



CITY OF FLAGSTAFF, ARIZONA

REPORT ON AUDIT OF
ANNUAL EXPENDITURE LIMITATION REPORT

JUNE 30, 2013



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, 2013. 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 21, 2014

CITY OF FLAGSTAFF
Annual Expenditure Limitation Report—Part I
Year Ended June 30, 2013

1. Economic Estimates Commission expenditure limitation	\$ 130,339,503	
2. Voter-approved alternative expenditure limitation (Approved _____)	_____	
3. Enter applicable amount from Line 1 or Line 2		<u>130,339,503</u>
4. Amount subject to the expenditure limitation (total amount from Part II, Line C)	<u>87,505,509</u>	
5. Board-authorized expenditures necessitated by a disaster declared by the Governor (Article IX, §20[2][a], Arizona Constitution)	- _____	
6. Board-authorized expenditures necessitated by a disaster not declared by the Governor (Article IX, §20[2][b], Arizona Constitution)	- _____	
7. Prior-year voter-approved expenditures to exceed the expenditure limitation for the reporting fiscal year (Article IX, §20[2][c], Arizona Constitution)	- _____	
8. Qualifying capital improvement expenditures repaid in accordance with A.R.S. §41-1279.07(I)	- _____	
9. Subtotal	<u>\$ 87,505,509</u>	
10. Board-authorized excess expenditures for the previous fiscal year not declared by the Governor and not approved by the voters (Article IX, §20[2][b], Arizona Constitution)	+ _____	
11. Total adjusted amount subject to the expenditure limitation		<u>\$87,505,509</u>
12. Amount under (in excess of) the expenditure limitation (If excess expenditures are reported, provide an explanation.)		<u><u>\$42,833,994</u></u>

I hereby certify, to the best of my knowledge and belief, that the information contained in this report is accurate and in accordance with the requirements of the uniform expenditure reporting system.

Signature of Chief Fiscal Officer: *Barbara Goodrich*

Name and Title: Barbara Goodrich, Management Services Director

Telephone Number: (928) 213-2205

Date: February 21, 2014

See accompanying notes to report.

CITY OF FLAGSTAFF
Annual Expenditure Limitation Report—Reconciliation
Year Ended June 30, 2013

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>	\$89,160,366	\$46,603,220	\$6,625,879	\$142,389,465
B. Subtractions:				
1. Items not requiring use of working capital:				
Depreciation, <i>Note 11</i>		12,966,932		12,966,932
Loss on disposal of capital assets, <i>Note 8</i>		341,911		341,911
Bad debt expense	161,295	132,866		294,161
Other postemployment benefits expense <i>Note 11</i>		143,615		143,615
Claims incurred but not reported- <i>Note 13</i>			198,203	198,203
Landfill closure and postclosure care costs <i>Note 11</i>		247,184		247,184
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	\$161,295	\$13,832,508	\$198,203	\$14,192,006
C. Additions:				
1. Principal payments on long-term debt <i>Note 11</i>		3,942,200		3,942,200
2. Acquisition of capital assets <i>Note 11</i>		6,222,555		6,222,555
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>			145,243	145,243
5. Landfill closure and postclosure care costs recorded as expended in previous years, <i>Note 11</i>				-
_____				-
_____				-
_____				-
6. Total additions	\$0	\$10,164,755	\$145,243	\$10,309,998
D. Amounts reported on Part II, line A	\$88,999,071	\$42,935,467	\$6,572,919	\$138,507,457

See accompanying notes to report.

CITY OF FLAGSTAFF
Annual Expenditure Limitation Report—Part II
Year Ended June 30, 2013

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
A. Amounts reported on the Reconciliation, Line D	\$88,999,071	\$42,935,467	\$6,572,919	\$138,507,457
B. Less exclusions claimed:				
1. Bond proceeds <i>Note 2</i>	2,361,215	-	-	2,361,215
Debt service requirements on bonded indebtedness <i>Note 3</i>	8,606,506	3,339,027	-	11,945,533
Proceeds from other long-term obligations <i>Note 2</i>	-	91,109	-	91,109
Debt service requirements on other long-term obligations <i>Note 4</i>	470,993	2,260,149	-	2,731,142
2. Dividends, interest, and gains on the sale or redemption of investment securities <i>Note 5</i>	539,858	-	-	539,858
3. Trustee or custodian	-	-	-	-
4. Grants and aid from the federal government <i>Note 6</i>	2,105,827	6,581,217	-	8,687,044
5. Grants, aid, contributions, or gifts from a private agency, organization, or individual except amounts received in lieu of taxes <i>Note 12</i>	47,309	80,200	-	127,509
6. Amounts received from State of AZ <i>Note 6</i>	3,255,824	704,531	-	3,960,355
7. Quasi-external interfund transactions <i>Note 14</i>	-	688,920	6,572,919	7,261,839
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>	4,182,883	-	-	4,182,883
10. Contracts with other political subdivisions <i>Note 6</i>	4,082,775	-	-	4,082,775
11. Refunds, reimbursements, and other recoveries <i>Note 5</i>	20,624	-	-	20,624
12. Voter-approved exclusions not identified above (attach resolution)	-	-	-	-
13. Prior years carryforward <i>Note 9</i>	5,010,062	-	-	5,010,062
14. Total exclusions claimed	\$30,683,876	\$13,745,153	\$6,572,919	\$51,001,948
C. Amounts subject to the expenditure limitation (If an individual fund category/type amount is negative, reduce exclusions claimed to net to zero.)	\$58,315,195	\$29,190,314	\$0	\$87,505,509

