

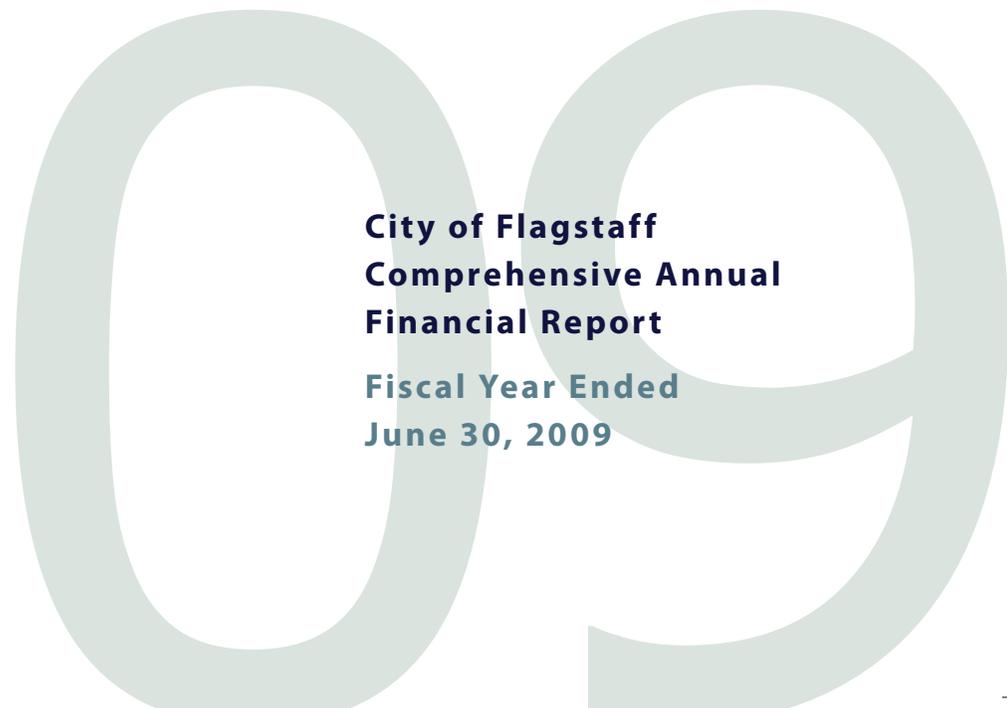


Enhancing
Flagstaff's
Quality of Life
Through
Recreation

FLAGSTAFF, ARIZONA
2009

**City of Flagstaff
Comprehensive Annual
Financial Report**

**Fiscal Year Ended
June 30, 2009**



Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2009

City of Flagstaff, Arizona



**Prepared By:
Management Services Department
Finance and Budget Division**

City of Flagstaff
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2009

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City of Flagstaff

December 23, 2009

The Honorable Mayor, City Council and Citizens of the City of Flagstaff, Arizona

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Flagstaff, Arizona (City) for the fiscal year ended June 30, 2009, as required by Article VI, Section 5 of the City Charter. The report was prepared by the City's Finance Division in accordance with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Flagstaff. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Flagstaff has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Flagstaff's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Flagstaff's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Eide Bailly, LLP a firm of licensed certified public accountants have audited the City of Flagstaff's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Flagstaff for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Flagstaff's financial statements for the fiscal year ended June 30, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Flagstaff was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Flagstaff's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Flagstaff's MD&A can be found immediately following the report of the independent auditors.

CITY OF FLAGSTAFF PROFILE

Flagstaff is located in Coconino County, Arizona at the intersection of Interstate 17 and Interstate 40. Flagstaff is the largest city in Northern Arizona and is the regional center and county seat for Coconino County, the second largest county in the 48 contiguous states. The current population as of the 2009 estimate by the Arizona Department of Economic Security is approximately 64,693. The City of Flagstaff became a town in 1894, incorporated as a city in 1928 and its boundaries currently encompass an area of just over 64 square miles. Flagstaff is nestled at the base of the San Francisco Peaks and is surrounded by one of the largest ponderosa pine forests on earth. Flagstaff drew its name from a very tall pine tree made into a flagpole in 1876 to celebrate our nation's centennial. At nearly 7,000 feet, Flagstaff is one of the highest elevation cities in the United States.

Flagstaff operates under a council-manager form of government as provided by its Charter. The Mayor is elected at large on a non-partisan ballot for a two-year term and six City Council members are elected at large on a non-partisan ballot for a four-year term. The City Council appoints the City Manager, who has full responsibility for carrying out Council policies and administering City operations. The City manager, in turn, appoints City employees and department heads under service procedures specified by Charter. City service departments provide a full range of services including General Government, Police and Fire Protection, Environmental Services, Transportation, Library, Parks and Recreation, Airport, Water and Sewer, and Stormwater Services.

The annual budget serves as the foundation for Flagstaff's financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for all funds and entities related to the City. All of these funds and entities are included in the basic financial statements. The City Manager submits to the Council each spring a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Two public hearings are held prior to the budget's final adoption in order to obtain taxpayer comments. The budget is legally enacted through the passage of an ordinance. The ordinance sets the limit for expenditures during the fiscal year. The legal level of control for the budget is the division level. Additional expenditures may be authorized for unanticipated and/or inadequately budgeted events threatening the public health or safety as prescribed in the State Constitution, Article 9, Section 20.

FACTORS AFFECTING THE CITY'S FINANCIAL CONDITIONS

Local economy

The City of Flagstaff has had negative economic indicators since approximately December 2007. All local and state shared sales tax, construction revenues, state shared income tax, and highway user (gas tax) revenues have decreased. Housing sales have decreased and the median home price has decreased moderately. Our community partners in both the public, private, and governmental sectors have experienced closure, staffing layoffs or furloughs, and declining revenues. A number of new projects anticipated to build the retail sector have been delayed or canceled due to the lack of available capital. The economic analysts for our local and state region give mixed messages on when the recovery may start.

The City collects three different retail sales taxes:

The first is a 1% tax on all general sales, except for food. This is a general purpose tax that benefits the General Fund. The City of Flagstaff is the only city left in the State of Arizona that has a sunset clause on the general sales tax. This tax must go before the voters every ten years to be validated and this tax next expires in 2014. Currently, the City anticipates having the sales tax extension to 2024 on the May 18, 2010 ballot.

Local sales tax declines have been realized every month since December 2007 in comparison to the same month in the prior year except for April 2008. Overall city sales tax receipts have decreased 10.9%. While most local sales tax sectors have experienced reductions, the two industries with the greatest impact are construction with a 29.4% decrease and auto sales with a 35.0% decrease. Construction and auto sales represent 20% and 8% respectively of all sales tax receipts. Overall local sales tax estimates are more than \$5 million dollars less for Fiscal Year 2009–2010 than what had been projected for the same fiscal year a year ago.

The second is a 0.721% sales tax on the same types of general sales; however the tax is restricted in use to certain transportation projects. The four components of this tax include Safety Improvements, Street Improvements, 4th Street Overpass, and Transit. The transportation tax components expire in 2020. As this funding shifts from construction to maintenance, the City will pursue a permanent component to this tax. As similar sales are taxed with this source, revenue declines follow the same trends as the general sales tax.

The third tax is a Bed, Board, and Beverage (BBB) tax that collect an additional 2% for motel rooms/campgrounds, restaurants, and bars restricted in use to certain economic, arts, beautification, recreation or tourism activities. The BBB tax expires in 2013 and the City is working cooperatively with the local hoteliers and restaurateurs to evaluate the continuation of this tax to best meet City needs. Tourism is a major industry for our sector and overall sales have been consistently decreasing on a monthly basis since approximately July 2008 when the gas prices were peaking. In FY 2009, BBB tax revenues declined 2.6% and an additional 2% to 8% is indicated for Fiscal Year 2010.

State shared revenue consists of both a distribution of sales tax and income tax. These distributions are made based on a city or towns' relative share of population in comparison with all other cities and towns. Except during census years, Flagstaff's population is determined by the Arizona Department of Economic Security based on a number of factors including new homes and student enrollment. Flagstaff's greatest challenge is that while population is growing, it is growing at a slower rate than some of the other communities in the state. This has translated into a decreased proportionate share in the past. Currently the City is holding a steady population percentage in relationship to the rest of the state at approximately 1.25%.

The State has experienced similar or greater revenue declines as the City. Construction, tourism, and auto sales are the three hardest hit industries. For State Shared sales tax, the City received 13.4% less in FY 2009 than it did in FY2008 which is the second consecutive year of revenue decrease. In addition to sales tax declines, the distribution of personal income tax is not meeting stated projections. While revenue increased in FY2009 because the allocation base was legislatively set, declines of approximately 14% were budgeted for FY2010 and decreases will be even greater for FY2011.

Highway user revenue (gas tax) funds (HURF) ended FY2009 at 13.6% (\$1.0 million) less than FY2008. HURF revenues have experience three consecutive years of decreases with a cumulative reduction of \$1.5 million or 19.36%. These revenues are distributed based on a fairly complex Arizona Department of Transportation formula, based on part on the amount of fuel purchased in our region. As fuel prices have decreased from their peak of \$4 plus per gallon, we anticipate Flagstaff tourism to increase as we are a popular drive destination for Las Vegas, Los Angeles, and Phoenix, however that trend is not yet evident in our monthly receipts.

Primary property tax revenues continue to see slight increases even though property tax valuation has decreased. This occurs as there is an approximate 18 - 24 month lag in home valuation and property tax assessment payment. The City anticipates reduced property tax valuation to occur in FY2011. As the State of Arizona legislatively caps the primary property tax increases on an annual basis, homeowners realized a 4.9% mil rate decrease from \$0.7153 to \$0.6803 for FY2009.

A combination of all the revenue declines noted caused the General Fund to look at mid year reductions of approximately \$4.5 million dollars. Positions were frozen, travel was decreased, benefits were reduced, and all spending was curtailed for the fiscal year. Other funds also had to curb spending to meet anticipated revenue reductions, particularly Water and Wastewater as service fees have not met projections due to the decreased construction activity and successful conservation efforts.

LONG-TERM FINANCIAL PLANNING

The City's responsiveness to emerging economic challenges and its careful long-range planning have been key factors in Flagstaff's fiscal health. The City continues to plan in a five to ten year horizon as economic conditions change.

STRATEGIC FINANCIAL PLAN

Flagstaff's financial plan requires many elements working in concert with one another. Some of these financial plan elements are financial resource planning, multi-year budget planning, strategic capital improvement project planning and debt management, all of which are further identified below. Currently, due to the economic downturn, Flagstaff's financial forecast generally includes decreases in sales tax, income tax, and building related revenues. Many user fees have been static or have decreased. Financial Services management role will be to maintain and enhance the continued financial stability for the City of Flagstaff.

Financial Resource Planning – Strategic financial planning begins with determining the City’s fiscal capacity based upon long-term financial forecasts of recurring available revenues. Financial forecasts coupled with financial trend analysis help preserve the fiscal well being of Flagstaff. Strategic financial capacity planning is a critical element to reach long-term financial stability goals and to determine special financial needs for critical objectives of the City Council.

Multi-Year Budget Planning – Multi-year budget planning encompasses long-range operating expenditure plans (including the operating impacts of capital projects), which are linked to the community expectations and broad goals of the City Council. The multi-year approach provides a better opportunity for staff to change its financial paradigm from what do we need this year to how do we accomplish our service objectives over-time, given our financial capacity. While the City is required to adopt an annual budget to meet State statutory requirements, Flagstaff builds a financial plan for the next five years to help anticipate future impacts and ensure achievement of City objectives.

Strategic Capital Improvement Project Planning – Flagstaff Capital Improvement Projects are planned for five or more years and analyzed using City specific prioritization criteria. The operating cost impacts of projects are also planned and considered in developing future operating budget plans. Projects with significant operating impacts are carefully timed to avoid contingent liabilities, which future operating resources cannot meet. Pay-as-you-go funding sources are also conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used and/or required, capital project plans are sized to conform to existing debt management policies.

CASH MANAGEMENT POLICIES AND PRACTICES

The City’s investment policy is to invest all temporarily idle cash in investments authorized by City resolution or State statute at the highest available interest rate while emphasizing safety of principal and liquidity. Excess funds are invested in the State Treasurer’s Local Government Investment Pool (LGIP) and in obligations of the U.S. Treasury and its agencies, demand deposits and repurchase agreements. The maturities of the investments range from one day to 6 years. The average yield on investments was 4.05%.

RISK MANAGEMENT

The City maintains a self-insurance program for liability claims, unemployment compensation, health and workers’ compensation. In addition, the City’s Risk Management Division employs various risk control techniques, such as employee accident prevention training and inspection of City property and facilities, to minimize accident-related losses. Additional information on the City of Flagstaff risk management activity can be found in Note V.A. in the notes to the financial statements.

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

All full-time employees of the City are covered by one of three pension plans. The State Retirement System is for the benefit of the employees of the state and certain other governmental jurisdictions. All full-time City employees, except fire and police personnel, are included in the plan that is a multiple-employer, cost-sharing defined benefit pension plan. All police and fire personnel participate in the Public Safety Retirement System that is an agent multiple-employer plan. In addition, the Mayor and Council members contribute to the

State's Elected Officials plan that is also a multiple-employer cost-sharing pension plan.

Additional information on the City of Flagstaff pension arrangements can be found in Note V.C. in the notes to the financial statements.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

During FY 2008-2009, Flagstaff continued work to maintain basic services while also fulfilling the City Council goals. These goals provide for strategies that move the community closer to economic viability and sustainable community objectives. The outcomes of these strategies have been many and in certain cases require sustained efforts over a period of time.

The following are the some of the goals of the Council and the City's' accomplishments in FY2008-2009.

Public Safety

The City shall increase the visibility and availability of public safety services through best practices and maximizing resources to prevent crime and fires.

Public safety accomplishments include:

- Evaluated effectiveness and continued operation of specialty courts to meet the needs of defendants with cases in the court including a DUI/Drug Court, Mental Health Court, and Homeless Court
- Opened Fire Station #5 July 2008, continued design and construction of fire stations #2 and #3.
- Marked 224 acre for future forest clearing; thinned 761 forest acres; held prescribed burns on 1,190 acres to continue Fuel Management/Forest Management efforts in our community and in conjunction with our partners
- Four officers were assigned to the Sunnyside detail
- Continued development of the CompStat "Intelligence-led Policing" program
- Demonstrated a 9% reduction in Part 1 Crimes from 2007 to 2008
- Began field testing of the Electronic Citation Project
- Implemented the Citrix enhanced officer field report writing capability

Affordable Housing

The City shall facilitate an environment where housing opportunities, both in acquiring and sustaining, match the income diversity of our community.

Affordable housing accomplishments include:

- In partnership with the Arizona Rural Policy Institute and a community working group, completed a 10-year plan to end chronic homelessness
- Awarded a contract to an agency to construct, operate and manage a homeless shelter on City property
- Created and implemented a Housing Incentive Policy
- Established a Community Land Trust Advisory Committee
- Providing housing incentives to 3 projects resulting in 73 units and 3 lots
- Assisted in securing 56 units of Low Income Housing Tax Credit development
- Provided down payment and closing cost assistance to 13 clients through the Community Homebuyer Assistance Program
- Continued planning efforts with developers to incorporate workforce housing units into upcoming developments of the City of Flagstaff where appropriate

- Facilitated the sale of 6 units in the Rio Homes development
- Completed a development agreement that resulted in 61 permanently affordable apartments (20%) in the Woods at Clear Creek development
- Finalized the partnership with the Habitat for Humanity Flagstaff to integrate 3 homes into the Community Land Trust Program
- Completed a development agreement resulting in 12 permanently affordable units (10%) in the Crestview development
- Established a partnership with The Village at University Heights to utilize an affordability covenant providing 10 units of permanently affordable housing

Family, Youth, and Community

The City shall improve opportunities for all members of our community to actively participate, invest, and feel a part of a high quality of life community.

Family, youth, and community accomplishments include:

- Opened the Aquaplex in August 2008
- The Flagstaff Public Library partnered with America Reads to give patrons the opportunity to receive tutoring in the Library
- Provided several adult lecture programs through the Arizona Humanities Council
- Partnered with the Flagstaff Symphony, Theatrikos, Coconino Center for the Arts, and the Coconino Literacy Volunteers to provide a free series of seven Sunday adult/family program of musical storytelling
- Collaborated with the Arizona Humanities Center on the Navajo Code Talkers of World War II program
- Facilitated the Youth Town Hall at the Flagstaff Recreation Center
- An estimated 22,000 people attended special community events put on by Recreation to include Soar into Spring, Concerts in the Park, Halloween Harvest, Children’s Music and Art Festival, and Winter Wonderland
- Created two new community events – “Flagstaff Rising Star” and the “Children’s Music and Art Festival”
- Enhanced Historic Tours program through the purchase of period costumes, increased frequency of tours and the addition of a Route 66 self guided tour.

Community Sustainability

The City shall encourage the community and operate the government in a manner that sustains economic vitality, environmental protection, and social inclusion so that current and future residents and visitors may enjoy the same or better quality of life.

Community sustainability accomplishments include:

- Dedicated the Northern Arizona Center for Emerging Technologies September 2008
- Continued work in coordination with the U.S. Army Corps of Engineers on the Rio de Flag project
- Began the Regional Land use and Transportation Plan update process
- The Hazardous Products (drop-off) Center experienced a 19% increase in customers and a 25% increase in waste processed.
- Completed the first annual City of Flagstaff Sustainability Report
- Completed municipal sustainability policies regarding Sustainable Fleet, Sustainable Purchasing, Paper Use Efficiency, and Anti-idling
- Initiated successful education and outreach campaigns to promote community sustainability and climate management
- Achieved a 32% increase in household glass recycled

- Visited more than 50 local companies to gauge economic health of the community and to assist in maintaining a sustainable business climate
- Created the University to Business Connection program
- In partnership with Coconino Community College, offered a free workforce readiness workshop
- Completed a Regional Land Use change for 32 acres at the Air Park to allow business park development
- Developed WorkInFlagstaff.com in cooperation with the Arizona Department of Commerce REDI program to assist resident and local employers with job matching and to help in the trailing spouse issue
- Continued community outreach and education concerning identification of brownfield sites
- Reached agreement with Horizon Air to provide a second airline and commercial air service between Flagstaff and Los Angeles (LAX)
- Installation and preliminary testing of a co-generator using methane produced on site at the Wildcat Wastewater Treatment Plant to reduce energy costs and the use of non-renewable energy resources

Facilities and Basic Services

The City shall identify and provide the desired or current service levels and accompanying facilities of basic municipal services.

Facilities and basic services accomplishments include:

- Added 36 lane miles to the existing de-icer routes which included the East Flagstaff Traffic Interchange
- Completed the Facility Space Needs study
- Facilities completed over 25 major improvements and repairs to address prior deferred maintenance concerns
- Cleaned most of the open drainage channels within the City of Flagstaff
- Constructed a detention basin to catch runoff from McMillan Mesa in an effort to prevent flooding at Coconino High School
- Completed the Wildcat Hill Wastewater Treatment Plan improvements enabling the plant to provide grade A+ reclaimed water
- Drilled one new well and equipped two wells increasing water production capacity by approximately 2.2 million gallons per day

Fiscal Health

The City shall maintain good fiscal health through sound financial management and fiscal integrity.

Fiscal accomplishments include:

- Created an internal document for the City to use as required by the Fair and Accurate Credit Transactions Act of 2003 to deter identity theft
- Developed and implemented a more comprehensive payment application form used for construction projects that allow for more internal control of payments to building contractors.
- Implemented new performance dashboard for City Management
- Leveraged \$5.5 million dollars in grants for City projects and programs
- Responsively prepared five and ten year plans in conjunction with deteriorating economic conditions
- Partnered with other local governmental agencies to determine facilitate ballot question timing
- Partnered with other local governmental agencies to educate the business community on the financial issues facing governmental agencies and proposals to partner through the recession

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Flagstaff for its comprehensive annual financial report for the fiscal year ended June 30, 2008. This was the 15th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility.

The City also received the GFOA award for Distinguished Budget Presentation for our 2008–2009 annual budget (15 years in a row) with special performance measures recognition (2 years in a row). In order to qualify for the Distinguished Budget Presentation award, the City's budget document was judged to be proficient in all categories, a Policy Document, a Financial Plan, an Operation Guide, and as a Communication Device.

A special word of appreciation is due to Maryellen Pugh, Finance Manager and to the entire finance staff who prepared this CAFR.

Acknowledgment should also be made for the interest and support received from members of the Mayor and Council, the office of the City Manager, and the willing cooperation of the other operating and staff departments of the City. The cooperative assistance of our independent auditors, Eide Bailly LLP, also contributed significantly to this report.

Respectfully Submitted,



Barbara Goodrich
Management Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Flagstaff
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

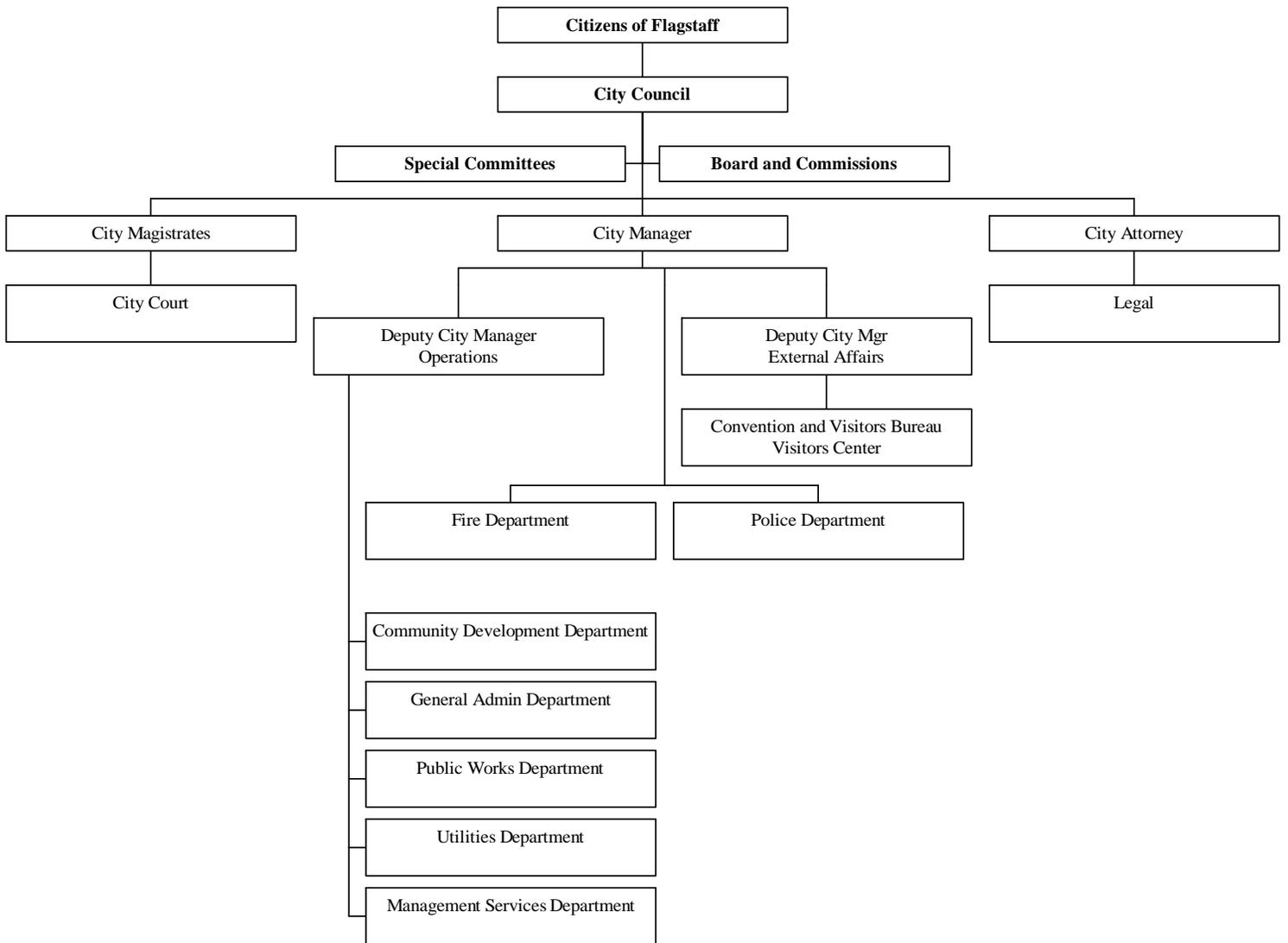
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

City of Flagstaff



City of Flagstaff, Arizona
List of Elected and Appointed Officials
June 30, 2009

Elected Officials

Mayor	Sara Presler
Vice Mayor	Al White
Councilmember	Karla Brewster
Councilmember	Coral Evans
Councilmember	Joseph P. Haughey
Councilmember	Scott Overton
Councilmember	Rick Swanson

Appointed Officials

City Manager	Kevin Burke
City Attorney	Patricia Boomsma
City Treasurer	Barbara Goodrich
City Clerk	Margie Brown



INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the City Council
City of Flagstaff, Arizona
Flagstaff, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information and the budgetary comparison of the general fund and major special revenue funds of the **City of Flagstaff, Arizona** as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **City of Flagstaff, Arizona** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information and the respective budgetary comparison for the general fund and the special revenues funds of the **City of Flagstaff, Arizona** at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

PEOPLE. PRINCIPLES. POSSIBILITIES.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **City of Flagstaff, Arizona's** basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and the statistical section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Phoenix, Arizona
December 22, 2009

MANAGEMENT DISCUSSION AND ANALYSIS

As management of the City of Flagstaff (the City), we offer readers of the City's financials statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii –xi of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$560.1 million (net assets). Of this amount \$43.2 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$2.9 million during the fiscal year. This is a result of a decrease in net assets in the governmental activities of \$13.1 million and an increase in net assets in the business type activities of \$10.2 million.
- As of June 30, 2009, the City's governmental funds reported combined ending fund balances of \$36.1 million, a decrease of \$28.1 million in comparison with the prior fiscal year. This decrease is due to lower than expected revenues and the use of reserved fund balance for capital projects. Approximately 86.5% of this total amount (\$31.2 million) is unreserved fund balance available for spending at the government's discretion.
- As of June 30, 2009, total unreserved fund balance for the general fund was \$22.2 million, or 42.1% of total general fund expenditures (\$52.7 million).
- As of June 30, 2009, the City's proprietary funds reported combined total net assets of \$304.8 million, and total unrestricted net assets of \$12 million. \$7.7 million of the unrestricted net assets are in the Water and Wastewater Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as revenues pertaining to uncollected taxes or expenses pertaining to earned but unused vacation leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all

or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include Police, Fire, Community Development, Parks and Recreation, City Council, City Manager, City Attorney, Municipal Courts, Human Resources, Risk Management, Information Services, Financial Services, Library, and Economic Development. The business-type activities of the City include Water and Wastewater, Airport, Environmental Services, and Stormwater operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Municipal Facilities Corporation (MFC). The MFC, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government as a blended component unit.

The government-wide financial statements can be found on pages 15 – 17 of this report.

Fund financial statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual government funds organized according to their type (special revenue and debt service). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Highway User Revenue fund, Transportation fund, BBB fund, and the Capital Projects Bond Construction funds which are all considered to be major funds. Data from the remaining governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General fund, Special Revenue funds, Capital Projects funds, Debt Service funds, and Enterprise funds. A budgetary comparison statement has been provided for the General and special revenue major governmental funds to demonstrate compliance with the respective budgets.

The basic governmental fund financial statements can be found on pages 18 – 29 of this report.

Proprietary funds: Proprietary funds are generally used to account for services for which the City charges customers – either outside customers, or departments of the City. Proprietary funds provide the same type of information shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same function presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for Water and Wastewater, the Airport, Environmental Services which includes solid waste collection, and Stormwater. All are considered to be major funds of the City.
- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses an internal service fund to account for its workers compensation, health insurance, other risk related activity including claims adjustment, and general liability and property insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service fund is combined into a single, aggregated presentation in the proprietary fund statements. Individual fund data for the internal service fund is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 30–37 of this report.

Notes to the Financial Statements

The notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 38–79 of this report.

Combining statements

The combining statements referred to earlier in connection with non-major governmental funds are presented on pages 82–85.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information concerning the City's capital asset activity. Other supplementary information can be found on page 88–90 of this report.

GOVERNMENT WIDE STATEMENTS FINANCIAL ANALYSIS

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$560.1 million as of June 30, 2009.

Of the City's net assets, 90.6% reflects its investment of \$507.4 million in capital assets (e.g. land, buildings, and equipment), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

Net Assets
June 30, 2009 and 2008 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 61,831	\$ 92,134	\$ 27,179	\$ 33,875	\$ 89,010	\$ 126,009
Capital assets	295,544	283,113	350,271	330,791	645,815	613,904
Total assets	<u>357,375</u>	<u>375,247</u>	<u>377,450</u>	<u>364,666</u>	<u>734,825</u>	<u>739,913</u>
Long-term liabilities	80,538	84,527	64,042	62,243	144,580	146,770
Other liabilities	21,574	22,327	8,558	7,796	30,132	30,123
Total liabilities	<u>102,112</u>	<u>106,854</u>	<u>72,600</u>	<u>70,039</u>	<u>174,712</u>	<u>176,893</u>
Invested in capital assets, net of related debt	215,673	214,268	291,708	276,783	507,381	491,051
Restricted	7,900	14,876	1,594	1,594	9,494	16,470
Unrestricted	31,690	39,248	11,547	16,250	43,237	55,498
Total net assets	<u>\$ 255,263</u>	<u>\$ 268,392</u>	<u>\$ 304,849</u>	<u>\$ 294,627</u>	<u>\$ 560,112</u>	<u>\$ 563,019</u>

Total assets decreased due to change in receivables and investments. Total liabilities decreased due to the application of debt principal payments.

A portion of the City's net assets, \$9.5 million (1.7%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$43.2 million (7.7%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities.

Current assets for governmental activities have decreased by 32.9% (\$30.3 million). The largest decreases are in investments (\$15.1 million) and restricted cash and investments (\$16.0 million) while the largest increase was in cash and cash equivalents (\$6.5 million). The overall decrease is due to spending both unrestricted and restricted cash and investments for the planned completion of a number of capital projects.

