UNIFORM EXPENDITURE REPORTING SYSTEM

UERS

AUDITOR GENERAL

UNIFORM EXPENDITURE REPORTING SYSTEM MANUAL

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BACKGROUND

On June 3, 1980, Arizona voters approved **Arizona Constitution, Article IX, §§20** and **21**, prescribing an expenditure limitation for each county, city, town, and community college district. The purpose of the expenditure limitation is to control expenditures of local revenues and limit future increases in spending to adjustments for inflation; deflation; population growth of counties, cities, and towns; and student population growth of community college districts. Counties, cities, and towns were subject to the expenditure limitation effective in the fiscal year following the first regularly scheduled election of governing board members after July 1, 1980. Community college districts became subject to the expenditure limitation on July 1, 1981.

Arizona Revised Statutes (A.R.S.) §41-1279.07 requires the Auditor General to prescribe a *Uniform Expenditure Reporting System* (UERS) for all political subdivisions subject to the constitutional expenditure limitations prescribed by **Article IX, §§20** and **21**. As required by A.R.S., this manual was developed to provide detailed instructions for completing and submitting the required reports. Detailed instructions and examples of the reports are presented in **§§VI**, **VII**, and **VIII**.

CALCULATION OF THE EXPENDITURE LIMIT

The Constitution required the Economic Estimates Commission (EEC) to establish for each political subdivision a base limit from actual expenditures of local revenues of fiscal year 1980.

Each year, the EEC develops an expenditure limitation for each county, city, and town by adjusting the base limit for population and inflation factors. In the case of community college districts, the base limit is adjusted for changes in student population and inflation factors. By February 1, the EEC must provide each political subdivision with an **estimated** expenditure limitation for the following fiscal year, and by April 1, must determine and report the **actual** expenditure limitation for the following fiscal year to each political subdivision.

Provisions are included that allow counties, cities, and towns to authorize expenditures in excess of the expenditure limitation for expenditures directly necessitated by a natural or manmade disaster or if approved by two-thirds of the governing board and a majority of the qualified voters. The Constitution also allows counties, cities, and towns to exceed the expenditure limit for 1 year or to permanently adjust the base limit subject to voter approval; allows cities and towns to establish a voter-approved alternative expenditure limitation; and allows community college districts to establish a voter-approved modified expenditure limitation. See **§§IV** and **V** for detailed information on these constitutional provisions.

CALENDAR OF EVENTS

The following is a list of significant events concerning expenditure limitation reports, permanent adjustments of the base limit, alternative expenditure limitations, and modified expenditure limitations as prescribed by the Arizona Constitution (AC) and Arizona Revised Statutes (A.R.S.). In order to meet the required dates, the governing board may specify additional interim dates for internal planning and control.

Date	Event	Authority
	EXPENDITURE LIMITATION REPORTS	
Prior to February 1	The Economic Estimates Commission (EEC) notifies political subdivisions of the estimated expenditure limitations for the following fiscal year.	**A.R.S. §41-563**
Prior to April 1	The EEC notifies political subdivisions of their actual expenditure limitations for the following fiscal year.	**AC IX §20(1)** **AC IX §21(1)** **A.R.S. §41-563**
Prior to July 31	Political subdivisions provide to the Auditor General the names of the chief fiscal officers designated to submit the expenditure limitation reports for the current fiscal year.	**A.R.S. §41-1279.07(E)**
Prior to March 31	Political subdivisions submit to the Auditor General the reports for the previous fiscal year required by the UERS.	**A.R.S. §41-1279.07(C)**
7 business days after the required reports are submitted	Counties, cities, towns, and community college districts must post the financial statements required by the UERS in a prominent location on their official Web site.	**A.R.S. §9-481(E)** **A.R.S. §11-661(A)** **A.R.S. §15-1473(C)**
	PERMANENT BASE LIMIT ADJUSTMENTS AND ALTERNATIVE EXPENDITURE LIMITATIONS	
60 days prior to the election	Political subdivisions must submit the analyses required by A.R.S. to the Auditor General.	**A.R.S. §41-563.03(D) & (E)**
15 working days after the required documents are submitted	The Auditor General must complete a review of the submitted analyses and return them to the political subdivisions.	**A.R.S. §41-563.03(D) & (E)**
Prior to the election	A copy of the printed publicity pamphlet must be submitted to the Auditor General.	**A.R.S. §41-563.03(D) & (E)**
Before the earliest date that registered voters can receive early ballots, but not less than 10 days prior to the election	A copy of the publicity pamphlet must be mailed to each household containing a registered voter. If publicity pamphlets are not mailed before the earliest date that registered voters can receive early ballots, voters must be provided a notice with early ballots that states when the pamphlets will be mailed and when and where pamphlets may be accessed or viewed.	**A.R.S. §19-141**
After the election	The Auditor General and the EEC must receive a copy of the certified election results.	**A.R.S. §41-563.03(F)**
	MODIFIED EXPENDITURE LIMITATIONS	
Before the earliest date that registered voters can receive early ballots, but not less than 10 days prior to the election	A copy of the publicity pamphlet must be mailed to each household containing a registered voter. If publicity pamphlets are not mailed before the earliest date that registered voters can receive early ballots, voters must be provided a notice with early ballots that states when the pamphlets will be mailed and when and where pamphlets may be accessed or viewed.	**A.R.S. §19-141**
After the election	A copy of the certified election results should be provided to the Auditor General and the EEC.	

EXCESS EXPENDITURES

As provided in **Arizona Revised Statutes (A.R.S.) §41-1279.07(G)**, a statutorily prescribed amount of state income tax will be withheld from cities and towns, and the amount of state aid specified by statute will be withheld from community college districts that exceed their expenditure limitations without authorization. **A.R.S. §41-1279.07(H)** requires a county that exceeds the expenditure limitation without authorization to reduce its maximum allowable levy of primary property taxes.

Before state monies are withheld from cities, towns, or community college districts or the maximum allowable levy of primary property taxes is reduced for counties, the Auditor General must hold a hearing to determine if the political subdivision has exceeded the expenditure limitation without authorization. To ensure due process, representatives of the political subdivision are invited to attend and participate in this hearing.

If it has been determined that a city, town, or community college district has exceeded the expenditure limitation without authorization, the Auditor General must notify the State Treasurer to withhold a portion of the political subdivision's allocations of the above revenues for the fiscal year subsequent to the Auditor General's hearing in the following amounts:

1. If the excess expenditures are less than 5 percent of the limitation, an amount equal to the excess expenditures.
2. If the excess expenditures are equal to or greater than 5 percent but less than 10 percent of the limitation, or are less than 5 percent of the limitation but the entity has exceeded the limitation for at least the second consecutive time, an amount equal to triple the excess expenditures.
3. If the excess expenditures are equal to or greater than 10 percent of the limitation, an amount equal to five times the excess expenditures or one-third of the allocation of the revenues, whichever is less.

When it has been determined that a county has exceeded the expenditure limitation without authorization, the maximum allowable primary property tax levy must be reduced in the fiscal year subsequent to the Auditor General's hearing by the amount of expenditures in excess of the county's expenditure limitation. The calculation of the allowable levy for the fiscal year after the fiscal year of reduction, and future years, should be calculated without regard to the reduction.

FAILURE TO FILE REPORTS

As prescribed in **A.R.S. §41-1279.07(G)**, a chief fiscal officer, designated by the governing board of the political subdivision, who refuses to make a timely filing of the required reports or intentionally files erroneous reports is guilty of a Class 1 misdemeanor. An erroneous report is one that contains a material misstatement. If either of these situations occur, the Auditor General may request that the county attorney take appropriate action.

As prescribed by **A.R.S. §§9-481**, **11-661**, and **15-1473**, counties, cities, towns, and community college districts that have not completed and filed the financial statements required pursuant to **A.R.S. §41-1279.07** with the Auditor General by March 31 must post a form, developed by the Auditor General, on its Web site until the reports are complete. Further, if the reports are not completed and filed before the adoption of the budget in the subsequent fiscal year, the form must be included in the published budget. Any entity that is required to complete the late reports form must also send a copy of the form to the Auditor General, the Speaker of the House, and the President of the Senate.

PERMANENT ADJUSTMENTS OF THE BASE LIMIT

Arizona Constitution, Article IX, §20(6), allows each county, city, or town to permanently adjust its base limit with the approval of a majority of the qualified electors. The adjustment should be used to determine the expenditure limitation beginning with the fiscal year immediately following the fiscal year the permanent adjustment is approved. If the permanent adjustment of the base limit is not adopted by a majority of the qualified voters, the state-imposed base limit would apply.

Auditor General Review

As required by **Arizona Revised Statutes (A.R.S.) §41-563.03**, at least 60 days before the election and before printing the publicity pamphlet, the following documents must be submitted to the Auditor General by the person, group, organization, or governing board proposing the adjustment:

1. A detailed analysis that contains the following information:
   a. The amount of the proposed adjustment to the base limit
   b. The specific area or areas in which expenditures are to be adjusted
   c. Specific amounts of estimated revenue from each and any source to be used for financing the upward adjustment to the base limit, or the source or sources of estimated revenues to be reduced as a result of a downward adjustment of the base limit and any assumptions used in estimating such revenue
2. A summary analysis that contains the following information:
   a. The amount of the proposed adjustment to the base limit
   b. The effect of the adjustment on the expenditure limitation
   c. The source or sources of estimated revenues to be used for financing the upward adjustment to the base limit, or the source or sources of estimated revenues to be reduced as a result of a downward adjustment of the base limit
   d. A statement of the purpose or purposes for which the additional spending capacity will be used

Once the Auditor General receives the detailed and summary analyses, they must be reviewed within 15 working days. The Auditor General may request additional information to clarify or correct the analyses. The reviewed analyses are then returned to the county, city, or town. No revision may be made to the documents after the Auditor General's review.

The clerk of the board of supervisors or the city or town clerk must retain the reviewed analyses and make copies available to any registered voter.

Publicity Pamphlets

A.R.S. §41-563.03 requires a county, city, or town to prepare and print publicity pamphlets presenting the proposed permanent adjustment of the base limit to be voted upon and related information according to the requirements of **A.R.S. §§19-123** and **19-141**. The governing board must submit a copy of the publicity pamphlet to the Auditor General before the election. One copy of the publicity pamphlet must be mailed to each household containing a registered voter before the earliest date registered voters can receive early ballots. If pamphlets are not mailed by that date, voters must be provided a notice with early ballots that states when the pamphlets will be mailed and when and where pamphlets may be accessed or viewed. Pamphlets must be mailed not less than 10 days before the election. In order to comply with this requirement, the governing board may need to submit the detailed and summary analyses described above to the Auditor General earlier than 60 days before the election date.

The publicity pamphlets must contain the following information:

1. The date of the election
2. The names and locations of polling places and the times they are open
3. A true and complete copy of the title and text of the proposed permanent adjustment of the base limit
4. The form in which the proposed permanent adjustment will appear on the ballot, the official title, a descriptive title prepared by the clerk of the board of supervisors or the city or town clerk, and the number by which the proposed adjustment will be designated
5. A statement of the purpose or purposes for which the additional spending capacity will be used, as reviewed by the Auditor General
6. A summary of the amount of the proposed adjustment to the base limit, as reviewed by the Auditor General
7. A summary of the effect of the adjustment on the expenditure limitation, as reviewed by the Auditor General
8. A summary of the source or sources of estimated revenues to be used for financing the upward adjustment of the base limit, or the source or sources of the estimated revenues to be reduced as a result of a downward adjustment of the base limit, as reviewed by the Auditor General
9. Arguments for and against the proposed adjustment, or an indication that no arguments for/against were received

Official Ballot

The ballot must be in the form prescribed by **A.R.S. §19-125**, unless more than one adjustment to the base limit is to be voted upon. In that case, the ballot must be in a format that enables voters to vote separately on each adjustment. The official ballot must include the following information:

1. The official title and number of the proposed permanent adjustment of the base limit
2. A statement disclosing whether the adjustment to be voted upon was referred by a person, group, organization, or the governing board
3. A descriptive title not to exceed 50 words that includes a summary of the principal provisions of the measure to be voted upon, which shall be prepared by the clerk of the board of supervisors or the city or town clerk

After the election, the clerk of the board of supervisors or the city or town clerk must notify the Auditor General and the Economic Estimates Commission of the election results as soon as the official canvass is completed.

ONE-TIME OVERRIDES

Arizona Constitution, Article IX §20(2)(c) allows a county, city, or town to exceed its constitutional expenditure limitation with voter approval in the fiscal year after the election is held. A one-time override does NOT allow an entity to establish an alternative expenditure limitation for 1 year. Instead, a one-time override allows an entity to exceed its constitutional expenditure limitation by a specific amount.

The Office of the Auditor General is not required to review one-time override documentation before the election occurs. However, there are statutory rules that entities must follow.

Publicity Pamphlet

A.R.S. §41-563.02 requires a county, city, or town to prepare and print publicity pamphlets presenting the proposed one-time override to be voted upon and related information. One copy of the publicity pamphlet must be mailed to each household containing a registered voter not less than 10 days and not more than 30 days before the election.

The publicity pamphlets must contain the following information:

1. The date of the election
2. The names and locations of polling places and the times they are open
3. A true and complete copy of the title and text of the one-time override of the state-imposed expenditure limitation
4. The form in which the proposed one-time override will appear on the ballot, the official title, a descriptive title prepared by the clerk of the board of supervisors or the city or town clerk, and the number by which the measure will be designated
5. The specific amount of expenditures that will exceed the state-imposed expenditure limitation
6. A statement of the purpose or purposes for which the excess expenditures will be used and the source of revenues that will be used to finance the excess expenditures
7. A statement that if the excess expenditures are not approved by a majority of the qualified electors voting at the election, the governing board shall for the following fiscal year reduce expenditures below the expenditure limitation by the excess amount
8. Arguments for and against the proposed excess expenditures, or an indication that no arguments for/against were received

Official Ballot

In addition to any other ballot requirements prescribed by law, the official ballot must include the following information:

1. The official title and number of the proposed one-time override
2. A statement that the one-time override to be voted on was referred by the governing board
3. A descriptive title not to exceed 50 words that includes a summary of the principal provisions of the measure to be voted upon, which shall be prepared by the clerk of the board of supervisors or the city or town clerk

After the election, if the one-time override is approved by a majority of the voters, the clerk of the board of supervisors or the city or town clerk should submit to the Auditor General a copy of the publicity pamphlet and the official canvass of the election results to support the Annual Expenditure Limitation Report (AELR).