See accompanying notes to report.

City of Flagstaff
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2013

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 2013 Activity Allocation		Amount to be Carried Forward
			Expended in Prior Years	Expended in FY 2013	
Governmental Funds					
Bonded debt:					
Bond - capital projects 2006	\$ -	\$ 1,181,874	\$ -	\$ 1,181,874	\$ -
Bond - capital projects 2011	-	3,828,188	-	3,828,188	-
Bond - capital projects 2013	11,460,000	-	-	2,361,215	9,098,785
Lease -general fund	1,014,557	-	-	-	1,014,557
Total bonded governmental	<u>\$12,474,557</u>	<u>\$ 5,010,062</u>	<u>-</u>	<u>7,371,277</u>	<u>\$ 10,113,342</u>
Less: Proceeds used in current year - Part II - B. 1(a)				<u>2,361,215</u>	
Total bonded related to prior year carryforward Part II - B.13.				<u>\$ 5,010,062</u>	
Capital outlay - capital projects - CAFR p.25				\$ 10,018,004	
Less: expenditures not funded by bond proceeds				<u>(2,646,727)</u>	
Total capital outlay and expenditures available for exclusion				<u>\$ 7,371,277</u>	
Restricted fund balance - capital projects fund - CAFR p.21					\$ 10,155,126
Less: residual balance not related to proceeds					(1,056,341)
Restricted cash and investment - general fund - CAFR p.20					3,068,479
Less: restricted balance related to lease capital project in enterprise fund					(1,936,443)
Less: balance not related to lease capital project					<u>(117,479)</u>
Total restricted proceeds available, CAFR p.61					<u>\$ 10,113,342</u>

Notes to Annual Expenditure Limitation Report – Continued

	Debt Proceeds	Amount Carried Forward – PY	FY 2013 Activity Allocation		Amount to be Carried Forward
			Amount Expended PY	Amount Expended CY	
Enterprise Funds					
Other long-term debt:					
Loan – water – CAFR p.37	\$ 91,109	\$ -	\$ -	\$ 91,109	\$ -
Lease – wastewater – CAFR p.37	1,936,443	-	-	-	1,936,443
Total other Part II – B.1(c)	\$ 2,027,552	\$ -	\$ -	91,109	\$ 1,936,443
Less: Proceeds used in current year – Part II – B. 1(c)				91,109	
Total bonded related to prior year carryforward Part II – B.13.				\$ -	
Proceeds debt – CAFR p.37	\$ 2,027,552				
Bond, loan & lease – CAFR p.77	\$ 2,027,552				
Restricted cash and investment – general fund – CAFR p.20					3,068,479
Less: restricted balance related to lease capital project in general fund					(1,014,557)
Less: balance not related to lease capital project					(117,479)
Total restricted proceeds available					\$ 1,936,443

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.77)	\$ 5,738,508	\$ 2,558,016
Interest and fiscal charges	2,867,998	781,011
Total Part II – B. 1(b)	\$ 8,606,506	\$ 3,339,027

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.77)	\$ 436,795	\$ 1,373,675
Interest and fiscal charges	34,198	886,474
Total Part II – B. 1(d)	\$ 470,993	\$ 2,260,149

Reconciliation of Indebtedness:

	Governmental	Enterprise
Principal payments CAFR p. 24/25	\$ 6,175,303	\$ -
Interest payments CAFR p. 24/25	2,902,196	-
Principal payments CAFR p. 36/37	-	5,184,882
Change in mature debt payable beg	-	(4,920,866)
Change in mature debt payable p.33	-	3,667,675
Interest payments CAFR p. 34/35	-	1,656,978
Reduction of principal CAFR p.38/39	-	10,507
	\$ 9,077,499	\$ 5,599,176
Note 3 bonded debt (above)	\$ 8,606,506	\$ 3,339,027
Note 4 other long-term (above)	470,993	2,260,149
	\$ 9,077,499	\$ 5,599,176

