

**CITY OF TUCSON, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2017**

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying Annual Expenditure Limitation Report of the City of Tucson, 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 accordance with the uniform expenditure reporting system as described in Note 1 in all material respects.


Heinfeld, Meech & Co., P.C.

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
March 30, 2018

City of Tucson
Annual Expenditure Limitation Report—Part I
Year Ended June 30, 2017

1. Economic Estimates Commission expenditure limitation	\$ 935,712,361	
2. Voter-approved alternative expenditure limitation (Approved N/A)	_____	
3. Enter applicable amount from Line 1 or Line 2		\$ 935,712,361
4. Amount subject to the limitation (total amount from Part II, Line C)	\$ 659,550,056	
5. Amount under (in excess of) the expenditure limitation <i>(If excess expenditures are reported, provide an explanation)</i>		<u>\$ 276,162,305</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: 

Name and Title: Joyce K. Garland, Chief Financial Officer/Assistant City Manager

Telephone Number: 520-837-4091 Date: 3/28/2018

If any of the provisions of the Arizona Constitution, Article IX, §20(2)(a), (b), or (c), or A.R.S. §41-1279.07(I) apply to the City/Town, use the long form Part I on page VI-17 of the UERS Manual.

City of Tucson
Annual Expenditure Limitation Report—Part II
Year Ended June 30, 2017

Description	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
A. Amounts reported on the Reconciliation, Line D.	\$ 768,876,735	\$ 255,171,886	\$ 53,352,626	\$ 78,288,569	\$ 1,155,689,816
B. Less exclusions claimed:					
1. Bond proceeds (Note 4)	20,191,939	20,383,430			40,575,369
a. Debt service requirements on bonded indebtedness (Note 5)	59,637,452	52,422,598	1,764,134		113,824,184
b. Proceeds from other long-term obligations (Note 6)	2,496,257				2,496,257
c. Debt service requirements on other long-term obligations (Note 5)	25,876,975				25,876,975
2. Dividends, interest, and gains on the sale or redemption of investment securities (Note 7)	455,358	920,028	273,400		1,648,786
3. Trustee or custodian (Note 14)	3,201,973			78,288,569	81,490,542
4. Grants and aid from the federal government (Note 8)	73,664,535	5,287,960			78,952,495
5. Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes (Note 9)	1,297,345				1,297,345
6. Amounts received from the State of Arizona (Note 10)	2,243,867				2,243,867
7. Quasi-external interfund transactions (Note 11)	14,249,504	7,061,653	51,315,092		72,626,249
8. Highway user revenues in excess of those received in fiscal year 1979-80 (Note 12)	25,337,962				25,337,962
9. Contracts with other political subdivisions (Note 13)	46,562,002	3,207,727			49,769,729
10. Refunds, reimbursements, and other recoveries Prior years carryforward					-
11. Total exclusions claimed	<u>275,215,169</u>	<u>89,283,396</u>	<u>53,352,626</u>	<u>78,288,569</u>	<u>496,139,760</u>
C. Amounts subject to the expenditure limitation	<u>\$ 493,661,566</u>	<u>\$ 165,888,490</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 659,550,056</u>

City of Tucson
Annual Expenditure Limitation Report—Reconciliation
Year Ended June 30, 2017

Description	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
A. Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund financial statements	\$ 770,395,830	\$ 226,507,661	\$ 49,565,701	\$ 78,288,569	\$ 1,124,757,761
B. Subtractions:					
Items not requiring use of current financial resources:					
Depreciation		42,298,744	2,590,912		44,889,656
Loss on disposal of capital assets		-			-
Bad debt expense (Note 2)	6,402	1,336,954	-		1,343,356
Other postemployment benefits expense (Note 15)		231,027			231,027
Pension expense (Note 15)		8,975,429			8,975,429
Claims incurred but not reported (IBNR)			4,112,316		4,112,316
Landfill closure and postclosure care costs		1,737,197			1,737,197
Expenditures of separate legal entities established under Arizona Revised Statutes (Note 3)	429,125				429,125
Required fees paid to the Arizona Department of Revenue	1,083,568				1,083,568
Total subtractions	<u>1,519,095</u>	<u>54,579,351</u>	<u>6,703,228</u>	<u>-</u>	<u>62,801,674</u>
C. Additions:					
Principal payments on long-term debt		30,565,133	1,334,300		31,899,433
Acquisition of capital assets		55,403,765	461,037		55,864,802
Amounts paid in the current year but reported as expenses in previous years:					
OPEB (Note 16)		-			-
Pension contributions (Note 16)		(3,334,528)			(3,334,528)
Claims previously recognized as IBNR			8,694,816		8,694,816
Landfill closure and postclosure care costs		609,206			609,206
Total additions	<u>-</u>	<u>83,243,576</u>	<u>10,490,153</u>	<u>-</u>	<u>93,733,729</u>
D. Amounts reported on Part II, Line A	<u>\$ 768,876,735</u>	<u>\$ 255,171,886</u>	<u>\$ 53,352,626</u>	<u>\$ 78,288,569</u>	<u>\$ 1,155,689,816</u>

