



CITY OF FLAGSTAFF, ARIZONA

REPORT ON AUDIT OF
ANNUAL EXPENDITURE LIMITATION REPORT

JUNE 30, 2014



Independent Accountants' Report

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

We have examined the accompanying Annual Expenditure Limitation Report of City of Flagstaff, Arizona (the City) for the year ended June 30, 2014. This report is the responsibility of the City management. 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 of City of Flagstaff referred to above presents, in all material respects, the information prescribed by the uniform expenditure reporting system as described in Note 1.

Eide Bailly LLP
Phoenix, Arizona
February 26, 2015

CITY OF FLAGSTAFF
Annual Expenditure Limitation Report—Reconciliation
Year Ended June 30, 2014

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
A. Total expenditures/expenses deductions and applicable other financing uses, special items, and extraordinary items reported within the fund financial statements <i>Note 8</i>	\$111,781,010	\$47,790,864	\$7,169,933	\$166,741,807
B. Subtractions:				
1. Items not requiring use of working capital:				
Depreciation, <i>Note 11</i>		13,069,655		13,069,655
Loss on disposal of capital assets, <i>Note 8</i>				-
Bad debt expense	110,826	220,612		331,438
Other postemployment benefits expense <i>Note 11</i>		163,319		163,319
Claims incurred but not reported- <i>Note 13</i>			127,779	127,779
Landfill closure and postclosure care costs <i>Note 11</i>		238,906		238,906
2. Expenditures of separate legal entities established under Arizona Revised Statutes				-
3. Present value of net minimum capital lease and installment purchase contract payments recorded as expenditures at inception of the agreements				-
4. Involuntary court judgments				-
5. Total subtractions	\$110,826	\$13,692,492	\$127,779	\$13,931,097
C. Additions:				
1. Principal payments on long-term debt <i>Note 11</i>		3,969,034		3,969,034
2. Acquisition of capital assets <i>Note 11</i>		9,003,041		9,003,041
3. Other postemployment benefits paid in the current year but reported as expenses in previous years				-
4. Claims paid in the current year but reported as expenses incurred but not reported in previous years - <i>Note 13</i>			222,158	222,158
5. Landfill closure and postclosure care costs recorded as expended in previous years, <i>Note 11</i>				-
				-
				-
				-
6. Total additions		\$12,972,075	\$222,158	\$13,194,233
D. Amounts reported on Part II, line A	\$111,670,184	\$47,070,447	\$7,264,312	\$166,004,943

See accompanying notes to report.

CITY OF FLAGSTAFF
Annual Expenditure Limitation Report—Part II
Year Ended June 30, 2014

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
A. Amounts reported on the Reconciliation, Line D	\$111,670,184	\$47,070,447	\$7,264,312	\$166,004,943
B. Less exclusions claimed:				
1. Bond proceeds <i>Note 2</i>	5,509,221	-	-	5,509,221
Debt service requirements on bonded indebtedness <i>Note 3</i>	19,466,269	2,471,629	-	21,937,898
Proceeds from other long-term obligations <i>Note 2</i>	-	46,169	-	46,169
Debt service requirements on other long-term obligations <i>Note 4</i>	512,657	3,063,732	-	3,576,389
2. Dividends, interest, and gains on the sale or redemption of investment securities <i>Note 5</i>	-	-	-	-
3. Trustee or custodian	-	-	-	-
4. Grants and aid from the federal government <i>Note 6</i>	2,281,211	7,047,957	-	9,329,168
5. Grants, aid, contributions, or gifts from a private agency, organization, or individual except amounts received in lieu of taxes <i>Note 12</i>	106,276	-	-	106,276
6. Amounts received from State of AZ <i>Note 6</i>	6,864,429	318,162	-	7,182,591
7. Quasi-external interfund transactions <i>Note 14</i>	-	651,906	7,169,933	7,821,839
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 <i>Note 7</i>	4,351,161	-	-	4,351,161
10. Contracts with other political subdivisions <i>Note 6</i>	3,917,431	-	-	3,917,431
11. Refunds, reimbursements, and other recoveries <i>Note 5</i>	-	-	-	-
12. Voter-approved exclusions not identified above (attach resolution)	-	-	-	-
13. Prior years carryforward <i>Note 9</i>	6,037,620	1,936,443	-	7,974,063
14. Total exclusions claimed	\$49,046,275	\$15,535,998	\$7,169,933	\$71,752,206
C. Amounts subject to the expenditure limitation (If an individual fund category/type amount is negative, reduce exclusions claimed to net to zero.)	\$62,623,909	\$31,534,449	\$94,379	\$94,252,737

See accompanying notes to report.