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 A/R written off	\$ 309	\$ 19,457	\$ -
Recovery of damage claim	20,315	-	-
Subtotal – exclusion available, below	<u>\$ 20,624</u>	<u>\$ 19,457</u>	<u>\$ -</u>
Other	1,240,883	361,899	-
Total miscellaneous and other financing	<u>\$ 1,261,507</u>	<u>\$ 381,356</u>	<u>\$ -</u>
Total miscellaneous revenue (CAFR p.25)	1,261,507	-	-
Total miscellaneous revenue (CAFR p.35)	-	381,356	-
Total miscellaneous revenue	<u>\$ 1,261,507</u>	<u>\$ 381,356</u>	<u>\$ -</u>

Reconciliation of investment earnings

	<u>Governmental</u>	<u>Enterprise</u>	<u>Internal Service</u>
Other investment earnings	\$ 539,858	\$ 194,306	\$ 33,532
Gain (loss) on disposal of investments (CAFR p.59)	(969,514)	-	-
Total investment earnings (CAFR p.25)	<u>\$ (429,656)</u>	<u>-</u>	<u>-</u>
Total investment earnings (CAFR p.35)	-	<u>\$ 194,306</u>	<u>\$ 33,532</u>

Exclusion line B. 2.

Other investment earning	\$ 539,858	\$ 194,306	\$ 33,532
Gains includable on sale of investments	-	-	-
Subtotal of allowable exclusion	<u>539,858</u>	<u>194,306</u>	<u>33,532</u>
Actual exclusion taken on line B.2.	539,858	-	-
CARRYFORWARD TO FUTURE YEARS	<u>\$ -</u>	<u>\$ 194,306</u>	<u>\$ 33,532</u>

Exclusion line B.11.

Allowable exclusion from misc. revenue	\$ 20,624	\$ 19,457	\$ -
Subtotal of allowable exclusion	<u>20,624</u>	<u>19,457</u>	<u>-</u>
Actual exclusion taken on line B.11.	20,624	-	-
CARRYFORWARD TO FUTURE YEARS	<u>\$ -</u>	<u>\$ 19,457</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.

Description	Governmental Funds	Enterprise Funds	Internal Service Fund
Exclusions claimed:			
Grants and aid from the federal government – B.4.	\$ 2,105,827	\$ 6,581,217	\$ -
Amounts received from the state – B. 6.	3,255,824	704,531	-
Highway user revenues – excludable, see note 7	4,182,883		
Total exclusions claimed	<u>9,544,534</u>	<u>7,285,748</u>	<u>-</u>
Non-excludable:			
Highway user revenues – non excludable	1,059,835		
Highway user revenues – current carryforward	765,023		
Local transportation assistance	-		
Total grants and entitlements revenue CAFR p. 25	<u>\$ 11,369,392</u>		
Capital grants as part of capital contribution CAFR p.35		2,401,619	-
Grants and entitlements revenue CAFR p. 35		4,884,129	-
Total grants and entitlements revenue		<u>\$ 7,285,748</u>	<u>\$ -</u>
Exclusions claimed:			
Contracts with other political subdivisions – B.10.	\$ 4,082,755		
Non-excludable:			
State shared revenue	14,630,891		
Total intergovernmental revenue CAFR p. 25	<u>\$ 18,713,646</u>		
	Governmental Funds	Enterprise Funds	Total
<u>Schedule of Expenditures of Federal Awards</u>			
Grants and aid reported on FY13 SEFA, CAFR p.121	\$ 2,105,827	\$ 6,874,182	\$ 8,980,009
Federal awards excluded as debt proceeds, see note 2	-	(91,109)	(91,109)
Adjustments – non excludable	-	(201,848)	(201,848)
Adjustments – non excludable	-	(8)	(8)
Total federal government grant and aid exclusion – B.4.	<u>\$ 2,105,827</u>	<u>\$ 6,581,217</u>	<u>\$ 8,687,044</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 FY13 – CAFR p.24	\$ 6,018,340
Less: Local transportation assistance	-
Less: Grant	<u>(10,599)</u>
HURF revenues for fiscal year 2013	<u>\$ 6,007,741</u>
HURF revenues received in FY13 equal to FY79–80 revenue received	<u>(1,059,835)</u>
Revenues available for exclusion FY13	<u>\$ 4,947,906</u>
HURF expenditures for FY13	\$ 9,448,669
Less: miscellaneous revenue related expenditures – Note 5	-
Amt equal to FY79–80 revenues expanded in CY	<u>(1,059,835)</u>
Excludable revenues expended in CY	<u>\$ 8,388,834</u>
Revenues available for exclusion in current fiscal year	<u>\$ 4,947,906</u>
Revenues expended and claimed as an exclusion in the current fiscal year	(4,182,883)
Prior carryforward used in current year	-
Total exclusion in current fiscal year – Part II – B.9	<u>(4,182,883)</u>
Unspent excludable revenue available for carryforward in future years	<u>\$ 765,023</u>

Note — 8 Total Expenditures/Expenses

Total expenditures/expenses reported within the fund financial statements.