Resources

Detailed instructions for a permanent adjustment of the base limit and sample forms may be obtained from the **League of Arizona Cities and Towns’** Web site. In addition, the Office of the Auditor General’s Web site includes a recorded webinar titled “**Permanent Base Adjustments and One-Time Overrides**” that addresses the requirements for preparing a permanent base adjustment proposal and includes information about one-time overrides.

ALTERNATIVE EXPENDITURE LIMITATIONS

Arizona Constitution, Article IX, §20(9), allows a city or town to adopt an alternative expenditure limitation with the approval of a majority of the qualified voters. Approval of an alternative expenditure limitation must occur prior to the first fiscal year in which it applies. Alternative expenditure limitations apply for 4 succeeding fiscal years, after which the state-imposed expenditure limitation becomes effective unless a new alternative expenditure limitation is adopted. If an alternative expenditure limitation is not adopted by a majority of the qualified voters, the state-imposed expenditure limitation applies, and no new alternative expenditure limitations may be submitted to the voters for at least 2 years.

Exclusions from local revenues, including those enumerated in the Constitution, may be taken against alternative expenditure limitations only if such exclusions are specifically identified in the resolution and the publicity pamphlet.

Auditor General Review

As required by **Arizona Revised Statutes (A.R.S.) §41-563.03**, at least 60 days before the election and before printing the publicity pamphlet, the following documents must be submitted to the Auditor General by the person, group, organization, or governing board proposing the alternative expenditure limitation:

1. A detailed analysis that contains the following information:
   a. The specific amounts estimated to be expended in specific areas for a period of 4 consecutive fiscal years
   b. Specific amounts of estimated revenue from all sources, and any assumptions used in estimating such revenue, for a period of 4 consecutive fiscal years
2. A summary analysis that contains the following information:
   a. The total amount of estimated expenditures under the proposed alternative expenditure limitation for a period of 4 consecutive fiscal years
   b. The total amount of estimated expenditures under the state-imposed expenditure limitation, considering constitutionally allowed exclusions, for a period of 4 consecutive fiscal years
   c. Estimated revenues from all sources from which any expenditure limitation shall be funded for a period of 4 consecutive fiscal years
   d. A statement that if the proposed alternative expenditure limitation is not approved by a majority of the qualified voters, the state-imposed expenditure limitation will apply to the city or town

Once the Auditor General receives the detailed and summary analyses, they must be reviewed within 15 working days. The Auditor General may request additional information necessary to clarify or correct the analyses. The reviewed analyses are then returned to the city or town. No revision may be made to the documents after the Auditor General's review.

The city or town clerk must retain the reviewed analyses and make copies available to any registered voter.

Publicity Pamphlets

A.R.S. §41-563.03 requires a city or town to prepare and print publicity pamphlets presenting the proposed alternative expenditure limitation to be voted upon and related information according to the requirements of **A.R.S. §§19-123** and **19-141**. The city or town council must transmit a copy of the publicity pamphlet to the Auditor General before the election. One copy of the publicity pamphlet must be mailed to each household containing a registered voter before the earliest date that registered voters can receive early ballots. If pamphlets are not mailed by that date, voters must be provided a notice with early ballots that states when the pamphlets will be mailed and when and where pamphlets may be accessed or viewed. Pamphlets must be mailed not less than 10 days before the election. In order to comply with this requirement, the governing board may need to submit the detailed and summary analyses described above to the Auditor General earlier than 60 days before the election date.

The publicity pamphlets must include the following information:

1. The date of the election
2. The names and locations of polling places and the times they are open
3. A true and complete copy of the title and text of the proposed alternative expenditure limitation
4. The form in which the proposed alternative expenditure limitation will appear on the ballot, the official title, a descriptive title prepared by the city or town clerk, and the number by which the alternative expenditure limitation will be designated
5. A summary of estimated total expenditures under the proposed alternative expenditure limitation for a period of 4 consecutive fiscal years, as reviewed by the Auditor General
6. Any exclusions under the proposed alternative expenditure limitation
7. A summary of the estimated total expenditures under the state-imposed expenditure limitation, considering constitutionally allowed exclusions, for a period of 4 consecutive fiscal years, as reviewed by the Auditor General
8. A summary of estimated revenue from all sources from which any expenditure limitation shall be funded, for a period of 4 consecutive fiscal years, as reviewed by the Auditor General
9. A statement that if the proposed alternative expenditure limitation is not approved by a majority of the qualified voters, the state-imposed expenditure limitation will apply to the city or town
10. Arguments for and against the proposed alternative expenditure limitation, or an indication that no arguments for/against were received

Official Ballot

The ballot must be in the form prescribed by **A.R.S. §19-125**, unless more than one alternative expenditure limitation is to be voted upon. In that case, the ballot must be in a format that enables voters to vote separately on each proposed alternative expenditure limitation. The official ballot must include the following information:

1. The official title and number of the proposed alternative expenditure limitation
2. A statement disclosing whether the proposed alternative expenditure limitation to be voted upon was referred by a person, group, organization, or the city or town council
3. A descriptive title not to exceed 50 words that includes a summary of the principal provisions of the proposed alternative expenditure limitation, which shall be prepared by the city or town clerk

After the election, the city or town clerk must notify the Auditor General and the Economic Estimates Commission of the election results as soon as the official canvass is completed.

Detailed instructions for adopting or renewing an alternative expenditure limitation and sample forms may be obtained from the **League of Arizona Cities and Towns'** Web site. In addition, the Office of the Auditor General's Web site includes a recorded webinar titled "**Alternative Expenditure Limitations (Home Rules)**" that addresses the requirements for preparing the proposal.

MODIFIED EXPENDITURE LIMITATIONS

A.R.S. §15-1471 allows a community college district to adopt a modified expenditure limitation with the approval of a majority of the qualified voters in the district. The excess expenditures must be a specified percentage of the constitutional expenditure limitation. The modified expenditure limitation becomes effective beginning in the fiscal year immediately following approval and applies for a period of not less than 2 years, but no more than 7 years. After that time, the constitutional expenditure limitation becomes effective unless a new modified expenditure limitation is approved. The district board may not authorize expenditures in excess of the modified expenditure limitation without the approval of a majority of the qualified voters in the district.

Publicity Pamphlets

A.R.S. §15-1471 requires a community college district to prepare and print publicity pamphlets presenting the proposed modified expenditure limitation to be voted upon and related information in the same manner as prescribed in **A.R.S. §41-563.03**. The publicity pamphlets must include the following information:

1. The date of the election
2. The names and locations of polling places and the times they are open
3. A true and complete copy of the title and text of the proposed modified expenditure limitation
4. The form in which the proposed modified expenditure limitation will appear on the ballot, the official title, the descriptive title prepared by the district board, and the number by which the modified expenditure limitation will be designated
5. A summary of estimated total budgeted expenditures under the proposed modified expenditure limitation for each fiscal year subject to the modified expenditure limitation
6. A summary of estimated total budgeted expenditures under the state-imposed expenditure limitation, considering constitutionally allowed exclusions, for each fiscal year subject to the modified expenditure limitation

7. A summary of estimated revenue from all sources from which any expenditure limitation shall be funded
8. A statement that if the proposed modified expenditure limitation is not approved by a majority of the qualified voters, the state-imposed expenditure limitation will apply to the community college district
9. Arguments for and against the proposed modified expenditure limitation, or an indication that no arguments for/against were received

One copy of the publicity pamphlet must be mailed to each household containing a registered voter before the earliest date that registered voters can receive early ballots. If pamphlets are not mailed by that date, voters must be provided a notice with early ballots that states when the pamphlets will be mailed and when and where pamphlets may be accessed or viewed. Pamphlets must be mailed not less than 10 days before the election.

Official Ballot

The ballot must be in the form prescribed by **A.R.S. §19-125**, unless more than one modified expenditure limitation is to be voted upon. In that case, the ballot must be in a format that enables voters to vote separately on each proposed modified expenditure limitation. The official ballot must include the following information:

1. The official title and number of the proposed modified expenditure limitation
2. A statement that the proposed modified expenditure limitation is being referred by the district board
3. A descriptive title not to exceed 50 words that includes a summary of the principal provisions of the modified expenditure limitation, which shall be prepared by the district board

A copy of the election results should be provided to the Auditor General and Economic Estimates Commission as soon as the official canvass is completed.

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GENERAL INFORMATION

Arizona Revised Statutes (A.R.S.) §41-1279.07 requires counties to prepare an Annual Expenditure Limitation Report (AELR). In addition, annual financial statements must be prepared in accordance with generally accepted accounting principles (GAAP). On the AELR, total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported in the fund financial statements, less expenditures/expenses/deductions made with constitutionally excludable revenues, is compared for compliance with the expenditure limitation.

Both the AELR and the financial statements must be filed with the Auditor General within 9 months after the close of each fiscal year.

The Auditor General, another certified public accountant, or a public accountant must render an opinion on whether the AELR presents, in all material respects, the information prescribed by the *Uniform Expenditure Reporting System* (UERS). Accountants should follow the American Institute of Certified Public Accountants' Statements on Standards for Attestation Engagements (SSAE) when examining and reporting on the AELR. The general, fieldwork, and reporting standards that must be followed are in SSAE AT §101. A sample of an independent accountants' report containing an unqualified opinion is provided on page **VI-16**. If the accountant concludes that an unqualified opinion on the AELR cannot be expressed, the accountant should disclose all the substantive reasons for the conclusion in an explanatory paragraph in the accountants' report.

Further, the Auditor General, another certified public accountant, or a public accountant must render an opinion on whether the basic financial statements present fairly, in all material respects, the financial position and results of operations in conformity with GAAP.

Counties should refer to the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* for authoritative accounting and financial reporting guidance. In addition, use the American Institute of Certified Public Accountants' Audit and Accounting Guide, *State and Local Governments*, as a source for illustrations of the accounting and reporting requirements set forth in the GASB Codification.

The Office of the Auditor General issues **reporting guidelines** for financial statements and notes for counties annually. For further information on preparing financial statements, counties should refer to the **Uniform Accounting Manual for Arizona Counties (UAMAC)** published by the Office of the Auditor General. Manuals and reporting guidelines are available on the Auditor General's Web site.

A.R.S. §41-1279.07 also requires counties to provide to the Auditor General by July 31 of each fiscal year the name of the chief fiscal officer (CFO) the board of supervisors designated to submit the AELR and certify its accuracy for that fiscal year. A CFO designation form is available on the Auditor General's Web site. A new notice does not need to be filed if the previously designated CFO has not changed. However, immediately report any replacement of the designated individual to the Auditor General.

Detailed instructions for preparing the AELR are contained on pages **VI-2 through VI-15,** and sample forms are provided on pages **VI-17 through VI-19.** In addition, fillable forms and notes are available in the **county reporting guidelines** on the Auditor General's Web site.

AELR—RECONCILIATION

Expenditures, expenses, and deductions are reported in annual financial statements in accordance with GAAP. However, what is considered an expenditure in the financial statements in accordance with GAAP is not always subject to the expenditure limitation under the basis of accounting prescribed by the UERS, and vice versa. Therefore, a **Reconciliation** must be prepared to arrive at the amounts to be reported on the **AELR—Part II**. A copy of the form is provided on page **VI-19**.

Detailed instructions for preparing the Reconciliation are as follows:

Step 1. Enter the name of the county and the report's fiscal year.

Step 2. On **line A**, enter total expenditures, expenses (operating and nonoperating), and deductions reported within the fund financial statements for the fund categories/types listed. Also, include other financing uses, special items, and extraordinary items that represent an outlay of cash for each fund category/type. **(Note: transfers should not be included on line A.)** Obtain these amounts from the following sources:

- Governmental Funds—from the Statement of Revenues, Expenditures, and Changes in Fund Balances.
- Enterprise Funds—from the Enterprise Funds columns on the Statement of Revenues, Expenses, and Changes in Fund Net Position.
- Internal Service Funds—from the Internal Service Funds column on the Statement of Revenues, Expenses, and Changes in Fund Net Position.
- Fiduciary Funds—from the Statement of Changes in Fiduciary Net Position.

Agency funds are not listed as a fund type on the **Reconciliation** or **Part II**, because they are used to report resources held in a purely custodial capacity. They account for assets belonging to other governments, individuals, or private organizations and do not involve the measurement of additions or deductions.

Add fund category/type totals on **line A** to calculate total expenditures/expenses/deductions.

Step 3. Calculate total subtractions from expenditures/expenses/deductions reported within the fund financial statements. Subtractions are items included on **line A** in accordance with GAAP that are not subject to the expenditure limitation.

Line B.1 For enterprise, internal service, and fiduciary funds only, enter the amount of expenses/deductions that do not involve the use of current financial resources. Expenses that may be subtracted include the following:

- Depreciation expense and the loss on disposal of capital assets—The full cost of assets are subject to the expenditure limitation in the year assets are purchased. Therefore, the yearly depreciation expense and any loss reported upon disposal of the assets are not subject to the expenditure limitation and should be subtracted.

- Bad debt expense—This represents revenues the county won't receive, rather than an actual outlay of cash.
- Pension Expense—This represents the estimated pension expense reported in the current year.
- The estimated cost of other postemployment benefits (OPEB) recognized in the current period in excess of cash outlays, claims incurred but not reported (IBNR), and landfill closure and postclosure care costs—These items are related to the accrual of estimated future costs. They are not subject to the expenditure limitation until the cash outlay is made. There are two methods for calculating the subtraction for these items related to estimated future costs:
  - Subtract the liability's increase, or
  - Subtract the liability's ending balance.

  Whichever method is selected for reporting these subtractions for estimated future costs will affect how the related additions are calculated to report the correct net effect. See **line C.3**.

None of the subtractions described above apply to the Governmental Funds because those funds are reported using the modified accrual basis of accounting. Therefore, these expense types were not included in the total expenditures on **line A** for the Governmental Funds and do not need to be subtracted.

Line B.2 Enter expenditures of separate legal entities established under Arizona Revised Statutes (e.g., special assessment districts that were not included in the base limit and municipal property corporations included within the reporting entity). If a separate legal entity and the reporting entity co-fund a project, only the revenues the separate legal entity contributes should be subtracted here. Expenditures of a county jail district or public health services district in excess of the county's maintenance of effort payments pursuant to **A.R.S. §§48-4024** and **48-5802**, respectively, may also be subtracted.

