

Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2010

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, 2010

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City of Flagstaff

December 22, 2010

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, 2010, 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, 2010, 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, 2010, 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 2010 estimate by the Arizona Department of Economic Security is approximately 65,522. The City of Flagstaff became a town in 1894, incorporated as a city in 1928 and its boundaries currently encompass an area of approximately 65 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 nations' 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. The City brought forth the renewal of this tax in the May 2010 general election and the tax has now been extended until November 2024.

Local sales tax declines have been realized in almost every month since December 2007 in comparison to the same month in the prior year. Occasional categorical increases have not been sustained. Overall, the 1% general city sales tax receipts have decreased 3% from the prior fiscal year and cumulatively 15.8% in comparison to FY2008. While most local sales tax sectors have experienced reductions, the two industries with the greatest impact are construction and auto sales. Construction has an 18.8% decrease over the prior fiscal year and a cumulative two year decrease of 43.5%. Auto sales have an 8.9% decrease over the prior fiscal year and a cumulative two year decrease of 27.5%. Construction now only represents 11.4% of all sales tax collected, down from 16.8% two years 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 the use of this funding shift 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 collects 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 was also renewed in the May 2010 election and currently expires in 2028. Tourism is a major industry to our local economy and overall sales have been consistently decreasing on a monthly basis since approximately September 2008 when the gas prices were peaking. In FY 2010, BBB tax revenues declined 1.7% with a two year cumulative decrease of 2.9%. The State of Arizona has fared significantly worse in this arena, however the Flagstaff City Council elected to use approximately \$250,000 in one time funds to bolster Flagstaff as a tourism destination resulting in the relatively minor revenue decreases previously reflected.

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 than the City. Construction, tourism, and auto sales are the three hardest hit industries. For State shared sales tax, the City received 7.8% less in FY 2010 than it did in FY2009 which is the third consecutive year of revenue decrease. In addition to sales tax declines, the distribution of personal income tax is not meeting stated projections. State shared income tax decreased 13.7% in FY2010 with additional declines anticipated in FY2011.

Highway user revenue (gas tax) funds (HURF) ended FY2010 relatively flat compared to FY2009, however this is a 13.6% decrease from FY2008. HURF revenues have experienced four consecutive years of decreases. 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 is realizing reductions in full cash value and net assessed value that could impact future revenues. As the State of Arizona legislatively caps the primary property tax increases on an annual basis, homeowners realized a 4.8% mil rate decrease from \$0.6803 to \$0.6479 for FY2010.

A combination of all the revenue declines noted caused the General Fund to budget at approximately 20% less than it had the prior year fiscal year. The City of Flagstaff reduced its' overall staffing count by approximately 80 positions and delayed hiring throughout the year. FY2011 brings further budgeted reductions.

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, building related revenues, and investment income. 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 within limited or decreasing resources.

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 1.65 %.

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 2009–2010, 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 FY2009–2010.

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:

- Opened a police storefront in Sunnyside
- The City Attorney's office and the Police Department collaborated to establish a repeat offender program
- Implemented a Homeless Court Program and protocols in coordination with local shelters
- Implemented a new web-based service of crime mapping and police reports to improve customer service
- Introduced new youth outreach initiatives like "Night Court" basketball to reduce juvenile crime in neighborhood
- Projects such as "Party-poopers", "Operation 40", and "R.O.P.E." have reduced party related disturbances and criminal activity attributed to street drunks

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:

- Established 61 new affordable housing units
- Entered into a design contract for design services on Izabel Homes
- Completed a full revision to the Incentive for Affordable Housing Policy
- Provided home repair assistance to moderate-income households through the Owner Occupied Housing Rehabilitation Program

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:

- Library bookmobile programming has been enhanced for both seniors and schools
- Promoted early literacy by creating preschool subject-specific book boxes and purchasing interactive learning materials
- Introduced 23 new programs and classes at the Aquaplex
- Installed new outdoor public art including the community mural on Summit Street and the PAWS

(Mountain Lion) project

- Provided numerous Historic Route 66 and Haunted tours to over 1300 participants
- Enhanced the Historic Tours program by adding a Route 66 tour during the International Route 66 Days Festival

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:

- The Regional Transportation Plan update was completed
- Fleet Services and Sustainability coordinated efforts to develop “Green Fleet Policies”
- Successfully petitioned the Arizona Department of Environmental Quality to implement the Wood Waste Pilot study at the Cinderlakes Landfill
- The Sustainability division developed a residential energy efficiency program that reduced approximately 3.6 million kilowatt hours and 6.78 billion pounds of carbon dioxide equivalents from being released in the atmosphere
- Revised the University to Business Connection program with Northern Arizona University to align the program with the University’s academic year and take advantage of the Capstone project process
- Established a new client for the University to Business program
- Conducted a “Listening Tour” with key economic development stakeholders to gain a greater understanding of the needs, abilities, and resources to revitalize the City’s economic development program
- Completed the rework of the CityofInnovation.com website, highlighting the community’s advances in the sciences, renewable energy, and medical device manufacturing
- Worked with the Sustainable Economic Development Initiative to measure economic sustainability and assisted in the development of a business plan for the proposed Workforce Training Center
- Gained Federal Aviation Administration approval and worked with Mesa Air as they introduced regional jet service to Flagstaff

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:

- Completed a successful street overlay stimulus project for approximately \$3.5 million dollars
- Provided live streaming of council meetings, special meetings, and all employee meetings
- Established a bond advisory task force to recommend projects to council for a November 2010 special election
- Added private wireless hotspots for City staff and free public wireless internet access to locations that now include Pulliam Airport, City Hall, the Aquaplex, multiple fire stations, the Adult Center, and the Eastside Utilities facility
- Through the use of Chemical De-icer, accident ratios have dropped 30% in three years during winter months

Fiscal Health

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

Fiscal accomplishments include:

- Revised the City's 457 deferred compensation plan document to reflect current IRS regulations and compliment the State retirement plans
- Evaluated and implemented the SmartWorks program to provide for succession and the transfer of knowledge as key personnel retire
- Received the Arizona Governmental Safety Association Municipality Safety Award for the greatest improvements in safety results
- Successfully renegotiated an Arizona Public Service franchise agreement which was accepted by voters in the May 2010 general election
- Automated on-line bill payment so that funds are remitted to the City electronically rather than through a check
- Conducted a Business Outreach Program to educate the vendor community on "How to Do Business with the City of Flagstaff"
- Implemented an on-line fillable vendor application form on the City website
- Initiated vendor payments through electronic funds transfers representing 6% of all City payments made

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, 2009. This was the 16th 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.

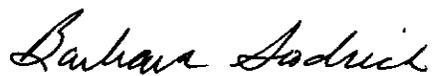
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility.

The City also received the GFOA award for Distinguished Budget Presentation for our 2009-2010 annual budget (16 years in a row) with special performance measures recognition (3 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,

A handwritten signature in cursive script that reads "Barbara Goodrich".

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, 2009

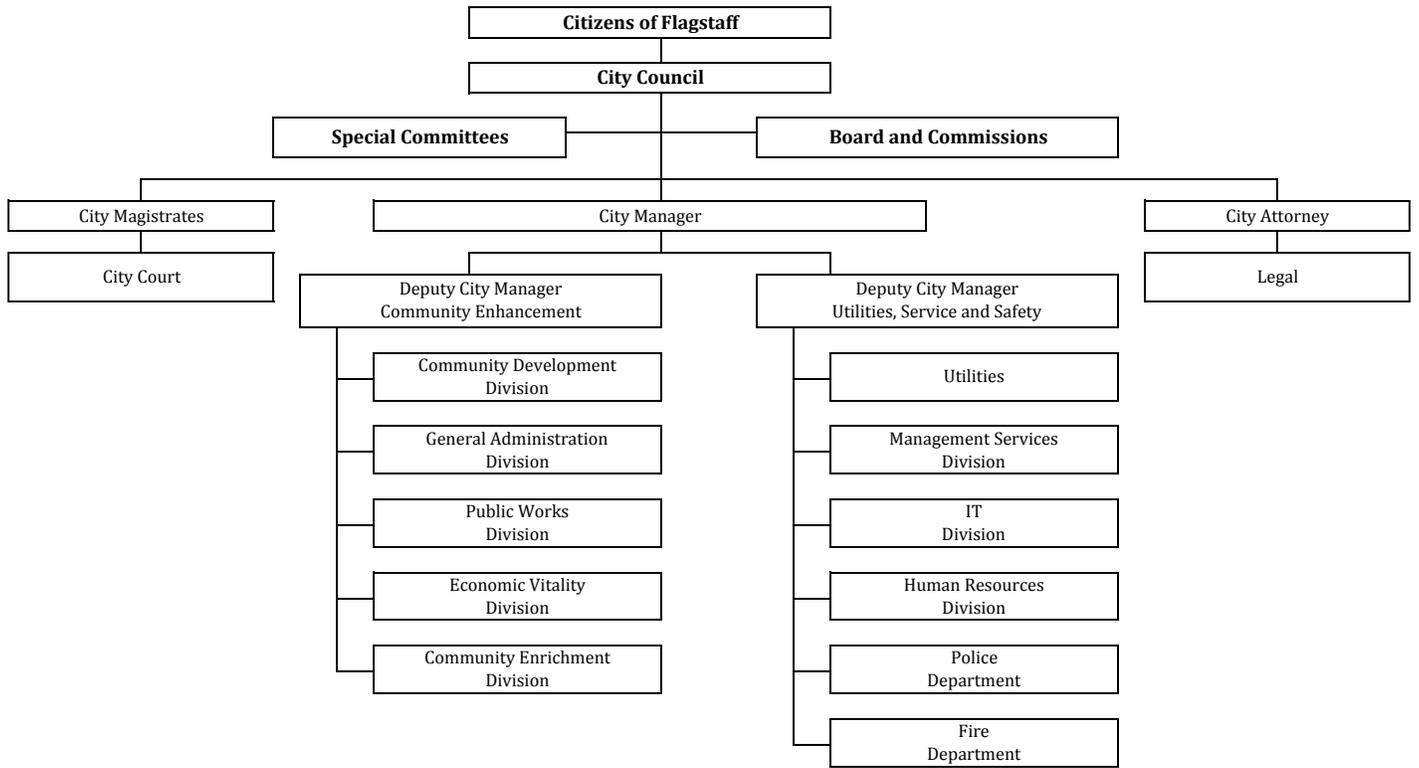
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

City of Flagstaff



City of Flagstaff, Arizona
List of Elected and Appointed Officials
June 30, 2010

Elected Officials

Mayor	Sara Presler
Vice Mayor	Celia Barotz
Councilmember	Art Babbott
Councilmember	Karla Brewster
Councilmember	Coral Evans
Councilmember	Scott Overton
Councilmember	Al White

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 (the City) as of and for the year ended June 30, 2010, 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's 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 at June 30, 2010, 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.

As discussed in Note II.D to the financial statements, the City applied an adjustment to beginning fund balances and net assets to correct revenue recognition of intergovernmental revenues.

The City implemented GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in 2010 as discussed in Note II.D to the financial statements.

The Management's Discussion and Analysis and budgetary comparison information, as noted in the table of contents, are not a required part of the basic financial statements but are 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and the statistical section, as noted in the table of contents 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.

Eide Bailly LLP

Phoenix, Arizona
December 22, 2010

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, 2010. 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 \$597.4 million (net assets). Of this amount \$60.4 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$34.1 million during the fiscal year. This is a result of an increase in net assets in the governmental activities of \$23.0 million and an increase in net assets in the business type activities of \$11.1 million.
- As of June 30, 2010, the City's governmental funds reported combined ending fund balances of \$46.1 million, an increase of \$6.8 million in comparison with the prior fiscal year. This increase is due to issuance of capital debt. Approximately 29.1% of this total amount (\$13.4 million) is unassigned fund balance available for spending at the government's discretion.
- As of June 30, 2010, total unassigned fund balance for the general fund was \$13.4 million, or 28.0% of total general fund expenditures (\$48.0 million).
- As of June 30, 2010, the City's proprietary funds reported combined total net assets of \$315.9 million, and total unrestricted net assets of \$10.9 million. \$7.1 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 two categories: **governmental** funds and **proprietary** 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 38–82 of this report.

Combining statements

The combining statements referred to earlier in connection with non-major governmental funds are presented on pages 84–87.

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 pages 90–92 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 \$597.4 million as of June 30, 2010.

Of the City's net assets, 86.5% reflects its investment of \$516.5 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, 2010 and 2009 (in thousands of dollars)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 85,845	\$ 61,830	\$ 26,658	\$ 27,179	\$ 112,503	\$ 89,009
Capital assets	295,289	295,544	357,105	350,271	652,394	645,815
Total assets	<u>381,134</u>	<u>357,374</u>	<u>383,763</u>	<u>377,450</u>	<u>764,897</u>	<u>734,824</u>
Long-term liabilities	83,866	80,538	61,298	64,042	145,164	144,580
Other liabilities	15,828	18,421	6,576	8,558	22,404	26,979
Total liabilities	<u>99,694</u>	<u>98,959</u>	<u>67,874</u>	<u>72,600</u>	<u>167,568</u>	<u>171,559</u>
Invested in capital assets, net of related debt	213,763	215,673	302,784	291,708	516,547	507,381
Restricted	18,213	7,975	2,209	1,594	20,422	9,569
Unrestricted	49,464	34,767	10,896	11,548	60,360	46,315
Total net assets	<u>\$ 281,440</u>	<u>\$ 258,415</u>	<u>\$ 315,889</u>	<u>\$ 304,850</u>	<u>\$ 597,329</u>	<u>\$ 563,265</u>

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

A portion of the City's net assets, \$20.4 million (3.4%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$60.4 million (10.1%) 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 increased by 38.8% (\$24.0 million). The largest increases are in special assessments receivable (\$18.5 million), investments (\$6.8 million) and intergovernmental receivable (\$1.0 million) while the largest decrease was in restricted cash and investments (\$3.9 million).

Capital assets of the governmental activities, funded through operations, debt proceeds, grants, and contributions, decreased by 0.1% (\$0.3 million) due capital outlays offset by the transfer of infrastructure assets for Aspen Place at Sawmill to proprietary funds. Major capital outlays include Aspen Place at Sawmill (\$16.5 million), streetscape improvements (\$0.9 million), street construction and improvements (\$6.1 million), and ice rink reconstruction (\$1.4 million).

Governmental activities long-term liabilities increased by 4.1% (\$3.3 million) primarily due to new bonded debt issues. Other liabilities decreased by 14.1% (\$2.6 million) primarily due to increases in accounts payable (\$2.1 million) and unamortized bond premium (\$0.9 million).

Overall business-type net assets have increased by 3.6% (\$11.0 million) primarily to capital asset additions and the reduction of liabilities. Investment in capital assets, net of related debt, has increased by \$11.1 million. Of this, 79.5% (\$8.8 million) is from private development donations. The primary capital additions for business-type activities are the Rio de Flag hydrology improvements at \$2.1 million and well development at \$3.1 million.

Analysis of Change in Net Assets

The City's overall net assets have increased by \$34.1 million during the current fiscal year. These increases are explained in the government and business-type activities discussion to follow.

Changes in Net Assets For the Years Ended June 30, 2010 and 2009 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program Revenues:						
Charges for services	\$ 7,752	\$ 7,832	\$ 31,587	\$ 31,309	\$ 39,339	\$ 39,141
Operating grants and contributions	6,655	5,991	120	11	6,775	6,002
Capital grants and contributions	36,950	9,881	6,791	8,744	43,741	18,625
General Revenues:						
Property taxes	12,798	12,262	-	-	12,798	12,262
Sales taxes	30,430	31,420	-	-	30,430	31,420
State shared taxes	14,880	16,629	-	-	14,880	16,629
Investment earnings	449	1,466	111	206	560	1,672
Other	3,080	394	273	288	3,353	682
Total revenues	<u>112,994</u>	<u>85,875</u>	<u>38,882</u>	<u>40,558</u>	<u>151,876</u>	<u>126,433</u>
Expenses						
General government	8,238	10,913	-	-	8,238	10,913
Public safety	26,593	29,287	-	-	26,593	29,287
Public works	1,503	2,109	-	-	1,503	2,109
Economic and physical development	8,827	10,347	-	-	8,827	10,347
Culture and recreation	12,508	13,121	-	-	12,508	13,121
Highways and streets	17,856	19,298	-	-	17,856	19,298
Interest on long-term debt	3,918	3,653	-	-	3,918	3,653
Water and wastewater	-	-	21,738	22,802	21,738	22,802
Environmental	-	-	11,096	11,783	11,096	11,783
Airport	-	-	4,275	4,198	4,275	4,198
Stormwater	-	-	1,259	1,203	1,259	1,203
Total expenses	<u>79,443</u>	<u>88,728</u>	<u>38,368</u>	<u>39,986</u>	<u>117,811</u>	<u>128,714</u>
Increase in net assets before transfers	33,551	(2,853)	514	572	34,065	(2,281)
Transfers	(10,525)	(9,651)	10,525	9,651	-	-
Change in net assets	<u>23,026</u>	<u>(12,504)</u>	<u>11,039</u>	<u>10,223</u>	<u>34,065</u>	<u>(2,281)</u>
Net assets at beginning of year, as restated	258,414	270,918	304,850	294,627	563,264	565,545
Net assets at end of year	<u>\$ 281,440</u>	<u>\$ 258,414</u>	<u>\$ 315,889</u>	<u>\$ 304,850</u>	<u>\$ 597,329</u>	<u>\$ 563,264</u>

Governmental activities

Governmental activities increased the City's net assets by \$23.0 million. The key factors for this increase are as follows:

- Combined operating grants, capital grants and contributions have increased by 274.0% (\$27.1 million) as a result of increase in federal and local stimulus capital projects in the current year.
- Property tax increases are due to increases in assessed valuation.
- City sales tax revenues decreased by 3.2% (\$1.0 million). Comparing actual revenues to budgeted revenues the decrease is also \$1.0 million less. The decrease in the city general sales tax, the Bed, Board, and Beverage sales taxes, and the transportation taxes are \$685,572, \$172,497, and \$187,725 respectively.
- The state shared revenues decreased at a higher rate than the City. Revenues are 10.5% (\$1.7 million) below prior year actual.
- Other revenues have increased primarily due to insurance reimbursements for the ice rink collapsed roof.
- Expenses have decreased primarily due to staffing decreases and cuts to contractual and commodities to better align with decreasing revenues. The City eliminated 78.3 positions for the fiscal year.

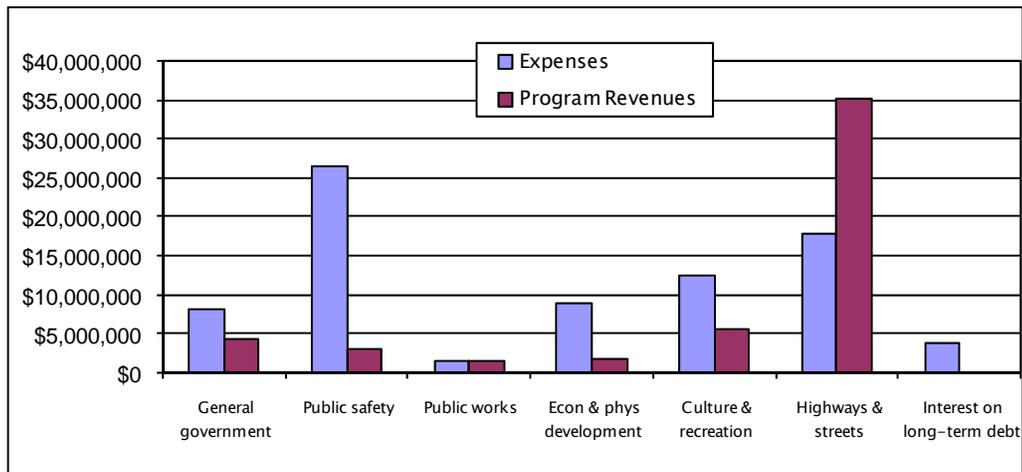
Business-type activities

Business type activity had net asset increase of \$12.5 million. The key factors for this increase include:

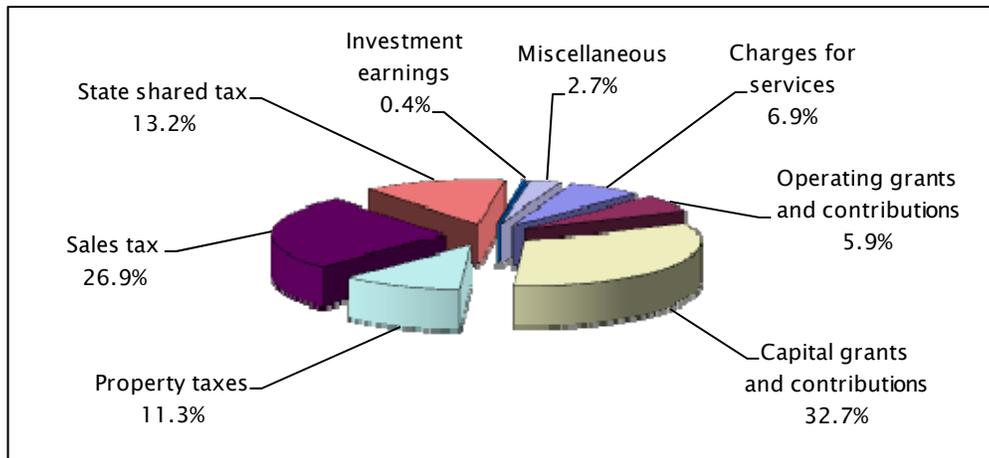
- Charges for service increased slightly by .9% (\$0.3 million). Water and wastewater, airport, and stormwater increased \$210,946, \$171,924, and \$110,560. While environmental services decreased \$216,136 as a result of less landfill revenues due to the construction industry.
- Capital grants and contributions decreased by 22.3% (\$2.0 million) due to the grant project completed in the prior year for the runway extension work at the airport.
- Investment earnings are down 46.1% (\$0.1 million) due to decreased cash and investment balances spent toward capital improvements and lower interest rates.
- Expenses have decreased over prior year (4.0%, \$1.6 million). Decreases are related to controlling expenditures during the economic changes the city is going through. The City eliminated 9.5 positions for the fiscal year.