	Governmental	Enterprise	ISF
Total expenditures (CAFR p.25)	\$ 89,160,366		
Total operating expenses (CAFR p.35)		\$ 44,604,331	\$ 6,625,879
Interest expense (CAFR p.35)		1,656,978	-
Loss on sale of capital asset (CAFR p.35)		341,911	-
Total expenses as reported on line A	<u>\$ 89,160,366</u>	<u>\$ 46,603,220</u>	<u>\$ 6,625,879</u>

Notes to Annual Expenditure Limitation Report – Continued

Note — 9 Carryforwards 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	\$ -	\$ -	\$ 194,306	\$ 33,532
Reimbursements – Note 5	-	-	19,457	-
Debt proceeds – Note 2	10,113,342	-	1,936,443	-
Current year additions limitation	(67,103)	-	-	-
HURF revenues – Note 7	-	765,023	-	-
Application of prior year carryforwards				
Debt proceeds – Note 2 – Part II B.13.	(5,010,062)	-	-	-
Total carryforwards	<u>\$ 5,036,177</u>	<u>\$ 765,023</u>	<u>\$ 2,150,206</u>	<u>\$ 33,532</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.

Fiscal Year	Governmental Funds	HURF Fund	Enterprise Funds	Internal Service Fund	Total
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
Total	<u>\$ 28,324,180</u>	<u>\$ 3,508,471</u>	<u>\$17,452,374</u>	<u>\$ 625,066</u>	<u>\$ 49,910,091</u>

Notes to Annual Expenditure Limitation Report – Continued

Note — 11 Reconciliation Deductions and Additions

	<u>Enterprise</u>	
Reconciliation Subtractions		
Depreciation CAFR p.39	\$ 12,966,932	B.1(a)
Depreciation footnote p.62	\$ 12,966,932	
FY 2012 beginning balance	\$ 7,163,212	
Landfill closure and postclosure care costs p.32	(7,410,396)	
FY2013 accrual – Recon B.1(f) – (CAFR p. 39)	\$ (247,184)	B.1(f)
Total landfill closure (footnote p.85)	\$ 247,184	
FY 2012 beginning balance	\$ 509,371	
Net OPEB obligation p.33	652,986	
OPEB expense CAFR p.39	\$ 143,615	B.1(d)
Reconciliation Additions		
Principal payments on long-term debt CAFR p.37	\$ 5,184,882	
Principal payments on bonded debt footnote p.77	1,710,518	
Principal payments on other debt footnote p.77	2,231,682	
	3,942,200	C.1
Mature bond payable beginning	4,920,866	
Mature bond payable ending p.33	(3,667,675)	
Reduction of principal capital debt by lender p.39	(10,507)	
Rounding	(2)	
	\$ 5,184,882	
Acquisitions of capital assets CAFR p.37	\$ 6,222,555	C.2
Acquisitions of capital assets non- depr, footnote p.62	\$ 1,978,987	
Acquisitions of capital assets depr, footnote p.62	7,102,320	
Less: capital assets donated CAFR p.39	(2,858,753)	
	\$ 6,222,554	

Note — 12 Capital Contributions

	<u>Governmental</u>	<u>Enterprise</u>
Contribution revenue CAFRp.25	\$ 252,377	\$ 4,220,524
Contribution of donated capital assets	80,200	80,200
Contribution of capital by private donor	4,300,724	4,300,724
Capital contribution external revenue CAFR p.35	(205,068)	(4,220,524)
Less: non-excludable	\$ 47,309	\$ 80,200
Exclusion of contributions private – Part II B.5	\$ 47,309	\$ 80,200

Notes to Annual Expenditure Limitation Report – Continued

Note – 13 IBNR

The deduction of \$198,203 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 78.

The addition of \$145,243 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 78.

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.

	<u>Enterprise</u>	<u>Internal Service</u>
Interfund services provided CAFRp.37	\$ 688,920	\$ 6,625,879
Insurance claims and expenses CAFR p. 35	[REDACTED]	(7,608)
Less: transfer in CAFR p. 35	[REDACTED]	(45,352)
Less: amount over allowable exclusions	[REDACTED]	[REDACTED]
Exclusion of Quasi-external transactions – Part II B.7	\$ 688,920	\$ 6,572,919