Accommodation schools operated by the County School Superintendent (CSS) are part of the legal entity of the county in which they operate. Therefore, expenditures/expenses for these schools should not be subtracted here; however, they may be excluded on **Part II, line B.12**.

Line B.3 Enter the distribution of taxes levied by the county specifically for fire districts in accordance with **A.R.S. §48-807**.

Line B.4 Enter community college reimbursement payments the State made on the county's behalf. These payments are required by **A.R.S. §15-1469.01** for those counties that are not part of an established community college district, and are paid to districts that admit pupils from those counties. The Joint Legislative Budget Committee calculates the payment amount as described in statute. The State Treasurer reduces the county's sales tax distribution and pays the amount to the district. These amounts may be subtracted only if the county reported revenues and offsetting expenditures in the fund financial statements.

Line B.5 Enter long-term care contributions paid from transaction privilege taxes withheld by the State Treasurer for payment to the Arizona Long-Term Care System. Counties' base limits have been adjusted for this required payment. Therefore, a subtraction is provided on the Reconciliation to remove current expenditures from the amounts subject to the expenditure limitation. These amounts may only be subtracted if the county reported revenues and offsetting expenditures in the fund financial statements.

Line B.6 Enter the amount of the fees/reimbursements required by law to be paid to Arizona state agencies, including:

- Reimbursements made to the Arizona Department of Health Services for part of the cost of the commitment of an individual the court determined to be sexually violent and the entire cost of inpatient competency restoration treatment. This subtraction is currently effective through fiscal year 2016; however, future laws may extend this date.
- The committed youth confinement cost-sharing fee paid to the Arizona Department of Corrections pursuant to **A.R.S. §41-2832**.
- The fees the Arizona Department of Revenue assessed and collected pursuant to **A.R.S. §42-5041** to recover a portion of administrative, program, and other operating costs the Department incurred in providing administrative and collection services to local governments.

Line B.7 For governmental funds only, enter the present value of net minimum capital lease and installment purchase contract payments recorded as expenditures at the agreements' inception.

This subtraction is available only in the year in which the county enters into a new lease agreement for a capital item (such as a vehicle) and if the county reports the present value of the lease payments as an expenditure and other financing source in the fund financial statements.

If the county received monies it could spend for assets to be covered by the lease, this subtraction does not apply to the expenditure of those monies. Those expenditures may be excluded on **Part II, Line B.1** as proceeds from other long-term obligations.

Line B.8 Enter the amount of involuntary court judgments or involuntary settlements. If an expenditure is involuntary because it is a court judgment or settlement arising from a tortious act, it is not subject to the expenditure limitation and may be subtracted on the Reconciliation. However, court judgments or settlements arising from a contract are voluntary and, as such, are subject to the expenditure limitation and should not be subtracted. See Attorney General Opinion I86-031 for further information.

Line B.9 Calculate total subtractions for each fund category/type by adding **lines B.1 through B.8**. Add fund category/type totals calculated on **line B.9** to arrive at total subtractions.

Step 4. Calculate total additions to expenditures/expenses/deductions reported within the fund financial statements. Additions are items that required the use of financial resources but were not recorded as expenses/deductions in the fund financial statements prepared in accordance with GAAP. **Lines C.1 through C.4** apply only to enterprise, internal service, and fiduciary funds.

Line C.1 Enter principal payments on long-term debt. Payment of debt principal is recorded as a reduction of the liability rather than as an expense in the current year for funds that use full-accrual accounting. It must be added to total expenses as it represents an outlay of cash.

Line C.2 Enter amounts paid for the acquisition of capital assets. Capital acquisitions are recorded as assets in funds that use full-accrual accounting, rather than being fully expensed when purchased, like they are in the Governmental Funds. Therefore, the cost of the asset must be added to total expenses. Do not include assets acquired in noncash transactions, such as through a grant, trade, or donation.

Lines C.3 Enter the amount of cash outlays that were made in the current year but reported as expenses in previous years for OPEB, claims previously recognized as IBNR, and landfill closure and post-closure care costs.

These additions relate to subtractions reported in prior years for estimated future costs. When the actual cash outlay occurs it is recorded as a reduction of liabilities rather than as an expense. Cash outlays must be added to total expenses to the extent that they were recorded as expenses in previous years. The method that was used for calculating the related subtraction on **line B.1** will determine the addition amount, if any:

- If the liability's increase was subtracted on **line B.1**, then add any decrease in the liability.
- If the liability's ending balance was subtracted on **line B.1**, then add the liability's beginning balance.

Whichever method is used should result in the same net effect as long as it is used consistently for both the subtraction and addition.

Line C.4 Enter the amount of employer pension contributions made in the current year.

Line C.5 Calculate total additions for each fund category/type by adding **lines C.1 through C.4**. Add fund category/type totals calculated on **line C.5** to arrive at total additions.

Step 5. On **line D**, calculate the amounts to be reported on **Part II, line A,** by subtracting the amount on **line B.9** from the amount on **line A** and adding the amount on **line C.5**.

Include a note to the AELR for each subtraction or addition that cannot be agreed directly to an amount recorded in the fund financial statements. Each note must be in sufficient detail to properly disclose the nature of the subtraction or addition and reconcile the differences between the fund financial statements and the AELR. Include reference to the note in the Description column of the Reconciliation. Examples of frequently used notes are provided in the **county reporting guidelines** on the Auditor General's Web site.

AELR—PART II

Arizona Constitution, Article IX, §20, limits the spending of local revenues only, and specifically identifies revenues that are not subject to a county's expenditure limitation. **AELR—Part II** calculates total expenditures/expenses reported within the fund financial statements that were made from nonlocal revenues (exclusions), to arrive at the total amount subject to the expenditure limitation to be reported on the **AELR—Part I**. A copy of the form is provided on page **VI-18**.

Detailed instructions for preparing **Part II** are as follows:

Step 1. Enter the name of the county and the fiscal year of the report.

Step 2. On **line A**, enter the amount for each fund category/type and the total for all funds from the **Reconciliation, line D**.

Step 3. Calculate total exclusions.

Lines B.1 through B.12 list constitutional exclusions that may be taken. **Line B.13** lists an exclusion that may be taken as a result of an Attorney General opinion. Explanations and examples of the exclusions follow.

Line B.1 "Any amounts or property received from the issuance or incurrence of bonds or other lawful long-term obligations issued or incurred for a specific purpose, or collected or segregated to make payments or deposits required by a contract concerning such bonds or obligations. For the purpose of this subdivision long-term obligations shall not include warrants issued in the ordinary course of operation or registered for payment, by a political subdivision."

Bond proceeds—Exclude expenditures/expenses made from amounts received from the issuance of bonds (e.g., general obligation or revenue bonds), including payments to registrars and paying agents. Proceeds from bonds of special assessment districts may be excluded if expenditures from these proceeds have not already been subtracted on the Reconciliation. (See **Reconciliation, line B.2**.)

Debt service requirements on bonded indebtedness—Exclude expenditures/ expenses made to pay principal and interest on outstanding bonds. Amounts paid into sinking funds that are expenditures/expenses of the reporting fiscal year may also be excluded.

Proceeds from other long-term obligations—Exclude expenditures/expenses made from amounts received from the issuance of lawful long-term obligations including payments to registrars and paying agents. The long-term obligation must have a maturity date of more than 1 year and must be incurred for a specific purpose.

Exclude expenditures/expenses from proceeds of certificates of participation (COPs) issued in the county's name. See **Reconciliation, line B.2,** for treatment of expenditures/expenses from COP proceeds issued by a municipal property corporation included in the county reporting entity.

Debt service requirements on other long-term obligations—Exclude expenditures/expenses made for principal and interest on other long-term obligations (e.g., capital lease agreements, installment purchase agreements, and COPs).

There are four lines provided for this exclusion because each of the categories described above should be reported separately.

Exclusions for debt service payments made from the Enterprise and Internal Service Funds will consist of principal paid on long-term debt reported on the Statement of Cash Flows and interest and fiscal charges reported on the Statement of Revenues, Expenses and Changes in Fund Net Position.

Payments made pursuant to contracts, including operating leases, are not excludable under long-term obligations because the county has not incurred a long-term liability.

Revenues from the sale of capital assets purchased with the proceeds from bonds or other long-term obligations are not excludable revenues because the original proceeds used to purchase the assets were excluded in the fiscal years the assets were purchased.

Line B.2 "Any amounts or property received as payment of dividends or interest, or any gain on the sale or redemption of investment securities, the purchase of which is authorized by law."

Exclude expenditures/expenses made from amounts received as interest from investments or delinquent taxes, dividends, and gains on sales or redemptions of investment securities.

Line B.3 "Any amounts or property received by a political subdivision in the capacity of trustee, custodian or agent."

Expenditures/expenses/deductions made from amounts received in any fund in which the revenues are held and expended by the county for the benefit of other entities may be excluded here [e.g., the Special Services Fund, as provided in **A.R.S. §31-131**; and amounts deposited in the County Anti-Racketeering Revolving Fund by other governmental entities pursuant to **A.R.S. §13-2314.03(C)**, as provided in Attorney General Opinion I91-013].

Expenditures of monies received from federal, state, and private sources in a custodial capacity for the operation of charter schools that **are** separate legal entities included within the reporting entity may be excluded here. (See **lines B.4**, **B.5**, and **B.10** for information on exclusions for charter schools that **are not** separate legal entities.)

Contributions made to the Arizona Health Care Cost Containment System (AHCCCS) pursuant to **A.R.S. §11-292(A) and (O)** (i.e., acute care and administrative costs) may also be excluded. Contributions made to AHCCCS for hospitalization and medical care under the uncompensated care program may be excluded through fiscal year 2016 (future laws may extend this date). Contributions to the Arizona Long-Term Care System (ALTCS) may not be excluded. However, contributions to ALTCS may be subtracted on the **Reconciliation, line B.5**.

Agency funds are custodial in nature and do not involve the measurement of additions or deductions. For this reason, agency funds are not reported in the Statement of Changes in Fiduciary Net Position, and disbursements from agency funds are not excludable.

Line B.4 "Any amounts received as grants and aid of any type received from the federal government or any of its agencies."

Exclude expenditures/expenses made from amounts received as grants, cooperative agreements, entitlements, contracts, payments in lieu of taxes, or asset-sharing from the federal government [e.g., expenditures from reimbursements received from Medicare].

In addition to being consistent with what is reported in the audited financial statements, exclusions of federal grants expended, should also be consistent with amounts reported in the Schedule of Expenditures of Federal Awards (SEFA). The county should report federal grant expenditures in the AELR in the same period they are reported on the SEFA. Although federal money is most often paid on a reimbursement basis, the reimbursement is dependent on having spent revenues in accordance with a federal program. Therefore, the money that is spent contingent on federal grant monies being received is a federal expenditure, which is disclosed on the SEFA. Money that is received in advance of the expenditure and spent in a subsequent year should be excluded as prior years' carryforward. However, not all expenditures of federal awards are required to be included in the SEFA, such as revenues from contracts where the county is providing services to the federal government. These amounts would be included as intergovernmental revenues on the county's financial statements and can also be excluded when expended.

Expenditures from federal revenues for the operation of charter schools that **are not** separate legal entities are excludable here. (See **line B.3** for the exclusion for charter schools that **are** separate legal entities.)

Line B.5 "Any amounts received as grants, aid, contributions or gifts of any type except amounts received directly or indirectly in lieu of taxes received directly or indirectly from any private agency or organization or any individual."

Expenditures/expenses made from amounts received as grants, aid, contributions, donations, or gifts from private donors may be excluded. Amounts received in lieu of taxes are not excludable.

Expenditures from private donations or gifts for the operation of charter schools that **are not** separate legal entities are also excludable here. (See **line B.3** for the exclusion for charter schools that **are** separate legal entities.)

Line B.6 "Any amounts received from the state which are included within the appropriation limitation prescribed in §17 of this article."

Generally, the county may exclude expenditures/expenses made from any amounts received from the State or collected by or for the State and shared with the county that were restricted as to the purpose for which they may be expended [e.g., expenditures/expenses of restricted state grants; expenditures of Judicial Collection Enhancement Fund monies received from the State Treasurer pursuant to **A.R.S. §12-113**; expenditures of Criminal Justice Enhancement Fund monies received from the Department of Corrections for the enhancements of jail facilities and operations pursuant to **A.R.S. §41-2401(D)(9)**; expenditures of Juvenile Crime Reduction Fund monies received from the Arizona Supreme Court pursuant to Administrative Order No. 97-58; expenditures of State Aid to Detention Fund monies received from the Arizona Supreme Court pursuant to **A.R.S. §41-2417**; expenditures of the portion of motor vehicle registration fees deposited in the County Assessors Special Registration Fund pursuant to **A.R.S. §28-2005**; expenditures of the portion of vehicle license tax monies received from the State Treasurer pursuant to **A.R.S. §28-5808(A)(2)(b)**; expenditures of hotel excise taxes pursuant to **A.R.S. §42-6108**; expenditures of appropriations received from the Street Gang Enforcement Revolving Fund pursuant to **A.R.S. §41-191.07**; and expenditures of appropriations received from the State General Fund for juvenile detention center and county jail education programs operated through county education funds pursuant to **A.R.S. §§15-913** and **15-913.01**.]

Exclusions should not include expenditures from monies received from the State or collected by or for the State and shared with the county that do not have restricted uses [e.g., liquor license fees, state transaction privilege tax (sales tax), severance tax, the portion of motor vehicle license tax deposited in the county general fund pursuant to **A.R.S. §28-5808(A)(2)(a)**, and the portion of the time payment fee retained by the local court pursuant to **A.R.S. §12-116**].

Revenues from the Highway User Revenue Fund are not included in the definition of amounts received from the State, as provided in **Arizona Constitution, Article IX, §17**. However, **Arizona Constitution, Article IX, §20,**

subsection 3(d)(ix), provides an exclusion for expenditures of highway user revenues. See **line B.9** for instructions concerning this exclusion.

Line B.7 "Any amounts received pursuant to a transfer during a fiscal year from another agency, department, office, board, commission, authority, council or institution of the same political subdivision which were included as local revenues for such fiscal year or which are excluded from local revenue under other provisions of this section."

