Expenditure Limitation Reports

Part II
Got Questions?

Submit questions through the message system

FAQs are on the Auditor General’s Web site: www.azauditor.gov
The ELR Format

Reconciliation

Part II

Part I
Expenditure Limitations

- Limit the spending of local revenues only

Exclusions

- Certain revenues not included in the definition of “local revenues”

Home Rule Expenditure Limitations

- City/town must include exclusions in the resolution adopting the home rule to include on Part II
ELR – Fund Types

- Governmental
- Enterprise
- Internal Service
- Fiduciary

Notes to the ELR

- Statement of Revenues, Expenditures, and Changes in Fund Balance—Governmental
- Statement of Revenues, Expenses, and Changes in Fund Net Assets/Statement of Cash Flows —Proprietary Funds
- Statement of Changes in Fiduciary Net Assets

Notes to the Financial Statements
Town of Sample
Expenditure Limitation Report-Part II
For the Year Ended June 30, 2012

Line A: Amounts Reported on the Reconciliation, Line D

Line B: Less Exclusions Claimed

1.
2.
3.
4.
5.
What is a Local Revenue?

The Constitution says:

All revenues are local except:
Those listed in Article IX, §20 (Lines B1 – B12 of Part II)

Which revenue is non-local?
• Property tax revenue
• Investment income
• License & permit fees
• None of the above
What is a Local Revenue?

The Constitution says:

Expenditures for the following purposes are excludable no matter what revenue type is used:

- Debt service requirements on bonded indebtedness
- Debt service requirements on other long-term obligations
Revenue-driven exclusions vs Expenditure-driven exclusions

**Excludability** is determined by revenue source

- Non-local revenues only excludable once spent
- Unspent non-local revenues are carried forward
- Interfund transfers:
  - Not expenditures
  - Excludable when spent
Revenue-driven exclusions vs Expenditure-driven exclusions

**Revenue-driven exclusions**
- Excludability is determined by revenue source
- Non-local revenues only excludable once spent
- Unspent non-local revenues are carried forward
- Interfund transfers:
  - Not expenditures
  - Excludable when spent

**Expenditure-driven exclusions**
- Excludability is determined by actual expenditure
- Can’t exclude expenditure and non-local revenue used
- Expenditures only excludable once
- Cannot be carried forward
Long-term debt incurred for a specific purpose

Expenditure of proceeds

- Bond proceeds
- Proceeds from other long-term obligations

Debt service requirements

- Debt service requirements on bonded indebtedness
- Debt service requirements on other long-term obligations
Calculating Debt Proceeds Exclusions

**Financial Statement Reporting**
- Other Financing Source – Statement of Revenues and Expenditures Governmental Funds
- Cash Inflow - Statement of Cash Flows Proprietary Funds

**What’s Included**
- Proceeds actually expended
- Payments to registrars and paying agents

**What’s Not Included**
- Proceeds received and unexpended in the current year
- Bond proceeds in a special assessment district fund
- COP issued by Municipal Property Corporation
- Expenditures of separate legal entities already subtracted
Debt service exclusions may include...

- Principal and interest payments on:
  - Bonds
  - Installment Purchases
  - Capital Leases
  - COPs not issued by separate legal entity

- Amounts paid into sinking funds

- Payments for contracts/operating leases
Calculating Debt Service Exclusions

**Governmental Funds VS Enterprise/Internal Service Funds**

- **Governmental Funds**
  - Statement of Revenues, Expenditures & Changes in Fund Balances
    - Principal retirement
    - Interest and fiscal charges

- **Enterprise/Internal Service Funds**
  - Statement of Cash Flows
    - Principal payments
  - Statement of Revenues, Expenses & Changes in Fund Net Assets
    - Interest and fiscal charges
Dividends, Interest, & Gains on Investment Securities

Includes interest from delinquent taxes

Does not include gains from sale of fixed assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income</td>
<td>$4,000</td>
</tr>
<tr>
<td>Tax interest rev.</td>
<td>$2,000</td>
</tr>
<tr>
<td>Total</td>
<td>$6,000</td>
</tr>
</tbody>
</table>

Note to the AELR

The exclusion for investment income includes expenditures of investment interest and interest on delinquent tax revenue reported as described below.
Trustee Custodian Agent

Fiduciary Trust Funds

Firefighters Pension Fund

Local Gov’t Investment Pools

Agency Funds
Trustee, Custodian, or Agent

County Anti-Racketeering Revolving Fund
Seizure & Forfeiture Revenues

- City monies
- Federal asset sharing (Grants and aid from the federal Government)
- County monies

Excludable

Not Excludable
AHCCCS Exclusions

Acute Care

- Includes administrative costs

Uncompensated Care

- Temporary: extended through FY 2013

Set by the legislature

Should agree to amounts withheld by the State Treasurer, less withheld revenues returned.
Intergovernmental Revenue

- Amounts Received from the State
- HURF Revenues
- Federal Grants
- Nonexcludable Intergovernmental Revenue
Private Grants, Aid, Contributions, or Gifts

- Includes private donations for the operation of charter schools that are not separate legal entities.
- Does not include amounts received in lieu of taxes.
### Amounts Received from the State ...

