



CITY OF FLAGSTAFF, ARIZONA

REPORT ON AUDIT OF
ANNUAL EXPENDITURE LIMITATION REPORT

JUNE 30, 2017

City of Flagstaff
Annual expenditure limitation report
Year ended June 30, 2017

Table of contents	Page
Independent accountants' report	1
Annual expenditure limitation report—part I	2
Annual expenditure limitation report—part II	3
Annual expenditure limitation report—reconciliation	4
Notes to annual expenditure limitation report	5

INDEPENDENT ACCOUNTANTS' REPORT

The Auditor General of the State of Arizona

The Honorable Mayor and City Council
City of Flagstaff, Arizona

We have examined the accompanying Annual Expenditure Limitation Report of the City of Flagstaff, Arizona (City), for the year ended June 30, 2017, and the related notes to the report. The City's management is responsible for presenting this report in accordance with the *Uniform Expenditure Reporting System* (UERS) as described in Note 1. 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether this report is presented in accordance with the UERS in all material respects. An examination involves performing procedures to obtain evidence about the amounts and disclosures in the report. The nature, timing, and extent of procedures selected depend on our judgement, including an assessment of the risks of material misstatement of the report, whether due to fraud or error. We believe that the evidence obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Annual Expenditure Limitation Report of the City of Flagstaff, Arizona, referred to above, is presented in accordance with the UERS as described in Note 1 in all material respects.

This report is intended solely for the information and use of the Mayor and City Council and management of the City of Flagstaff, Arizona and the Auditor General of the State of Arizona and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.



CliftonLarsonAllen LLP

Phoenix, Arizona
March 7, 2018

City of Flagstaff
 Annual expenditure limitation report—part I
 Year ended June 30, 2017

1. Economic Estimates Commission expenditure limitation	\$ 145,156,751	
2. Voter-approved alternative expenditure limitation (N/A)	<u> </u>	
3. Enter applicable amount from line 1 or line 2		\$ 145,156,751
4. Amount subject to the expenditure limitation (total amount from part II, line C)	\$ 110,672,857	
8. Subtotal	<u> </u>	\$ 110,672,857
10. Total adjusted amount subject to the expenditure limitation		<u>\$ 110,672,857</u>
11. Amount under (in excess of) the expenditure limitation		<u>\$ 34,483,894</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 financial officer: Rick Tadder

Name and title: Rick Tadder, Management Services Director

Telephone number: (928) 213-2205

Date: March 7, 2018

City of Flagstaff
Annual expenditure limitation report—part II
Year ended June 30, 2017

Description	Governmental funds	Enterprise funds	Internal service funds	Total
<u>A.</u> Amounts reported on the reconciliation, line D	\$ 108,780,800	\$ 55,778,354	\$ 6,872,895	\$ 171,432,049
<u>B.</u> Less exclusions claimed:				
<u>1.</u> Debt proceeds	6,223,229	-	-	6,223,229
<u>2.</u> Debt service requirements	16,689,525	4,247,348		20,936,873
<u>3.</u> Dividends, interest, and gains on the sale or redemption of investment securities	46,269	3,685		49,954
<u>5.</u> Grants and aid from the federal government	2,169,058	11,049,514		13,218,572
<u>6.</u> Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes	449,821	-	-	449,821
<u>7.</u> Amounts received from the State of Arizona	359,184	316,855		676,039
<u>8.</u> Quasi-external interfund transactions		464,380	6,331,073	6,795,453
<u>10.</u> Highway user revenues in excess of those received in fiscal year 1979-80	6,922,669	-	-	6,922,669
<u>11.</u> Contracts with other political subdivisions	4,365,024	-	-	4,365,024
<u>12.</u> Refunds, reimbursements, and other recoveries	468,420	-	-	468,420
<u>14.</u> Prior years carryforward (uses)	653,138	-	-	653,138
<u>16.</u> Total exclusions claimed	38,346,337	16,081,782	6,331,073	60,759,192
<u>C.</u> Amounts subject to the expenditure limitation	<u>\$ 70,434,463</u>	<u>\$ 39,696,572</u>	<u>\$ 541,822</u>	<u>\$ 110,672,857</u>