Exclude expenditures/expenses made from revenues received because of quasi-external interfund transactions recorded in the fund financial statements, including internal service fund transactions. Quasi-external interfund transactions are transactions between county funds that are recorded as if the transaction was with an entity external to the county. [See Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, §1800, for further information on recording quasi-external interfund transactions.] This exclusion may be taken only in the fund in which the revenue is recorded, when the revenues are expended. An example of such a transaction is payments made from the enterprise fund to the general fund in lieu of taxes. Revenue is reported in the general fund to record the transaction, and an exclusion may be claimed in the governmental funds once those revenues are spent. Because the original payment transaction from the enterprise fund is recorded as an expenditure and subject to the county's expenditure limitation, the second transaction would be double-counting the expenditure of a single outside revenue source if it were not excluded.

Interfund transfers are not excludable because they do not represent county revenues and expenditures.

Line B.8 "Any amounts or property accumulated for the purpose of purchasing land, buildings or improvements or constructing buildings or improvements, if such accumulation and purpose have been approved by the voters of the political subdivision."

Exclude expenditures/expenses made from amounts accumulated if voter approval was obtained to accumulate the amounts and make the expenditures for the purposes listed. Expenditures of county transportation excise tax monies collected pursuant to **A.R.S. §§42-6105** or **42-6107** may be excludable here. Expenditures/expenses made from amounts accumulated with voter approval for other purposes, such as equipment or operating costs, are not excludable.

Revenues from the sale of capital assets purchased with amounts accumulated for such items are not excludable revenues, because the original amounts used to purchase the assets were excluded in the fiscal years the assets were purchased.

Line B.9 "Any amounts received pursuant to §14 of this article which are greater than the amount received in fiscal year 1979-1980."

Exclude expenditures from highway user revenues received in the reporting fiscal year in excess of amounts actually received in fiscal year 1980 (base year). Counties established after fiscal year 1980 do not have a base year limitation on the amount that may be excluded because their base year amount is $0.

The Office of the Auditor General's recorded webinar titled "**ELRs–Part II**" provides examples of how to calculate the highway user revenue exclusion and is available for viewing on the Auditor General's Web site.

Line B.10 "Any amounts received in return for goods or services pursuant to a contract with another political subdivision, school district, community college district or the state, and expended by the other political subdivision, school district, community college district or the state pursuant to the expenditure limitation in effect when the amounts are expended by the other political subdivision, school district, community college district or the state."

Exclude expenditures/expenses made from revenues received in return for goods or services pursuant to a contract with a county, city, town, school district, community college district, or the State conforming to general contract laws (e.g., expenditures from amounts received as a result of a contract between the county and the State for housing state prisoners; expenditures from reimbursements received as a result of a contract between the county and AHCCCS).

Expenditures from amounts received pursuant to a contract with the Arizona State Board of Education or the Arizona State Board for Charter Schools for the operation of charter schools that **are not** separate legal entities may also be excluded here. (See **line B.3** for exclusions for charter schools that **are** separate legal entities.)

Expenditures made from revenues received pursuant to contracts with the federal government should be excluded on **line B.4**.

This exclusion does not apply to payments the county makes to another political subdivision. In addition, special districts and Indian tribal governments are not included in the definition of "political subdivision" for the purpose of this exclusion [**Arizona Constitution, Article IX, §20(3)(e)**]. Therefore, expenditures made from revenues received pursuant to contracts with these governments are not excludable.

Line B.11 "Any amounts received during a fiscal year as refunds, reimbursements or other recoveries of amounts expended which were applied against the expenditure limitation for such fiscal year or which were excluded from local revenues under other provisions of this subsection."

If refunds, reimbursements, or other recoveries of revenues expended, regardless of the year received, are accounted for as revenues (e.g., recoveries for prosecution and investigation costs recorded as revenues in the County Anti-Racketeering

Revolving Fund, damage awards, and insurance reimbursements), the expenditures/expenses from them are excludable.

Refunds, reimbursements, or other recoveries of revenues expended that are received during the same fiscal year the related expenditures/expenses are made are generally accounted for as reductions of those expenditures/expenses, and not as revenues. Therefore, such receipts are not excludable.

When a county receives reimbursement revenues along with other revenues from a single source, the supporting documentation should clearly distinguish between each revenue type received. It is **not** appropriate to simply allocate a percentage of the total revenues received as “reimbursements.” For example, in the County Anti-Racketeering Revolving Fund, the county may receive revenues through a court order that include both reimbursements for prosecution and investigation costs and forfeiture revenues, which are not excludable according to Attorney General Opinion I91-013. Therefore, in order to claim this exclusion, documentation should clearly distinguish between reimbursement revenues and forfeiture revenues.

Development (impact) fees imposed on developments under **A.R.S. §11-1102** to offset the costs of providing a development with public services are **not** excludable.

Line B.12 “Any amounts received collected by the counties for distribution to school districts pursuant to state law.”

Exclude expenditures/expenses made from amounts received for accommodation schools the CSS operates. Also, exclude expenditures from amounts received for juvenile detention center and county jail education programs operated through existing accommodation schools. (See **line B.6** for the exclusion for juvenile detention center and county jail education programs operated through county education funds.)

Pursuant to **A.R.S. §15-994**, counties collect state equalization assistance property taxes for school districts. However, these amounts are not county revenues or expenditures and are not included in the amounts recorded on the **Reconciliation, line A**. Therefore, these amounts may not be excluded from the expenditure limitation.

Line B.13 Counties may exclude expenditures/expenses of prior years carryforward of constitutionally excludable revenues (exclusions explained on **lines B.1 through B.12**), as provided in Attorney General Opinion I88-017. Prior years carryforward is defined as constitutionally excludable revenues unexpended in the year recorded that are accumulated and eligible for exclusion when expended in subsequent fiscal years.

Specifically identify carryforward exclusions in the county’s accounting records by fund as to the nature of the exclusion, the amount of the carryforward, and the fiscal year in which the carryforward was generated. Carryforward revenues are not a generic pool of monies that may be excluded whenever and wherever needed. The revenues and expenditures of individual funds, rather than fund categories/types, need to be considered to accurately determine the amount of carryforward revenue spent in any year.

If the county accounts for both local and excludable revenues in a single fund, the county needs to determine which revenues were spent in which order during the year in order to calculate exclusion and carryforward amounts. There are two different flow assumption models that the county may use; one maximizes carryforwards accumulated by assuming the county expends its local revenues first, and the other maximizes exclusions claimed by assuming the county expends its excludable revenues first. The flow assumption used to calculate exclusions and carryforwards must agree with what is reported in the county's financial statements. The following examples illustrate the two methods:

Example 1

If **carryforwards** are maximized:

Total revenues received in the current fiscal year	$500,000
Local revenues received in the current fiscal year	(200,000)
Revenues available for exclusion in the current fiscal year	$300,000
Actual fund expenditures in the current fiscal year	$450,000
Local revenues expended in the current fiscal year	(200,000)
Excludable revenues expended in the current fiscal year	$250,000
Revenues available for exclusion in the current fiscal year	$300,000
Revenues expended and claimed as an exclusion in the current fiscal year	(250,000)
Unspent excludable revenue available for carryforward in future years	$ 50,000

Example 2

If **exclusions** are maximized:

Total revenues received in the current fiscal year	$500,000
Local revenues received in the current fiscal year	(200,000)
Revenues available for exclusion in the current fiscal year	$300,000
Actual fund expenditures in the current fiscal year	$450,000
Excludable revenues expended in the current fiscal year	(300,000)
Local revenues expended in the current fiscal year	$150,000
Revenues available for exclusion in the current fiscal year	$300,000
Revenues expended and claimed as an exclusion in the current fiscal year	(300,000)
Unspent excludable revenue available for carryforward in future years	$ 0

Local revenues received in the current fiscal year	$200,000
Local revenues expended in the current fiscal year	(150,000)
Unspent revenues in the fund **not** excludable in future years	$ 50,000

Line B.14 Calculate total exclusions claimed by adding **lines B.1 through B.13**. Add fund category/type totals to calculate total exclusions claimed.

Step 4. On **line C**, subtract the amount on **line B.14** from the amount recorded on **line A**. If the calculated amount is negative, reduce exclusions so the amount is zero or greater. Then add fund category/type totals to calculate the amount subject to the expenditure limitation to be reported on **Part I, line 2**.

Step 5. Include a note to the AELR for each exclusion that cannot be agreed directly to an amount recorded in the fund financial statements. Each note must be in sufficient detail to enable identification of the exclusion in the fund financial statements and verification of the amount excluded. Include reference to the notes in the Description column on **Part II**. Examples of several frequently used notes are provided in the **county reporting guidelines** on the Auditor General's Web site.

AELR—PART I

The **AELR—Part I** compares the expenditure limitation and the amount subject to the expenditure limitation to determine whether the county has exceeded the expenditure limitation. A copy of the form is provided on page **VI-17**.

Detailed instructions for preparing **Part I** are as follows:

Step 1. Enter the name of the county and the fiscal year of the report.

Step 2. Enter the amount of the Economic Estimates Commission expenditure limitation on **line 1**.

Step 3. On **line 2**, enter the amount subject to the expenditure limitation from **Part II, line C**.

Step 4. Determine the total adjusted amount subject to the expenditure limitation on **line 9** as follows:

Line 3 Enter the actual amount of expenditures/expenses made in the reporting fiscal year that were directly necessitated by a natural or manmade disaster declared by the Governor. The expenditures/expenses must be authorized by at least two-thirds of the members of the board of supervisors and made in the fiscal year the disaster was declared or the succeeding fiscal year, as required by **Arizona Constitution, Article IX, §20(2)(a)**. **(Attach supporting documentation.)**

Line 4 Enter the actual amount of expenditures/expenses made in the reporting fiscal year that were directly necessitated by a natural or manmade disaster not declared by the Governor. The expenditures/expenses must be authorized by at least 70 percent of the members of the board of supervisors as required by **Arizona Constitution, Article IX, §20(2)(b)**. If a majority of the qualified electors also approves the excess expenditures/expenses, this line may be used only in the fiscal year the disaster occurred or the succeeding fiscal year. **(Attach supporting documentation.)**

Line 5 Enter the actual amount of expenditures/expenses in excess of the expenditure limitation authorized by a one-time override in the prior fiscal year. The override must have been authorized by at least two-thirds of the members of the board of supervisors and approved by a majority of qualified voters, as required by **Arizona Constitution, Article IX, §20(2)(c)**. **(Attach supporting documentation.)**

Line 6 Enter the amount of expenditures made for capital improvements from utility revenues pursuant to **A.R.S. Title 9, Chapter 5, Article 3**, or from excise taxes the county levies for a specific purpose if those expenditures were or will be repaid from bond proceeds or other lawful long-term obligations before the Auditor General holds an overexpenditure hearing [**A.R.S. §41-1279.07(I)**]. Include a note to the AELR that documents the specific sources of revenue used for the original capital improvement expenditures, the type of debt that was/will be issued to repay the expenditures, the actual/anticipated issuance date of the debt, and the date the repayment was/will be made.

Line 7 Subtract **lines 3**, **4**, **5**, and **6** from **line 2**.

Line 8 Enter the amount of expenditures/expenses reported on **line 4** in the prior fiscal year that were not approved by a majority of the qualified voters, as required by **Arizona Constitution, Article IX, §20(2)(b)**. Total expenditures/expenses for the reporting fiscal year subject to the expenditure limitation must be increased by this amount. **(Attach supporting documentation.)**

Line 9 Add the amount on **line 8** to the amount on **line 7** to determine the adjusted amount subject to the expenditure limitation.

Step 5. Subtract the amount on **line 9** from the amount on **line 1** and record the difference on **line 10**. If the difference is a negative number, the county exceeded the expenditure limitation and should submit a supporting schedule explaining the reason for the excess. If the difference is a positive number or zero, the county did not exceed the expenditure limitation, and a supporting schedule is not necessary.

Step 6. Enter the chief fiscal officer's name, title, and telephone number. The chief fiscal officer should then sign and date the AELR to provide written certification that the AELR is accurate.

Independent Accountants' Report

The Auditor General of the State of Arizona

The Board of Supervisors
of ___________________ County, Arizona

We have examined the accompanying Annual Expenditure Limitation Report of ___________________ County for the year ended June 30, 20__. The County's management is responsible for this report. 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 and, accordingly, included examining, on a test basis, evidence supporting the amounts and disclosures in the report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Annual Expenditure Limitation Report referred to above presents, in all material respects, the information prescribed by the uniform expenditure reporting system as described in Note 1.

(Signature)

(Date)

________________ COUNTY

Annual Expenditure Limitation Report—Part I

Year Ended June 30, 20___

1.	Economic Estimates Commission expenditure limitation		$ ________
2.	Amount subject to the expenditure limitation (total amount from **Part II, Line C**)	$ ________	
3.	Board-authorized expenditures necessitated by a disaster declared by the Governor [**Arizona Constitution, Article IX, §20(2)(a)**]	- ________	
4.	Board-authorized expenditures necessitated by a disaster not declared by the Governor [**Arizona Constitution, Article IX, §20(2)(b)**]	- ________	
5.	Prior-year, voter-approved expenditures to exceed the expenditure limitation for the reporting fiscal year [**Arizona Constitution, Article IX, §20(2)(c)**]	- ________	
6.	Qualifying capital improvement expenditures repaid in accordance with **A.R.S. §41-1279.07(I)**	- ________	
7.	Subtotal	$ ________	
8.	Board-authorized excess expenditures for the previous fiscal year necessitated by a disaster not declared by the Governor and not approved by the voters [**Arizona Constitution, Article IX, §20(2)(b)**]	+ ________	
9.	Total adjusted amount subject to the expenditure limitation		$ ________
10.	Amount under (in excess of) the expenditure limitation **(If excess expenditures are reported, provide an explanation.)**		$ ________

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 Fiscal Officer: ____

Name and Title: ____

Telephone Number: _________________________ Date: __________________

See accompanying notes to report.