The following two charts illustrate the City's governmental expenses by function and its revenues by source.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities

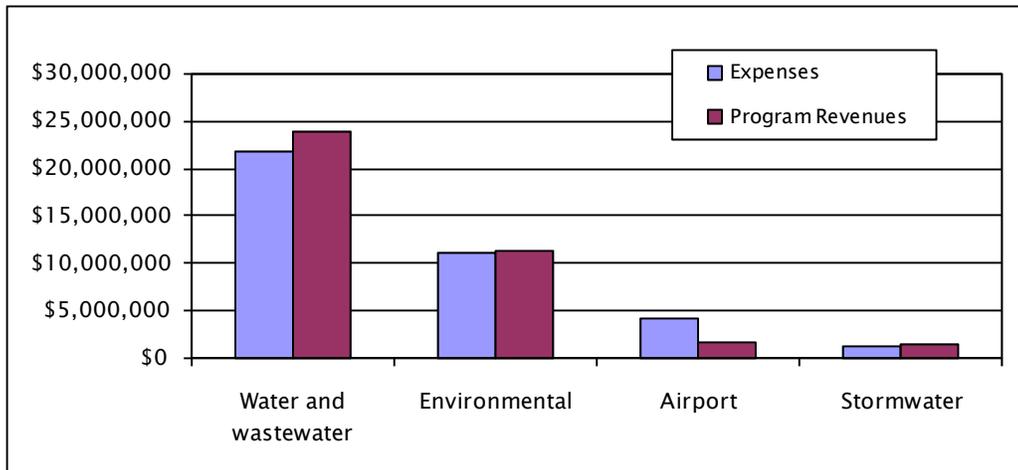


As shown, public safety is the largest function as measured by expense (33.5%) followed by highways & streets (22.5%), culture and recreation (15.7%), and economic and physical development (11.1%).

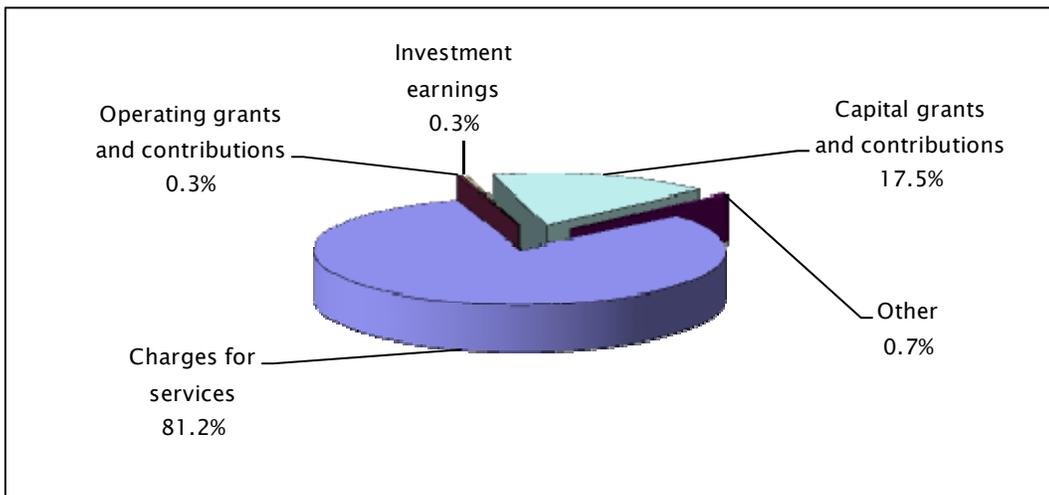
General revenues such as sales taxes, state shared taxes, and property taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, capital grants and contributions are the largest single source of funds (32.7%), followed by sales tax (26.9%) and state shared taxes (13.2%). Last year, capital grants and contributions were ranked fourth and property taxes ranked third.

The following two charts illustrate the City's business type expenses by function and its revenues by source.

Expenses and Program Revenues - Business Type Activities



Revenues by Source - Business-type activities



As shown Water and Wastewater has expenses of \$21.7 million for the fiscal year, followed by Environmental Services with \$11.1 million, the Airport with \$4.3 million and Stormwater with \$1.3 million. For the fiscal year,

program revenue exceeded expense for the Water and Wastewater Fund, Environmental Services Fund, and Stormwater Fund. Water & Wastewater, Environmental Services, Airport, and Stormwater received the majority of their program revenues through charges for services (73.5%, 99.2%, 81.3%, and 87.7% respectively). The Water and Wastewater fund receives 26.4% of support through grants and contributions. Charges for services provided the largest share of revenues (82.0%) for all of the business-type activities, followed by capital grants and contributions (17.6%). The proportionate share of revenue from charges for service and capital grants and contributions varied from the prior year split of 77.2% and 21.6% respectively. The shift is primarily due to the decreases in private contributions.

The operating expenses for the business type activities decreased (4.0%, \$1.6 million) which a result of Water and Wastewater and Environmental Services cutting back on operations due to declining revenues. .

Environmental services and stormwater increased user fees. Water and wastewater, airport and stormwater realized increased charge for service revenue at 1.2%, 14.5% and 8.9% respectively. Environmental service charges for services decreased 1.9% due to lower construction waste dumped at landfill.

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 \$46.1 million, an increase of \$6.8 million in comparison with the prior year. Approximately \$13.4 million of the total ending fund balance constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is (1) non spendable (\$583,406) for inventory and perpetual care, (2) restricted (\$20.5 million) for special revenue funds, debt service, court improvements and operations, grant purposes, and capital projects, (3) committed (\$2.3 million) for library services, development fee projects, and perpetual care, (4) assigned (\$9.2 million) for library and court services, capital and budgetary reserves, and real estate.

Revenues for governmental functions overall totaled \$84.2 million in the fiscal year ended June 30, 2010 which represents a decrease of 1.2% or \$1.0 million from the prior fiscal year. Three revenue categories show increases over prior year. These include special assessments (>100.0%, \$1.5 million), grants and entitlements (16.3%, \$1.6 million), license and permits (4.7%, 64,294), fines and forfeitures (7.8%, \$118,599), and rents (11.7%, \$166,442). Taxes that include city and state revenues have decreased by 0.8% (\$355,120). All other revenue categories experienced decreases including intergovernmental (9.0%, \$1.9 million), charges for services (8.0%, \$267,415) investment earnings (69.7%, \$1.0 million), contributions (59.0%, \$784,131), and miscellaneous (40.1%, \$153,015). Investment decreases are attributed to a lower rate of return on investments.

Expenditures for governmental functions (\$85.5 million) decreased by 23.5% (\$26.3 million) from the prior fiscal year. The expenditure decrease is driven by decreases in ongoing revenues. The City's budget direction for the fiscal year was an initial 19% cut to operational budgets. In addition, capital programs and set asides have been reduced. Major project improvements have been discussed in prior sections.

In the fiscal year ended June 30, 2010 expenditures for governmental functions exceeded revenues by approximately \$1.2 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 unassigned fund balance of the General Fund was \$13.4 million. As a measure of liquidity, it may be useful to compare total unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance represents 28.0% of General Fund expenditures.

The fund balance in the City's General Fund decreased by \$566,635 during the fiscal year as expenditure had positive growth of 8.9% and revenues had negative growth of 4.1%. Overall, the General Fund's performance resulted in expenditures in excess of revenues in the fiscal year ended June 30, 2010 of \$1.7 million. This is a decrease of approximately \$2.7 million over the comparable figure from the prior year which resulted in expenditures in excess of revenues of \$4.4 million.

The Highway User Revenue Fund and Transportation Fund balances increased by \$3.1 and \$1.3 million respectively due to a lower level of capital projects to offset the decreased revenues. The BBB Fund balance increased slightly \$5,211 because decreased revenues were matched with decreasing expenditures. The Special Assessment Bond Fund balance increased \$15,399 primarily due to interest earnings.

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 \$3.2 million.

The total growth in net assets for the proprietary funds was \$11.1 million. The Water and Wastewater fund and Stormwater fund had positive growth in their net assets for the fiscal year ended June 30, 2010 while the Environmental Services decreased slightly and Airport fund decreased \$2.3 million due to depreciation. The major part of the increase is related to capital contributions in the Water and Wastewater fund (\$8.8 million) Stormwater fund (\$4.3 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 within the General fund. Budget increases included \$1.2 million for Community Enrichment-Recreation for the reconstruction of the Jay Lively Ice Rink due to a collapsed roof during a snow storm and \$25,000 for General Administration-Flagstaff Municipal Court for increased cost of the contracted public defender.

The General fund was under final budgeted total revenues by 6.6% (\$3.3) million primarily due to decreases in city and state shared sales tax collections, decreased offsite permitting and inspection revenues, loss in revenue at the ice rink due to a collapsed roof, and investment earnings. Expenditures are under budget in every category due to advanced planning for revenue shortfalls, normal salary savings due to turnover, 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 \$7.3 million for the Rio de Flag flood control project of which only \$2.1 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, 2010 amount to \$652.4 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 1.0% (\$6.8 million). The following table reflects the capital assets at the end of the fiscal year:

**Capital Assets, Net of Depreciation
June 30, 2010 and 2009 (in thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 43,652	\$ 43,352	\$ 10,301	\$ 10,301	\$ 53,953	\$ 53,653
Buildings	54,866	52,734	60,696	47,796	115,562	100,530
Improvements	10,073	11,142	242,322	231,190	252,395	242,332
Machinery and equipment	11,123	12,342	27,993	10,740	39,116	23,082
Infrastructure	160,066	139,791	-	-	160,066	139,791
Construction in progress	15,509	36,183	15,793	50,244	31,302	86,427
Total	\$ 295,289	\$ 295,544	\$ 357,105	\$ 350,271	\$ 652,394	\$ 645,815

Construction in progress had a net decrease of 63.8% (\$55.0 million). Major completed construction in progress includes the Wildcat wastewater plant (\$37.5 million), Aspen Place at Sawmill redevelopment (\$23.3 million), fire stations (\$4.0 million), and streetscapes (\$1.2 million). Major additions to construction in progress include Jay Lively Ice Rink reconstruction (\$1.4 million), transportation and streets projects (\$2.9 million), waterline improvements (\$1.0 million), and fire stations (\$0.8 million). The increase to buildings, improvements, and machinery and equipment 11.2% (\$41.1 million) is mainly related to the completed Wildcat wastewater plant improvements.

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 58–59 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 \$128.2 million. Of this amount, \$31.6 million is general obligation bonds backed by the full faith and credit of the City, \$18.6 million is improvement district bonds, \$11.3 million is revenue bonds, \$19.9 million is for the Municipal Facility Corporation, \$4.9 is for certificates of participation, and \$41.9 million are outstanding leases or loans for the airport, water and wastewater, and city-wide energy conservation improvements.

Outstanding Debt
June 30, 2010 and 2009 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 25,865	\$ 27,645	\$ 5,690	\$ 7,460	\$ 31,555	\$ 35,105
Special assessment bonds	18,615	19,169	-	-	18,615	19,169
Revenue bonds	6,665	4,865	4,614	4,918	11,279	9,783
Other debt	24,850	21,625	-	-	24,850	21,625
Lease/Loans	2,004	2,430	39,936	40,967	41,940	43,397
Total debt payable	\$ 77,999	\$ 75,734	\$ 50,240	\$ 53,345	\$ 128,239	\$ 129,079

During fiscal year 2010, the City's total bonded debt decreased by \$0.6 million. The City issued \$1.3 million in loans for water and wastewater projects to provide drilling and equipping additional water wells and development of future water rights and \$3.7 million in revenue bonds for construction of a business incubator, and \$5.0 million in certificates of participation for the street overlay program and purchase of fire equipment for the fiscal year ended June 30, 2010.

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, 2010 is \$51.8 million in the 6% category and \$137.7 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.

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

City of Flagstaff Bonded Debt Ratings
As of June 30, 2010

	Moody's Investors Service	Standard & Poor's
General Obligation	Aa2	AA
Municipal Facilities Corporation	Aa3	AA

Additional information on the City's long-term debt can be found in Section IV F on pages 63-73 of the Notes to the Financial Statements.

Economic Factors and Next Year's Budget and Rates

The Fiscal Year 2010/2011 budget preparation was influenced by the following factors:

- Reductions in every major operating fund due to continued revenue declines in city sales taxes, state shared tax revenues, highway user (gas tax) revenues, and building revenues
- Continued focus on maintaining public safety and recreation operation levels with lower budgetary impacts
- The City reduced budgeted staffing 3.1% (25.65 positions) and correspondingly reduced service levels in every City division
- The City funded 17.88 positions on a one year basis and will reconsider these in the Fiscal Year 2011/2012 budget process
- Created one time savings by using Smartworks program for personnel near retirement
- The City created the Budget Task Force Committee to provide public input and concerns to the City Council

- Continue to monitor State legislature to be aware of potential budget impacts on cities
- Multiple Division reorganizations to accommodate budget decreases
- Considerations of the impact of the continued local market downturn and the safeguards needed to deal with continued declines
- The continued 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 fiscal policies
- The impact of a formation of a downtown parking district
- Presented four bond project to the voters of which two were approved; Public Safety Communications and Street and Utility Improvements
- 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
- Assessment of future water resource needs
- Utility rate increases to help support ongoing operational services and restore operation capital and the capital improvement plan to assist with aging infrastructure
- Reconstruction of Jay Lively Ice Rink due to the roof collapse during the January 2010 winter storm
- Redirection of auto stimulus money to a construction stimulus program

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
 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, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 17,551,165	\$ 7,726,873	\$ 25,278,038
Cash with fiscal agents	5,410,627	1,901,725	7,312,352
Investments	23,481,376	-	23,481,376
Accounts receivables, net	6,934,261	3,480,104	10,414,365
Interest receivable	83,162	19,698	102,860
Intergovernmental receivable	4,637,936	254,387	4,892,323
Bond proceeds receivable	127,674	-	127,674
Special assessments receivable	18,507,777	-	18,507,777
Internal balance	632,917	(632,917)	-
Deposits	670,797	2,248,390	2,919,187
Prepaid items	-	70,820	70,820
Inventory	445,785	169,969	615,754
Deferred bond issuance costs, net	614,158	186,400	800,558
Property held for resale	500,000	-	500,000
Restricted cash and investments	6,247,968	11,233,364	17,481,332
Capital assets:			
Non-depreciable	59,161,486	26,093,838	85,255,324
Depreciable, net	236,127,106	331,011,025	567,138,131
Total assets	<u>381,134,195</u>	<u>383,763,676</u>	<u>764,897,871</u>
LIABILITIES			
Accounts payable	4,825,194	507,010	5,332,204
Accrued payroll	2,303,189	416,130	2,719,319
Interest payable	1,773,073	883,598	2,656,671
Unearned revenue	409,840	219,199	629,039
Deposits payable	1,431,862	424,007	1,855,869
Matured bonds and lease payable	5,085,000	4,126,705	9,211,705
Due within one year:			
Compensated absences	1,695,521	308,134	2,003,655
Special assessment debt, government commitment	485,000	-	485,000
Bonds, notes and leases payable, net	6,337,511	4,572,821	10,910,332
Arbitrage rebate	282,151	-	282,151
Due in more than one year:			
Compensated absences	2,055,544	328,950	2,384,494
Landfill closure and postclosure care costs	-	10,204,108	10,204,108
Net OPEB obligation	949,067	191,674	1,140,741
Special assessment debt, government commitment	18,130,000	-	18,130,000
Bonds, notes and leases payable, net	53,930,957	45,692,006	99,622,963
Total liabilities	<u>99,693,909</u>	<u>67,874,342</u>	<u>167,568,251</u>
NET ASSETS			
Invested in capital assets, net of related debt	213,762,870	302,784,152	516,547,022
Restricted for:			
Capital projects	8,609,937	2,209,327	10,819,264
Debt service	3,900,602	-	3,900,602
Specific programming	3,517,968	-	3,517,968
Grant and contributions purposes	2,034,546	-	2,034,546
Perpetual care:			
Expendable	13,155	-	13,155
Nonexpendable	137,621	-	137,621
Unrestricted	49,463,587	10,895,855	60,359,442
Total net assets	<u>\$ 281,440,286</u>	<u>\$ 315,889,334</u>	<u>\$ 597,329,620</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, 2010

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 8,238,178	\$ 3,285,242	\$ 967,440	\$ 12,925
Public safety	26,592,968	1,283,697	1,522,190	165,492
Public works	1,502,626	1,471,550	-	-
Economic and physical development	8,827,578	291,211	282,052	1,267,895
Culture and recreation	12,507,679	1,420,094	3,881,475	430,043
Highways and streets	17,856,121	-	1,821	35,073,326
Interest on long-term debt	3,918,110	-	-	-
Total governmental activities	<u>79,443,260</u>	<u>7,751,794</u>	<u>6,654,978</u>	<u>36,949,681</u>
Business-type activities:				
Water and wastewater	21,738,013	17,539,873	32,139	6,288,540
Environmental	11,096,414	11,329,336	86,623	-
Airport	4,274,546	1,359,029	1,292	311,111
Stormwater	1,258,840	1,358,438	-	191,058
Total business-type activities	<u>38,367,813</u>	<u>31,586,676</u>	<u>120,054</u>	<u>6,790,709</u>
Total primary government	<u>\$ 117,811,073</u>	<u>\$ 39,338,470</u>	<u>\$ 6,775,032</u>	<u>\$ 43,740,390</u>

General revenues:

Property tax, levied for general purposes

Property tax, levied for debt service

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, as restated

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
\$ (3,972,571)	\$ -	\$ (3,972,571)
(23,621,589)	-	(23,621,589)
(31,076)	-	(31,076)
(6,986,420)	-	(6,986,420)
(6,776,067)	-	(6,776,067)
17,219,026	-	17,219,026
(3,918,110)	-	(3,918,110)
<u>(28,086,807)</u>	<u>-</u>	<u>(28,086,807)</u>
-	2,122,539	2,122,539
-	319,545	319,545
-	(2,603,114)	(2,603,114)
-	290,656	290,656
-	129,626	129,626
<u>\$ (28,086,807)</u>	<u>\$ 129,626</u>	<u>\$ (27,957,181)</u>
5,157,727	-	5,157,727
7,640,768	-	7,640,768
30,429,840	-	30,429,840
14,880,073	-	14,880,073
449,394	111,251	560,645
228,969	194,547	423,516
2,831,308	79,467	2,910,775
19,136	-	19,136
<u>(10,524,926)</u>	<u>10,524,926</u>	<u>-</u>
<u>51,112,289</u>	<u>10,910,191</u>	<u>62,022,480</u>
<u>23,025,482</u>	<u>11,039,817</u>	<u>34,065,299</u>
<u>258,414,804</u>	<u>304,849,517</u>	<u>563,264,321</u>
<u>\$ 281,440,286</u>	<u>\$ 315,889,334</u>	<u>\$ 597,329,620</u>

CITY OF FLAGSTAFF, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Highway User Revenue Fund	Transportation Fund
ASSETS			
Cash and investments	\$ 16,828,477	\$ 23,676	\$ 6,166,756
Cash with fiscal agents	-	1,660,068	1,830,100
Accounts receivable, net	4,077,364	715,817	1,021,145
Interest receivable	38,372	794	8,996
Intergovernmental receivables	1,339,654	857,506	1,453,407
Interfund receivable	6,250,000	-	-
Bond proceeds receivable	127,674	-	-
Special assessments receivable	-	-	-
Deposits	-	670,797	-
Inventory	376,728	-	-
Property held for resale	-	500,000	-
Restricted cash and investments	-	813,376	-
Total assets	\$ 29,038,269	\$ 5,242,034	\$ 10,480,404
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 1,327,944	\$ 474,794	\$ 1,135,040
Accrued payroll and compensated absences	2,040,958	75,793	-
Current bonds payable	335,000	1,520,000	1,400,000
Interest payable	62,807	140,068	430,100
Interfund payable	-	275,000	5,825,000
Deferred revenue	364,035	-	-
Unearned revenue	219,328	-	-
Arbitrage liability	-	-	-
Guaranty and other deposits	1,431,862	-	-
Total liabilities	5,781,934	2,485,655	8,790,140
Fund balances:			
Nonspendable	376,728	-	-
Restricted	785,720	2,756,379	1,690,264
Committed	86,568	-	-
Assigned	8,595,100	-	-
Unassigned	13,412,219	-	-
Total fund balances	23,256,335	2,756,379	1,690,264
Total liabilities and fund balances	\$ 29,038,269	\$ 5,242,034	\$ 10,480,404

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

BBB Fund	Special Assessment Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ 5,337,929	\$ 673,791	\$ 8,423,562	\$ 37,454,191
-	-	1,920,459	5,410,627
568,674	-	128,005	6,511,005
10,264	1,421	17,774	77,621
574,148	-	413,221	4,637,936
-	-	-	6,250,000
-	-	-	127,674
-	18,507,777	-	18,507,777
-	-	-	670,797
69,057	-	-	445,785
-	-	-	500,000
55,000	-	5,379,592	6,247,968
<u>\$ 6,615,072</u>	<u>\$ 19,182,989</u>	<u>\$ 16,282,613</u>	<u>\$ 86,841,381</u>
\$ 421,005	\$ -	\$ 1,013,068	\$ 4,371,851
54,546	-	131,892	2,303,189
50,000	-	1,780,000	5,085,000
56,297	465,375	618,426	1,773,073
-	-	150,000	6,250,000
-	18,507,033	-	18,871,068
56,479	-	134,033	409,840
-	-	282,151	282,151
-	-	-	1,431,862
<u>638,327</u>	<u>18,972,408</u>	<u>4,109,570</u>	<u>40,778,034</u>
69,057	-	137,621	583,406
5,907,688	210,581	9,155,167	20,505,799
-	-	2,228,605	2,315,173
-	-	651,650	9,246,750
-	-	-	13,412,219
<u>5,976,745</u>	<u>210,581</u>	<u>12,173,043</u>	<u>46,063,347</u>
<u>\$ 6,615,072</u>	<u>\$ 19,182,989</u>	<u>\$ 16,282,613</u>	<u>\$ 86,841,381</u>

CITY OF FLAGSTAFF
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Fund balances – total governmental funds balance sheet \$ 46,063,347

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	452,366,761	
Less: accumulated depreciation	(149,854,100)	
Transfer of capital assets to business-type activities	<u>(7,224,069)</u>	
		295,288,592

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

Deferred bond issue costs	614,158	
Fines and forfeitures	<u>389,766</u>	
		1,003,924

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	(77,998,771)	
Bond premium	(884,697)	
Other postemployment benefits	(949,067)	
Compensated absences	<u>(3,751,065)</u>	
		(83,583,600)

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

Property tax	<u>364,035</u>	364,035
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Deferred revenue for long-term special assessments is shown on the governmental fund balance sheet, but is not deferred on the statement of net assets

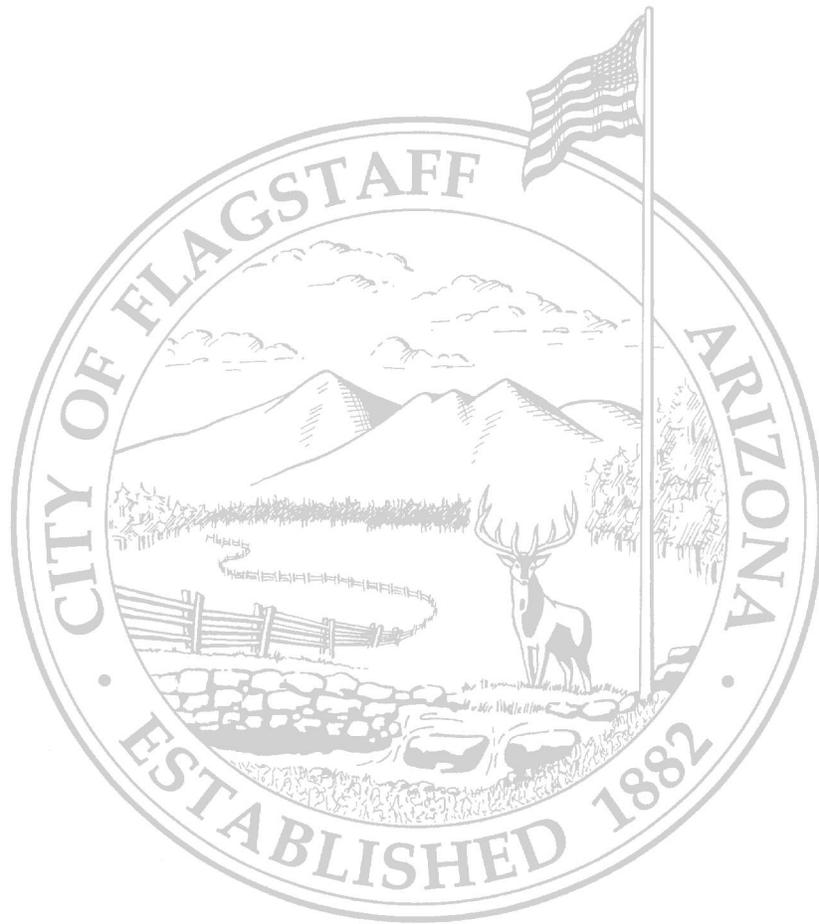
Special assessments	<u>18,507,033</u>	18,507,033
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The internal service fund is used by management to charge the cost of self insurance programs to individual funds.

