



CITY OF FLAGSTAFF, ARIZONA

REPORT ON AUDIT OF
ANNUAL EXPENDITURE LIMITATION REPORT

JUNE 30, 2015



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, 2015. 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 18, 2016

CITY OF FLAGSTAFF
Annual Expenditure Limitation Report—Part I
Year Ended June 30, 2015

1. Economic Estimates Commission expenditure limitation		\$ 134,251,861	
2. Voter-approved alternative expenditure limitation (Approved _____)			
3. Enter applicable amount from Line 1 or Line 2			134,251,861
4. Amount subject to the expenditure limitation (total amount from Part II, Line C)		103,356,933	
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		\$ 103,356,933	
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			\$103,356,933
12. Amount under (in excess of) the expenditure limitation (If excess expenditures are reported, provide an explanation.)			\$30,894,928

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: *Rick Tadder*

Name and Title: Rick Tadder, Management Services Director

Telephone Number: (928) 213-2205

Date: February 20, 2015

See accompanying notes to report.

CITY OF FLAGSTAFF
Annual Expenditure Limitation Report—Reconciliation
Year Ended June 30, 2015

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>	\$99,402,636	\$49,019,726	\$6,833,456	\$155,255,818
B. Subtractions:				
1. Items not requiring use of working capital:				
Depreciation, <i>Note 11</i>		13,292,485		13,292,485
Loss on disposal of capital assets, <i>Note 8</i>		10,891		10,891
Bad debt expense	106,620	289,299		395,919
Other postemployment benefits expense <i>Note 11</i>		220,296		220,296
Claims incurred but not reported- <i>Note 13</i>			194,064	194,064
Landfill closure and postclosure care costs <i>Note 11</i>		246,316		246,316
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	\$106,620	\$14,059,287	\$194,064	\$14,359,971
C. Additions:				
1. Principal payments on long-term debt <i>Note 11</i>		3,084,660		3,084,660
2. Acquisition of capital assets <i>Note 11</i>		8,450,771		8,450,771
3. Other postemployment benefits paid in the current year but reported as expenses in previous years - <i>Note 11</i>				-
4. Claims paid in the current year but reported as expenses incurred but not reported in previous years - <i>Note 13</i>			135,939	135,939
5. Landfill closure and postclosure care costs recorded as expended in previous years, <i>Note 11</i>				-
6. Total additions		\$11,535,431	\$135,939	\$11,671,370
D. Amounts reported on Part II, line A	\$99,296,016	\$46,495,870	\$6,775,331	\$152,567,217

See accompanying notes to report.

CITY OF FLAGSTAFF
Annual Expenditure Limitation Report—Part II
Year Ended June 30, 2015

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
A. Amounts reported on the Reconciliation, Line D	\$99,296,016	\$46,495,870	\$6,775,331	\$152,567,217
B. Less exclusions claimed:				
1. Bond proceeds <i>Note 2</i>	-	-	-	-
Debt service requirements on bonded indebtedness <i>Note 3</i>	10,784,906	1,969,842	-	12,754,748
Proceeds from other long-term obligations <i>Note 2</i>	-	-	-	-
Debt service requirements on other long-term obligations <i>Note 4</i>	326,574	2,613,132	-	2,939,706
2. Dividends, interest, and gains on the sale or redemption of investment securities <i>Note 5</i>	1,063,107	303,863	-	1,366,970
3. Trustee or custodian	-	-	-	-
4. Grants and aid from the federal government <i>Note 6</i>	4,993,449	6,346,140	-	11,339,589
5. Grants, aid, contributions, or gifts from a private agency, organization, or individual except amounts received in lieu of taxes <i>Note 12</i>	182,280	-	-	182,280
6. Amounts received from State of AZ <i>Note 6</i>	1,605,982	321,526	-	1,927,508
7. Quasi-external interfund transactions <i>Note 14</i>	-	416,395	6,775,331	7,191,726
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>	5,528,385	-	-	5,528,385
10. Contracts with other political subdivisions <i>Note 6</i>	3,865,337	-	-	3,865,337
11. Refunds, reimbursements, and other recoveries <i>Note 5</i>	31,258	-	-	31,258
12. Voter-approved exclusions not identified above (attach resolution)	-	-	-	-
13. Prior years carryforward <i>Note 2; Note 9</i>	2,082,777	-	-	2,082,777
14. Total exclusions claimed	\$30,464,055	\$11,970,898	\$6,775,331	\$49,210,284
C. Amounts subject to the expenditure limitation (If an individual fund category/type amount is negative, reduce exclusions claimed to net to zero.)	\$68,831,961	\$34,524,972	\$0	\$103,356,933