Capital assets of the governmental activities, funded through debt proceeds, grants, and contributions, increased by 4.4% (\$12.4 million) due largely to Aspen Place at Sawmill (\$9.9 million), Business Incubator (\$1.3 million), fire stations (\$3.4 million), Huntington Drive improvements (\$2.6 million), and Lake Mary Road improvements (\$1.4 million).

Governmental activities long-term liabilities decreased by 4.7% (\$4.0 million) due to no new bonded debt issues, only the retirement of principal for existing debt. Other liabilities decreased by 3.4% (\$0.8 million) primarily due to decreases in accounts payable (\$1.4 million) offset by increases in unearned revenues (\$0.8 million).

Overall business-type net assets increased by 3.5% (\$10.2 million) primarily to capital asset additions. Investment in capital assets, net of related debt, increased by \$14.9 million. Of this, 36.9% (\$5.5 million) is from private development donations. The primary capital additions for business-type activities are the Wildcat Wastewater Treatment plant expansion at \$6.8 million, well development at \$3.5 million, and airport terminal security enhancements at \$1.5 million.

Analysis of Change in Net Assets

The City's overall net assets decreased by \$2.9 million during the current fiscal year. These decreases are explained in the government and business-type activities discussion to follow.

Changes in Net Assets For the Years Ended June 30, 2009 and 2008 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program Revenues:						
Charges for services	\$ 7,680	\$ 7,536	\$ 31,309	\$ 31,106	\$ 38,989	\$ 38,642
Operating grants and contributions	2,347	3,321	11	68	2,358	3,389
Capital grants and contributions	9,881	16,325	8,744	12,242	18,625	28,567
General Revenues:						
Property taxes	16,068	13,665	-	-	16,068	13,665
Sales taxes	31,420	33,129	-	-	31,420	33,129
State shared taxes	16,629	16,992	-	-	16,629	16,992
Investment earnings	1,459	3,904	206	964	1,665	4,868
Other	396	2,996	286	206	682	3,202
Total revenues	<u>85,880</u>	<u>97,868</u>	<u>40,556</u>	<u>44,586</u>	<u>126,436</u>	<u>142,454</u>
Expenses						
General government	10,913	11,271	-	-	10,913	11,271
Public safety	29,115	27,030	-	-	29,115	27,030
Public works	2,109	1,894	-	-	2,109	1,894
Economic and physical development	10,347	10,556	-	-	10,347	10,556
Culture and recreation	13,925	11,607	-	-	13,925	11,607
Highways and streets	19,298	15,516	-	-	19,298	15,516
Interest on long-term debt	3,651	2,917	-	-	3,651	2,917
Water and wastewater	-	-	22,802	23,430	22,802	23,430
Environmental	-	-	11,783	11,423	11,783	11,423
Airport	-	-	4,198	3,608	4,198	3,608
Stormwater	-	-	1,203	1,161	1,203	1,161
Total expenses	<u>89,358</u>	<u>80,791</u>	<u>39,986</u>	<u>39,622</u>	<u>129,344</u>	<u>120,413</u>
Increase in net assets before transfers	(3,478)	17,077	570	4,964	(2,908)	22,041
Transfers	(9,651)	(3,590)	9,651	3,590	-	-
Change in net assets	(13,129)	13,487	10,221	8,554	(2,908)	22,041
Net assets at beginning of year	268,392	254,905	294,628	286,074	563,020	540,979
Net assets at end of year	<u>\$ 255,263</u>	<u>\$ 268,392</u>	<u>\$ 304,849</u>	<u>\$ 294,628</u>	<u>\$ 560,112</u>	<u>\$ 563,020</u>

Governmental activities

Governmental activities decreased the City's net assets by \$13.1 million. The key factors for this decrease are as follows:

- Combined operating grants, capital grants and contributions have decreased by 37.8% (\$7.4 million) as a result of less capital programs in the current year.
- Property tax increases are due to increases in assessed valuation.
- City sales tax revenues decreased by 17.6% (\$1.7 million). While sales taxes decreased \$2.4 million comparing year to year, actual revenues compared to budgeted revenues were below in the city general sales tax, the Bed, Board, and Booze sales taxes, and the transportation taxes by \$4.9 million, \$0.5 million, and \$3.3 million respectively.
- Other revenues have decreased due to prior year's recorded gain on sale of capital assets.
- Expenses have increased primarily due to staffing increases and other compensation increases. The City authorized an additional 22 positions for the fiscal year. Health insurance and dental insurance rates also increased.

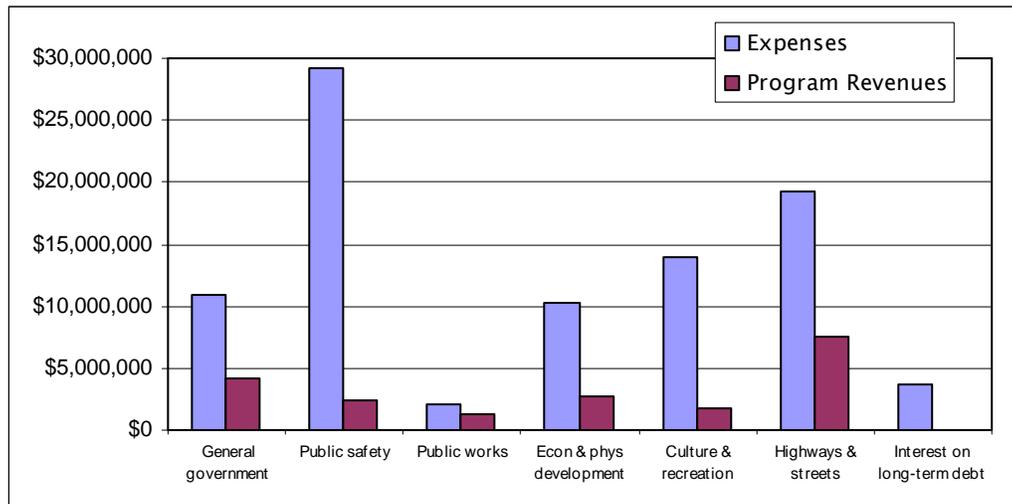
Business-type activities

Business type activity had net asset increase of \$10.2 million. The key factors for this increase include:

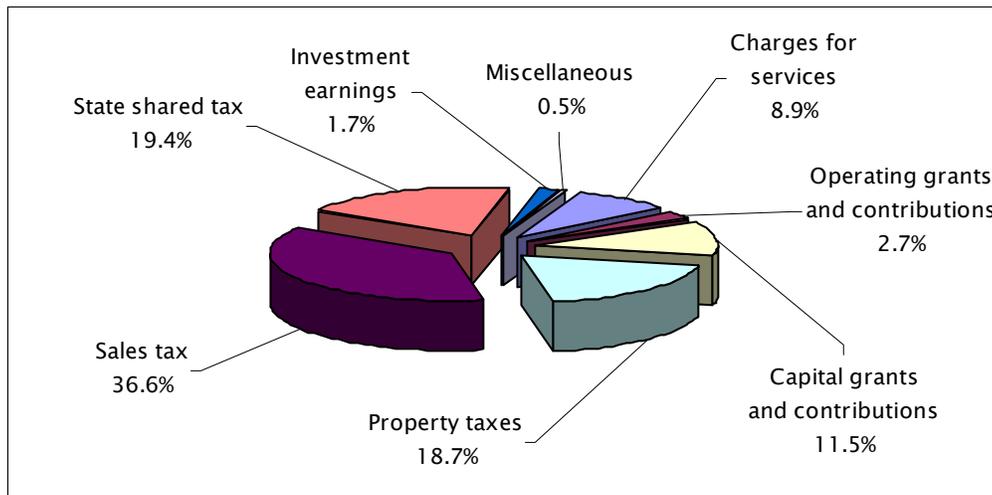
- Charges for service increased by .7% (\$0.2 million) due to rate increases in environmental services and stormwater. Water and wastewater charges for services decreased \$0.7 million due to less consumption by customers.
- Capital grants and contributions decreased by 28.6% (\$3.5 million) due to significant grants received in the prior year for the runway extension work at the airport.
- Investment earnings are down 78.6% (\$0.8 million) due to decreased cash and investment balances spent toward capital improvements and lower interest rates.
- Expenses have increased slightly over prior year (.9%, \$.4 million). Additional expenses were incurred due to staffing increases and overall personnel cost increases. The City authorized an additional 8 positions for the fiscal year. A 1% market adjustment was given in addition to merit increases. Health insurance and dental insurance rates also increased.

The following two charts illustrate the City's governmental expenses and revenues by function and its revenues by source. As shown, Public Safety is the largest function as measured by expense (32.6%) followed by Highways & streets (21.6%), Culture and recreation (15.6%), and General Government (12.2%).

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



General revenues such as sales taxes, state shared taxes, and property taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, sales taxes are the largest single source of funds (36.6%), followed by state shared taxes (19.4%) and property taxes (18.7%). Last year, capital grants and contributions were ranked third and property taxes ranked fourth.

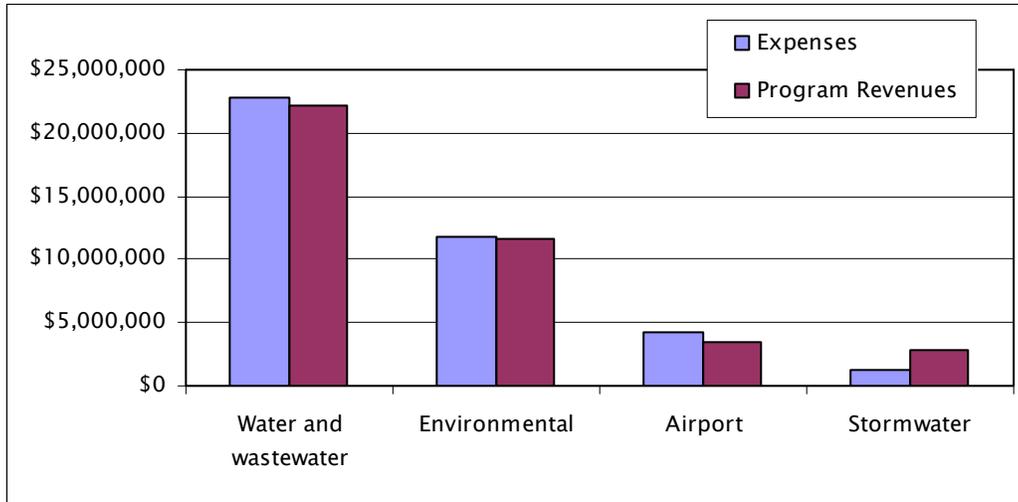
During the fiscal year the city realized revenues were declining and unlikely to reach budgeted estimates. Program expenses were reevaluated mid year for potential cuts. The comparison of expenses to prior year shows several areas not keeping pace with inflation and normal growth expectations. Part of the reductions came from positions being held open over extended timeframes. In the approved budget, twenty two full time equivalent positions were added to support library services (6.6 FTE's), public safety (7.0 FTE's), downtown management (4.0 FTE's), courts (2.0 FTE's), and a variety of other direct or support activities (2.4 FTE's). By year end approximately 80 positions were held open.

As shown in the following two charts, Water and Wastewater has expenses of \$22.8 million for the fiscal year, followed by Environmental Services with \$11.8 million, the Airport with \$4.2 million and Stormwater with \$1.2 million. For the fiscal year, program revenue exceeded expense for the Stormwater Fund. Water & Wastewater, Environmental Services, and Stormwater received the majority of their program revenues through charges for services (78.0% and 99.4% respectively). The Airport and Stormwater funds receive the majority of support through Capital Grants and Contributions (65.2% and 55.6%). The Water and Wastewater fund receives 22.0% of support through grants and contributions. Charges for services provided the largest share of revenues (77.2%) for all of the business-type activities, followed by capital grants and contributions (21.6%). The proportionate share of revenue from charges for service and capital grants and contributions varied from the prior year split of 69.8% and 27.4% respectively. The shift is primarily due to the slight increase in charges for services compared to decreases in investment earnings and private contributions.

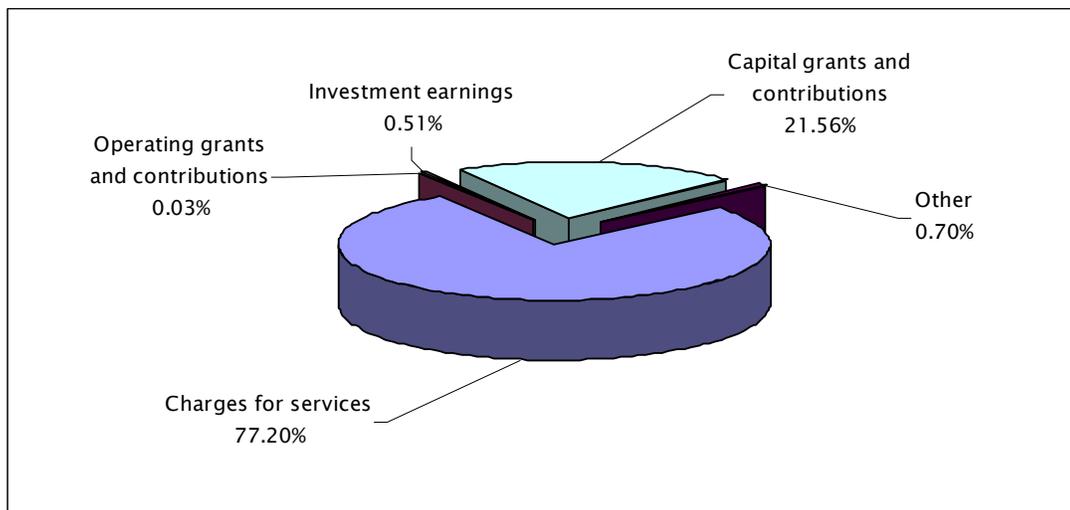
The operating expenses for the business type activities increased slightly (0.9%, \$363,152) which is normalized increases in line with personnel, contractual, and commodity cost increases.

Water and wastewater, environmental services, and stormwater all increased user fees. Environmental services and stormwater realized increased charge for service revenue at 6.8% and 9.7% respectively. Water and wastewater charges for services decreased 3.4% due to lower water consumption and wastewater collection.

Expenses and Program Revenues – Business Type Activities



Revenues by Source – Business-type activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General fund, Special Revenue funds, Capital Project funds, and Debt Service funds.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$36.1 million, a decrease of \$28.1 million in comparison with the prior year. Approximately \$31.2 million of the total ending fund balance constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to pay debt service (\$2.8 million), (2) for capital projects (\$1.5 million), (3) for inventory reserve (\$366,856), (4) for grant purposes (\$106,144) and (5) for perpetual care (\$103,166).

Revenues for governmental functions overall totaled \$85.3 million in the fiscal year ended June 30, 2009 which represents a decrease of 6.5% or \$5.9 million from the prior fiscal year. Four revenue categories show increases over prior year. These include charges for services (22.9%, \$620,505), intergovernmental (4.6%, 939,651), fines and forfeitures (13.6%, \$181,412), and contributions (1.5%, 19,586). Taxes that include city and state revenues decreased by 0.9% (\$408,929). All other revenue categories experienced decreases including grants and entitlements (29.1%, \$3.9 million) and investments (63.36%, \$2.4 million). Investment decreases are attributed to a lower amount of cash available for investing and a lower rate of return on investments.

Expenditures for governmental functions, totaling \$111.8 million, decreased by 7.8% (\$9.4 million) from the prior fiscal year. The expenditure increase was driven by capital outlays totaling \$30.8 million, a 33.8% (\$15.7 million) decrease over the prior year. Major project improvements have been discussed in prior sections.

In the fiscal year ended June 30, 2009 expenditures for governmental functions exceeded revenues by approximately \$26.5 million. The revenues have not kept pace with operating expenditures in addition to planned usage of fund balance for ongoing capital project expenditures of the City.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$22.2 million. As a measure of liquidity, it may be useful to compare both total unreserved, undesignated fund balance and total fund balance to total fund expenditures. The unreserved, undesignated fund balance and total fund balance represent 42.2% and 42.9%, respectively, of General Fund expenditures.

The fund balance in the City's General Fund decreased by \$5.2 million during the fiscal year as expenditure had positive growth of 5.9% and revenues had negative growth of 5.3%. Overall, the General Fund's performance resulted in expenditures in excess of revenues in the fiscal year ended June 30, 2009 of \$4.4 million. This is a decrease of approximately \$5.6 million over the comparable figure from the prior year which resulted in revenues in excess of expenditures of \$1.2 million.

The Highway User Revenue Fund and Transportation Fund balances decreased by \$6.0 million and \$1.6 million respectively in part due to declining sales tax revenues. The Capital Project Bond Construction Fund balance decreased by \$15.5 million primarily related to unissued bond debt related to capital projects. The BBB Fund balance increased \$355,010 because revenues exceeding planned annual expenditures toward capital projects.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the fiscal year, the unrestricted net assets had positive balances for Water and Wastewater, Environmental Services, Airport, and Stormwater. The internal service fund, which is used to account for risk management and health insurance activities, had unrestricted net assets of \$3.4 million.

The total growth in net assets for the proprietary funds was \$10.2 million. The Water and Wastewater fund, Environmental Services fund, and Stormwater fund had positive growth in their net assets for the fiscal year ended June 30, 2009 while the Airport fund decreased slightly. The major part of the increase is related to capital contributions in the Water and Wastewater fund (\$8.5 million) Stormwater fund (\$4.7 million).

Budget Highlights

The City's final budget differs from the original budget for certain divisions within the General fund as Council approved certain appropriation transfers from the General fund to the following funds:

General fund appropriation transfer:

\$ 1,126,000 Real Estate Proceeds Fund

The General fund was under final budgeted total revenues by 12.6% (\$6.9) million primarily due to decreases in city and state shared sales tax collections and decreased building permitting and inspection revenues. Expenditures are under budget in every category due to advanced planning for revenue shortfalls and not spending appropriation on several large budgeted projects, both capital and non-capital. Both transfers in and transfers out are less than budgeted as many transfers are based on the actual year end expenditure, most significant of which is the budgeted transfer from the General Fund to the Stormwater Fund of \$6.8 million for the Rio de Flag flood control project of which only \$0.7 million actually transferred at year end.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2009 amount to \$645.8 million. Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress. The total increase in the City's capital assets for the current year was 5.2% (\$31.9 million). The following table reflects the capital assets at the end of the fiscal year:

Capital Assets, Net of Depreciation
June 30, 2009 and 2008 (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2009
Land	\$ 43,352	\$ 42,295	\$ 10,301	\$ 10,301	\$ 53,653	\$ 52,596
Buildings	52,734	27,822	47,796	47,930	100,530	75,752
Improvements	11,142	12,172	231,190	215,317	242,332	227,489
Machinery and equipment	12,342	12,185	10,740	8,707	23,082	20,892
Infrastructure	139,791	131,906	-	-	139,791	131,906
Construction in progress	36,183	56,732	50,244	48,536	86,427	105,268
Total	<u>\$ 295,544</u>	<u>\$ 283,112</u>	<u>\$ 350,271</u>	<u>\$ 330,791</u>	<u>\$ 645,815</u>	<u>\$ 613,903</u>

Construction in progress had a net decrease of 17.9% (\$18.8 million). Major completed construction in progress includes the Aquaplex (\$15.7 million), fire stations (\$3.8 million), business incubator building (\$4.3 million), and East Flagstaff Gateway (\$3.6 million). Major additions to construction in progress include Wildcat Wastewater Treatment Plant (\$6.8 million), Aspen Place at Sawmill (\$9.9 million), Lake Mary road improvements (\$1.4 million), and fire stations (\$3.8 million). The increase to buildings 32.7% (\$24.8 million) is mainly related to the completed Aquaplex, fire stations, and business incubator buildings.

For government-wide financial statement presentation, all depreciable capital assets are depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Please refer to Note IV C on pages 57–58 of the Notes to the Financial Statements for further information regarding capital assets.

Long Term Debt

At the end of the current fiscal year, the City had total long-term debt outstanding of \$129.1 million. Of this amount, \$35.1 million is general obligation bonds backed by the full faith and credit of the City, \$19.2 million is improvement district bonds, \$9.8 million is revenue bonds, \$21.6 million is for the Municipal Facility Corporation, and \$43.4 million are outstanding leases or loans for the airport, water and wastewater, and city-wide energy conservation improvements.

Outstanding Debt
June 30, 2009 and 2008 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$ 27,645	\$ 29,350	\$ 7,460	\$ 10,515	\$ 35,105	\$ 39,865
Special assessment bonds	19,169	19,257	-	-	19,169	19,257
Revenue bonds	4,865	6,325	4,918	5,212	9,783	11,537
Other debt	21,625	23,000	-	-	21,625	23,000
Lease/Loans	2,430	2,728	40,967	36,502	43,397	39,230
Total debt payable	<u>\$ 75,734</u>	<u>\$ 80,660</u>	<u>\$ 53,345</u>	<u>\$ 52,229</u>	<u>\$ 129,079</u>	<u>\$ 132,889</u>

During the year, the City maintained the following bond ratings:

City of Flagstaff Bonded Debt Ratings
As of June 30, 2009

	Moody's Investors Service	Standard & Poor's
General Obligation	Aa3	AA
Municipal Facilities Corporation	A1	AA

During fiscal year 2009, the City's total bonded debt decreased by approximately \$8.0 million. The City issued \$6.6 million in loans for water and wastewater projects to provide drilling and equipping additional water wells and \$109,532 in capital leases for energy conservation improvements for the fiscal year ended June 30, 2009.

The State constitution imposes certain debt limitations on the City of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation of the City. The City's available debt margin at June 30, 2009 is \$55.0 million in

the 6% category and \$148.2 million in the 20% capacity. Additional information on the debt limitations and capacities may be found in Schedule 16 in the statistical section of this report.

Additional information on the City's long-term debt can be found in Section IV F on pages 61–71 of the Notes to the Financial Statements.

Economic Factors and Next Year's Budget and Rates

The Fiscal Year 2009/2010 budget preparation was influenced by the following factors:

- Reductions in every major operating fund due to revenue declines in city sales taxes, state shared tax revenues, highway user (gas tax) revenues, and building revenues
- The City reduced budgeted staffing 10% (87.8 positions) and correspondingly reduced service levels in every City division
- Considerations of the impact of the continued local market downturn and the safeguards needed to deal with continued declines
- The pursuit of federal stimulus and other grant dollars to enhance the local economy
- Realignment of core services within reduced budget parameters that maintain Council goals
- The continued implementation of electronic information sharing to facilitate transparency in service provision
- The development of a more strategic economic model and plan
- The impact of a formation of a downtown parking district
- Planning efforts for the renewal through a citywide election of the 1% transaction privilege tax and the 2% Arizona Public Service (electric utility) franchise fee
- Assessment and funding of long range capital needs and their associated operational impacts
- Completion of projects approved through the 2004 bond election including completion of the fourth fire station and continued open space and/or Flagstaff Urban Trail System purchases
- Planning efforts for a capital bond program election
- Assessment of future water resource needs

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact:

City of Flagstaff
Management Services Department
Finance and Budget Division
211 W. Aspen
Flagstaff, AZ 86001

Main and TDD (928) 774-5281
Arizona Relay 7-1-1

CITY OF FLAGSTAFF, ARIZONA

Statement of Net Assets

June 30, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 17,170,362	\$ 10,712,114	\$ 27,882,476
Cash with fiscal agents	5,248,901	509,081	5,757,982
Investments	16,668,363	14,000	16,682,363
Accounts receivables, net	6,705,265	5,065,564	11,770,829
Interest receivable	164,475	63,837	228,312
Intergovernmental receivable	3,629,474	140,059	3,769,533
Bond proceeds receivable	127,674	-	127,674
Special assessments receivable	1,527	-	1,527
Internal balance	648,497	(648,497)	-
Inventory	366,856	234,771	601,627
Deferred bond issuance costs, net	485,481	248,533	734,014
Property held for resale	500,000	-	500,000
Restricted cash and investments	10,113,468	10,839,293	20,952,761
Capital assets:			
Non-depreciable	79,534,965	60,544,805	140,079,770
Depreciable, net	216,009,226	289,726,333	505,735,559
Total assets	<u>357,374,534</u>	<u>377,449,893</u>	<u>734,824,427</u>
LIABILITIES			
Accounts payable	6,912,041	1,293,491	8,205,532
Accrued payroll	2,147,749	436,924	2,584,673
Interest payable	1,822,037	938,297	2,760,334
Unearned revenue	3,764,718	238,441	4,003,159
Deposits payable	1,481,719	433,057	1,914,776
Matured bonds and lease payable	4,540,000	5,185,093	9,725,093
Unamortized bond premium	905,180	33,527	938,707
Due within one year:			
Compensated absences	1,530,685	317,430	1,848,115
Special assessment bonds	554,000	-	554,000
Bonds, notes and leases payable	5,461,522	4,287,516	9,749,038
Due in more than one year:			
Compensated absences	1,947,959	323,778	2,271,737
Landfill closure and postclosure care costs	-	9,877,798	9,877,798
Net OPEB obligation	875,578	177,835	1,053,413
Arbitrage rebate	449,927	-	449,927
Special assessment bonds	18,615,000	-	18,615,000
Bonds, notes and leases payable	51,103,771	49,057,189	100,160,960
Total liabilities	<u>102,111,886</u>	<u>72,600,376</u>	<u>174,712,262</u>
NET ASSETS			
Invested in capital assets, net of related debt	215,672,933	291,707,813	507,380,746
Restricted for:			
Capital projects	4,894,648	1,593,915	6,488,563
Debt service	2,768,032	-	2,768,032
Grant and contributions purposes	106,144	-	106,144
Perpetual care:			
Expendable	27,232	-	27,232
Nonexpendable	103,166	-	103,166
Unrestricted	31,690,493	11,547,789	43,238,282
Total net assets	<u>\$ 255,262,648</u>	<u>\$ 304,849,517</u>	<u>\$ 560,112,165</u>

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA

Statement of Activities

Year Ended June 30, 2009

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 10,913,187	\$ 3,099,884	\$ 1,046,083	\$ -
Public safety	29,114,546	1,299,703	734,653	353,060
Public works	2,109,221	1,350,832	-	-
Economic and physical development	10,346,982	369,987	555,942	1,844,474
Culture and recreation	13,924,853	1,559,617	10,622	143,765
Highways and streets	19,297,615	-	-	7,539,463
Interest on long-term debt	3,651,521	-	-	-
Total governmental activities	<u>89,357,925</u>	<u>7,680,023</u>	<u>2,347,300</u>	<u>9,880,762</u>
Business-type activities:				
Water and wastewater	22,802,316	17,328,927	10,966	4,890,499
Environmental	11,782,540	11,545,472	-	69,448
Airport	4,197,447	1,187,105	-	2,220,901
Stormwater	1,203,436	1,247,878	-	1,563,368
Total business-type activities	<u>39,985,739</u>	<u>31,309,382</u>	<u>10,966</u>	<u>8,744,216</u>
Total primary government	<u>\$ 129,343,664</u>	<u>\$ 38,989,405</u>	<u>\$ 2,358,266</u>	<u>\$ 18,624,978</u>

General revenues:

Property taxes, levied for general purposes

Property tax, levied for debt service

Property tax, levied for special district

Sales taxes

State shared sales taxes - unrestricted

Investment earnings

Miscellaneous

Gain on sale of capital assets

Contributions to permanent fund

Transfers in (out)

Total general revenues, contributions and transfers

Change in net assets

Net assets - beginning

Net assets - ending

The notes to the financial statements are an integral part of this statement

Net (Expenses) Revenues and Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (6,767,220)	\$ -	\$ (6,767,220)
(26,727,130)	-	(26,727,130)
(758,389)	-	(758,389)
(7,576,579)	-	(7,576,579)
(12,210,849)	-	(12,210,849)
(11,758,152)	-	(11,758,152)
(3,651,521)	-	(3,651,521)
<u>(69,449,840)</u>	<u>-</u>	<u>(69,449,840)</u>
-	(571,924)	(571,924)
-	(167,620)	(167,620)
-	(789,441)	(789,441)
-	1,607,810	1,607,810
-	78,825	78,825
<u>\$ (69,449,840)</u>	<u>\$ 78,825</u>	<u>\$ (69,371,015)</u>
4,925,312	-	4,925,312
7,336,873	-	7,336,873
3,805,955	-	3,805,955
31,420,047	-	31,420,047
16,628,652	-	16,628,652
1,459,389	206,154	1,665,543
381,984	166,158	548,142
-	119,366	119,366
13,325	-	13,325
(9,651,500)	9,651,500	-
<u>56,320,037</u>	<u>10,143,178</u>	<u>66,463,215</u>
(13,129,803)	10,222,003	(2,907,800)
268,392,451	294,627,514	563,019,965
<u>\$ 255,262,648</u>	<u>\$ 304,849,517</u>	<u>\$ 560,112,165</u>

CITY OF FLAGSTAFF, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Highway User Revenue Fund	Transportation Fund
ASSETS			
Cash and investments	\$ 15,451,547	\$ 273,418	\$ 2,532
Cash with fiscal agents	389,767	519,211	1,500,925
Accounts receivable, net	3,973,986	712,908	927,025
Interest receivable	70,326	14,475	9,679
Intergovernmental receivables	908,821	-	2,051,628
Interfund receivable	8,567,000	-	-
Bond proceeds receivable	127,674	-	-
Special assessments receivable	-	-	-
Inventory	280,376	-	-
Property held for resale	-	500,000	-
Restricted cash and investments	-	-	340
Total assets	\$ 29,769,497	\$ 2,020,012	\$ 4,492,129
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 2,112,024	\$ 621,486	\$ 6,293
Accrued payroll and compensated absences	1,899,676	78,252	-
Current bonds payable	320,000	1,460,000	1,055,000
Interest payable	69,767	172,005	445,925
Interfund payable	-	-	2,560,000
Deferred revenue	1,296,027	-	-
Guaranty and other deposits	1,481,719	-	-
Total liabilities	7,179,213	2,331,743	4,067,218
Fund balances:			
Reserved for:			
Debt service	-	-	-
Capital projects	-	-	-
Grant purposes	106,144	-	-
Inventory	280,376	-	-
Perpetual care	-	-	-
Unreserved, undesignated, reported in:			
General fund	22,203,764	-	-
Special revenue funds	-	(311,731)	424,911
Permanent fund	-	-	-
Total fund balances	22,590,284	(311,731)	424,911
Total liabilities and fund balances	\$ 29,769,497	\$ 2,020,012	\$ 4,492,129

The notes to the financial statements are an integral part of this statement

BBB Fund	Capital Projects Bond Construction	Other Governmental Funds	Total Governmental Funds
\$ 5,633,765	\$ 8,748	\$ 8,414,951	\$ 29,784,961
-	476,875	2,362,123	5,248,901
513,858	25,090	153,279	6,306,146
16,995	7,693	28,662	147,830
59,351	-	609,674	3,629,474
-	-	-	8,567,000
-	-	-	127,674
-	-	1,527	1,527
86,480	-	-	366,856
-	-	-	500,000
-	10,009,962	103,166	10,113,468
<u>\$ 6,310,449</u>	<u>\$ 10,528,368</u>	<u>\$ 11,673,382</u>	<u>\$ 64,793,837</u>
\$ 287,832	\$ 2,942,629	\$ 102,664	\$ 6,072,928
49,452	446	119,923	2,147,749
-	-	1,705,000	4,540,000
-	476,875	657,465	1,822,037
-	5,577,000	430,000	8,567,000
1,631	-	2,803,028	4,100,686
-	-	-	1,481,719
<u>338,915</u>	<u>8,996,950</u>	<u>5,818,080</u>	<u>28,732,119</u>
-	-	2,768,032	2,768,032
-	1,531,418	-	1,531,418
-	-	-	106,144
86,480	-	-	366,856
-	-	103,166	103,166
-	-	-	22,203,764
5,885,054	-	2,956,872	8,955,106
-	-	27,232	27,232
<u>5,971,534</u>	<u>1,531,418</u>	<u>5,855,302</u>	<u>36,061,718</u>
<u>\$ 6,310,449</u>	<u>\$ 10,528,368</u>	<u>\$ 11,673,382</u>	<u>\$ 64,793,837</u>

CITY OF FLAGSTAFF
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
JUNE 30, 2009

Fund balances – total governmental funds balance sheet \$ 36,061,718

Amounts reported for governmental activities in the statements of net assets are different because (also see note II. A.):

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets	440,193,526	
Less: accumulated depreciation	(137,857,100)	
Transfer of capital assets to business-type activities	<u>(6,792,235)</u>	295,544,191

Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Deferred bond issue costs	485,481	
Fines and forfeitures	<u>361,640</u>	847,121

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.