The assets and liabilities of the internal service funds that are reported with governmental activities.		<u>3,796,955</u>
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Net assets of governmental activities – statement of net assets \$ 281,440,286

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, 2010

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportation Fund</u>
REVENUES:			
Taxes	\$ 20,878,105	\$ -	\$ 9,627,640
Intergovernmental	15,687,382	-	-
Grants and entitlements	1,943,806	7,480,441	-
Charges for services	2,882,876	-	-
Special assessments	-	-	-
Licenses and permits	1,441,289	-	-
Fines and forfeitures	1,636,157	-	-
Rents	1,471,550	-	-
Investment earnings	216,196	9,488	28,746
Contributions	12,926	-	-
Miscellaneous	68,137	118,917	-
Total revenues	<u>46,238,424</u>	<u>7,608,846</u>	<u>9,656,386</u>
EXPENDITURES:			
Current:			
General governmental	7,926,726	-	-
Public safety	25,154,265	-	-
Public works	1,360,447	-	-
Economic and physical development	4,857,365	-	-
Culture and recreation	5,579,816	-	-
Highways and streets	-	5,447,915	3,725,180
Debt service:			
Principal retirement	761,522	1,520,000	1,400,000
Interest and other charges	230,131	379,070	862,700
Capital outlay	2,086,591	6,175,664	-
Total expenditures	<u>47,956,863</u>	<u>13,522,649</u>	<u>5,987,880</u>
Excess (deficiency) of revenues over expenditures	<u>(1,718,439)</u>	<u>(5,913,803)</u>	<u>3,668,506</u>
OTHER FINANCING SOURCES (USES):			
Issuance of capital debt	-	4,610,000	-
Bond premium	-	19,066	-
Sale of capital assets	41,446	13,831	-
Insurance recoveries	1,920,000	-	-
Transfers in	5,122,981	4,424,417	120,000
Transfers out	(5,922,622)	(85,401)	(2,523,153)
Total other financing sources (uses)	<u>1,161,805</u>	<u>8,981,913</u>	<u>(2,403,153)</u>
Net change in fund balances	<u>(556,634)</u>	<u>3,068,110</u>	<u>1,265,353</u>
Fund balances, beginning of year, as restated	<u>23,812,969</u>	<u>(311,731)</u>	<u>424,911</u>
Fund balances, end of year	<u>\$ 23,256,335</u>	<u>\$ 2,756,379</u>	<u>\$ 1,690,264</u>

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

BBB Fund	Special Assessment Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ 5,074,206	\$ -	\$ 7,620,317	\$ 43,200,268
-	-	3,762,831	19,450,213
692,362	-	1,056,253	11,172,862
95,622	-	78,925	3,057,423
-	1,510,217	-	1,510,217
585	-	-	1,441,874
-	-	-	1,636,157
116,664	-	-	1,588,214
53,580	5,070	100,514	413,594
-	-	531,467	544,393
-	-	41,915	228,969
<u>6,033,019</u>	<u>1,515,287</u>	<u>13,192,222</u>	<u>84,244,184</u>
-	-	-	7,926,726
-	-	5,512	25,159,777
-	-	-	1,360,447
2,272,143	-	1,472,300	8,601,808
579,929	-	4,456,009	10,615,754
139,853	-	210	9,313,158
50,000	554,000	1,780,000	6,065,522
57,097	945,888	1,522,077	3,996,963
1,587,460	-	2,596,565	12,446,280
<u>4,686,482</u>	<u>1,499,888</u>	<u>11,832,673</u>	<u>85,486,435</u>
<u>1,346,537</u>	<u>15,399</u>	<u>1,359,549</u>	<u>(1,242,251)</u>
-	-	3,720,000	8,330,000
-	-	39,304	58,370
1,275	-	1,027,659	1,084,211
-	-	-	1,920,000
731,354	-	4,825,491	15,224,243
(2,073,955)	-	(7,919,969)	(18,525,100)
<u>(1,341,326)</u>	<u>-</u>	<u>1,692,485</u>	<u>8,091,724</u>
<u>5,211</u>	<u>15,399</u>	<u>3,052,034</u>	<u>6,849,473</u>
<u>5,971,534</u>	<u>195,182</u>	<u>9,121,009</u>	<u>39,213,874</u>
<u>\$ 5,976,745</u>	<u>\$ 210,581</u>	<u>\$ 12,173,043</u>	<u>\$ 46,063,347</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, 2010

Net change in fund balances – total governmental funds \$ 6,849,473

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	12,446,280	
Less current year depreciation	<u>(12,624,057)</u>	(177,777)

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:

Capital-related debt issued	(8,330,000)	
Premium on debt issued	(58,370)	
Donated capital	7,319,150	
Compensated absences	(272,421)	
Other postemployment benefits	(73,489)	
Principal payments on debt	6,065,522	
Arbitrage rebate	449,927	
Bond premium	<u>78,853</u>	5,179,172

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.

Issuance cost on new bonds	176,438	
Amortization of issuance costs	<u>(47,761)</u>	128,677

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	(172,903)	
Transfer of capital assets to business-type activities	<u>(7,224,069)</u>	(7,396,972)

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

(continued)

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, 2010

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.

Special assessments	18,507,033	
Property tax	28,067	
Fines and forfeitures	28,126	18,563,226

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	(156,117)	
Investment income	35,800	(120,317)

Change in net assets of governmental activities – statement of activities		\$ 23,025,482
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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, 2010

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 21,499,121	\$ 21,499,121	\$ 20,813,549	\$ (685,572)
Intergovernmental	16,451,194	16,451,194	15,687,382	(763,812)
Grants and entitlements	2,228,337	2,228,337	1,943,806	(284,531)
Charges for services	3,868,841	3,868,841	2,882,876	(985,965)
Licenses and permits	1,476,201	1,476,201	1,441,289	(34,912)
Fines and forfeitures	1,491,657	1,491,657	1,636,157	144,500
Rents	1,655,368	1,655,368	1,471,550	(183,818)
Investment earnings	650,000	650,000	216,196	(433,804)
Contributions	15,000	15,000	12,926	(2,074)
Miscellaneous	185,077	185,077	66,714	(118,363)
Total revenues	<u>49,520,796</u>	<u>49,520,796</u>	<u>46,172,445</u>	<u>(3,348,351)</u>
EXPENDITURES:				
Current:				
General administration	7,278,584	7,303,584	7,217,566	86,018
Management Services	3,242,905	3,242,905	2,992,888	250,017
Community development	4,462,098	4,462,098	4,252,296	209,802
Fire	10,251,298	10,251,298	9,661,947	589,351
Police	16,815,469	16,815,469	16,041,155	774,314
Public works	6,523,505	6,523,505	5,240,987	1,282,518
Economic vitality	477,559	477,559	406,811	70,748
Community enrichment	3,214,735	4,414,735	4,414,034	701
Non-departmental	203,209	203,209	(2,315,069)	2,518,278
Contingency	1,875,000	650,000	44,248	605,752
Total expenditures	<u>54,344,362</u>	<u>54,344,362</u>	<u>47,956,863</u>	<u>6,387,499</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,823,566)</u>	<u>(4,823,566)</u>	<u>(1,784,418)</u>	<u>3,039,148</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	40,437	40,437	41,446	1,009
Transfers in	4,555,180	4,555,180	5,122,981	567,801
Transfers out	(11,808,929)	(11,808,929)	(5,922,622)	5,886,307
Total other financing sources (uses)	<u>(7,213,312)</u>	<u>(7,213,312)</u>	<u>(758,195)</u>	<u>6,455,117</u>
Net change in fund balances	<u>(12,036,878)</u>	<u>(12,036,878)</u>	<u>(2,542,613)</u>	<u>9,494,265</u>
Budgetary fund balances, beginning of year	<u>18,726,225</u>	<u>18,726,225</u>	<u>18,726,225</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 6,689,347</u>	<u>\$ 6,689,347</u>	<u>\$ 16,183,612</u>	<u>\$ 9,494,265</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ (2,542,613)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>1,985,979</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ (556,634)</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, 2010

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 7,728,155	\$ 7,728,155	\$ 7,480,441	\$ (247,714)
Investment earnings	36,000	36,000	9,488	(26,512)
Miscellaneous	1,376,327	1,376,327	118,917	(1,257,410)
Total revenues	<u>9,140,482</u>	<u>9,140,482</u>	<u>7,608,846</u>	<u>(1,531,636)</u>
EXPENDITURES:				
Current:				
General administration	168,593	168,593	168,593	-
Management services	247,240	247,240	247,240	-
Community development	752,512	752,512	752,512	-
Public works	19,165,672	19,165,672	12,190,406	6,975,266
Economic vitality	24,774	24,774	24,774	-
Non-departmental	139,124	139,124	139,124	-
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>20,597,915</u>	<u>20,597,915</u>	<u>13,522,649</u>	<u>7,075,266</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(11,457,433)</u>	<u>(11,457,433)</u>	<u>(5,913,803)</u>	<u>5,543,630</u>
OTHER FINANCING SOURCES (USES):				
Bonds issued	4,500,000	4,500,000	4,610,000	110,000
Transfers in	6,142,953	6,142,953	4,424,417	(1,718,536)
Transfers out	(585,401)	(585,401)	(85,401)	500,000
Total other financing sources (uses)	<u>10,057,552</u>	<u>10,057,552</u>	<u>8,949,016</u>	<u>(1,108,536)</u>
Net change in fund balances budgetary basis	<u>(1,399,881)</u>	<u>(1,399,881)</u>	<u>3,035,213</u>	<u>4,435,094</u>
Budgetary fund balances, beginning of year	<u>1,808,943</u>	<u>1,808,943</u>	<u>1,808,943</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 409,062</u>	<u>\$ 409,062</u>	<u>\$ 4,844,156</u>	<u>\$ 4,435,094</u>
Adjustment of budetary basis to GAAP basis net change in fund balances			\$ 3,035,213	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			32,897	
Adjusted net change in fund balance – GAAP basis			<u>\$ 3,068,110</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, 2010

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 9,721,245	\$ 9,721,245	\$ 9,533,520	\$ (187,725)
Investment earnings	99,000	99,000	28,746	(70,254)
Total revenues	<u>9,820,245</u>	<u>9,820,245</u>	<u>9,562,266</u>	<u>(257,979)</u>
EXPENDITURES:				
Current:				
General administration	72,840	72,840	72,840	-
Management services	197,948	197,948	197,948	-
Economic vitality	27,959	27,959	27,959	-
Non-departmental	6,222,361	6,222,361	5,689,133	533,228
Total expenditures	<u>6,521,108</u>	<u>6,521,108</u>	<u>5,987,880</u>	<u>533,228</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,299,137</u>	<u>3,299,137</u>	<u>3,574,386</u>	<u>275,249</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	120,000	120,000	120,000	-
Transfers out	(4,053,930)	(4,053,930)	(2,523,153)	1,530,777
Total other financing sources (uses)	<u>(3,933,930)</u>	<u>(3,933,930)</u>	<u>(2,403,153)</u>	<u>1,530,777</u>
Net change in fund balances	<u>(634,793)</u>	<u>(634,793)</u>	<u>1,171,233</u>	<u>1,806,026</u>
Budgetary fund balances, beginning of year	<u>(1,508,608)</u>	<u>(1,508,608)</u>	<u>(1,508,608)</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ (2,143,401)</u>	<u>\$ (2,143,401)</u>	<u>\$ (337,375)</u>	<u>\$ 1,806,026</u>
Adjustment of budetary basis to GAAP basis net change in fund balances			\$ 1,171,233	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>94,120</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 1,265,353</u>	

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, 2010

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 5,223,146	\$ 5,223,146	\$ 5,050,649	\$ (172,497)
Grants and entitlements	1,845,000	1,845,000	692,362	(1,152,638)
Charges for services	65,047	65,047	95,622	30,575
Licenses and permits	-	-	585	585
Rents	91,800	91,800	116,664	24,864
Investment earnings	98,850	98,850	53,580	(45,270)
Miscellaneous	14,442	14,442	-	(14,442)
Total revenues	<u>7,338,285</u>	<u>7,338,285</u>	<u>6,009,462</u>	<u>(1,328,823)</u>
EXPENDITURES:				
Current:				
General administration	736,797	736,797	412,150	324,647
Community development	1,948,256	1,948,256	702,492	1,245,764
Economic vitality	5,588,181	5,588,181	3,571,840	2,016,341
Contingency	95,000	95,000	-	95,000
Total expenditures	<u>8,368,234</u>	<u>8,368,234</u>	<u>4,686,482</u>	<u>3,681,752</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,029,949)</u>	<u>(1,029,949)</u>	<u>1,322,980</u>	<u>2,352,929</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,534,000	1,534,000	731,354	(802,646)
Transfers out	<u>(1,957,291)</u>	<u>(1,957,291)</u>	<u>(2,073,955)</u>	<u>(116,664)</u>
Total other financing sources (uses)	<u>(423,291)</u>	<u>(423,291)</u>	<u>(1,342,601)</u>	<u>(919,310)</u>
Net change in fund balances	<u>(1,453,240)</u>	<u>(1,453,240)</u>	<u>(19,621)</u>	<u>1,433,619</u>
Budgetary fund balances, beginning of year	<u>3,533,168</u>	<u>3,533,168</u>	<u>3,533,168</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 2,079,928</u>	<u>\$ 2,079,928</u>	<u>\$ 3,513,547</u>	<u>\$ 1,433,619</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ (19,621)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>24,832</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 5,211</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, 2010

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
ASSETS		
Current assets:		
Cash and investments	\$ 2,668,711	\$ 4,177,357
Cash with fiscal agents	1,901,725	-
Receivable, net	2,410,362	1,020,489
Interfund receivable	2,100,000	-
Prepaid items	70,820	-
Inventory	169,969	-
Total current assets	<u>9,321,587</u>	<u>5,197,846</u>
Noncurrent assets:		
Restricted cash and investments	1,710,263	9,523,101
Refundable deposit	13,640	-
Deferred bond issuance costs, net	186,399	-
Capital assets, non-depreciable	11,432,711	1,849,428
Capital assets, depreciable, net	255,673,295	7,595,405
Total non-current assets	<u>269,016,308</u>	<u>18,967,934</u>
Total assets	<u>278,337,895</u>	<u>24,165,780</u>
LIABILITIES		
Current liabilities:		
Accounts payable	421,786	115,450
Accrued payroll and compensated absences	408,092	240,609
Interest payable	883,598	-
Unearned revenue	129,985	-
Unamortized bond premium	25,145	-
Interfund payable	-	-
Deposits payable	353,583	37,090
Bonds and notes payable	8,475,517	-
Total current liabilities	<u>10,697,706</u>	<u>393,149</u>
Noncurrent liabilities:		
Compensated absences	190,578	120,459
Net OPEB obligation	101,101	69,261
Landfill closure and postclosure care costs	-	10,204,108
Capital lease payable	1,207,679	-
Bonds and notes payable	42,032,215	-
Total noncurrent liabilities	<u>43,531,573</u>	<u>10,393,828</u>
Total liabilities	<u>54,229,279</u>	<u>10,786,977</u>
NET ASSETS		
Invested in capital assets, net of related debt	215,365,450	9,444,833
Restricted:		
Capital projects	1,593,915	615,412
Unrestricted	7,149,251	3,318,558
Total net assets	<u>\$ 224,108,616</u>	<u>\$ 13,378,803</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
\$ 14,337	\$ 866,468	\$ 7,726,873	\$ 3,578,350
-	-	1,901,725	-
187,879	135,459	3,754,189	39,031
-	-	2,100,000	-
-	-	70,820	-
-	-	169,969	-
<u>202,216</u>	<u>1,001,927</u>	<u>15,723,576</u>	<u>3,617,381</u>
-	-	11,233,364	-
2,234,750	-	2,248,390	-
-	-	186,399	-
113,365	12,698,334	26,093,838	-
<u>44,431,645</u>	<u>23,310,680</u>	<u>331,011,025</u>	<u>-</u>
<u>46,779,760</u>	<u>36,009,014</u>	<u>370,773,016</u>	<u>-</u>
<u>46,981,976</u>	<u>37,010,941</u>	<u>386,496,592</u>	<u>3,617,381</u>
15,272	25,322	577,830	453,343
43,563	32,000	724,264	-
-	-	883,598	-
89,214	-	219,199	-
-	-	25,145	-
2,100,000	-	2,100,000	-
33,334	-	424,007	-
144,806	-	8,620,323	-
<u>2,426,189</u>	<u>57,322</u>	<u>13,574,366</u>	<u>453,343</u>
10,295	7,618	328,950	-
11,477	9,835	191,674	-
-	-	10,204,108	-
2,176,781	-	3,384,460	-
258,568	-	42,290,783	-
<u>2,457,121</u>	<u>17,453</u>	<u>56,399,975</u>	<u>-</u>
<u>4,883,310</u>	<u>74,775</u>	<u>69,974,341</u>	<u>453,343</u>
41,964,855	36,009,014	302,784,152	-
-	-	2,209,327	-
133,811	927,152	11,528,772	3,164,038
<u>\$ 42,098,666</u>	<u>\$ 36,936,166</u>	<u>\$ 316,522,251</u>	<u>\$ 3,164,038</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

(632,917)
\$ 315,889,334

CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2010

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
OPERATING REVENUES:		
Charges for services	\$ 17,536,053	\$ 11,317,698
Miscellaneous	3,820	11,638
Total operating revenues	<u>17,539,873</u>	<u>11,329,336</u>
OPERATING EXPENSES:		
Personal services	4,281,686	3,858,572
Contractual services, materials and supplies	7,483,200	6,247,550
Insurance claims and expenses	-	-
Depreciation and amortization	8,053,768	967,361
Total operating expenses	<u>19,818,654</u>	<u>11,073,483</u>
Operating income (loss)	<u>(2,278,781)</u>	<u>255,853</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest and investment income	45,325	57,427
Grants and entitlements	622,574	86,623
Gain (loss) on sale of capital asset	(6,847)	86,314
Passenger facility charges	-	-
Interest expense	(1,874,415)	-
Total non-operating revenues (expenses)	<u>(1,213,363)</u>	<u>230,364</u>
Income (loss) before capital contributions and transfers	(3,492,144)	486,217
Capital contributions	8,800,106	-
Transfers in	3,801,355	7,813
Transfers out	(1,958,565)	(514,884)
Change in net assets	<u>7,150,752</u>	<u>(20,854)</u>
Total net assets, beginning of year	<u>216,957,864</u>	<u>13,399,657</u>
Total net assets, end of year	<u>\$ 224,108,616</u>	<u>\$ 13,378,803</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
\$ 1,359,029	\$ 1,358,339	\$ 31,571,119	\$ 6,857,948
-	99	15,557	20,169
<u>1,359,029</u>	<u>1,358,438</u>	<u>31,586,676</u>	<u>6,878,117</u>
621,536	483,841	9,245,635	-
843,190	332,226	14,906,166	-
-	-	-	7,113,551
<u>2,651,309</u>	<u>440,183</u>	<u>12,112,621</u>	<u>-</u>
<u>4,116,035</u>	<u>1,256,250</u>	<u>36,264,422</u>	<u>7,113,551</u>
<u>(2,757,006)</u>	<u>102,188</u>	<u>(4,677,746)</u>	<u>(235,434)</u>
4,943	3,556	111,251	35,800
312,403	1,488	1,023,088	-
-	-	79,467	-
194,547	-	194,547	-
<u>(149,659)</u>	<u>-</u>	<u>(2,024,074)</u>	<u>-</u>
<u>362,234</u>	<u>5,044</u>	<u>(615,721)</u>	<u>35,800</u>
(2,394,772)	107,232	(5,293,467)	(199,634)
-	4,311,638	13,111,744	-
201,244	2,095,926	6,106,338	-
<u>(156,811)</u>	<u>(175,221)</u>	<u>(2,805,481)</u>	<u>-</u>
<u>(2,350,339)</u>	<u>6,339,575</u>	<u>11,119,134</u>	<u>(199,634)</u>
<u>44,449,005</u>	<u>30,596,591</u>	<u>305,403,117</u>	<u>3,363,672</u>
<u>\$ 42,098,666</u>	<u>\$ 36,936,166</u>	<u>\$ 316,522,251</u>	<u>\$ 3,164,038</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

Change in net assets of business-type activities	<u>(79,317)</u>
	<u>\$ 11,039,817</u>

City of Flagstaff, Arizona
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2010

