

TOWN OF GILBERT, ARIZONA

Annual Expenditure Limitation Report

June 30, 2017

(With Independent Accountant's Report Thereon)

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INDEPENDENT ACCOUNTANT'S REPORT

The Auditor General of the State of Arizona and
The Honorable Mayor and Town Council
of the Town of Gilbert, Arizona

We have examined the accompanying Annual Expenditure Limitation Report of the Town of Gilbert, Arizona for the year ended June 30, 2017, and the related notes to the report. The Town'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 of Town of Gilbert, 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, Meech & Co., P.C.
Phoenix, Arizona
January 19, 2018

Town of Gilbert, Arizona
 Annual expenditure limitation report - part I
 Year ended June 30, 2017

1. Economic Estimates Commission expenditure limitation	\$	<u>391,440,269</u>	
2. Voter-approved alternative expenditure limitation (approved _____)		<u>-</u>	
3. Enter applicable amount from line 1 or line 2			\$ <u>391,440,269</u>
4. Amount subject to the expenditure limitation (total amount from part II, line C)	\$	<u>241,901,938</u>	
5. Board-authorized expenditures necessitated by a disaster the Governor declared	-	<u>-</u>	
6. Board-authorized expenditures necessitated by a disaster the Governor did not declare	-	<u>-</u>	
7. Prior-year, voter-approved expenditures to exceed the expenditure limitation for the reporting fiscal year	-	<u>-</u>	
8. Subtotal			\$ <u>241,901,938</u>
9. Board-authorized excess expenditures for the previous fiscal year necessitated by a disaster the Governor did not declare and the voters did not approve	+	<u>-</u>	
10. Total adjusted amount subject to the expenditure limitation			\$ <u>241,901,938</u>
11. Amount under (in excess of) the expenditure limitation			\$ <u><u>149,538,331</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: _____

Name and title: Håkon Johanson, Director of Finance and Management Services

Telephone number: (480) 503-6902

Date: 1/19/2018

See accompanying notes to report.

Town of Gilbert, Arizona
Annual expenditure limitation report - part II
Year ended June 30, 2017

Description	Governmental <u>funds</u>	Enterprise <u>funds</u>	Internal service <u>funds</u>	Fiduciary <u>funds</u>	<u>Total</u>
A. Amounts reported on the reconciliation, line D	\$ 251,499,213	\$ 85,585,517	\$ 22,758,845	\$ 2,500	\$ 359,846,075
B. Less exclusions claimed:					
1. Debt proceeds	1,087,607	-	-	-	1,087,607
2. Debt service requirements	46,527,044	9,164,848	-	-	55,691,892
3. Trustee or custodian	-	-	-	2,500	2,500
4. Grants and aid from the federal government	1,111,117	-	-	-	1,111,117
5. Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes	1,183,931	-	-	-	1,183,931
6. Amounts received from the State of Arizona	3,353,111	-	-	-	3,353,111
7. Quasi-external interfund transactions	4,049,350	746,136	22,070,408	-	26,865,894
8. Highway user revenues in excess of those received in fiscal year 1979-80	12,798,879	-	-	-	12,798,879
9. Contracts with other political subdivisions	578,949	952,597	407,315	-	1,938,861
10. Refunds, reimbursements, and other recoveries	197,830	8,982	106,758	-	313,570
11. Prior years carryforward	13,596,775	-	-	-	13,596,775
12. Total exclusions claimed	<u>84,484,593</u>	<u>10,872,563</u>	<u>22,584,481</u>	<u>2,500</u>	<u>117,944,137</u>
C. Amounts subject to the expenditure limitation	<u>\$ 167,014,620</u>	<u>\$ 74,712,954</u>	<u>\$ 174,364</u>	<u>\$ -</u>	<u>\$ 241,901,938</u>

See accompanying notes to report.

Town of Gilbert, Arizona
Annual expenditure limitation report - reconciliation
Year ended June 30, 2017

