



City of Flagstaff, Arizona

Report on Examination of Annual Expenditure Limitation Report

June 30, 2022

City of Flagstaff
Annual Expenditure Limitation Report
Year Ended June 30, 2022

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INDEPENDENT ACCOUNTANTS' REPORT

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

We have examined the accompanying Annual Expenditure Limitation Report of the City of Flagstaff, Arizona (City), for the year ended June 30, 2022, 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 the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the report, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
March 27, 2023

City of Flagstaff
 Annual Expenditure Limitation Report - Part I
 Year Ended June 30, 2022

<u>1.</u> Economic Estimates Commission expenditure limitation	\$	<u>197,894,236</u>	
<u>2.</u> Voter-approved alternative expenditure limitation (N/A)		<u>-</u>	
<u>3.</u> Enter applicable amount from line 1 or line 2			\$ <u>197,894,236</u>
<u>4.</u> Amount subject to the expenditure limitation (total amount from part II, line C)	\$	<u>125,999,704</u>	
<u>8.</u> Subtotal		<u>-</u>	\$ <u>125,999,704</u>
<u>10.</u> Total adjusted amount subject to the expenditure limitation			\$ <u>125,999,704</u>
<u>11.</u> Amount under (in excess of) the expenditure limitation			\$ <u><u>71,894,532</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 financial officer: _____

Name and title: Rick Tadder, Management Services Director

Telephone number: (928) 213-2205

Date: 03/30/2023

City of Flagstaff
Annual Expenditure Limitation Report - Part II
Year Ended June 30, 2022

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
<u>A.</u> Amounts reported on the reconciliation, line D	\$ 124,816,908	\$ 71,215,540	\$ 8,439,769	\$ 204,472,217
<u>B.</u> Less exclusions claimed:				
<u>1.</u> Debt proceeds		4,092,000	-	4,092,000
<u>2.</u> Debt service requirements	18,744,402	9,867,185	-	28,611,587
<u>3.</u> Dividends, interest, and gains on the sale or redemption of investment securities	55,536	108,926	-	164,462
<u>4.</u> Trustee or custodian	-	-	-	-
<u>5.</u> Grants and aid from the federal government	12,103,462	9,267,969	-	21,371,431
<u>6.</u> Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes	169,901	-	-	169,901
<u>7.</u> Amounts received from the State of Arizona	3,071,620	770,339	-	3,841,959
<u>8.</u> Quasi-external interfund transactions	-	655,805	8,439,769	9,095,574
<u>9.</u> Amounts accumulated for the purchase of land, and the purchase or construction of buildings or improvements	-	-	-	-
<u>10.</u> Highway user revenues in excess of those received in fiscal year 1979-80	6,009,631	-	-	6,009,631
<u>11.</u> Contracts with other political subdivisions	4,990,693	-	-	4,990,693
<u>12.</u> Refunds, reimbursements, and other recoveries	121,642	3,633	-	125,275
<u>13.</u> Voter-approved exclusions not identified above	-	-	-	-
<u>14.</u> Prior years carryforward (uses)	-	-	-	-
<u>15.</u> Qualifying capital improvement expenditures repaid in accordance with A.R.S. §41-1279.07	-	-	-	-
<u>16.</u> Total exclusions claimed	<u>45,266,887</u>	<u>24,765,857</u>	<u>8,439,769</u>	<u>78,472,513</u>
<u>C.</u> Amounts subject to the expenditure limitation	<u>\$ 79,550,021</u>	<u>\$ 46,449,683</u>	<u>\$ -</u>	<u>\$ 125,999,704</u>

See accompanying notes to report

City of Flagstaff
Annual Expenditure Limitation Report - Reconciliation
Year Ended June 30, 2022