See accompanying notes to report.

City of Flagstaff
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2015

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 subtractions of certain revenues specified in the **Arizona Constitution, Article IX, §20** from the total expenditure, expenses or subtractions 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:

	Amount Carried Forward – PY	<u>FY 2015 Activity Allocation</u>		Amount to be Carried Forward
		<u>Expended in Prior Years</u>	<u>Expended in FY 2015</u>	
Governmental Funds				
Bonded debt:				
Bond – capital projects 2013	\$ 4,075,722	\$ 1,742,726	\$ 1,898,301	\$ 434,695
Bond – capital projects 2014	1,090,779	-	184,476	906,303
Total bonded governmental	<u>\$ 5,166,501</u>	<u>1,742,726</u>	<u>2,082,777</u>	<u>\$ 1,340,998</u>
Less: Proceeds used in current year – Part II – B. 1(a)			-	
Total bonded related to prior year carryforward Part II – B.13.			<u>\$ 2,082,777</u>	
Capital outlay – capital projects – CAFR p.113			\$ 8,897,156	
Less: capital expenditures not related to bonded projects			<u>(6,814,379)</u>	
Total capital outlay and expenditures available for exclusion			<u>\$ 2,082,777</u>	
Unspent capital related debt – CAFR p.66				<u>\$ 1,340,998</u>

Notes to Annual Expenditure Limitation Report - Continued

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.

Bonded debt	Governmental	Enterprise
Principal retirement (footnote p.82)	\$ 8,025,973	\$ 660,820
Interest and fiscal charges	2,758,933	1,309,022
Total Part II – B. 1(b)	\$ 10,784,906	\$ 1,969,842

Note — 4 Other Long-Term Obligations

Reconciliation of debt service requirements on other long-term obligations

Capital leases & other loans	Governmental	Enterprise
Principal retirement (footnote p.82)	\$ 287,325	\$ 2,423,838
Rounding	-	2
Interest and fiscal charges	39,249	189,292
Total Part II – B. 1(d)	\$ 326,574	\$ 2,613,132

Reconciliation of Indebtedness:

	Governmental	Enterprise
Principal payments CAFR p. 28/29	\$ 8,313,298	\$ -
Interest payments CAFR p. 28/29	2,798,182	-
Principal payments CAFR p. 40/41	-	3,084,660
Interest payments CAFR p. 40/41	-	1,498,314
	\$ 11,111,480	\$ 4,582,974
 Note 3 bonded debt (above)	 \$ 10,784,906	 \$ 1,969,842
Note 4 other long-term (above)	326,574	2,613,132
	\$ 11,111,480	\$ 4,582,974