________________________ COUNTY
Annual Expenditure Limitation Report—Part II
Year Ended June 30, 20__

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
A. Amounts reported on the **Reconciliation, Line D**	$	$	$	$	$
B. Less exclusions claimed:					
1. Bond proceeds					
Debt service requirements on bonded indebtedness					
Proceeds from other long-term obligations					
Debt service requirements on other long-term obligations					
2. Dividends, interest, and gains on the sale or redemption of investment securities					
3. Trustee or custodian					
4. Grants and aid from the federal government					
5. Grants, aid, contributions, or gifts, from a private agency, organization, or individual, except amounts received in lieu of taxes					
6. Amounts received from the State of Arizona					
7. Quasi-external interfund transactions					
8. Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements					
9. Highway user revenues in excess of those received in fiscal year 1979-80					
10. Contracts with other political subdivisions					
11. Refunds, reimbursements, and other recoveries					
12. Amounts received for distribution to school districts					
13. Prior years carryforward					
14. Total exclusions claimed	$	$	$	$	$
C. Amounts subject to the expenditure limitation (**If an individual fund category/type amount is negative, reduce exclusions claimed to net to zero.)**	$	$	$	$	$

See accompanying notes to report.

______________________ COUNTY

Annual Expenditure Limitation Report—Reconciliation

Year Ended June 30, 20__

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	$	$	$	$	$
B. Subtractions:					
1. Items not requiring use of current financial resources:					
Depreciation					
Loss on disposal of capital assets					
Bad debt expense					
Claims incurred but not reported (IBNR)					
Other postemployment benefits expense (OPEB)					
Landfill closure and postclosure care costs					
Pension expense					
2. Expenditures of separate legal entities established under Arizona Revised Statutes (A.R.S.)					
3. Contributions to fire districts					
4. Community college reimbursement payments pursuant to A.R.S. §15-1469.01					
5. Long-term care contributions withheld by the State Treasurer					
6. Required fees/reimbursements made to Arizona state agencies					
7. Present value of net minimum capital lease and installment purchase contract payments recorded as expenditures at inception of the agreements					
8. Involuntary court judgments					
9. Total subtractions	$	$	$	$	$
C. Additions:					
1. Principal payments on long-term debt					
2. Acquisition of capital assets					
3. Amounts paid in the current year but reported as expenses in previous years:					
Claims previously recognized as IBNR					
OPEB					
Landfill closure and postclosure care costs					
4. Pension contributions					
5. Total additions	$	$	$	$	$
D. Amounts reported on **Part II, Line A**	$	$	$	$	$

See accompanying notes to report.

CONTENTS

GENERAL INFORMATION

Arizona Revised Statutes (A.R.S.) §41-1279.07 requires incorporated cities and towns to prepare an Annual Expenditure Limitation Report (AELR). In addition, financial statements must be prepared in accordance with generally accepted accounting principles (GAAP). On the AELR, total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported in the fund financial statements, less expenditures/expenses/deductions made with constitutionally excludable revenues is compared for compliance with the expenditure limitation.

In accordance with **A.R.S. §9-481**, cities are required to have financial statement audits performed annually. Towns subject to the *Single Audit Act Amendments of 1996* must also have financial statement audits performed annually. All other towns may have financial statement audits performed either annually or biennially, as specified in **A.R.S. §9-481**. These audits must be performed by a certified public accountant or a public accountant currently licensed by the Arizona State Board of Accountancy.

Cities and towns having annual audits are required to file with the Auditor General an AELR, an accountants' report on the AELR, and audited financial statements within 9 months after the close of each fiscal year. Towns having biennial audits are also required to file an AELR within 9 months after the close of each fiscal year, but are not required to file an accountants' report on the AELR or audited financial statements for the interim fiscal year. When the biennial audit is performed, accountants' reports on the AELRs of both fiscal years and the audited financial statements must be filed within 9 months after the close of the last fiscal year of the biennial audit.

The independent accountants' report on the AELR must express an opinion on whether the AELR presents, in all material respects, the information prescribed by the *Uniform Expenditure Reporting System* (UERS). Accountants should follow the American Institute of Certified Public Accountants' Statements on Standards for Attestation Engagements (SSAE) when examining and reporting on the AELR. The general, fieldwork, and reporting standards that must be followed are in SSAE AT §101. A sample of an independent accountants' report containing an unqualified opinion for cities or towns is provided on page **VII-14**. If the accountant concludes that an unqualified opinion on the AELR cannot be expressed, the accountant should disclose all the substantive reasons for the conclusion in an explanatory paragraph in the accountants' report.

The independent auditors' report on the financial statements must express an opinion on whether the basic financial statements present fairly, in all material respects, the financial position and results of operations in conformity with GAAP. The audit report must also include a determination as to whether Highway User Revenue Fund monies and any other dedicated state transportation revenues received by the city or town are being used solely for authorized transportation purposes.

Cities and towns should refer to the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* for authoritative accounting and financial reporting guidance. In addition, use the American Institute of Certified Public Accountants' Audit and Accounting Guide, *State and Local Governments,* as a source for illustrations of the accounting and reporting requirements set forth in the GASB Codification.

Examples of financial statements for cities and towns may be found in the GASB Codification.

A.R.S. §41-1279.07 also requires cities and towns to provide to the Auditor General by July 31 of each fiscal year the name of the chief fiscal officer (CFO) the governing board designated to submit the AELR and certify its accuracy for that fiscal year. A CFO designation form is available on the Auditor General's Web site. A new notice does not need to be filed if the previously designated CFO has not changed. However, immediately report any replacement of the designated individual to the Auditor General.

Detailed instructions for preparing the AELR are contained on pages **VII-2 through VII-13**, and sample forms are provided on pages **VII-15 through VII-17**. In addition, fillable forms and notes are available on the **cities and towns—forms** page of the Auditor General's Web site.

AELR—RECONCILIATION

Expenditures, expenses, and deductions are reported in financial statements in accordance with GAAP. However, what is considered an expenditure in the financial statements in accordance with GAAP is not always subject to the expenditure limitation under the basis of accounting prescribed by the UERS, and vice versa. Therefore, a **Reconciliation** must be prepared to arrive at the amounts to be reported on the **AELR—Part II**. A copy of the form is provided on page **VII-17**.

Detailed instructions for preparing the **Reconciliation** are as follows:

Step 1. Enter the name of the city or town and the report's fiscal year.

Step 2. On **line A**, enter total expenditures, expenses (operating and nonoperating), and deductions reported within the fund financial statements for the fund categories/types listed. Also, include other financing uses, special items, and extraordinary items that represent an outlay of cash for each fund category/type. **(Note: transfers should not be included on line A.)** Obtain these amounts from the following sources:

- Governmental Funds—from the Statement of Revenues, Expenditures, and Changes in Fund Balances.
- Enterprise Funds—from the Enterprise Funds columns on the Statement of Revenues, Expenses, and Changes in Fund Net Position.
- Internal Service Funds—from the Internal Service Funds column on the Statement of Revenues, Expenses, and Changes in Fund Net Position.
- Fiduciary Funds—from the Statement of Changes in Fiduciary Net Position.

Agency funds are not listed as a fund type on the **Reconciliation** or **Part II**, because they are used to report resources held by cities and towns in a purely custodial capacity. They account for assets belonging to other governments, individuals, or private organizations and do not involve the measurement of additions or deductions.

Add fund category/type totals on **line A** to calculate total expenditures/expenses/deductions.

Step 3. Calculate total subtractions from expenditures/expenses/deductions reported within the fund financial statements. Subtractions are items included on **line A** in accordance with GAAP that are not subject to the expenditure limitation.

Line B.1 For enterprise, internal service, and fiduciary funds only, enter the amount of expenses/deductions that do not involve the use of current financial resources. Expenses that may be subtracted include the following:

- Depreciation expense and the loss on disposal of capital assets—The full cost of assets are subject to the expenditure limitation in the year assets are purchased. Therefore, the yearly depreciation expense and any loss reported upon disposal of the assets are not subject to the expenditure limitation and should be subtracted.
- Bad debt expense—This represents revenues the city or town won't receive, rather than an actual outlay of cash.
- Pension Expense—This represents the estimated pension expense reported in the current year.
- The estimated cost of other postemployment benefits (OPEB) recognized in the current period in excess of cash outlays, claims incurred but not reported (IBNR), and landfill closure and postclosure care costs— These items are related to the accrual of estimated future costs. They are not subject to the expenditure limitation until the cash outlay is made. There are two methods for calculating the subtraction for these items related to estimated future costs:
    - Subtract the liability's increase, or
    - Subtract the liability's ending balance.

  Whichever method is selected for reporting these subtractions for estimated future costs will affect how the related additions are calculated to report the correct net effect. See **Line C.3**.

None of the subtractions described above apply to the Governmental Funds because those funds are reported using the modified accrual basis of accounting. Therefore, these expense types were not included in the total expenditures on **line A** for the Governmental Funds and do not need to be subtracted.

Line B.2 Enter expenditures of separate legal entities established under Arizona Revised Statutes (e.g., special assessment districts that were not included in the base limit, and municipal property corporations included within the reporting entity). If a separate legal entity and the reporting entity co-fund a project, only the revenues contributed by the separate legal entity should be subtracted here.

Line B.3 Enter the amount of the fees the Arizona Department of Revenue assessed and collected pursuant to **A.R.S. §42-5041** to recover a portion of administrative, program, and other operating costs the Department incurred in providing administrative and collection services to local governments.

Line B.4 For governmental funds only, enter the present value of net minimum capital lease and installment purchase contract payments recorded as expenditures at the agreements' inception.

This subtraction is only available in the year in which the city or town enters into a new lease agreement for a capital item (such as a vehicle) and if the city or town reports the present value of the lease payments as an expenditure and other financing source in the fund financial statements.

If the city or town received monies it could spend for assets to be covered by the lease, this subtraction does not apply to the expenditure of these monies. Those expenditures may be excluded on **Part II, line B.1** as proceeds from other long-term obligations.

Line B.5 Enter the amount of involuntary court judgments or involuntary settlements. If an expenditure is involuntary because it is a court judgment or settlement arising from a tortious act, it is not subject to the expenditure limitation and may be subtracted on the **Reconciliation**. However, court judgments or settlements arising from a contract are voluntary and, as such, are subject to the expenditure limitation and should not be subtracted. See Attorney General Opinion I86-031 for further information.

Line B.6 Calculate total subtractions for each fund category/type by adding **lines B.1 through B.5**. Add fund category/type totals calculated on **line B.6** to arrive at total subtractions.

Step 4. Calculate total additions to expenditures/expenses/deductions reported within the fund financial statements. Additions are items that required the use of financial resources but were not recorded as expenses/deductions in the fund financial statements prepared in accordance with GAAP. **Lines C.1 through C.4** apply only to enterprise, internal service, and fiduciary funds.

Line C.1 Enter principal payments on long-term debt. Payment of debt principal is recorded as a reduction of the liability rather than as an expense in the current year for funds that use full-accrual accounting. It must be added to total expenses as it represents an outlay of cash.

Line C.2 Enter amounts paid for the acquisition of capital assets. Capital acquisitions are recorded as assets in funds that use full-accrual accounting, rather than being fully expensed when purchased, like they are in the Governmental Funds. Therefore, the cost of the asset must be added to total expenses. Do not include assets acquired in noncash transactions, such as through a grant, trade, or donation.

Line C.3 Enter the amount of cash outlays that were made in the current year but reported as expenses in previous years for OPEB, claims previously recognized as IBNR, and landfill closure and post-closure care costs.

These additions relate to subtractions reported in prior years for estimated future costs. When the actual cash outlay occurs, it is recorded as a reduction of liabilities rather than as an expense. Cash outlays must be added to total expenses to the extent that they were recorded as expenses in previous years. The method that was used for calculating the related subtraction on **line B.1** will determine the related addition amount, if any:

- If the liabilities increase was subtracted on **line B.1**, then add any decrease in the liability.
- If the liabilities ending balance was subtracted on **line B.1**, then add the beginning balance of the liability.

Whichever method is used should result in the same net effect as long as it is used consistently for both the subtraction and addition.

Line C.4 Enter the amount of employer pension contributions made in the current year.

Line C.5 Calculate total additions for each fund category/type by adding **lines C.1 through C.4**. Add fund category/type totals calculated on **line C.5** to arrive at total additions.

Step 5. On **line D**, calculate the amounts to be reported on **Part II, line A**, by subtracting the amount on **line B.6** from the amount on **line A** and adding the amount on **line C.5**.

Include a note to the AELR for each subtraction or addition that cannot be agreed directly to an amount recorded in the fund financial statements. Each note must be in sufficient detail to properly disclose the nature of the subtraction or addition and reconcile the differences between the fund financial statements and the AELR. Include reference to the note in the Description column of the **Reconciliation**. Examples of frequently used notes are provided on the **cities and towns—forms** page of the Auditor General's Web site.

AELR—PART II

Arizona Constitution, Article IX, §20, limits the spending of local revenues only, and specifically identifies revenues that are not subject to a city's or town's expenditure limitation. **AELR—Part II** calculates total expenditures/expenses reported within the fund financial statements that were made from nonlocal revenues (exclusions), to arrive at the total amount subject to the expenditure limitation to be reported on the **AELR—Part I**. A copy of the form is provided on page **VII-16**.

Detailed instructions for preparing **Part II** are as follows:

Step 1. Enter the name of the city or town and the fiscal year of the report.

Step 2. On **line A**, enter the amount for each fund category/type and the total for all funds from the **Reconciliation, Line D**.

Step 3. Calculate total exclusions. Exclusions, including those listed in the Constitution, do not apply to cities and towns using a voter-approved alternative expenditure limitation unless the exclusions are specifically identified in the resolution and the publicity pamphlet.

Lines B.1 through B.11 list constitutional exclusions that may be taken. **Lines B.12** and **B.13** list exclusions that may be taken as a result of Attorney General opinions. Explanations and examples of the exclusions follow:

Line B.1 "Any amounts or property received from the issuance or incurrence of bonds or other lawful long-term obligations issued or incurred for a specific purpose, or collected or segregated to make payments or deposits required by a contract concerning such bonds or obligations. For the purpose of this subdivision, long-term obligations shall not include warrants issued in the ordinary course of operation or registered for payment by a political subdivision."

Bond proceeds—Exclude expenditures/expenses made from amounts received from the issuance of bonds (e.g., general obligation or revenue bonds), including payments to registrars and paying agents. Proceeds from bonds of special assessment districts may be excluded if expenditures from these proceeds have not already been subtracted on the Reconciliation. (See **Reconciliation, line B.2**.)