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
Cash flows from operating activities:		
Receipts from customers	\$ 17,130,045	\$ 11,396,767
Interfund services provided	326,631	70,286
Other receipts	3,820	11,638
Payments to suppliers	(7,941,074)	(5,829,886)
Interfund services used	(48,632)	(3,309)
Payments to employees	(4,309,585)	(3,849,686)
Net cash provided (used) by operating activities	<u>5,161,205</u>	<u>1,795,810</u>
Cash flows from noncapital financing activities:		
Transfer from other funds	3,801,355	7,813
Transfer to other funds	(1,958,565)	(514,884)
Interfund loans paid	(2,100,000)	-
Interfund loans received	-	-
Net cash provided (used) by noncapital financing activities	<u>(257,210)</u>	<u>(507,071)</u>
Cash flows from capital and related financing activities:		
Receipts from grantors	565,952	38,177
Capital Contributions	1,080,323	-
Acquisition and construction of capital assets	(4,373,872)	(377,983)
Principal payments on capital debt	(5,014,704)	-
Interest paid on capital debt	(1,866,588)	-
Proceeds from capital debt	2,748,505	-
Proceeds from insurance recovery	-	15,000
Payment on deposit of capital asset	-	-
Proceeds from sales of capital assets	5,303	71,314
Net cash (used) by capital and related financing activities	<u>(6,855,081)</u>	<u>(253,492)</u>
Cash flows from investing activities:		
Interest received on investments	60,950	85,012
Net cash provided by investing activities	<u>60,950</u>	<u>85,012</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,890,136)</u>	<u>1,120,259</u>
Cash and cash equivalents at beginning of year	<u>8,170,835</u>	<u>12,580,199</u>
Cash and cash equivalents at end of year	<u>\$ 6,280,699</u>	<u>\$ 13,700,458</u>
Classified as:		
Cash, cash equivalents, and investments	\$ 2,668,711	\$ 4,177,357
Restricted cash with fiscal agents	1,901,725	-
Restricted cash and cash equivalents	1,710,263	9,523,101
Totals	<u>\$ 6,280,699</u>	<u>\$ 13,700,458</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
\$ 1,380,232	\$ 1,299,577	\$ 31,206,621	\$ 6,861,937
-	44,738	441,655	-
194,547	99	210,104	20,169
(827,529)	(642,456)	(15,240,945)	(7,499,321)
(22,290)	-	(74,231)	-
(616,907)	(480,532)	(9,256,710)	-
<u>108,053</u>	<u>221,426</u>	<u>7,286,494</u>	<u>(617,215)</u>
201,244	(175,221)	3,835,191	-
(156,811)	2,095,926	(534,334)	-
(94,897)	-	(2,194,897)	-
2,100,000	-	2,100,000	94,897
<u>2,049,536</u>	<u>1,920,705</u>	<u>3,205,960</u>	<u>94,897</u>
304,632	-	908,761	-
-	-	1,080,323	-
(39,109)	(2,136,110)	(6,927,074)	-
(488,026)	-	(5,502,730)	-
(158,434)	-	(2,025,022)	-
-	-	2,748,505	-
-	-	15,000	-
(2,234,750)	-	(2,234,750)	-
-	-	76,617	-
<u>(2,615,687)</u>	<u>(2,136,110)</u>	<u>(11,860,370)</u>	<u>-</u>
5,927	3,501	155,390	46,904
<u>5,927</u>	<u>3,501</u>	<u>155,390</u>	<u>46,904</u>
(452,171)	9,522	(1,212,526)	(475,414)
<u>466,508</u>	<u>856,946</u>	<u>22,074,488</u>	<u>4,053,764</u>
<u>\$ 14,337</u>	<u>\$ 866,468</u>	<u>\$ 20,861,962</u>	<u>\$ 3,578,350</u>
\$ 14,337	\$ 866,468	\$ 7,726,873	\$ 3,578,350
-	-	1,901,725	-
-	-	11,233,364	-
<u>\$ 14,337</u>	<u>\$ 866,468</u>	<u>\$ 20,861,962</u>	<u>\$ 3,578,350</u>

(continued)

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2010

	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)	\$ (2,278,781)	\$ 255,853
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	8,053,768	967,361
Landfill closure and postclosure costs	-	326,310
Other receipts	-	-
(Increase) decrease in assets:		
Accounts receivable	(65,060)	137,145
Allowance for doubtful accounts	-	9,000
Prepaid items	(84,460)	-
Inventories	64,802	-
Increase (decrease) in liabilities:		
Accounts payable	(486,848)	88,045
Accrued payroll and compensated absences	(34,650)	3,526
OPEB	6,751	5,360
Deposits payable	(13,718)	3,210
Deferred revenue	(599)	-
Total Adjustments	<u>7,439,986</u>	<u>1,539,957</u>
Net cash provided (used) by operating activities	<u>\$ 5,161,205</u>	<u>\$ 1,795,810</u>
Noncash investing, capital and financing activities:		
Capital assets acquired through contributions from developers	\$ 4,617,782	\$ -
Capital assets acquired through contributions from general fund	3,102,001	-
Total noncash investing, capital and financing activities	<u>\$ 7,719,783</u>	<u>\$ -</u>

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

			Governmental Activities
Airport Fund	Stormwater Fund	Total	Internal Service Fund
\$ (2,757,006)	\$ 102,188	\$ (4,677,746)	\$ (235,434)
2,651,309	440,183	12,112,621	-
-	-	326,310	-
194,547	-	194,547	-
38,389	(14,025)	96,449	3,989
-	-	9,000	-
-	-	(84,460)	-
-	-	64,802	-
(6,629)	(310,229)	(715,661)	(385,770)
3,692	2,518	(24,914)	-
937	791	13,839	-
1,457	-	(9,051)	-
(18,643)	-	(19,242)	-
<u>2,865,059</u>	<u>119,238</u>	<u>11,964,240</u>	<u>(381,781)</u>
<u>\$ 108,053</u>	<u>\$ 221,426</u>	<u>\$ 7,286,494</u>	<u>\$ (617,215)</u>
\$ -	\$ 189,570	\$ 4,807,352	\$ -
-	4,122,068	7,224,069	-
<u>\$ -</u>	<u>\$ 4,311,638</u>	<u>\$ 12,031,421</u>	<u>\$ -</u>

(concluded)

CITY OF FLAGSTAFF, ARIZONA
Notes to the Financial Statement
June 30, 2010

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, 2010, the City implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for the enhancement of fund balance information by providing clearer fund balance classifications and clarifying the existing governmental fund type definitions. This statement provides fund balance classification for nonspendable, restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

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. Refer to Note F related to the blended component unit with the City of Flagstaff Housing Authority.

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. 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. Interfund services provided and used are not eliminated in the process of consolidation.

The government-wide statement of net assets reports all financial and capital resources of the government. 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.

Restrictions 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 Beverage (BBB) Fund as a major governmental fund on the basis of community focus and the Stormwater Fund as major proprietary fund due to it's 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 Beverage Tax Fund* that accounts for the Bed, Board and Beverage 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. The Special Assessment Bond Fund is presented as major in the current year.

- *Special Assessment Bond 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.

Capital Projects Fund is used to account for major capital acquisition and construction separate from ongoing operating activities. No Capital Projects Funds are presented as major funds.

- 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.

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 all revenues, except reimbursement grants, to

be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period.

Expenditures are generally recorded when the related fund liability is incurred, as under accrual accounting. 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. However, debt service expenditures, as well as, expenditures related to compensated absences, claims and judgments are recorded only to the extent they have matured.

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. Only the portion of special assessment receivables due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

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 division 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 division 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 2009-2010, primary and secondary property tax collections amounted to \$5,150,111 and \$7,620,317 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, restricted fund balance is defined as that portion of fund balance that can be spent only for the specific purposes stipulated by constitution, external resource or through enabling legislation. Committed fund balance includes amounts constrained to specific purposes determined by a formal action of the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. Assigned fund balance amounts are intended to be used by the government for specific purposes but do not meet the criteria to be restricted or committed. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. Assigned fund balance represents the remaining amount that is not restricted or committed in governmental funds other than the general fund, which is classified as unassigned. Nonspendable fund balance represents amounts that are required to be maintained intact, such as inventories, and nonexpendable portion of permanent funds.

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	\$ 37,454,191	\$ -	\$ -	\$ 3,578,350	\$ (23,481,376)	\$ 17,551,165
Cash with fiscal agents	5,410,627	-	-	-	-	5,410,627
Investments	-	-	-	-	23,481,376	23,481,376
Accounts receivable, net	6,511,005	-	389,766	33,490	-	6,934,261
Interest receivable	77,621	-	-	5,541	-	83,162
Intergovernmental receivables	4,637,936	-	-	-	-	4,637,936
Bond proceeds receivable	127,674	-	-	-	-	127,674
Special assessments receivable	18,507,777	-	-	-	-	18,507,777
Interfund receivable	6,250,000	-	-	632,917	(6,250,000)	632,917
Deferred issuance costs – Prepaid items	-	-	614,158	-	-	614,158
Inventory	445,785	-	-	-	-	445,785
Restricted cash and cash equivalents	6,247,968	-	-	-	-	6,247,968
Refundable deposits	670,797	-	-	-	-	670,797
Property held for sale	500,000	-	-	-	-	500,000
Capital assets	-	302,512,661	-	-	(7,224,069)	295,288,592
Total Assets	\$ 86,841,381	\$ 302,512,661	\$ 1,003,924	\$ 4,250,298	\$ (13,474,069)	\$ 381,134,195
Liabilities and Net Assets						
Accounts payable	\$ 4,371,851	\$ -	\$ -	\$ 453,343	\$ -	\$ 4,825,194
Accrued payroll & compensated absences	2,303,189	-	-	-	-	2,303,189
Interest payable	1,773,073	-	-	-	-	1,773,073
Interfund payable	6,250,000	-	-	-	(6,250,000)	-
Unearned revenue	409,840	-	-	-	-	409,840
Deferred revenue	18,871,068	-	(18,871,068)	-	-	-
Guaranty and other deposits	1,431,862	-	-	-	-	1,431,862
Arbitrage rebate	282,151	-	-	-	-	282,151
Current bonds/contracts payable	5,085,000	-	-	-	-	5,085,000
Unamortized bond premium	-	-	884,697	-	-	884,697
Compensated absences	-	-	3,751,065	-	-	3,751,065
Other postemployment benefits	-	-	949,067	-	-	949,067
Unmatured long-term debt	-	-	77,998,771	-	-	77,998,771
Fund balance /Net Assets	46,063,347	302,512,661	(63,708,608)	3,796,955	(7,224,069)	281,440,286
Total liabilities and net assets	\$ 86,841,381	\$ 302,512,661	\$ 1,003,924	\$ 4,250,298	\$ (13,474,069)	\$ 381,134,195

- (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	\$ 452,366,761
Accumulated depreciation	(149,854,100)
	<u>\$ 302,512,661</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>\$ 614,158</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>\$ 389,766</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.

Governmental bonds payable	\$ 83,083,771
Compensated absences	5,446,586
Other postemployment benefits	949,067
Unamortized bond premium	884,697
Subtotal	<u>90,364,121</u>
Less: current portion compensated absences	1,695,521
Less: current portion of bonds and leases	5,085,000
	<u>\$ 83,583,600</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	\$ 18,507,033
Deferred property tax	364,035
	<u>\$ 18,871,068</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>\$ 3,796,955</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	\$ 6,250,000
Interfund payables	(6,250,000)
	<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	\$ 43,200,268	\$ -	\$ 28,067	\$ -	\$ -	\$ 43,228,335
Intergovernmental	19,450,213	-	-	-	(4,570,140)	14,880,073
Grants and entitlements	11,172,862	-	-	-	4,570,140	15,743,002
Charges for services	3,057,423	-	-	-	-	3,057,423
Special assessments	1,510,217	-	(567,967)	-	-	942,250
Licenses and permits	1,441,874	-	-	-	-	1,441,874
Fines and forfeitures	1,636,157	-	28,126	-	-	1,664,283
Rent	1,588,214	-	-	-	-	1,588,214
Investment earnings	413,594	-	-	35,800	-	449,394
Contributions	544,393	7,319,150	19,075,000	-	-	26,938,543
Miscellaneous	228,969	-	-	-	-	228,969
Total revenue	84,244,184	7,319,150	18,563,226	35,800	-	110,162,360
Expenditures/Expenses						
General governmental	7,926,726	604,479	(310,049)	17,022	-	8,238,178
Public safety	25,159,777	1,229,316	148,901	54,974	-	26,592,968
Public works	1,360,447	89,632	49,439	3,108	-	1,502,626
Economic and physical development	8,601,808	238,288	(30,764)	18,246	-	8,827,578
Culture and recreation	10,615,754	1,839,705	26,369	25,851	-	12,507,679
Highways and streets	9,313,158	8,622,637	(116,590)	36,916	-	17,856,121
Principal retirement	6,065,522	-	(6,065,522)	-	-	-
Interest and other charges	3,996,963	-	(78,853)	-	-	3,918,110
Capital outlay	12,446,280	(12,446,280)	-	-	-	-
Total expenditures/expenses	85,486,435	177,777	(6,377,069)	156,117	-	79,443,260
OTHER FINANCING SOURCES (USES):						
Bond proceeds	8,330,000	-	(8,330,000)	-	-	-
Bond (discount) premium	58,370	-	(58,370)	-	-	-
Sale of capital assets	1,084,211	(172,903)	-	-	1,920,000	2,831,308
Insurance recovery	1,920,000	-	-	-	(1,920,000)	-
Transfers in	15,224,243	-	-	-	-	15,224,243
Transfers out	(18,525,100)	-	-	-	(7,224,069)	(25,749,169)
Total other financing sources (uses)	8,091,724	(172,903)	(8,388,370)	-	(7,224,069)	(7,693,618)
Net change for the year	\$ 6,849,473	\$ 6,968,470	\$ 16,551,925	\$ (120,317)	\$ (7,224,069)	\$ 23,025,482

- (1) When capital assets that are to be used in the governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of the financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

Capital outlay	\$	12,446,280
Depreciation expense		(12,624,057)
Gain (loss) on sale of capital assets		(172,903)
Donated capital assets		7,319,150
	\$	<u>6,968,470</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	\$	18,507,033
Property tax		28,067
Court revenue		28,126
	\$	<u>18,563,226</u>

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

Amortization of bond issuance costs	\$	(47,761)
Issuance cost on new bonds		176,438
Arbitrage rebate		449,927
	\$	<u>578,604</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	\$	(272,421)
Accrual of other postemployment benefits		(73,489)
	\$	<u>(345,910)</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	\$	6,065,522
Capital debt issued		(8,330,000)
Bond premium		(58,370)
Amortization of bond premium		78,853
	\$	<u>(2,243,995)</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	\$	35,800
Expenditures		(156,117)
	\$	<u>(120,317)</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>(7,224,069)</u>
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C. Fund Balance Classification

Only restrictions imposed by external sources are shown as restricted net assets on the government-wide financial statements. Classification of fund balances imposed by the reporting government, whether by administrative policy or legislative action of the reporting government, are shown in aggregate on the government fund financial statements, but not on the proprietary fund financial statements. Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the City Council, the government's highest level of decision-making authority. A formal action would also be required to modify or rescind an established commitment. Assigned fund balance amounts are intended to be used by the government for specific purposes but do not meet the criteria to be restricted or committed. Assigned fund balance represents the remaining amount that is not restricted or committed in governmental funds other than the general fund, which is classified as unassigned. Assigned fund balance is expressed by the direction of the City Council or budget committee with the authority to assign amounts to be used for specific purposes. Nonspendable fund balance represents amounts that are nonspendable such as inventories, and nonexpendable portion of permanent funds.

Governmental fund balances as of June 30, 2010 are as follows:

	General Fund	Highway User Revenue Fund	Transportation Fund	BBB Fund	Special Assessment Bond Fund	Other Governmental Funds	Total Governmental Funds
Fund balances:							
Nonspendable:							
Perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 137,621	\$ 137,621
Inventory	376,728	-	-	69,057	-	-	445,785
Restricted for:							
Library branch services	-	-	-	-	-	714,053	714,053
Court improvements and operations	643,321	-	-	-	-	-	643,321
Debt services	-	-	-	-	210,581	3,690,021	3,900,602
Grantor and contributor purposes	142,399	-	-	56,479	-	1,835,668	2,034,546
Street improvements	-	2,756,379	-	-	-	-	2,756,379
Transit	-	-	957,032	-	-	-	957,032
Economic development	-	-	-	426,722	-	-	426,722
Arts and science	-	-	-	392,096	-	-	392,096
Culture and recreation	-	-	-	384,744	-	-	384,744
Other capital projects	-	-	733,232	4,647,647	-	2,915,425	8,296,304
Committed to:							
Library services	-	-	-	-	-	2,215,450	2,215,450
Development fee projects	86,568	-	-	-	-	-	86,568
Perpetual care	-	-	-	-	-	13,155	13,155
Assigned to:							
Library services	-	-	-	-	-	651,650	651,650
Court services	35,580	-	-	-	-	-	35,580
Capital reserve	7,047,280	-	-	-	-	-	7,047,280
Budgetary stabilization	1,000,000	-	-	-	-	-	1,000,000
Real estate	512,240	-	-	-	-	-	512,240
Unassigned:	13,412,219	-	-	-	-	-	13,412,219
Total fund balances	<u>\$ 23,256,335</u>	<u>\$ 2,756,379</u>	<u>\$ 1,690,264</u>	<u>\$ 5,976,745</u>	<u>\$ 210,581</u>	<u>\$ 12,173,043</u>	<u>\$ 46,063,347</u>

D. Change in Beginning Fund Balance and Net Assets

Change Due to Accounting Error

During the year the City determined that intergovernmental revenue had been incorrectly recorded as deferred revenue in prior years and should have been recognized as revenue in the year received. A prior year adjustment

related to a change in the way the City recognizes certain restricted revenue streams was recorded to beginning net assets and fund balances.

Reclassification

At the end of the year it was determined a reclassification of beginning fund balance was necessary as a result of a special revenue fund that no longer met major fund status per the accounting standards.

New Standard

During the year the City early implemented GASB-54, *Fund Balance Reporting and Governmental Fund Type Definitions*. With the early implementation of GASB-54 a previously reported special revenue fund no longer met the definition and needed to be reclassified as part of the general fund.

The following discloses the restatement of governmental fund balances and net assets as of the beginning of the fiscal year:

	General Fund	Other Governmental Funds
Fund balance, beginning of year, as previously stated:	\$ 22,590,284	\$ 5,855,302
Increase due to reclassification of major fund to non major		1,336,236
Increase (decrease) due to reclassification of special revenue fund	497,520	(497,520)
Increase due to recognition of restricted revenue previously earned	725,165	2,426,991
Fund balance, beginning of year, as restated	\$ 23,812,969	\$ 9,121,009
	Governmental Activities	
Net asset, beginning of year, as previously stated:	\$ 255,262,648	
Increase due to recognition of restricted revenue previously earned	3,152,156	
	\$ 258,414,804	

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, & Beverage 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, 2010, the carrying amount of the City's deposits was \$17,094,820 and the bank balance was \$18,731,780. The \$1,636,960 difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2010.

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 not covered by federal depository insurance. As of June 30, 2010, 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.

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, 2010, the City's investments included the following

Investment Type	Fair Value	Weighted Average Maturity (in years)
U.S. agency securities	\$ 23,481,376	3.842
Mutual fund – money market	4,059,324	0.003
State Investment Pool	28,917,578	0.005
Total fair value of investments	\$ 56,458,278	
Portfolio weighted average maturity		1.600

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, 2010 is as follows:

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End	
			AAA	Unrated
U.S. agency securities	\$ 23,481,376	N/A	\$ 23,481,376	\$ -
State investment pool (LGIP)	28,917,578	N/A	28,917,578	-
Mutual fund – money market	4,059,324		-	4,059,324
Total	<u>\$ 56,458,278</u>		<u>\$ 52,398,954</u>	<u>\$ 4,059,324</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, 2010, the City's cash and investments included the following:

Carrying amount of investments	\$ 56,458,278
Carrying amount of cash deposits	17,094,820
Total pooled cash and investments	<u>\$ 73,553,098</u>

Pooled cash and cash equivalents – unrestricted	\$ 25,278,038
Investments – unrestricted	23,481,376
Restricted cash with fiscal agent	7,312,352
Restricted cash and investments	17,481,332
Total pooled cash and investments	<u>\$ 73,553,098</u>

Cash and cash equivalents at June 30, 2010 consisted of the following:

Investments included in cash and cash equivalents	\$ 25,262,113
Cash on hand	15,925
Total cash and cash equivalents per statement of net assets	<u>\$ 25,278,038</u>

Investment income comprises the following for the year ended June 30, 2010:

Net interest and dividends	\$ 560,134
Net increase (decrease) in the fair value of investments	511
Total net investment income per statement of activities	<u>\$ 560,645</u>

The net decrease in the fair value of investments during fiscal year 2009–2010 was \$456. 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, 2010 was \$166,032.

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.

In previous 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, 2010, including allowances for uncollectible accounts, are as follows:

Fund	Accounts	Interest	Intergov- ernmental	Bond Proceeds	Special Assessments	Total Receivables
Governmental Activities						
General fund	\$ 5,612,493	\$ 38,372	\$ 1,339,654	\$ 127,674	\$ -	\$ 7,118,193
Highway user revenue fund	715,817	794	857,506	-	-	1,574,117
Transportation fund	1,021,145	8,996	1,453,407	-	-	2,483,548
BBB fund	568,674	10,264	574,148	-	-	1,153,086
Special assessment fund	-	1,421	-	-	18,507,777	18,509,198
Other governmental funds	128,005	17,774	413,221	-	-	559,000
Less: allowance for uncollectibles	(1,145,363)	-	-	-	-	(1,145,363)
Total government funds	6,900,771	77,621	4,637,936	127,674	18,507,777	30,251,779
Internal services funds	33,490	5,541	-	-	-	39,031
Total governmental activities	6,934,261	83,162	4,637,936	127,674	18,507,777	30,290,810
Business-Type Activities						
Water and wastewater	2,383,181	10,559	56,622	-	-	2,450,362
Environmental services	1,031,332	7,568	71,589	-	-	1,110,489
Airport	67,446	745	124,688	-	-	192,879
Stormwater	135,145	826	1,488	-	-	137,459
Less: allowance for uncollectibles	(137,000)	-	-	-	-	(137,000)
Total business-type activities	3,480,104	19,698	254,387	-	-	3,754,189
Total activities	\$ 10,414,365	\$ 102,860	\$ 4,892,323	\$ 127,674	\$ 18,507,777	\$ 34,044,999

The receivables not expected to be collected within one year includes \$105,000 of the environmental services fund and \$100,000 of the general fund.