Description	Governmental funds	Enterprise funds	Internal service funds	Fiduciary funds	Total
A. Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund financial statements	\$ 252,003,743	\$ 86,429,740	\$ 22,671,808	\$ 2,500	\$ 361,107,791
B. Subtractions:					
1. Items not requiring use of current financial resources:					
a. Depreciation	-	24,626,898	9,388	-	24,636,286
b. Other postemployment benefits (OPEB) expense	-	38,513	-	-	38,513
c. Claims incurred but not reported (IBNR)	-	-	1,650,317	-	1,650,317
d. Pension expense (Note 12)	-	1,958,221	191,145	-	2,149,366
2. Expenditures of separate legal entities established under Arizona Revised Statutes	-	18,429,349	-	-	18,429,349
3. Required fees paid to the Arizona Department of Revenue (Note 15)	504,530	-	-	-	504,530
4. Involuntary court judgments	-	-	-	-	-
5. Total subtractions	<u>504,530</u>	<u>45,052,981</u>	<u>1,850,850</u>	<u>-</u>	<u>47,408,361</u>
C. Additions:					
1. Principal payments on long-term debt	-	4,830,000	-	-	4,830,000
2. Capital asset acquisitions	-	37,302,083	93,526	-	37,395,609
3. Amounts paid in the current year but reported as expenses in previous years:					
a. OPEB	-	661,875	-	-	661,875
b. Claims previously recognized as IBNR	-	-	1,706,260	-	1,706,260
4. Pension contributions paid in the current year	-	1,414,800	138,101	-	1,552,901
5. Total additions	<u>-</u>	<u>44,208,758</u>	<u>1,937,887</u>	<u>-</u>	<u>46,146,645</u>
D. Amounts reported on part II, line A	<u>\$ 251,499,213</u>	<u>\$ 85,585,517</u>	<u>\$ 22,758,845</u>	<u>\$ 2,500</u>	<u>\$ 359,846,075</u>

See accompanying notes to report.

Town of Gilbert, Arizona
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 The exclusion claimed for debt proceeds in the Governmental Funds consists of bond proceeds received and expended in the same fiscal year.

Note 3 The exclusion claimed for debt service requirements on bonded indebtedness in the Governmental Funds consists of principal retirement of \$34,935,000, interest expense of \$11,583,337, and fiscal and other charges of \$8,707.

The exclusion claimed for debt service requirements on bonded indebtedness in the Enterprise Funds consists of interest payments of \$4,334,848, as well as debt service requirements on long-term obligations that represents \$4,830,000 of debt service payments made by the Municipal Property Corporation (MPC). Because the MPC is a separate legal entity, it is reported in the Town's financial statements as a blended component unit in the Enterprise Funds, and the amount excluded as debt service requirements on long-term obligations is reported in the financial statements as bond payments in the Enterprise Funds. The Town makes lease payments to the MPC, and these lease payments are used by the MPC to make the debt service payments on the bonds issued by the MPC. The lease payments made to the MPC are not reported in the financial statements since it is a blended component unit.

Note 4 Total investment earnings in the Governmental Funds were \$835,862 of which \$52,911 is nonexcludable, and total investment earnings in the Enterprise Funds were \$1,009,127 of which \$138,214 is nonexcludable. The remaining \$1,653,864 excludable revenue will be carried forward to future years.

Town of Gilbert, Arizona
 Annual expenditure limitation report
 Year ended June 30, 2017

Note 5 The following schedule presents revenues from which exclusions have been claimed for federal grants and aid, amounts received from the State of Arizona, and highway user revenues in the governmental funds:

Description	Revenues	Excluded	Amount Carried
Grants and aid from federal government	\$ 1,111,117	\$ 1,111,117	-
Amounts received from the State of Arizona	5,086,256	3,353,111	1,733,145
Highway user revenues in excess of those received in fiscal year 1979-80	12,798,879	12,798,879	-
Contracts with other political subdivisions	838,545	578,949	259,596
Other revenues (nonexcludable)	<u>67,528,900</u>		
Total intergovernmental revenues as reported in fund financial statements	<u>\$ 87,363,697</u>		

The exclusion claimed in the Enterprise Funds for grants and aid from the federal government and contracts with other political subdivisions are recorded as intergovernmental nonoperating revenues in the financial statements. The exclusion claimed in the Internal Service Funds for contracts with other political subdivisions are recorded as charges for services revenues in the financial statements.

Note 6 The exclusion claimed for grants, aid, contributions, or gifts from a private agency, organization, or individual consists of other entities' participation and gifts and donations revenue as reported in the Governmental Funds financial statements.

Note 7 The exclusion claimed for quasi-external interfund transactions consists of payments made for administrative support services reported in the financial statements as charges for services revenue for the Governmental Funds. The exclusion claimed for the Enterprise Funds consist of payments made for water, wastewater and environmental services reported in the financial statements as charges for services revenue. The exclusion claimed for the Internal Service Funds consist of payments for operations that provide services to other departments of the Town and reported in the financial statements as charges for services revenue.