Governmental bonds payable	75,734,293	
Bond premium	905,180	
Other postemployment benefits	875,578	
Arbitrage rebate	449,927	
Compensated absences	<u>3,478,644</u>	(81,443,622)

Certain revenues are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

Property tax	<u>335,968</u>	335,968
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The internal service fund is used by management to charge the cost of self insurance programs to individual funds.

The assets and liabilities of the internal service funds that are reported with governmental activities.		<u>3,917,272</u>
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Net assets of governmental activities – statement of net assets \$ 255,262,648

The notes to the financial statements are an integral part of this statement



CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2009

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportation Fund</u>
REVENUES:			
Taxes	\$ 21,359,089	\$ -	\$ 9,959,194
Intergovernmental	17,558,784	-	-
Grants and entitlements	1,203,623	6,663,865	-
Charges for services	3,025,791	-	-
Special assessments	-	-	-
Licenses and permits	1,377,430	-	-
Fines and forfeitures	1,517,558	-	-
Rents	1,350,832	-	-
Investment earnings	483,884	64,143	101,735
Contributions	-	-	-
Miscellaneous	332,243	-	-
Total revenues	<u>48,209,234</u>	<u>6,728,008</u>	<u>10,060,929</u>
EXPENDITURES:			
Current:			
General governmental	9,707,971	-	-
Public safety	27,373,189	-	-
Public works	1,640,193	-	-
Economic and physical development	5,394,937	-	-
Culture and recreation	6,269,352	-	-
Highways and streets	-	8,175,786	3,011,616
Debt service:			
Principal retirement	726,991	1,460,000	1,055,000
Interest and other charges	233,377	345,294	894,350
Capital outlay	1,315,100	10,936,562	-
Total expenditures	<u>52,661,110</u>	<u>20,917,642</u>	<u>4,960,966</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,451,876)</u>	<u>(14,189,634)</u>	<u>5,099,963</u>
OTHER FINANCING SOURCES (USES):			
Issuance of capital debt	109,352	-	-
Sale of capital assets	36,109	10,480	17,283
Transfers in	4,880,311	8,601,511	-
Transfers out	(5,785,445)	(377,103)	(6,733,640)
Total other financing sources (uses)	<u>(759,673)</u>	<u>8,234,888</u>	<u>(6,716,357)</u>
Net change in fund balances	<u>(5,211,549)</u>	<u>(5,954,746)</u>	<u>(1,616,394)</u>
Fund balances, beginning of year	<u>27,801,833</u>	<u>5,643,015</u>	<u>2,041,305</u>
Fund balances, end of year	<u>\$ 22,590,284</u>	<u>\$ (311,731)</u>	<u>\$ 424,911</u>

The notes to the financial statements are an integral part of this statement

BBB Fund	Capital Projects Bond Construction	Other Governmental Funds	Total Governmental Funds
\$ 4,983,318	\$ -	\$ 7,253,787	\$ 43,555,388
-	-	3,805,955	21,364,739
591,699	-	1,150,351	9,609,538
67,424	-	231,623	3,324,838
-	-	2,382	2,382
150	-	-	1,377,580
-	-	-	1,517,558
70,940	-	-	1,421,772
93,298	465,902	157,969	1,366,931
-	1,304,536	23,988	1,328,524
20,759	-	28,982	381,984
<u>5,827,588</u>	<u>1,770,438</u>	<u>12,655,037</u>	<u>85,251,234</u>
-	2,000	138,311	9,848,282
-	894	-	27,374,083
-	5,510	-	1,645,703
2,899,505	-	1,697,485	9,991,927
485,482	294,709	5,108,544	12,158,087
-	-	-	11,187,402
-	-	1,793,000	5,034,991
-	956,250	1,321,386	3,750,657
2,012,679	16,336,616	195,115	30,796,072
<u>5,397,666</u>	<u>17,595,979</u>	<u>10,253,841</u>	<u>111,787,204</u>
<u>429,922</u>	<u>(15,825,541)</u>	<u>2,401,196</u>	<u>(26,535,970)</u>
-	-	-	109,352
22	-	-	63,894
1,643,258	700,000	5,801,228	21,626,308
(1,718,192)	(370,650)	(8,374,543)	(23,359,573)
<u>(74,912)</u>	<u>329,350</u>	<u>(2,573,315)</u>	<u>(1,560,019)</u>
<u>355,010</u>	<u>(15,496,191)</u>	<u>(172,119)</u>	<u>(28,095,989)</u>
<u>5,616,524</u>	<u>17,027,609</u>	<u>6,027,421</u>	<u>64,157,707</u>
<u>\$ 5,971,534</u>	<u>\$ 1,531,418</u>	<u>\$ 5,855,302</u>	<u>\$ 36,061,718</u>

CITY OF FLAGSTAFF
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Net change in fund balances – total governmental funds \$ (28,095,989)

Amounts reported for governmental activities in the statements of activities are different because (also see note II. B.):

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Expenditures for capital assets	30,796,072	
Less current year depreciation	<u>(11,144,241)</u>	19,651,831

Some items reported in the governmental funds are sources and uses of current financial resources and therefore are not reported as revenues or expenses in the statement of activities. These items include:

Donated capital	371,818	
Capital-related debt issued	(109,352)	
Compensated absences	12,498	
Other postemployment benefits	(875,578)	
Principal payments on debt	5,034,991	
Arbitrage rebate	(73,802)	
Bond premium	<u>99,136</u>	4,459,711

Bond issuance costs are recognized as debt service expenditures in the governmental funds, however these costs are capitalized on the statement and activities and amortized in the statement of activities.

Amortization of issuance costs	<u>(55,926)</u>	(55,926)
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The sale of capital assets in the governmental funds reflect proceeds. However, in the statement of activities the sale of capital assets reflect the net gain (loss).

Sale of capital assets	(799,690)	
Transfer of capital assets to business-type activities	<u>(6,792,235)</u>	(7,591,925)

(continued)

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2009

Certain revenues in the governmental funds that provide current financial resources are not included in the statement of activities because they were recognized in a prior period. However, other revenues that are deferred in the governmental funds because they do not provide current financial resources due to unavailability are recognized in the statement of activities.

Property tax	126,844	
Special assessments	(1,007)	
Fines and forfeitures	38,275	164,112

Internal service funds are used by management to charge the costs of certain activities, such as the City's self-insurance program to individual funds. The following activities of the internal service fund is reported with governmental activities.

Operating loss	(1,754,075)	
Investment income	92,458	(1,661,617)

Change in net assets of governmental activities – statement of activities		\$ (13,129,803)
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The notes to the financial statements are an integral part of this statement

(concluded)

CITY OF FLAGSTAFF, ARIZONA
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2009

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 26,303,828	\$ 26,303,828	\$ 21,512,115	\$ (4,791,713)
Intergovernmental	18,267,421	18,267,421	17,558,784	(708,637)
Grants and entitlements	1,265,288	1,265,288	1,203,623	(61,665)
Charges for services	3,263,581	3,263,581	3,023,676	(239,905)
Licenses and permits	2,180,255	2,180,255	1,377,430	(802,825)
Fines and forfeitures	1,168,353	1,168,353	1,517,558	349,205
Rents	1,460,096	1,460,096	1,350,832	(109,264)
Investment earnings	973,750	973,750	498,482	(475,268)
Miscellaneous	450,120	450,120	332,243	(117,877)
Total revenues	<u>55,332,692</u>	<u>55,332,692</u>	<u>48,374,743</u>	<u>(6,957,949)</u>
EXPENDITURES:				
Current:				
General administration	6,514,573	6,514,573	6,074,916	439,657
Management Services	4,609,985	4,609,985	4,175,572	434,413
Community development	6,021,399	6,021,399	5,205,527	815,872
Fire	11,020,114	11,020,114	10,272,153	747,961
Police	17,934,449	17,934,449	17,604,754	329,695
Public works	11,182,579	11,182,579	9,460,992	1,721,587
Utilities	26,125	26,125	26,125	-
Non-departmental	4,930,013	4,930,013	(159,640)	5,089,653
Contingency	600,000	600,000	711	599,289
Total expenditures	<u>62,839,237</u>	<u>62,839,237</u>	<u>52,661,110</u>	<u>10,178,127</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,506,545)</u>	<u>(7,506,545)</u>	<u>(4,286,367)</u>	<u>3,220,178</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	36,475	36,475	36,109	(366)
Transfers in	4,004,311	5,130,311	4,880,311	(250,000)
Transfers out	(12,682,979)	(12,921,979)	(5,785,445)	7,136,534
Total other financing sources (uses)	<u>(8,642,193)</u>	<u>(7,755,193)</u>	<u>(869,025)</u>	<u>6,886,168</u>
Net change in fund balances	<u>(16,148,738)</u>	<u>(15,261,738)</u>	<u>(5,155,392)</u>	<u>10,106,346</u>
Budgetary fund balances, beginning of year	<u>24,888,804</u>	<u>24,888,804</u>	<u>24,888,804</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 8,740,066</u>	<u>\$ 9,627,066</u>	<u>\$ 19,733,412</u>	<u>\$ 10,106,346</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ (5,155,392)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>(56,157)</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ (5,211,549)</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Highway User Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2009

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 8,563,461	\$ 8,563,461	\$ 6,663,865	\$ (1,899,596)
Investment earnings	95,000	95,000	68,011	(26,989)
Miscellaneous	4,792,636	4,792,636	-	(4,792,636)
Total revenues	<u>13,451,097</u>	<u>13,451,097</u>	<u>6,731,876</u>	<u>(6,719,221)</u>
EXPENDITURES:				
Current:				
General administration	193,821	193,821	193,821	-
Management services	187,242	187,242	187,242	-
Community development	3,526,450	3,526,450	1,331,517	2,194,933
Public works	21,907,438	21,907,438	18,942,767	2,964,671
Utilities	1,723	1,723	1,723	-
Non-departmental	260,572	260,572	260,572	-
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>26,177,246</u>	<u>26,177,246</u>	<u>20,917,642</u>	<u>5,259,604</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,726,149)</u>	<u>(12,726,149)</u>	<u>(14,185,766)</u>	<u>(1,459,617)</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	-	-	10,480	10,480
Transfers in	12,519,670	12,519,670	8,601,511	(3,918,159)
Transfers out	(377,103)	(377,103)	(377,103)	-
Total other financing sources (uses)	<u>12,142,567</u>	<u>12,142,567</u>	<u>8,234,888</u>	<u>(3,907,679)</u>
Net change in fund balances	<u>(583,582)</u>	<u>(583,582)</u>	<u>(5,950,878)</u>	<u>(5,367,296)</u>
Budgetary fund balances, beginning of year	<u>3,785,483</u>	<u>3,785,483</u>	<u>3,785,483</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 3,201,901</u>	<u>\$ 3,201,901</u>	<u>\$ (2,165,395)</u>	<u>\$ (5,367,296)</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ (5,950,878)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>(3,868)</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ (5,954,746)</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Transportation Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2009

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 13,295,320	\$ 13,295,320	\$ 10,034,637	\$ (3,260,683)
Investment earnings	162,000	162,000	122,650	(39,350)
Total revenues	13,457,320	13,457,320	10,157,287	(3,300,033)
EXPENDITURES:				
Current:				
Community development	2,076,108	2,076,108	2,046,771	29,337
Non-departmental	3,721,110	3,721,110	2,914,195	806,915
Total expenditures	5,797,218	5,797,218	4,960,966	836,252
Excess (deficiency) of revenues over (under) expenditures	7,660,102	7,660,102	5,196,321	(2,463,781)
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	5,000,000	5,000,000	17,283	(4,982,717)
Transfers out	(10,566,272)	(10,566,272)	(6,733,640)	3,832,632
Total other financing sources (uses)	(5,566,272)	(5,566,272)	(6,716,357)	(1,150,085)
Net change in fund balances	2,093,830	2,093,830	(1,520,036)	(3,613,866)
Budgetary fund balances, beginning of year	920,732	920,732	920,732	-
Budgetary fund balances, end of year	\$ 3,014,562	\$ 3,014,562	\$ (599,304)	\$ (3,613,866)
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ (1,520,036)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			(96,358)	
Adjusted net change in fund balance – GAAP basis			\$ (1,616,394)	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
BBB Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2009

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 5,514,830	\$ 5,514,830	\$ 5,051,705	\$ (463,125)
Grants and entitlements	1,555,880	1,555,880	591,699	(964,181)
Charges for services	75,000	75,000	67,424	(7,576)
Licenses and permits	-	-	150	150
Rents	-	-	70,940	70,940
Investment earnings	114,249	114,249	107,712	(6,537)
Miscellaneous	127,856	127,856	20,759	(107,097)
Total revenues	<u>7,387,815</u>	<u>7,387,815</u>	<u>5,910,389</u>	<u>(1,477,426)</u>
EXPENDITURES:				
Current:				
General administration	2,756,537	2,756,537	2,533,952	222,585
Community development	7,567,548	7,567,548	2,234,041	5,333,507
Non-departmental	1,081,886	1,081,886	629,673	452,213
Contingency	145,000	145,000	-	145,000
Total expenditures	<u>11,550,971</u>	<u>11,550,971</u>	<u>5,397,666</u>	<u>6,153,305</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,163,156)</u>	<u>(4,163,156)</u>	<u>512,723</u>	<u>4,675,879</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	-	-	22	22
Transfers in	1,404,702	1,643,702	1,643,258	(444)
Transfers out	(1,718,192)	(1,718,192)	(1,718,192)	-
Total other financing sources (uses)	<u>(313,490)</u>	<u>(74,490)</u>	<u>(74,912)</u>	<u>(422)</u>
Net change in fund balances	<u>(4,476,646)</u>	<u>(4,237,646)</u>	<u>437,811</u>	<u>4,675,457</u>
Budgetary fund balances, beginning of year	<u>5,276,130</u>	<u>5,276,130</u>	<u>5,276,130</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 799,484</u>	<u>\$ 1,038,484</u>	<u>\$ 5,713,941</u>	<u>\$ 4,675,457</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ 437,811	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>(82,801)</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 355,010</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2009

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
ASSETS		
Current assets:		
Cash and investments	\$ 5,826,085	\$ 3,576,575
Cash with fiscal agents	509,081	-
Receivable, net	3,784,315	1,122,453
Inventory	234,771	-
Total current assets	<u>10,354,252</u>	<u>4,699,028</u>
Noncurrent assets:		
Restricted cash and investments	1,835,669	9,003,624
Restricted receivable	-	23,320
Deferred bond issuance costs, net	248,533	-
Capital assets, non-depreciable	47,979,604	1,849,428
Capital assets, depreciable, net	<u>215,098,664</u>	<u>8,184,783</u>
Total non-current assets	<u>265,162,470</u>	<u>19,061,155</u>
Total assets	<u>275,516,722</u>	<u>23,760,183</u>
LIABILITIES		
Current liabilities:		
Accounts payable	908,634	27,405
Accrued payroll and compensated absences	443,791	242,350
Interest payable	929,522	-
Unearned revenue	130,584	-
Unamortized bond premium	33,527	-
Interfund payable	-	-
Bonds and notes payable	8,984,585	-
Deposits payable	<u>367,300</u>	<u>33,880</u>
Total current liabilities	<u>11,797,943</u>	<u>303,635</u>
Noncurrent liabilities:		
Compensated absences	189,531	115,192
Net OPEB obligation	94,350	63,901
Landfill closure and postclosure care costs	-	9,877,798
Capital lease payable	1,396,671	-
Bonds and notes payable	<u>45,080,363</u>	<u>-</u>
Total noncurrent liabilities	<u>46,760,915</u>	<u>10,056,891</u>
Total liabilities	<u>58,558,858</u>	<u>10,360,526</u>
NET ASSETS		
Invested in capital assets, net of related debt	207,583,121	10,034,211
Restricted: Capital projects	1,593,915	-
Unrestricted	<u>7,780,828</u>	<u>3,365,446</u>
Total net assets	<u>\$ 216,957,864</u>	<u>\$ 13,399,657</u>

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 466,508	\$ 856,946	\$ 10,726,114	\$ 4,053,764
-	-	509,081	-
219,480	119,892	5,246,140	149,021
-	-	234,771	-
<u>685,988</u>	<u>976,838</u>	<u>16,716,106</u>	<u>4,202,785</u>
-	-	10,839,293	-
-	-	23,320	-
-	-	248,533	-
113,365	10,602,408	60,544,805	-
<u>47,043,846</u>	<u>19,399,040</u>	<u>289,726,333</u>	<u>-</u>
<u>47,157,211</u>	<u>30,001,448</u>	<u>361,382,284</u>	<u>-</u>
<u>47,843,199</u>	<u>30,978,286</u>	<u>378,098,390</u>	<u>4,202,785</u>
21,901	335,551	1,293,491	839,113
38,709	29,504	754,354	-
8,775	-	938,297	-
107,857	-	238,441	-
-	-	33,527	-
94,897	-	94,897	-
488,024	-	9,472,609	-
31,877	-	433,057	-
<u>792,040</u>	<u>365,055</u>	<u>13,258,673</u>	<u>839,113</u>
11,459	7,596	323,778	-
10,540	9,044	177,835	-
-	-	9,877,798	-
2,282,494	-	3,679,165	-
<u>297,661</u>	<u>-</u>	<u>45,378,024</u>	<u>-</u>
<u>2,602,154</u>	<u>16,640</u>	<u>59,436,600</u>	<u>-</u>
<u>3,394,194</u>	<u>381,695</u>	<u>72,695,273</u>	<u>839,113</u>
44,089,030	30,001,448	291,707,810	-
-	-	1,593,915	-
<u>359,975</u>	<u>595,143</u>	<u>12,101,392</u>	<u>3,363,672</u>
<u>\$ 44,449,005</u>	<u>\$ 30,596,591</u>	<u>\$ 305,403,117</u>	<u>\$ 3,363,672</u>

Some amounts reported for *business-type activities* in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities

(553,600)
\$ 304,849,517

CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2009

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
OPERATING REVENUES:		
Charges for services	\$ 17,328,927	\$ 11,544,542
Miscellaneous	-	930
Total operating revenues	<u>17,328,927</u>	<u>11,545,472</u>
OPERATING EXPENSES:		
Personal services	5,590,327	4,089,200
Contractual services, materials and supplies	9,043,659	6,606,372
Insurance claims and expenses	-	-
Depreciation and amortization	6,198,843	999,869
Total operating expenses	<u>20,832,829</u>	<u>11,695,441</u>
Operating income (loss)	<u>(3,503,902)</u>	<u>(149,969)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest and investment income	130,178	63,354
Grants and entitlements	13,716	69,448
Gain on sale of capital asset	2,790	126,180
Passenger facility charges	-	-
Interest expense	(1,800,923)	-
Total non-operating revenues (expenses)	<u>(1,654,239)</u>	<u>258,982</u>
Income (loss) before capital contributions and transfers	<u>(5,158,141)</u>	<u>109,013</u>
Capital contributions	8,513,235	-
Transfers in	3,807,478	91,950
Transfers out	(1,965,272)	(19,488)
Change in net assets	<u>5,197,300</u>	<u>181,475</u>
Total net assets, beginning of year	<u>211,760,564</u>	<u>13,218,182</u>
Total net assets, end of year	<u>\$ 216,957,864</u>	<u>\$ 13,399,657</u>

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 1,187,105	\$ 1,247,792	\$ 31,308,366	\$ 7,337,473
-	86	1,016	5,500
<u>1,187,105</u>	<u>1,247,878</u>	<u>31,309,382</u>	<u>7,342,973</u>
629,386	510,050	10,818,963	-
797,310	308,239	16,755,580	-
-	-	-	8,266,613
<u>2,589,834</u>	<u>354,020</u>	<u>10,142,566</u>	<u>-</u>
<u>4,016,530</u>	<u>1,172,309</u>	<u>37,717,109</u>	<u>8,266,613</u>
<u>(2,829,425)</u>	<u>75,569</u>	<u>(6,407,727)</u>	<u>(923,640)</u>
7,659	4,963	206,154	92,458
2,220,901	-	2,304,065	-
(9,604)	-	119,366	-
166,158	-	166,158	-
(172,142)	-	(1,973,065)	-
<u>2,212,972</u>	<u>4,963</u>	<u>822,678</u>	<u>92,458</u>
<u>(616,453)</u>	<u>80,532</u>	<u>(5,585,049)</u>	<u>(831,182)</u>
-	4,730,117	13,243,352	-
495,648	721,989	5,117,065	-
(33,567)	(239,473)	(2,257,800)	(1,126,000)
<u>(154,372)</u>	<u>5,293,165</u>	<u>10,517,568</u>	<u>(1,957,182)</u>
<u>44,603,377</u>	<u>25,303,426</u>	<u>294,885,549</u>	<u>5,320,854</u>
<u>\$ 44,449,005</u>	<u>\$ 30,596,591</u>	<u>\$ 305,403,117</u>	<u>\$ 3,363,672</u>

Some amounts reported for business-type activities on the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities

(295,565)

Change in net assets of business-type activities \$ 10,222,003

City of Flagstaff, Arizona
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2009

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
Cash flows from operating activities:		
Receipts from customers	\$ 28,787,780	\$ 11,380,397
Interfund services provided	319,250	66,064
Other receipts	-	930
Payments to suppliers	(9,007,369)	(6,218,784)
Interfund services used	(53,296)	(4,243)
Payments to employees	(5,496,989)	(4,040,318)
Net cash provided (used) by operating activities	<u>14,549,376</u>	<u>1,184,046</u>
Cash flows from noncapital financing activities:		
Transfer from other funds	3,807,478	91,950
Transfer to other funds	(1,965,272)	(19,488)
Interfund loans paid	-	-
Net cash provided (used) by noncapital financing activities	<u>1,842,206</u>	<u>72,462</u>
Cash flows from capital and related financing activities:		
Receipts from grantors	15,009	59,234
Capital Contributions	937,009	-
Acquisition and construction of capital assets	(13,950,248)	(787,231)
Principal payments on capital debt	(5,006,688)	-
Interest paid on capital debt	(1,763,777)	-
Proceeds from capital debt	6,602,689	-
Proceeds from sales of capital assets	2,790	126,180
Net cash provided (used) by capital and related financing activities	<u>(13,163,216)</u>	<u>(601,817)</u>
Cash flows from investing activities:		
Interest received on investments	176,928	88,568
Net cash provided by investing activities	<u>176,928</u>	<u>88,568</u>
Net increase (decrease) in cash and cash equivalents	<u>3,405,294</u>	<u>743,259</u>
Cash and cash equivalents at beginning of year	<u>4,765,541</u>	<u>11,836,940</u>
Cash and cash equivalents at end of year	<u>\$ 8,170,835</u>	<u>\$ 12,580,199</u>
Classified as:		
Cash, cash equivalents, and investments	\$ 5,826,085	\$ 3,576,575
Restricted cash with fiscal agents	509,081	-
Restricted cash and cash equivalents	1,835,669	9,003,624
Totals	<u>\$ 8,170,835</u>	<u>\$ 12,580,199</u>

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ 1,151,808	\$ 1,203,271	\$ 42,523,256	\$ 7,387,705
-	41,175	426,489	-
166,158	86	167,174	5,500
(1,636,274)	(54,806)	(16,917,233)	(7,864,717)
(22,463)	-	(80,002)	-
(611,328)	(502,826)	(10,651,461)	-
<u>(952,099)</u>	<u>686,900</u>	<u>15,468,223</u>	<u>(471,512)</u>
495,648	721,989	5,117,065	-
(33,567)	(239,473)	(2,257,800)	(1,126,000)
-	-	-	3,300,000
<u>462,081</u>	<u>482,516</u>	<u>2,859,265</u>	<u>2,174,000</u>
2,910,880	-	2,985,123	-
-	-	937,009	-
(1,850,596)	(757,885)	(17,345,960)	-
(480,664)	-	(5,487,352)	-
(174,572)	-	(1,938,349)	-
-	-	6,602,689	-
19,900	-	148,870	-
<u>424,948</u>	<u>(757,885)</u>	<u>(14,097,970)</u>	<u>-</u>
9,599	4,192	279,287	106,318
<u>9,599</u>	<u>4,192</u>	<u>279,287</u>	<u>106,318</u>
(55,471)	415,723	4,508,805	1,808,806
521,979	441,223	17,565,683	2,244,958
<u>\$ 466,508</u>	<u>\$ 856,946</u>	<u>\$ 22,074,488</u>	<u>\$ 4,053,764</u>
\$ 466,508	\$ 856,946	\$ 10,726,114	\$ 4,053,764
-	-	509,081	-
-	-	10,839,293	-
<u>\$ 466,508</u>	<u>\$ 856,946</u>	<u>\$ 22,074,488</u>	<u>\$ 4,053,764</u>

(continued)

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2009

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ (3,503,902)	\$ (149,969)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	6,198,843	999,869
Landfill closure and postclosure costs	-	512,308
Other receipts	-	-
(Increase) decrease in assets:		
Accounts receivable	11,838,919	(168,274)
Allowance for doubtful accounts	-	66,000
Inventories	69,803	-
Increase (decrease) in liabilities:		
Accounts payable	(86,809)	(128,963)
Accrued payroll, compensated absences and OPEB	93,338	48,882
Deposits payable	(49,580)	4,193
Deferred revenue	(11,236)	-
Total Adjustments	18,053,278	1,334,015
Net cash provided (used) by operating activities	\$ 14,549,376	\$ 1,184,046
Noncash investing, capital and financing activities:		
Capital assets acquired through contributions from developers	\$ 3,950,741	\$ -
Capital assets acquired through contributions from general fund	3,625,485	-
Total noncash investing, capital and financing activities	\$ 7,576,226	\$ -

The notes to the financial statements are an integral part of this statement

			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ (2,829,425)	\$ 75,569	\$ (6,407,727)	\$ (923,640)
2,589,834	354,020	10,142,566	-
-	-	512,308	-
166,158	-	166,158	-
(11,131)	(3,346)	11,656,168	50,232
-	-	66,000	-
-	-	69,803	-
(861,427)	253,433	(823,766)	401,896
18,058	7,224	167,502	-
(5,523)	-	(50,910)	-
(18,643)	-	(29,879)	-
<u>1,877,326</u>	<u>611,331</u>	<u>21,875,950</u>	<u>452,128</u>
<u>\$ (952,099)</u>	<u>\$ 686,900</u>	<u>\$ 15,468,223</u>	<u>\$ (471,512)</u>
\$ -	\$ 1,563,368	\$ 5,514,109	\$ -
-	3,166,749	6,792,234	-
<u>\$ -</u>	<u>\$ 4,730,117</u>	<u>\$ 12,306,343</u>	<u>\$ -</u>

(concluded)

CITY OF FLAGSTAFF, ARIZONA
Notes to the Financial Statement
June 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Flagstaff (the City) was incorporated as a town in 1894 and as a city in 1928. The current City Charter was approved June 29, 1998. The Charter provides for the Council-Mayor form of government and the authority to provide municipal services, as limited by the State Constitution.

The accounting policies of the City of Flagstaff conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to Governmental Units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. For the year ended June 30, 2009, the City implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports.

The City of Flagstaff is a municipal corporation governed by an elected Mayor and six-member council. The accompanying financial statements include the City and all of its component entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the Government Wide Statement of Net Assets and Activities to emphasize they are legally separate from the government. The City of Flagstaff has no discretely presented component units.

Blended Component Unit: The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring and equipping municipal facilities. For Financial reporting purposes, transactions of the MFC are included as if it were part of the City's operations. In fiscal year 2001 the MFC issued \$4.7 million in bonds for construction on additional facilities owned by the City and currently leased to the United States Geological Survey (USGS). These bonds will be repaid through USGS lease proceeds. In fiscal year 2004 the MFC issued \$25 million in bonds for construction of the Fourth Street Overpass. The voters approved this debt financing in the May 2000 General Election. These bonds will be repaid with the transportation sales tax that was also approved in the May 2000 Election.