C. Capital Assets

A summary of capital asset activity, for the government-wide financial statements, as of June 30, 2010 is as follows:

	Balance July 1, 2009	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2010
Governmental activities:					
Non-depreciable assets:					
Land	\$ 43,351,629	\$ 3,200	\$ (158,694)	\$ 456,334	\$ 43,652,469
Construction -in-progress	36,183,336	8,790,579	-	(29,464,898)	15,509,017
Total non-depreciable assets	<u>79,534,965</u>	<u>8,793,779</u>	<u>(158,694)</u>	<u>(29,008,564)</u>	<u>59,161,486</u>
Depreciable assets:					
Buildings	66,583,622	43,008	(76,620)	3,550,352	70,100,362
Improvements	21,612,053	51,905	(31,363)	-	21,632,595
Machinery and equipment	30,357,814	719,637	(533,284)	(2,520)	30,541,647
Infrastructure	235,312,838	10,157,100	-	18,237,116	263,707,054
Total depreciable assets	<u>353,866,327</u>	<u>10,971,650</u>	<u>(641,267)</u>	<u>21,784,948</u>	<u>385,981,658</u>
Accumulated depreciation:					
Buildings	(13,849,790)	(1,437,608)	53,278	-	(15,234,120)
Improvements	(10,470,010)	(1,121,432)	31,363	-	(11,560,079)
Machinery and equipment	(18,015,604)	(1,945,150)	542,416	(453)	(19,418,791)
Infrastructure	(95,521,697)	(8,119,865)	-	-	(103,641,562)
Total accumulated depreciation	<u>(137,857,101)</u>	<u>(12,624,055)</u>	<u>627,057</u>	<u>(453)</u>	<u>(149,854,552)</u>
Governmental activities capital assets, net	<u>\$ 295,544,191</u>	<u>\$ 7,141,374</u>	<u>\$ (172,904)</u>	<u>\$ (7,224,069)</u>	295,288,592
				Less: associated debt	(83,083,771)
				Less: unamortized premium	(884,697)
				Plus: unspent capital related debt	2,442,746
				Invested in capital assets, net of related debt	<u>\$ 213,762,870</u>

	Balance July 1, 2009	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2010
Business-type activities:					
Non-depreciable assets:					
Land	\$ 10,300,797	\$ -	\$ -	\$ -	\$ 10,300,797
Construction -in-progress	50,244,008	3,428,855	-	(37,879,823)	15,793,040
Total non-depreciable assets	60,544,805	3,428,855	-	(37,879,823)	26,093,837
Depreciable assets:					
Buildings	81,483,758	2,411,967	(16,184)	12,679,943	96,559,484
Improvements	333,229,280	5,421,576	(56,518)	12,953,215	351,547,553
Machinery and equipment	23,664,766	472,027	(535,029)	19,455,417	43,057,181
Total depreciable assets	438,377,804	8,305,570	(607,731)	45,088,575	491,164,218
Accumulated depreciation:					
Buildings	(33,687,503)	(2,191,391)	16,184	-	(35,862,710)
Improvements	(102,039,226)	(7,235,808)	48,864	-	(109,226,170)
Machinery and equipment	(12,924,742)	(2,685,421)	530,534	15,317	(15,064,312)
Total accumulated depreciation	(148,651,471)	(12,112,620)	595,582	15,317	(160,153,192)
Business-type activities capital assets, net	\$ 350,271,138	\$ (378,195)	\$ (12,149)	\$ 7,224,069	357,104,863
				Less: associated debt	(54,295,566)
				Less: unamortized premium	(25,145)
				Invested in capital assets, net of related debt	\$ 302,784,152

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

Governmental Activities:	
General government	\$ 563,149
Public safety	1,090,807
Public works	(60,453)
Economic and physical development	125,220
Culture and recreation	1,825,835
Highway and streets	9,079,497
Total depreciation expense - governmental activities	\$ 12,624,055

D. Interfund Receivables, Payables, and Transfers

Interfund receivables and payables

Net interfund receivables and payables between governmental activities and business-type activities of \$632,988 are included in the government-wide financial statements at June 30, 2010. The interfund balances at June 30, 2010 are short-term loans to cover temporary cash deficits in various funds. This occasionally occurs prior to bond sales or grant reimbursements. All interfund balances outstanding at June 30, 2010 are expected to be repaid within one year.

The following interfund receivables and payables are included in the fund financial statements at June 30, 2010:

Fund	Interfund Receivables	Interfund Payables
Governmental Activities:		
General fund	\$ 6,250,000	\$ -
Highway user revenue fund	-	275,000
Transportation fund	-	5,825,000
Other governmental funds	-	150,000
Total governmental activities	6,250,000	6,250,000
Business-Type Activities:		
Water and wastewater fund	2,100,000	-
Airport fund	-	2,100,000
Total business-type activities	2,100,000	2,100,000
Total governmental and business-type activities	\$ 8,350,000	\$ 8,350,000
Less: fund eliminations	(8,350,000)	
Adjustment for internal service fund elimination	632,917	
Total government-wide statement of net assets	\$ 632,917	

Transfers

The net transfers of \$10,524,926 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 transfers during fiscal year 2010 that were not expected, general fund received transfers of \$1,055,190 from the environmental service fund, and other governmental funds; all were consistent with the activities of the related funds. \$7,813 transfer between the BBB fund and the environmental services fund and \$291,281 between the environmental services fund and capital projects were both capital related items; both are considered routine in nature. The third transfer was transferred from the capital projects fund to economic development fund to use remaining bond process to service the related debt. The following transfers are reflected in the fund financial statements for the year ended June 30, 2010: At year end a resolution was brought forward to City Council to inform the alignment related to transfers, no budget adjustments were completed.

Fund	Transfers out	Transfers In
Governmental Activities:		
General fund	\$ 5,922,622	\$ 5,122,981
Highway user revenue fund	85,401	4,424,417
Transportation fund	2,523,153	120,000
BBB fund	2,073,955	731,354
Special assessment fund	-	-
Other governmental funds	7,919,969	4,825,491
Total governmental activities	<u>18,525,100</u>	<u>15,224,243</u>
Business-Type Activities:		
Water and wastewater fund	1,958,565	3,801,355
Environmental services fund	514,884	7,813
Airport fund	156,811	201,244
Stormwater fund	175,221	2,095,926
Total business-type activities	<u>2,805,481</u>	<u>6,106,338</u>
Total governmental and business-type activities	<u>\$ 21,330,581</u>	<u>\$ 21,330,581</u>
Less: fund eliminations	(18,029,724)	
Add: capital assets transfer	<u>7,224,069</u>	
Total government-wide statement of activities	<u><u>\$ 10,524,926</u></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 2010 lease expense for the library was \$78,342. The schedule below for future minimum lease expenses reflects the change in the rental rate as of July 1, 2010.

Operating Lease Expenditures

<u>Year Ending June 30</u>	<u>East Flagstaff Library</u>
2011	\$ 78,342
2012	78,342
2013	52,228
Total	<u>\$ 208,912</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, 2010 were \$113,006.

Operating Lease Revenues

The City leases several City-owned buildings under cancelable and non-cancelable agreements. The carrying value of the leased assets is \$4,464,863 (cost of \$5,665,896 less accumulated depreciation of \$1,201,033) 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 2010 was \$1,471,550. 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.

<u>June 30</u>	<u>Building #6</u>
2011	\$ 783,296
2012	783,296
2013	783,296
2014	783,296
2015-2018	2,415,163
Total	<u>\$ 5,548,347</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 2010 was \$1,157,404. The carrying value of the leased assets is \$5,616,834 (cost of \$7,983,707 less accumulated depreciation of \$2,546,924) with current year depreciation of \$187,435.

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.

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, 2010:

Purpose	Amount
Governmental activities	\$ 25,865,000
Business-type activities	1,680,000
Business-type activities – refunding	4,010,000
Total general obligation bonds outstanding	\$ 31,555,000

General obligation bonds payable at June 30, 2010 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%.	\$ 1,885,000
\$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%.	23,980,000
Total governmental activities	25,865,000

Business-type activities:

\$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% to 3.25%.	4,010,000
Total business-type activities	5,690,000
Total General Obligation Bonds	\$ 31,555,000

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
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	1,710,000	781,313	-	-
2016-2020	9,900,000	2,560,275	-	-
2021-2023	6,330,000	449,574	-	-
Total	<u>\$ 25,865,000</u>	<u>\$ 7,916,885</u>	<u>\$ 5,690,000</u>	<u>\$ 433,178</u>

20% bond type

Authorized: \$ 47,400,000

Unissued: \$ 15,900,000

Statutory Debt Limitation

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt for combined water, wastewater, electric, parks and open space, streets, and public safety purposes may not exceed 20% of the City of Flagstaff's net secondary assessed valuation, nor may outstanding general obligation bonded debt for all other purposes exceed 6% of the City's net secondary assessed valuation. Prior to December 7, 2006 streets, fire, and police were in the six percent limitation category.

The City's computation of legal debt margins available for creation of additional debt at June 30, 2010 was \$137,702,894 and \$51,842,368 for the 20 percent and 6 percent debt limits, respectively. Also, see Schedule 16 in the Statistical Section.

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, 2010:

Purpose	Amount
Governmental activities	<u>\$ 18,615,000</u>

Special assessment bonds payable at June 30, 2010 consist of the following individual issues:

Governmental activities:

\$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%	\$ 18,615,000
Total Special Assessment Bonds	<u>\$ 18,615,000</u>

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2011	\$ 485,000	\$ 918,625
2012	505,000	893,875
2013	535,000	867,875
2014	560,000	840,500
2015	590,000	811,750
2016–2020	3,410,000	3,575,500
2021–2025	4,345,000	2,610,625
2026–2030	5,555,000	1,378,875
2031–2032	2,630,000	133,000
Total	<u>\$ 18,615,000</u>	<u>\$ 12,030,625</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.

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.

Greater Arizona Development Authority revenue bonds are issued specifically for the purpose of constructing public infrastructure projects. These bonds have state shared revenue pledged as a repayment revenue stream. These bonds funded the Business Incubator building.

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, 2010:

Purpose	Amount
Governmental activities	\$ 6,665,000
Business-type activities	4,613,908
Total general obligation bonds outstanding	<u>\$ 11,278,908</u>

Revenue bonds at June 30, 2010 consist of the following individual issues:
Governmental activities:

\$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%.	\$ 3,345,000
\$3,370,000 Greater Arizona Development Authority revenue bonds, series 2010A, due in annual installments of \$50,000 to \$240,000 through August 1, 2030; interest at 2.0% to 4.625%.	3,320,000
Total Governmental activities	<u>6,665,000</u>

Business-type activities:

\$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%.	4,613,908
Total Revenue Bonds	<u>\$ 11,278,908</u>

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
2011	\$ 1,735,000	\$ 326,393	\$ 315,123	\$ 163,678
2012	1,845,000	228,512	326,302	152,499
2013	120,000	130,038	337,877	140,924
2014	125,000	126,437	349,863	128,938
2015	130,000	122,688	362,275	116,526
2016-2020	725,000	531,437	2,013,514	380,491
2021-2025	885,000	369,974	908,954	48,650
2026-2030	1,100,000	157,251	-	-
Total	<u>\$ 6,665,000</u>	<u>\$ 1,992,730</u>	<u>\$ 4,613,908</u>	<u>\$ 1,131,706</u>

Authorized	\$ 61,200,000	\$ 15,000,000
Unissued	\$ 57,830,000	\$ 2,367,500

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.

Issued by the Municipal Facilities Corporation (MFC), 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 certificates of participation for the construction of a new United States Geological Survey (USGS) facility on land owned by the City.

Municipal Facility Corporate bonds outstanding at June 30, 2010:

Purpose	Amount
Governmental activities	\$ 19,890,000

Municipal facility corporation bonds are comprised of the following issues:

Governmental activities:

\$4,700,000 USGS Project Municipal Facility Corporation bonds, series 12 (2001) due in annual installments of \$255,000 to \$440,000, through August 1, 2016; interest at 4.0 to 4.75%.	\$ 2,360,000
\$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, 2020; interest at 2% to 5.25%	17,530,000
Total Municipal Facility Corporation Bonds	\$ 19,890,000

Annual debt service requirements to maturity for municipal facility debt are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
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	2,105,000	614,163
2016-2020	10,160,000	1,598,862
Total	<u>\$ 19,890,000</u>	<u>\$ 5,469,187</u>

Certificates of Participation

Capital lease certificates of participation series 2009 were issued to complete various street overlay projects and to finance fire operating equipment. Principal and interest on the bonds are payable from capital lease payments and are not considered general obligations of the City. They are appropriated along with all other expenditures of the general government.

Certificates of participation outstanding at June 30, 2010:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	<u>\$ 4,960,000</u>

Certificates of participation are comprised of the following issues:

Governmental activities:

\$4,690,000 Certificates of participation, series 2009 due in annual installments of \$435,000 to \$575,000, through October 1, 2019; interest at 3.3137%.	\$ 4,960,000
Total Certificates of participation	<u>\$ 4,960,000</u>

Annual debt service requirements to maturity for certificates of participation debt are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 435,000	\$ 151,945
2012	445,000	142,033
2013	455,000	129,645
2014	470,000	115,770
2015	485,000	101,445
2016-2020	2,670,000	255,055
Total	<u>\$ 4,960,000</u>	<u>\$ 895,893</u>

The following is a summary of debt service requirements, including interest requirements, to maturity for long-term debt at June 30, 2010:

Fiscal Year	General Obligation Bonds	Special Assessment Bonds	Revenue Bonds	Municipal Facility Corporation Bonds	Cetificates of Participation	Total
2011	\$ 5,077,759	\$ 1,403,625	\$ 2,540,194	\$ 2,720,071	\$ 586,945	\$ 12,328,594
2012	5,119,346	1,398,875	2,552,313	2,719,959	587,033	12,377,526
2013	4,961,446	1,402,875	728,839	2,723,169	584,645	10,400,974
2014	3,015,350	1,400,500	730,238	2,717,963	585,770	8,449,821
2015	2,491,313	1,401,750	731,489	2,719,163	586,445	7,930,160
2016	2,491,538	1,396,625	731,289	2,721,813	586,670	7,927,935
2017	2,487,038	1,400,000	730,889	2,258,163	585,673	7,461,763
2018	2,494,350	1,396,750	730,288	2,261,563	582,900	7,465,851
2019	2,495,250	1,396,875	729,489	2,259,713	583,313	7,464,640
2020	2,492,100	1,395,250	728,488	2,257,610	586,500	7,459,948
2021	2,493,000	1,391,875	732,288			4,617,163
2022	2,495,187	1,391,625	730,277			4,617,089
2023	1,791,386	1,394,250	249,250			3,434,886
2024		1,389,750	251,812			1,641,562
2025		1,388,125	248,950			1,637,075
2026		1,389,125	250,875			1,640,000
2027		1,387,625	251,625			1,639,250
2028		1,388,500	251,913			1,640,413
2029		1,386,625	251,737			1,638,362
2030		1,382,000	251,101			1,633,101
2031		1,384,375				1,384,375
2032		1,378,625				1,378,625
Less interest	(8,350,063)	(12,030,625)	(3,124,436)	(5,469,187)	(895,893)	(29,870,204)
	<u>\$ 31,555,000</u>	<u>\$ 18,615,000</u>	<u>\$ 11,278,908</u>	<u>\$ 19,890,000</u>	<u>\$ 4,960,000</u>	<u>\$ 86,298,908</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 Arizona Department of Transportation provides financing for the construction of 14 T hangars at the City Airport.

Loans outstanding as of June 30, 2010:

<u>Purpose</u>	<u>Amount</u>
Business-type activities	<u>\$ 36,256,607</u>
Loan payables at June 30, 2010 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%.	\$ 796,018
\$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%.	6,650,000
\$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%.	21,318,449
\$8,500,000 Water infrastructure finance authority due in annual installment of \$344,052 to \$628,065 through July 1, 2029; interest at 3.113%. Amount issued to-date \$6,312,923. Remaining available \$2,187,077.	6,011,987
\$2,100,000 Water infrastructure finance authority due in annual installment of \$77,263 to \$138,320 through July 1, 2029; interest at 3.113%. Amount issued to-date \$1,035,993. Remaining available \$1,064,007.	958,730
\$232,500 Water infrastructure finance authority due in annual installment of \$8,737 to \$15,054 through July 1, 2029; interest at 2.905%.	223,763
Total water and wastewater loan payable	<u>\$ 35,958,947</u>
Airport:	
\$600,000 Arizona Department of Transportation due in quarterly installments of \$5,337 to \$13,548 through January 1, 2016; interest at 5.60%.	\$ 297,660
Total	<u>\$ 36,256,607</u>

Annual debt service requirements to maturity for loan payables are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2011	2,094,609	1,106,712
2012	2,167,889	1,045,064
2013	1,825,024	981,251
2014	1,888,727	929,442
2015	1,954,403	875,815
2016-2020	10,670,719	3,523,200
2021-2025	12,583,315	1,949,486
2026-2028	3,071,921	321,459
Total	<u>\$ 36,256,607</u>	<u>\$ 10,732,429</u>

Obligations under Capital Leases

The City has entered into capital lease agreements for energy saving equipment, cardio equipment with total governmental assets of \$2,871,201 and 72,901 respectively. The construction of a co-generator at Wildcat Wastewater Treatment Plant and construction of airport hangars represents total business assets of \$1,611,311 and \$2,345,330, 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, 2010	Governmental Activities	Business Type Activities
2011	\$ 506,273	\$ 482,692
2012	490,670	482,692
2013	470,993	482,693
2014	470,993	482,691
2015	235,496	482,692
2016-2020	-	1,535,114
2021-2025	-	1,042,813
Total future minimum lease payments	2,174,425	4,991,387
Less: imputed interest costs	(170,654)	(1,312,220)
Present value of future minimum lease payments	<u>\$ 2,003,771</u>	<u>\$ 3,679,167</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, 2010 the City has recognized \$282,151 in arbitrage liability.

Pledged Revenues

The City has pledged future water utility and wastewater utility revenues to repay \$51,357,176 in Water Infrastructure Financing Authority Bonds issued during the period of 1992–2010. 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, 2010, \$41,969,527 remains outstanding to be repaid by future water and wastewater revenues, if such revenues prove insufficient, the remainder will be repaid as a general obligation of the City. For the fiscal year ended June 30, 2010, net revenue available for service of this debt was \$5,827,063. The debt principal and interest paid in fiscal year 2010 was \$4,092,333 (70.23% of available pledged net revenues). For additional information on pledged revenues related to 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, 2010, \$17,530,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2010, net revenues available for service of the debt were \$35,708,503. The debt principal and interest paid in fiscal year 2010 was \$2,260,200 (6.33% 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, 2010 \$2,360,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2010, net revenues available for service of this debt were \$11,929,099. The debt principal and interest paid in fiscal year 2010 was \$460,614 (3.86% 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. 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, 2010, \$3,345,000 remains outstanding on the Junior Lien Street and Highway User Revenue bonds to be repaid by future revenues. For the fiscal year ended June 30, 2010, net revenues available for service of this debt were \$6,429,355. The debt principal and interest paid in fiscal year 2010 was \$1,897,786 (29.52% 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.

The City has pledged certain revenues for the repayment of \$3,370,000 Greater Arizona Development Authority (GADA) revenue bonds issued in 2010 for the construction of a business incubator facility at the U.S. Geological Survey Campus. 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, 2010, \$3,320,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2010, net revenues available for the service of this debt were \$9,031,670. The debt principal and interest paid in fiscal year 2010 was \$106,297 (1.18% of available pledged net revenues). For additional information on pledged revenues for GADA 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 has been made out of the General, HURF, BBB, Library, and MPO funds.

Non-current liability activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 27,645,000	\$ -	\$ (1,780,000)	\$ 25,865,000	\$ 1,850,000
Special assessment bonds	19,169,000	-	(554,000)	18,615,000	485,000
Revenue bonds	4,865,000	3,370,000	(1,570,000)	6,665,000	1,735,000
Municipal facility corporate bonds	21,625,000	-	(1,735,000)	19,890,000	1,795,000
Certificates of participation	-	4,960,000	-	4,960,000	435,000
Total bonds payable	73,304,000	8,330,000	(5,639,000)	75,995,000	6,300,000
Capital leases	2,430,293	-	(426,522)	2,003,771	441,723
Bond premium	905,180	58,370	(78,853)	884,697	80,788
Compensated absences	3,478,644	1,967,942	(1,695,521)	3,751,065	1,695,521
Other postemployment benefits	875,578	73,489	-	949,067	-
Arbitrage rebate	449,927	-	(167,776)	282,151	282,151
Governmental activity long-term liability	<u>\$ 81,443,622</u>	<u>\$ 10,429,801</u>	<u>\$ (8,007,672)</u>	<u>\$ 83,865,751</u>	<u>\$ 8,800,183</u>
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 7,460,000	-	\$ (1,770,000)	\$ 5,690,000	\$ 1,860,000
Water & sewer revenue bonds	4,918,234	-	(304,326)	4,613,908	315,123
Total bonds payable	12,378,234	-	(2,074,326)	10,303,908	2,175,123
Water & sewer loan payable	36,672,012	1,268,493	(1,981,558)	35,958,947	2,055,517
Airport loan payable	334,636	-	(36,976)	297,660	39,092
Capital lease payable	3,959,823	-	(280,656)	3,679,167	294,707
Total loan and leases payable	40,966,471	1,268,493	(2,299,190)	39,935,774	2,389,316
Bond premium	33,527	-	(8,382)	25,145	8,382
Compensated absences	641,208	316,068	(320,192)	637,084	308,134
Other postemployment benefits	177,835	13,839	-	191,674	-
Landfill closure/postclosure	9,365,490	838,618	-	10,204,108	-
Business-type activity long-term liability	<u>\$ 63,562,765</u>	<u>\$ 2,437,018</u>	<u>\$ (4,702,090)</u>	<u>\$ 61,297,693</u>	<u>\$ 4,880,955</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, 2010 have potential exposure to the City of approximately \$440,566 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>
2007-08	\$ 414,392	\$ 224,304	\$ 259,686	\$ 379,010
2008-09	379,010	744,543	286,598	836,955
2009-10	836,955	82,521	478,910	440,566

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

The city is involved in litigation arising in the ordinary course of its operations. The City believes that its ultimate liability, if any, in connection with these matters will not have a material adverse effect on the City's financial position, changes in financial position, or liquidity. See schedule 23 in the statistical section for further information related to the City's insurance coverage.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The following table presents the City's commitments as of June 30, 2010:

Governmental Activities:	
General fund	\$ 1,034,782
Highway users revenue fund	408,659
BBB fund	105,209
Capital projects fund	7,783,804
Total governmental activities	<u>9,332,454</u>
Business - Type Activities:	
Water and wastewater fund	243,092
Airport fund	15,138
Stormwater fund	25,322
Total business-type activities	<u>283,552</u>
Total governmental and business-type activities	<u>\$ 9,616,006</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.

During fiscal year 2010, the owners were unable to make the December 2010 special assessment payment and has since deeded over a portion of property to the City of Flagstaff. The City is currently holding property that represents \$9.4M of the \$19M of the special assessment bonds. The City plans to place the property out for bid in fiscal year 2011 to alleviate most if not all of the debt.

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, 2010, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.40% (9.00% retirement and 0.40% long-term disability) of the members' annual covered payroll and the City was required by statute to contribute at the actuarially determined rate of 9.40% (8.34% retirement, .66% for health insurance premium, and 0.40% long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2010, 2009, and 2008 were \$2,810,122, \$2,808,113, and \$2,668,338 respectively. 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>
6/30/2010	\$ 2,493,236	\$ 197,306	\$ 119,580
6/30/2009	2,374,267	285,269	148,577
6/30/2008	2,237,513	291,849	138,976

In addition, active EORP members were required by statute to contribute 7% of the members' annual covered payroll. The City was required to contribute 26.25% 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 .85% of covered payroll. The City's contributions to EORP for the years ended June 30, 2010, 2009, and 2008 were \$33,327, \$35,490, and \$17,221 respectively, which equal the required contributions for each year.