CITY OF TUCSON
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 on the basis of accounting prescribed by the Uniform Expenditure Reporting System (UERS), as required by Arizona Revised Statutes §41-1279.0, which 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-based financial statements.

In accordance with the UERS requirements, a note to the AELR is presented for any exclusion claimed on Part II and each deduction or addition in the Reconciliation that cannot be traced directly to an amount reported in the fund-based financial statements. All references to financial statement amounts refer to the Statements of Net Position and Activities; the Governmental Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances; the Proprietary Funds Statements of Net Position and Revenues, Expenses, and Changes in Fund Net Position, and Cash Flow; and the Statements of Fiduciary Net Position and Changes in Fiduciary Net Position.

Note 2 The deduction for bad debt expense is for amounts recorded in various funds as an element of Contractual Services:

Fund	Governmental Funds	Enterprise Funds
Special Revenue Funds	\$ 6,402	
Water Utility		\$ 931,277
Environmental Services		265,430
Other Enterprise Funds		140,247
Total	<u>\$ 6,402</u>	<u>\$ 1,336,954</u>

Note 3 The subtraction for separate legal entities established under Arizona Revised Statutes consists of special assessment districts included within the City's reporting entity, but not included in the Economic Estimates Commission base limit calculations. The expenditures, including principal and interest, are \$429,125.

Note 4 Separate bond funds are established to record bond expenses for the Water Utility, Environmental Services Funds and the General Services ISF. The schedule presented below shows the final expenses by bond fund. The exclusion for the Governmental Funds is \$20,191,939 (net of Use of Money and Property) for the 2012 General Obligation Capital Projects Fund.

Water Funds	Bond Expenses	Bond Interest	Bond Exclusion
Water Ser. 2015 (085)	\$ 1,596,892	\$ 19,207	\$ 1,577,685
Water Ser. 2016 (087)	17,803,515	60,674	\$ 17,742,841
Water Ser. 2014 (089)	1,073,825	10,921	\$ 1,062,904
Total	<u>\$ 20,474,232</u>	<u>\$ 90,802</u>	<u>\$ 20,383,430</u>

CITY OF TUCSON
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2017
(Continued)

Note 5 The exclusion claimed for debt service requirements on bonded indebtedness in the Governmental and Enterprise Funds consist of principal retirement and interest payments.

	Bonded indebtedness		
	Governmental Funds*	Enterprise Funds	Internal Service Funds
Principal	\$39,245,000	\$30,565,133	\$ 1,334,300
Interest	11,447,902	20,017,438	429,834
Payment to Refunded Bond Escrow Agent	8,830,000		
Fiscal Agent Fees & Debt Issuance Costs	114,550	1,840,027	
Total	\$59,637,452	\$52,422,598	\$ 1,764,134

* bonded indebtedness excludes special assessments

	Governmental Funds
	Principal
Interest	10,231,758
Fiscal Agent Fees & Issuance Costs	339,989
Total	\$25,876,975

Note 6 This exclusion is for expenditures of \$2,496,257 from Certificates of Participation proceeds that are included in the Capital Improvement Fund. These expenditures are calculated net of the revenues gained from the Use of Money and Property.

Note 7 The exclusion claimed for dividends, interest, and gains on the sale of investment securities, recorded as Use of Money or Property in the governmental funds, and recorded as Investment Income in Enterprise and Internal Service funds is shown below:

	Governmental Funds	Enterprise Funds	Internal Service Funds
	Dividends, interest, and gains on the sale of investment securities	\$ 455,358	\$ 920,028

CITY OF TUCSON
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2017
(Continued)

Note 8 The City receives QECB, BAB, and CREB federal contributions to subsidize debt service payments in the General Fund, the Water Utility Fund, and General Services ISF; these will not be included in the federal contributions exclusion since the exclusion was already taken in Note 5. The exclusions claimed for federal grants include: \$73,664,535 for Governmental Funds and \$5,287,960 for Enterprise Funds as outlined in the schedule below.