Related Organizations: The City of Flagstaff officials are also responsible for appointing board members of other organizations. However, as the City's control is limited to making the appointments and there is not a significant operational nor a significant financial relationship between these organizations and the City, they are not included as part of these financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which are supported by fees and charges for services.

The government-wide statement of activities demonstrates the degree to which the direct expenses of the various functions and segments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt and depreciation expense on assets shared by multiple functions are not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, investment income and other revenues not identifiable with particular functions or segments are included as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

Generally, the effect of interfund activity has been removed from the government-wide financial statement. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

Interdepartmental services performed by one department for another are credited to the performing department and charged to the receiving department to reflect the accurate costs of programs. These indirect costs have been included as part of the program expenses reported for the various functional activities. The rates used are intended to reflect full costs in accordance with generally accepted cost accounting principles.

The government-wide statement of net assets reports all financial and capital resources of the government (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals' net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reservations or designations of net assets imposed by the reporting government, whether by administrative policy or legislative actions of the reporting government, are not shown on the government-wide financial statements.

Also part of the basic financial statements are fund financial statements for governmental funds, and proprietary funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although the reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. The City has opted to add the Bed, Board, and Booze (BBB) Fund as a major governmental fund on the basis of community focus and the Stormwater Fund as major proprietary fund due to its relation with other proprietary funds. Other non-major funds are combined in a single column on the fund financial statements and are detailed in combining statements included as supplementary information after the basic financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recorded as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary fund financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary fund financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds may be eliminated in the consolidation for the government-wide financial statements, but are included in the fund columns in the proprietary fund financial statements. The net costs/income of the internal service fund is also partially allocated to the business-type activities column on the government-wide financial statements.

On the proprietary fund financial statements, operating revenues are those that flow directly from the operations of that activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses represent items like investment income, interest expense, and other items that do not fit in any other category and are not a result of the direct operations of the activity.

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

The City uses the following fund categories:

Governmental Fund Types

Governmental Funds are those through which most of the governmental functions of the City are financed. The measurement focus is based upon determination of changes in financial position rather than upon net income determination.

General Fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General fund will always be considered a major fund in the basic financial statements.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes. There are three special revenue funds that are presented as major funds in the basic financial statements. They are the:

- *Highway User Revenue Fund*, which receives and expends the City's allocation of the Highway User Revenue money. Monies allocated to this fund must be used for Street construction, reconstruction and maintenance.
- *Transportation Tax Fund* that accounts for the receipt and expenditures of the Transportation Tax money. These monies are restricted to financing improvements in the Areas of the 4th Street overpass project, Safe to School/Pedestrian and Bike projects, Traffic Flow and Safety improvements, and Transit Service operations and enhancements.
- *Bed, Board and Booze Tax Fund* that accounts for the Bed, Board and Booze tax revenues and expenditures. These monies are restricted for use in the areas of Beautification, Economic Development, Tourism, Arts & Science, and Recreation.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal and interest. None of the debt service funds are reported as major in the current year.

Capital Projects Fund is used to account for major capital acquisition and construction separate from ongoing operating activities. The city reports it one capital project fund as major.

- The *Capital Project Bond Construction Fund* accounts for the activity related to the General Bonding Obligations and associated capital construction for capital projects as approved by voters in May 2004.

Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Proprietary Fund Types

Proprietary Funds are used to account for the City's ongoing organizations and activities, which are similar to those found in the private sector and where cost recovery and the determination of net income is useful or necessary for sound fiscal management. The measurement focus is based upon determination of net income, changes in net assets, financial position, and cash flows.

Enterprise Funds are used to account for operations that provide services to the general public for a fee. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs. The City has four enterprise funds all of which are presented as major funds in the basic financial statements.

- *Water and Wastewater Utility* accounts for the City water pumping, treatment and distribution systems and the City wastewater collection, and treatment systems.
- *Environmental Services Fund* accounts for the operations of City refuse and management of the City landfill. A recycling collection services as well as the management of sustainability programs.
- *Airport Fund* that accounts for the construction, operations and maintenance of the City airport.
- *Stormwater Utility* accounts for the construction, operations and maintenance activities of the City stormwater system.

Internal Service Fund accounts for the operations that provide services to other departments of the government on a cost-reimbursement basis, thus the internal service fund is presented with the proprietary fund financial statements. The internal service fund represents the self-insurance services provided to other departments and accounts for the risk management function of the City as well as maintaining the costs of the City's liability insurance and any claims paid under the City's self-insurance program. These costs are allocated to all operational activities of the City.

Private Sector Standards

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Non-Current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups (formerly the general fixed asset account group and the general long-term debt account group). The governmental long-term assets and liabilities continue to be maintained in the account groups for tracking purposes, but are presented with the governmental activities in the government-wide statement of net assets.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities are generally included on the balance sheet. Operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Enterprise funds are accounted for on a flow of economic resources measurement focus whereby all assets and liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is used by governmental funds. Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days after year-end.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Revenues susceptible to accrual include property tax, privilege license tax, highway user tax, state shared sales tax, vehicle license tax, and interest earned on investments. Licenses and permits, charges for services, fines and forfeitures, parks and recreation charges and miscellaneous revenues are recorded when received in cash since they are generally not measurable until actually received.

The accrual basis of accounting is followed for all enterprise funds. Revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized when incurred.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund’s principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

Budgets and Budgetary Accounting

The City uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements.

- The maximum legal expenditure permitted for the year is the total budget as adopted. The expenditure appropriations in the adopted budget are maintained in the City's financial system by department within individual funds. Department appropriations may be amended during the year, within administrative guidelines and adopted Council policies.
- The initial budget for the fiscal year may be amended during the year in a legally permissible manner.
- The City Manager is generally authorized to transfer budgeted amounts within any specific department's expenditure appropriation. Any budget revisions requiring a transfer between departments must be approved by the City Council. Additionally, budget revisions involving personnel or capital asset expenditures/expenses must be approved by the City Council.
- All unencumbered expenditure appropriations expire at the end of the fiscal year.
- Encumbered amounts are re-budgeted in the following year as deemed appropriate and necessary after review by the Budget Committee. Budgetary carry forwards are approved by the City Council as part of the budget adoption process.
- All funds of the City have legally adopted budgets with the exception of the Internal Service Fund and Perpetual Care Fund. Formal integration of these budgets into the City's financial systems is employed as a management control device during the year for all funds.

The City prepares its annual budget on a modified cash basis, which differs from GAAP, GASB Statement 34 requires that budgetary comparison statements for the General Fund and major special revenue funds be presented in the annual financial statements. These statements must display original budget, amended budget and actual results on a budgetary basis at the legal level of budgetary control. The City's legal level of budgetary control is at the department level; however the City's financial statements are presented at the functional level of detail. Budgetary comparisons provided in the basic financial section are presented for the General Fund and major special revenue funds at the department level; these are presented as statements. The supplemental section provides budgetary comparisons for non-major special revenue funds, capital projects funds and debt service funds at the same functional level of detail used in financial statements presentation; these are presented as schedules.

D. Assets, Liabilities, and Net Assets

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in the State's Local Government Investment Pool (LGIP), in obligations of the U.S. Treasury, commercial paper and repurchase agreements. Investment Income from pooled cash and investments is allocated monthly based on the percentage of a fund's average daily equity in pooled cash and investments to the total average daily-pooled equity in pooled cash and investments. Investments are stated at fair value. The City also has an investment policy. Details of the City's investment policy can be found in Note IV.A.

The LGIP is a part of the State of Arizona Treasurer's office. The State Board of Deposit provides oversight for the State Treasurer's pools, and the LGIP Advisory Committee provides consultation and advice to the Treasurer. Investments in the State of Arizona LGIP are stated at fair value, which also approximates the value of the investment upon withdrawal.

For purposes of the statement of cash flows, the City considers cash and cash equivalents, including restricted cash and cash equivalents, to be currency on hand, demand deposits with banks, amounts included in pooled cash and investment accounts and liquid investments with a maturity of three months. Cash and cash equivalents are included in both unrestricted as well as restricted assets.

Receivables and Payables

Accounts receivable and taxes receivable, are shown net of an allowance for uncollectible accounts. The City's property tax is levied each year on or before the third Monday in August based on the previous January 1, full cash value as determined by the Coconino County Assessor. Levies are due and payable in two installments on September 1 and March 1. First half installments become delinquent on November 1; second half installments become delinquent on May 1. Interest at the rate of 12% per annum accrues following delinquent dates. Coconino County bills and collects all property taxes, at no charge to the taxing entities. A lien against property assessed attaches on the first day of January preceding assessment and levy thereon.

Under Arizona tax laws, there are two property tax levies, primary and secondary. Primary property taxes are not restricted as to use and are used to finance the general operations of the City. Secondary property taxes are restricted for general obligation bonded debt service. The secondary property tax levy is recorded as revenue in a debt service fund and transferred to the Water and Wastewater Fund, the BBB Fund, the Airport Fund and the General Obligation Bond Fund. General Obligation bonds are serviced by each of these funds. For fiscal year 2008-2009, primary and secondary property tax collections amounted to \$4,881,554 and \$7,253,787 respectively.

Inventory

Inventory is valued at cost, which approximates market, using the weighted average cost method. Inventory consists of expendable supplies held for consumption and is charged to expenditure accounts as consumed.

Restricted Assets

Certain debt proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted on the balance sheet, or statement of net assets, because they are maintained in trust accounts and their use is limited by applicable debt covenants. Typically, restricted assets are used prior to using unrestricted assets when both are available for the same purpose.

Grant Revenue

The City, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the City before the eligibility requirements are met are reported as deferred revenues. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the City.

Capital Assets

Prior to GASB Statement No. 34, capital assets for governmental funds were recorded in the General Fixed Assets Account Group and were not depreciated. The new reporting model requires that all capital assets, whether owned by governmental activities or business-type activities, be recorded and depreciated (unless the modified approach is used) in the government-wide financial statements. The City has chosen not to apply the modified approach to any

networks or subsystems of infrastructure assets. No long-term assets or depreciation are shown in the governmental fund financial statements.

Capital assets, including public domain infrastructure (i.e., roads, bridges, curbs and gutters, streets and sidewalks, and other assets that are immovable and of value only to the City) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 (\$25,000 for capital improvement projects and infrastructure assets) and an estimated useful life greater than five years. Such assets are recorded at historical cost or estimated historical cost if actual amounts are unknown. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life, are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Major capital outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, if material.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives (land and construction-in-progress are not depreciated):

<u>Assets</u>	<u>Useful life (years)</u>
Buildings	20-50
Improvements	10-20
Machinery and Equipment	5-20
Infrastructure	10-50

Compensated Absences

Vacation and sick leave is granted to all regular and part-time permanent employees. The annual amount of vacation time accrued varies depending on classification and years of service. Accumulated vacation leave vests and the City is obligated to make payment if the employee terminates. Sick leave accrues at rates based on the full time equivalency status of each employee. Vested (at least 20 years of service) sick leave is payable upon retirement, disability or death of up to 50 percent (not more than 520 hours) of accumulated sick leave.

For the governmental fund financial statements, the current payroll and current portion of the compensated absences are recorded as a current liability of the applicable funds. Long-term liabilities of governmental funds are not shown on the fund financial statements. For the government-wide financial statements, as well as the proprietary fund financial statements, all of the accrued liabilities for compensated absences are recorded as a liability.

Other Postemployment Benefits

Retirees are allowed to participate in the same healthcare plan as active employees and pay the same premium for this benefit which causes an implicit rate subsidy. Even though the City makes no direct payments on behalf of the retirees the City is required to report this implicit cost for active employees who will be able to continue to purchase health insurance once they retire.

To recognize the cost of other postemployment benefits (OPEB) for healthcare over the active service life of the employee rather than on a pay-as-you-go basis, the net OPEB obligation represents the amortized future cost of the unfunded actuarial accrued liability. In the government-wide statements, and proprietary fund types in the fund financial statements, the net OPEB obligations are reported as long-term liabilities in the statement of net assets.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs in the period in which the bonds are issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interfund Transactions

Interfund transactions, consisting of services performed for other funds or costs billed to other funds are treated as expenditures in the fund receiving the services and as a reimbursement reducing expenditures in the fund performing the services. Exceptions include water sales, sewer charges, and environmental service charges that are recorded as revenue in the enterprise funds and expenses or expenditures in the department receiving the service. In addition, operating transfers are made between funds to shift resources from a fund legally authorized to receive revenue to a fund authorized to expend the revenue.

Fund Equity

In the fund financial statements, reserved fund balance is defined as that portion of fund balance that has legally been segregated for specific purposes. Designated fund balance is defined as that portion of fund equity for which the City has made tentative plans for future use of financial resources. Unreserved/undesignated fund balance is defined as that portion of fund balance, which is available for use in a future period.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual accounting basis while the government-wide financial statements are prepared on a long-term economic resources measurement focus and accrual accounting basis. Reconciliation's briefly explaining the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements immediately follow each fund financial statement.

Reconciliation of Governmental Funds Balance Sheet and the government-wide Statement of Net Assets:

	Total Governmental Funds	Capital Assets (1)	Long-Term Liabilities (2)	Internal Service Fund (3)	Reclass and Eliminations (4)	Statement of Net Assets Totals
Assets						
Cash and cash equivalents	\$ 29,784,961	\$ -	\$ -	\$ 4,053,764	\$ -	\$ 33,838,725
Cash with fiscal agents	5,248,901	-	-	-	-	5,248,901
Accounts receivable, net	6,306,146	-	361,640	37,479	-	6,705,265
Interest receivable	147,830	-	-	16,645	-	164,475
Intergovernmental receivables	3,629,474	-	-	-	-	3,629,474
Bond proceeds receivable	127,674	-	-	-	-	127,674
Special assessments receivable	1,527	-	-	-	-	1,527
Interfund receivable	8,567,000	-	-	648,497	(8,567,000)	648,497
Deferred issuance costs - Prepaid items	-	-	485,481	-	-	485,481
Inventory	366,856	-	-	-	-	366,856
Restricted cash and cash equivalents	10,113,468	-	-	-	-	10,113,468
Property held for sale	500,000	-	-	-	-	500,000
Capital assets	-	302,336,426	-	-	(6,792,235)	295,544,191
Total Assets	\$ 64,793,837	\$ 302,336,426	\$ 847,121	\$ 4,756,385	\$ (15,359,235)	\$ 357,374,534
Liabilities and Net Assets						
Accounts payable	\$ 6,072,928	\$ -	\$ -	\$ 839,113	\$ -	\$ 6,912,041
Accrued payroll & compensated absences	2,147,749	-	-	-	-	2,147,749
Interest payable	1,822,037	-	-	-	-	1,822,037
Interfund payable	8,567,000	-	-	-	(8,567,000)	-
Unearned revenue	-	-	-	-	3,764,718	3,764,718
Deferred revenue	4,100,686	-	(335,968)	-	(3,764,718)	-
Guaranty and other deposits	1,481,719	-	-	-	-	1,481,719
Arbitrage rebate	-	-	449,927	-	-	449,927
Current bonds/contracts payable	4,540,000	-	-	-	-	4,540,000
Unamortized bond premium	-	-	905,180	-	-	905,180
Compensated absences	-	-	3,478,644	-	-	3,478,644
Other postemployment benefits	-	-	875,578	-	-	875,578
Unmatured long-term debt	-	-	75,734,293	-	-	75,734,293
Fund balance/Net Assets	36,061,718	302,336,426	(80,260,533)	3,917,272	(6,792,235)	255,262,648
Total liabilities and net assets	\$ 64,793,837	\$ 302,336,426	\$ 847,121	\$ 4,756,385	\$ (15,359,235)	\$ 357,374,534

(1) Capital assets (land, buildings, equipment, etc.) used in governmental activities are purchased or constructed with the costs of those assets are reported as expenditures in governmental funds, and thus a reduction in fund balance. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Costs of capital assets	\$ 440,193,526
Accumulated depreciation	(137,857,100)
	<u>\$ 302,336,426</u>

(2) Bond issuance costs are expensed when incurred in governmental funds, but are deferred and amortized over the life of the bonds in the statement of net assets.

Unamortized bond issue costs	<u>\$ 485,481</u>
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Certain receivables are not recognized in the governmental funds, but are earned in the statement of net assets.

Deferred court receivables	<u>\$ 361,640</u>
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly are not reported as fund liabilities in the governmental fund statement. All liabilities, both current and long-term are reported in the statement of net assets.

Bonds payable	\$ 80,274,293
Compensated absences	5,009,329
Arbitrage rebate	449,927
Unamortized bond premium	905,180
Subtotal	<u>86,638,729</u>
Less: current portion of bonds and leases	<u>4,540,000</u>
	<u>\$ 82,098,729</u>

Deferred revenue for the long-term special assessment receivables and property tax shown on the governmental fund statements is not deferred on the statements of net assets.

Deferred property tax	<u>\$ 335,968</u>
	<u>\$ 335,968</u>

(3) Internal service funds are used by management to charge the costs self insurance to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets, but are not included on the governmental fund balance sheet.

ISF net assets	<u>\$ 3,917,272</u>
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(4) Certain interfund transactions between governmental activities and between business-type activities are eliminated in the consolidation of those activities for the statement of net assets.

Interfund receivables	\$ 8,567,000
Interfund payables	(8,567,000)
	<u>\$ -</u>

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

Reconciliation of Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities:

	Total Governmental Funds	Capital Related Items (1)	Long-Term Revenues/ Expenses (2)	Internal Service Fund (3)	Adjustments and Eliminations (4)	Statement of Activities Totals
Revenues and Other Sources						
Taxes	\$ 43,555,388	\$ -	\$ 126,844	\$ -	\$ -	\$ 43,682,232
Intergovernmental	21,364,739	-	-	-	(930,132)	20,434,607
Grants and entitlements	9,609,538	-	-	-	930,132	10,539,670
Charges for services	3,324,838	-	-	-	-	3,324,838
Special assessments	2,382	-	(2,382)	-	-	-
Licenses and permits	1,377,580	-	-	-	-	1,377,580
Fines and forfeitures	1,517,558	-	38,275	-	-	1,555,833
Rent	1,421,772	-	-	-	-	1,421,772
Investment earnings	1,366,931	-	-	92,458	-	1,459,389
Contributions	1,328,524	371,818	1,375	-	-	1,701,717
Miscellaneous	381,984	-	-	-	-	381,984
Total revenue	85,251,234	371,818	164,112	92,458	-	85,879,622
Expenditures/Expenses						
General governmental	9,848,282	653,762	314,218	80,541	-	10,896,803
Public safety	27,374,083	1,148,544	361,356	215,116	-	29,099,099
Public works	1,645,703	388,155	59,753	15,610	-	2,109,221
Economic and physical development	9,991,927	207,802	70,776	76,477	-	10,346,982
Culture and recreation	12,158,087	1,532,260	131,021	102,893	-	13,924,261
Highways and streets	11,187,402	7,213,718	55,684	137,438	-	18,594,242
Principal retirement	5,034,991	-	(5,034,991)	-	-	-
Interest and other charges	3,750,657	-	(99,136)	-	-	3,651,521
Capital outlay	30,796,072	(30,796,072)	-	-	-	-
Total expenditures/expenses	111,787,204	(19,651,831)	(4,141,319)	628,075	-	88,622,129
OTHER FINANCING SOURCES (USES):						
Bond proceeds	109,352	-	(109,352)	-	-	-
Sale of capital assets	63,894	(799,690)	-	-	-	(735,796)
Transfers in	21,626,308	-	-	-	-	21,626,308
Transfers out	(23,359,573)	-	-	(1,126,000)	(6,792,235)	(31,277,808)
Total other financing sources (uses)	(1,560,019)	(799,690)	(109,352)	(1,126,000)	(6,792,235)	(10,387,296)
Net change for the year	\$ (28,095,989)	\$ 19,223,959	\$ 4,196,079	\$ (1,661,617)	\$ (6,792,235)	\$ (13,129,803)

Capital outlay	\$	30,796,072
Depreciation expense		(11,144,241)
Gain (loss) on sale of capital assets		(799,690)
Donated capital assets		371,818
	\$	<u>19,223,959</u>

- (2) Special assessment principal payments received are reported as revenue on the governmental fund statements, but are reductions to the outstanding special assessment debt for government-wide reporting. Property tax revenue not received within 30 days of year end are deferred for governmental fund reporting, but are not deferred for government-wide reporting.

Special assessment received	\$	(1,007)
Property tax		126,844
Court revenue		38,275
	\$	<u>164,112</u>

The costs of issuing bonds are reported as an expenditure in governmental funds in the year of bond issuance. For the City as a whole, however, the bond issuance costs are deferred and amortized (expensed) over the life of the bonds.

Amortization of bond issuance costs	\$	(55,926)
Arbitrage rebate		(73,802)
	\$	<u>(129,728)</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrual of long-term compensated absences	\$	12,498
Accrual of postemployment benefits		(875,578)
	\$	<u>(863,080)</u>

Prepayment of bond principal is reported as an expenditure in governmental funds and thus has the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the long-term liabilities in the statement of net assets and do not result in an expense in the statement of activities

Principal bond payments	\$	5,034,991
Capital debt issued		(109,352)
Amortization of bond premium		99,136
	\$	<u>5,024,775</u>

- (3) Internal service funds are used by management to charge the costs of self insurance to the individual funds. The adjustments for internal service funds "close" those funds by charging the additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year.

Revenue	\$	92,458
Expenditures		(1,754,075)
	\$	<u>(1,661,617)</u>

- (4) Certain interfund transactions between governmental activities and between business-type activities are eliminated in the consolidation of those activities for the statement of net assets.

Transfer of capital assets to enterprise fund	\$	<u>(6,792,235)</u>
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C. Negative Fund Balance

The Highway User Revenue Fund ended the year ending June 30, 2009 with a negative fund balance of \$311,731. This was caused by capital expenditures being incurred for debt funded project prior to the debt being issued. The debt was issued in the following fiscal year.

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budget Basis of Accounting

The City's accounting records for General Government operations (General, Special Revenue, and Debt Service Funds) are maintained on a basis consistent with Generally Accepted Accounting Principles (GAAP) with measurable revenues recorded when they become available to finance expenditures in the current fiscal year. "Available" is defined as: collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on debt, are recognized in the accounting period in which the liability arises. State statute allows for encumbrances to be recognized for a 60-day period following the end of the prior fiscal year as uses of prior year appropriations. To ensure that appropriations do not lapse, departments are directed to re-budget for all items delivered after June 30.

For the Enterprise Funds, the annual budget is prepared on a basis that differs from GAAP because state law requires capital purchases and debt service payments to be budgeted as expenses, and bond proceeds and grants that are to be utilized are to be budgeted as revenues.

The accounting and budgeting systems for the City are in accordance with Generally Accepted Accounting Principles (GAAP) format, with minimal variances between the two systems. Budget basis for enterprise funds differ primarily due to state laws. The major differences are as follows:

- Encumbrances (contractual commitments) are considered the equivalent of expenditures. Encumbrances at year-end for goods or services, which are not received prior to the end of the fiscal year, are cancelled.
- Fund balances reserved to inventory and bonded debt are not included in the budget.
- Certain expenditures, such as depreciation, compensated absences and landfill closure and post closure accrual, are not included in the budget.
- Enterprise funds budget capital expenditures and debt service payments as expenses.
- Enterprise funds budget bond proceeds and grants as revenues.

The City will utilize a number of different fund types to segregate the financial activity within the City either due to regulatory reasons or as designated internally. The fund classifications are Governmental funds, Proprietary funds, and Fiduciary funds.

Review and Approval

Issues presented during the review and approval period include discussion topics of the Council during the fall and spring retreats. The fall and spring retreats were held in November and February respectively, to give City staff the opportunity to present major discussion points to Council and the public. The goal is for Council to make policy decisions and direct staff in preparing the budget. This provides adequate time for the Council to gather input on major budget issues prior to preparation of the budget. The City Council holds Study Sessions in April. The Council reviews and discusses the issue papers included in the Budget Review Book as well as all personnel recommendations, capital equipment recommendations, and the capital improvement plan. The Council arrives at a

consensus for all decisions needed. The Study Sessions provide the opportunity for City management, departments, and the public to offer information and recommendations to the City Council.

The proposed budget is presented to Council for tentative adoption on or before the third Monday in June. Two public hearings are held on the content of the budget. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues, e.g., Passengers Facility Charges, and expenditures that cannot be accurately determined when the budget is adopted, e.g., grants. The Resolution adopting the annual budget requires Council authorization for any expenditure from contingencies, as well as transfer of budget authority between departments.

The City operates under the State Expenditure Limitation with a one-time adjustment to the base. The adjustment provided for an increase to the base limit to allow for the expenditure of funds resulting from the addition of a 2% Bed, Board, & Booze Tax. Flagstaff is not a Home Rule city. Alternative Home Rule Expenditure Control municipalities require voter approval every four years.

The Adopted Budget reflects the total funds appropriated. Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation and this total cannot be exceeded.

Budget authority can be transferred between line items within a Division. At year-end, Department budgets are reviewed and budget authority is transferred from contingencies by Resolution as necessary. Additionally, any inter-fund transfer of appropriations requires Council approval. Council can also amend total appropriations for a fund during the year by Resolution as long as there is a corresponding increase/decrease in another fund so that the expenditure limitation is not exceeded.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the government-wide Statement of Net Assets as "Cash and cash equivalents," "Cash with fiscal agents," "Investments," and "Restricted cash and investments."

Deposits

At June 30, 2009, the carrying amount of the City's deposits was \$6,016,008 and the bank balance was \$7,238,603. The \$1,222,595 difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2009.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Statutes and the City's investment policy require collateral for demand deposits, certificates of deposit, and repurchase agreements at 102 percent of all deposits covered by federal depository insurance. As of June 30, 2009, all City deposits and those held by fiscal agents were covered by federal depository insurance or by collateral held by the City's agent in the City's name. All investments are either registered in the City's name or are held by a third party in the City's name except for \$5,393,337 of the City's repurchase sweep agreement which is held by the financial institution, not in the name of the City.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy matches maturities with cash flow dates, unless matched to a specific requirement the City may not invest more than 25 percent of the portfolio for a period greater than three years or any portion of the portfolio for a period greater than 10 years.

At June 30, 2009, the City’s investments included the following

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>
U.S. agency securities – implicit	\$ 16,668,365	3.769
Municipal securities	14,000	1.000
Repurchase sweep agreement	5,393,337	0.003
Mutual fund – money market	4,314,170	0.003
State Investment Pool	38,869,702	0.087
Total fair value of investments	<u>\$ 65,259,574</u>	
Portfolio weighted average maturity		1.015

Credit Risk

City resolution and State Statutes authorized the City to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, repurchase agreements, money market accounts, certificates of deposit, and the State of Arizona Local Government Investment Pool (LGIP).

The credit quality ratings of investments as described by nationally recognized Moody’s rating service as of June 30, 2009 is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>A+</u>	<u>Unrated</u>
U.S. agency securities – implicit	\$ 22,061,702	N/A	\$ 22,061,702	\$ -	\$ -
State investment pool (LGIP)	38,869,702	N/A	38,869,702	-	-
Mutual fund – money market	4,314,170		-	-	4,314,170
Municipal securities	<u>14,000</u>	A	<u>-</u>	<u>14,000</u>	<u>-</u>
Total	<u>\$ 65,259,574</u>		<u>\$ 60,931,404</u>	<u>\$ 14,000</u>	<u>\$ 4,314,170</u>

Concentration of Credit Risk

The City’s investment policy establishes that its investment portfolio, to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities shall not exceed the following. Fully insured or collateralized CD’s no more than 25%, US agency securities 100%, State, county, school district and other district municipal bonds or debt with an A rating or better no more than 25%, repurchase agreements 100%, and local government investment pool 100%. State of Arizona Investment Pool represents 60 percent of the City’s total investments. In addition, Federal Home Loan Bank and Federal National Mortgage Association represent 12 percent and 15 percent, respectively, of the City’s total investment.

At June 30, 2009, the City's cash and investments included the following:

Carrying amount of investments	\$ 65,259,574
Carrying amount of cash deposits	6,016,008
Total pooled cash and investments	<u>\$ 71,275,582</u>
Pooled cash and cash equivalents – unrestricted	\$ 27,882,476
Investments – unrestricted	16,682,363
Restricted cash with fiscal agent	5,757,982
Restricted cash and investments	20,952,761
Total pooled cash and investments	<u>\$ 71,275,582</u>

Cash and cash equivalents at June 30, 2009 consisted of the following:

Investments included in cash and cash equivalents	\$ 27,866,551
Cash on hand	15,925
Total cash and cash equivalents per statement of net assets	<u>\$ 27,882,476</u>

Investment income comprises the following for the year ended June 30, 2009:

Net interest and dividends	\$ 1,979,506
Net increase (decrease) in the fair value of investments	(313,963)
Total net investment income per statement of activities	<u>\$ 1,665,543</u>

The net decrease in the fair value of investments during fiscal year 2008–2009 was \$41,178. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain (loss) on investments held at June 30, 2009 was \$166,488.

In previous years, the City recognized a decrease in fair value of \$1,473,712 consisting of the City's share of a loss on an investment within the Local Government Investment Pool. The State and numerous other bondholders filed suit against the principals, underwriters, trustees, accountants, and others in May 2003. The case is presently pending litigation. There have been several distributions since June 2006. The distributions include payments from the trustee and settlement proceeds received from pending litigation. The City did not receive distributions this year but total recovery to date is \$777,005.

During this year, the City recognized a decrease in fair value of \$272,785 consisting of the City's share of a loss on an investment within the Local Government Investment Pool relating to Lehman Brothers Chapter 11 filing. The State has file claims on behalf of the LGIP investors. No distributions have been made to date.