Agent Plan – For the year ended June 30, 2010, 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 22.15% and 27.48% for Police and Fire respectively. Police personnel contributed \$530,204; Fire personnel contributed \$341,579 during fiscal year 2009-2010. The City annual pension cost of \$1,535,167 for police and \$1,227,004 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, 2010, the date of the most recent actuarial valuation, and related information follow.

	PSPRS		
	Police	Fire	EORP
Contribution rates FY09–2010:			
City	22.15%	27.48%	26.25%
Plan members	7.65%	7.65%	7.00%
Annual pension costs	\$ 1,489,864	\$ 1,275,572	\$ 32,248
Pension contributions made	\$ 1,489,864	\$ 1,275,572	\$ 32,248
Annual OPEB costs – Health Insurance	\$ 49,219	\$ 85,486	\$ 1,079
OPEB contributions made	\$ 49,219	\$ 85,486	\$ 1,079
As of actuarial valuation date:	6/30/2010	6/30/2010	6/30/2010
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 percent-of-pay closed
Remaining amortization period–UAL	26 years	26 years	26 years
Remaining amortization period–excess	20 years	20 years	20 years
Asset valuation method	7–year smoothed market	7–year smoothed market	7–year smoothed market
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%
Cost of living adjustments	None	None	None

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

Contributions Required and Contributions Made

<u>Plan</u>		<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>		<u>Net Pension Obligation</u>
PSRS – Police – Pension					
6/30/2010	\$	1,489,864	100%	\$	-0-
6/30/2009		1,604,408	100%		-0-
6/30/2008		1,055,645	100%		-0-
PSRS – Police – Health Insurance					
6/30/2010	\$	49,219	100%	\$	-0-
6/30/2009		50,016	100%		-0-
6/30/2008		57,046	100%		-0-
PSRS – Fire – Pension					
6/30/2010	\$	1,275,572	100%	\$	-0-
6/30/2009		1,497,199	100%		-0-
6/30/2008		1,018,372	100%		-0-
PSRS – Fire – Health Insurance					
6/30/2010	\$	85,486	100%	\$	-0-
6/30/2009		78,731	100%		-0-
6/30/2008		78,386	100%		-0-
EORP – Pension					
6/30/2010	\$	32,248	100%	\$	-0-
6/30/2009		34,337	100%		-0-
6/30/2008		16,326	100%		-0-
EORP – Health Insurance					
6/30/2010	\$	1,079	100%	\$	-0-
6/30/2009		1,153	100%		-0-
6/30/2008		895	100%		-0-

Schedule of Funding Progress – An analysis of funding progress for each of the agent plans as of the most recent actuarial valuations; June 30, 2008 reporting period determines the rates for fiscal year 2010. 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						
6/30/2010 \$	23,962,276 \$	41,447,390	57.8% \$	17,485,114 \$	6,907,462	253.1%
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%
PSRS – Police Health Insurance						
6/30/2010 \$	- \$	953,355	0.0% \$	953,355 \$	6,907,462	13.8%
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%
PSRS – Fire Pension						
6/30/2010 \$	32,605,835 \$	48,099,507	67.8% \$	15,493,672 \$	4,671,743	331.6%
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%
PSRS – Fire Health Insurance						
6/30/2010 \$	- \$	1,394,422	0.0% \$	1,394,422 \$	4,671,743	29.8%
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%

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, 2010, there were 75 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%. Plan members receiving benefits contribute \$564,489 during fiscal year 2010.

Annual OPEB Cost and Net OPEB Obligation. For 2010, the city's annual OPEB cost (expense) of \$1,083,938 was equal to the ARC plus interest on the net OPEB obligation of \$30,525. The city's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 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>
6/30/2010	\$ 1,083,938	\$ 621,538	57.3%	\$ 1,140,741
6/30/2009	1,053,413	375,072	35.6%	678,341
6/30/2008	(1)	(1)	(1)	(1)

(1) Information not available

<u>Fiscal Year Ended</u>	<u>(1) Annual Required Contribution</u>	<u>(2) Interest on Existing NOO</u>	<u>(3) ARC Adjustment</u>	<u>(4) Annual OPEB Cost (1) + (2) + (3)</u>	<u>(5) Actual Contribution Amount</u>	<u>(6) Net Increase in NOO (4) - (5)</u>	<u>(7) NOO as of End of Year</u>
6/30/2010	\$ 1,053,413	\$ 30,525	\$ -	\$ 1,083,938	\$ 621,538	\$ 462,400	\$ 1,140,741
6/30/2009	1,053,413	-	-	1,053,413	375,072	678,341	678,341
6/30/2008	(1)	(1)	(1)	(1)	(1)	(1)	(1)

(1) Information not available

Funded Status and Funding Progress. As of July 1, 2008, the actuarial accrued liability for benefits was \$8,946,294, all of which was unfunded. The covered payroll of active employees covered by the plan is \$42,292,297, and the ratio of the unfunded actuarial accrued liability to the covered payroll is 21.2 percent. Following is a table of the last three years funding progress as available.

<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>
7/1/2008	\$ -	\$ 8,946,294	0.0%	\$ 8,946,294	\$ 42,292,297	21.2%

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, open, level dollar amount. The City has elected to perform biennial actuary valuations.

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 \$10,204,108 as of June 30, 2010, which is based on 64.58 percent usage of the landfill. The remaining \$5,597,074 will be accrued over the remaining life of the landfill, which is currently estimated to be 18 years. The accrual for the closure and postclosure care costs for fiscal year 2010 was \$326,310. 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, 2010 the balance of the investments held for those purposes is \$8,907,689. 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, \$15,801,182, 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, 2010. 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 October 2009 the City was approved for a loan by the Water Infrastructure Finance Authority of Arizona (WIFA) to improve the City's water infrastructure. These loans will provide for future water rights, \$800,000 and infrastructure related to the Fort Tuthill Well, \$1,000,000. Draws for these loans become available during the year but were not requested until FY2011.

Presidio in the Pines, a privately funded housing development, has not been completed and several of the development's principal investors, have declared bankruptcy. The City of Flagstaff is holding four bonds to complete some or all of the public infrastructure portion of the project and has called those bonds. The City's legal counsel is negotiating with the surety to facilitate payment of the remaining penal sums of the bonds in order to complete the project. Recently, a complaint was filed in the Coconino County Superior Court on behalf of the Presidio in the Pines Homeowners Association and various developers against the City asserting that the entire bonds be called and that the City use these funds to complete the public and private improvements remaining. The suit alleges that the City was negligent by not obtaining a high enough bond from the original developers in order to complete both the public and private portions of the infrastructure. A value has not been determined to date.

On June 8, 2010, City Council adopted resolution #2010-40, an amendment to City Code Chapter 1-13 regarding the Flagstaff Housing Authority. This changed the status of the Flagstaff Housing Authority to become a section of the City within the Community Development division. Since resolutions require a 30 day public review before becoming effective, the Flagstaff Housing Authority will not officially be a section of the City until fiscal year 2011. The Flagstaff Housing Authority had a separate independent audit for fiscal year 2010.

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.

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.

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.

Capital Projects Fund

A capital project fund is established to account for the acquisition and construction of major capital facilities and enhances reporting to ensure that requirements regarding the use of the revenue were fully satisfied.

Capital Projects Bond Fund

This fund accounts for the receipt of proceeds from bonds and the expenditure of those funds to purchase or construct capital assets for the City.

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, 2010

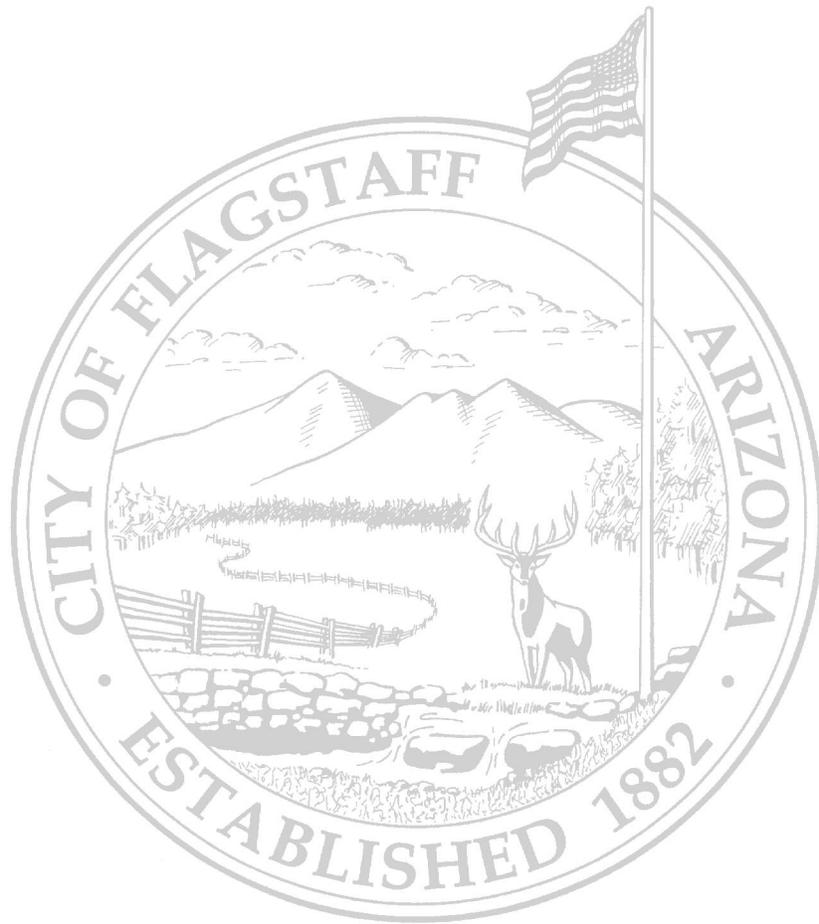
	Special Revenue Funds		
	Library Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
ASSETS			
Cash and investments	\$ 1,796,803	\$ 1,527,049	\$ 9,524
Cash with fiscal agents	-	-	-
Accounts receivable, net	127,550	250	-
Interest receivable	4,940	2,437	-
Intergovernmental receivables	309	247,460	165,452
Restricted cash and investments	2,537,558	-	-
Total assets	<u>\$ 4,467,160</u>	<u>\$ 1,777,196</u>	<u>\$ 174,976</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 505,356	\$ 75,638	\$ 5,592
Accrued payroll and compensated absences	117,643	3,445	10,804
Current bonds payable	-	-	-
Interest payable	-	-	-
Interfund payable	-	-	150,000
Deferred revenue	131,504	-	2,529
Arbitrage liability	-	-	-
Total liabilities	<u>754,503</u>	<u>79,083</u>	<u>168,925</u>
Fund balances:			
Nonspendable:			
Perpetual care	-	-	-
Restricted for:			
Library services	714,053	-	-
Debt service	-	-	-
Other capital projects	-	-	-
Grantor and contributor purposes	131,504	1,698,113	6,051
Committed to:			
Affiliate libraries	2,215,450	-	-
Perpetual care	-	-	-
Assigned to:			
Library services	651,650	-	-
Total fund balances	<u>3,712,657</u>	<u>1,698,113</u>	<u>6,051</u>
Total liabilities and fund balances	<u>\$ 4,467,160</u>	<u>\$ 1,777,196</u>	<u>\$ 174,976</u>

Debt Service Funds		Capital Projects Funds	Permanent Fund	Total Other Governmental Funds
General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Capital Projects Bond Construction	Perpetual Care	
\$ 826,322	\$ 3,051,713	\$ 1,199,438	\$ 12,713	\$ 8,423,562
1,920,459	-	-	-	1,920,459
-	-	-	205	128,005
-	7,802	2,358	237	17,774
-	-	-	-	413,221
-	-	2,704,413	137,621	5,379,592
<u>\$ 2,746,781</u>	<u>\$ 3,059,515</u>	<u>\$ 3,906,209</u>	<u>\$ 150,776</u>	<u>\$ 16,282,613</u>
\$ -	\$ -	\$ 426,482	\$ -	\$ 1,013,068
-	-	-	-	131,892
1,780,000	-	-	-	1,780,000
618,426	-	-	-	618,426
-	-	-	-	150,000
-	-	-	-	134,033
-	-	282,151	-	282,151
<u>2,398,426</u>	<u>-</u>	<u>708,633</u>	<u>-</u>	<u>4,109,570</u>
-	-	-	137,621	137,621
-	-	-	-	714,053
348,355	3,059,515	282,151	-	3,690,021
-	-	2,915,425	-	2,915,425
-	-	-	-	1,835,668
-	-	-	-	2,215,450
-	-	-	13,155	13,155
-	-	-	-	651,650
<u>348,355</u>	<u>3,059,515</u>	<u>3,197,576</u>	<u>150,776</u>	<u>12,173,043</u>
<u>\$ 2,746,781</u>	<u>\$ 3,059,515</u>	<u>\$ 3,906,209</u>	<u>\$ 150,776</u>	<u>\$ 16,282,613</u>

CITY OF FLAGSTAFF, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2010

	Special Revenue Funds		
	Library Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
REVENUES:			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	3,762,831	-	-
Grants and entitlements	96,345	681,869	278,039
Charges for services	-	78,925	-
Investment earnings	26,844	13,223	-
Contributions	21,950	-	221
Miscellaneous	29,461	900	-
Total revenues	<u>3,937,431</u>	<u>774,917</u>	<u>278,260</u>
EXPENDITURES:			
Current:			
Public safety	-	-	-
Economic and physical development	-	1,148,931	313,578
Culture and recreation	4,456,009	-	-
Highways and streets	-	-	-
Debt service:			
Principal retirement	-	-	-
Interest and other charges	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>4,456,009</u>	<u>1,148,931</u>	<u>313,578</u>
Excess (deficiency) of revenues over expenditures	<u>(518,578)</u>	<u>(374,014)</u>	<u>(35,318)</u>
OTHER FINANCING SOURCES (USES):			
Issuance of capital debt	-	-	-
Bond premium	-	-	-
Sale of capital assets	1,509	34,985	-
Transfers in	1,260,910	229,074	24,300
Transfers out	(78,391)	(14,000)	-
Total other financing sources (uses)	<u>1,184,028</u>	<u>250,059</u>	<u>24,300</u>
Net change in fund balances	<u>665,450</u>	<u>(123,955)</u>	<u>(11,018)</u>
Fund balances, beginning of year, as restated	<u>3,047,207</u>	<u>1,822,068</u>	<u>17,069</u>
Fund balances, end of year	<u>\$ 3,712,657</u>	<u>\$ 1,698,113</u>	<u>\$ 6,051</u>

Debt Service Funds		Capital Projects Funds	Permanent Fund	
General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Capital Projects Bond Construction	Perpetual Care	Total Other Governmental Funds
\$ -	\$ 7,620,317	\$ -	\$ -	\$ 7,620,317
-	-	-	-	3,762,831
-	-	-	-	1,056,253
-	-	-	-	78,925
-	35,985	23,220	1,242	100,514
-	-	490,160	19,136	531,467
-	-	11,554	-	41,915
-	<u>7,656,302</u>	<u>524,934</u>	<u>20,378</u>	<u>13,192,222</u>
-	-	5,512	-	5,512
-	-	9,791	-	1,472,300
-	-	-	-	4,456,009
-	-	210	-	210
1,780,000	-	-	-	1,780,000
1,239,926	-	282,151	-	1,522,077
-	-	2,596,565	-	2,596,565
<u>3,019,926</u>	<u>-</u>	<u>2,894,229</u>	<u>-</u>	<u>11,832,673</u>
<u>(3,019,926)</u>	<u>7,656,302</u>	<u>(2,369,295)</u>	<u>20,378</u>	<u>1,359,549</u>
-	-	3,720,000	-	3,720,000
-	-	39,304	-	39,304
-	-	991,165	-	1,027,659
3,019,926	-	291,281	-	4,825,491
-	(6,821,281)	(1,006,297)	-	(7,919,969)
<u>3,019,926</u>	<u>(6,821,281)</u>	<u>4,035,453</u>	<u>-</u>	<u>1,692,485</u>
-	835,021	1,666,158	20,378	3,052,034
<u>348,355</u>	<u>2,224,494</u>	<u>1,531,418</u>	<u>130,398</u>	<u>9,121,009</u>
<u>\$ 348,355</u>	<u>\$ 3,059,515</u>	<u>\$ 3,197,576</u>	<u>\$ 150,776</u>	<u>\$ 12,173,043</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, 2010

Program	Land	Buildings	Improvements
General government	\$ 3,627,272	\$ 13,759,364	\$ 1,894,249
Public safety	1,623,693	23,258,835	81,845
Public works	-	5,426,635	198,275
Economic and physical development	1,780,775	7,541,573	78,116
Culture and recreation	3,464,097	20,011,645	17,128,129
Highway and streets	33,156,632	102,310	2,251,981
Subtotal	43,652,469	70,100,362	21,632,595
Less: accumulated depreciation	-	(15,234,122)	(11,560,078)
Total governmental funds capital assets	<u>\$ 43,652,469</u>	<u>\$ 54,866,240</u>	<u>\$ 10,072,517</u>

Machinery and Equipment	Construction In Progress	Infrastructure	Total
\$ 3,793,204	\$ 103,570	\$ -	\$ 23,177,659
11,624,311	3,068,165	-	39,656,849
1,414,539	-	-	7,039,449
1,089,816	(299,362)	652,947	10,843,865
4,423,717	2,419,227	6,903,434	54,350,249
8,196,060	10,217,417	256,150,673	310,075,073
30,541,647	15,509,017	263,707,054	445,143,144
(19,418,790)	-	(103,641,562)	(149,854,552)
\$ 11,122,857	\$ 15,509,017	\$ 160,065,492	\$ 295,288,592

City of Flagstaff, Arizona
 Capital Assets Used in the Operation of Governmental Funds
 Schedule of Changes By Function and Activity
 June 30, 2010

Program	Balance July 1, 2009	Additions	Retirements	Transfers In (out)	Balance June 30, 2010
General government	\$ 46,695,723	\$ -	\$ (42,650)	\$ (23,475,415)	\$ 23,177,659
Public safety	36,774,846	1,890,215	(323,482)	1,315,270	39,656,849
Public works	7,152,929	285,317	(150,086)	(248,711)	7,039,449
Economic and physical development	10,984,538	126,803	(100,136)	(167,340)	10,843,865
Culture and recreation	50,594,467	3,635,968	(13,865)	133,680	54,350,249
Highway and streets	281,198,789	13,827,128	(169,743)	15,218,900	310,075,073
Total	<u>\$ 433,401,292</u>	<u>\$ 19,765,429</u>	<u>\$ (799,961)</u>	<u>\$ (7,223,616)</u>	<u>\$ 445,143,144</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, 2010

	<u>Budget</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Special assessments	\$ 1,402,250	\$ 1,402,250	\$ 1,513,936	\$ 111,686
Investment earnings	2,400	2,400	1,351	(1,049)
Total revenues	<u>1,404,650</u>	<u>1,404,650</u>	<u>1,515,287</u>	<u>110,637</u>
EXPENDITURES:				
Debt service:				
Principal retirement	554,000	554,000	554,000	-
Interest and other charges	<u>946,801</u>	<u>946,801</u>	<u>945,888</u>	<u>913</u>
Total expenditures	<u>1,500,801</u>	<u>1,500,801</u>	<u>1,499,888</u>	<u>913</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(96,151)</u>	<u>(96,151)</u>	<u>15,399</u>	<u>111,550</u>
Net change in fund balances	<u>(96,151)</u>	<u>(96,151)</u>	<u>15,399</u>	<u>111,550</u>
Budgetary fund balances, beginning of year	<u>96,951</u>	<u>96,951</u>	<u>96,951</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 800</u>	<u>\$ 800</u>	<u>\$ 112,350</u>	<u>\$ 111,550</u>

CITY OF FLAGSTAFF, ARIZONA
Library Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2010

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 6,449,810	\$ 6,449,810	\$ 3,762,831	\$ (2,686,979)
Grants and entitlements	25,000	25,000	96,345	71,345
Investment earnings	50,000	50,000	26,844	(23,156)
Miscellaneous	20,809	20,809	29,461	8,652
Total revenues	<u>6,545,619</u>	<u>6,545,619</u>	<u>3,915,481</u>	<u>(2,630,138)</u>
EXPENDITURES:				
Current:				
Culture and recreation	7,740,516	7,740,516	4,456,009	3,284,507
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>7,840,516</u>	<u>7,840,516</u>	<u>4,456,009</u>	<u>3,384,507</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,294,897)</u>	<u>(1,294,897)</u>	<u>(540,528)</u>	<u>754,369</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,260,910	1,260,910	1,260,910	-
Transfers out	<u>(328,391)</u>	<u>(328,391)</u>	<u>(78,391)</u>	<u>250,000</u>
Total other financing sources (uses)	<u>932,519</u>	<u>932,519</u>	<u>1,182,519</u>	<u>250,000</u>
Net change in fund balances	<u>(362,378)</u>	<u>(362,378)</u>	<u>641,991</u>	<u>1,004,369</u>
Budgetary fund balances, beginning of year	<u>626,643</u>	<u>626,643</u>	<u>626,643</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 264,265</u>	<u>\$ 264,265</u>	<u>\$ 1,268,634</u>	<u>\$ 1,004,369</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 641,991	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>23,459</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 665,450</u>	

CITY OF FLAGSTAFF, ARIZONA
Community Redevelopment Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2010

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 1,855,040	\$ 1,855,040	\$ 681,869	\$ (1,173,171)
Charges for services	-	-	78,925	78,925
Investment earnings	-	-	13,223	13,223
Miscellaneous	-	-	900	900
Total revenues	<u>1,855,040</u>	<u>1,855,040</u>	<u>774,917</u>	<u>(1,080,123)</u>
EXPENDITURES:				
Current:				
Economic and physical development	3,611,460	3,611,460	1,148,931	2,462,529
Total expenditures	<u>3,611,460</u>	<u>3,611,460</u>	<u>1,148,931</u>	<u>2,462,529</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,756,420)</u>	<u>(1,756,420)</u>	<u>(374,014)</u>	<u>1,382,406</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	229,074	229,074	229,074	-
Transfers out	(14,000)	(14,000)	(14,000)	-
Total other financing sources (uses)	<u>215,074</u>	<u>215,074</u>	<u>215,074</u>	<u>-</u>
Net change in fund balances	<u>(1,541,346)</u>	<u>(1,541,346)</u>	<u>(158,940)</u>	<u>1,382,406</u>
Budgetary fund balances, beginning of year	<u>1,663,992</u>	<u>1,663,992</u>	<u>1,663,992</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 122,646</u>	<u>\$ 122,646</u>	<u>\$ 1,505,052</u>	<u>\$ 1,382,406</u>
Adjustment of budetary basis to GAAP basis net change in fund balances			\$ (158,940)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			34,985	
Adjusted net change in fund balance – GAAP basis			<u>\$ (123,955)</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, 2010

