



CITY OF FLAGSTAFF, ARIZONA

REPORT ON AUDIT OF
ANNUAL EXPENDITURE LIMITATION REPORT

JUNE 30, 2016



CliftonLarsonAllen LLP
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INDEPENDENT ACCOUNTANTS' REPORT

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

We have examined the accompanying Annual Expenditure Limitation Report of the City of Flagstaff, Arizona, for the year ended June 30, 2016. This report is the responsibility of the City of Flagstaff, Arizona's 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 the City of Flagstaff, Arizona, for the year ended June 30, 2016, referred to above presents fairly, in all material respects, the information required by the uniform expenditure reporting system on the basis of accounting described in Note 1.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
March 8, 2017

CITY OF FLAGSTAFF
Annual Expenditure Limitation Report—Part I
Year Ended June 30, 2016

1. Economic Estimates Commission expenditure limitation	\$ 140,651,422	
2. Voter-approved alternative expenditure limitation (Approved _____)	_____	
3. Enter applicable amount from Line 1 or Line 2		<u>140,651,422</u>
4. Amount subject to the expenditure limitation (total amount from Part II, Line C)	<u>109,299,319</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>\$ 109,299,319</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>\$109,299,319</u>
12. Amount under (in excess of) the expenditure limitation (If excess expenditures are reported, provide an explanation.)		<u><u>\$31,352,103</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: *Rick Tadder*

Name and Title: Rick Tadder, Management Services Director

Telephone Number: (928) 213-2205

Date: March 8, 2017

See accompanying notes to report.

CITY OF FLAGSTAFF
Annual Expenditure Limitation Report—Reconciliation
Year Ended June 30, 2016

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>	\$104,324,288	\$48,784,534	\$6,680,688	\$159,789,510
B. Subtractions:				
1. Items not requiring use of working capital:				
Depreciation, <i>Note 11</i>		13,013,645		13,013,645
Loss on disposal of capital assets, <i>Note 8</i>		184,756		184,756
Bad debt expense	196,292	76,087		272,379
Other postemployment benefits expense <i>Note 11</i>				-
Claims incurred but not reported- <i>Note 13</i>			205,242	205,242
Landfill closure and postclosure care costs <i>Note 11</i>		260,057		260,057
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	\$196,292	\$13,534,545	\$205,242	\$13,936,079
C. Additions:				
1. Principal payments on long-term debt <i>Note 11</i>		2,941,733		2,941,733
2. Acquisition of capital assets <i>Note 11</i>		7,690,366		7,690,366
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>			276,185	276,185
5. Landfill closure and postclosure care costs recorded as expended in previous years, <i>Note 11</i>				-
				-
				-
6. Total additions		\$10,632,099	\$276,185	\$10,908,284
D. Amounts reported on Part II, line A	\$104,127,996	\$45,882,088	\$6,751,631	\$156,761,715

See accompanying notes to report.

CITY OF FLAGSTAFF
Annual Expenditure Limitation Report—Part II
Year Ended June 30, 2016

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
A. Amounts reported on the Reconciliation, Line D	\$104,127,996	\$45,882,088	\$6,751,631	\$156,761,715
B. Less exclusions claimed:				
1. Bond proceeds <i>Note 2</i>	-	-	-	-
Debt service requirements on bonded indebtedness <i>Note 3</i>	15,365,294	88,224	-	15,453,518
Proceeds from other long-term obligations <i>Note 2</i>	-	-	-	-
Debt service requirements on other long-term obligations <i>Note 4</i>	135,571	4,245,684	-	4,381,255
2. Dividends, interest, and gains on the sale or redemption of investment securities <i>Note 5</i>	712,742	336,685	-	1,049,427
3. Trustee or custodian	-	-	-	-
4. Grants and aid from the federal government <i>Note 6</i>	2,859,305	4,939,634	-	7,798,939
5. Grants, aid, contributions, or gifts from a private agency, organization, or individual except amounts received in lieu of taxes <i>Note 12</i>	1,428,518	-	-	1,428,518
6. Amounts received from State of AZ <i>Note 6</i>	871,778	67,839	-	939,617
7. Quasi-external interfund transactions <i>Note 14</i>	-	420,227	6,751,631	7,171,858
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>	3,975,448	-	-	3,975,448
10. Contracts with other political subdivisions <i>Note 6</i>	4,275,555	-	-	4,275,555
11. Refunds, reimbursements, and other recoveries <i>Note 5</i>	28,173	-	-	28,173
12. Voter-approved exclusions not identified above (attach resolution)	-	-	-	-
13. Prior years carryforward <i>Note 2; Note 9</i>	960,088	-	-	960,088
14. Total exclusions claimed	\$30,612,472	\$10,098,293	\$6,751,631	\$47,462,396
C. Amounts subject to the expenditure limitation (If an individual fund category/type amount is negative, reduce exclusions claimed to net to zero.)	\$73,515,524	\$35,783,795	\$0	\$109,299,319

See accompanying notes to report.