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	\$ 31,258	\$ -	\$ -
Non qualifying miscellaneous revenue	645,571	840,362	-
Total miscellaneous and other financing	<u>\$ 645,571</u>	<u>\$ 840,362</u>	<u>\$ -</u>
Total miscellaneous revenue (CAFR p.29)	645,571	-	-
Total miscellaneous revenue (CAFR p.39)	-	840,362	-
Total miscellaneous revenue	<u>\$ 645,571</u>	<u>\$ 840,362</u>	<u>\$ -</u>
Exclusion line B.11.			
Allowable exclusion from misc. revenue	\$ 31,258	\$ -	\$ -
Subtotal of allowable exclusion	31,258	-	-
Actual exclusion taken on line B.11.	31,258	-	-
CARRYFORWARD TO FUTURE YEARS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of investment earnings			
	<u>Governmental</u>	<u>Enterprise</u>	<u>Internal Service</u>
Other investment earnings	\$ 1,063,107	\$ 303,863	\$ 33,445
Realized gain on disposal of investments	-	-	-
Realized loss on disposal of investments	(246,372)	-	-
Unrealized gain (loss)	328,951	-	-
Total investment earnings (CAFR p.29)	<u>\$ 1,145,686</u>	<u>-</u>	<u>-</u>
Total investment earnings (CAFR p.39)	-	\$ 303,863	\$ 33,445
Exclusion line B. 2.			
Other investment earnings	\$ 1,063,107	\$ 303,863	\$ 33,445
Subtotal of allowable exclusion (CAFR p.64)	1,063,107	303,863	33,445
Actual exclusion taken on line B.2.	1,063,107	303,863	-
CARRYFORWARD TO FUTURE YEARS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,445</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.	\$ 4,993,449	\$ 6,346,140	\$ -
Amounts received from the state – B. 6.	1,605,982	321,526	-
Highway user revenues – excludable, see note 7	5,528,385		
Total exclusions claimed	<u>12,127,816</u>	<u>6,667,666</u>	<u>-</u>
Non-excludable:			
Highway user revenues – non excludable	1,059,835		
Highway user revenues – current carryforward	295,953		
Local transportation assistance	-		
Total grants and entitlements revenue CAFR p. 29	<u>\$ 13,483,604</u>		
Capital grants as part of capital contribution CAFR p.39		1,924,980	-
Grants and entitlements revenue CAFR p. 39		4,742,686	-
Total grants and entitlements revenue		<u>\$ 6,667,666</u>	<u>\$ -</u>
Exclusions claimed:			
Contracts with other political subdivisions – B.10.	\$ 3,865,337		
Non-excludable:			
State shared revenue	16,683,663		
Total intergovernmental revenue CAFR p. 29	<u>\$ 20,549,000</u>		
<u>Schedule of Expenditures of Federal Awards</u>	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Total</u>
Grants and aid reported on FY15 SEFA, CAFR p.149	\$ 4,993,449	\$ 6,346,140	\$ 11,339,589
Total federal government grant and aid exclusion – B.4.	<u>\$ 4,993,449</u>	<u>\$ 6,346,140</u>	<u>\$ 11,339,589</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 FY15 - CAFR p.28	\$ 6,887,029
Less: Grant	<u>(2,856)</u>
HURF revenues for fiscal year 2015	<u>\$ 6,884,173</u>
HURF revenues received in FY15 equal to FY79-80 revenue received	<u>(1,059,835)</u>
Revenues available for exclusion FY15	<u>\$ 5,824,338</u>
HURF expenditures for FY15	\$ 10,616,543
Less: miscellaneous revenue related expenditures - Note 5	-
Amt equal to FY79-80 revenues expended in CY	<u>(1,059,835)</u>
Excludable revenues expended in CY	<u>\$ 9,556,708</u>
Revenues available for exclusion in current fiscal year	<u>\$ 5,824,338</u>
Revenues expended and claimed as an exclusion in the current fiscal year	(5,528,385)
Prior carryforward used in current year	-
Total exclusion in current fiscal year - Part II - B.9	<u>(5,528,385)</u>
Unspent excludable revenue available for carryforward in future years	<u>\$ 295,953</u>

Note — 8 Total Expenditures/Expenses

Total expenditures/expenses reported within the fund financial statements.