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 401,526	\$ 401,526	\$ 278,039	\$ (123,487)
Miscellaneous	-	-	221	221
Total revenues	401,526	401,526	278,260	(123,266)
EXPENDITURES:				
Current:				
Economic and physical development	325,826	325,826	313,578	12,248
Contingency	100,000	100,000	-	100,000
Total expenditures	425,826	425,826	313,578	112,248
Excess (deficiency) of revenues over (under) expenditures	(24,300)	(24,300)	(35,318)	(11,018)
OTHER FINANCING SOURCES (USES):				
Transfers in	24,300	24,300	24,300	-
Total other financing sources (uses)	24,300	24,300	24,300	-
Net change in fund balances	-	-	(11,018)	(11,018)
Budgetary fund balances, beginning of year	-	-	-	-
Budgetary fund balances, end of year	\$ -	\$ -	\$ (11,018)	\$ (11,018)

CITY OF FLAGSTAFF, ARIZONA
General Obligation Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2010

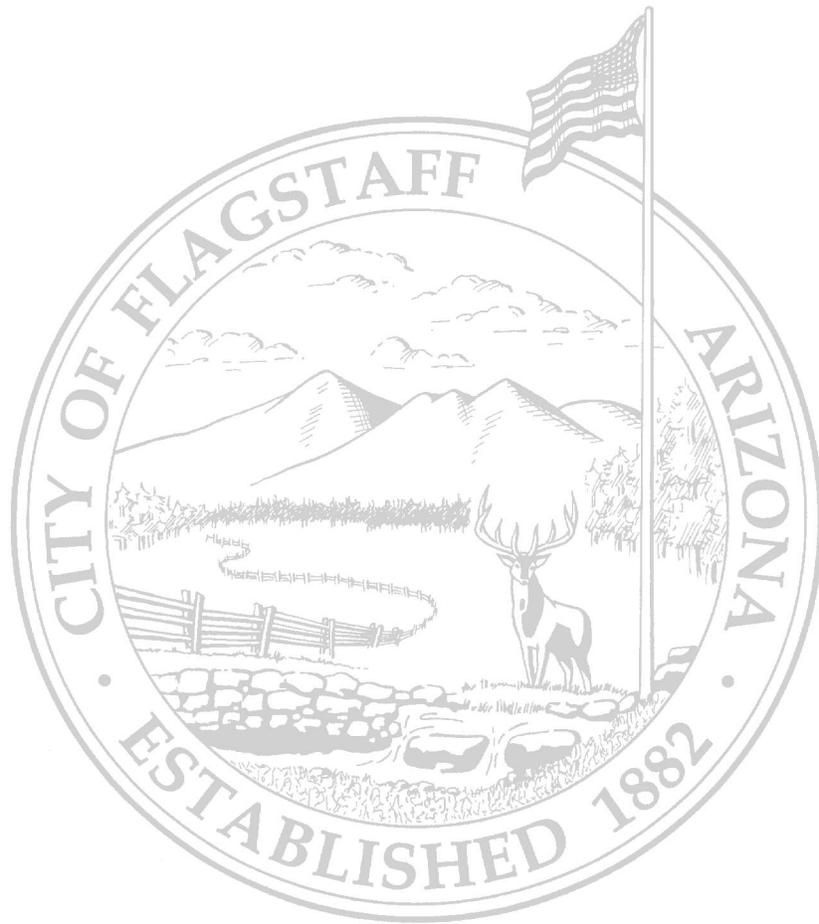
	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES:				
Debt service:				
Principal retirement	\$ 1,780,000	\$ 1,780,000	\$ 1,780,000	\$ -
Interest and other charges	1,690,772	1,690,772	1,239,926	(450,846)
Total expenditures	<u>3,470,772</u>	<u>3,470,772</u>	<u>3,019,926</u>	<u>(450,846)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,470,772)</u>	<u>(3,470,772)</u>	<u>(3,019,926)</u>	<u>450,846</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	3,470,772	3,470,772	3,019,926	(450,846)
Total other financing sources (uses)	<u>3,470,772</u>	<u>3,470,772</u>	<u>3,019,926</u>	<u>(450,846)</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, 2010

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 7,631,176	\$ 7,631,176	\$ 7,620,317	\$ (10,859)
Investment earnings	79,700	79,700	35,985	(43,715)
Total revenues	<u>7,710,876</u>	<u>7,710,876</u>	<u>7,656,302</u>	<u>(54,574)</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(7,272,127)	(7,272,127)	(6,821,281)	450,846
Total other financing sources (uses)	<u>(7,272,127)</u>	<u>(7,272,127)</u>	<u>(6,821,281)</u>	<u>450,846</u>
Net change in fund balances	<u>438,749</u>	<u>438,749</u>	<u>835,021</u>	<u>396,272</u>
Budgetary fund balances, beginning of year	<u>2,355,611</u>	<u>2,355,611</u>	<u>2,355,611</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 2,794,360</u>	<u>\$ 2,794,360</u>	<u>\$ 3,190,632</u>	<u>\$ 396,272</u>

CITY OF FLAGSTAFF, ARIZONA
Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2010

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Miscellaneous	\$ 3,000,000	\$ 3,000,000	\$ 11,554	\$ (2,988,446)
Investment earnings	82,248	82,248	23,220	(59,028)
Contributions	477,635	477,635	490,160	12,525
Total revenues	<u>3,559,883</u>	<u>3,559,883</u>	<u>524,934</u>	<u>(3,034,949)</u>
EXPENDITURES:				
Current:				
Capital outlay	11,712,602	11,712,602	2,894,229	8,818,373
Total expenditures	<u>11,712,602</u>	<u>11,712,602</u>	<u>2,894,229</u>	<u>8,818,373</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,152,719)</u>	<u>(8,152,719)</u>	<u>(2,369,295)</u>	<u>5,783,424</u>
OTHER FINANCING SOURCES (USES):				
Bonds issued	16,400,000	16,400,000	3,720,000	(12,680,000)
Sale of capital assets	1,425,000	1,425,000	991,165	(433,835)
Transfers in	27,300	27,300	291,281	263,981
Transfers out	(200,000)	(200,000)	(1,006,297)	(806,297)
Total other financing sources (uses)	<u>17,652,300</u>	<u>17,652,300</u>	<u>3,996,149</u>	<u>(13,656,151)</u>
Net change in fund balances	<u>9,499,581</u>	<u>9,499,581</u>	<u>1,626,854</u>	<u>(7,872,727)</u>
Budgetary fund balances, beginning of year	<u>2,032,935</u>	<u>2,032,935</u>	<u>2,032,935</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 11,532,516</u>	<u>\$ 11,532,516</u>	<u>\$ 3,659,789</u>	<u>\$ (7,872,727)</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ 1,626,854	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>39,304</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 1,666,158</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 These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.	102
Revenue Capacity These schedules contain information to help the reader assess the city's most significant local revenue source, sales tax.	110
Debt Capacity 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.	116
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place.	127
Operating Information 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.	129

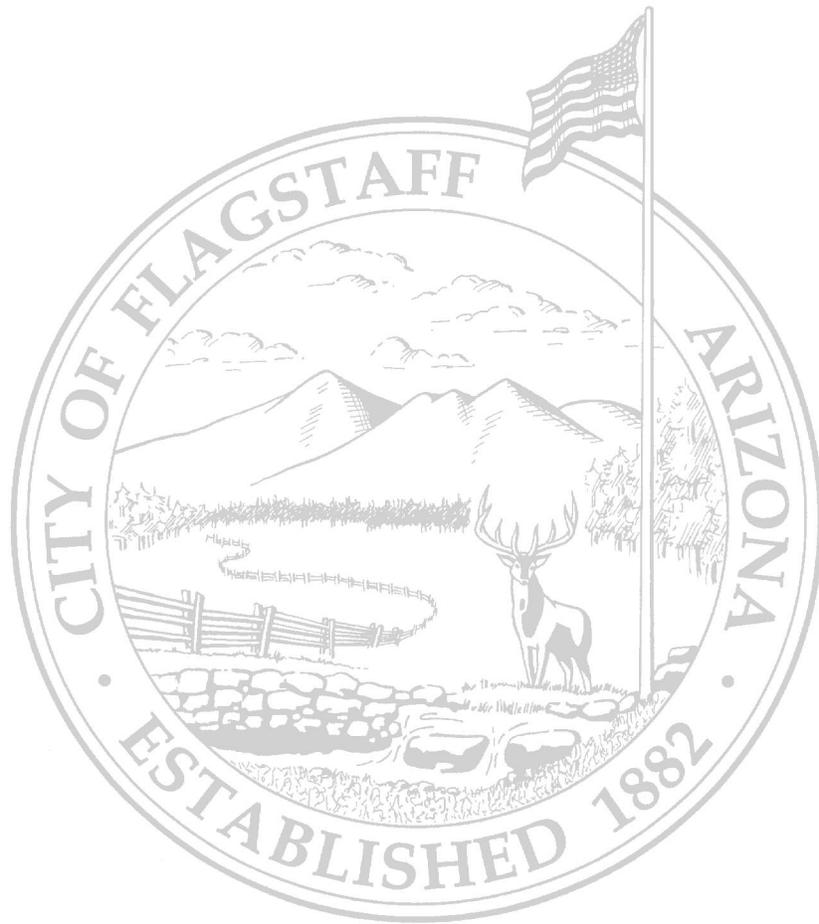
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

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

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities								
Invested in capital assets, net of related debt	\$ 45,410,334	\$ 41,666,412	\$ 46,759,889	\$ 184,594,782	\$ 204,594,974 (1)	\$ 214,268,448	\$ 215,672,933	\$ 213,762,870
Restricted	14,778,358	35,343,236	20,670,257	45,560,390	13,795,935	14,875,852	7,975,269	18,213,829
Unrestricted	34,178,175	33,494,972	56,392,865	10,448,150	36,514,677 (2)	39,248,151	34,766,602	49,463,587
Total governmental activities net assets	<u>\$ 94,366,867</u>	<u>\$ 110,504,620</u>	<u>\$ 123,823,011</u>	<u>\$ 240,603,322</u>	<u>\$ 254,905,586</u>	<u>\$ 268,392,451 (3)</u>	<u>\$ 258,414,804 (4)</u>	<u>\$ 281,440,286</u>
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	\$ 302,784,152
Restricted	5,013,627	5,161,363	3,200,521	2,392,858	2,424,615	1,593,915	1,593,915	2,209,327
Unrestricted	20,858,057	24,092,049	24,948,848	20,303,463	19,267,461	16,250,436	11,547,792	10,895,855
Total business-type activities and net assets	<u>\$ 199,241,125</u>	<u>\$ 214,117,224</u>	<u>\$ 228,700,586</u>	<u>\$ 252,731,451</u>	<u>\$ 286,073,806</u>	<u>\$ 294,627,514</u>	<u>\$ 304,849,517</u>	<u>\$ 315,889,334</u>
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	\$ 516,547,022
Restricted	19,791,985	40,504,599	23,870,778	47,953,248	16,220,550	16,469,767	9,569,184	20,423,156
Unrestricted	55,036,232	57,587,021	81,341,713	30,751,613	55,782,138	55,498,587	46,314,394	60,359,442
Total primary government net assets	<u>\$ 293,607,992</u>	<u>\$ 324,621,844</u>	<u>\$ 352,523,597</u>	<u>\$ 493,334,773</u>	<u>\$ 540,979,392</u>	<u>\$ 563,019,965</u>	<u>\$ 563,264,321</u>	<u>\$ 597,329,620</u>

- (1) FY 2007 restated for retroactive reporting of infrastructure
- (2) FY 2007 restated for retroactive reporting due to an accounting error
- (3) FY 2008 change in calculations within categories due to calculation error. No net change to total net assets.
- (4) FY 2009 restated for change due to accounting error

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 Eight Fiscal Years
(accrual basis of accounting)

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Expenses								
Governmental activities:								
General government	\$ 4,840,896	\$ 5,891,617	\$ 5,441,945	\$ 7,458,583	\$ 9,035,268	\$ 11,271,031	\$ 10,913,187	\$ 8,238,178
Public safety	18,270,468	18,792,832	21,018,114	22,525,292	23,994,991	27,030,331	29,287,433	26,592,968
Public works	1,169,302	1,178,137	1,320,459	1,454,731	1,882,489	1,894,089	2,109,221	1,502,626
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	8,827,578
Culture and recreation	8,467,575	8,693,714	9,426,600	8,328,945	10,089,469	11,607,116	13,120,917	12,507,679
Highways and streets	6,184,553	8,886,947	10,011,231	12,043,242	14,557,140	15,515,643	19,297,615	17,856,121
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	3,918,110
Total governmental activities expense	<u>47,585,091</u>	<u>51,839,862</u>	<u>56,068,215</u>	<u>61,821,404</u>	<u>72,157,903</u>	<u>80,790,765</u>	<u>88,726,876</u>	<u>79,443,260</u>
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	21,731,286
Environmental	7,556,614	7,319,602	8,548,715	9,096,420	10,073,853	11,423,164	11,782,540	11,091,078
Airport	3,411,603	3,370,447	3,749,669	3,519,749	3,162,391	3,608,322	4,197,447	4,273,609
Stormwater	-	460,936	479,700	791,791	1,019,248	1,160,604	1,203,436	1,258,072
Total business-type activities expense	<u>27,110,257</u>	<u>28,401,426</u>	<u>30,075,101</u>	<u>31,860,328</u>	<u>34,200,858</u>	<u>39,612,372</u>	<u>39,985,739</u>	<u>38,354,045</u>
Total primary government expense	<u>\$ 74,695,348</u>	<u>\$ 80,241,288</u>	<u>\$ 86,143,316</u>	<u>\$ 93,681,732</u>	<u>\$ 106,358,761</u>	<u>\$ 120,403,137</u>	<u>\$ 128,712,615</u>	<u>\$ 117,797,305</u>
Program Revenues								
Governmental activities:								
Charges for services:								
General government	\$ 4,757,483	\$ 3,257,393	\$ 3,611,862	\$ 4,886,354	\$ 4,171,853	\$ 3,746,890	\$ 3,099,884	\$ 3,285,242
Public safety	743,738	451,802	498,506	815,167	704,800	1,227,979	1,451,405	1,283,697
Public works	830,885	976,793	1,213,714	1,180,097	1,455,461	1,483,275	1,350,832	1,471,550
Economic and physical development	222,008	16,164	321,915	332,356	562,135	315,462	369,987	291,211
Culture and recreation	733,159	722,236	680,755	683,906	742,088	762,410	1,559,617	1,420,094
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	5,990,756	6,654,978
Capital grants and contributions	9,646,122	11,757,330	15,180,401	21,566,549	19,356,271	16,324,928	9,880,762	36,949,681
Total governmental activities program revenues	<u>20,481,689</u>	<u>19,860,371</u>	<u>25,654,682</u>	<u>33,255,955</u>	<u>29,054,937</u>	<u>27,181,541</u>	<u>23,703,243</u>	<u>51,356,453</u>

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

Business-type activities:

Charges for services:								
Water and wastewater	16,534,341	16,678,956	16,223,648	17,047,831	17,337,916	17,947,605	17,328,927	17,539,873
Environmental	7,682,458	8,201,566	9,370,561	9,723,652	9,839,486	10,813,177	11,545,472	11,329,336
Airport	926,406	944,983	1,176,866	1,261,594	1,122,274	1,207,831	1,187,105	1,359,029
Stormwater	-	546,807	694,161	630,962	1,042,701	1,137,402	1,247,878	1,358,438
Operating grants and contributions	382,239	286,919	574,376	369	19,500	67,651	10,966	120,054
Capital grants and contributions	9,460,796	10,482,991	8,164,775	23,449,969	27,369,058	12,242,567	8,744,216	6,790,709
Total business-type activities program revenues	<u>34,986,240</u>	<u>37,142,222</u>	<u>36,204,387</u>	<u>52,114,377</u>	<u>56,730,935</u>	<u>43,416,233</u>	<u>40,064,564</u>	<u>38,497,439</u>
Total primary government program revenues	<u>\$ 55,467,929</u>	<u>\$ 57,002,593</u>	<u>\$ 61,859,069</u>	<u>\$ 85,370,332</u>	<u>\$ 85,785,872</u>	<u>\$ 70,597,774</u>	<u>\$ 63,767,807</u>	<u>\$ 89,853,892</u>

Net (Expense)/Revenue

Governmental activities	\$ (27,103,402)	\$ (31,979,491)	\$ (30,413,533)	\$ (28,565,449)	\$ (43,102,966)	\$ (53,609,224)	\$ (65,023,633)	\$ (28,086,807)
Business-type activities	7,875,983	8,740,796	6,129,286	20,254,049	22,530,077	3,803,861	78,825	143,394
Total primary government net expense	<u>\$ (19,227,419)</u>	<u>\$ (23,238,695)</u>	<u>\$ (24,284,247)</u>	<u>\$ (8,311,400)</u>	<u>\$ (20,572,889)</u>	<u>\$ (49,805,363)</u>	<u>\$ (64,944,808)</u>	<u>\$ (27,943,413)</u>

General Revenues and Other Changes in Net Assets

Governmental activities:

Taxes								
Property taxes	\$ 8,010,293	\$ 7,931,626	\$ 8,462,302	\$ 9,051,158	\$ 12,169,247	\$ 13,664,791	\$ 12,262,185	\$ 12,798,495
Sales taxes	23,805,566	25,682,974	27,054,164	30,014,975	32,334,785	33,129,731	31,420,047	30,429,840
State shared sales taxes – unrestricted	12,073,108	12,122,563	12,837,838	14,384,055	16,276,354	16,992,017	16,628,652	14,880,073
Grants and contributions not restricted to specific programs	-	810,739	-	377,502	-	-	-	-
Investment earnings	383,111	218,520	1,703,861	2,385,099	4,108,861	3,903,839	1,465,731	449,394
Miscellaneous	492	905,717	277,972	204,678	1,377,552	819,325	381,984	228,969
Gain on sale of capital assets	944,381	634,411	382,387	33,417	242,167	2,160,339	-	2,831,308
Contributions to permanent fund	7,435	14,717	17,765	24,630	19,460	16,200	13,325	19,136
Transfers in (out)	(476,304)	(369,358)	(7,004,365)	(2,267,551)	(9,123,196)	(3,590,153)	(9,651,500)	(10,524,926)
Total governmental activities	<u>44,748,082</u>	<u>47,951,909</u>	<u>43,731,924</u>	<u>54,207,963</u>	<u>57,405,230</u>	<u>67,096,089</u>	<u>52,520,424</u>	<u>51,112,289</u>

Business-type activities:

Grants and contributions not restricted to specific programs	-	-	-	889	-	-	-	-
Investment earnings	106,733	719,023	935,973	1,181,836	1,546,893	964,237	206,154	111,251
Miscellaneous	-	-	-	-	110,835	127,423	166,158	194,547
Gain on sale of capital assets	23,675	17,302	513,738	326,540	31,354	78,248	119,366	79,467
Transfers in (out)	476,304	369,358	7,004,365	2,267,551	9,123,196	3,590,153	9,651,500	10,524,926
Total business-type activities	<u>606,712</u>	<u>1,105,683</u>	<u>8,454,076</u>	<u>3,776,816</u>	<u>10,812,278</u>	<u>4,760,061</u>	<u>10,143,178</u>	<u>10,910,191</u>

Total primary government	<u>\$ 45,354,794</u>	<u>\$ 49,057,592</u>	<u>\$ 52,186,000</u>	<u>\$ 57,984,779</u>	<u>\$ 68,217,508</u>	<u>\$ 71,856,150</u>	<u>\$ 62,663,602</u>	<u>\$ 62,022,480</u>
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Change in Net Assets

Governmental activities	\$ 17,644,680	\$ 15,972,418	\$ 13,318,391	\$ 25,642,514	\$ 14,302,264	\$ 13,486,865	\$ (12,503,209)	\$ 23,025,482
Business-type activities	8,482,695	9,846,479	14,583,362	24,030,865	33,342,355	8,563,922	10,222,003	11,053,585
Total primary government	<u>\$ 26,127,375</u>	<u>\$ 25,818,897</u>	<u>\$ 27,901,753</u>	<u>\$ 49,673,379</u>	<u>\$ 47,644,619</u>	<u>\$ 22,050,787</u>	<u>\$ (2,281,206)</u>	<u>\$ 34,079,067</u>

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)

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*
General Fund										
Reserved	\$ 212,379	\$ 174,932	\$ 176,838	\$ 220,779	\$ 200,401	\$ 232,190	\$ 1,260,236	\$ 308,979	\$ -	\$ -
Unreserved	19,208,574	18,318,999	21,782,895	22,891,253	29,124,795	28,574,855	29,960,235	27,492,853	-	-
Nonspendable	-	-	-	-	-	-	-	-	280,376	376,728
Restricted	-	-	-	-	-	-	-	-	106,144	785,720
Committed	-	-	-	-	-	-	-	-	-	86,568
Assigned	-	-	-	-	-	-	-	-	-	547,820
Unassigned	-	-	-	-	-	-	-	-	22,203,764	21,459,499
Total general fund	<u>\$ 19,420,953</u>	<u>\$ 18,493,931</u>	<u>\$ 21,959,733</u>	<u>\$ 23,112,032</u>	<u>\$ 29,325,196</u>	<u>\$ 28,807,045</u> (1)	<u>\$ 31,220,471</u>	<u>\$ 27,801,832</u>	<u>\$ 22,590,284</u>	<u>\$ 23,256,335</u>
All Other Governmental Funds										
Reserved	\$ 5,260,436	\$ 1,106,960	\$ 959,209	\$ 1,677,627	\$ 1,556,450	\$ 30,107,878	\$ 47,350,460	\$ 20,611,579	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	24,317,465	26,476,529	21,713,198	37,476,678	33,041,256	22,893,640	16,332,830	16,498,123	-	-
Capital project funds	-	-	-	-	-	-	-	(763,744)	-	-
Permanent fund	-	-	217	567	1,426	3,271	6,567	9,916	-	-
Nonspendable	-	-	-	-	-	-	-	-	216,878	206,678
Restricted	-	-	-	-	-	-	-	-	4,299,450	19,720,079
Committed	-	-	-	-	-	-	-	-	-	2,228,605
Assigned	-	-	-	-	-	-	-	-	8,955,106	651,650
Total all other governmental funds	<u>\$ 29,577,901</u>	<u>\$ 27,583,489</u>	<u>\$ 22,672,624</u>	<u>\$ 39,154,872</u>	<u>\$ 34,599,132</u>	<u>\$ 53,004,789</u>	<u>\$ 63,689,857</u>	<u>\$ 36,355,874</u>	<u>\$ 13,471,434</u>	<u>\$ 22,807,012</u>