City of Flagstaff
Annual expenditure limitation report—reconciliation
Year ended June 30, 2017

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	\$108,955,277	\$54,017,958	\$6,789,189	\$169,762,424
B. Subtractions:				
1. Items not requiring use of current financial resources:	-	-	-	-
a. Depreciation	-	13,095,817	-	13,095,817
b. Loss on disposal of capital assets	-	2,298,906	-	2,298,906
c. Bad debt expense – see note 11	40,946	50,561	-	91,507
d. Other postemployment benefits (OPEB) expense	-	153,205	-	153,205
e. Claims incurred but not reported (IBNR)	-	-	174,845	174,845
f. Landfill closure and postclosure care costs	-	320,104	-	320,104
g. Pension expense	-	1,354,278	-	1,354,278
4. Present value of net minimum capital lease and installment purchase contract payments recorded as expenditures at the agreements' inception	133,531	-	-	133,531
6. Total subtractions	<u>174,477</u>	<u>17,272,871</u>	<u>174,845</u>	<u>17,622,193</u>
C. Additions:				
1. Principal payments on long-term debt	-	3,026,461	-	3,026,461
2. Capital asset acquisitions	-	14,893,172	-	14,893,172
3. Amounts paid in the current year but reported as expenses in previous years:				
b. Claims previously recognized as IBNR	-	-	258,551	258,551
4. Pension contributions paid in the current year	-	1,113,634	-	1,113,634
5. Total additions	-	<u>19,033,267</u>	<u>258,551</u>	<u>19,291,818</u>
D. Amounts reported on part II, line A	<u>\$108,780,800</u>	<u>\$55,778,354</u>	<u>\$6,872,895</u>	<u>\$171,432,049</u>

City of Flagstaff
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2017

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:

	Debt Proceeds	Amount Carried Forward – PY	FY 2017 Activity Allocation		Amount to be Carried Forward
			Expended in Prior Years	Expended in FY 2017	
Governmental Funds					
Bonded debt:					
Bond – Proceeds 2013		\$ 380,910	\$ 170,598	\$ 210,312	\$ -
Bond – Proceeds 2016	\$ 28,311,782		9,898,299	5,347,522	13,065,961
Lease –Parking	1,000,000	-	-	875,707	124,293
Total bonded governmental	\$ 29,311,782	\$ 380,910	10,068,897	6,433,541	\$ 13,190,254
Less: Proceeds used in current year – Part II – B. 1			-	(6,223,229)	
Total bonded related to prior year carryforward Part II – B.14.				\$ 210,312	
Unspent debt proceeds– CAFR p.65					12,511,322
Unspent Forest Initiative Funds					554,639
Unspent Lease Funds					124,293
Total					\$ 13,190,254

Notes to Annual Expenditure Limitation Report – Continued

Note — 3 Debt Service Requirements

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, Capital Lease and Other Loans		
Principal retirement (footnote p.78)	\$ 14,154,904	\$ 3,026,461
Interest and fiscal charges	2,534,621	1,220,887
Total Part II – B. 2	\$ 16,689,525	\$ 4,247,348