	Governmental	Enterprise	ISF
Total expenditures (CAFR p.29)	\$ 99,402,636	[REDACTED]	[REDACTED]
Total operating expenses (CAFR p.39)	[REDACTED]	\$ 47,557,965	\$ 6,833,456
Interest expense (CAFR p.39)	[REDACTED]	1,450,870	-
Loss on sale of capital asset (CAFR p.39)	[REDACTED]	10,891	-
Total expenses as reported on line A	<u>\$ 99,402,636</u>	<u>\$ 49,019,726</u>	<u>\$ 6,833,456</u>

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 to carryforward				
Investments – Note 5	\$ -	\$ -	\$ -	\$ 33,445
HURF revenues – Note 7	-	295,953	-	-
Use of prior year carryforwards				
Debt proceeds – Note 2 – Part II B.13.	(2,082,777)	-	-	-
Total carryforwards	<u>\$ (2,082,777)</u>	<u>\$ 295,953</u>	<u>\$ -</u>	<u>\$ 33,445</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
2014	(231,046)	757,107	(1,720,380)	26,160	(1,168,159)
2015	(2,082,777)	295,953	-	33,445	(1,753,379)
Total	<u>\$ 26,010,357</u>	<u>\$ 4,561,531</u>	<u>\$15,731,994</u>	<u>\$ 684,671</u>	<u>\$ 46,988,553</u>

Notes to Annual Expenditure Limitation Report – Continued

Note — 11 Reconciliation Subtractions and Additions

	Enterprise	
<u>Reconciliation Subtractions</u>		
Depreciation CAFR p.39	\$ 13,292,485	B.1(a)
Depreciation footnote p.67	\$ 13,292,485	
FY 2014 beginning balance	\$ 7,649,302	
Landfill closure and postclosure care costs p.37	(7,895,618)	
FY2015 accrual – Recon B.1(f) – CAFR p. 43	\$ (246,316)	B.1(f)
Total landfill closure (footnote p.102)	\$ 246,316	
FY 2014 OPEB beginning balance	\$ (816,306)	
Net OPEB obligation p.37	979,004	
FY 2014 beginning balance	(14,524,249)	
Net Pension liability p.37	14,383,459	
Deferred outflows p.37	(2,206,162)	
Deferred inflows p.37	2,404,550	
Net pension expense (contribution) CAFR p.43	\$ 220,296	B.1(d)
OPEB expense CAFR p.43	\$ 162,698	
Net pension expense (contribution) CAFR p.43	57,599	
	\$ 220,297	
<u>Reconciliation Additions</u>		
Principal payments on long-term debt CAFR p.41	\$ 3,084,660	
Principal payments on bonded debt footnote p.82	660,820	
Principal payments on other debt footnote p.82	2,423,838	
	\$ 3,084,658	C.1
Acquisitions of capital assets CAFR p.41	\$ 8,450,771	C.2
Acquisitions of capital assets non- depr, footnote p.67	\$ 3,705,692	
Acquisitions of capital assets depr, footnote p.67	5,168,447	
Less: capital assets donated CAFR p.43	(423,368)	
	\$ 8,450,771	

Note — 12 Capital Contributions

	Governmental	Enterprise
Contribution revenue CAFR p.29	\$ 368,057	
Contribution of donated capital assets – CAFR p.39		\$ 1,924,980
Contribution of capital by donor – grantor – CAFR p.39		2,824,177
Capital contribution external revenue		4,749,157
Less: non-excludable	(185,777)	(4,749,157)
Exclusion of contributions private – Part II B.5	\$ 182,280	\$ -

Notes to Annual Expenditure Limitation Report – Continued

Note – 13 IBNR

The deduction of \$194,064 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 \$135,939 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.

	<u>Enterprise</u>	<u>Internal Service</u>
Interfund services provided CAFR p.41	\$ 416,395	\$ 6,833,456
Insurance claims and expenses CAFR p. 39	[REDACTED]	(58,125)
Less: amount over allowable exclusions	[REDACTED]	[REDACTED]
Exclusion of Quasi-external transactions – Part II B.7	\$ 416,395	\$ 6,775,331