<table>
<thead>
<tr>
<th>With a restricted purpose</th>
<th>Without a restricted purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excludable</td>
<td>Not Excludable</td>
</tr>
<tr>
<td>State Grants</td>
<td>Liquor license fees</td>
</tr>
<tr>
<td>Hotel Excise Taxes</td>
<td>Sales Taxes</td>
</tr>
<tr>
<td></td>
<td>Motor vehicle license tax</td>
</tr>
</tbody>
</table>

**HURF revenues are excludable on a separate line**
Quasi-External Interfund Transactions

General Fund

<table>
<thead>
<tr>
<th>Local Revenues</th>
<th>Expenditures</th>
<th>Transfers Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>$500,000</td>
<td>$75,000</td>
<td>$5,000</td>
</tr>
</tbody>
</table>

Water and Sewer Fund

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Transfers In</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>$75,000</td>
<td>$5,000</td>
<td>$75,000</td>
</tr>
<tr>
<td>$5,000</td>
<td></td>
<td>$5,000</td>
</tr>
</tbody>
</table>

Excludable
Not Excludable
Purchase of Land/Purchase or Construction of Buildings & Improvements

Entity must obtain voter approval to accumulate money for the specific purpose

Only exclude portion spent for land, buildings, and improvements

Revenue from sale of capital assets **not** excludable when spent
State Highway User Revenue Fund

City of Sample Road Fund

**Revenues**
- **HURF**: $75,000
- Miscellaneous: $10,000
- Investment Income: $5,000
- Total Revenues: $90,000
HURF Exclusion

- **Total Revenues**: $510,000
- **HURF Revenues**: $500,000
- **Expenditures**: $600,000
- **Current year revenues spent first**

### FY 2012 Road Fund Assumptions

- **HURF Revenue**: $500,000
- **FY1980 Base Limit**: -$200,000
- **Available for Exclusion**: $300,000
- **Total Revenues**: $510,000
- **Non-HURF Revenues**: -$10,000
- **FY1980 Base Limit Revenues**: -$200,000
- **Remaining Expenditures**: $390,000

### Expenditures of Beginning Fund Balance

- **Remaining Expenditures**: $390,000
- **HURF Revenues Available for Exclusion**: $300,000
- **Expenditures of Beginning Fund Balance**: $90,000
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>HURF Revenue</td>
<td>$500,000</td>
</tr>
<tr>
<td>FY1980 Base Limit</td>
<td>-$200,000</td>
</tr>
<tr>
<td>Available for Exclusion</td>
<td>$300,000</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$600,000</td>
</tr>
<tr>
<td>Non-HURF Revenues</td>
<td>-$15,000</td>
</tr>
<tr>
<td>FY1980 Base Limit Revenues</td>
<td>-$200,000</td>
</tr>
<tr>
<td>HURF transferred out</td>
<td>+$10,000</td>
</tr>
<tr>
<td>Remaining Expenditures</td>
<td>$395,000</td>
</tr>
<tr>
<td>Remaining Expenditures</td>
<td>$400,000</td>
</tr>
<tr>
<td>HURF Revenues Available for Exclusion</td>
<td>$295,000</td>
</tr>
<tr>
<td>Expenditures of Beginning</td>
<td></td>
</tr>
<tr>
<td>Fund Balance</td>
<td>$105,000</td>
</tr>
</tbody>
</table>

Non-HURF revenues transferred in: $5,000

HURF revenues transferred out, expended: $10,000

HURF revenues transferred out, unexpended: $5,000
Contracts with Other Political Subdivisions

Political Subdivision
County, City, or Town

School District

Community College District

Contract Revenues

Expenditure of Revenues
Note X: The following schedule presents a summary of the revenues expended and excluded for contracts with other political subdivisions in the Governmental and Enterprise Funds.