Note 8 The exclusions claimed for refunds, reimbursements, and other recoveries consist of recovery of damage claims and recovery of prior year expenses and are reported as miscellaneous revenue in the Governmental Funds and as other revenue in the Enterprise and Internal Service Funds financial statements.

Note 9 Prior years carryforward consists of constitutionally excludable revenues unexpended in the year of receipt that have been accumulated and were expended in the current year. The majority of the exclusion in the Governmental Funds of \$13,596,775 represents bond proceeds received in prior fiscal years of \$7,081,279. The remainder consists of \$4,863,602 of interest earnings, \$1,266,311 of grants, aid, contributions, and gifts as well as \$385,583 received from the state that was expended in this fiscal year.

Town of Gilbert, Arizona
Annual expenditure limitation report
Year ended June 30, 2017

- Note 10 The subtraction of \$1,650,317 for claims incurred but not reported (IBNR) consists of the estimated costs of claims incurred and expensed in the current year but not yet paid in the Internal Service Funds.
- Note 11 The addition of \$1,706,260 for claims previously recognized as IBNR, consists of cash payments in the current year for claims recognized as an expense in previous years in the Internal Service Funds.
- Note 12 The subtractions of \$1,958,221 and \$191,145 for pension expense in the Enterprise and Internal Service Funds, respectively, consists of the change in the net pension liability recognized in the current year. The additions of \$1,414,800 and \$138,101 for pension contributions paid in the current year in the Enterprise and Internal Service Funds, respectively, consists of the required pension contributions made to the Arizona State Retirement System and Public Safety Retirement System.
- Note 13 The subtraction of \$38,513 for other postemployment benefits expenses consists of the amounts expensed in the current year but not yet paid in the Enterprise Funds.
- Note 14 The addition of \$661,875 for other postemployment benefits paid in the current year, but reported as expenses in previous years, consists of cash payments in the current year for amounts recognized as expenses in previous years in the Enterprise Funds.
- Note 15 The subtraction of \$504,530 for required fees paid to the Arizona Department of Revenue is pursuant to A.R.S. section 42-5041 to recover a portion of administrative, program and other operating costs the Department incurred.
- Note 16 The subtraction of \$30,860,190 consists of capital outlays of the Town of Gilbert Water Resources MPC, which is a legally separate, non-profit corporation and exists solely for the purpose of financing the construction or acquisition of water and wastewater capital improvement projects. The MPC is included within the Town's reporting entity as a blended component unit, but not included in the Economic Estimates Commission base limit calculations. This amount is reported in the financial statements as acquisition of capital assets in the Enterprise Funds Statement of Cash Flows. See also Note 3.

Town of Gilbert, Arizona
 Annual expenditure limitation report
 Year ended June 30, 2017

Description	6/30/16 Carryforward Exclusions	6/30/17 Excludable Revenue	Total Revenues Available for Exclusion	Curent Year Exclusions Used in 6/30/17	Carryforward Exclusions Used in 6/30/17	Carryforward Exclusions 6/30/17
Bond Proceeds						
Governmental	\$15,260,484	\$ 71,225,366	86,485,850	\$ 1,087,607	7,081,279	\$78,316,964
Interest Earnings						
Governmental	31,291,223	782,951	32,074,174	-	4,863,602	27,210,572
Enterprise	33,025,371	870,913	33,896,284	-	-	33,896,284
Contributions, donations...						
Governmental	4,884,572	2,372,505	7,257,077	1,183,931	1,266,311	4,806,835
Amounts received from...						
Governmental	14,571,946	5,086,256	19,658,202	3,353,111	385,583	15,919,508
Quasi-external interfund...						
Internal Service	-	24,535,050	24,535,050	23,900,837	-	634,213
Contracts with other political.	188,545	838,545	1,027,090	578,949	-	448,141
Governmental						
Highway User Revenue						
Governmental	1,903,253	12,798,879	14,702,132	12,798,879	-	1,903,253
GRAND TOTALS	\$101,125,394	\$118,510,465	\$219,635,859	\$42,903,314	\$13,596,775	\$163,135,770

Carryforward exclusions for each fund as of June 30 were as follows:

	GOVERNMENTAL	ENTERPRISE	INTERNAL SERVICE	TOTAL
Fund Balance/Net Position	289,406,164	784,965,850	634,213	1,075,006,227
Unused Exclusions (Cannot exceed FB)	128,605,273	33,896,284	634,213	163,135,770
Check	160,800,891	751,069,566	0	911,870,457