B. Receivables

Receivables as of June 30, 2009, including allowances for uncollectible accounts, are as follows:

Fund	Accounts	Interest	Intergov- ernmental	Bond Proceeds	Special Assessments	Total Receivables
Governmental Activities						
General fund	\$ 5,699,003	\$ 70,326	\$ 908,821	\$ 127,674	\$ -	\$ 6,805,824
Highway user revenue fund	712,908	14,475	-	-	-	727,383
Transportation fund	927,025	9,679	2,051,628	-	-	2,988,332
BBB fund	513,858	16,995	59,351	-	-	590,204
Capital projects bond construction	25,090	7,693	-	-	-	32,783
Other governmental funds	153,279	28,662	609,674	-	1,527	793,142
Less: allowance for uncollectibles	(1,363,377)	-	-	-	-	(1,363,377)
Total government funds	6,667,786	147,830	3,629,474	127,674	1,527	10,574,291
Internal services funds	37,479	16,645	-	-	-	54,124
Total governmental activities	6,705,265	164,475	3,629,474	127,674	1,527	10,628,415
Business-Type Activities						
Water and wastewater	3,798,131	26,184	-	-	-	3,824,315
Environmental services	1,168,477	35,153	23,143	-	-	1,226,773
Airport	105,835	1,729	116,916	-	-	224,480
Stormwater	120,121	771	-	-	-	120,892
Less: allowance for uncollectibles	(127,000)	-	-	-	-	(127,000)
Total business-type activities	5,065,564	63,837	140,059	-	-	5,269,460
Total activities	<u>\$ 11,770,829</u>	<u>\$ 228,312</u>	<u>\$ 3,769,533</u>	<u>\$ 127,674</u>	<u>\$ 1,527</u>	<u>\$ 15,897,875</u>

The only receivable not expected to be collected within one year include \$71,000 of environmental services fund and \$88,000 of the general fund.

C. Capital Assets

A summary of capital asset activity, for the government-wide financial statements, as of June 30, 2009 is as follows:

	Balance July 1, 2008	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2009
Governmental activities:					
Non-depreciable assets:					
Land	\$ 42,295,191	\$ -	\$ -	\$ 1,056,438	\$ 43,351,629
Construction -in-progress	56,732,220	18,122,834	(191,830)	(38,479,888)	36,183,336
Total non-depreciable assets	<u>99,027,411</u>	<u>18,122,834</u>	<u>(191,830)</u>	<u>(37,423,450)</u>	<u>79,534,965</u>
Depreciable assets:					
Buildings	40,534,737	2,299,254	-	23,749,630	66,583,621
Improvements	21,517,091	41,154	-	53,808	21,612,053
Machinery and equipment	28,832,343	2,038,818	(513,347)	-	30,357,814
Infrastructure	220,831,786	8,665,829	(1,012,554)	6,827,777	235,312,838
Total depreciable assets	<u>311,715,957</u>	<u>13,045,055</u>	<u>(1,525,901)</u>	<u>30,631,215</u>	<u>353,866,326</u>
Accumulated depreciation:					
Buildings	(12,712,498)	(1,137,291)	-	-	(13,849,789)
Improvements	(9,345,515)	(1,124,495)	-	-	(10,470,010)
Machinery and equipment	(16,647,592)	(1,877,656)	509,644	-	(18,015,604)
Infrastructure	(88,925,295)	(7,004,799)	408,397	-	(95,521,697)
Total accumulated depreciation	<u>(127,630,900)</u>	<u>(11,144,241)</u>	<u>918,041</u>	<u>-</u>	<u>(137,857,100)</u>
Governmental activities capital assets, net	<u>\$ 283,112,468</u>	<u>\$ 20,023,648</u>	<u>\$ (799,690)</u>	<u>\$ (6,792,235)</u>	<u>\$ 295,544,191</u>
	Balance July 1, 2008	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2009
Business-type activities:					
Non-depreciable assets:					
Land	\$ 10,300,797	\$ -	\$ -	\$ -	\$ 10,300,797
Construction -in-progress	48,536,661	10,222,264	-	(8,514,917)	50,244,008
Total non-depreciable assets	<u>58,837,458</u>	<u>10,222,264</u>	<u>-</u>	<u>(8,514,917)</u>	<u>60,544,805</u>
Depreciable assets:					
Buildings	79,774,088	1,125,480	-	584,190	81,483,758
Improvements	310,521,463	9,599,872	-	13,107,945	333,229,280
Machinery and equipment	21,207,116	1,912,453	(1,069,820)	1,615,017	23,664,766
Total depreciable assets	<u>411,502,667</u>	<u>12,637,805</u>	<u>(1,069,820)</u>	<u>15,307,152</u>	<u>438,377,804</u>
Accumulated depreciation:					
Buildings	(31,844,257)	(1,843,246)	-	-	(33,687,503)
Improvements	(95,204,437)	(6,834,789)	-	-	(102,039,226)
Machinery and equipment	(12,500,527)	(1,464,531)	1,040,316	-	(12,924,742)
Total accumulated depreciation	<u>(139,549,221)</u>	<u>(10,142,566)</u>	<u>1,040,316</u>	<u>-</u>	<u>(148,651,471)</u>
Business-type activities capital assets, net	<u>\$ 330,790,904</u>	<u>\$ 12,717,503</u>	<u>\$ (29,504)</u>	<u>\$ 6,792,235</u>	<u>\$ 350,271,138</u>

Depreciation expense was charged to the governmental functions in the government-wide financial statements as follows:

Governmental Activities:	
General government	\$ 652,346
Public safety	1,148,544
Public works	222,144
Economic and physical development	207,802
Culture and recreation	1,544,000
Highway and streets	7,369,405
Total depreciation expense – governmental activities	<u>\$ 11,144,241</u>

D. Interfund Receivables, Payables, and Transfers

Interfund receivables and payables

Net interfund receivables and payables between governmental activities and business-type activities of \$648,497 are included in the government-wide financial statements at June 30, 2009. The interfund balances at June 30, 2009 are short-term loans to cover temporary cash deficits in various funds. This occasionally occurs prior to bond sales or grant reimbursements. With the exception of the \$94,897 between the Airport and Internal Service Fund, all interfund balances outstanding at June 30, 2009 are expected to be repaid within one year.

The following interfund receivables and payables are included in the fund financial statements at June 30, 2009:

Fund	Interfund Receivables	Interfund Payables
Governmental Funds:		
General	\$ 8,567,000	\$ -
Transportation	-	2,560,000
Capital projects bond construction	-	5,577,000
Other governmental funds	-	430,000
Internal service	94,897	-
Total governmental funds	8,661,897	8,567,000
Business-Type Funds:		
Airport	-	94,897
Total enterprise funds	-	94,897
Total governmental and enterprise funds	\$ 8,661,897	\$ 8,661,897
Less: fund eliminations	(8,567,000)	
Adjustment for internal service fund elimination	553,600	
Total government-wide statement of net assets	\$ 648,497	

Transfers

The net transfers of \$9,651,500 from governmental activities to business-type activities on the government-wide statement of activities are primarily debt service and operational subsidies from the General Fund. There were three transfers during fiscal year 2009 that required a budget adjustment, Tourism fund received a transfer of \$250,000 from the general fund as part of a local stimulus package, and \$1,000,000 transfer between the other governmental funds and the water and wastewater fund for assistance with general obligation bond debt repayment; both are considered routine in nature. The third transfer represents an inability to sell City property at the Koch location; \$1,126,000 was transferred from the internal service fund to other governmental funds, to general fund and is considered inconsistent with the activities of the internal service fund. As per resolution, when the property is sold the proceeds up to \$1,126,000 will be transferred back to the internal service fund. The following transfers are reflected in the fund financial statements for the year ended June 30, 2009: At year end a resolution was brought forward to City Council to approve the budget adjustment related to transfers.

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers In</u>
Governmental Activities:		
General fund	\$ 5,785,445	\$ 4,880,311
Highway user revenue fund	377,103	8,601,511
Transportation fund	6,733,640	-
BBB fund	1,718,192	1,643,258
Capital projects bond construction fund	370,650	700,000
Other governmental funds	8,374,543	5,801,228
Internal service	1,126,000	-
Total governmental activities	<u>24,485,573</u>	<u>21,626,308</u>
Business-Type Activities:		
Water and wastewater fund	1,965,272	3,807,478
Environmental services fund	19,488	91,950
Airport fund	33,567	495,648
Stormwater fund	239,473	721,989
Total enterprise activities	<u>2,257,800</u>	<u>5,117,065</u>
Total governmental and business-type activities	<u>\$ 26,743,373</u>	<u>\$ 26,743,373</u>
Less: fund eliminations	(23,884,108)	
Add: capital assets transfer	<u>6,792,235</u>	
Total government-wide statement of activities	<u>\$ 9,651,500</u>	

E. Leases

Operating Leases Expenditures

The City leases library space under a non-cancelable operating lease. The lease is for the East Flagstaff Library. The terms of the contract is for a period of 10 years with adjustments on July 1st to the lease amount based on the prior year change in the Consumer Price Index for the prior year. Fiscal Year 2009 lease expense for the library was \$78,859. The schedule below for future minimum lease expenses reflects the change in the rental rate as of July 1, 2009.

Year Ending June 30	East Flagstaff Library
2010	\$ 78,859
2011	78,859
2012	78,859
2013	52,573
Total	<u>\$ 289,150</u>

The City has entered into several operating lease agreements, with cancellation provisions, for the purpose of leasing office space and land. Lease expenditures for these items for the period ending June 30, 2009 were \$161,513.

Operating Lease Revenues

The City leases several City-owned buildings under cancelable and non-cancelable agreements. The carrying value of the leased assets is \$4,597,791 (cost of \$5,446,368 less accumulated depreciation of \$848,577) with current depreciation of \$132,927. Certain leases contain provisions for future rate increases based on changes in the Consumer Price Index. Total revenue for fiscal year 2009 was \$1,350,833. The City currently has one lease with non-cancelable terms that is for USGS building #6, which is guaranteed through August 2018. The following table represents the future minimum lease receivable from the lease with non-cancelable terms. The amounts shown include revenue related to the asset and the operational expenses.

Year Ending June 30	USGS Building #6
2010	\$ 787,720
2011	\$ 787,720
2012	\$ 787,720
2013	\$ 787,720
2014	\$ 787,720
2015-2018	2,428,803
Total	<u>\$ 6,367,403</u>

In addition, the Airport Fund has several leases under cancelable agreements. The leases are for terminal space, hangars, shades, tiedowns, and ground leases. Lease revenue in the Airport fund for fiscal year 2009 was \$1,011,539. The carrying value of the leased assets is \$5,616,834 (cost of \$7,983,707 less accumulated depreciation of \$2,366,873) with current year depreciation of \$187,928.

F. Long-Term Debt

General Obligation Bonds

The City of Flagstaff issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligations bonds issued in prior years was \$71,624,064. Of the total amount originally authorized, \$15.9 million remains unissued.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. The Water and Wastewater General Obligation Bonds are backed by the ultimate taxing power and general revenues of the City; however, these bonds are carried as a liability of the Water and Wastewater Fund to reflect the intention of the City to retire those bonds from resources in the Water and Wastewater Fund.

General obligation bonds outstanding at June 30, 2009:

Purpose	Amount
Governmental activities	\$ 27,645,000
Business-type activities	1,680,000
Business-type activities – refunding	5,780,000
Total general obligation bonds outstanding	<u>\$ 35,105,000</u>

General obligation bonds payable at June 30, 2009 consist of the following individual issues:

Governmental Activities:

\$3,100,000 Parks and Recreation Bonds, Series 2001 due in annual installments of \$385,000 to \$505,000 through July 1, 2014; interest rate at 4.375% to 4.75%.	\$ 2,310,000
\$31,500,000 Capital Projects, Series 2006 due in annual installments of \$1,180,000 to \$2,445,000 through July 1, 2023; interest rate at 3.25% to 5.25%.	25,335,000
Total Governmental Activities	<u>27,645,000</u>

Business-type activities:

Water and Wastewater:

\$8,000,000 Water Improvement Project Bonds, Series 1997, principal payment of \$1,680,000 due July 1, 2013; interest at 4.5%. Fiscal years 2007–2012 refunded in December 2003.	1,680,000
\$8,230,000 Water Refunding Bond, Series 2003, due in annual installments of \$190,000 to \$1,960,000 through July 1, 2013; interest at 3.0% – 3.25%.	<u>5,780,000</u>
Total Water and Wastewater	<u>7,460,000</u>
Total Business-type Activities	<u>7,460,000</u>
Total General Obligation Bonds	<u>\$ 35,105,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2010	\$ 1,780,000	\$ 1,236,852	\$ 1,770,000	\$ 263,450
2011	1,850,000	1,161,833	1,860,000	205,926
2012	1,930,000	1,083,870	1,960,000	145,476
2013	2,020,000	989,670	1,870,000	81,776
2014	2,125,000	890,350	-	-
2015-2019	9,450,000	3,009,489	-	-
2020-2023	8,490,000	781,673	-	-
Total	\$ 27,645,000	\$ 9,153,737	\$ 7,460,000	\$ 696,628

Special Assessment Bonds

Proceeds from special assessment bonds are used for improvements such as paving, sidewalks, and sewers. Payments made by the assessed property owners are pledged as collateral. In the event of default by a property owner, the lien created by the assessment is sold at public auction and the proceeds are used to offset the defaulted assessment. If there is no purchase at the public auction, the City is required to buy the property with funds appropriated from the General Fund.

Special assessment bonds outstanding at June 30, 2009:

Purpose	Amount
Governmental activities	\$ 19,169,000

Special assessment bonds payable at June 30, 2009 consist of the following individual issues:

Governmental Activities

\$720,000 Improvement District Bonds, Series 1999 due in annual installments of \$43,000 to \$94,000, through January 1, 2010; interest at 4.9%.	\$ 94,000
\$19,075,000 Improvement District Bonds, due in annual installments of \$460,000 to \$1,345,000, through January 1, 2032; interest at 5.0%.	19,075,000
Total Special Assessment Bonds	\$ 19,169,000

Annual debt service requirements to maturity for special assessment bonds are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2010	\$ 554,000	\$ 944,553
2011	485,000	918,625
2012	505,000	893,875
2013	535,000	867,875
2014	560,000	840,500
2015-2019	3,250,000	3,742,000
2020-2024	4,140,000	2,822,750
2025-2029	5,290,000	1,650,000
2030-2032	3,850,000	295,000
Total	<u>\$ 19,169,000</u>	<u>\$ 12,975,178</u>

Revenue Bonds

Highway User Revenue Fund bonds (HURF) are issued specifically for the purpose of constructing street and highway projects. These bonds are repaid out of the HURF fund by gas tax revenues collected by the State of Arizona and distributed to cities and towns based on a formula of population and gas sales within each county.

Water & Sewer Revenue bonds are issued as authorized by the voters for the construction, acquisition, furnishing, and/or equipping of water and sewer facilities and related systems. The Water & Sewer Revenue bonds are collateralized by revenue in excess of operating and maintenance expenses of the City’s water & sewer utility system, and are repaid via user charges or fees for service.

Revenue bonds outstanding at June 30, 2009:

Purpose	Amount
Governmental activities	\$ 4,865,000
Business-type activities	4,918,234
Total general obligation bonds outstanding	<u>\$ 9,783,234</u>

Revenue bonds at June 30, 2009 consist of the following individual issues:

Governmental Activities:

Street Construction:

\$5,580,000 Junior Lien Street and Highway User Revenue Bonds, Series 1992 serial bonds due in installments of \$350,000 to \$1,725,000 through July 1, 2012; interest at 6.12% \$ 4,865,000

Total Governmental Activities 4,865,000

Business-type Activities:

Water & Sewer:

\$6,775,760 Water and Wastewater Revenue Bonds, Series 2003 due in annual installments of \$238,431 to \$462,398 through July 1, 2022; interest at 3.548%.

4,918,234

Total Revenue Bonds

\$ 9,783,234

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2010	\$ 1,520,000	\$ 280,135	\$ 304,326	\$ 174,474
2011	1,620,000	190,455	315,123	163,678
2012	1,725,000	94,875	326,302	152,499
2013	-	-	337,877	140,924
2014	-	-	349,863	128,938
2015-2019	-	-	1,944,532	449,474
2020-2022	-	-	1,340,211	96,194
Total	<u>\$ 4,865,000</u>	<u>\$ 565,465</u>	<u>\$ 4,918,234</u>	<u>\$ 1,306,180</u>

Other Debt

Municipal Facility Corporation Bonds

The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring, and equipping municipal facilities. In fiscal year 2001, the MFC issued \$4.7 million in bonds for the construction of a new United States Geological Survey (USGS) facility on land owned by the City. In fiscal year 2004, the MFC issued \$25 million in bonds for the construction of the Fourth Street Overpass on land owned by the City. The City will make lease payments equal to the debt service on both issues and will obtain legal title upon payment in full of the bonds. The City has collateralized the contracts payable to the MFC by a pledge of the City's State Shared Revenues which comprise sales and income taxes imposed and collected by the State and distributed to counties and municipal governments pursuant to law and State revenue-sharing which the City presently or in the future receives from the State and which are not earmarked by the State for a contrary or inconsistent purpose.

Municipal facility corporation bonds outstanding at June 30, 2009:

Purpose	Amount
Governmental activities	<u>\$ 21,625,000</u>

Municipal facility corporation bonds are comprised of the following issue:

\$4,700,000 USGS Project Bonds Series 12 (2001) due in annual installments of \$255,000 to \$440,000 through August 1, 2016; interest at 4% to 4.75%. \$ 2,695,000

\$25,000,000 Fourth Street Municipal Facility Corporation Revenue Bonds, Series 2003 due in annual installments of \$1,000,000 to \$2,145,000 through July 1, 2010; interest at 2% to 5.25%. 18,930,000

Total Other Debt \$ 21,625,000

Annual debt service requirements to maturity for other debt are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2010	\$ 1,735,000	\$ 985,814
2011	1,795,000	925,071
2012	1,865,000	854,959
2013	1,945,000	778,169
2014	2,020,000	697,963
2015-2019	10,120,000	2,100,413
2020	2,145,000	112,613
Total	<u>\$ 21,625,000</u>	<u>\$ 6,455,000</u>

The following is a summary of debt service requirements, including interest requirements, to maturity for long-term debt at June 30, 2009:

Fiscal Year	General Obligation Bonds	Special Assessment Bonds	Revenue Bonds	Municipal Facility Corporation Bonds	Total
2010	\$ 5,050,300	\$ 1,498,553	\$ 2,278,936	\$ 2,720,814	\$ 11,548,603
2011	5,077,759	1,403,625	2,289,256	2,720,071	11,490,711
2012	5,119,346	1,398,875	2,298,676	2,719,959	11,536,856
2013	4,961,446	1,402,875	478,801	2,723,169	9,566,291
2014	3,015,350	1,400,500	478,801	2,717,963	7,612,614
2015	2,491,313	1,401,750	478,801	2,719,163	7,091,027
2016	2,491,538	1,396,625	478,802	2,721,813	7,088,778
2017	2,487,038	1,400,000	478,801	2,258,163	6,624,002
2018	2,494,350	1,396,750	478,801	2,261,563	6,631,464
2019	2,495,250	1,396,875	478,801	2,259,713	6,630,639
2020	2,492,100	1,395,250	478,801	2,257,609	6,623,760
2021	2,493,000	1,391,875	478,801		4,363,676
2022	2,495,187	1,391,625	478,801		4,365,613
2023	1,791,388	1,394,250			3,185,638
2024		1,389,750			1,389,750
2025		1,388,125			1,388,125
2026		1,389,125			1,389,125
2027		1,387,625			1,387,625
2028		1,388,500			1,388,500
2029		1,386,625			1,386,625
2030		1,382,000			1,382,000
2031		1,384,375			1,384,375
2032		1,378,625			1,378,625
Less interest	(9,850,365)	(12,975,178)	(1,871,645)	(6,455,000)	(31,152,188)
	<u>\$ 35,105,000</u>	<u>\$ 19,169,000</u>	<u>\$ 9,783,234</u>	<u>\$ 21,625,000</u>	<u>\$ 85,682,234</u>

Loans Payable

The City of Flagstaff has various loan agreements with the Water and Wastewater Infrastructure Finance Authority of Arizona Revolving Fund Loan Program for the acquisition and construction of water and wastewater facilities and obtaining water rights. The Department of Transportation provides financing for the construction of 14 T hangars at the City Airport.

Loans outstanding as of June 30, 2009:

Business-type activities	<u>\$ 37,006,648</u>
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Loan payables at June 30, 2009 consist of the following individual financing options:

Business-type Activities

Water and wastewater:

\$6,000,000 Wastewater infrastructure finance authority due in annual installments of \$214,312 to \$404,665 through July 1, 2012; interest at 3.402%.	\$ 1,174,492
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\$7,900,000 Water infrastructure finance authority due in annual installments of \$295,000 to \$525,000 through July 1, 2026; interest at 3.28%.	6,960,000
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\$23,100,000 Wastewater infrastructure finance authority due in annual installment of \$815,834 to \$1,571,901 through July 1, 2027; interest at 3.512%.	22,224,597
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\$8,500,000 Water infrastructure finance authority due in annual installment of \$344,052 to \$628,065 through July 1, 2027; interest at 3.75%. Amount issued to-date \$6,602,689. Remaining available \$1,897,311.	<u>6,312,923</u>
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Total water and wastewater loan payable	\$ <u>36,672,012</u>
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Airport:

\$600,000 Arizona Department of Transportation due in quarterly installments of \$5,337 to \$13,548 through January 1,2016; interest at 5.6%.	\$ <u>334,636</u>
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Total Business-type Activities loan payable	\$ <u>37,006,648</u>
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Annual debt service requirements to maturity for loan payables are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2010	1,932,534	1,049,880
2011	2,005,951	994,889
2012	2,076,491	937,759
2013	1,730,800	878,593
2014	1,791,590	831,563
2015-2019	9,826,901	3,399,445
2020-2024	11,536,394	2,014,036
2025-2028	6,105,987	464,137
Total	<u>\$ 37,006,648</u>	<u>\$ 10,570,303</u>

Obligations under Capital Leases

The City has entered into capital lease agreements for energy saving equipment, cardio equipment and the construction of a co-generator at Wildcat Wastewater Treatment Plant, with total assets of \$2,871,201, \$109,352 and \$627,188, respectively. These lease agreements generally require annual payments and the lease terms vary from 10 to 30 years. The lease agreements qualify as capital leases for accounting purposes and, therefore have been recorded at the present value of their future minimum lease payments as of the date of inception.

Fiscal Year Ending June 30, 2009	Governmental Activities	Business Type Activities
2010	\$ 506,273	\$ 482,692
2011	506,273	482,692
2012	490,670	482,692
2013	470,993	482,692
2014	470,993	482,692
2015-2019	235,496	1,786,070
2020-2024	-	1,158,678
2025-2026	-	115,870
Total future minimum lease payments	<u>2,680,698</u>	<u>5,474,078</u>
Less: imputed interest costs	(250,405)	(1,514,255)
Present value of future minimum lease payments	<u>\$ 2,430,293</u>	<u>\$ 3,959,823</u>

Arbitrage

Under U.S. Treasury Department regulations, all government tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. In general the requirements stipulate that the earnings from investments of tax-exempt bond proceeds that exceed related interest expenditures on the bonds must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each of its financing options subject to the arbitrage rebate requirements. At June 30, 2009 the City has recognized \$449,927 in arbitrage liability.

Pledged Revenues

The City has pledged future water utility and wastewater utility revenues to repay \$50,378,449 in Water Infrastructure Financing Authority Bonds issued during the period of 1992–2009. The various bonds were issued for the purchase or construction of various water or wastewater infrastructure including wells, water distribution lines, wastewater collection lines, and treatment plant improvements. At June 30, 2009, \$43,167,526 remains outstanding to be repaid by future water and wastewater revenues. For the fiscal year ended June 30, 2009, net revenue available for service of this debt was \$2,825,119. The debt principal and interest paid in fiscal year 2009 was \$3,671,018 (130% of available pledged net revenues). For additional information on pledged revenues for revenue bonds, refer to Schedule 17 in the Statistical Section of this report.

The City has pledged certain revenues for the repayment of \$25,000,000 in Municipal Facility Corporation bonds issued in 2004. The bonds were issued to construct transportation infrastructure. The bonds have a senior lien on the 0.16% transportation sales tax and a secondary lien on the excise taxes and state shared revenues not specifically reserved by law or other regulation to be expended for other purposes. At June 30, 2009, \$18,930,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2009, net revenues available for service of the debt were \$38,586,144. The debt principal and interest paid in fiscal year 2009 was \$1,946,850 (5.05% of available pledged net revenues). For additional information on pledged revenues for MFC transportation bonds, refer to Schedule 17 in the Statistical Section of this report.

The City has pledged certain revenues for the repayment of \$4,700,000 in Municipal Facility Corporation bonds issued in 2001 for the construction of a multipurpose office facility. The bonds are secured by a pledge of the City's state shared revenues not specifically reserved by law or other regulation to be expended for other purposes. At June 30, 2009, \$2,695,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2009, net revenues available for service of this debt were \$13,557,828. The debt principal and interest paid in fiscal year 2009 was \$459,534 (3.39% of available pledged net revenues). For additional information on pledged revenues for MFC other than transportation bonds, refer to Schedule 17 in the Statistical Section of this report.

The City has pledged certain revenues for the repayment of \$5,580,000 Junior Lien Street and Highway User Revenue bonds issued in 1992 for street construction and \$9,375,000 Series 2003 Refunding issued in 2003 for street and highway construction. The bonds are secured by a pledge of the City's highway user revenue not specifically reserved by law or other regulation to be expended for other purposes. At June 30, 2009, \$4,865,000 remains outstanding on the Junior Lien Street and Highway User Revenue bonds to be repaid by future revenues, the Series 2003 refunding has no remaining outstanding as of June 30, 2009. For the fiscal year ended June 30, 2009, net revenues available for service of this debt were \$6,412,329. The debt principal and interest paid in fiscal year 2009 was \$1,804,010 (28.13% of available pledged net revenues). For additional information on pledged revenues for highway user revenue bonds, refer to Schedule 17 in the Statistical Section of this report.

Changes in long-term liabilities

Liquidation of compensated absences for governmental funds have been made out of the General, HURF, BBB, Library, and MPO funds.

Non-current liability activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 29,350,000	\$ -	\$ (1,705,000)	\$ 27,645,000	\$ 1,780,000
Special assessment bonds	19,257,000	-	(88,000)	19,169,000	554,000
Revenue bonds	6,325,000	-	(1,460,000)	4,865,000	1,520,000
Municipal facility corporate bonds	23,000,000	-	(1,375,000)	21,625,000	1,735,000
Total bonds payable	77,932,000	-	(4,628,000)	73,304,000	5,589,000
Capital leases	2,727,932	109,352	(406,991)	2,430,293	426,522
Compensated absences	3,491,142	1,518,187	(1,530,685)	3,478,644	1,530,685
Other postemployment benefits	-	875,578	-	875,578	-
Arbitrage rebate	376,125	73,802	-	449,927	-
Governmental activity long-term liability	<u>\$ 84,527,199</u>	<u>\$ 2,576,919</u>	<u>\$ (6,565,676)</u>	<u>\$ 80,538,442</u>	<u>\$ 7,546,207</u>
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 10,515,000	-	\$ (3,055,000)	\$ 7,460,000	\$ 1,770,000
Water & sewer revenue bonds	5,212,135	-	(293,901)	4,918,234	304,326
Total bonds payable	15,727,135	-	(3,348,901)	12,378,234	2,074,326
Water & sewer loan payable	31,905,515	6,602,689	(1,836,192)	36,672,012	1,895,558
Airport loan payable	369,613	-	(34,977)	334,636	36,976
Capital lease payable	4,227,105	-	(267,282)	3,959,823	280,656
Total loan and leases payable	36,502,233	6,602,689	(2,138,451)	40,966,471	2,213,190
Compensated absences	648,248	310,390	(317,430)	641,208	317,430
Other postemployment benefits	-	-	-	177,835	-
Landfill closure/postclosure	9,365,490	512,308	-	9,877,798	-
Business-type activity long-term liability	<u>\$ 62,243,106</u>	<u>\$ 7,425,387</u>	<u>\$ (5,804,782)</u>	<u>\$ 64,041,546</u>	<u>\$ 4,604,946</u>

V. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts and public officials' errors and omissions. The City purchases commercial insurance to cover these losses. However, \$50,000 of each claim resulting in a loss is retained by the City. The City provides for the self-insurance retention in the internal service fund. Outstanding claims as of June 30, 2009 have potential exposure to the City of approximately \$836,955 based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The City uses an application of historical experience to determine claims payable. However, due to the preliminary status of the claims, no determination can be made as to the likelihood, if any, of an unfavorable

outcome. The net assets of the Internal Service Fund are designated for future losses related to the self-insurance retention. Settled claims have not exceeded commercial coverage in the last three fiscal years.

<u>Fiscal Year</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2006-07	\$ 493,221	\$ 2,771	\$ 81,600	\$ 414,392
2007-08	414,392	224,304	259,686	379,010
2008-09	379,010	744,543	286,598	836,955

The City of Flagstaff participates in a risk sharing pool for employee health care, through the Northern Arizona Public Employees Trust, a public entity risk pool. Members do not bear any risk of loss. The overall experience rating of the trust determines premium charges.

B. Commitments and contingent liabilities

Outstanding Contracts

At June 30, 2009 there were major outstanding contracts as follows:

Governmental Activities:	
General fund	\$ 1,824,797
Highway users revenue fund	175,977
BBB fund	148,834
Capital projects fund	650,814
Total governmental activities	<u>2,800,422</u>
Business – Type Activities:	
Water and wastewater fund	854,123
Airport fund	21,074
Stormwater fund	335,551
Total business-type activities	<u>1,210,748</u>
Total governmental and business-type activities	<u>\$ 4,011,170</u>

The City entered into a Development Incentive Agreement (DA) with Butler & Lone Tree LLC on June 1, 2007. The project known as "Aspen Place at the Sawmill" will be a mixed-use development consisting of 155,000 square feet of retail uses and approximately 265 single-family residential and town home dwelling units. The terms and conditions of the DA is to require the owner of the property to construct and install certain improvements such as streets, drainage retention facilities, public walkways and a raised median on Butler Avenue. In order to finance these improvements, an Improvement District (ID) has been formed. The City issued special assessment bonds in the amount of \$19,075,000 in fiscal year 2007. These bonds will be repaid from assessments imposed on the real property included within the ID. The City believes the development will generate substantial transaction privilege tax revenues and the City has agreed to rebate the Landowner a portion of the transaction privilege taxes generated from the property.