City of Flagstaff
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2014

Note — 1 Summary of Significant Accounting Policies

The Annual Expenditure Limitation Report (AELR) is presented on the basis of accounting prescribed by the *Uniform Expenditure Reporting System* (UERS), as required by **Arizona Revised Statutes §41-1279.07**, which excludes expenditures, expenses or deductions of certain revenues specified in the **Arizona Constitution, Article IX, §20** from the total expenditure, expenses or deductions reported in the fund financial statements.

In accordance with the UERS requirements, a note to the AELR is presented below for any exclusion claimed on **Part II** and each subtraction or addition in the **Reconciliation** that cannot be traced directly to an amount reported in the fund financial statements. All references to financial statement amounts in the following notes refer to the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds, Statement of Revenues, Expenses, and Changes in Fund Net Position for the Proprietary Funds, Statement of Cash Flows for the Proprietary Funds.

Note — 2 Debt Proceeds

The exclusion claimed for bond proceeds in the Governmental and Enterprise Funds consists of the following:

	Debt Proceeds **	Amount Carried Forward – PY	FY 2014 Activity Expended in Prior Years	Allocation Expended in FY 2014	Amount to be Carried Forward	
Governmental Funds						
Bonded debt:						
Bond – capital projects 2013	\$ -	\$ 9,098,785	\$ -	\$ 5,023,063	\$ 4,075,722	Note 9
Lease –general fund	-	1,014,557	-	1,014,557	-	Note 9
Bond – capital projects 2014	6,600,000	-	-	5,509,221	1,090,779	Note 9
Total bonded governmental	<u>\$ 6,600,000</u>	<u>\$ 10,113,342</u>	<u>-</u>	<u>11,546,841</u>	<u>\$ 5,166,501</u>	CAFR p.66
Less: Proceeds used in current year – Part II – B. 1(a)				<u>5,509,221</u>		
Total bonded related to prior year carryforward Part II – B.13.				<u>\$ 6,037,620</u>		
Capital outlay – capital projects – CAFR p.29				\$ 17,036,766		
Less: expenditures not funded by bond proceeds				<u>(5,489,925)</u>		
Total capital outlay and expenditures available for exclusion				<u>\$ 11,546,841</u>		
Restricted fund balance – capital projects fund – CAFR p.25					\$ 4,783,564	
Less: residual balance not related to proceeds					(707,842)	
Restricted cash and investment – BBB fund – CAFR p.94					1,207,087	
Less: residual balance not related to proceeds					<u>(116,308)</u>	
Total restricted proceeds available					<u>\$ 5,166,501</u>	

** For proceeds related to partial advance refunding see Note 4

Notes to Annual Expenditure Limitation Report – Continued

	Debt Proceeds	Amount Carried Forward – PY	FY 2014 Activity Amount Expended PY	Allocation Amount Expended CY	Amount to be Carried Forward	
Enterprise Funds						
Other long-term debt:						
Loan – water – CAFR p.41	\$ 46,169	\$ -	\$ -	\$ 46,169	\$ -	Note 9
Lease – wastewater	-	1,936,443	-	1,936,443	-	Note 9
Total other Part II – B.1(c)	\$ 46,169	\$ 1,936,443	\$ -	1,982,612	\$ -	
Less: Proceeds used in current year – Part II – B. 1(c)				46,169		
Total bonded related to prior year carryforward Part II – B.13.				\$ 1,936,443		
Bond, loan & lease – CAFR p.82	\$ 46,169					
Acquisition of capital assets, Water – CAFR p.40				\$ 5,259,082		
Less: capital items not funded by other long-term debt				(3,276,470)		
Total capital asset acquisition available for exclusion				\$ 1,982,612		

Note — 3 Bonded Indebtedness

The exclusion claimed for debt service requirements on bonded indebtedness in the Governmental and Enterprise Funds consists of principal retirement and interest expenses.