Debt service requirements on bonded indebtedness—Exclude expenditures/ expenses made to pay principal and interest on outstanding bonds. Amounts paid into sinking funds that are expenditures/expenses of the reporting fiscal year may also be excluded.

Proceeds from other long-term obligations—Exclude expenditures/expenses made from amounts received from the issuance of lawful long-term obligations, including payments to registrars and paying agents. The long-term obligation must have a maturity date of more than 1 year and must be incurred for a specific purpose.

Exclude expenditures/expenses from proceeds of certificates of participation (COPs) issued in the city's or town's name. See **Reconciliation, line B.2**, for treatment of expenditures/expenses from COP proceeds issued by a municipal property corporation included in the city or town reporting entity.

Debt service requirements on other long-term obligations—Exclude expenditures/expenses made for principal and interest on other long-term obligations (e.g., capital lease agreements, installment purchase agreements, and COPs).

There are four lines provided for this exclusion because each of the categories described above should be reported separately.

Exclusions for debt service payments made from the Enterprise and Internal Service Funds will consist of principal paid on long-term debt reported on the Statement of Cash Flows and interest and fiscal charges reported on the Statement of Revenues, Expenses and Changes in Fund Net Position.

Payments made pursuant to contracts, including operating leases, are not excludable under long-term obligations because the city or town has not incurred a long-term liability.

Revenues from the sale of capital assets purchased with the proceeds from bonds or other long-term obligations are not excludable revenues because the original proceeds used to purchase the assets were excluded in the fiscal years the assets were purchased.

Line B.2 "Any amounts or property received as payment of dividends or interest, or any gain on the sale or redemption of investment securities, the purchase of which is authorized by law."

Exclude expenditures/expenses made from amounts received as interest from investments, dividends, and gains on sales or redemptions of investment securities.

Line B.3 "Any amounts or property received by a political subdivision in the capacity of trustee, custodian or agent."

Expenditures/expenses/deductions made from amounts received in any fund in which the city or town holds and expends revenues for the benefit of other entities may be excluded here (e.g., the Fire Fighters' Relief and Pension Fund).

Agency funds are custodial in nature and do not involve the measurement of additions or deductions. For this reason, agency funds are not reported in the Statement of Changes in Fiduciary Net Position, and disbursements from agency funds are not excludable.

Line B.4 "Any amounts received as grants and aid of any type received from the federal government or any of its agencies."

Exclude expenditures/expenses made from amounts received as grants, cooperative agreements, entitlements, contracts, payments in lieu of taxes, or asset-sharing from the federal government.

In addition to being consistent with what is reported in the audited financial statements, exclusions for federal grants expended, should also be consistent with amounts reported in the Schedule of Expenditures of Federal Awards (SEFA). The city or town should report federal grant expenditures in the AELR in the same period they are reported on the SEFA. Although federal money is most often paid on a reimbursement basis, the reimbursement is dependent on having spent revenues in accordance with a federal program. Therefore, the money that is spent contingent on federal grant monies being received is a federal expenditure, which is disclosed on the SEFA. Money that is received in advance of the expenditure and spent in a subsequent year should be excluded as prior years' carryforward. However, not all expenditures of federal awards are required to be included in the SEFA, such as revenues from contracts where the city or town is providing services to the federal government. These amounts would be included as intergovernmental revenues on the city's or town's financial statements and can also be excluded when expended.

Line B.5 "Any amounts received as grants, aid, contributions or gifts of any type except amounts received directly or indirectly in lieu of taxes received directly or indirectly from any private agency or organization or any individual."

Expenditures/expenses made from amounts received as grants, aid, contributions, donations, or gifts from private donors may be excluded. Amounts received in lieu of taxes are not excludable.

Line B.6 "Any amounts received from the state which are included within the appropriation limitation prescribed in §17 of this article."

Generally, the city or town may exclude expenditures/expenses made from any amounts received from the State that were restricted as to the purpose for which they may be expended (e.g., expenditures of Judicial Collection Enhancement Fund monies received from the State Treasurer pursuant to **A.R.S. §12-113** and state grants).

Exclusions should not include expenditures from monies received from the State or collected by or for the State and shared with the city or town that do not have restricted uses [e.g., state transaction privilege tax (sales tax), state income tax deposited in the Urban Revenue Sharing Fund, motor vehicle license tax, and the portion of the time payment fee retained by the local court pursuant to **A.R.S. §12-116**].

Revenues from the Highway User Revenue Fund are not included in the definition of amounts received from the State, as provided in **Arizona Constitution, Article IX, §17**. However, **Arizona Constitution, Article IX, §20, subsection 3(d)(ix)**, provides an exclusion for expenditures of highway user revenues. See **line B.9** for instructions concerning this exclusion.

Line B.7 "Any amounts received pursuant to a transfer during a fiscal year from another agency, department, office, board, commission, authority, council or institution of the same political subdivision which were included as local revenues for such fiscal year or which are excluded from local revenue under other provisions of this section."

Exclude expenditures/expenses made from revenues received because of quasi-external interfund transactions recorded in the fund financial statements including internal service fund transactions. Quasi-external interfund transactions are transactions between city or town funds that are recorded as if the transaction was with an entity external to the city or town. [See Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, §1800, for further information on recording quasi-external interfund transactions.] This exclusion may be taken only in the fund in which the revenue is recorded, when the revenues are expended. An example of such a transaction is payments made from the general fund to the enterprise fund for water and sewer services. Revenue is reported in the enterprise fund to record the transaction, and an exclusion may be claimed in the enterprise fund, once those revenues are spent. Because the original payment transaction from the general fund is recorded as an expenditure and subject to the city's or town's expenditure limitation, the second transaction would be double-counting the expenditure of a single outside revenue source if it were not excluded.

Interfund transfers are not excludable because they do not represent city or town revenues and expenditures.

Line B.8 "Any amounts or property accumulated for the purpose of purchasing land, buildings or improvements or constructing buildings or improvements, if such accumulation and purpose have been approved by the voters of the political subdivision."

Exclude expenditures/expenses made from amounts accumulated if voter approval was obtained to accumulate the amounts and make the expenditures for the purposes listed. Expenditures of county transportation excise tax monies collected pursuant to **A.R.S. §§42-6106** or **42-6107** may be excludable here. Expenditures/expenses made from amounts accumulated with voter approval for other purposes, such as equipment or operating costs, are not excludable.

Revenues from the sale of capital assets purchased with amounts accumulated for such items are not excludable revenues, because the original amounts used to purchase the assets were excluded in the fiscal years the assets were purchased.

Line B.9 "Any amounts received pursuant to §14 of this article which are greater than the amount received in fiscal year 1979-80."

Exclude expenditures from highway user revenues received in the reporting fiscal year in excess of amounts actually received in fiscal year 1980 (base year). Cities and towns established after fiscal year 1980 do not have a base year limitation on the amount that may be excluded because their base year amount is $0.

The Office of the Auditor General's recorded webinar "**ELRs–Part II**" provides examples of how to calculate the highway user revenue exclusion and is available for viewing on the Auditor General's Web site.

Line B.10 "Any amounts received in return for goods or services pursuant to a contract with another political subdivision, school district, community college district or the state, and expended by the other political subdivision, school district, community college district or the state pursuant to the expenditure limitation in effect when the amounts are expended by the other political subdivision, school district, community college district or the state."

Exclude expenditures/expenses made from revenues received in return for goods or services pursuant to a contract with a county, city, town, school district, community college district, or the State conforming to general contract laws.

Exclude expenditures made from revenues received pursuant to contracts with the federal government on **line B.4**.

This exclusion does not apply to payments the city or town makes to another political subdivision. In addition, special districts and Indian tribal governments are not included in the definition of "political subdivision" for the purpose of this exclusion [**Arizona Constitution, Article IX, §20(3)(e)**]. Therefore, expenditures made from revenues received pursuant to contracts with these governments are not excludable.

Line B.11 "Any amounts received during a fiscal year as refunds, reimbursements, or other recoveries of amounts expended which were applied against the expenditure limitation for such fiscal year or which were excluded from local revenues under other provisions of this subsection."

If refunds, reimbursements, or other recoveries of revenues expended, regardless of the year received, are accounted for as revenues (e.g., damage awards and insurance reimbursements), the expenditures/expenses from them are excludable.

Refunds, reimbursements, or other recoveries of revenues expended that are received during the same fiscal year the related expenditures/expenses are made are generally accounted for as reductions of those expenditures/expenses, and not as revenues. Therefore, such receipts are not excludable.

Development (impact) fees imposed on developments under **A.R.S. §9-463.05** to offset the costs of providing a development with public services are **not** excludable.

Line B.12 Cities and towns under an alternative expenditure limitation may exclude expenditures of excludable revenues specifically identified in the resolution and the publicity pamphlet placed before the voters, as provided in Attorney General Opinion I88-045.

Take voter-approved exclusions that are the same as constitutional exclusions on **lines B.1 through B.11**, as appropriate. Use **Line B.12** for exclusions that are different from those exclusions provided in the Constitution (e.g., exclusions for sanitation and refuse, elections, new services, or newly mandated services).

Line B.13 Cities and towns may exclude expenditures/expenses of prior years carryforward of excludable revenues (exclusions explained on **lines B.1 through B.12**), as provided in Attorney General Opinion I88-017. Prior years carryforward is defined as excludable revenues unexpended in the year recorded that are accumulated and eligible for exclusion when expended in subsequent fiscal years.

Specifically identify carryforward exclusions in the city's or town's accounting records by fund as to the nature of the exclusion, the amount of the carryforward, and the fiscal year in which the carryforward was generated. Carryforward revenues are not a generic pool of monies that may be excluded whenever and wherever needed. The revenues and expenditures of individual funds, rather than fund categories/types, need to be considered to accurately determine the amount of carryforward revenue spent in any year.

If the city or town accounts for both local and excludable revenues in a single fund, the city or town needs to determine which revenues were spent in which order during the year in order to calculate exclusion and carryforward amounts. There are two different flow assumption models that the city or town may use; one maximizes carryforwards accumulated by assuming the city or town expends its local revenues first, and the other maximizes exclusions claimed by assuming the city or town expends its excludable revenues first. The flow assumption used to calculate exclusions and carryforwards must agree with what is reported in the city's or town's financial statements. The following examples illustrate the two methods:

Example 1

If **carryforwards** are maximized:

Total revenues received in the current fiscal year	$500,000
Local revenues received in the current fiscal year	(200,000)
Revenues available for exclusion in the current fiscal year	$300,000
Actual fund expenditures in the current fiscal year	$450,000
Local revenues expended in the current fiscal year	(200,000)
Excludable revenues expended in the current fiscal year	$250,000
Revenues available for exclusion in the current fiscal year	$300,000
Revenues expended and claimed as an exclusion in the current fiscal year	(250,000)
Unspent excludable revenue available for carryforward in future years	$ 50,000

Example 2

If **exclusions** are maximized:

Total revenues received in the current fiscal year	$500,000
Local revenues received in the current fiscal year	(200,000)
Revenues available for exclusion in the current fiscal year	$300,000
Actual fund expenditures in the current fiscal year	$450,000
Excludable revenues expended in the current fiscal year	(300,000)
Local revenues expended in the current fiscal year	$150,000
Revenues available for exclusion in the current fiscal year	$300,000
Revenues expended and claimed as an exclusion in the current fiscal year	(300,000)
Unspent excludable revenue available for carryforward in future years	$ 0
Local revenues received in the current fiscal year	$200,000
Local revenues expended in the current fiscal year	(150,000)
Unspent revenues in the fund **not** excludable in future years	$ 50,000

Line B.14 Calculate total exclusions claimed by adding **lines B.1 through B.13**. Add fund category/type totals to calculate total exclusions claimed.

Step 4. On **line C**, subtract the amount on **line B.14** from the amount recorded on **line A**. If the calculated amount is negative, reduce exclusions so the amount is zero or greater. Then add fund category/type totals to calculate the amount subject to the expenditure limitation to be reported on **Part I, line 4**.

Step 5. Include a note to the AELR for each exclusion that cannot be agreed directly to an amount recorded in the fund financial statements. Each note must be in sufficient detail to enable identification of the exclusion in the fund financial statements and verification of the amount excluded. Include reference to the note in the Description column on **Part II**. Examples of several frequently used notes are provided on the **cities and towns—forms** page of the Auditor General's Web site.

AELR—PART I

The **AELR—Part I** compares the expenditure limitation and the amount subject to the expenditure limitation to determine whether the city or town has exceeded the expenditure limitation. A copy of the form is provided on page **VII-15**.

Detailed instructions for preparing **Part I** are as follows:

Step 1. Enter the name of the city or town and the fiscal year of the report.

Step 2. Enter the amount of the Economic Estimates Commission expenditure limitation on **line 1**.

Step 3. Enter the voter-approved alternative expenditure limitation and the date approved, if applicable, on **line 2**. **(Attach supporting documentation, such as the ordinance or adopted budget, that indicates the amount of the alternative expenditure limitation for the reporting fiscal year.)**

Step 4. On **line 3**, enter the applicable expenditure limitation from **line 1** or **line 2**.

Step 5. On **line 4**, enter the amount subject to the expenditure limitation from **Part II, line C**.

Step 6. Determine the total adjusted amount subject to the expenditure limitation on **line 11** as follows:

Line 5 Enter the actual amount of expenditures/expenses made in the reporting fiscal year that were directly necessitated by a natural or manmade disaster declared by the Governor. The expenditures/expenses must be authorized by at least two-thirds of the members of the city or town council and made in the fiscal year the disaster was declared or the succeeding fiscal year, as required by **Arizona Constitution, Article IX, §20(2)(a)**. **(Attach supporting documentation.)**

Line 6 Enter the actual amount of expenditures/expenses made in the reporting fiscal year that were directly necessitated by a natural or manmade disaster not declared by the Governor. The expenditures/expenses must be authorized by at least 70 percent of the members of the city or town council as required by **Arizona Constitution, Article IX, §20(2)(b)**. If a majority of the qualified electors also approved the excess expenditures/expenses, this line may be used only in the fiscal year the disaster occurred or the succeeding fiscal year. **(Attach supporting documentation.)**

Line 7 Enter the actual amount of expenditures/expenses in excess of the expenditure limitation authorized by a one-time override in the prior fiscal year. The override must have been authorized by at least two-thirds of the members of the board of supervisors and approved by a majority of qualified voters, as required by **Arizona Constitution, Article IX, §20(2)(c)**. **(Attach supporting documentation.)**

Line 8 Enter the amount of expenditures made for capital improvements from utility revenues pursuant to **A.R.S. Title 9, Chapter 5, Article 3**, or from excise taxes the city or town levies for a specific purpose if those expenditures were or will be repaid from bond proceeds or other lawful long-term obligations before the Auditor General holds an overexpenditure hearing [**A.R.S. §41-1279.07(I)**]. Include a note to the AELR that documents the specific sources of revenue used for the original capital improvement expenditures, the type of debt that was/will be issued to repay the expenditures, the actual/anticipated issuance date of the debt, and the date the repayment was/will be made.

