135,994,838</u>	<u>\$ 41,750,193</u>	<u>\$ 13,191,204</u>	<u>\$ 190,936,235</u>

See accompanying notes to report.

City of Surprise
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2018

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	\$	2,311,050
2015 Bond Issuance Interest		1,122,909
Total	\$	<u><u>3,433,959</u></u>

Enterprise

	<i>Bonded Indebtedness</i>	
2007 Bond Issuance Principal	\$	1,950,000
2007 Bond Issuance Interest		1,660,103
2015 Bond Issuance Principal		598,950
2015 Bond Issuance Interest		204,141
Total	\$	<u><u>4,413,194</u></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	\$	1,088,079
U.S. Department of Defense		358,182
U.S. Department of Justice		235,479
U.S. Department of Transportation		213,889
U.S. Department of Health and Human Services		134,602
U.S Department of Homeland Security		588,356
Total	\$	<u><u>2,618,587</u></u>

City of Surprise
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2018

NOTE 4 – HIGHWAY USER REVENUES

Highway user revenues for the current fiscal year were \$8,639,682 which is \$8,577,251 more than the highway user revenues received by the City in fiscal year 1980. Excludable revenues expended in the current fiscal year totaled \$8,102,521, which is less than current revenues by \$474,730, increasing the carryforward balance to \$1,132,259.

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	\$ 354,942
Total	<u>\$ 354,942</u>

NOTE 6 – CLAIMS INCURRED BUT NOT REPORTED

The subtraction of \$586,950 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 \$527,359 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 AND OPEB PLANS

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

Pension Expense	
Enterprise Funds	\$ 1,163,820
Internal Service	40,192
Total	<u>\$ 1,204,012</u>

Pension Contributions	
Enterprise Funds	\$ 849,714
Internal Service	29,344
Total	<u>\$ 879,059</u>

OPEB Expense	
Enterprise Funds	\$ 38,816
Internal Service	1,340
Total	<u>\$ 40,156</u>

OPEB Contributions	
Enterprise Funds	\$ 47,010
Internal Service	1,623
Total	<u>\$ 48,634</u>

City of Surprise
Notes to Annual Expenditure Limitation Report
Year ended June 30, 2018

NOTE 8 – SEPARATE LEGAL ENTITIES

The subtraction of \$6,595,679 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	\$ 2,639,699
Subtotal	<u>\$ 2,639,699</u>
Marley Park Community Facility District Fund	
Culture and Recreation	\$ 69,500
Principal	465,000
Interest and other charges	591,480
Capital outlay	2,830,000
Subtotal	<u>\$ 3,955,980</u>
Total separate legal entities	<u><u>\$ 6,595,679</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:

Total capital asset additions	\$ 15,019,428
Less: capital contributions	(6,192,980)
Less: transfer of capital assets from governmental funds	(651,835)
Total	<u><u>\$ 8,174,613</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 \$9,317,469 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 \$2,013,100 to provide risk management, loss control and safety programs citywide. The Worker's Compensation Fund charged other funds \$844,047 in order to meet the costs of providing worker's compensation claims coverage, plan administration, stop loss premiums and reserves. Excludable revenues expended in the current fiscal year for the Risk Management and Worker's Compensation Funds totaled \$1,948,380 and \$460,130, which is less than current revenues by \$64,720 and \$383,917, increasing the carryforward balances to \$64,720 and \$383,917, respectively.

NOTE 11 – BAD DEBT EXPENSE

The City records bad debt expense which is a reduction of revenues 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	\$ 31,219
Enterprise	471,903
Total bad debt expense	<u><u>\$ 503,122</u></u>