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
<u>A.</u> Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund financial statements	\$ 125,049,152	\$ 60,275,804	\$ 8,511,489	\$ 193,836,445
<u>B.</u> Subtractions:				
<u>1.</u> Items not requiring use of current financial resources:				
<u>a.</u> Depreciation	-	13,660,946	-	13,660,946
<u>b.</u> Loss on disposal of capital assets	-	2,145,864	-	2,145,864
<u>c.</u> Bad debt expense - see note 11	37,892	(67,149)	-	(29,257)
<u>d.</u> Pension and other postemployment benefits (OPEB) expense	-	(3,329,293)	-	(3,329,293)
<u>e.</u> Claims incurred but not reported (IBNR)	-	-	318,778	318,778
<u>f.</u> Landfill closure and postclosure care costs	-	1,433,009	-	1,433,009
<u>2.</u> Expenditures of separate legal entities established under Arizona Revised Statutes	-	-	-	-
<u>3.</u> Required fees paid to Industrial Commission of Arizona	194,352	-	-	194,352
<u>4.</u> Present value of net minimum lease, financed purchase, and subscription-based information technology arrangement (SBITA) contract payments recorded as expenditures at the agreements' inception	-	-	-	-
<u>5.</u> Involuntary court judgments	-	-	-	-
<u>6.</u> Total subtractions	<u>232,244</u>	<u>13,843,377</u>	<u>318,778</u>	<u>14,394,399</u>
<u>C.</u> Additions:				
<u>1.</u> Principal payments on long-term debt	-	8,973,717	-	8,973,717
<u>2.</u> Capital asset acquisitions	-	14,547,125	-	14,547,125
3. Amounts paid in the current year but reported as expenses in previous years:				
<u>a.</u> OPEB	-	-	-	-
<u>b.</u> Claims previously recognized as IBNR	-	-	247,058	247,058
<u>4.</u> Pension contributions paid in the current year	-	1,262,271	-	1,262,271
<u>5.</u> Total additions	<u>-</u>	<u>24,783,113</u>	<u>247,058</u>	<u>25,030,171</u>
<u>D.</u> Amounts reported on part II, line A	<u>\$ 124,816,908</u>	<u>\$ 71,215,540</u>	<u>\$ 8,439,769</u>	<u>\$ 204,472,217</u>

See accompanying notes to report

City of Flagstaff
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2022

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:

	ACFR Page	Debt Proceeds	Amount Carried Forward - PY	FY 2022 Activity Allocation		Amount to be Carried Forward
				Expended in Prior Years	Expended in FY 2022	
Governmental Funds						
Bonded debt:						
Bond - Proceeds 2016	25	\$ -	\$ 1,702,159	\$ -	\$ -	\$ 1,702,159
Bond - Proceeds 2020	25	-	14,239,939	-	-	14,239,939
Total bonded governmental		<u>\$ -</u>	<u>\$ 15,942,098</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 15,942,098</u>
Less: Proceeds used in current year - Part II - B. 1						-
Total bonded related to prior year carryforward, see note 8.						<u>\$ -</u>
Unspent capital related debt proceeds						15,942,098
Total						<u>\$ 15,942,098</u>
		Debt Proceeds	Amount Carried Forward - PY	FY 2022 Activity Allocation		Amount to be Carried Forward
				Expended in Prior Years	Expended in FY 2022	
Enterprise Funds						
Other long-term debt:						
Bond - Stormwater Fund	65	\$ 4,092,000	\$ -	\$ -	\$ 4,092,000	\$ -
Current Refunding Bond - Water	65	4,930,000	-	-	\$ 4,930,000	-
Total other Part II - B.1(c)		<u>\$ 9,022,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,022,000</u>	<u>\$ -</u>
Less: Proceeds used in current year - Part II - B. 1.						(4,092,000)
Less: Proceeds allocated to debt service - Part II - B. 2						(4,930,000)
Total bonded related to prior year carryforward, see note 8.						<u>\$ -</u>

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.

	ACFR Page	Governmental	Enterprise
Bonded Debt, Capital Lease and Other Loans			
Bonds payable - principal retirement	72	\$ 12,961,582	\$ 3,155,851
Other debt - principal retirement	72	420,325	5,814,660
Interest and fiscal charges	25/35	5,362,495	896,674
Total debt service - Part II - B. 2		\$ 18,744,402	\$ 9,867,185

Note – 4 Miscellaneous Revenue and Investment Earnings

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

	ACFR	Governmental	Enterprise	Internal Service
Recovery of damage claims		\$ 121,642	\$ 3,633	\$ -
Non qualifying miscellaneous revenue		1,311,420	144,408	141,376
Total miscellaneous and other financing		<u>\$ 1,433,062</u>	<u>\$ 148,041</u>	<u>\$ 141,376</u>
Total miscellaneous revenue	25	\$ 1,433,062		
Total miscellaneous revenue	35		148,041	141,376
Total miscellaneous revenue		<u>\$ 1,433,062</u>	<u>\$ 148,041</u>	<u>\$ 141,376</u>
Exclusion line B.12				
Allowable exclusion from misc. revenue		\$ 121,642	\$ 3,633	\$ -
Subtotal of allowable exclusion		121,642	3,633	-
Actual exclusion taken on line B.12		121,642	3,633	-
Carryforward to Future Years		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of investment earnings				
Other investment earnings	54	\$ 1,020,043	\$ 526,570	\$ 26,639
Realized loss on disposal of investments		1,008,909		
Unrealized gain (loss)		(7,435,210)		
Total investment earnings	25	<u>\$ (5,406,258)</u>		
Total investment earnings	35		<u>\$ 526,570</u>	<u>\$ 26,639</u>
Exclusion line B. 3.				
Other investment earnings		\$ 1,020,043	\$ 526,570	\$ 26,639
Subtotal of allowable exclusion		1,020,043	526,570	26,639
Actual exclusion taken on line B.3.		55,536	108,926	-
Carryforward to Future Years		<u>\$ 964,507</u>	<u>\$ 417,644</u>	<u>\$ 26,639</u>