Line 9 Subtract **lines 5**, **6**, **7**, and **8** from **line 4**.

Line 10 Enter the actual amount of expenditures/expenses entered on **line 4** in the prior fiscal year that were not approved by a majority of the qualified voters, as required by **Arizona Constitution, Article IX, §20(2)(b)**. Total expenditures/expenses for the reporting fiscal year subject to the expenditure limitation must be increased by this amount. **(Attach supporting documentation.)**

Line 11 Add the amount on **line 10** to the amount on **line 9** to determine the adjusted amount subject to the expenditure limitation.

Step 7. Subtract the amount on **line 11** from the amount on **line 3** and record the difference on **line 12**. If the difference is a negative number, the city or town exceeded the expenditure limitation and should submit a supporting schedule explaining the reason for the excess. If the difference is a positive number or zero, the city or town did not exceed the expenditure limitation and a supporting schedule is not necessary.

Step 8. Enter the chief fiscal officer's name, title, and telephone number. The chief fiscal officer should then sign and date the AELR to provide written certification that the AELR is accurate.

Independent Accountants' Report

The Auditor General of the State of Arizona

The Honorable Mayor and __________________ Council
of ___________, Arizona

We have examined the accompanying Annual Expenditure Limitation Report of ____________________ for the year ended June 30, 20___. The City's/Town's management is responsible for this report. 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 and, accordingly, included examining, on a test basis, evidence supporting the amounts and disclosures in the report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Annual Expenditure Limitation Report referred to above presents, in all material respects, the information prescribed by the uniform expenditure reporting system as described in Note 1.

(Signature)

(Date)

CITY/TOWN OF ____________________________

Annual Expenditure Limitation Report—Part I

Year Ended June 30, 20___

1. Economic Estimates Commission expenditure limitation		$ ________	
2. Voter-approved alternative expenditure limitation (Approved ____________________________)		________	
3. Enter applicable amount from **Line 1** or **Line 2**			$ ________
4. Amount subject to the expenditure limitation (total amount from **Part II, Line C**)		$ ________	
5. Board-authorized expenditures necessitated by a disaster declared by the Governor [**Arizona Constitution, Article IX, §20(2)(a)**]	-	________	
6. Board-authorized expenditures necessitated by a disaster not declared by the Governor [**Arizona Constitution, Article IX, §20(2)(b)**]	-	________	
7. Prior-year, voter-approved expenditures to exceed the expenditure limitation for the reporting fiscal year [**Arizona Constitution, Article IX, §20(2)(c)**]	-	________	
8. Qualifying capital improvement expenditures repaid in accordance with **A.R.S. §41-1279.07(I)**	-	________	
9. Subtotal		$ ________	
10. Board-authorized excess expenditures for the previous fiscal year necessitated by a disaster not declared by the Governor and not approved by the voters [**Arizona Constitution, Article IX, §20(2)(b)**]	+	________	
11. Total adjusted amount subject to the expenditure limitation			$ ________
12. Amount under (in excess of) the expenditure limitation **(If excess expenditures are reported, provide an explanation.)**			$ ________

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 Fiscal Officer: ____

Name and Title: ____

Telephone Number: ______________________________ Date: _______________________

See accompanying notes to report.

CITY/TOWN OF ______________________
Annual Expenditure Limitation Report—Part II
Year Ended June 30, 20____

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
A. Amounts reported on the **Reconciliation, Line D**	$	$	$	$	$
B. Less exclusions claimed:					
1. Bond proceeds					
Debt service requirements on bonded indebtedness					
Proceeds from other long-term obligations					
Debt service requirements on other long-term obligations					
2. Dividends, interest, and gains on the sale or redemption of investment securities					
3. Trustee or custodian					
4. Grants and aid from the federal government					
5. Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes					
6. Amounts received from the State of Arizona					
7. Quasi-external interfund transactions					
8. Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements					
9. Highway user revenues in excess of those received in fiscal year 1979-80					
10. Contracts with other political subdivisions					
11. Refunds, reimbursements, and other recoveries					
12. Voter-approved exclusions not identified above **(attach resolution)**					
13. Prior years carryforward					
14. Total exclusions claimed	$	$	$	$	$
C. Amounts subject to the expenditure limitation (**If an individual fund category/type amount is negative, reduce exclusions claimed to net to zero.)**	$	$	$	$	$

See accompanying notes to report.

CITY/TOWN OF ______________________
Annual Expenditure Limitation Report—Reconciliation
Year Ended June 30, 20__

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	$	$	$	$	$
B. Subtractions					
1. Items not requiring use of current financial resources:					
Depreciation					
Loss on disposal of capital assets					
Bad debt expense					
Other postemployment benefits expense (OPEB)					
Pension Expense					
Claims incurred but not reported (IBNR)					
Landfill closure and postclosure care costs					
2. Expenditures of separate legal entities established under Arizona Revised Statutes					
3. Required fees paid to the Arizona Department of Revenue					
4. Present value of net minimum capital lease and installment purchase contract payments recorded as expenditures at inception of the agreements					
5. Involuntary court judgments					
6. Total subtractions	$	$	$	$	$
C. Additions:					
1. Principal payments on long-term debt					
2. Acquisition of capital assets					
3. Amounts paid in the current year but reported as expenses in previous years:					
OPEB					
Claims previously recognized as IBNR					
Landfill closure and postclosure care costs					
4. Pension contributions					
5. Total additions	$	$	$	$	$
D. Amounts reported on **Part II, Line A**	$	$	$	$	$

See accompanying notes to report.

CONTENTS

GENERAL INFORMATION

Arizona Revised Statutes (A.R.S.) §41-1279.07 requires community college districts to prepare an Annual Budgeted Expenditure Limitation Report (ABELR). In addition, annual financial statements must be prepared in accordance with generally accepted accounting principles (GAAP). On the ABELR, total budgeted expenditures, less expenditures of constitutionally excludable revenues, is compared for compliance with the expenditure limitation.

The information reported in both the ABELR and the financial statements is derived from the same underlying accounting records. **A.R.S. §41-1279.07** requires the ABELR to present expenditures, exclusions, and amounts subject to the limitation by fund type because community college districts' budgets are prepared at that level. Conversely, community college districts' financial statements are presented in conformity with U.S. GAAP, which presents information for the district as a whole. Therefore, the formats of the ABELR and the financial statements differ.

A reconciliation of total expenditures reported within the annual financial statements to total expenditures stated within the ABELR is required by **A.R.S. §41-1279.07**. However, in addition to the difference noted above, the ABELR presents total budgeted expenditures and the annual financial statements present actual expenditures without budgeted information. Therefore, a reconciliation is not possible.

The ABELR and the financial statements must be filed with the Auditor General within 9 months after the close of each fiscal year.

The Auditor General, another certified public accountant, or a public accountant must render an opinion on whether the ABELR presents, in all material respects, the information prescribed by the *Uniform Expenditure Reporting System* (UERS). Accountants should follow the American Institute of Certified Public Accountants' Statements on Standards for Attestation Engagements (SSAE) when examining and reporting on the ABELR. The general, fieldwork, and reporting standards that must be followed are in SSAE AT §101. A sample of an independent accountants' report containing an unqualified opinion for community college districts is provided on page **VIII-11**. If the accountant concludes that an unqualified opinion cannot be expressed on the ABELR, the accountant should disclose all the substantive reasons for the conclusion in an explanatory paragraph in the accountants' report.

Further, the Auditor General, another certified public accountant, or a public accountant must render an opinion on whether the financial statements present fairly, in all material respects, the financial position and results of operations in conformity with GAAP.

Community college districts should refer to the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* for authoritative financial reporting guidance. Additionally, districts may refer to the **reporting guidelines** for financial statements issued annually by the Office of the Auditor General for assistance in preparing community college district financial statements. The reporting guidelines are available on the Auditor General's Web site.

A.R.S. §41-1279.07 also requires community college districts to provide to the Auditor General by July 31 of each fiscal year the name of the chief fiscal officer (CFO) the governing board designated to submit the ABELR and certify its accuracy for that fiscal year. A CFO designation form is available on the Auditor

General's Web site. A new notice does not need be filed if the previously designated CFO has not changed. However, immediately report any replacement of the designated individual to the Auditor General.

Detailed instructions for preparing the ABELR are contained on pages **VIII-2 through VIII-10**, and sample forms are provided on pages **VIII-12 and VIII-13**. In addition, fillable forms and notes are available in the **community college reporting guidelines** on the Auditor General's Web site.

ABELR—PART II

Arizona Constitution, Article IX, §21, limits the spending of local revenues only, and specifically identifies revenues that are not subject to a district's expenditure limitation. **ABELR—Part II** calculates total expenses reported within the financial statements made from non-local revenues (exclusions), to arrive at the total budgeted expenditures subject to the expenditure limitation to be reported on the **ABELR—Part I**. A copy of the form is provided on page **VIII-13**.

Detailed instructions for preparing **Part II** are as follows:

Step 1. Enter the name of the district and the fiscal year of the report.

Step 2. On **line A**, enter total budgeted expenditures from the final adopted budget for each fund type and the total for all funds from the district's final adopted budget for the reporting fiscal year.

Step 3. Calculate total exclusions.

Lines B.1 through B.12 list constitutional exclusions that may be taken. **Line B.13** lists an exclusion that may be taken as a result of an Attorney General opinion. Explanations and examples of the exclusions follow.

Line B.1 "Any amounts or property received from the issuance or incurrence of bonds or other lawful long-term obligations issued or incurred for a specific purpose, or any amounts or property collected or segregated to make payments or deposits required by a contract concerning such bonds or obligations. For the purpose of this subdivision long-term obligations shall not include warrants issued in the ordinary course of operation or registered for payment by a political subdivision."

Bond proceeds—Exclude expenditures made from amounts received from the issuance of bonds (e.g., general obligation or revenue bonds), including payments to registrars and paying agents.

Debt service requirements on bonded indebtedness—Exclude expenditures made to pay principal and interest on outstanding bonds. Amounts paid into sinking funds that are expenditures of the reporting fiscal year may also be excluded.

Proceeds from other long-term obligations—Exclude expenditures made from amounts received from the issuance of lawful long-term obligations (e.g., loans), including payments to registrars and paying agents. The long-term obligation must have a maturity date of more than 1 year and must be incurred for a specific purpose.

Exclude expenditures from proceeds of certificates of participation (COPs) issued in the district's name.

Debt service requirements on other long-term obligations—Exclude expenditures made for principal and interest on other long-term obligations (e.g., capital lease agreements, installment purchase agreements, and COPs).

There are four lines provided for this exclusion because each of the categories described above should be reported separately.

Payments made pursuant to contracts, including operating leases, are not excludable under long-term obligations because the district has not incurred a long-term liability.

Revenues from the sale of capital assets purchased with the proceeds from bonds or other long-term obligations are not excludable revenues because the original proceeds used to purchase the assets were excluded in the fiscal years the assets were purchased.

Line B.2 "Any amounts or property received as payment of dividends and interest, or any gain on the sale or redemption of investment securities, the purchase of which is authorized by law."

Exclude expenditures made from amounts received as interest from investments, dividends, and gains on sales or redemptions of investment securities.

Line B.3 "Any amounts or property received by a school or community college district in the capacity of trustee, custodian or agent."

Community college districts may receive monies from federal, state, and private sources in a custodial capacity for the operation of a charter school. Expenditures of such monies may be excluded here if the charter school expenditures are included in the district's adopted budget, and the charter school **is** a separate legal entity. (See **lines B.4**, **B.5**, and **B.9** for information on exclusions for charter schools that **are not** separate legal entities.)

Because Endowment and Similar Funds, Loan Funds, and Agency Funds are not included in the district's adopted budget, this exclusion does not apply to those funds.

Line B.4 "Any amounts received as grants and aid of any type received from the federal government or any of its agencies except school assistance in federally affected areas."

Exclude expenditures made from amounts received as grants, cooperative agreements, contracts, and student financial aid from the federal government, including indirect cost recoveries.

In addition to being consistent with what is reported in the audited financial statements, exclusions for federal grants expended, should also be consistent with amounts reported in the Schedule of Expenditures of Federal Awards (SEFA). The district should report federal grant expenditures in the ABELR in the same period they are reported on the SEFA. Although federal money is most often paid on a reimbursement basis, the reimbursement is dependent on having spent revenues in accordance with a federal program. Therefore, the money that is spent contingent on federal grant monies being received is a federal expenditure, which is disclosed on the SEFA. Money that is received in advance of the expenditure and spent in a subsequent year should be excluded as prior years' carryforward. However, not all expenditures of federal awards are required to be included in the SEFA, such as revenues from contracts where the district is providing services to the federal government. These amounts would be included as intergovernmental revenues on the district's financial statements and can also be excluded when expended.

Expenditures from federal revenues for the operation of charter schools that **are not** separate legal entities are excludable here. (See **line B.3** for the exclusion for charter schools that **are** separate legal entities.)

Line B.5 "Any amounts or property received as grants, gifts, aid or contributions of any type except amounts received directly or indirectly in lieu of taxes received directly or indirectly from any private agency or organization, or any individual."

Exclude expenditures made from amounts received as grants, aid, contributions, donations, or gifts from private donors, including indirect cost recoveries. Amounts received in lieu of taxes are not excludable.

Expenditures from private donations or gifts for the operation of charter schools that **are not** separate legal entities are also excludable here. (See **line B.3** for exclusion for charter schools that **are** separate legal entities.)

Line B.6 "Any amounts received from the state for the purpose of purchasing land, buildings or improvements or constructing buildings or improvements."