	Governmental	Enterprise
Bonded debt		
Principal retirement (footnote p.82)	\$ 16,388,508	\$ 1,710,518
Interest and fiscal charges	3,077,761	761,111
Total Part II – B. 1(b)	\$ 19,466,269	\$ 2,471,629

Note — 4 Other Long-Term Obligations

Reconciliation of debt service requirements on other long-term obligations

	Governmental	Enterprise
Capital leases & other loans		
Principal retirement (footnote p.82)	\$ 463,949	\$ 2,258,516
Interest and fiscal charges	48,708	805,216
Total Part II – B. 1(d)	\$ 512,657	\$ 3,063,732

Reconciliation of Indebtedness:

	Governmental	Enterprise
Principal payments CAFR p. 28/29	\$ 8,287,457	\$ -
Interest payments CAFR p. 28/29	3,126,469	-
Partial advance refunding on debt CAFR p.30	8,565,000	-
Principal payments CAFR p. 40/41	-	3,969,034
Interest payments CAFR p. 38/39	-	1,566,327
	\$ 19,978,926	\$ 5,535,361
Note 3 bonded debt (above)	\$ 19,466,269	\$ 2,471,629
Note 4 other long-term (above)	512,657	3,063,732
	\$ 19,978,926	\$ 5,535,361

Notes to Annual Expenditure Limitation Report – Continued

Note — 5 Miscellaneous Revenue and Investment Earnings

Reconciliation of miscellaneous revenue and other investment earnings are as follows:

	<u>Governmental</u>	<u>Enterprise</u>	<u>Internal Service</u>
Recovery of damage claim	132,972	2,728	-
Subtotal – exclusion available, below HURF miscellaneous revenues, Note 7	<u>\$ 132,972</u>	<u>\$ 2,728</u>	<u>\$ -</u>
Non qualifying miscellaneous revenue	34,913	-	-
Total miscellaneous and other financing	<u>\$ 1,813,164</u>	<u>\$ 350,124</u>	<u>\$ -</u>
Total miscellaneous revenue (CAFR p.29)	1,813,164	350,124	-
Total miscellaneous revenue (CAFR p.39)	<u>\$ 1,813,164</u>	<u>\$ 350,124</u>	<u>\$ -</u>
Reconciliation of investment earnings			
	<u>Governmental</u>	<u>Enterprise</u>	<u>Internal Service</u>
Other investment earnings	\$ 507,101	\$ 213,335	\$ 26,160
Realized loss on disposal of investments	(257,016)	-	-
Unrealized gain (loss)	472,793	-	-
Total investment earnings (CAFR p.29)	<u>\$ 722,878</u>	<u>\$ 213,335</u>	<u>\$ 26,160</u>
Total investment earnings (CAFR p.39)	<u>\$ 722,878</u>	<u>\$ 213,335</u>	<u>\$ 26,160</u>
Exclusion line B. 2.			
Other investment earnings	\$ 507,101	\$ 213,335	\$ 26,160
Subtotal of allowable exclusion (CAFR p.64)	<u>507,101</u>	<u>213,335</u>	<u>26,160</u>
Actual exclusion taken on line B.2.	-	-	-
CARRYFORWARD TO FUTURE YEARS	<u>\$ 507,101</u>	<u>\$ 213,335</u>	<u>\$ 26,160</u>
Exclusion line B.11.			
Allowable exclusion from misc. revenue	\$ 132,972	\$ 2,728	\$ -
Subtotal of allowable exclusion	<u>132,972</u>	<u>2,728</u>	<u>-</u>
Actual exclusion taken on line B.11.	-	-	-
CARRYFORWARD TO FUTURE YEARS	<u>\$ 132,972</u>	<u>\$ 2,728</u>	<u>\$ -</u>

Notes to Annual Expenditure Limitation Report – Continued

Note — 6 Exclusions for Federal Grants and Aid, Capital Projects and State Highway Funds

This schedule presents revenues from which exclusions have been claimed for federal grants and aid, capital projects, amounts received from the Governmental and Enterprise Funds.