Note — 4 Miscellaneous Revenue and Investment Earnings

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

	Governmental	Enterprise	Internal Service
Recovery of damage claim	\$ 468,420	\$ -	\$ -
Non qualifying miscellaneous revenue	654,709	114,253	-
Total miscellaneous and other financing	\$ 1,123,129	\$ 114,253	\$ -
Total miscellaneous revenue (CAFR p.29)	1,123,129	-	-
Total miscellaneous revenue (CAFR p.39)	-	114,253	-
Total miscellaneous revenue	\$ 1,123,129	\$ 114,253	\$ -
Exclusion line B.12			
Allowable exclusion from misc. revenue	\$ 468,420	\$ -	\$ -
Subtotal of allowable exclusion	468,420	-	-
Actual exclusion taken on line B.12	468,420	-	-
CARRYFORWARD TO FUTURE YEARS	\$ -	\$ -	\$ -
Reconciliation of investment earnings			
	Governmental	Enterprise	Internal Service
Other investment earnings	\$ 942,721	\$ 406,101	\$ 29,366
Realized gain on disposal of investments	136,982		
Realized loss on disposal of investments	-		
Unrealized gain (loss)	(1,556,393)		
Total investment earnings (CAFR p.29)	\$ (476,690)		
Total investment earnings (CAFR p.39)	-	\$ 406,101	\$ 29,366
Exclusion line B. 3.			
Other investment earnings	\$ 942,721	\$ 406,101	\$ 29,366
Gains includable on sale of investments	136,982	-	-
Subtotal of allowable exclusion	1,079,703	406,101	29,366
Actual exclusion taken on line B.3.	46,269	3,685	-
CARRYFORWARD TO FUTURE YEARS	\$ 1,033,434	\$ 402,416	\$ 29,366

Notes to Annual Expenditure Limitation Report – Continued

Note — 5 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.5.	\$ 2,169,058	\$ 11,049,514	\$ -
Amounts received from the state – B. 7.	359,184	316,855	-
Highway user revenues – excludable, see note 6	6,922,669	-	-
Total exclusions claimed	9,450,911	11,366,369	-
Non-excludable:			
Highway user revenues – non excludable	1,059,835		
Highway user revenues – current carryforward	-		
Other Revenues Non-Excludable	339,392	5,111	
Total grants and entitlements revenue	\$ 10,850,138	\$ 11,371,480	
Capital grants as part of capital contribution CAFR p.39		6,417,861	-
Grants and entitlements revenue CAFR p. 39		4,953,619	-
Total grants and entitlements revenue		\$ 11,371,480	\$ -
Exclusions claimed:			
Contracts with other political subdivisions – B.11.	\$ 4,365,024		
Non-excludable:			
State shared revenue	18,139,581		
Total intergovernmental revenue CAFR p. 29	\$ 22,504,605		
Schedule of Expenditures of Federal Awards	Governmental Funds	Enterprise Funds	Total
Grants and aid reported on FY17 SEFA	\$ 2,169,058	\$ 11,049,514	\$ 13,218,572
Total federal government grant and aid exclusion – B.5.	2,169,058	11,049,514	13,218,572

Notes to Annual Expenditure Limitation Report – Continued

Note — 6 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 FY17 – CAFR p.28	\$ 7,982,504
Less: Grant	-
HURF revenues for fiscal year 2017	<u>\$ 7,982,504</u>
HURF revenues received in FY17 equal to FY79–80 revenue received	<u>(1,059,835)</u>
Revenues available for exclusion FY17	<u>\$ 6,922,669</u>
HURF expenditures and transfers out for FY17	\$ 11,075,140
Less: Non HURF revenues transfer in (License permits, interest)	(2,649,810)
Amt equal to FY79–80 revenues expanded in CY	<u>(1,059,835)</u>
Excludable revenues expended in CY	<u>\$ 7,365,495</u>
Revenues available for exclusion in current fiscal year	<u>\$ 6,922,669</u>
Revenues expended and claimed as an exclusion in the current fiscal year	(7,365,495)
Prior carryforward used in current year	<u>442,826</u>
Total exclusion in current fiscal year – Part II – B.9	<u>(6,922,669)</u>
Unspent excludable revenue available for carryforward in future years	<u>\$ -</u>

Note — 7 Total Expenditures/Expenses

Total expenditures/expenses reported within the fund financial statements.