Exclude expenditures made from amounts received from the State, such as those prescribed in **A.R.S. §§15-1463** and **15-1464**, for the purpose of purchasing land, buildings or improvements, or constructing buildings or improvements. Amounts received from the State that are used for other purposes and operating state aid received by districts are not excludable.

Revenues from the sale of capital assets purchased with amounts accumulated for such items are not excludable revenues, because the original amounts used to purchase the assets were excluded in the fiscal years the assets were purchased.

Line B.7 "Any amounts received pursuant to a transfer during a fiscal year from another agency, department, office, board, commission, authority, council or institution of the same community college or school district which were included as local revenues for such fiscal year or which are excluded from local revenue under other provisions of this subsection."

Exclude expenditures made from revenues received because of intrainstitutional transactions. Intrainstitutional transactions are transactions between district funds that are recorded as if the transaction was with an entity external to the district. This exclusion may be taken only in the fund in which the revenue is recorded, when the revenues are expended. An example of such a transaction is the sale of supplies by an auxiliary enterprise to an institutional department. Revenue is reported in the auxiliary enterprise fund to record the transaction, and an exclusion may be claimed in that fund once those revenues are spent. Because the original payment transaction from the institutional department was recorded as an expenditure and subject to the district's expenditure limitation, the second transaction would be double-counting the expenditure of a single outside revenue source if it were not excluded.

Interfund transfers are not excludable because they do not represent district revenues and expenditures.

Line B.8 "Any amounts or property accumulated by a community college district for the purpose of purchasing land, buildings or improvements or constructing buildings or improvements."

Exclude expenditures made from amounts that were specifically authorized by the district governing board to be accumulated for the purpose of purchasing land, buildings or improvements, or constructing buildings or improvements. Expenditures made from amounts approved to be accumulated by the board for other purposes, such as equipment or operating costs, are not excludable.

Revenues from the sale of capital assets purchased with amounts accumulated for such items are not excludable revenues, because the original amounts used to purchase the assets were excluded in the fiscal years the assets were purchased.

Line B.9 "Any amounts received in return for goods or services pursuant to a contract with another political subdivision, school district, community college district or the state and expended by the other political subdivision, school district, community college district or the state pursuant to the expenditure limitation in effect when the amounts are expended by the other political subdivision, school district, community college district or the state."

Exclude expenditures made from revenues received in return for goods or services pursuant to a contract with a county, city, town, school district, community college district, or the State conforming to general contract laws (e.g., expenditures from amounts received as a result of a contract between the district and a city for use of the district's facilities).

Expenditures from amounts received from school districts in lieu of operating and capital outlay full-time student equivalency monies for students enrolled at the district through the Grand Canyon Diploma or competency-based college-ready educational pathways programs pursuant to **A.R.S. §§15-792.03** and **15-795.01**, respectively, may either be excluded here or subtracted from total expenditures subject to the expenditure limitation on **Part I, line 6**. Amounts received from charter schools may not be excluded here, but may be included on **Part I, line 6**.

Expenditures from amounts received pursuant to a contract with the Arizona State Board of Education or the Arizona State Board for Charter Schools for the operation of charter schools that **are not** separate legal entities may also be excluded here. (See **line B.3** for the exclusion for charter schools that **are** separate legal entities.)

Expenditures made from revenues received pursuant to contracts with the federal government should be excluded on **line B.4**.

This exclusion does not apply to payments the district makes to another political subdivision. In addition, special districts and Indian tribal governments are not included in the definition of "political subdivision" for the purpose of this exclusion [**Arizona Constitution, Article IX, §20(3)(e)**]. Therefore, expenditures made from revenues received pursuant to contracts with these governments are not excludable.

Line B.10 "Any amounts received as tuition or fees directly or indirectly from any public or private agency or organization or any individual."

Exclude expenditures made from revenues received for general, out-of-district, out-of-state, and foreign tuition as well as expenditures made from tuition received pursuant to contracts the district has entered into to provide instruction. Expenditures made from registration fees, course fees, and library fees are also excludable. Expenditures from receipts of auxiliary enterprise activities such as bookstores, cafeterias, dormitories, student unions, and athletics do not qualify as exclusions.

Tuition and fees revenue on the Statement of Revenues, Expenses, and Changes in Net Position is reported net of scholarship allowances. If a district also budgets for tuition and fees revenue net of scholarship allowances, the amount excluded should be based on expenditures of the net tuition and fees revenue. However, if a district does not budget for tuition and fees revenue net of scholarship allowances, the amount excluded should be based on the gross tuition and fees revenue.

Line B.11 "Any ad valorem taxes received pursuant to an election to exceed the limitation prescribed by §19 of this article or for the purposes of funding expenditures in excess of the expenditure limitations prescribed by subsection (7) of this section."

Exclude expenditures from secondary taxes received pursuant to an override election conducted to exceed the 2 percent levy limitation, as prescribed in **Arizona Constitution, Article IX, §19**. The override election must be held prior to the fiscal year of reporting. All primary property taxes are considered local revenue and are subject to the expenditure limit.

Line B.12 "Any amounts received during a fiscal year as refunds, reimbursements or other recoveries of amounts expended which were applied against the expenditure limitation for such fiscal year or which were excluded from local revenues under other provisions of this subsection."

If refunds, reimbursements, or other recoveries of revenues expended, regardless of the year received, are accounted for as revenues (e.g., damage awards and insurance reimbursements), the expenditures from them are excludable.

Refunds, reimbursements, or other recoveries of revenues expended that are received during the same fiscal year the related expenditures are made are generally accounted for as reductions of those expenditures, and not as revenues. Therefore, such receipts are not excludable.

This exclusion should not be used for indirect cost recoveries because these transactions should be excluded on either **line B.4** or **line B.5**.

Line B.13 Community college districts may exclude expenditures of prior years carryforward of constitutionally excludable revenues (exclusions explained on **lines B.1 through B.12**), as provided in Attorney General Opinion I88-017. Prior years carryforward is defined as constitutionally excludable revenues unexpended in the year recorded that are accumulated and eligible for exclusion when expended in subsequent fiscal years.

Specifically identify carryforward exclusions in the district's accounting records by fund as to the nature of the exclusion, the amount of the carryforward, and the fiscal year in which the carryforward was generated. Carryforward revenues are not a generic pool of monies that may be excluded whenever and wherever needed. The revenues and expenditures of individual funds, rather than fund types, need to be considered to accurately determine the amount of carryforward revenue spent in any year.

If the district accounts for both local and excludable revenues in a single fund, the district needs to determine which revenues were spent in which order during the year in order to calculate exclusion and carryforward amounts. There are two different flow assumption models that the district may use; one maximizes carryforwards accumulated by assuming the district expends its local revenues first, and the other maximizes exclusions claimed, by assuming the district expends its excludable revenues first. The flow assumption used to calculate exclusions and carryforwards must agree with what is reported in the district's financial statements. The following examples illustrate the two methods:

Example 1

If **carryforwards** are maximized:

Total revenues received in the current fiscal year	$500,000
Local revenues received in the current fiscal year	(200,000)
Revenues available for exclusion in the current fiscal year	$300,000
Actual fund expenditures in the current fiscal year	$450,000
Local revenues expended in the current fiscal year	(200,000)
Excludable revenues expended in the current fiscal year	$250,000
Revenues available for exclusion in the current fiscal year	$300,000
Revenues expended and claimed as an exclusion in the current fiscal year	(250,000)
Unspent excludable revenue available for carryforward in future years	$ 50,000

Example 2

If **exclusions** are maximized:

Total revenues received in the current fiscal year	$500,000
Local revenues received in the current fiscal year	(200,000)
Revenues available for exclusion in the current fiscal year	$300,000
Actual fund expenditures in the current fiscal year	$450,000
Excludable revenues expended in the current fiscal year	(300,000)
Local revenues expended in the current fiscal year	$150,000
Revenues available for exclusion in the current fiscal year	$300,000
Revenues expended and claimed as an exclusion in the current fiscal year	(300,000)
Unspent excludable revenue available for carryforward in future years	$ 0
Local revenues received in the current fiscal year	$200,000
Local revenues expended in the current fiscal year	(150,000)
Unspent revenues in the fund **not** excludable in future years	$ 50,000

Line B.14 Calculate total exclusions claimed by adding **lines B.1 through B.13**. Add fund type totals to calculate total exclusions claimed.

Step 4. On **line C**, subtract the amount on **line B.14** from the amount recorded on **line A**. If the calculated amount is negative, reduce exclusions so the amount is zero or greater. Then add fund type totals to calculate total budgeted expenditures subject to the expenditure limitation to be reported on **Part I, line 4**.

Step 5. Include a note to the ABELR for each exclusion amount reported in the Total column of **Part II** that cannot be agreed directly to an amount recorded in the annual financial statements. Each note must be in sufficient detail to enable identification of the exclusion in the financial statements and verification of the total amount excluded. Include reference to the notes in the Description column on **Part II**. Examples of several frequently used notes are provided in the **community college reporting guidelines** on the Auditor General's Web site.

ABELR—PART I

The **ABELR—Part I** compares the expenditure limitation and budgeted expenditures subject to the expenditure limitation to determine whether the district has exceeded the expenditure limitation. A copy of the form is provided on page **VIII-12**.

Detailed instructions for preparing **Part I** are as follows:

Step 1. Enter the name of the district and the fiscal year of the report.

Step 2. Enter the amount of the Economic Estimates Commission expenditure limitation on **line 1**.

Step 3. Enter the voter-approved modified expenditure limitation and the date approved, if applicable, on **line 2**. **(Attach supporting documentation that indicates the amount of the modified expenditure limitation for the reporting fiscal year.)**

Step 4. On **line 3**, enter the applicable expenditure limitation from **line 1** or **line 2**.

Step 5. On **line 4**, enter the total budgeted expenditures subject to the expenditure limitation from **Part II, line C**.

Step 6. Determine the total adjusted amount subject to the expenditure limitation on **line 7** as follows:

Line 5 Enter the actual amount of expenditures made in the reporting fiscal year from monies received by the community college district for its workforce development account pursuant to **A.R.S. §15-1472**. These monies are not local revenues, and therefore, expenditures of these monies are not subject to the expenditure limitation. See **A.R.S. §15-1472(F)** and Attorney General Opinion I01-015 for further information.

Line 6 Enter the actual amount of expenditures made in the reporting fiscal year from monies received from school districts and charter schools in lieu of operating and capital outlay full-time student equivalency monies for full-time students enrolled at the district through the Grand Canyon Diploma or competency-based college-ready educational pathways programs pursuant to **A.R.S. §§15-792.03** and **15-795.01**, respectively. Alternatively, amounts received from school districts may be excluded on **Part II, line B.9**.

Line 7 Subtract **lines 5** and **6** from **line 4**.

Step 7. Subtract the amount on **line 7** from the amount on **line 3** and record the difference on **line 8**. If the difference is a negative number, the district exceeded the expenditure limitation and should submit a supporting schedule explaining the reason for the excess. If the excess is due to the expenditure of revenues received from retail transactions of a bookstore operated by the district, the explanation should include the actual amount of such expenditures made in the reporting fiscal year. If the difference is a positive number or zero, the district did not exceed the expenditure limitation and a supporting schedule is not necessary.

Step 8. Enter the chief fiscal officer's name, title, and telephone number. The chief fiscal officer should then sign and date the ABELR to provide written certification that the ABELR is accurate.

Independent Accountants' Report

The Auditor General of the State of Arizona

The Governing Board
_________________ County Community College District

We have examined the accompanying Annual Budgeted Expenditure Limitation Report of __________________ County Community College District for the year ended June 30, 20______. The District's management is responsible for this report. 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 and, accordingly, included examining, on a test basis, evidence supporting the amounts and disclosures in the report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the Annual Budgeted Expenditure Limitation Report referred to above presents, in all material respects, the information prescribed by the uniform expenditure reporting system as described in Note 1.

(Signature)

(Date)

__________________________ COUNTY COMMUNITY COLLEGE DISTRICT

(____ COLLEGE)

Annual Budgeted Expenditure Limitation Report—Part I

Year Ended June 30, 20___

1.	Economic Estimates Commission expenditure limitation	$ ________	
2.	Voter-approved modified expenditure limitation (Approved ________________________)	________	
3.	Enter applicable amount from **Line 1** or **Line 2**		$ ________
4.	Total amount subject to the expenditure limitation (from **Part II, Line C**)	$ ________	
5.	Less expenditures of monies received pursuant to **Arizona Revised Statutes (A.R.S.) §15-1472** (workforce development)	- ________	
6.	Less expenditures of monies received pursuant to **A.R.S. §§15-792.03** and **15-795.01** (Grand Canyon Diploma/competency-based college-ready educational pathways)	- ________	
7.	Adjusted amount subject to the expenditure limitation		$ ________
8.	Amount under (in excess of) the expenditure limitation **(If excess expenditures are reported, provide an explanation.)**		$ ________

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 Fiscal Officer:____

Name and Title: ____

Telephone Number: ____________________________ Date: ______________________

See accompanying notes to report.

_______________ COUNTY COMMUNITY COLLEGE DISTRICT
(_______________ COLLEGE)
Annual Budgeted Expenditure Limitation Report—Part II
Year Ended June 30, 20___

	Current Funds			Plant Funds		
	Unrestricted					
Description	**General**	**Auxiliary Enterprises**	**Restricted**	**Unexpended**	**Retirement of Indebtedness**	**Total**
A. Total budgeted expenditures	$	$	$	$	$	$
B. Less exclusions claimed:						
1. Bond proceeds						
Debt service requirements on bonded indebtedness						
Proceeds from other long-term obligations						
Debt service requirements on other long-term obligations						
2. Dividends, interest, and gains on the sale or redemption of investment securities						
3. Trustee or custodian						
4. Grants and aid from the federal government						
5. Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes						
6. Amounts received from the State of Arizona for the purchase of land, and the purchase or construction of buildings or improvements						
7. Interfund transactions						
8. Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements						
9. Contracts with other political subdivisions						
10. Tuition and fees						
11. Property taxes received from voter-approved overrides						
12. Refunds, reimbursements, and other recoveries						
13. Prior years carryforward						
14. Total exclusions claimed	$	$	$	$	$	$
C. Amounts subject to the expenditure limitation **(If an individual fund type amount is negative, reduce exclusions claimed to net to zero.)**	$	$	$	$	$	$

See accompanying notes to report.