



City of Flagstaff, Arizona

Report on Examination of Annual Expenditure Limitation Report

June 30, 2019

City of Flagstaff
Annual Expenditure Limitation Report
Year Ended June 30, 2019

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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, 2019, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
March 25, 2020

City of Flagstaff
 Annual Expenditure Limitation Report - Part I
 Year Ended June 30, 2019

<u>1.</u> Economic Estimates Commission expenditure limitation	\$	<u>154,582,542</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>154,582,542</u>
<u>4.</u> Amount subject to the expenditure limitation (total amount from part II, line C)	\$	<u>122,188,927</u>	
<u>8.</u> Subtotal		<u>-</u>	\$ <u>122,188,927</u>
<u>10.</u> Total adjusted amount subject to the expenditure limitation			\$ <u>122,188,927</u>
<u>11.</u> Amount under (in excess of) the expenditure limitation			\$ <u><u>32,393,615</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: March 25, 2020

See accompanying notes to report

City of Flagstaff
Annual Expenditure Limitation Report - Part II
Year Ended June 30, 2019

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Total
<u>A.</u> Amounts reported on the reconciliation, line D	\$ 117,068,640	\$ 54,724,581	\$ 7,724,204	\$ 179,517,425
<u>B.</u> Less exclusions claimed:				
<u>1.</u> Debt proceeds	-	9,089,822	-	9,089,822
<u>2.</u> Debt service requirements	13,444,046	4,123,625	-	17,567,671
<u>3.</u> Dividends, interest, and gains on the sale or redemption of investment securities	133,403	12,940	-	146,343
<u>4.</u> Trustee or custodian	-	-	-	-
<u>5.</u> Grants and aid from the federal government	2,093,085	5,441,542	-	7,534,627
<u>6.</u> Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes	98,870	-	-	98,870
<u>7.</u> Amounts received from the State of Arizona	719,426	24,782	-	744,208
<u>8.</u> Quasi-external interfund transactions	-	461,154	7,724,204	8,185,358
<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	7,404,043	-	-	7,404,043
<u>11.</u> Contracts with other political subdivisions	4,755,726	-	-	4,755,726
<u>12.</u> Refunds, reimbursements, and other recoveries	61,473	2,505	-	63,978
<u>13.</u> Voter-approved exclusions not identified above	-	-	-	-
<u>14.</u> Prior years carryforward (uses)	1,737,852	-	-	1,737,852
<u>15.</u> Qualifying capital improvement expenditures repaid in accordance with A.R.S. §41-1279.07	-	-	-	-
<u>16.</u> Total exclusions claimed	<u>30,447,924</u>	<u>19,156,370</u>	<u>7,724,204</u>	<u>57,328,498</u>
<u>C.</u> Amounts subject to the expenditure limitation	<u>\$ 86,620,716</u>	<u>\$ 35,568,211</u>	<u>\$ -</u>	<u>\$ 122,188,927</u>

See accompanying notes to report

City of Flagstaff
Annual Expenditure Limitation Report - Reconciliation
Year Ended June 30, 2019

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	\$ 117,647,098	\$ 53,494,884	\$ 7,681,603	\$ 178,823,585
<u>B.</u> Subtractions:				
<u>1.</u> Items not requiring use of current financial resources:				
<u>a.</u> Depreciation	-	13,688,017	-	13,688,017
<u>b.</u> Loss on disposal of capital assets	-	516,192	-	516,192
<u>c.</u> Bad debt expense - see note 11	405,800	91,398	-	497,198
<u>d.</u> Other postemployment benefits (OPEB) expense	-	137,906	-	137,906
<u>e.</u> Claims incurred but not reported (IBNR)	-	-	135,593	135,593
<u>f.</u> Landfill closure and postclosure care costs	-	476,314	-	476,314
<u>g.</u> Pension expense	-	1,011,309	-	1,011,309
<u>2.</u> Expenditures of separate legal entities established under Arizona Revised Statutes	-	-	-	-
<u>3.</u> Required fees paid to Arizona Department of Revenue	172,658	-	-	172,658
<u>4.</u> Present value of net minimum capital lease and installment purchase contract payments recorded as expenditures at the agreements' inception	-	-	-	-
<u>5.</u> Involuntary court judgments	-	-	-	-
<u>6.</u> Total subtractions	<u>578,458</u>	<u>15,921,136</u>	<u>135,593</u>	<u>16,635,187</u>
<u>C.</u> Additions:				
<u>1.</u> Principal payments on long-term debt	-	3,318,519	-	3,318,519
<u>2.</u> Capital asset acquisitions	-	12,494,687	-	12,494,687
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	-	-	178,194	178,194
<u>c.</u> Landfill closure and postclosure care costs	-	-	-	-
<u>4.</u> Pension contributions paid in the current year	-	1,337,627	-	1,337,627
<u>5.</u> Total additions	<u>-</u>	<u>17,150,833</u>	<u>178,194</u>	<u>17,329,027</u>
<u>D.</u> Amounts reported on part II, line A	<u>\$ 117,068,640</u>	<u>\$ 54,724,581</u>	<u>\$ 7,724,204</u>	<u>\$ 179,517,425</u>