The City is aware of existing environmental contamination at various sites and facilities. The City has annually budgeted monies for these purposes and includes remediation activities in its annual work program.

C. Retirement and pension plans

All full-time employees of the City are covered by one of three pension plans. The Arizona State Retirement system is for the benefit of the employees of the state and certain other governmental jurisdictions. All full-time City employees, except sworn fire and police personnel, are included in the Arizona State Retirement System. Sworn police and fire personnel participate in the Public Safety Retirement System. In addition, the Mayor and City Council members are covered by the State's Elected Officials Plan.

Plan Descriptions – The City contributes to the three plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, and Article 2.

The *Public Safety Personnel Retirement System (PSPRS)* is an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Elected Officials Retirement Plan (EORP)* is a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing, multiple-employer defined benefit health insurance premium plan that covers elected officials and judges of certain state and local governments. The EORP is governed by The Fund Manager of PSPRS according to the provisions of A.S.R. Title 38, Chapter 5, and Article 3. The health insurance premium plan benefit of the EORP is not established as a formal trust; the EORP is reported in accordance with GASB Statement No. 45 as an agent multiple-employer defined benefit plan. Accordingly, the disclosures that follow reflect the EORP as if it were an agent multiple-employer defined benefit plan.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2200/(800) 621-3778

PSPRS and EORP

3010 E. Camelback Rd., Suite 200
Phoenix, AZ 85016-4416
(602) 255-5575
www.psprs.com

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates.

Cost Sharing Plans – For the year ended June 30, 2009, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.45% (8.95% retirement and 0.50% long-term disability) of the members' annual covered payroll and the City was required by statute to contribute at the actuarially determined rate of 9.45% (7.99% retirement, .96% for health insurance premium, and 0.50% long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2009, 2008, and 2007 were \$2,808,113, \$2,668,338, and \$2,285,178 respectively. The pension systems implemented GASB Statement No. 45 in fiscal year 2008, so information is not available for years prior to 2008. The City contribution for the current and two preceding years, all of which were equal to the required contributions, were as follows:

	<u>Retirement</u>	<u>Health Insurance</u>	<u>Long-term Disability</u>
6/30/2009	2,374,267	285,269	148,577
6/30/2008	2,237,513	291,849	138,976
6/30/2007	2,159,618	(1)	125,560

(1) Information not available

In addition, active EORP members were required by statute to contribute 7% of the members' annual covered payroll. The City was required to contribute 28.00% of the members' annual covered payroll, the aggregate of which is determined by actuarial valuation. The health insurance premium portion of the contribution rate for normal cost was actuarially set a .91% of covered payroll. The City's contributions to EORP for the years ended June 30, 2009, 2008, and 2007 were \$35,490, \$17,221, and \$15,527 respectively, which equal the required contributions for each year.

Agent Plan – For the year ended June 30, 2009, active PSPRS members were required by statute to contribute 7.65% of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 21.63% and 25.78% for Police and Fire respectively. Police personnel contributed \$567,887; Fire personnel contributed \$384,543 during fiscal year 2008-2009. The City annual pension cost of \$1,605,673 for police and \$1,295,885 for fire was equal to the City's annual required contribution and actual contributions. Benefit and contribution provisions are established by state law and may be amended only by the State of Arizona Legislature (A.R.S. Section 38-843).

Annual Pension Cost – The City's pension cost for the agent plan for the year ended June 30, 2009, the date of the most recent actuarial valuation, and related information follow.

	PSPRS		
	Police	Fire	EORP
Contribution rates FY08–2009:			
City	21.63%	25.78%	28.00%
Plan members	7.65%	7.65%	7.00%
Annual pension costs	\$ 1,676,837	\$ 1,343,724	\$ 34,337
Pension contributions made	\$ 1,676,837	\$ 1,343,724	\$ 34,337
Annual OPEB costs – Health Insurance	\$ 50,016	\$ 78,731	\$ 1,153
OPEB contributions made	\$ 50,016	\$ 78,731	\$ 1,153
As of actuarial valuation date:	6/30/2009	6/30/2009	6/30/2008
Actuarial cost method	Project unit credit	Project unit credit	Project unit credit
Amortization method	Level percent-of-pay closed	Level percent-of-pay closed	Level percentage closed
Remaining amortization period–UAL	27 years	27 years	28 years
Remaining amortization period–excess	20 years	20 years	20 years
Asset valuation method	7–year smoothed market	7–year smoothed market	smooth market value
Actuarial assumptions:			
Investment rate of return	8.50%	8.50%	8.50%
Projected salary increases*	5.50% – 8.50%	5.50% – 8.50%	5.00%
* includes inflation at	5.50%	5.50%	5.00%

Three Year Trend Information for PSPRS – Information for the agent plan as of most recent actuarial valuations follows.

Contributions Required and Contributions Made

Plan		Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSRS – Police – Pension				
6/30/2009	\$	1,676,837	100%	\$ –0–
6/30/2008		1,055,645	100%	–0–
6/30/2007		947,163	100%	–0–
PSRS – Police – Health Insurance				
6/30/2009	\$	50,016	100%	\$ –0–
6/30/2008		57,046	100%	–0–
6/30/2007		(1)	N/A	N/A
PSRS – Fire – Pension				
6/30/2009	\$	1,343,724	100%	\$ –0–
6/30/2008		1,018,372	100%	–0–
6/30/2007		913,305	100%	–0–
PSRS – Fire – Health Insurance				
6/30/2009	\$	78,731	100%	\$ –0–
6/30/2008		78,386	100%	–0–
6/30/2007		(1)	N/A	N/A
EORP – Pension				
6/30/2009	\$	34,337	100%	\$ –0–
6/30/2008		15,527	100%	–0–
6/30/2007		11,877	100%	–0–
EORP – Health Insurance				
6/30/2009	\$	1,153	100%	\$ –0–
6/30/2008		895	100%	–0–
6/30/2007		(1)	N/A	N/A

(1) Information not available

Schedule of Funding Progress – An analysis of funding progress for each of the agent plans as of the most recent actuarial valuations; June 30, 2007 reporting period determines the rates for fiscal year 2009. For this valuation, which was prior to the implementation of GASB Statement Nos. 43 and 45, the pension and health insurance benefit amounts were aggregated. In future years when GASB Statement Nos. 43 and 45 measurements are made and reported, these benefits will be disaggregated and reported separately. The EORP, by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement No. 43, paragraphs 5 and 41, the valuation for the EORP on its statutory basis as a cost-sharing plan and, therefore, actuarial information for the City, as a participating government, is not available.

	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4) / (5)
PSRS – Police Pension						
6/30/2009 \$	22,931,628 \$	39,587,101	57.9% \$	16,655,473 \$	7,423,926	224.3%
6/30/2008	21,772,844	37,583,046	57.9%	15,810,202	7,437,160	212.6%
6/30/2007	20,971,750	37,778,716	55.5%	16,806,966	7,313,938	229.8%
PSRS – Police Health Insurance						
6/30/2009 \$	- \$	925,492	0.0% \$	925,492 \$	7,423,926	12.5%
6/30/2008	-	1,043,332	0.0%	1,043,332	7,437,160	14.0%
6/30/2007	-	1,119,303	0.0%	1,119,303	7,313,938	15.3%
PSRS – Fire Pension						
6/30/2009 \$	33,539,698 \$	46,998,109	71.4% \$	13,458,411 \$	5,460,875	246.5%
6/30/2008	31,635,600	45,387,695	69.7%	13,752,095	5,176,064	265.7%
6/30/2007	30,870,852	44,899,916	68.8%	14,029,064	5,214,846	269.0%
PSRS – Fire Health Insurance						
6/30/2009 \$	- \$	1,359,414	0.0% \$	1,359,414 \$	5,460,875	24.9%
6/30/2008	-	1,633,210	0.0%	1,633,210	5,176,064	31.6%
6/30/2007	-	1,562,436	0.0%	1,562,436	5,214,846	30.0%

D. Other Post Employment Benefits (OPEB) Plan

Postemployment Healthcare Plan

Plan description. The City of Flagstaff provides post-retirement healthcare insurance benefits for its retirees as an agent multiple-employer plan which is administered through, Northern Arizona Public Employee Benefit Trust (NAPEBT). NAPEBT provides benefits to eligible retirees through the same plan as active city employees and their beneficiaries up to the age of 65; the implicit rate subsidy exists through the duration of the coverage. Substantially, all of the City's employees may become eligible for those benefits when they qualify for retirement. To be eligible a retiree must qualify to receive retirement benefits from the Arizona State Retirement System and elect coverage at date of retirement. NAPEBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on their website: www.napebt.com/community_docs. As of June 30, 2009, there were 78 retirees who elected coverage.

Funding Policy. The contribution requirements of plan members and the city are established and may be amended by the NAPEBT board. Eligible retirees up to the age of 65 have the option to participate in the healthcare plan that is currently offered to active employees and must pay 100% of the premium less any reimbursement from the Arizona State Retirement System, currently, a monthly stipend of \$150 for single coverage and \$260 for family coverage.

The city has elected to not fund the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial

liabilities over a period not to exceed thirty years. The City's implicit subsidy rate to covered payroll is actuarially determined at 21.2%.

Annual OPEB Cost and Net OPEB Obligation. For 2009, the city's annual OPEB cost (expense) of \$1,053,413 was equal to the ARC. The city's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2009	\$ 1,053,413	\$ -	0.0%	\$ 1,053,413
6/30/2008	(1)	(1)	(1)	(1)
6/30/2007	(1)	(1)	(1)	(1)

(1) Information not available

Funded Status and Funding Progress. The funded status of the plan as of June 30, 2009, was as follows:

<u>Actuarial Valuation Date</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) Actuarial Accrued Liability (AAL)</u>	<u>(3) Percent Funded (1) / (2)</u>	<u>(4) Unfunded AAL (2) - (1)</u>	<u>(5) Annual Covered Payroll</u>	<u>(6) Unfunded AAL as a Percentage of Covered Payroll (4) / (5)</u>
6/30/2009	\$ -	\$ 8,946,294	0.0%	\$ 8,946,294	\$ 42,292,297	21.2%
6/30/2008	(1)	(1)	(1)	(1)	(1)	(1)
6/30/2007	(1)	(1)	(1)	(1)	(1)	(1)

(1) Information not available

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return. Healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of five percent. The remaining amortization period at July 1, 2008, was 30 years.

E. Landfill closure and postclosure care cost

State and federal laws and regulations require the City to place a final cover on its Cinderlake landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The City reports a portion of these closures and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The estimated liability for landfill closure and postclosure care costs has a balance of \$9,877,798 as of June 30, 2009, which is based on 62.82 percent usage of the landfill. The remaining \$5,846,833 will be accrued over the remaining life of the landfill, which is currently estimated to be 14 years. The accrual for the closure and postclosure care costs for fiscal year 2009 was \$512,308. Based on current estimates for landfill closure and postclosure care costs, the City is setting aside legally restricted funds to ensure sufficient funds will be available to meet these requirements. The City makes annual contributions to finance closure and postclosure care costs; at June 30, 2009 the balance of the investments held for those purposes is \$8,501,286, which includes \$23,320 of accrued interest. During the fiscal year the investment account recognized a loss of \$101,531 related to the share of investment in Lehman Brothers. The investments are reported as restricted cash and investments in the City's Environmental Service Fund, and are held by the State of Arizona Local Government Investment Pool.

The estimated total current cost of the landfill closure and postclosure care, \$15,724,631, is based on the amount that would be paid if all equipment, facilities, and services required to care, monitor and maintain the landfill were acquired as of June 30, 2009. However, the actual cost of closure and postclosure care may be higher or lower due to other factors such as; inflation, changes in technology, or changes in landfill laws and regulations.

According to state and federal laws and regulations, the City must comply with the local government financial test requirements that assure the City can meet the cost of landfill closure, post-closure and corrective action when needed. The City, which has pledged its full faith and credit to meet state financial responsibility requirements, is in compliance with these requirements.

In March of 1999, the City purchased 343.9 acres of land from the Forest Service. This land is adjacent to the existing landfill and will be used to open additional cells as needed. As these cells are utilized, additional liabilities for closure and postclosure care requirements will be accrued. The City applied existing policy to the Environmental Services Fund increasing its' expenditures as City residential and commercial collection programs are now charged for landfill fees.

F. Subsequent Event

In July 2009, the City incurred additional debt totaling \$4.9 million for governmental activities, issued as a qualified tax-exempt obligation, certificate of participation, Series 2009 for the use of roadway overlay improvements and to finance a Fire Engine. Also, in July the City was approved to obtain debt by the Water Infrastructure Finance Authority of Arizona (WIFA) to improve the City's water infrastructure. These loans will provide for future water rights related to the Red Gap Pipeline feasibility study, \$2,100,000 and the construction of the Sinagua Well pipeline, \$232,500.



NON-MAJOR FUNDS OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for revenues derived from specific taxes or other earmarked revenue sources. They are usually required by statute, charter provision or ordinance to finance particular functions or activities.

Library Fund

The City Library is financed through City sales tax allocations, State and County grants and individual contributions. Funds provided must be used for library activities such as cultural and educational programs and technical services.

Real Estate Proceeds Fund

This fund was established by the City Council by resolution in fiscal year 1985-86 to account for the proceeds received from the sale of excess real estate.

Community Redevelopment

This fund was established in fiscal year 1997 to account for the funding received for the Community Development Block Grant program and affordable housing activities.

Metropolitan Planning Organization

This fund was established in fiscal year 1997 to account for funding derived from the City's status as a Metropolitan Planning Organization.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

General Obligation Bond Fund

This fund accounts for the accumulation of resources for, and the payments of, general long-term obligation principal and interest.

Special Assessment Bond Fund

This fund accounts for the accumulation of resources for and the payment of principal, interest and related costs for all improvement district bonds issued by the City.

Secondary Property Tax Revenue Fund

This fund is used to account for secondary property tax revenues. Monies received by this fund are legally restricted to payment of general obligation debt.

Permanent Fund

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Perpetual Care

This fund accounts for the perpetual care of the City's cemetery.

CITY OF FLAGSTAFF, ARIZONA
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2009

	Special Revenue Funds			
	Library Fund	Real Estate Proceeds Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
ASSETS				
Cash and investments	\$ 3,412,833	\$ 537,486	\$ 1,682,319	\$ 1,959
Cash with fiscal agents	-	-	-	-
Accounts receivable, net	152,176	863	100	-
Interest receivable	8,515	1,614	4,556	-
Intergovernmental receivables	-	-	153,960	455,714
Special assessments receivable	-	-	-	-
Restricted cash and investments	-	-	-	-
Total assets	<u>\$ 3,573,524</u>	<u>\$ 539,963</u>	<u>\$ 1,840,935</u>	<u>\$ 457,673</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 44,257	\$ 42,443	\$ 15,723	\$ 241
Accrued payroll and compensated absences	106,416	-	3,144	10,363
Current bonds payable	-	-	-	-
Interest payable	-	-	-	-
Interfund payable	-	-	-	430,000
Deferred revenue	2,802,636	-	-	-
Total liabilities	<u>2,953,309</u>	<u>42,443</u>	<u>18,867</u>	<u>440,604</u>
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Perpetual care	-	-	-	-
Unreserved, undesignated, reported in:				
Special revenue funds	620,215	497,520	1,822,068	17,069
Permanent fund	-	-	-	-
Total fund balances	<u>620,215</u>	<u>497,520</u>	<u>1,822,068</u>	<u>17,069</u>
Total liabilities and fund balances	<u>\$ 3,573,524</u>	<u>\$ 539,963</u>	<u>\$ 1,840,935</u>	<u>\$ 457,673</u>

Debt Service Funds			Permanent Fund	Total Other Governmental Funds
General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Special Assessment Bond Fund	Perpetual Care	
\$ 348,355	\$ 2,211,549	\$ 193,732	\$ 26,718	\$ 8,414,951
2,360,163	-	1,960	-	2,362,123
-	-	-	140	153,279
-	12,945	658	374	28,662
-	-	-	-	609,674
-	-	1,527	-	1,527
-	-	-	103,166	103,166
<u>\$ 2,708,518</u>	<u>\$ 2,224,494</u>	<u>\$ 197,877</u>	<u>\$ 130,398</u>	<u>\$ 11,673,382</u>
\$ -	\$ -	\$ -	\$ -	\$ 102,664
-	-	-	-	119,923
1,705,000	-	-	-	1,705,000
655,162	-	2,303	-	657,465
-	-	-	-	430,000
-	-	392	-	2,803,028
<u>2,360,162</u>	<u>-</u>	<u>2,695</u>	<u>-</u>	<u>5,818,080</u>
348,356	2,224,494	195,182	-	2,768,032
-	-	-	103,166	103,166
-	-	-	-	2,956,872
-	-	-	27,232	27,232
<u>348,356</u>	<u>2,224,494</u>	<u>195,182</u>	<u>130,398</u>	<u>5,855,302</u>
<u>\$ 2,708,518</u>	<u>\$ 2,224,494</u>	<u>\$ 197,877</u>	<u>\$ 130,398</u>	<u>\$ 11,673,382</u>

CITY OF FLAGSTAFF, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2009

	Special Revenue Funds		
	Library Fund	Real Estate Proceeds Fund	Community Redevelopment Fund
REVENUES:			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	3,805,955	-	-
Grants and entitlements	59,041	-	606,897
Charges for services	-	-	231,623
Special assessments	-	-	-
Investment earnings	50,668	18,152	25,446
Contributions	10,663	-	-
Miscellaneous	28,379	-	-
Total revenues	<u>3,954,706</u>	<u>18,152</u>	<u>863,966</u>
EXPENDITURES:			
Current:			
General governmental	-	138,311	-
Economic and physical development	-	-	1,194,560
Culture and recreation	5,108,544	-	-
Debt service:			
Principal retirement	-	-	-
Interest and other charges	-	-	-
Capital outlay	-	-	195,115
Total expenditures	<u>5,108,544</u>	<u>138,311</u>	<u>1,389,675</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,153,838)</u>	<u>(120,159)</u>	<u>(525,709)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	1,225,802	1,151,000	375,400
Transfers out	(78,391)	(1,126,000)	-
Total other financing sources (uses)	<u>1,147,411</u>	<u>25,000</u>	<u>375,400</u>
Net change in fund balances	<u>(6,427)</u>	<u>(95,159)</u>	<u>(150,309)</u>
Fund balances, beginning of year	<u>626,642</u>	<u>592,679</u>	<u>1,972,377</u>
Fund balances, end of year	<u>\$ 620,215</u>	<u>\$ 497,520</u>	<u>\$ 1,822,068</u>

Metropolitan Planning Organization Fund	Debt Service Funds			Permanent Fund	Total Other Governmental Funds
	General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Special Assessment Bond Fund	Perpetual Care	
\$ -	\$ -	\$ 7,253,787	\$ -	\$ -	\$ 7,253,787
-	-	-	-	-	3,805,955
484,413	-	-	-	-	1,150,351
-	-	-	-	-	231,623
-	-	-	2,382	-	2,382
-	-	56,633	5,075	1,995	157,969
-	-	-	-	13,325	23,988
-	-	-	603	-	28,982
<u>484,413</u>	<u>-</u>	<u>7,310,420</u>	<u>8,060</u>	<u>15,320</u>	<u>12,655,037</u>
-	-	-	-	-	138,311
502,925	-	-	-	-	1,697,485
-	-	-	-	-	5,108,544
-	1,705,000	-	88,000	-	1,793,000
-	1,314,026	-	7,360	-	1,321,386
-	-	-	-	-	195,115
<u>502,925</u>	<u>3,019,026</u>	<u>-</u>	<u>95,360</u>	<u>-</u>	<u>10,253,841</u>
<u>(18,512)</u>	<u>(3,019,026)</u>	<u>7,310,420</u>	<u>(87,300)</u>	<u>15,320</u>	<u>2,401,196</u>
30,000	3,019,026	-	-	-	5,801,228
-	-	(7,170,152)	-	-	(8,374,543)
<u>30,000</u>	<u>3,019,026</u>	<u>(7,170,152)</u>	<u>-</u>	<u>-</u>	<u>(2,573,315)</u>
<u>11,488</u>	<u>-</u>	<u>140,268</u>	<u>(87,300)</u>	<u>15,320</u>	<u>(172,119)</u>
<u>5,581</u>	<u>348,356</u>	<u>2,084,226</u>	<u>282,482</u>	<u>115,078</u>	<u>6,027,421</u>
<u>\$ 17,069</u>	<u>\$ 348,356</u>	<u>\$ 2,224,494</u>	<u>\$ 195,182</u>	<u>\$ 130,398</u>	<u>\$ 5,855,302</u>



Other Supplementary Information

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City of Flagstaff, Arizona
 Capital Assets Used in the Operation of Governmental Funds
 Schedule By Function and Activity
 June 30, 2009

Program	Land	Buildings	Improvements
General government	\$ 3,627,273	\$ 13,502,132	\$ 1,894,249
Public safety	1,345,606	35,228,138	61,303
Public works	-	5,433,860	198,275
Economic and physical development	1,780,775	3,292,451	24,309
Culture and recreation	3,444,543	9,024,730	17,140,783
Highway and streets	33,153,432	102,310	2,293,135
Subtotal	43,351,629	66,583,621	21,612,054
Less: accumulated depreciation	-	(13,849,790)	(10,470,009)
Total governmental funds capital assets	<u>\$ 43,351,629</u>	<u>\$ 52,733,831</u>	<u>\$ 11,142,045</u>

Machinery and Equipment	Construction In Progress	Infrastructure	Total
\$ 3,769,920	\$ 23,393,464	\$ 508,685	\$ 46,695,723
11,364,770	(11,224,971)	-	36,774,846
1,270,787	250,007	-	7,152,929
1,298,503	4,501,292	87,208	10,984,538
4,289,045	11,125,322	5,570,043	50,594,466
8,364,789	8,138,222	229,146,901	281,198,789
30,357,814	36,183,336	235,312,837	433,401,291
(18,015,603)	-	(95,521,697)	(137,857,100)
<u>\$ 12,342,211</u>	<u>\$ 36,183,336</u>	<u>\$ 139,791,140</u>	<u>\$ 295,544,191</u>

City of Flagstaff, Arizona
 Capital Assets Used in the Operation of Governmental Funds
 Schedule of Changes By Function and Activity
 June 30, 2009

Program	Balance July 1, 2008	Additions	Retirements	Transfers In (out)	Balance June 30, 2009
General government	\$ 40,734,183	\$ 10,425,029	\$ (22,489)	\$ (4,441,000)	\$ 46,695,723
Public safety	32,208,462	4,937,009	(370,626)	-	36,774,846
Public works	7,131,913	21,016	-	-	7,152,929
Economic and physical development	5,715,717	1,594,951	-	3,673,870	10,984,538
Culture and recreation	48,971,038	1,624,020	(592)	-	50,594,466
Highway and streets	275,982,056	12,565,863	(1,324,025)	(6,025,105)	281,198,789
Total	<u>\$ 410,743,369</u>	<u>\$ 31,167,889</u>	<u>\$ (1,717,731)</u>	<u>\$ (6,792,235)</u>	<u>\$ 433,401,291</u>

CITY OF FLAGSTAFF, ARIZONA
Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2009

	<u>Budget</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Grants and entitlements	\$ 170,000	\$ 170,000	\$ -	\$ (170,000)
Investment earnings	610,000	610,000	475,770	(134,230)
Contributions	<u>3,000,000</u>	<u>3,000,000</u>	<u>1,304,536</u>	<u>(1,695,464)</u>
Total revenues	<u>3,780,000</u>	<u>3,780,000</u>	<u>1,780,306</u>	<u>(1,999,694)</u>
EXPENDITURES:				
Current:				
General governmental	-	-	30	30
Capital outlay	<u>27,625,412</u>	<u>27,625,412</u>	<u>17,595,949</u>	<u>(10,029,463)</u>
Total expenditures	<u>27,625,412</u>	<u>27,625,412</u>	<u>17,595,979</u>	<u>(10,029,433)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(23,845,412)</u>	<u>(23,845,412)</u>	<u>(15,815,673)</u>	<u>(12,029,127)</u>
OTHER FINANCING SOURCES (USES):				
Bonds issued	15,900,000	15,900,000	-	(15,900,000)
Sale of capital assets	1,300,000	1,300,000	-	(1,300,000)
Transfers in	700,000	700,000	700,000	-
Transfers out	<u>(370,650)</u>	<u>(370,650)</u>	<u>(370,650)</u>	<u>-</u>
Total other financing sources (uses)	<u>17,529,350</u>	<u>17,529,350</u>	<u>329,350</u>	<u>(17,200,000)</u>
Net change in fund balances	<u>(6,316,062)</u>	<u>(6,316,062)</u>	<u>(15,486,323)</u>	<u>(29,229,127)</u>
Budgetary fund balances, beginning of year	<u>15,446,353</u>	<u>15,446,353</u>	<u>15,446,353</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 9,130,291</u>	<u>\$ 9,130,291</u>	<u>\$ (39,970)</u>	<u>\$ (29,229,127)</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ (15,486,323)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>(9,868)</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ (15,496,191)</u>	

CITY OF FLAGSTAFF, ARIZONA
Library Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2009

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 4,053,121	\$ 4,053,121	\$ 3,805,955	\$ (247,166)
Grants and entitlements	25,000	25,000	59,041	34,041
Investment earnings	50,000	50,000	56,428	6,428
Contributions	-	-	10,663	10,663
Miscellaneous	29,000	29,000	28,379	(621)
Total revenues	<u>4,157,121</u>	<u>4,157,121</u>	<u>3,960,466</u>	<u>(196,655)</u>
EXPENDITURES:				
Current:				
Culture and recreation	7,106,364	7,106,364	5,108,544	1,997,820
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>7,206,364</u>	<u>7,206,364</u>	<u>5,108,544</u>	<u>2,097,820</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,049,243)</u>	<u>(3,049,243)</u>	<u>(1,148,078)</u>	<u>1,901,165</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,758,653	1,758,653	1,225,802	(532,851)
Transfers out	(328,391)	(328,391)	(78,391)	250,000
Total other financing sources (uses)	<u>1,430,262</u>	<u>1,430,262</u>	<u>1,147,411</u>	<u>(282,851)</u>
Net change in fund balances	<u>(1,618,981)</u>	<u>(1,618,981)</u>	<u>(667)</u>	<u>1,618,314</u>
Budgetary fund balances, beginning of year	<u>1,869,964</u>	<u>1,869,964</u>	<u>1,869,964</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 250,983</u>	<u>\$ 250,983</u>	<u>\$ 1,869,297</u>	<u>\$ 1,618,314</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ (667)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			(5,760)	
Adjusted net change in fund balance – GAAP basis			<u>\$ (6,427)</u>	

CITY OF FLAGSTAFF, ARIZONA
Real Estate Proceeds Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2009

	<u>Budget</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Investment earnings	\$ 17,350	\$ 17,350	\$ 19,232	\$ 1,882
Total revenues	<u>17,350</u>	<u>17,350</u>	<u>19,232</u>	<u>1,882</u>
EXPENDITURES:				
General governmental	-	-	138,311	(138,311)
Capital outlay	500,000	500,000	-	500,000
Total expenditures	<u>500,000</u>	<u>500,000</u>	<u>138,311</u>	<u>361,689</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(482,650)</u>	<u>(482,650)</u>	<u>(119,079)</u>	<u>363,571</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	25,000	1,151,000	1,151,000	-
Transfers out	-	(1,126,000)	(1,126,000)	-
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Net change in fund balances	<u>(457,650)</u>	<u>(457,650)</u>	<u>(94,079)</u>	<u>363,571</u>
Budgetary fund balances, beginning of year	<u>474,046</u>	<u>474,046</u>	<u>474,046</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 16,396</u>	<u>\$ 16,396</u>	<u>\$ 379,967</u>	<u>\$ 363,571</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ (94,079)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			(1,080)	
Adjusted net change in fund balance – GAAP basis			<u>\$ (95,159)</u>	

CITY OF FLAGSTAFF, ARIZONA
Community Redevelopment Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2009

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 1,844,316	\$ 1,844,316	\$ 606,897	\$ (1,237,419)
Charges for services	-	-	227,015	227,015
Investment earnings	-	-	34,662	34,662
Total revenues	<u>1,844,316</u>	<u>1,844,316</u>	<u>868,574</u>	<u>(975,742)</u>
EXPENDITURES:				
Current:				
Economic and physical development	4,051,771	4,051,771	1,204,951	2,846,820
Capital outlay	-	-	184,724	(184,724)
Total expenditures	<u>4,051,771</u>	<u>4,051,771</u>	<u>1,389,675</u>	<u>2,662,096</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,207,455)</u>	<u>(2,207,455)</u>	<u>(521,101)</u>	<u>1,686,354</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	375,400	375,400	375,400	-
Total other financing sources (uses)	<u>375,400</u>	<u>375,400</u>	<u>375,400</u>	<u>-</u>
Net change in fund balances	<u>(1,832,055)</u>	<u>(1,832,055)</u>	<u>(145,701)</u>	<u>1,686,354</u>
Budgetary fund balances, beginning of year	<u>1,969,435</u>	<u>1,969,435</u>	<u>1,969,435</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 137,380</u>	<u>\$ 137,380</u>	<u>\$ 1,823,734</u>	<u>\$ 1,686,354</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ (145,701)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>(4,608)</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ (150,309)</u>	

CITY OF FLAGSTAFF, ARIZONA
Metropolitan Planning Organization Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2009

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 542,404	\$ 542,404	\$ 484,413	\$ (57,991)
Total revenues	<u>542,404</u>	<u>542,404</u>	<u>484,413</u>	<u>(57,991)</u>
EXPENDITURES:				
Current:				
Economic and physical development	472,404	472,404	502,925	(30,521)
Contingency	<u>100,000</u>	<u>100,000</u>	-	<u>100,000</u>
Total expenditures	<u>572,404</u>	<u>572,404</u>	<u>502,925</u>	<u>69,479</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(30,000)</u>	<u>(30,000)</u>	<u>(18,512)</u>	<u>11,488</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>	<u>-</u>
Total other financing sources (uses)	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>11,488</u>	<u>11,488</u>
Budgetary fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,488</u>	<u>\$ 11,488</u>

