



HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of City of Prescott, Arizona as of and for the year ended June 30, 2012, and have issued our separate report thereon dated November 23, 2012. We have also audited the accompanying Annual Expenditure Limitation Report of City of Prescott, Arizona for the year ended June 30, 2012. This report is the responsibility of the City's management. Our responsibility is to express an opinion on this report based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall report presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Annual Expenditure Limitation Report was prepared for the purpose of complying with the uniform expenditure reporting system as discussed in Note 1, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Annual Expenditure Limitation Report of City of Prescott, Arizona, for the year ended June 30, 2012, 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.

This report is intended solely for the information and use of the members of the Arizona State Legislature and for filing with 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.

Henry & Horne LLP

Casa Grande, Arizona
November 23, 2012

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CITY OF PRESCOTT
 Annual Expenditure Limitation Report - Part I
 Year Ended June 30, 2012

1. Economic Estimates Commission expenditure limitation	\$	<u>48,079,939</u>	
2. Voter approved alternative expenditure limitation (Approved September 13, 2005)		<u>162,607,131</u>	
3. Enter applicable amount from Line 1 or line 2			\$ <u>162,607,131</u>
4. Amount subject to the expenditure limitation (total amount from Part II, Line C)		<u>104,653,249</u>	
5. Board-authorized expenditures necessitated by a disaster declared by the Governor and not approved by the voters (Article IX, §20[2][a], Arizona Constitution)	-	<u>-</u>	
6. Board-authorized expenditures necessitated by a disaster not declared by the Governor and approved by the voters (Article IX, §20[2][b], Arizona Constitution)	-	<u>-</u>	
7. Prior-year voter-approved expenditures to exceed the expenditure limitation for the reporting fiscal year (Article IX, §20[2][c], Arizona Constitution)	-	<u>-</u>	
8. Subtotal		<u>104,653,249</u>	
9. Board-authorized excess expenditures for the previous fiscal year not approved by the voters (Article IX, §20[2][b], Arizona Constitution)	+	<u>-</u>	
10. Total adjusted amount subject to the expenditure limitation			<u>104,653,249</u>
11. Amount under (in excess of) the expenditure limitation (If excess expenditures are reported, provide an explanation.)			\$ <u><u>57,953,882</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 : 

Name and Title : Mark Woodfill, Finance Director

Telephone Number : (928) 777-1222

Date : November 23, 2012

CITY OF PRESCOTT
Annual Expenditure Limitation Report - Part II
Year Ended June 30, 2012

<u>Description</u>	<u>Governmental Funds</u>	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>
A. Amounts reported on the Reconciliation, Line D	\$ 54,016,995	\$ 43,400,898	\$ 7,235,356	\$ -	\$ 104,653,249
B. Less exclusions claimed:					
1. Bond proceeds					
Debt service requirements on bonded indebtedness					
Proceeds from other long-term obligations					
Debt service requirements on other long-term obligations					
2. Dividends, interest, and gains on the sale or redemption of investment securities					
3. Trustee or custodian					
4. Grants and aid from the Federal Government					
5. Grants, aid, contributions, or gifts from a private agency, organization, or individual except amounts received in lieu of taxes					
6. Amounts received from the State					
7. Quasi-external interfund transactions					
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 1978-80					
10. Contracts wit other political subdivisions					
11. Refunds, reimbursements, and other recoveries					
12. Voter-approved exclusions not identified above (attach resolution)					
13. Prior years carryforward					
14. Total exclusions claimed	-	-	-	-	-
C. Amount subject to the expenditure limitation (If an individual fund type amount is negative, reduce exclusions claimed to net to zero.)	\$ 54,016,995	\$ 43,400,898	\$ 7,235,356	\$ -	\$ 104,653,249

See accompanying notes to the report.

CITY OF PRESCOTT
Annual Expenditure Limitation Report - Reconciliation
Year Ended June 30, 2012

	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
A. Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund-based financial statements	\$ 54,778,509	\$ 31,973,259	\$ 6,963,117	\$ -	\$ 93,714,885
B. Subtractions:					
1. Items not requiring use of working capital:					
Depreciation	-	6,930,768	704,363	-	7,635,131
Loss on disposal of capital assets	-	-	-	-	-
Bad debt expense	-	-	-	-	-
Claims incurred but not reported (Note 4)	-	-	595,441	-	595,441
Landfill closure and postclosure care costs	-	-	-	-	-
2. Expenditures of separate legal entities established under Arizona Revised Statutes (Note 2)	761,514	-	-	-	761,514
3. Present value of net minimum capital lease and installment purchase contract payments recorded as expenditures at inception of the agreements	-	-	-	-	-
4. Involuntary court judgements	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
5. Total subtractions	761,514	6,930,768	1,299,804	-	8,992,086
C. Additions:					
1. Principal payments on long-term debt	-	5,242,135	200,148	-	5,442,283
2. Acquisition of capital assets	-	13,113,245	381,641	-	13,494,886
3. Claims paid in the current year but reported as expenses incurred but not reported in previous years (Note 5)	-	-	990,254	-	990,254
4. Landfill closure and postclosure care costs paid in the current year but reported as expenses in previous years (Note 3)	-	3,027	-	-	3,027
	-	-	-	-	-
	-	-	-	-	-
5. Total additions	-	18,358,407	1,572,043	-	19,930,450
D. Amount reported on Part II, Line A	\$ 54,016,995	\$ 43,400,898	\$ 7,235,356	\$ -	\$ 104,653,249

See accompanying notes to the report.

CITY OF PRESCOTT
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2012

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, and in accordance with the voter-approved alternative expenditure limitation plan adopted September 13, 2005, as authorized by the Arizona Constitution, Article IX, §20(9).

In accordance with UERS requirements, a note to the AELR is presented below for each subtraction or addition in the Reconciliation that cannot be traced directly to an amount reported in the fund based financial statements. All references to financial statement amounts in the following notes refer to the Statement of Revenues, Expenditures, and Changes in Fund Balances for the Governmental Funds, Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Proprietary Funds, Statement of Cash Flows for the Proprietary Funds, and the Statement of Changes in Fiduciary Net Assets for the Fiduciary Funds.

Note 2 - Expenditures of Separate Legal Entities Reported on Reconciliation

The expenditures shown on the reconciliation as "Expenditures of separate legal entities established under Arizona Revised Statutes" are from the Hassayampa Community Facilities District 1 and 2:

Page 29 CFD Debt Service \$ 761,514

Note 3 - Landfill Closure and Postclosure Care Costs

The additions shown on the reconciliation as "Landfill closure and postclosure care costs recorded in the previous years" are the portion of the Sanitation Fund operating expenses - other services and charges related to postclosure care costs. These expenses were recognized in fiscal year 2002. This amount reflects the portion recognized in the current fiscal year.

Note 4 - Claims Incurred but Not Reported

The subtraction of \$595,441 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.

Note 5 - Claims paid in the current year, but reported as expenses incurred but not reported in previous years

The addition of \$990,254 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."