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	ACFR Page	Governmental Funds	Enterprise Funds	Internal Service Fund
Exclusions claimed:				
Grants and aid from the federal government - B.5.		\$ 12,103,462	\$ 9,267,969	\$ -
Amounts received from the state - B.7.		3,071,620	770,339	-
Highway user revenues - excludable, see note 6		6,009,631	-	-
Total exclusions claimed		<u>21,184,713</u>	<u>10,038,308</u>	<u>-</u>
Non-excludable:				
Highway user revenues - non excludable		1,059,835		
Highway user revenues - current carryforward		2,316,815		
Other revenues non-excludable		3,169	593	
Total grants and entitlements revenue		<u>\$ 24,564,532</u>	<u>\$ 10,038,901</u>	
Capital grants as part of capital contribution	35	-	961,364	-
Water Infrastructure Finance Authority Loan Proceeds		84,282	-	-
Grants and entitlements revenue	25/35	24,480,250	9,077,537	-
Total grants and entitlements revenue		<u>\$ 24,564,532</u>	<u>\$ 10,038,901</u>	<u>\$ -</u>
Exclusions claimed:				
Contracts with other political subdivisions - B.11.		\$ 4,990,693		
Non-excludable:				
State shared revenue		25,466,219		
Total intergovernmental revenue	25	<u>\$ 30,456,912</u>		
Schedule of Expenditures of Federal Awards		Governmental Funds	Enterprise Funds	Total
Grants and aid reported on FY 2022 SEFA		\$ 12,103,462	\$ 9,267,969	\$ 21,371,431
Total federal government grant and aid exclusion - B.5.		<u>\$ 12,103,462</u>	<u>\$ 9,267,969</u>	<u>\$ 21,371,431</u>

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:

	ACFR Page	HURF Fund
Total Grants and Entitlements	24	\$ 10,389,370
Less: Grant		(1,003,089)
HURF revenue received in current fiscal year		\$ 9,386,281
HURF revenues received equal to FY79-80 revenue received		(1,059,835)
Revenues available for exclusion		\$ 8,326,446
HURF expenditures	24	\$ 9,160,374
HURF transfers out	24	450,945
Less: Non HURF revenues and transfer in (License permits, interest)		(2,541,853)
Less: Amt equal to FY79-80 revenues expended in current fiscal year		(1,059,835)
Excludable revenues expended in current fiscal year		\$ 6,009,631
Revenues available for exclusion in current fiscal year		\$ 6,009,631
Revenues expended and claimed as an exclusion in the current fiscal year		(6,009,631)
Prior carryforward used in current year		-
Total exclusion in current fiscal year - Part II - B.10		(6,009,631)
Unspent excludable revenue available for carryforward in future years		\$ 2,316,815

Note – 7 Total Expenditures/Expenses

Total expenditures/expenses reported within the fund financial statements.

	ACFR Page	Governmental	Enterprise	Internal Service Fund
Total expenditures	25	\$ 125,049,152	-	-
Total operating expenses	35	-	\$ 57,233,266	\$ 8,511,489
Interest expense	35	-	896,674	-
Loss on sale of capital asset	35	-	2,145,864	-
Total expenses as reported on line A		\$ 125,049,152	\$ 60,275,804	\$ 8,511,489