<u>Description</u>	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
Exclusions claimed:			
Grants and aid from the federal government – B.4.	\$ 2,281,211	\$ 7,047,957	\$ -
Amounts received from the state – B. 6.	6,864,429	318,162	-
Highway user revenues – excludable, see note 7	<u>4,351,161</u>	<u> </u>	<u> </u>
Total exclusions claimed	<u>13,496,801</u>	<u>7,366,119</u>	<u>-</u>
Non-excludable:			
Highway user revenues – non excludable	1,059,835	<u> </u>	<u> </u>
Highway user revenues – current carryforward	757,107	<u> </u>	<u> </u>
Local transportation assistance	<u>-</u>	<u> </u>	<u> </u>
Total grants and entitlements revenue CAFR p. 29	<u>\$ 15,313,743</u>	<u> </u>	<u> </u>
Capital grants as part of capital contribution CAFR p.39	<u> </u>	3,314,883	-
Grants and entitlements revenue CAFR p. 39	<u> </u>	4,051,236	-
Total grants and entitlements revenue	<u> </u>	<u>\$ 7,366,119</u>	<u>\$ -</u>
Exclusions claimed:			
Contracts with other political subdivisions – B.10.	\$ 3,917,431	<u> </u>	<u> </u>
Non-excludable:			
State shared revenue	<u>15,666,968</u>	<u> </u>	<u> </u>
Total intergovernmental revenue CAFR p. 29	<u>\$ 19,584,399</u>	<u> </u>	<u> </u>
	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Total</u>
<u>Schedule of Expenditures of Federal Awards</u>			
Grants and aid reported on FY14 SEFA, CAFR p.131	<u>\$ 2,281,211</u>	<u>\$ 7,047,957</u>	<u>\$ 9,329,168</u>
Total federal government grant and aid exclusion – B.4.	<u>\$ 2,281,211</u>	<u>\$ 7,047,957</u>	<u>\$ 9,329,168</u>

Notes to Annual Expenditure Limitation Report – Continued

Note — 7 Highway User Revenues in Excess of Fiscal Year 1979–80

The exclusion claimed for highway user revenues in excess of those received in fiscal year 1979–80 in the *Special Revenue Funds* was calculated as follows:

HURF revenues received in FY14 – CAFR p.28	\$ 6,274,105
Less: Local transportation assistance	-
Less: Grant	(106,002)
HURF revenues for fiscal year 2014	<u>\$ 6,168,103</u>
HURF revenues received in FY14 equal to FY79–80 revenue received	<u>(1,059,835)</u>
Revenues available for exclusion FY14	<u>\$ 5,108,268</u>
HURF expenditures for FY14	\$ 10,928,997
Less: miscellaneous revenue related expenditures – Note 5	(34,913)
Amt equal to FY79–80 revenues expanded in CY	<u>(1,059,835)</u>
Excludable revenues expended in CY	<u>\$ 9,834,249</u>
Revenues available for exclusion in current fiscal year	<u>\$ 5,108,268</u>
Revenues expended and claimed as an exclusion in the current fiscal year	(4,351,161)
Prior carryforward used in current year	<u>-</u>
Total exclusion in current fiscal year – Part II – B.9	<u>(4,351,161)</u>
Unspent excludable revenue available for carryforward in future years	<u>\$ 757,107</u>

Note — 8 Total Expenditures/Expenses

Total expenditures/expenses reported within the fund financial statements.

	Governmental	Enterprise	ISF
Total expenditures (CAFR p.29)	\$ 102,398,300	█	█
Payment to bond refunding agent (CAFR p.29)	9,382,710	█	█
Total operating expenses (CAFR p.39)	█	\$ 46,224,537	\$ 7,169,933
Interest expense (CAFR p.39)	█	1,566,327	-
Total expenses as reported on line A	<u>\$ 111,781,010</u>	<u>\$ 47,790,864</u>	<u>\$ 7,169,933</u> B.1(c)

Notes to Annual Expenditure Limitation Report – Continued

Note — 9 Carry forwards of Dividends, Interest and Gains on Sales or Redemptions, Certain Reimbursements, and Unspent Debt Proceeds

Dividends, interest, gains on the sales or redemptions of investment securities, certain reimbursements, and unspent debt proceeds are eligible for carried forward into future periods and consist of the following:

	<u>Governmental</u>	<u>HURF</u>	<u>Enterprise</u>	<u>Internal Svc</u>
Current year additions				
Investments – Note 5	\$ 507,101	\$ -	\$ 213,335	\$ 26,160
Reimbursements – Note 5	132,972	-	2,728	-
Debt proceeds – Note 2	5,166,501	-	-	-
HURF revenues – Note 7	-	757,107	-	-
Application of prior year carryforwards				
Debt proceeds – Note 2 – Part II B.13.	(6,037,620)	-	(1,936,443)	-
HURF revenues – Note 7	-	-	-	-
Total carryforwards	<u>\$ (231,046)</u>	<u>\$ 757,107</u>	<u>\$ (1,720,380)</u>	<u>\$ 26,160</u>

Note — 10 Carryforward Available by Fund

The following table summarizes carry forward amounts available by fund since FY1989–90 for Governmental, Enterprise, and Fiduciary funds. A HURF carryforward has been added as of June 30, 2004.