Governmental Funds	Community Development Block Grants Fund	Miscellaneous Housing Grant Funds	Public Housing Section 8/ Home Program Funds	HOME Affordable Housing Funds
Expenditures	\$ 3,775,570	\$ 3,770,901	\$ 36,507,870	\$ 3,043,498
Other Rev sources	(14)	-	(78,941)	-
Net Exp excludable	<u>3,775,556</u>	<u>3,770,901</u>	<u>36,428,929</u>	<u>3,043,498</u>
Fed Grant Rev	3,790,356	3,770,487	36,874,229	3,381,220
Exclusions	\$ 3,775,556	\$ 3,770,487	\$ 36,428,929	\$ 3,043,498

	Other Federal Grant Funds	Federal Highway Grant Fund	Mass Transit Fund	Governmental Totals
Expenditures	\$ 13,185,612	\$ 5,455,786	\$ 76,580,189	
Other Rev sources	(5,577)	-	(68,567,199)	
Net Exp excludable	<u>13,180,035</u>	<u>5,455,786</u>	<u>8,012,990</u>	
Fed Grant Rev	13,177,289	5,455,786	8,985,471	
Exclusions	\$ 13,177,289	\$ 5,455,786	\$ 8,012,990	\$ 73,664,535

Enterprise Funds	Public Housing Funds	Non-PHA Asset Management Fund	Enterprise Total
Expenditures	\$ 8,863,173	\$ 2,597,742	
Non-grant Rev	(3,802,862)	(1,789,259)	
Net Grant Expend	5,060,311	808,483	
Grant Revenues	5,654,863	227,649	
Exclusions	\$ 5,060,311	\$ 227,649	\$ 5,287,960

Note 9 The exclusion claimed for amounts received from private donors in the amount of \$1,297,345 is recorded in the Civic Contribution Fund included in the Non-Major Governmental funds.

Note 10 The exclusion claimed for amounts received from state grants and contributions was recorded in the General Fund and in the Non-Federal Grant fund as follows:

	Governmental Funds
General Fund	\$ 159,000
Non-Federal Grant Fund	2,084,867
Total	<u>\$ 2,243,867</u>

CITY OF TUCSON
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2017
(Concluded)

Note 11 The exclusion claimed for quasi-external interfund transactions consist of water and garbage sales between the City's Water Utility and Environmental Services Funds to other City departments and amounts collected in the administrative service charge for services (such as payroll) provided by the General Fund to Enterprise Funds. In addition the charges for services collected by the Internal Service funds in the amount of \$51,315,092 are excluded, and \$1,437,557 will be carried forward as an excludable revenue for use in future years.

	General Fund		Enterprise Funds
Service Charges	\$ 14,249,504	City Water Utility Charges	\$ 5,997,883
		City Garbage Charges	1,063,770
		Total	\$ 7,061,653

Note 12 The following schedule presents revenues from which exclusions have been claimed for highway user revenues in governmental funds (CAFR pages 110 and 113):

Highway user revenues received in FY 17 (excluding amounts for debt - Note 5)	\$ 31,195,970
Highway user revenues received in FY 79-80	(5,858,008)
Subtotal of amounts available for exclusion in FY 17	25,337,962
Amounts expended and excluded in FY 17	25,337,962
Amounts carried forward for use in future years	\$ -

Note 13 The exclusion claimed for contract with other political subdivisions includes charges for services based on Mass Transit, IGA services, Regional Transportation Authority and Other Agencies monies. For the Water Utility Enterprise Fund, \$3,207,727 is claimed for sewer billings services to Pima County.

Mass Transit Fund	\$ 5,155,800
IGA Services-General Fund	3,119,690
Regional Transportation Authority	33,637,720
Other Agencies	4,648,792
Total	\$ 46,562,002

Note 14 The exclusion claimed for \$3,201,973 received by the City as a trustee or custodian, in the governmental funds, is made up of amounts received from individual entities and remitted to police officers for work performed while off-duty.

Note 15 The subtraction for Pension and Other Post Employment Benefits (OPEB) consists of the change in the net pension liability recognized in the current year in the Enterprise Funds.

	Enterprise Funds
OPEB	\$ 231,027
Pension	8,975,429
Total	\$ 9,206,456

Note 16 The addition for other postemployment benefits and pension paid in the current year, but reported as expenses in previous years, consists of cash payments in the current year for amounts recognized in the previous years as follow:

	Enterprise Funds
OPEB	\$ -
Pension	(3,334,528)
Total	\$ (3,334,528)