City of Flagstaff
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2016

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	FY 2016 Activity Allocation		Amount to be Carried Forward
		Expended in Prior Years	Expended in FY 2016	
Governmental Funds				
Bonded debt:				
Bond – capital projects 2013	\$ 434,695		\$ 53,785	\$ 380,910
Bond – capital projects 2014	906,303	-	906,303	-
Total bonded governmental	<u>\$ 1,340,998</u>	<u>-</u>	<u>960,088</u>	<u>\$ 380,910</u>
Less: Proceeds used in current year – Part II – B. 1(a)			-	
Total bonded related to prior year carryforward Part II – B.13.			<u>\$ 960,088</u>	
Capital outlay – capital projects – CAFR p.111			\$ 949,332	
Capital outlay BBB – capital projects – CAFR p.110			2,087,380	
Less: capital expenditures not related to bonded projects			<u>(2,076,624)</u>	
Total capital outlay and expenditures available for exclusion			<u>\$ 960,088</u>	
Unspent capital related debt – CAFR p.64				<u>\$ 380,910</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.

	Governmental	Enterprise
Bonded debt		
Principal retirement (footnote p.78)	\$ 12,877,348	\$ 65,637
Interest and fiscal charges	2,487,946	22,587
Total Part II – B. 1(b)	\$ 15,365,294	\$ 88,224

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.78)	\$ 102,921	\$ 2,876,098
Rounding	-	
Interest and fiscal charges	32,650	1,369,586
Total Part II – B. 1(d)	\$ 135,571	\$ 4,245,684

Reconciliation of Indebtedness:

	Governmental	Enterprise
Principal payments CAFR p. 26/27	\$ 12,980,269	\$ -
Interest payments CAFR p. 26/27	2,520,596	-
Principal payments CAFR p. 38/39	[REDACTED]	2,941,733
Interest payments CAFR p. 38/39	[REDACTED]	1,392,175
	\$ 15,500,865	\$ 4,333,908
Note 3 bonded debt (above)	\$ 15,365,294	\$ 88,224
Note 4 other long-term (above)	135,571	4,245,684
	\$ 15,500,865	\$ 4,333,908

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	\$ 28,173	\$ -	\$ -
Non qualifying miscellaneous revenue	1,404,390	119,175	-
Total miscellaneous and other financing	<u>\$ 1,404,390</u>	<u>\$ 119,175</u>	<u>\$ -</u>
Total miscellaneous revenue (CAFR p.27)	1,404,390		
Total miscellaneous revenue (CAFR p.37)	<u>1,404,390</u>	119,175	-
Total miscellaneous revenue	<u>\$ 1,404,390</u>	<u>\$ 119,175</u>	<u>\$ -</u>
Exclusion line B.11.			
Allowable exclusion from misc. revenue	\$ 28,173	\$ -	\$ -
Subtotal of allowable exclusion	<u>28,173</u>	<u>-</u>	<u>-</u>
Actual exclusion taken on line B.11.	<u>28,173</u>	<u>-</u>	<u>-</u>
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	\$ 712,742	\$ 336,685	\$ 31,781
Realized gain on disposal of investments	-		
Realized loss on disposal of investments	38,698		
Unrealized gain (loss)	885,209		
Total investment earnings (CAFR p.27)	<u>\$ 1,636,650</u>		
Total investment earnings (CAFR p.37)	<u>1,636,650</u>	<u>\$ 336,685</u>	<u>\$ 31,781</u>
Exclusion line B. 2.			
Other investment earnings	\$ 712,742	\$ 336,685	\$ 31,781
Subtotal of allowable exclusion (CAFR p.61)	<u>712,742</u>	<u>336,685</u>	<u>31,781</u>
Actual exclusion taken on line B.2.	<u>712,742</u>	<u>336,685</u>	<u>-</u>
CARRYFORWARD TO FUTURE YEARS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,781</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
Exclusions claimed:		
Grants and aid from the federal government – B.4.	\$ 2,859,305	\$ 4,939,634
Amounts received from the state – B. 6.	871,778	67,839
Highway user revenues – excludable, see note 7	3,975,448	
Total exclusions claimed	7,706,531	5,007,473
Non-excludable:		
Highway user revenues – non excludable	1,059,835	
Highway user revenues – current carryforward	2,257,072	
Local transportation assistance	-	
Total grants and entitlements revenue CAFR p. 27	\$ 11,023,438	
Grants and entitlements revenue CAFR p. 37		368,304
Total grants and entitlements revenue		4,639,169
		\$ 5,007,473
Exclusions claimed:		
Contracts with other political subdivisions – B.10.	\$ 4,275,555	
Non-excludable:		
State shared revenue	17,080,153	
Total intergovernmental revenue CAFR p. 27	\$ 21,355,708	
Schedule of Expenditures of Federal Awards	Governmental Funds	Enterprise Funds
Grants and aid reported on FY16 SEFA	\$ 2,859,305	\$ 4,939,634
Total federal government grant and aid exclusion – B.4.	\$ 2,859,305	\$ 4,939,634