<table>
<thead>
<tr>
<th>Contract Revenue Descriptions</th>
<th>Governmental Funds</th>
<th>Enterprise Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>School Districts</td>
<td>$35,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>Intergovernmental Charges for Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Coll. Districts</td>
<td></td>
<td>$30,000</td>
</tr>
<tr>
<td>Charges for Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Town of Sample Intergovernmental</td>
<td>$27,000</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$8,500</td>
<td>$12,250</td>
</tr>
<tr>
<td>Total</td>
<td>$70,500</td>
<td>$57,250</td>
</tr>
</tbody>
</table>
Note X: The following schedule presents intergovernmental revenues from which exclusions have been claimed for federal grants and aid, amounts received from the State of Arizona, other political subdivisions and highway user revenues in the Governmental Funds:

<table>
<thead>
<tr>
<th>Descriptions</th>
<th>Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants and aid from the federal government</td>
<td>$150,000</td>
</tr>
<tr>
<td>Amounts received from the State</td>
<td>$75,000</td>
</tr>
<tr>
<td>HURF revenues in excess of those received in FY 1979-80</td>
<td>$1,475,000</td>
</tr>
<tr>
<td>Contracts w/ other political subdivisions</td>
<td>$70,500</td>
</tr>
<tr>
<td>Other revenues (nonexcludable)</td>
<td>$15,000</td>
</tr>
<tr>
<td>Amount carried forward</td>
<td>$25,000</td>
</tr>
<tr>
<td>Total intergovernmental revenues</td>
<td>$1,810,500</td>
</tr>
</tbody>
</table>
Refunds, Reimbursements, or Recoveries

**FY 2012:**
$10,000 expended

**FY 2012:** reimbursement received for portion of $10,000; reduces expenditures, not excludable

**FY 2013:** reimbursement received for FY 2012 expenditure; recorded as revenue

**FY 2013:** portion of reimbursement revenues expended and excluded

**FY 2014:** remaining reimbursement revenues expended and excluded (as carryforward)
Counties Only—Revenues Distributed to School Districts

Expenditures for CSS Accommodation Schools

Juvenile Detention Centers/County Jail Education if operated by Accommodation School

Revenues Distributed to School Districts
Cities and Towns Under Home Rule Only-Voter Approved Exclusions

- Must be included in resolution adopting the alternative limitation
- Only for exclusions other than those listed in the Constitution
- Sanitation & refuse, elections, new services
- Constitutional exclusions included in resolution should be included on applicable line of Part II
## Prior Years Carryforward

<table>
<thead>
<tr>
<th>FY 2012</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Fund Balance</td>
<td>$0</td>
</tr>
<tr>
<td>Excludable Revenues</td>
<td>$10,000</td>
</tr>
<tr>
<td>Expenditures</td>
<td>$7,000</td>
</tr>
<tr>
<td>Fund Balance</td>
<td>$3,000</td>
</tr>
</tbody>
</table>

Expenditures excluded on lines B.1 through B.12, as applicable

Expenditures Excluded on line B.13
## Carryforward Note

<table>
<thead>
<tr>
<th>Description</th>
<th>Governmental Funds</th>
<th>Enterprise Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends, interest, and gains on investment securities</td>
<td>$500,000</td>
<td></td>
</tr>
<tr>
<td>Grants and aid from the federal government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts received from the State of Arizona</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highway user revenues in excess of those received in fiscal year 1979-80</td>
<td>$500,000</td>
<td></td>
</tr>
<tr>
<td>Total prior years carryforward expended</td>
<td>$1,000,000</td>
<td></td>
</tr>
</tbody>
</table>
Carryforward Revenues

- General Fund
- Debt Service Fund
- Road Fund
- Water & Sewer Fund
- Utilities Fund
Flow Assumption – Maximizing Carryforward

Local (nonexcludable) Revenues

Nonlocal Revenues

Total Expenditures

Carried Forward

Local Revenues

Nonlocal Revenues

Nonlocal (excludable) Revenues
Flow Assumption – Maximizing Exclusions

- Local (nonexcludable) Revenues
- Nonlocal (excludable) Revenues
- Local Revenues
- Nonlocal Revenues
- Total Expenditures
### Flow Assumption – Fund Balance

#### General Fund

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Revenues</td>
<td>$5,000</td>
</tr>
<tr>
<td>Non-local revenues</td>
<td>$7,000</td>
</tr>
</tbody>
</table>

| Expenditures        | $15,000 |

| Beginning Fund Balance | $10,000 |

| Ending Fund Balance  | $7,000  |

#### Fund Balance

<table>
<thead>
<tr>
<th>Fund Balance</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Revenue</td>
<td>$6,000</td>
</tr>
<tr>
<td>Non-local Revenue</td>
<td>$4,000</td>
</tr>
<tr>
<td>Total</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