CITY OF FLAGSTAFF, ARIZONA
General Obligation Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2009

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES:				
Debt service:				
Principal retirement	\$ 1,705,000	\$ 1,705,000	\$ 1,705,000	\$ -
Interest and other charges	1,615,142	1,615,142	1,314,026	301,116
Total expenditures	<u>3,320,142</u>	<u>3,320,142</u>	<u>3,019,026</u>	<u>301,116</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,320,142)</u>	<u>(3,320,142)</u>	<u>(3,019,026)</u>	<u>301,116</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	3,320,142	3,320,142	3,019,026	(301,116)
Total other financing sources (uses)	<u>3,320,142</u>	<u>3,320,142</u>	<u>3,019,026</u>	<u>(301,116)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balances, beginning of year	<u>348,355</u>	<u>348,355</u>	<u>348,355</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 348,355</u>	<u>\$ 348,355</u>	<u>\$ 348,355</u>	<u>\$ -</u>

CITY OF FLAGSTAFF, ARIZONA
Secondary Property Tax Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2009

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 7,351,889	\$ 7,351,889	\$ 7,253,787	\$ (98,102)
Investment earnings	77,000	77,000	61,085	(15,915)
Total revenues	<u>7,428,889</u>	<u>7,428,889</u>	<u>7,314,872</u>	<u>(114,017)</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(6,464,627)	(7,464,627)	(7,170,152)	294,475
Total other financing sources (uses)	<u>(6,464,627)</u>	<u>(7,464,627)</u>	<u>(7,170,152)</u>	<u>294,475</u>
Net change in fund balances	<u>964,262</u>	<u>(35,738)</u>	<u>144,720</u>	<u>180,458</u>
Budgetary fund balances, beginning of year	<u>2,089,934</u>	<u>2,089,934</u>	<u>2,089,934</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 3,054,196</u>	<u>\$ 2,054,196</u>	<u>\$ 2,234,654</u>	<u>\$ 180,458</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ 144,720	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			(4,452)	
Adjusted net change in fund balance – GAAP basis			<u>\$ 140,268</u>	

CITY OF FLAGSTAFF, ARIZONA
Special Assessment Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2009

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Special assessments	\$ 2,022	\$ 2,022	\$ 2,382	\$ 360
Investment earnings	7,502	7,502	5,855	(1,647)
Miscellaneous	-	-	603	603
Total revenues	<u>9,524</u>	<u>9,524</u>	<u>8,840</u>	<u>(684)</u>
EXPENDITURES:				
Debt service:				
Principal retirement	88,000	88,000	88,000	-
Interest and other charges	<u>8,712</u>	<u>8,712</u>	<u>7,360</u>	<u>1,352</u>
Total expenditures	<u>96,712</u>	<u>96,712</u>	<u>95,360</u>	<u>1,352</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(87,188)</u>	<u>(87,188)</u>	<u>(86,520)</u>	<u>668</u>
Net change in fund balances	<u>(87,188)</u>	<u>(87,188)</u>	<u>(86,520)</u>	<u>668</u>
Budgetary fund balances, beginning of year	<u>282,908</u>	<u>282,908</u>	<u>282,908</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 195,720</u>	<u>\$ 195,720</u>	<u>\$ 196,388</u>	<u>\$ 668</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ (86,520)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>(780)</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ (87,300)</u>	

Statistical Section

This part of the City of Flagstaff's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	100
These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.	
Revenue Capacity	108
These schedules contain information to help the reader assess the city's most significant local revenue source, sales tax.	
Debt Capacity	114
These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.	
Demographic and Economic Information	124
These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place.	
Operating Information	126
These schedules contain service and infrastructure data to help the reader understand how the information in the city's financial report relates to the services the City's provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

Schedule 1
City of Flagstaff
Net Assets by Component
Last Seven Fiscal Years
(accrual basis of accounting)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Governmental activities							
Invested in capital assets, net of related debt	\$ 45,410,334	\$ 41,666,412	\$ 46,759,889	\$ 184,594,782	(1) \$ 204,594,974	\$ 214,268,448	\$ 215,672,933
Restricted	14,779,358	35,343,236	20,670,257	45,560,390	13,795,935	14,875,852	7,899,222
Unrestricted	34,178,175	33,494,972	56,392,865	10,448,150	(2) 36,514,677	39,248,151	31,690,493
Total governmental activities net assets	\$ 94,366,867	\$ 110,504,620	\$ 123,823,011	\$ 240,603,322	\$ 254,905,586	(3) \$ 268,392,451	\$ 255,262,648
Business-type activities							
Invested in capital assets, net of related debt	\$ 173,369,441	\$ 184,863,812	\$ 200,551,217	\$ 230,035,130	\$ 264,381,730	\$ 276,783,163	\$ 291,707,810
Restricted	5,013,627	5,161,363	3,200,521	2,392,858	2,424,615	1,593,915	1,593,915
Unrestricted	20,858,057	24,092,049	24,948,848	20,303,463	19,257,461	16,250,436	11,547,792
Total business-type activities and net assets	\$ 199,241,125	\$ 214,117,224	\$ 228,700,586	\$ 252,731,451	\$ 286,073,806	\$ 294,627,514	\$ 304,849,517
Primary government							
Invested in capital assets, net of related debt	\$ 218,779,775	\$ 226,530,224	\$ 247,311,106	\$ 414,629,912	\$ 468,976,704	\$ 491,051,611	\$ 507,380,743
Restricted	19,791,985	40,504,599	23,870,778	47,953,248	16,220,550	16,469,767	9,493,137
Unrestricted	55,036,232	57,587,021	81,341,713	30,751,613	55,782,138	55,498,587	43,238,285
Total primary government net assets	\$ 293,607,992	\$ 324,621,844	\$ 352,523,597	\$ 493,334,773	\$ 540,979,392	\$ 563,019,965	\$ 560,112,165

- (1) FY2007: as restated for retroactive reporting of infrastructure
- (2) FY 2007: as restated for retroactive reporting due to an accounting error discovered in FY2007
- (3) FY 2008: change in calculations within categories due to calculation error. No net change to total net assets.

The City implemented GASB-34 for the year ended June 30, 2003
Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information.



Schedule 2
City of Flagstaff
Changes in Net Assets
Last Seven Fiscal Years
(accrual basis of accounting)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Expenses							
Governmental activities:							
General government	\$ 4,840,896	\$ 5,891,617	\$ 5,441,945	\$ 7,458,583	\$ 9,035,268	\$ 11,271,031	\$ 10,896,773
Public safety	18,270,468	18,792,832	21,018,114	22,525,292	23,994,991	27,030,331	29,099,099
Public works	1,169,302	1,178,137	1,320,459	1,454,731	1,882,489	1,894,089	2,109,221
Economic and physical development	7,272,115	6,473,290	6,807,311	7,842,985	9,508,406	10,556,175	10,346,982
Culture and recreation	8,467,575	8,693,714	9,426,600	8,328,945	10,089,469	11,607,116	13,924,261
Highways and streets	6,184,553	8,886,947	10,011,231	12,043,242	14,557,140	15,515,643	18,594,242
Interest on long-term debt	1,380,182	1,923,325	2,042,555	2,167,626	3,090,140	2,916,380	3,651,521
Total governmental activities expense	47,585,091	51,839,862	56,068,215	61,821,404	72,157,903	80,790,765	88,622,099
Business-type activities:							
Water and wastewater	16,142,040	17,250,441	17,297,017	18,452,368	19,945,366	23,420,282	22,802,316
Environmental	7,556,614	7,319,602	8,548,715	9,096,420	10,073,853	11,423,164	11,782,540
Airport	3,411,603	3,370,447	3,749,669	3,519,749	3,162,391	3,608,322	4,197,447
Stormwater	-	460,936	479,700	791,791	1,019,248	1,160,604	1,203,436
Total business-type activities expense	27,110,257	28,401,426	30,075,101	31,860,328	34,200,858	39,612,372	39,985,739
Total primary government expense	\$ 74,695,348	\$ 80,241,288	\$ 86,143,316	\$ 93,681,732	\$ 106,358,761	\$ 120,403,137	\$ 128,607,838
Program Revenues							
Governmental activities:							
Charges for services:	\$ 4,757,483	\$ 3,257,393	\$ 3,611,862	\$ 4,886,354	\$ 4,171,853	\$ 3,746,890	\$ 3,099,884
General government	743,738	451,802	498,506	815,167	704,800	1,227,979	1,299,703
Public safety	830,885	976,793	1,213,714	1,180,097	1,455,461	1,483,275	1,350,832
Economic and physical development	222,008	16,164	321,915	332,356	562,135	315,462	369,987
Culture and recreation	733,159	722,236	680,755	683,906	742,088	762,410	1,559,617
Highways and streets	119,854	-	-	-	-	-	-
Operating grants and contributions	3,428,440	2,678,653	4,147,529	3,791,526	2,062,329	3,320,597	3,320,597
Capital grants and contributions	9,646,122	11,757,330	15,180,401	21,566,549	19,356,271	16,324,928	16,324,928
Total governmental activities program revenues	20,481,689	19,860,371	25,654,682	33,255,955	29,054,937	27,181,541	7,680,023

Schedule 2 (continued)									
City of Flagstaff									
Changes in Net Assets									
<i>(accrual basis of accounting)</i>									
Business-type activities:									
Charges for services:									
Water and wastewater	16,534,341	16,678,956	17,047,831	17,337,916	17,947,605	17,328,927			
Environmental	7,682,458	8,201,566	9,723,652	9,839,486	10,813,177	11,545,472			
Airport	926,406	944,983	1,261,594	1,122,274	1,207,831	1,187,105			
Stormwater	-	546,807	630,962	1,042,701	1,137,402	1,247,878			
Operating grants and contributions	382,239	286,919	369	19,500	67,651	10,966			
Capital grants and contributions	9,460,796	10,482,991	23,449,969	27,369,058	12,242,567	8,744,216			
Total business-type activities program revenues	34,986,240	37,142,222	52,114,377	56,730,935	43,416,233	40,064,564			
Total primary government program revenues	55,467,929	57,002,593	85,370,332	85,785,872	70,597,774	47,744,587			
Net (Expense)/Revenue									
Governmental activities	(27,103,402)	(31,979,491)	(28,565,449)	(43,102,966)	(53,609,224)	(80,942,076)			
Business-type activities	7,875,983	8,740,796	20,254,049	22,530,077	3,803,861	78,825			
Total primary government net expense	(19,227,419)	(23,238,695)	(8,311,400)	(20,572,889)	(49,805,363)	(80,863,251)			
General Revenues and Other Changes in Net Assets									
Governmental activities:									
Taxes									
Property taxes	8,010,293	7,931,626	9,051,158	12,169,247	13,664,791	16,068,140			
Sales taxes	23,805,566	25,682,974	30,014,975	32,334,785	33,129,731	31,420,047			
State shared sales taxes	12,073,108	12,122,563	14,384,055	16,276,354	16,992,017	16,628,652			
Grants and contributions not restricted to specific programs	-	810,739	377,502	-	-	-			
Investment earnings	383,111	218,520	2,385,099	4,108,861	3,903,839	1,459,389			
Miscellaneous	492	905,717	204,678	1,377,552	819,325	381,984			
Gain on sale of capital assets	944,381	634,411	33,417	242,167	2,160,339	(735,796)			
Contributions to permanent fund	7,435	14,717	24,630	19,460	16,200	13,325			
Transfers in (out)	(476,304)	(369,358)	(2,267,551)	(9,123,196)	(3,590,153)	(9,651,500)			
Total governmental activities	44,748,082	47,951,909	54,207,963	57,405,230	67,096,089	55,584,241			
Business-type activities:									
Grants and contributions not restricted to specific programs	-	-	889	-	-	-			
Investment earnings	106,733	719,023	1,181,836	1,546,893	964,237	206,154			
Miscellaneous	-	-	-	110,835	127,423	166,158			
Gain on sale of capital assets	23,675	17,302	326,540	31,354	78,248	119,366			
Transfers in (out)	476,304	369,358	2,267,551	9,123,196	3,590,153	9,651,500			
Total business-type activities	606,712	1,105,683	3,776,816	10,812,278	4,760,061	10,143,178			
Total primary government	45,354,794	49,057,592	57,984,779	68,217,508	71,856,150	65,727,419			
Change in Net Assets									
Governmental activities	17,644,680	15,972,418	25,642,514	14,302,264	13,486,865	(25,357,835)			
Business-type activities	8,482,695	9,846,479	24,030,865	33,342,355	8,563,922	10,222,003			
Total primary government	26,127,375	25,818,897	49,673,379	47,644,619	22,050,787	(15,135,832)			

(1) FY 2007: as restated for retroactive reporting due to an accounting error discovered in FY2007

The City implemented GASB-34 for the year ended June 30, 2003

Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information.

Schedule 3
City of Flagstaff
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Fund										
Reserved	\$ 186,768	\$ 212,379	\$ 174,932	\$ 176,838	\$ 220,779	\$ 200,401	\$ 232,190	\$ 1,260,236	\$ 308,979	\$ 386,520
Unreserved	17,366,998	19,208,574	18,318,999	21,782,895	22,891,253	29,124,795	28,574,855	29,960,235	27,492,853	22,203,764
Total general fund	\$ 17,553,766	\$ 19,420,953	\$ 18,493,931	\$ 21,959,733	\$ 23,112,032	\$ 29,325,196	\$ 28,807,045 (1)	\$ 31,220,471	\$ 27,801,832	\$ 22,590,284
All Other Governmental Funds										
Reserved	\$ 1,780,611	\$ 5,260,436	\$ 1,106,960	\$ 959,209	\$ 1,677,627	\$ 1,556,450	\$ 30,107,878	\$ 47,350,460	\$ 20,611,579	\$ 4,666,306
Unreserved, reported in:										
Special revenue funds	17,263,742	24,317,465	26,476,529	21,713,198	37,476,678	33,041,256	22,893,640	16,332,830	16,498,123	9,058,272
Capital project funds	-	-	-	-	-	-	-	-	(763,744)	-
Permanent fund	-	-	-	217	567	1,426	3,271	6,567	9,916	27,232
Total all other governmental funds	\$ 19,044,353	\$ 29,577,901	\$ 27,583,489	\$ 22,672,624	\$ 39,154,872	\$ 34,599,132	\$ 53,004,789	\$ 63,689,857	\$ 36,355,874	\$ 13,751,810

(1) FY2007 : as restated for accounting error related to the accrual of state shared revenues.

Schedule 4
City of Flagstaff
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
REVENUES:										
Taxes	\$ 22,197,133	\$ 28,340,957	\$ 30,986,091	\$ 31,523,875	\$ 33,736,154	\$ 35,529,373	\$ 39,104,903	\$ 41,976,134	\$ 43,964,317	\$ 43,555,388
Intergovernmental	26,778,117	26,203,650	24,008,885	11,746,308	12,156,451	17,545,686	17,173,416	18,779,168	20,425,088	21,364,739
Grants and entitlements	-	-	-	13,074,562	10,940,934	9,564,110	10,880,792	12,185,406	13,556,680	9,609,508
Charges for services	1,030,249	1,025,625	1,676,615	1,729,275	1,459,837	1,834,067	2,199,819	2,605,880	2,704,333	3,324,838
Special assessments	175,863	269,794	350,894	360,158	291,684	218,500	30,016	2,927	2,449	2,382
Licenses and permits	1,324,340	1,318,450	2,014,357	2,378,728	2,111,033	2,063,718	2,834,506	2,438,599	1,815,062	1,377,580
Fines and forfeitures	837,695	993,585	991,131	1,303,069	1,144,562	1,250,494	1,394,174	1,290,667	1,336,146	1,517,558
Rents	-	-	-	845,443	985,907	1,220,007	1,195,464	1,480,686	1,496,858	1,421,772
Investment earnings	720,000	-	-	274,472	115,433	1,589,293	2,238,285	3,920,473	3,731,116	1,366,931
Contributions	4,347,916	3,300,386	3,169,599	334,235	21,917	22,229	129,930	2,981,982	1,308,938	1,328,524
Miscellaneous	57,411,313	61,452,447	63,197,572	64,351,621	63,869,629	71,115,449	77,385,983	89,039,474	91,160,312	85,251,204
Total revenues										
EXPENDITURES:										
General governmental	3,755,883	4,533,882	5,834,543	4,453,180	5,335,890	6,158,308	6,621,976	8,194,214	10,229,814	9,848,252
Public safety	13,533,876	15,480,047	16,057,019	17,202,980	18,015,837	19,140,415	21,626,547	22,994,222	25,696,174	27,374,083
Public works	727,764	1,066,174	950,242	948,944	966,546	1,005,745	1,168,424	1,615,049	1,617,311	1,645,703
Economic and physical development	6,826,950	8,009,996	10,187,883	7,060,275	6,289,966	6,424,057	7,640,313	9,344,676	10,335,964	9,991,927
Culture and recreation	9,582,477	9,325,540	10,030,055	7,599,703	7,724,481	8,341,105	7,178,029	8,648,628	10,267,649	12,158,087
Highways and streets	7,042,108	7,735,150	15,648,877	5,676,050	8,003,110	8,951,097	10,700,196	7,859,004	8,505,722	11,187,402
Debt service:										
Principal retirement	2,265,000	2,708,000	2,979,000	3,679,000	4,614,000	4,880,000	6,505,449	5,313,222	5,046,398	5,034,991
Interest and other charges	1,616,866	1,498,920	1,443,074	1,380,182	2,428,026	2,148,734	2,552,016	3,210,879	3,020,927	3,750,657
Capital outlay	8,756,365	2,165,989	5,788,006	18,304,161	19,348,708	17,053,841	25,054,173	26,403,203	46,465,549	30,796,072
Total expenditures	54,107,289	52,521,698	68,918,699	66,304,475	72,726,564	74,103,302	89,047,123	93,583,397	121,185,508	111,787,174
Excess of revenues over (under) expenditures	3,304,024	8,928,749	(5,721,127)	(1,952,854)	(8,856,935)	(2,987,853)	(11,661,140)	(4,543,923)	(30,025,196)	(26,535,970)
OTHER FINANCING SOURCES (USES):										
Refunding bonds issued	-	4,475,343	3,100,000	9,375,000	720,000	-	-	-	-	-
Bonds issuance	-	-	-	-	25,000,000	-	31,500,000	19,075,000	-	-
Loan issued	-	-	-	-	-	3,800,000	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	(9,429,957)	(718,127)	-	-	-	-	-
Lease issued	-	-	-	-	-	-	-	-	-	109,352
Improvement District Debt	-	-	-	-	-	-	-	-	-	-
Bond premium	-	-	-	190,240	1,059,221	-	220,086	46,707	-	-
Sale of capital assets	-	-	-	946,236	634,411	2,114,398	37,892	252,329	2,176,808	63,894
Transfers in	11,582,702	11,241,055	12,994,104	12,708,480	12,996,534	15,312,931	17,317,133	17,756,847	17,181,576	21,626,308
Transfers out	(1,947,847)	(1,931,179)	(13,607,644)	(13,184,784)	(13,365,892)	(16,582,052)	(19,584,684)	(19,488,466)	(20,085,809)	(23,359,573)
Total other financing sources (uses)	(365,145)	3,785,219	2,486,460	605,215	26,326,147	4,645,277	29,490,427	17,642,417	(727,425)	(1,560,019)
Net change in fund balances	2,938,879	12,713,968	(3,234,667)	(1,347,639)	17,469,212	1,657,424	17,829,287	13,098,494	(30,732,621)	(28,095,989)
Debt service as a percentage of non capital expenditures	8.56%	8.35%	7.00%	10.54%	13.19%	12.32%	14.15%	12.69%	10.80%	10.85%

Schedule 5
City of Flagstaff
Tax Revenue by Source, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(dollars in thousands)

Fiscal Year	General Property Tax		Secondary Property Tax		Franchise and Other Taxes		City Sales Tax		Bed, Board and Booze Tax		Transportation Tax		Total	
	\$		\$		\$		\$		\$		\$			
2000	\$	2,759	\$	3,777	\$	1,506	\$	10,510	\$	3,645	\$	-	\$	22,197
2001		2,853		3,896		1,690		10,811		3,748		5,343		28,341
2002		3,070		4,198		1,791		11,783		3,817		6,327		30,986
2003		3,427		4,415		1,783		11,469		3,827		6,603		31,524
2004		3,425		4,628		2,262		12,055		4,063		7,303		33,736
2005		3,619		4,856		1,943		13,148		4,331		7,632		35,529
2006		4,209		4,881		2,083		14,707		4,623		8,602		39,105
2007		4,453		5,188		1,838		16,071		4,992		9,434		41,976
2008		4,616		6,219		2,189		16,150		5,187		9,605		43,966
2009		4,882		7,254		2,246		14,384		5,052		10,035		43,853
Change 2000-2009		76.95%		92.06%		49.14%		36.86%		38.60%		100.00%		97.56%

Schedule 6
City of Flagstaff
Intergovernmental Revenue by Source, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	State Sales Tax	State Income Tax	County Auto In-Lieu Tax	Highway User Tax	Local Transportation Assistance	State HB 2565	Federal Grants	State Grants & Other State	County LEAF ICA	County Library District Funding	Other	Total
2000	4,785,424	6,062,290	1,902,188	7,427,210	367,461	312,249	1,474,751	370,391	-	1,068,817	3,007,336	26,778,117
2001	4,919,575	6,432,879	1,913,662	7,969,703	360,806	142,793	1,731,823	317,059	-	1,835,109	580,241	26,203,650
2002	4,076,034	5,526,159	1,803,900	7,771,416	300,246	47,598	2,348,793	437,543	-	1,423,105	274,091	24,008,885
2003	4,136,724	5,557,918	2,378,466	7,408,116	315,026	-	1,743,613	823,701	-	1,607,306	850,000	24,820,870
2004	4,449,982	4,777,145	2,427,367	6,975,351	313,868	-	1,160,966	454,212	468,069	1,921,433	148,992	23,097,385
2005	4,900,117	4,918,476	2,461,425	7,171,383	313,843	-	1,772,181	2,868,033	628,198	2,036,500	39,640	27,109,796
2006	5,652,335	5,655,641	2,655,653	7,942,771	304,341	55,665	2,386,011	940,441	420,426	2,040,924	-	28,054,208
2007	5,815,473	6,946,680	2,792,404	7,855,427	293,502	-	2,822,315	1,214,162	721,797	2,502,814	-	30,964,574
2008	5,623,144	8,610,567	2,758,307	7,422,359	225,965	58,782	4,868,431	981,142	668,153	2,764,918	-	33,981,768
2009	4,868,072	9,149,290	2,611,289	6,412,329	251,536	-	1,711,609	1,234,065	897,337	3,805,955	32,795	30,974,277

Schedule 7
City of Flagstaff
Full Cash Value of Taxable Property
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year	Centrally Valued Property	Commercial Property	Vacant,			Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
			Agricultural, and Government Property	Residential Property	Property			
2000	21,765,191	190,494,910	49,352,556	180,667,749	34,550,373	407,730,033	1.7127	
2001 (1)	31,232,035	192,395,566	51,001,338	189,936,966	35,535,505	429,030,400	1.7127	
2002	33,068,867	197,065,506	60,199,456	201,111,291	42,767,442	448,677,678	1.7127	
2003	35,621,681	194,944,521	62,099,966	215,320,769	43,729,051	464,257,886	1.7127	
2004	29,405,068	211,870,593	65,128,715	242,190,760	46,939,696	501,655,440	1.7127	
2005	27,328,709	221,179,062	82,683,618	276,187,028	50,697,830	556,680,587	1.7127	
2006	27,532,435	237,795,313	100,985,606	315,182,546	57,296,001	624,199,899	1.6627	
2007	28,051,846	261,009,908	125,377,258	398,783,838	62,684,483	750,538,367	1.5519	
2008	28,940,765	281,348,845	140,117,313	500,150,890	71,775,990	878,781,823	1.5519	
2009	27,478,520	286,101,952	151,630,088	529,950,871	78,819,714	916,341,717	1.5519	

Source: State of Arizona Department of Revenue, State and County Abstract of the Assessment Roll

Note: A portion of city property is reassessed every year. Property is assessed at actual value, therefore, the assessed values are equal to actual value. Tax rates are per \$100 of assessed value.

(1) The Legal Classes changed in 2001 from prior years

Schedule 8
City of Flagstaff
City Tax Revenue for Major Categories
Last Ten Fiscal Years
(dollars in thousands)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Construction:	\$ 101,032	\$ 99,857	\$ 134,084	\$ 151,652	\$ 158,506	\$ 163,846	\$ 233,747	\$ 260,024	\$ 263,386	\$ 181,245
Building Materials:	40,067	54,410	61,118	63,618	70,063	72,152	82,481	79,703	75,493	66,641
Auto Sales	110,803	99,222	119,210	118,640	124,147	127,760	129,671	133,497	118,282	78,819
Restaurants and Bars	183,267	188,001	191,258	191,883	202,966	215,624	232,359	248,819	255,578	250,555
Retail	466,902	492,316	497,753	502,235	529,705	556,165	586,841	637,225	619,805	582,029
Other	113,050	116,040	115,666	118,333	125,687	134,824	144,635	154,183	163,463	155,193
Utilities	-	-	-	-	53	199	4,892	68,840	71,299	69,175
TOTAL	\$ 1,015,121	\$ 1,049,846	\$ 1,119,089	\$ 1,146,361	\$ 1,211,127	\$ 1,270,570	\$ 1,414,626	\$ 1,582,291	\$ 1,567,306	\$ 1,383,657

Schedule 9
City of Flagstaff
Direct and Overlapping Property Tax Rates,
Last Ten Fiscal Years
(rate per \$100 of assessed value)

Fiscal Year	City	School District	Community College	County	Total
2000	1.7127	6.5585	0.5947	1.1444	10.0103
2001	1.7127	6.6885	0.5724	1.1336	10.1072
2002	1.7127	6.6741	0.5717	1.0951	10.0536
2003	1.7127	6.7590	0.5809	1.1941	10.2467
2004	1.7127	6.3679	0.5775	1.2369	9.8950
2005	1.7127	5.7236	0.5660	1.2212	9.2235
2006	1.6627	6.0786	0.5525	1.2010	9.4948
2007	1.5929	5.9009	0.5269	0.7521	8.7728
2008	1.5519	4.7713	0.4865	0.7588	7.5685
2009	1.5519	4.8334	0.4643	0.7603	7.6099

Note: Tax rates are per \$100 assessed valuation.

Schedule 10
City of Flagstaff
Principal Property Tax Payers
Current Year and Nine Years Ago

Taxpayer	2009			2000		
	Total Assessed Value	Rank	As a Percentage of the City Total Secondary Assessed Valuation	Total Assessed Value	Rank	As a Percentage of the City Total Secondary Assessed Valuation
Arizona Public Service Company	\$ 14,799,541	1	1.62%	12,151,377	2	3.16%
W L Gore & Associates Inc.	13,908,787	2	1.52%	13,614,490	1	3.54%
Qwest Corporation	7,388,952	3	0.81%			
Nestle Purina Petcare Company	4,976,928	4	0.54%	6,379,950	5	1.66%
Lone Tree Investments, LLC.	5,102,144	5	0.56%			
Flagstaff Mall Associated Ltd. Partnership	4,344,604	6	0.47%	2,874,011	8	0.75%
Little America Refining Co.	3,626,255	7	0.40%	4,608,283	6	1.20%
Hopi Tribe Economic Development Corp	2,578,254	8	0.28%			
SACO Management Inc.	2,848,466	9	0.31%			
Ortholand LLC	2,769,838	10	0.30%			
US West Communications				6,631,563	4	1.72%
Northern Arizona Gas Division				8,244,966	3	2.14%
Consolidated Investments, Inc.				3,057,160	7	0.79%
Walgreen Arizona Drug Co.				2,824,799	9	0.73%
Woodlands Plaza Hotel LTD Partnership				2,673,081	10	0.69%
Total Principal Taxpayers	\$ 62,343,769		6.81%	\$ 63,059,680		16.38%

Source: Arizona Dept. of Revenue, Central Information Services Unit

Schedule 11
City of Flagstaff
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2000	\$ 6,526,010	\$ 6,443,879	98.7%	\$ 92,342	\$ 6,536,221	100.2%
2001	6,936,955	6,658,250	96.0%	90,944	6,749,194	97.3%
2002	7,271,109	7,194,162	98.9%	74,106	7,268,268	100.0%
2003	7,613,349	7,625,852	100.2%	92,457	7,718,309	101.0%
2004	7,897,298	7,791,735	98.7%	261,445	8,053,180	102.0%
2005	8,494,694	8,330,157	98.1%	145,051	8,475,208	100.0%
2006	9,075,322	8,958,733	98.7%	131,194	9,089,927	100.0%
2007	9,615,015	9,495,935	98.8%	145,415	9,641,350	100.0%
2008	10,935,835	10,728,465	98.1%	106,120	10,834,585	99.0%
2009	12,253,760	11,934,997	97.4%	200,344	12,135,341	99.0%

Schedule 12
City of Flagstaff
Direct and Overlapping Sales Tax Rates,
Last Ten Fiscal Years

Fiscal Year	City				State of Arizona	Coconino County	Total
	General Sales Tax	Bed, Board & Beverage	Transportation				
2000	1.0000%	2.0000%	0.0000%	0.8000%	5.0000%	8.8000%	
2001	1.0000%	2.0000%	0.5745%	0.8000%	5.6000%	9.9745%	
2002	1.0000%	2.0000%	0.5745%	0.8000%	5.6000%	9.9745%	
2003	1.0000%	2.0000%	0.5745%	0.9250%	5.6000%	10.0995%	
2004	1.0000%	2.0000%	0.6010%	0.9250%	5.6000%	10.1260%	
2005	1.0000%	2.0000%	0.6010%	0.9250%	5.6000%	10.1260%	
2006	1.0000%	2.0000%	0.6010%	0.9250%	5.6000%	10.1260%	
2007	1.0000%	2.0000%	0.6010%	1.1250%	5.6000%	10.3260%	
2008	1.0000%	2.0000%	0.6010%	1.1250%	5.6000%	10.3260%	
2009	1.0000%	2.0000%	0.6010%	1.1250%	5.6000%	10.3260%	

Source: City of Flagstaff
www.flagstaff.az.gov
(Sales Tax/Business Licenses Division)

Schedule 13
City of Flagstaff
Ratios of Outstanding Debt by Type,
Last Seven Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	Governmental Activities					Business-Type Activities					Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Special Assessment Bonds	Revenue Bonds	Municipal Facility Corporation Bonds	Capital Leases	General Obligation Bonds	Revenue Bonds	Term Loan Payable	Capital Leases				
2003	\$ 7,485	\$ 944	\$ 14,790	\$ 4,445	\$ -	\$ 22,958	\$ 6,537	\$ 3,716	\$ -	\$	60,875	2.0%	997.46
2004	5,795	685	13,380	28,170	-	21,253	6,290	3,380	-	-	78,953	2.4%	1,288.61
2005	4,285	415	11,555	26,895	3,800	18,880	6,035	3,031	2,732	2,732	77,628	2.2%	1,268.74
2006	32,875	340	9,665	25,610	3,455	16,294	5,770	2,671	2,652	2,652	99,332	2.9%	1,601.35
2007	31,230	19,339	7,725	24,315	3,097	13,310	5,496	32,957	4,482	4,482	141,951	4.1%	2,288.42
2008	29,350	19,257	6,325	23,000	2,728	10,515	5,212	32,275	4,227	4,227	132,889	3.8%	2,142.33
2009	27,645	19,169	4,865	21,625	2,430	7,460	4,918	37,006	3,960	3,960	129,078	3.4%	1,995.24

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements. See Schedule 17 for personal income and population data.