See accompanying notes to report

City of Flagstaff
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2019

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:

	CAFR Page	Debt Proceeds	Amount Carried Forward - PY	FY 2019 Activity Allocation		Amount to be Carried Forward
				Expended in Prior Years	Expended in FY 2019	
Governmental Funds						
Bonded debt:						
Bond - Proceeds 2016		\$ -	\$ 2,728,138	\$ -	\$ 754,549	\$ 1,973,589
Total bonded governmental		<u>\$ -</u>	<u>\$ 2,728,138</u>	<u>-</u>	<u>754,549</u>	<u>\$ 1,973,589</u>
Less: Proceeds used in current year - Part II - B. 1					-	
Total bonded related to prior year carryforward, see note 8.					<u>\$ 754,549</u>	
Unspent capital related debt proceeds	53					1,973,589
Total						<u>\$ 1,973,589</u>
		Debt Proceeds	Amount Carried Forward - PY	FY 2019 Activity Allocation		Amount to be Carried Forward
				Expended in Prior Years	Expended in FY 2019	
Enterprise Funds						
Other long-term debt:						
Loans Payable - Water Services	66	\$ 21,068	\$ -	\$ -	\$ 21,068	\$ -
Capital Lease - Environmental	66	720,842	-	-	720,842	-
Bond - Water Services	66	9,585,000	-	-	8,347,912	1,237,088
Total other Part II - B.1(c)		<u>\$ 10,326,910</u>	<u>\$ -</u>	<u>\$ -</u>	<u>9,089,822</u>	<u>\$ 1,237,088</u>
Less: Proceeds used in current year - Part II - B. 1.					\$ (9,089,822)	
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.

	CAFR Page	Governmental	Enterprise
Bonded Debt, Capital Lease and Other Loans			
Bonds payable - principal retirement	66	\$ 10,660,912	\$ 1,078,942
Other debt - principal retirement	66	222,359	2,239,577
Interest and fiscal charges	25/33	2,560,775	805,106
Total debt service - Part II - B. 2		\$ 13,444,046	\$ 4,123,625

Note – 4 Miscellaneous Revenue and Investment Earnings

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

	CAFR Page	Governmental	Enterprise	Internal Service
Recovery of damage claims		\$ 61,473	\$ 2,505	\$ -
Non qualifying miscellaneous revenue		650,979	121,096	-
Total miscellaneous and other financing		<u>\$ 712,452</u>	<u>\$ 121,096</u>	<u>\$ -</u>
Total miscellaneous revenue	25	\$ 712,452		
Total miscellaneous revenue	33		123,601	-
Total miscellaneous revenue		<u>\$ 712,452</u>	<u>\$ 123,601</u>	<u>\$ -</u>
Exclusion line B.12				
Allowable exclusion from misc. revenue		\$ 61,473	\$ 2,505	\$ -
Subtotal of allowable exclusion		61,473	2,505	-
Actual exclusion taken on line B.12		61,473	2,505	-
Carryforward to Future Years		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of investment earnings				
		Governmental	Enterprise	Internal Service
Other investment earnings		\$ 1,932,036	\$ 1,077,312	\$ 60,561
Realized loss on disposal of investments		(158,222)		
Unrealized gain (loss)		3,263,599		
Total investment earnings	25	<u>\$ 5,037,413</u>		
Total investment earnings	33		<u>\$ 1,077,312</u>	<u>\$ 60,561</u>
Exclusion line B. 3.				
Other investment earnings		\$ 1,932,036	\$ 1,077,312	\$ 60,561
Subtotal of allowable exclusion		1,932,036	1,077,312	60,561
Actual exclusion taken on line B.3.		133,403	12,940	-
Carryforward to Future Years		<u>\$ 1,798,633</u>	<u>\$ 1,064,372</u>	<u>\$ 60,561</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	CAFR Page	Governmental Funds	Enterprise Funds	Internal Service Fund
Exclusions claimed:				
Grants and aid from the federal government - B.5.		\$ 2,093,085	\$ 5,441,542	\$ -
Amounts received from the state - B.7.		719,426	24,782	-
Highway user revenues - excludable, see note 6		7,404,043	-	-
Total exclusions claimed		<u>10,216,554</u>	<u>5,466,324</u>	<u>-</u>
Non-excludable:				
Highway user revenues - non excludable		1,059,835		
Highway user revenues - current carryforward		-		
Other Revenues Non-Excludable		216,405	-	
Total grants and entitlements revenue		<u>\$ 11,492,794</u>	<u>\$ 5,466,324</u>	
Capital grants as part of capital contribution	33	-	106,972	-
Grants and entitlements revenue	25/33	11,492,794	5,359,352	-
Total grants and entitlements revenue		<u>\$ 11,492,794</u>	<u>\$ 5,466,324</u>	<u>\$ -</u>
Exclusions claimed:				
Contracts with other political subdivisions - B.11.		\$ 4,755,726		
Non-excludable:				
State shared revenue		19,400,339		
Total intergovernmental revenue	25	<u>\$ 24,156,065</u>		
		Governmental	Enterprise	
		Funds	Funds	Total
<u>Schedule of Expenditures of Federal Awards</u>				
Grants and aid reported on FY19 SEFA		<u>\$ 2,093,085</u>	<u>\$ 5,441,542</u>	<u>\$ 7,534,627</u>
Total federal government grant and aid exclusion - B.5.		<u>\$ 2,093,085</u>	<u>\$ 5,441,542</u>	<u>\$ 7,534,627</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:

	CAFR Page	HURF Fund
Total Grants and Entitlements	98	\$ 8,464,112
Less: Grant		(234)
HURF revenue received in current fiscal year		\$ 8,463,878
HURF revenues received equal to FY79-80 revenue received		(1,059,835)
Revenues available for exclusion		\$ 7,404,043
HURF expenditures	98	\$ 11,446,880
HURF transfers out	98	13,000
Less: Non HURF revenues and transfer in (License permits, interest)		(2,012,699)
Less: Amt equal to FY79-80 revenues expended in current fiscal year		(1,059,835)
Excludable revenues expended in current fiscal year		\$ 8,387,346
Revenues available for exclusion in current fiscal year		\$ 8,387,346
Revenues expended and claimed as an exclusion in the current fiscal year		(8,387,346)
Prior carryforward used in current year		983,303
Total exclusion in current fiscal year - Part II - B.10		(7,404,043)
Unspent excludable revenue available for carryforward in future years		\$ -

Note – 7 Total Expenditures/Expenses

Total expenditures/expenses reported within the fund financial statements.

	CAFR Page	Governmental	Enterprise	Internal Service Fund
Total expenditures	25	\$ 117,647,098		
Total operating expenses	33		\$ 52,173,586	\$ 7,681,603
Interest expense	33		805,106	-
Loss on sale of capital asset	33		516,192	-
Total expenses as reported on line A		\$ 117,647,098	\$ 53,494,884	\$ 7,681,603

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	\$ 1,798,633	\$ -	\$ 1,064,372	\$ 60,561
Debt proceeds - Note 2	-	-	1,237,088	-
Use of prior year carryforwards				
Debt proceeds - Note 2	(754,549)	-	-	-
HURF revenues - Note 6	(754,549)	(983,303)	-	-
Carryforwards used - Part II B.14.	(754,549)	(983,303)	-	-
Total carryforwards	<u>\$ 1,044,084</u>	<u>\$ (983,303)</u>	<u>\$ 2,301,460</u>	<u>\$ 60,561</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
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
Total	<u>\$ 30,732,950</u>	<u>\$ 7,121,533</u>	<u>\$ 19,022,674</u>	<u>\$ 835,149</u>	<u>\$ 57,712,306</u>

Notes to Annual Expenditure Limitation Report – Continued

Note – 10 Reconciliation Subtractions and Additions

Reconciliation Subtractions	CAFR Page	Enterprise
Depreciation	33	\$ 13,688,017
Landfill closure and postclosure care costs	30	\$ 14,948,378
FY 2019 beginning balance		(14,472,064)
FY2019 accural - Recon B.1(f)	37	\$ 476,314
OPEB expense		\$ 137,906
Net pension expense		1,011,309
Pension/OPEB expense	69	\$ 1,149,215
Reconciliation Additions		
Principal payments on bonded debt footnote	66	\$ 1,078,942
Principal payments on other debt footnote	66	2,239,577
		\$ 3,318,519
Increase of capital assets non- depreciation	54	\$ 10,249,233
Increase of capital assets depreciation	54	11,826,478
Less: capital assets donated	37	(812,649)
Less: WIP Completed		(8,768,375)
		\$ 12,494,687

Note – 11 Bad Debt Expense

The amounts for debt expense include \$405,800 for governmental funds and \$91,398 for enterprise funds, both of which are recorded in Operating expenses in the CAFR on pages 25 and 33.

Notes to Annual Expenditure Limitation Report – Continued

Note – 12 Capital Contributions

	CAFR Page	Governmental	Enterprise
Contribution revenue	25	\$ 457,752	-
Capital contribution related to grants	33	-	\$ 106,972
Contribution from external sources	33	-	5,277,892
Capital contribution external revenue		-	5,384,864
Less: non-excludable		(358,882)	(5,384,864)
Exclusion of contributions private - Part II B.6		\$ 98,870	\$ -

Note - 13 IBNR

The deduction of \$135,593 is for removing the current year claims expense estimate. CAFR footnote page 67.

The addition of \$178,194 is for reflecting the actual claims paid in the current year. CAFR footnote page 67.

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.

	CAFR Page	Enterprise	Internal Service
Interfund services provided	35	\$ 461,154	-
Insurance charge for service	35	-	\$ 7,996,596
Less: Charges in excess of expenditures		-	(272,392)
Exclusion of Quasi-external transactions - Part II B.8		\$ 461,154	\$ 7,724,204