#### Carryforward

| Accumulated           | $3,000  |
| Used                  | $0      |
## Flow Assumption – Fund Balance

### General Fund

| Revenues                        | $ | |
|--------------------------------|---|---
| Local Revenues                 | 5,000 |
| Non-local Revenues             | 7,000 |

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>$15,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Fund Balance</td>
<td>$10,000</td>
</tr>
<tr>
<td>Ending Fund Balance</td>
<td>$7,000</td>
</tr>
</tbody>
</table>

### Fund Balance

<table>
<thead>
<tr>
<th>Local Revenue</th>
<th>$1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-local Revenue</td>
<td>$9,000</td>
</tr>
<tr>
<td>Total</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

### Carryforward

<table>
<thead>
<tr>
<th>Accumulated Used</th>
<th>$0-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used</td>
<td>$2,000</td>
</tr>
</tbody>
</table>
## Calculating Carryforward – Maximizing Carryforward

### Road Fund

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenues</td>
<td>$510,000</td>
</tr>
<tr>
<td>HURF Revenues</td>
<td>$500,000</td>
</tr>
<tr>
<td>Non-HURF Revenues</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

### Revenue Breakdown

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>HURF Revenue</td>
<td>$500,000</td>
</tr>
<tr>
<td>FY1980 Base Limit</td>
<td>- $200,000</td>
</tr>
<tr>
<td>Available for Exclusion</td>
<td>$300,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenditures</td>
<td>$450,000</td>
</tr>
<tr>
<td>FY1980 Base Limit Revenues</td>
<td>- $200,000</td>
</tr>
<tr>
<td>Non-HURF Revenues</td>
<td>- $10,000</td>
</tr>
<tr>
<td>Excludable Expenditures</td>
<td>$240,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>HURF Revenues Available for Exclusion</td>
<td>$300,000</td>
</tr>
<tr>
<td>Excludable Expenditures</td>
<td>$240,000</td>
</tr>
<tr>
<td>Excludable Revenues Carried Forward</td>
<td>$60,000</td>
</tr>
</tbody>
</table>
### Calculating Carryforward – Maximizing Exclusions

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>HURF Revenue</td>
<td>$500,000</td>
</tr>
<tr>
<td>FY1980 Base Limit</td>
<td>- $200,000</td>
</tr>
<tr>
<td>Available for Exclusion</td>
<td>$300,000</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$450,000</td>
</tr>
<tr>
<td>Available for Exclusion</td>
<td>- $300,000</td>
</tr>
<tr>
<td>Non-HURF Revenues</td>
<td>- $10,000</td>
</tr>
<tr>
<td>FY1980 Base Limit Expended</td>
<td>- $140,000</td>
</tr>
<tr>
<td>FY 1980 Base Limit</td>
<td>$200,000</td>
</tr>
<tr>
<td>FY 1980 Base Limit Expended</td>
<td>- $140,000</td>
</tr>
<tr>
<td>Unspent FY 1980 Base Limit Revenues (not excludable)</td>
<td>$60,000</td>
</tr>
</tbody>
</table>
Governmental Funds

Enterprise Funds

Internal Service Funds

Fiduciary Funds

Total

Line A: $10,000

Line B:
- B.1. $3,000
- B.2. $1,000
- B.3. $2,000
- B.4. $3,000
- B.5. $1,000
- B.6. $2,000
- B.7. $3,000
- B.8. $0
- B.9. $7,000
- B.10. $4,000
- B.11. $5,000
- B.12. $0
- B.13. $7,000
- B.14. Total $9,000

Line C: $7,000

Total $16,000
Common Errors

- Exclusion and Subtraction for one expenditure
- Two exclusions for one expenditure
- Carryforward exclusion in fund with no beginning balance
- HR city/town claiming exclusions not included in Resolution
- Contracts w/ other governments not considered “political subdivision”
- Not accounting for HURF base year revenues in HURF exclusion
- Exclusions exceed expenditures in a given fund
Common Errors

- Carryforward accumulated exceeds revenue in given fund
- Not including notes to the AELR when needed
- Carryforward exclusion exceeds beginning fund balance
- Not revising or omitting notes from previous years
- Conflicting amounts in notes to the AELR
- Carryforward exclusions not lumped on line B.13
Questions
Contact Us!

Office of the Auditor General
Accounting Services Division
602-553-0333
asd@azauditor.gov

FAQs: www.azauditor.gov