The City implemented GASB-34 for the fiscal year ended June 30, 2003. Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information. These amounts are presented on the accrual basis of accounting.

Schedule 14
City of Flagstaff
Ratios of General Bonded Debt Outstanding
Last Seven Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Bonded Debt Outstanding			Total	Percentage of Actual Taxable Value of Property	Per Capita
	Governmental Activities General Obligation Bonds	Business-Type Activities General Obligation Bonds				
2003	7,485	22,958	30,443	6.6%	498.82	
2004	5,795	21,253	27,048	5.4%	441.46	
2005	4,285	18,880	23,165	4.2%	378.61	
2006	32,875	16,294	49,169	7.9%	792.66	
2007	31,230	13,310	44,540	5.9%	718.04	
2008	29,350	10,515	39,865	5.3%	642.67	
2009	27,645	7,460	35,105	3.8%	542.64	

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

a: See Schedule 7 for property value data

b: Population data can be found in Schedule 17

The City implemented GASB-34 for the fiscal year ended June 30, 2003. Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information. These amounts are presented on the accrual basis of accounting.

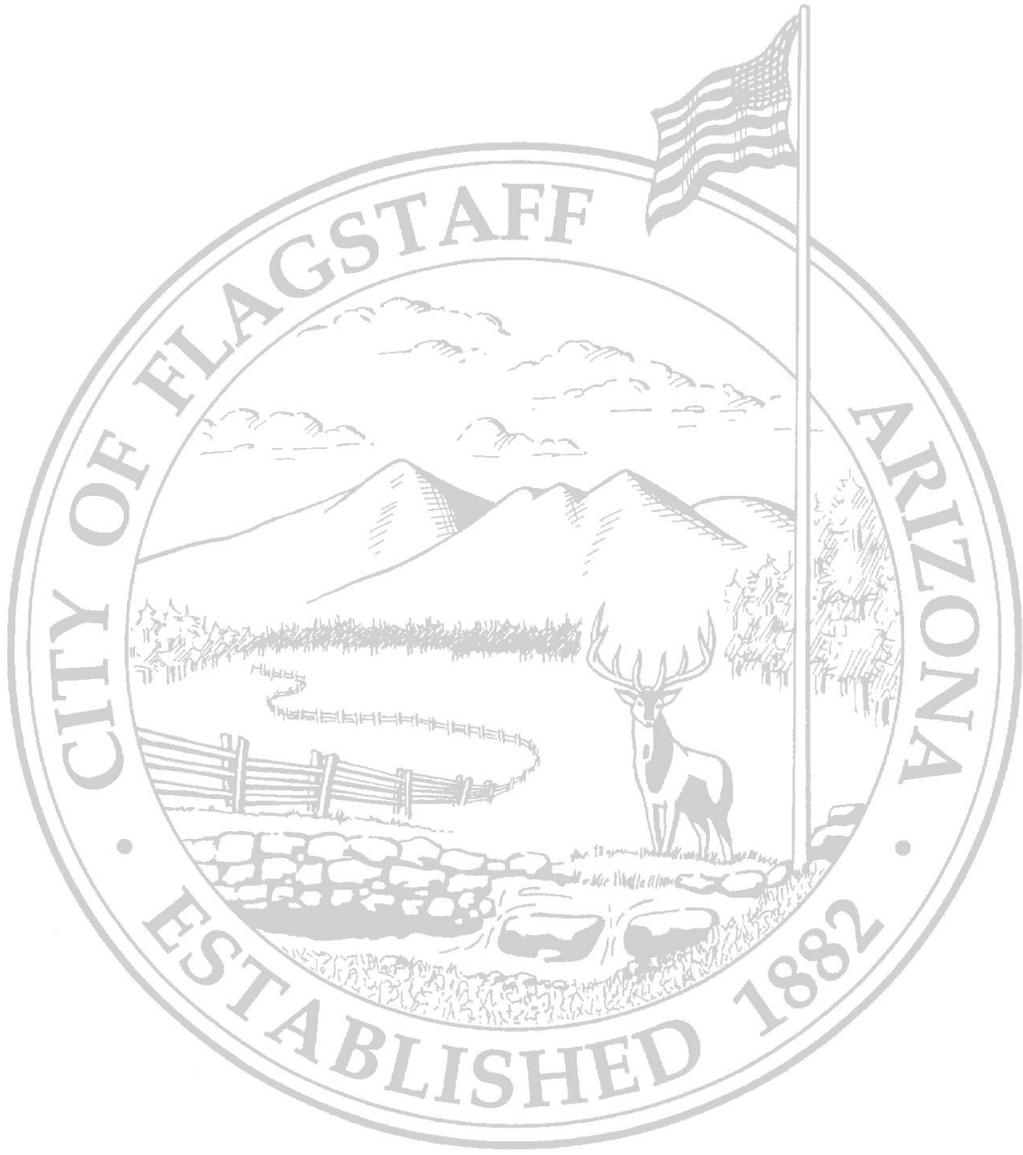
Schedule 15
 City of Flagstaff
 Direct and Overlapping Governmental Activities Debt
(dollars in thousands, except per capita)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable*</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Flagstaff Unified School District	\$ 13,185	62.14%	\$ 8,193
Other debt			
Coconino County Certificates of Participation	Paid Off	42.71%	Paid Off
Coconino County Revenue Bonds	8,340	42.71%	3,562
Coconino County Special Assessments	2,364	0.00%	-
Subtotal, overlapping debt			11,755
City direct debt			<u>75,734</u>
Total direct and overlapping debt			<u>\$ 87,489</u>

Sources: Assessed value data used to estimate applicable percentages provided by the Coconino Finance Department. Debt outstanding data provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Flagstaff. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

* For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value. This approach was also used for Coconino County's revenue bonds and certificates of participation.



Schedule 16
City of Flagstaff
Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)

20% Debt Limit

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Debt limit equal to 20% of assessed valuation	\$ 77,113	\$ 81,719	\$ 85,806	\$ 92,852	\$ 100,331	\$ 111,336	\$ 124,840	\$ 150,108	\$ 175,756	\$ 183,268
Total net debt applicable to 20% limit	28,779	27,043	28,425	26,283	24,493	21,644	35,227	43,860	39,514	35,105
Legal debt margin (Available borrowing capacity)	\$ 48,334	\$ 54,676	\$ 57,381	\$ 66,569	\$ 75,838	\$ 89,692	\$ 89,613	\$ 106,248	\$ 136,242	\$ 148,163
Total net debt applicable to the 20% limit as a percentage of debt limit	59.54%	49.46%	49.54%	39.48%	32.30%	24.13%	39.31%	41.28%	29.00%	23.69%

6% Debt Limit

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Debt limit equal to 6% of assessed valuation	\$ 23,134	\$ 24,516	\$ 25,742	\$ 27,855	\$ 30,099	\$ 33,401	\$ 37,452	\$ 45,032	\$ 52,727	\$ 54,981
Total net debt applicable to 6% limit	7,720	6,690	5,560	4,160	2,555	1,225	14,202	680	351	-
Legal debt margin (Available borrowing capacity)	\$ 15,414	\$ 17,826	\$ 20,182	\$ 23,695	\$ 27,544	\$ 32,176	\$ 23,250	\$ 44,352	\$ 52,376	\$ 54,981
Total net debt applicable to the 6% limit as a percentage of debt limit	50.08%	37.53%	27.55%	17.56%	9.28%	3.81%	61.08%	1.53%	0.67%	0.00%

Schedule 16 (continued)
 City of Flagstaff
 Legal Debt Margin Information

Legal Debt Margin Calculation for Fiscal Year 2009

Net Secondary Assessed Value as of June 30, 2009	\$ 916,341,717
20% Limitation	
Debt Limit of 20% of Assessed Value	\$ 183,268,343
Debt applicable to limit:	
General Obligation Bonds	<u>35,105,000</u>
Legal 20% debt margin (Available borrowing capacity)	<u>\$ 148,163,343</u>
6% Limitation	
Debt Limit of 6% of Assessed Value	\$ 54,980,503
Debt applicable to limit:	
General Obligation Bonds	<u>—</u>
Legal 6% debt margin (Available borrowing capacity)	<u>\$ 54,980,503</u>

Schedule 17
City of Flagstaff
Pledged Revenue Coverage
Last Ten Fiscal Years

Fiscal Year	Gross Revenues (1)	Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal (3)	Interest (4)	Total	
2000	\$ 17,606,349	\$ 8,311,186	\$ 9,295,163	\$ -	\$ -	\$ -	-
2001	18,337,310	9,757,448	8,579,862	-	-	-	-
2002	17,637,708	9,587,743	8,049,965	-	-	-	-
2003	16,769,463	9,865,571	6,903,892	238,431	146,694	385,125	17.93
2004	17,227,848	10,645,073	6,582,775	246,890	231,034	477,924	13.77
2005	16,851,956	10,693,901	6,158,055	255,648	223,153	478,801	12.86
2006	17,755,038	11,791,895	5,963,143	264,717	214,084	478,801	12.45
2007	18,235,171	12,892,795	5,342,376	274,108	204,693	478,801	11.16
2008	18,380,351	16,229,816	2,150,535	283,832	194,969	478,801	4.49
2009	17,459,105	14,633,986	2,825,119	2,302,688	1,368,330	3,671,018	0.77

(1) Includes total operating revenues and investment income of the water and wastewater fund.
(2) Includes total operating expenses of the water and wastewater fund less depreciation.
(3) Includes principal for water and sewer revenue bonds, water infrastructure finance authority (WIFA), and capital lease.
(4) Bond interest payments only. Does not include amortization of loss on refunding, capitalized interest, agent fees or amortization of bond issuance costs that are included in interest expense on the statement of revenues, expenses, and changes in net assets.

Schedule 17 (continued)
 City of Flagstaff
 Pledged Revenue Coverage
 Last Ten Fiscal Years

Fiscal Year	Highway User Tax Revenue	Debt Service Requirements			Coverage
		Principal (1)	Interest (2)	Total	
2000	7,427,210	1,375,000	1,016,507	2,391,507	3.11
2001	7,969,703	1,420,000	960,133	2,380,133	3.35
2002	7,771,416	1,490,000	900,492	2,390,492	3.25
2003	7,408,116	1,730,000	668,260	2,398,260	3.09
2004	6,975,351	1,410,000	607,160	2,017,160	3.46
2005	7,171,383	1,825,000	571,910	2,396,910	2.99
2006	7,540,081	1,890,000	526,285	2,416,285	3.12
2007	7,855,427	1,940,000	469,585	2,409,585	3.26
2008	7,422,359	1,400,000	411,385	1,811,385	4.10
2009	6,412,329	1,460,000	344,010	1,804,010	3.55

(1) Includes 1992 Jr. Lien and Series 2003 Refunding.

(2) Bond interest payments only. Does not include agent fees that are included in interest expense on the statement of revenues, expenses, and changes in fund balances.

Schedule 17 (continued)
 City of Flagstaff
 Pledged Revenue Coverage
 Last Eight Fiscal Years

**Municipal Facility Corporation Bonds
 MFC Debt other than Transportation**

Fiscal Year (1)	Revenue (2)	Debt Service Requirements			Coverage
		Principal (3)	Interest (4)	Total	
2002	9,377,511	-	224,682	224,682	41.74
2003	9,232,244	255,000	207,398	462,398	19.97
2004	8,764,929	265,000	197,198	462,198	18.96
2005	9,356,995	275,000	186,598	461,598	20.27
2006	10,847,378	285,000	175,598	460,598	23.55
2007	12,302,955	295,000	164,198	459,198	26.79
2008	13,771,313	310,000	152,398	462,398	29.78
2009	13,557,828	320,000	139,534	459,534	29.50

- (1) Trend information not available prior to fiscal year 2002.
- (2) State sales tax, state income tax less debt service requirements for MFC debt other than transportation.
- (3) MFC 1992 Refunding series 12 2001 – USGS projects.
- (4) Bond interest payments only. Does not include agent fees that are included in interest expense on the statement of revenues, expenses, and changes in fund balances.

Schedule 17 (continued)
 City of Flagstaff
 Pledged Revenue Coverage
 Last Six Fiscal Years

**Municipal Facility Corporation Bonds
 Transportation MFC Debt**

Fiscal Year (1)	Debt Service Requirements				Coverage
	Revenue (2)	Principal (3)	Interest	Total	
2004	29,860,760	1,010,000	839,966	1,849,966	16.14
2005	31,085,459	1,000,000	1,037,100	2,037,100	15.26
2006	35,725,917	1,000,000	987,100	1,987,100	17.98
2007	39,681,382	1,000,000	964,600	1,964,600	20.20
2008	41,483,415	1,005,000	942,100	1,947,100	21.31
2009	38,586,144	1,055,000	891,850	1,946,850	19.82

- (1) Trend information not available prior to fiscal year 2004.
- (2) Pledges revenues on the Municipal Facility Corporation Bonds include the city base rate sales tax, transportation sales tax, franchise sales tax, licenses and permits, charges for services, fine and forfeits, other revenue, state sales tax, and state revenue sharing. Less the debt service requirements for transportation MFC bonds.
- (3) MFC revenue bond series 2003 Fourth Street.

Schedule 18
City of Flagstaff
Demographic and Economic Statistics
Last Ten Fiscal Years

Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	Education Level - Percent		Education Level - Percent Bachelor's Degree or Higher	School Enrollment	Unemployment Rate
					High School Grad or Higher				
2000	52,894	\$ 2,661,712	\$ 22,815	26.8	89.8%	89.8%	39.4%	12,682	5.20%
2001	57,700	2,787,863	23,716	26.8	89.8%	89.8%	39.4%	13,969	4.80%
2002	59,160	2,908,992	24,259	26.8	89.8%	89.8%	39.4%	13,566	5.10%
2003	61,030	2,999,350	24,795	26.8	89.8%	89.8%	39.4%	12,905	5.80%
2004	61,270	3,226,683	26,328	26.8	89.8%	89.8%	39.4%	13,176	5.20%
2005	61,185	3,472,652	28,045	26.8	89.8%	89.8%	39.4%	13,389	5.10%
2006	62,030	3,472,652	28,045	26.8	89.8%	89.8%	39.4%	13,171	5.00%
2007	62,030	3,472,652	28,045	26.8	89.8%	89.8%	39.4%	13,453	3.40%
2008	64,200	3,767,194	29,879	26.8	89.8%	89.8%	39.4%	13,040	4.60%
2009	64,693	3,767,194	29,879	26.8	89.8%	89.8%	39.4%	12,910	7.50%

Sources:

- Population - Arizona Department of Commerce, except for 2000 which is the official census number
- Personal Income - 1998 - 2005 Arizona Department of Economic Security, Workforce Development Statistics
- Personal Income - 2006 - 2007 Arizona Department of Economic Security, Workforce Development Statistics
- Per Capita Income - 1998 - 2005 Arizona Department of Economic Security, Workforce Development Statistics, estimate from 2008
- Per Capita Income - 2006 - 2009 Arizona Department of Economic Security, Workforce Development Statistics
- Median age - 2000 US Census
- Education level - 2000 US Census
- School enrollment - Arizona Department of Education and National Center for Education Statistics
- Unemployment - Arizona Department of Economic Security, August 2009

Schedule 19
 City of Flagstaff
 Principal Employers
 Current Year and Nine Years Ago

<u>Employer</u>	2009			2000 (1) (2)		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Northern Arizona University	2,316	1	7.51%	2,497	1	8.10%
Flagstaff Medical Center	2,000	2	6.49%	2,104	2	6.83%
W.L. Gore & Associates	1,910	3	6.20%	1,800	3	5.84%
Flagstaff United School District	1,659	4	5.38%	1,436	4	4.66%
Coconino County	1,204	5	3.91%	1,294	5	4.20%
City of Flagstaff	762	6	2.47%	876	6	2.84%
Coconino Community College	600	7	1.95%	400	7	1.30%
Walgreens & Distribution Center	438	8	1.42%	468	8	1.52%
Grand Canyon Railway (3)	405	9	1.31%	450	9	1.46%
Walmart	301	10	0.98%	338	10	0.00%
SCA Tissue	--					0.00%
Total	11,595		37.62%	11,663		36.74%
2000 U.S. Census Labor Force	30,822			30,822		

Source:

- (1) Greater Flagstaff Economic Council (GFEC)
- (2) GFEC is no longer operational and could not be used as a resource. The City independently researched this information. It is believed employees were counted outside of the City for both the Grand Canyon Railway and SCA Tissue.
- (3) Data for FY-2009 not available. Estimate only.

Long-term historical information not available.

Schedule 20
City of Flagstaff
Full-time Equivalent City Government by Function/Program
Last Ten Fiscal Years

Function/Program	Full-time Equivalent Employees as of June 30									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Government										
Management services	69.25	72.00	77.00	74.00	73.00	74.25	75.75	82.89	87.39	89.14
Capital management	-	-	19.00	18.50	15.50	14.50	13.50	13.50	13.50	13.50
City Court	20.25	21.25	24.25	25.25	26.50	26.50	26.50	26.50	27.63	29.63
Public Safety										
Police	138.25	147.50	148.25	148.25	150.00	151.00	160.00	164.00	174.00	181.00
Fire	84.50	84.50	97.25	96.75	96.75	96.75	97.75	100.75	101.75	101.75
Public Works	25.75	26.75	26.75	27.00	27.00	25.00	26.00	27.00	31.00	31.00
Economic and physical development										
Building	57.40	57.00	48.00	49.00	43.75	43.00	49.25	52.25	58.50	57.50
Planning	17.10	17.00	17.25	17.25	17.25	17.25	15.25	21.75	20.88	24.88
Tourism	6.00	6.00	6.00	6.00	11.75	13.75	13.75	15.75	16.75	16.75
Culture and recreation										
Library	37.00	37.50	38.75	39.50	39.50	40.00	40.00	43.13	47.14	53.77
Parks, recreation, and beautification	73.25	74.00	79.25	74.50	67.75	63.95	67.53	68.82	98.23	99.69
Highways and Streets	35.25	35.25	35.25	36.25	36.25	36.25	36.25	37.25	40.56	41.06
Water and wastewater	72.00	71.75	74.75	74.50	73.00	74.50	76.50	79.00	80.25	81.75
Environmental services	39.75	40.00	45.00	45.00	45.75	52.25	54.00	62.60	61.60	68.10
Airport	9.50	9.50	9.50	9.50	9.50	9.50	9.50	10.00	10.50	10.50
Stormwater	-	-	-	-	5.75	5.00	6.50	6.50	6.50	6.50
Total	685.25	700.00	746.25	741.25	739.00	743.45	768.03	811.69	876.18	906.52



Schedule 21
City of Flagstaff
Operating Indicators by Function/Program
Last Eight Fiscal Years

Function/Program	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
Court								
Criminal Filings	11,005	11,068	10,236	9,227	9,705	9,553	11,659	9,330
Traffic filings	10,431	10,613	10,388	11,253	10,575	8,951	10,665	10,639
Domestic Violence/Other filings	575	622	682	673	616	530	744	445
Fire								
Emergency responses	3,386	3,658	5,616	6,722	7,684	8,227	7,616	7,550
Fires response	352	216	265	228	351	314	267	263
Other calls	2,094	1,205	2,023	1,905	1,323	1,472	1,573	2,151
Inspections assigned	NA	NA	2,212	2,006	1,966	1,984	1,981	1,794
Plan Reviews	NA	NA	1,340	1,348	1,280	1,314	1,284	1,250
Fuel Management								
Plan Assessment (Acres)	NA	1,516	2,020	1,065	585	-	400	-
Site Marking (Acres)	NA	759	408	311	662	764	178	224
Site Thinning (Acres)	NA	882	521	792	694	1,173	902	761
Prescription Burn (Acres)	NA	917	709	834	557	1,210	1,070	1,190
Police								
Felony reports	NA	NA	NA	4,979	5,337	4,973	3,978	3,661
Misdemeanor reports	NA	NA	NA	12,378	13,381	13,123	13,413	12,939
Domestic violence incidents	NA	NA	NA	1,464	1,598	1,625	1,573	1,470
Non-crime reports	NA	NA	NA	8,818	9,136	8,913	11,043	10,996
Accident reports	NA	NA	NA	3,616	3,313	3,374	3,322	2,917
Calls dispatched to Police/Sheriff	NA	NA	NA	73,559	77,239	75,791	73,364	70,908
Calls dispatched to Fire	NA	NA	NA	11,266	11,741	12,364	11,907	12,527
Calls dispatched to Medical	NA	NA	NA	9,435	9,175	9,960	-	-

Schedule 21 (continued)
 City of Flagstaff
 Operating Indicators by Function/Program
 Last Eight Fiscal Years

Function/Program	Fiscal Year							
	2002	2003	2004	2005	2006	2007	2008	2009
Streets								
Potholes repaired	NA	NA	NA	2,988	1,962	2,443	4,032	4,373
Airport								
Fuel Flowage (Gallons Sold)	713,193	698,227	673,786	653,743	705,638	642,643	651,814	627,202
Enplanements	36,057	34,984	38,387	42,483	39,646	44,598	44,088	65,418
Refuse collection								
Refuse collected (Landfill tonnage)	110,684	128,153	109,608	140,233	154,321	153,121	157,792	142,409
Recyclables collected (total tons)	7,886	9,126	9,213	9,816	9,866	10,356	10,472	9,842
Community Development								
Residential Permit Valuation (1)	59,963,201	78,719,935	67,214,811	87,180,707	97,895,269	38,895,496	25,278,055	(1)
Commercial Permit Valuation (1)	29,051,528	12,843,323	18,123,934	12,324,654	26,130,677	37,962,373	27,199,698	(1)
Library								
Visits	NA	NA	564,065	582,726	625,103	643,174	680,253	738,603
Circulation	NA	NA	781,893	776,180	758,468	789,621	782,908	887,887
Tourism								
Revenue Per Available Room (RevPar)	48.33	45.36	47.95	52.90	61.47	66.86	60.52	43.21

Sources: Various city departments

(1) This information is gathered and reported on a calendar year basis versus a fiscal year basis for all other measurements

These accumulation of these statistics began in FY2002 so 10 years historical information is not available.

Schedule 22
 City of Flagstaff
 Capital Asset Statistics by Function/Program
 Last Ten Fiscal Years

Function/Program	Fiscal Year										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Public Safety											
Police patrol units (Includes Motorcycle units)	28	31	32	32	32	26	26	26	31	34	34
Number of fire hydrants	Unavail	Unavail	Unavail	2,382	2,435	2,478	2,478	2,598	2,743	3,148	3,150
Number of fire stations	6	6	6	6	6	6	6	6	6	6	7
Culture and recreation											
Number of developed parks	31	31	26	27	27	28	27	27	27	26	26
Number of undeveloped parks	Unavail	Unavail	3	3	3	4	4	4	4	4	4
Park acreage	602	602	578	586	586	704	702	702	705	712	712
Flagstaff Urban Trail System - Miles	19	19	21	22	22	28	32	34	34	48	51
Recreational Buildings	6	6	6	6	6	5	5	5	5	6	6
Highways and Streets											
Miles of streets, alleys, and sidewalks (1)	324	324	330	350	350	365	365	386	403	690	695
Number of street lights	2,740	2,768	2,777	2,853	2,898	2,921	2,921	3,037	3,107	3,201	3,220
Water and wastewater											
Miles of sewer (2)	231	237	243	250	271	275	275	293	309	265	270
Number of manholes	Unavail	Unavail	Unavail	5,857	5,979	6,097	6,097	6,496	6,906	7,107	7,261
Total active water accounts	14,961	15,230	15,600	15,802	16,356	16,948	18,039	17,872	18,758	18,849	18,371
Average gallon water usage per household per month	6,576	6,546	6,848	6,897	6,727	6,070	6,096	5,488	5,600	5,456	5,010
Airport											
Fixed base operators	1	1	1	1	1	1	1	1	1	1	1
Locally based aircraft	110	130	130	130	130	130	130	130	134	134	134
Tiedowns	49	49	49	49	49	49	29	18	11	11	11
Enclosed hangars	33	47	47	42	42	42	42	61	61	61	61
Open hangars	38	38	38	38	38	38	38	48	48	48	48

1 In Fiscal Year 2008, transition made from street miles to lane miles. This will more accurately reflect the level of service required to maintain the surfaces.

2 Database Correction

Schedule 23
City of Flagstaff
Insurance Summary
In Effect June 1, 2009 to June 1, 2010

Coverage	Limit of Liability	Coverage	Limit of Liability
Liability Insurance:		Property Insurance:	
General Liability* (Includes 2 skateboard parks, bike freestyle park, EMT's)	\$ 1,000,000 / per occurrence \$ 2,000,000 / aggregate	Blanket Buildings and Personal Property	\$ 158,996,803 / \$25,000 deductible
Law Enforcement Liability*	\$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate	Boiler and Machinery included	\$ 10,000,000 / \$50,000 deductible
Auto Liability*	\$ 1,000,000 / each accident \$ 1,000,000 / each wrongful act	Flood Zones B and C	\$ 15,000,000 / \$25,000 deductible
Public Entity Management Errors and Omissions* (Claims Made Retro Date 6-1-95)	\$ 1,000,000 / each wrongful act \$ 1,000,000 / total limit	Business Income/Extra Expense	\$ 7,000,000 / 24 hours
Employment Practices Liability* (Claims Made Retro Date 6-1-95)	\$ 5,000,000 / each wrongful act \$ 5,000,000 / total limit	Auto Physical Damage	\$ 18,850,061 / \$1000/comprehensive / \$5000/collision deductible
Employee Benefits Liability* (Claims Made)	\$ 1,000,000 / each wrongful act \$ 3,000,000 / total limit	Flood Zone A Properties	\$ 220,000 / building
* Liability Claims are Subject to a \$50,000 Self Insurance Retention		Municipal Court	\$ 116,900 / contents
Public Entity Cyber Liability (Claims Made Retro Date 6-1-09) (\$5,000 deductible each wrongful act)	\$ 1,000,000 / each wrongful act \$ 1,000,000 / total limit	City Hall, Library	\$ 500,000 / each building \$ 500,000 / contents each ((\$5,000 deductible)
Employer's Liability	\$ 1,000,000 / each accident \$ 1,000,000 / disease employee \$ 1,000,000 / disease policy limit	Inland Marine:	
Worker's Compensation	Statutory	Contractors Equipment (actual cash value)	\$ 5,783,560 / \$5,000 deductible
Umbrella/Excess #1 - GL, Auto, Law Enforcement, Employer's Liability		Bookmobile book collection	\$ 238,582 / \$1000 deductible
Public Entity Management, Employee Benefits	\$ 20,000,000 / each event/each wrongful Act / general total limit	Lab Equipment	\$ 11,300 / \$1,000 deductible
(Excludes Airport, Housing Authority, Employment related practices, Failure to Supply Services, Mold, Terrorism, Asbestos, Lead, Condemnation, Sexual Abuse)		Employee Hand Tools	\$ 35,000 / \$1,000 deductible
Excess Liability #2 Following Form Over Excess Liability # 1 (Excluding asbestos, discrimination, terrorism, nuclear)	\$ 5,000,000 / each occurrence/ \$ 5,000,000 / general aggregate	Computer Equipment and Peripherals	\$ 1,190,000 / \$1,000 deductible
Aviation:		Computer Data and Media	\$ 500,000 / \$1,000 deductible
General Liability	\$ 40,000,000 / each occurrence	Laptops and Portables -	
Products/Completed Operations	\$ 40,000,000 / aggregate	Replacement Cost Coverage	\$ 248,500 / \$1,000 deductible
Personal Injury, Advertising & Malpractice	\$ 40,000,000 aggregate	Scheduled Fine Arts - Max \$25,000 per item	\$ 53,700 / \$1,000 deductible
Hangar Keepers Liability	\$ 40,000,000 / each aircraft \$ 40,000,000 / each occurrence	Fine Arts Exhibition Floater	\$ 25,000 / each location
		City Hall, Visitor Center, Airport Terminal	\$1,000 deductible
		Crime:	
		Blanket Public Employees and Treasurer	\$ 1,000,000 / \$5,000 deductible
		Dishonesty Bond Including Faithful Performance of Duty	\$ 250,000 / \$5,000 deductible
		Computer & Funds Transfer Fraud	\$ 5,000 / \$500 deductible
		Theft, Disappearance, & Destruction (inside and Outside)	\$ 250,000 / \$5,000 deductible
		Depositors Forgery or Alteration	\$ 1,000,000 / Medical Assistance
		International Travel - Executive Assistance	\$ 250,000 / Accidental death





City of Flagstaff
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Flagstaff, Arizona 86001

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