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 Service
Current year additions to carryforward				
Investments - Note 4	\$ 964,507	\$ -	\$ 417,644	\$ 26,639
Debt proceeds - Note 2	-	-	-	-
HURF revenues - Note 6		2,316,815		
Use of prior year carryforwards				
Debt proceeds - Note 2	-	-	-	-
HURF revenues - Note 6		-		
Carryforwards used - Part II B.14.	-	-	-	-
Total carryforwards	<u>\$ 964,507</u>	<u>\$ 2,316,815</u>	<u>\$ 417,644</u>	<u>\$ 26,639</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
2005-09	1,994,538	(655,147)	(369,497)	335,114	1,305,008
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
2018	(9,374,779)	1,729,059	586,804	28,770	(7,030,146)
2019	1,044,084	(983,303)	2,301,460	60,561	2,422,802
2020	4,011,357	1,207,652	(86,513)	53,046	5,185,542
2021	13,048,925	(238,343)	531,251	32,670	13,374,503
2022	964,507	2,316,815	417,644	26,639	3,725,605
Total	<u>\$ 48,757,739</u>	<u>\$ 10,407,657</u>	<u>\$ 19,885,056</u>	<u>\$ 947,504</u>	<u>\$ 79,997,956</u>

Notes to Annual Expenditure Limitation Report – Continued

Note – 10 Reconciliation Subtractions and Additions

	ACFR Page	Enterprise
<u>Reconciliation Subtractions</u>		
Depreciation	35	\$ 13,660,946
Landfill closure and postclosure care costs	32	\$ 17,400,522
FY 2021 beginning balance	72	(15,967,513)
FY2022 accural - Recon B.1(f)	38	<u>\$ 1,433,009</u>
<u>Reconciliation Additions</u>		
Principal payments on bonded debt footnote	72	\$ 3,155,851
Principal payments on other debt footnote	72	5,814,660
Principal payments on other debt footnote	72	3,206
		<u>\$ 8,973,717</u>
Increase of capital assets non- depreciation	58	\$ 13,234,453
Increase of capital assets depreciation	58	8,336,036
Less: capital assets donated		(617,181)
Less: WIP Completed	58	(6,419,741)
Reclasses or other adjustments		13,558
		<u>\$ 14,547,125</u>

	ACFR Page	Enterprise
<u>Statement of Cash Flows</u>		
Change in deferred outflows related to pensions & OPEB	39	\$ 339,356
Change in deferred inflows related to pensions & OPEB	39	(4,103,432)
Change in net pension and OPEB liability/asset	39	8,355,640
		<u>\$ 4,591,564</u>
<u>AELR–Reconciliation</u>		
Pension/OPEB expense (income) – subtraction		3,329,293
Pension/OPEB contributions – addition		1,262,271
		<u>\$ 4,591,564</u>

Notes to Annual Expenditure Limitation Report – Continued

The \$3,329,293 reduction for pension and other post-employment benefit (OPEB) represents enterprise funds pension related operating activity recognized in the current year, that did not result in an outlay of cash modify as appropriate. The \$1,262,271 addition for pension and OPEB contributions paid in the current year consists of the required pension and OPEB contributions made to the Arizona State Retirement System and Public Safety Personnel Retirement System from the enterprise funds that were not included in enterprise funds operating expenses. The schedule below reconciles the net effect the subtraction and addition have on the expenditures subject to the limitation to the amounts reported on the statement of cash flows' net effect on cash.

	ACFR Page	Enterprise
Statement of Cash Flows		
Change in deferred outflows related to pensions & OPEB	39	\$ 339,356
Change in deferred inflows related to pensions & OPEB	39	(4,103,432)
Change in net pension and OPEB liability/asset	39	8,355,640
		\$ 4,591,564
AELR–Reconciliation		
Pension/OPEB expense (income) – subtraction		3,329,293
Pension/OPEB contributions – addition		1,262,271
		\$ 4,591,564

Note – 11 Bad Debt Expense

The amounts for bad debt expense include \$37,892 for governmental funds and (\$62,149) for enterprise funds, both of which are recorded in operating expenses in the ACFR on pages 25 and 35.

Note – 12 Capital Contributions

	ACFR Page	Governmental	Enterprise
Contribution revenue	25	\$ 996,751	-
Capital contribution related to grants	35	-	\$ 961,364
Contribution from external sources	35	-	3,035,607
Capital contribution external revenue		-	3,996,971
Less: non-excludable		(826,850)	(3,996,971)
Exclusion of contributions private - Part II B.6		\$ 169,901	\$ -

Notes to Annual Expenditure Limitation Report – Continued

Note - 13 IBNR

The deduction of \$318,778 is for removing the current year claims expense estimate. ACFR footnote page 73.

The addition of \$247,058 is for reflecting the actual claims paid in the current year. ACFR footnote page 73.

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.

	ACFR Page	Enterprise	Internal Service
Interfund services provided	37	\$ 655,805	
Insurance charge for service	35		\$ 10,123,104
Less: Charges in excess of expenditures			(1,683,335)
Exclusion of Quasi-external transactions - Part II B.8		\$ 655,805	\$ 8,439,769