<u>Fiscal Year</u>	<u>Governmental Funds</u>	<u>HURF Fund</u>	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>	<u>Total</u>
1990–94	\$ 4,598,264	\$ -	\$ 4,746,227	\$ -	\$ 9,344,491
1995–99	8,278,943	-	5,294,884	-	13,573,827
2000–04	8,512,949	655,147	5,384,077	-	14,552,173
2005	1,580,125	2,380,081	935,973	-	4,896,179
2006	(7,088,761)	-	(4,000,000)	-	(11,088,761)
2007	3,798,115	6,795,592	1,525,824	-	12,119,531
2008	2,293,345	(4,187,805)	962,552	237,156	(694,752)
2009	1,411,714	(5,643,015)	206,154	97,958	(3,927,189)
2010	(128,359)	2,756,379	244,222	55,766	2,928,008
2011	95,852	(413,964)	2,255	200,654	(115,203)
2012	(64,184)	401,033	-	-	336,849
2013	5,036,177	765,023	2,150,206	33,532	7,984,938
2014	(231,046)	757,107	(1,720,380)	26,160	(1,168,159)
Total	<u>\$ 28,093,134</u>	<u>\$ 4,265,578</u>	<u>\$ 15,731,994</u>	<u>\$ 651,226</u>	<u>\$ 48,741,932</u>

Notes to Annual Expenditure Limitation Report – Continued

Note — 11 Reconciliation Deductions and Additions

	Enterprise	
<u>Reconciliation Subtractions</u>		
Depreciation CAFR p.39	\$ 13,069,655	B.1(a)
Depreciation footnote p.67	\$ 13,069,655	
FY 2013 beginning balance	\$ 7,410,396	
Landfill closure and postclosure care costs p.37	(7,649,302)	
FY2014 accrual – Recon B.1(f) – CAFR p. 43	\$ (238,906)	B.1(f)
Total landfill closure (footnote p.90)	\$ 238,906	
FY 2013 beginning balance	\$ 652,986	
Net OPEB obligation p.37	816,305	
OPEB expense CAFR p.43	\$ 163,319	B.1(d)
<u>Reconciliation Additions</u>		
Principal payments on long-term debt CAFR p.41	\$ 3,969,034	
Principal payments on bonded debt footnote p.82	1,710,518	
Principal payments on other debt footnote p.82	2,258,516	
	\$ 3,969,034	C.1
Acquisitions of capital assets CAFR p.41	\$ 9,003,041	C.2
Acquisitions of capital assets non- depr, footnote p.67	\$ 6,559,675	
Acquisitions of capital assets depr, footnote p.67	5,706,706	
Rounding	1	
Less: construction retainage – CAFR p.37	(470,124)	
Less: capital adjustment	(105,928)	
Less: capital asset trade-in CAFR p.43	(6,300)	
Less: capital assets donated CAFR p.43	(2,680,989)	
	\$ 9,003,041	

Note — 12 Capital Contributions

	Governmental	Enterprise
Contribution revenue CAFRp.29	\$ 541,340	\$ 4,520,646
Contribution of donated capital assets	-	-
Contribution of capital by private donor	-	-
Capital contribution external revenue CAFR p.39	-	4,520,646
Less: non-excludable	(435,064)	(4,520,646)
Exclusion of contributions private – Part II B.5	\$ 106,276	\$ -

Notes to Annual Expenditure Limitation Report – Continued

Note – 13 IBNR

The deduction of \$127,779 for claims incurred but not reported consists of the estimated costs of claims incurred and expensed in the current year but not yet paid in the internal service fund. CAFR footnote page 83.

The addition of \$222,158 for claims paid in the current year, but reported as expenses incurred but not reported in previous years, consists of cash payments in the current year for claims recognized as an expense in previous years in the internal service fund. CAFR footnote page 83.

Note – 14 Quasi–external Interfund Transactions

Exclusion of quasi–external interfund transactions may be taken in the fund in which the revenue is recorded and represent a transaction between funds that are recorded as if the transaction was with an entity external to the city. The qualifying transactions are listed in the table below.

	Enterprise	Internal Service
Interfund services provided CAFR p.41	\$ 651,906	
Insurance claims and expenses CAFR p. 39		\$ 7,169,933
Exclusion of Quasi–external transactions – Part II B.7	\$ 651,906	\$ 7,169,933