	Governmental	Enterprise	ISF
Total expenditures (CAFR p.29)	\$ 108,955,277	-	-
Total operating expenses (CAFR p.39)	-	\$ 50,547,243	\$ 6,789,189
Interest expense (CAFR p.39)	-	1,171,809	-
Loss on sale of capital asset (CAFR p.39)	-	2,298,906	-
Total expenses as reported on line A	<u>\$ 108,955,277</u>	<u>\$ 54,017,958</u>	<u>\$ 6,789,189</u>

Notes to Annual Expenditure Limitation Report – Continued

Note — 8 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:

	Governmental	HURF	Enterprise	Internal Svc
Current year additions to carryforward				
Investments – Note 5	\$ 1,033,434	–	\$ 402,416	\$ 29,366
Debt proceeds – Note 2	13,190,254	–	–	–
Use of prior year carryforwards				
Debt proceeds – Note 2 – Part II B.14.	(210,312)	–	–	–
HURF revenues – Note 6	–	\$ (442,826)	–	–
Total carryforwards	<u>\$ 14,013,376</u>	<u>\$ (442,826)</u>	<u>\$ 402,416</u>	<u>\$ 29,366</u>

Note — 9 Carryforward Available by Fund

The following table summarizes carry forward amounts available by fund since FY1989–90 for Governmental, Enterprise, and Internal Service Fund. 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)
2016	(960,088)	2,257,072	–	31,781	1,328,765
2017	14,013,376	(442,826)	402,416	29,366	14,002,332
Total	<u>\$ 39,063,645</u>	<u>\$ 6,375,777</u>	<u>\$ 16,134,410</u>	<u>\$ 745,818</u>	<u>\$ 62,319,650</u>

Notes to Annual Expenditure Limitation Report – Continued

Note — 10 Reconciliation Subtractions and Additions

	Enterprise
Reconciliation Subtractions	
Depreciation CAFR p.39	\$ 13,095,817
Depreciation footnote p.66	\$ 13,095,817
FY 2017 beginning balance	\$ 8,155,675
Landfill closure and postclosure care costs p.78, p.98	(8,475,779)
FY2017 accrual – Recon B.1(f) – CAFR p. 41	\$ (320,104)
Total landfill closure (footnote p.98)	\$ 320,104
OPEB expense CAFR p.43	\$ 153,205
Net pension expense (contribution) CAFR p. 81	1,354,278
	\$ 1,507,483
Reconciliation Additions	
Principal payments on long-term debt CAFR p.41	\$ 3,026,461
Principal payments on bonded debt footnote p. 78	67,675
Principal payments on other debt footnote p. 78	2,958,786
	\$ 3,026,461
Acquisitions of capital assets	\$ 14,893,173
Increase of capital assets non- depr, footnote p.66	\$ 12,748,180
Increase of capital assets depr, footnote p.66	11,564,180
Less: capital assets donated CAFR p.43	(1,661,835)
Less: WIP Completed (CAFR pg 66 decrease in CIP)	(7,757,352)
	\$ 14,893,173

Note — 11 Bad Debt Expense

The amounts for debt expense include \$40,946 for governmental funds and \$50,561 for enterprise funds, both of which are recorded in Operating expenses in the CAFR on pages 28 and 39.

Note — 12 Capital Contributions

	Governmental	Enterprise
Contribution revenue CAFR p.29	\$ 869,484	
Capital contribution related to grants – CAFR p.39		\$ 6,417,861
Contribution from external sources – CAFR p.39		8,955,313
Capital contribution external revenue		15,373,174
Less: non-excludable	(419,663)	(15,373,174)
Exclusion of contributions private – Part II B.6	\$ 449,821	\$ –

Notes to Annual Expenditure Limitation Report – Continued

Note – 13 IBNR

The deduction of \$174,845 is for removing the current year claims expense estimate. CAFR footnote page 79.

The addition of \$258,551 is for reflecting the actual claims paid in the current year. CAFR footnote page 79.

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	\$ 464,380	\$ 6,331,073
Insurance charge for service CAFR p. 39	\$ 464,380	\$ 6,331,073
Exclusion of Quasi-external transactions – Part II B.8	\$ 464,380	\$ 6,331,073