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 FY16 – CAFR p.26	\$ 7,292,355
Less: Grant	
HURF revenues for fiscal year 2016	<u>\$ 7,292,355</u>
HURF revenues received in FY16 equal to FY79–80 revenue received	<u>(1,059,835)</u>
Revenues available for exclusion FY16	<u>\$ 6,232,520</u>
HURF expenditures for FY16	\$ 9,615,576
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>\$ 8,555,741</u>
Revenues available for exclusion in current fiscal year	<u>\$ 6,232,520</u>
Revenues expended and claimed as an exclusion in the current fiscal year	(3,975,448)
Prior carryforward used in current year	–
Total exclusion in current fiscal year – Part II – B.9	<u>(3,975,448)</u>
Unspent excludable revenue available for carryforward in future years	<u>\$ 2,257,072</u>

Note — 8 Total Expenditures/Expenses

Total expenditures/expenses reported within the fund financial statements.

	Governmental	Enterprise	ISF
Total expenditures (CAFR p.27)	\$ 104,324,288	[REDACTED]	[REDACTED]
Total operating expenses (CAFR p.37)	[REDACTED]	\$ 47,254,236	\$ 6,680,688
Interest expense (CAFR p.37)	[REDACTED]	1,345,542	–
Loss on sale of capital asset (CAFR p.37)	[REDACTED]	184,756	–
Total expenses as reported on line A	<u>\$ 104,324,288</u>	<u>\$ 48,784,534</u>	<u>\$ 6,680,688</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	\$ -	\$ -	\$ -	\$ 31,781
HURF revenues – Note 7	-	2,257,072	-	-
Use of prior year carryforwards				
Debt proceeds – Note 2 – Part II B.13.	(960,088)	-	-	-
Total carryforwards	<u>\$ (960,088)</u>	<u>\$ 2,257,072</u>	<u>\$ -</u>	<u>\$ 31,781</u>

Note — 10 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
Total	<u>\$ 25,050,269</u>	<u>\$ 6,818,603</u>	<u>\$ 15,731,994</u>	<u>\$ 716,452</u>	<u>\$ 48,317,318</u>

Notes to Annual Expenditure Limitation Report – Continued

Note — 11 Reconciliation Subtractions and Additions

	Enterprise
<u>Reconciliation Subtractions</u>	
Depreciation CAFR p.37	\$ 13,013,645
Depreciation footnote p.65	\$ 13,013,645
FY 2015 beginning balance	\$ 7,895,618
Landfill closure and postclosure care costs p.35	(8,155,675)
FY2016 accrual – Recon B.1(f) – CAFR p. 41	\$ (260,057)
Total landfill closure (footnote p.97)	\$ 260,057
 <u>Reconciliation Additions</u>	
Principal payments on long-term debt CAFR p.39	\$ 2,941,733
Principal payments on bonded debt footnote p.78	65,637
Principal payments on other debt footnote p.78	2,876,096
	\$ 2,941,733
Acquisitions of capital assets CAFR p.39	\$ 7,690,366
Increase of capital assets non- depr, footnote p.65	\$ 5,939,946
Increase of capital assets depr, footnote p.65	6,367,083
Less: capital assets donated CAFR p.41	(1,722,712)
Less: WIP Completed	(2,886,869)
Less: Trade In	(7,082)
	\$ 7,690,366

Note — 12 Capital Contributions

	Governmental	Enterprise
Contribution revenue CAFR p.27	\$ 1,962,364	
Contribution of donated capital assets – CAFR p.37		\$ 368,304
Contribution of capital by donor – grantor – CAFR p.37		4,510,725
Capital contribution external revenue		4,879,029
Less: non-excludable	(533,846)	(4,879,029)
Exclusion of contributions private – Part II B.5	\$ 1,428,518	\$ -

Notes to Annual Expenditure Limitation Report – Continued

Note – 13 IBNR

The deduction of \$205,242 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 79.

The addition of \$276,185 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 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.39	\$ 420,227	-
Insurance claims and expenses CAFR p. 37	-	\$ 6,680,688
Less: Claims incurred but not reported	-	(205,242)
Add: Claims paid in the current year	-	276,185
Exclusion of Quasi-external transactions – Part II B.7	\$ 420,227	\$ 6,751,631