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

* FY2010: Implementation of GASB-54 Fund Balance Classification

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
REVENUES:										
Taxes	\$ 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	\$ 43,200,268
Intergovernmental	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	19,450,213
Grants and entitlements	-	-	13,074,562	10,940,934	9,564,110	10,880,792	12,185,406	13,556,680	9,609,508	11,172,862
Charges for services	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	3,057,423
Special assessments	269,794	350,894	360,158	291,684	218,500	30,016	2,927	2,449	2,382	1,510,217
Licenses and permits	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	1,441,874
Fines and forfeitures	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	1,639,347
Rents	-	-	845,443	985,907	1,220,007	1,195,464	1,480,686	1,496,858	1,421,772	1,588,214
Investment earnings	-	-	274,472	115,433	1,589,293	2,238,285	3,920,473	3,731,116	1,366,931	413,594
Contributions	-	-	334,235	21,917	22,229	129,930	2,981,982	1,308,938	1,328,524	544,393
Miscellaneous	3,300,386	3,169,599	781,496	905,717	277,972	204,678	1,377,552	819,325	381,984	228,969
Total revenues	<u>61,452,447</u>	<u>63,197,572</u>	<u>64,351,621</u>	<u>63,869,629</u>	<u>71,115,449</u>	<u>77,385,983</u>	<u>89,039,474</u>	<u>91,160,312</u>	<u>85,251,204</u>	<u>84,247,374</u>
EXPENDITURES:										
General governmental	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	7,926,726
Public safety	15,480,047	16,057,019	17,202,980	18,015,837	19,140,415	21,626,547	22,994,522	25,696,174	27,374,083	25,159,777
Public works	1,066,174	950,242	948,944	966,546	1,005,745	1,168,424	1,615,049	1,617,311	1,645,703	1,360,447
Economic and physical development	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	8,601,808
Culture and recreation	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	10,615,754
Highways and streets	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	9,313,158
Debt service:										
Principal retirement	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	6,065,522
Interest and other charges	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	3,996,963
Capital outlay	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	12,446,280
Total expenditures	<u>52,523,698</u>	<u>68,918,699</u>	<u>66,304,475</u>	<u>72,726,564</u>	<u>74,103,302</u>	<u>89,047,123</u>	<u>93,583,397</u>	<u>121,185,508</u>	<u>111,787,174</u>	<u>85,486,435</u>
Excess of revenues over (under) expenditures	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)	(1,239,061)
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	-	-	8,330,000
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	-	-	58,370
Insurance recoveries	-	-	-	-	-	-	-	-	-	1,920,000
Sale of capital assets	-	-	946,236	634,411	2,114,398	37,892	252,329	2,176,808	63,894	1,084,211
Transfers in	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	15,224,243
Transfers out	(11,931,179)	(13,607,644)	(13,184,784)	(13,365,892)	(16,582,052)	(19,584,684)	(19,488,466)	(20,085,809)	(23,359,573)	(18,525,100)
Total other financing sources (uses)	<u>3,785,219</u>	<u>2,486,460</u>	<u>605,215</u>	<u>26,326,147</u>	<u>4,645,277</u>	<u>29,490,427</u>	<u>17,642,417</u>	<u>(727,425)</u>	<u>(1,560,019)</u>	<u>8,091,724</u>
Net change in fund balances	\$ <u>12,713,968</u>	\$ <u>(3,234,667)</u>	\$ <u>(1,347,639)</u>	\$ <u>17,469,212</u>	\$ <u>1,657,424</u>	\$ <u>17,829,287</u>	\$ <u>13,098,494</u>	\$ <u>(30,752,621)</u>	\$ <u>(28,095,989)</u>	\$ <u>6,852,663</u>
Debt service as a percentage of non capital expenditures	8.35%	7.00%	10.54%	13.19%	12.32%	14.15%	12.69%	10.80%	10.85%	13.78%

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
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
2010	5,150	7,620	2,133	13,595	5,074	9,628	43,200
Change 2001-2010	80.51%	95.59%	26.21%	25.75%	35.38%	80.20%	52.43%

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 IGA	County Library District Funding *	Other	Total
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	-	2,564,691	850,000	25,778,255
2004	4,449,982	4,777,145	2,427,367	6,975,351	313,868	-	1,160,966	454,212	468,069	1,987,433	148,992	23,163,385
2005	4,900,117	4,918,476	2,461,425	7,171,383	313,843	-	1,772,181	2,868,033	628,198	2,068,947	39,640	27,142,243
2006	5,652,335	5,655,641	2,655,653	7,942,771	304,341	55,665	2,386,011	940,441	420,426	2,241,811	-	28,255,095
2007	5,815,473	6,946,680	2,792,404	7,855,427	293,502	-	2,822,315	1,214,162	721,797	2,559,375	-	31,021,135
2008	5,623,144	8,610,567	2,758,307	7,422,359	225,965	58,782	4,868,431	981,142	668,153	3,559,362	-	34,776,212
2009	4,868,072	9,149,290	2,611,289	6,412,329	251,536	-	1,711,609	1,234,065	897,337	4,125,223	32,795	31,293,545
2010	4,490,087	7,899,626	2,490,360	6,429,355	156,218	-	3,885,697	701,592	757,241	3,762,831	50,068	30,623,075

* - As restated due to change in accounting error identified in FY2010

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, Agricultural, and Government Property	Residential Property	Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2001	\$ 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	1.5929
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
2010	25,750,042	274,992,074	146,079,309	502,351,037	85,132,993	864,039,469	1.4913

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.

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Construction	\$ 99,857	\$ 134,084	\$ 151,652	\$ 158,506	\$ 163,846	\$ 233,747	\$ 260,024	\$ 263,386	\$ 181,245	\$ 150,239
Building Materials	54,410	61,118	63,618	70,063	72,152	82,481	79,703	75,493	66,641	60,143
Auto Sales	99,222	119,210	118,640	124,147	127,760	129,671	133,497	118,282	78,819	85,806
Restaurants and Bars	188,001	191,258	191,883	202,966	215,624	232,359	248,819	255,578	250,555	251,271
Retail	492,316	497,753	502,235	529,705	556,165	586,841	637,225	619,805	582,029	546,765
Other	116,040	115,666	118,333	125,687	134,824	144,635	154,183	163,463	155,193	152,042
Utilities	-	-	-	53	199	4,892	68,840	71,299	69,175	66,392
TOTAL	\$ 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	\$ 1,312,658

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
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
2010	1.4913	3.8860	0.4267	0.7244	6.5284

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

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

Taxpayer *	2010			2001		
	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	\$ 14,976,488	1	1.73%	\$ 12,690,610	2	3.16%
W L Gore & Associates Inc.	14,094,332	2	1.63%	13,753,552	1	3.54%
Qwest Corporation	5,485,687	3	0.63%			
Nestle Purina Petcare Company	4,973,928	4	0.58%	8,667,376	4	1.66%
Lone Tree Investments, LLC.	5,202,867	5	0.60%			
Flagstaff Mall Associated Ltd. Partnership	4,234,886	6	0.49%	3,010,813	8	0.75%
Walgreen Arizona Drug Co.	3,418,818	7	0.40%	2,940,753	9	0.73%
Flagstaff Medical Center, Inc.	3,508,774	8	0.41%			
Little America Refining Co.	2,956,466	9	0.34%	5,394,436	6	1.20%
Ortholand LLC	2,749,094	10	0.32%			
Northern Arizona Gas Division				9,194,655	3	2.14%
US West Communications				7,081,339	5	1.72%
Consolidated Investments, Inc.				3,234,918	7	0.79%
Woodlands Plaza Hotel LTD Partnership				2,069,798	10	0.69%
Total Principal Taxpayers	\$ 61,601,340		7.13%	\$ 68,038,250		16.38%

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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
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%
2010	12,750,836	12,477,413	97.9%	293,015	12,770,429	100.0%

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			
2001	1.0000%	2.0000%	0.5100%	5.6000%	0.8000%	9.9100%
2002	1.0000%	2.0000%	0.5745%	5.6000%	0.8000%	9.9745%
2003	1.0000%	2.0000%	0.5745%	5.6000%	0.9250%	10.0995%
2004	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2005	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2006	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2007	1.0000%	2.0000%	0.6010%	5.6000%	1.1250%	10.3260%
2008	1.0000%	2.0000%	0.6010%	5.6000%	1.1250%	10.3260%
2009	1.0000%	2.0000%	0.7210%	5.6000%	1.1250%	10.4460%
2010	1.0000%	2.0000%	0.7210%	6.6000%	1.1250%	11.4460%

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 Eight 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	COP 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	1.9%	993.55
2004	5,795	685	13,380	28,170	-	21,253	6,290	3,380	-	78,953	2.3%	1,290.40
2005	4,285	415	11,555	26,895	3,800	18,880	6,035	3,031	2,732	77,628	2.2%	1,251.46
2006	32,875	340	9,665	25,610	3,455	16,294	5,770	2,671	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	141,951	3.8%	2,211.07
2008	29,350	19,257	6,325	23,000	2,728	10,515	5,212	32,275	4,227	132,889	3.5%	2,069.92
2009	27,645	19,169	4,865	21,625	2,430	7,460	4,918	37,006	3,960	129,078	3.4%	2,010.56
2010	25,865	18,615	6,665	19,890	6,964	5,690	4,614	36,257	3,679	128,239	3.4%	1,957.19

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
See Schedule 18 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 Eight Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Bonded Debt Outstanding		Total	Percentage of Actual Taxable Value of Property (a)	Per Capita (b)
	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	4.5%	620.95
2009	27,645	7,460	35,105	3.8%	542.64
2010	25,865	5,690	31,555	3.7%	481.59

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 18

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.

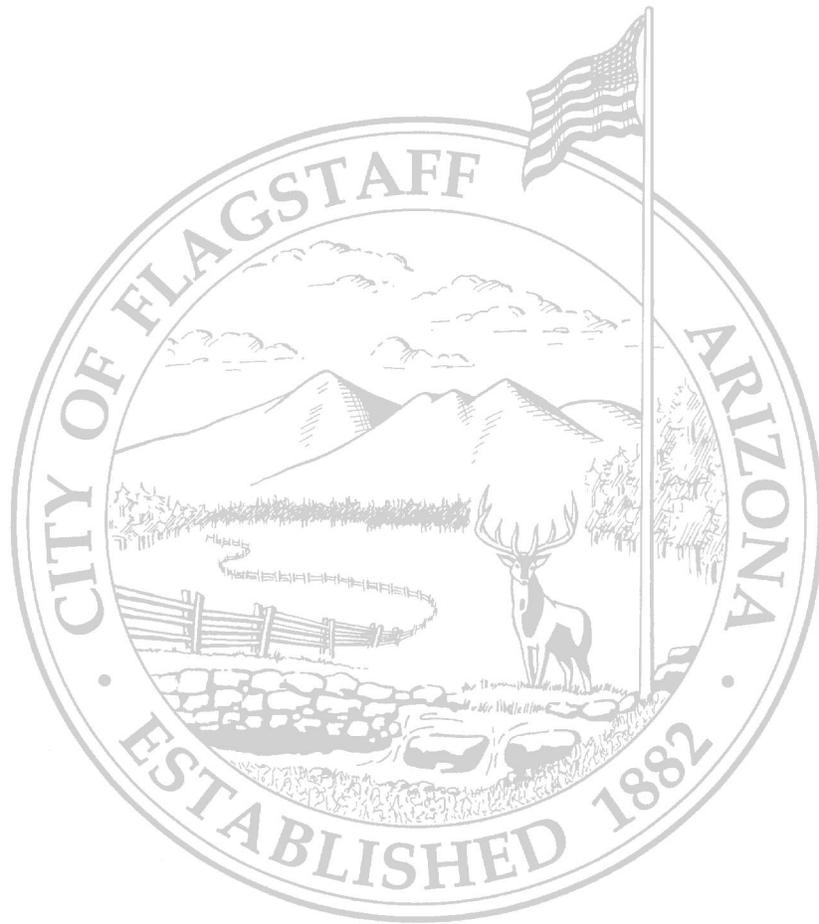
Schedule 15
 City of Flagstaff
 Direct and Overlapping Governmental Activities Debt
(dollars in thousands, except per capita)

<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	\$ 44,400	61.55%	\$ 27,328
Other debt			
Coconino County Revenue Bonds	6,145	41.46%	2,548
Coconino County Special Assessments	2,017	0.00%	-
Subtotal, overlapping debt			29,876
City direct debt			<u>77,999</u>
Total direct and overlapping debt			<u>\$ 107,875</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

	Fiscal Year									
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Debt limit equal to 20% of assessed valuation	\$ 81,719	\$ 85,806	\$ 92,852	\$ 100,331	\$ 111,336	\$ 124,840	\$ 150,108	\$ 175,756	\$ 183,268	\$ 172,808
Total net debt applicable to 20% limit	<u>27,043</u>	<u>28,425</u>	<u>26,283</u>	<u>24,493</u>	<u>21,644</u>	<u>35,227</u>	<u>43,860</u>	<u>39,514</u>	<u>35,105</u>	<u>35,105</u>
Legal debt margin (Available borrowing capacity)	\$ <u>54,676</u>	\$ <u>57,381</u>	\$ <u>66,569</u>	\$ <u>75,838</u>	\$ <u>89,692</u>	\$ <u>89,613</u>	\$ <u>106,248</u>	\$ <u>136,242</u>	\$ <u>148,163</u>	\$ <u>137,703</u>
Total net debt applicable to the 20% limit as a percentage of debt limit	49.46%	49.54%	39.48%	32.30%	24.13%	39.31%	41.28%	29.00%	23.69%	25.49%

6% Debt Limit

	Fiscal Year									
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Debt limit equal to 6% of assessed valuation	\$ 24,516	\$ 25,742	\$ 27,855	\$ 30,099	\$ 33,401	\$ 37,452	\$ 45,032	\$ 52,727	\$ 54,981	\$ 51,842
Total net debt applicable to 6% limit	<u>6,690</u>	<u>5,560</u>	<u>4,160</u>	<u>2,555</u>	<u>1,225</u>	<u>14,202</u>	<u>680</u>	<u>351</u>	<u>-</u>	<u>-</u>
Legal debt margin (Available borrowing capacity)	\$ <u>17,826</u>	\$ <u>20,182</u>	\$ <u>23,695</u>	\$ <u>27,544</u>	\$ <u>32,176</u>	\$ <u>23,250</u>	\$ <u>44,352</u>	\$ <u>52,376</u>	\$ <u>54,981</u>	\$ <u>51,842</u>
Total net debt applicable to the 6% limit as a percentage of debt limit	37.53%	27.55%	17.56%	9.28%	3.81%	61.08%	1.53%	0.67%	0.00%	0.00%

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

Legal Debt Margin Calculation for Fiscal Year 2010

Net Secondary Assessed Value as of June 30, 2010 \$ 864,039,469

20% Limitation

Debt Limit of 20% of Assessed Value \$ 172,807,894

Debt applicable to limit:

 General Obligation Bonds 35,105,000

Legal 20% debt margin (Available borrowing capacity) \$ 137,702,894

6% Limitation

Debt Limit of 6% of Assessed Value \$ 51,842,368

Debt applicable to limit:

 General Obligation Bonds -

Legal 6% debt margin (Available borrowing capacity) \$ 51,842,368

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

Water and Sewer Revenue Bonds

Fiscal Year	Gross Revenues (1)	Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal (3)	Interest (4)	Total	
2001	\$ 18,337,310	\$ 9,757,448	\$ -	\$ -	\$ -	\$ -	-
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
2010	17,585,198	11,758,135	5,827,063	2,537,313	1,555,020	4,092,333	1.42

- (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

Highway User Revenue Bonds

Fiscal Year	Highway User Tax Revenue	Debt Service Requirements			Coverage
		Principal (1)	Interest (2)	Total	
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
2010	6,429,355	1,520,000	377,786	1,897,786	3.39

(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 Nine 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
2010	11,929,099	335,000	125,614	460,614	25.90

- (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 Seven Fiscal Years

**Municipal Facility Corporation Bonds
 Transportation MFC Debt**

Fiscal Year (1)	Revenue (2)	Debt Service Requirements			Coverage
		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
2010	35,708,503	1,400,000	860,200	2,260,200	15.80

- (1) Trend information not available prior to fiscal year 2004.
- (2) Pledged 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 17 (continued)
 City of Flagstaff
 Pledged Revenue Coverage

**Greater Arizona Development Authority
 Revenue Bonds**

Fiscal Year (1)	Revenue (2)	Debt Service Requirements			Coverage
		Principal (3)	Interest	Total	
2010	9,031,670	50,000	56,297	106,297	84.97

(1) New Issue no trend information available.
 (2) Pledges revenues on the Greater Arizona Development Authority Bonds include the state revenue sharing. Less the debt service .
 (3) GADA revenue bond series 2009C

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

<u>Year</u>	<u>Population</u>	<u>Personal Income (thousands of dollars)</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>Education Level – Percent High School Grad or Higher</u>	<u>Education Level – Percent Bachelor's Degree or Higher</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
2001	57,700	\$ 2,787,863	\$ 23,716	26.8	89.8%	39.4%	13,969	4.80%
2002	59,160	2,908,992	24,259	26.8	89.8%	39.4%	13,566	5.10%
2003	61,030	2,999,350	24,795	26.8	89.8%	39.4%	12,905	5.80%
2004	61,270	3,226,683	26,328	26.8	89.8%	39.4%	13,176	5.20%
2005	61,185	3,472,652	28,045	26.8	89.8%	39.4%	13,389	5.10%
2006	62,030	3,472,652	28,045	26.8	89.8%	39.4%	13,171	5.00%
2007	62,030	3,472,652	28,045	26.8	89.8%	39.4%	13,453	3.40%
2008	64,200	3,767,194	29,879	26.8	89.8%	39.4%	13,040	4.60%
2009	64,693	3,767,194	29,879	26.8	89.8%	39.4%	12,910	7.50%
2010	65,522	3,767,194	29,879	26.8	89.8%	39.4%	12,600	7.70%

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, estimate from 2008
- Per Capita Income – 1998 – 2005 Arizona Department of Economic Security, Workforce Development Statistics
- Per Capita Income – 2006 – 2009 Arizona Department of Economic Security, Workforce Development Statistics, estimate from 2008
- 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 Ten Years Ago

<u>Employer</u>	2010			2000 (1)		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Northern Arizona University	2,371	1	7.69%	2,497	1	8.10%
Flagstaff Medical Center	1,995	2	6.47%	2,104	2	6.83%
W.L. Gore & Associates*	1,950	3	6.33%	1,800	3	5.84%
Flagstaff United School District	1,310	4	4.25%	1,436	4	4.66%
Coconino County	1,074	5	3.48%	1,294	5	4.20%
City of Flagstaff	710	6	2.30%	876	6	2.84%
Walmart	626	7	2.03%	338	10	0.00%
Coconino Community College*	600	8	1.95%	400	7	1.30%
Walgreens & Distribution Center	450	9	1.46%	468	8	1.52%
Grand Canyon Railway	395	10	1.28%	450	9	1.46%
Total	11,481		37.25%	11,663		36.74%
2000 U.S. Census Labor Force	30,822			30,822		

Source:

(1) Greater Flagstaff Economic Council (GFEC)

* 2010 Employees is estimated

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Government										
Management services	72.00	77.00	74.00	73.00	74.25	75.75	82.89	87.39	89.14	86.75 *
Capital management	-	19.00	18.50	15.50	14.50	13.50	13.50	13.50	13.50	11.00
City Court	21.25	24.25	25.25	26.50	26.50	26.50	26.50	27.63	29.63	25.88
Public Safety										
Police	147.50	148.25	148.25	150.00	151.00	160.00	164.00	174.00	181.00	168.00
Fire	84.50	97.25	96.75	96.75	96.75	97.75	100.75	101.75	101.75	99.00
Public Works	26.75	26.75	27.00	27.00	25.00	26.00	27.00	31.00	31.00	29.00
Economic and physical development										
Building	57.00	48.00	49.00	43.75	43.00	49.25	52.25	58.50	57.50	47.20
Planning	17.00	17.25	17.25	17.25	17.25	15.25	21.75	20.88	24.88	24.38
Tourism	6.00	6.00	6.00	11.75	13.75	13.75	15.75	16.75	16.75	15.75
Culture and recreation										
Library	37.50	38.75	39.50	39.50	40.00	40.00	43.13	47.14	53.77	50.77
Parks, recreation, and beautification	74.00	79.25	74.50	67.75	63.95	67.53	68.82	98.23	99.69	87.86
Highways and Streets	35.25	35.25	36.25	36.25	36.25	36.25	37.25	40.56	41.06	36.31
Water and wastewater	71.75	74.75	74.50	73.00	74.50	76.50	79.00	80.25	81.75	64.50
Environmental services	40.00	45.00	45.00	45.75	52.25	54.00	62.60	61.60	68.10	65.58
Airport	9.50	9.50	9.50	9.50	9.50	9.50	10.00	10.50	10.50	9.50
Stormwater	-	-	-	5.75	5.00	6.50	6.50	6.50	6.50	6.00
Total	700.00	746.25	741.25	739.00	743.45	768.03	811.69	876.18	906.52	827.48

* City-wide reorganization affected distribution of employees. Customer Service moved from Water/Wastewater to Management Services.

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

Function/Program	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Court									
Criminal Filings	11,005	11,068	10,236	9,227	9,705	9,553	11,659	9,330	9,326
Traffic filings	10,431	10,613	10,388	11,253	10,575	8,951	10,665	10,639	13,471
Domestic Violence/Other filings	575	622	682	673	616	530	744	445	468
Fire									
Emergency responses	3,386	3,658	5,616	6,722	7,684	8,227	7,616	7,550	6,668
Fires response	352	216	265	228	351	314	267	263	247
Other calls	2,094	1,205	2,023	1,905	1,323	1,472	1,573	2,151	1,906
Inspections assigned	NA	NA	2,212	2,006	1,966	1,984	1,981	1,794	572
Plan Reviews	NA	NA	1,340	1,348	1,280	1,314	1,284	1,250	401
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	294
Site Thinning (Acres)	NA	882	521	792	694	1,173	902	761	376
Prescription Burn (Acres)	NA	917	709	834	557	1,210	1,070	1,190	551
Police									
Felony reports	NA	NA	NA	4,979	5,337	4,973	3,978	3,661	3,073
Misdemeanor reports	NA	NA	NA	12,378	13,381	13,123	13,413	12,939	12,293
Domestic violence incidents	NA	NA	NA	1,464	1,598	1,625	1,573	1,470	1,953
Non-crime reports	NA	NA	NA	8,818	9,136	8,913	11,043	10,996	9,480
Accident reports	NA	NA	NA	3,616	3,313	3,374	3,322	2,917	2,776
Calls dispatched to Police/Sheriff	NA	NA	NA	73,559	77,239	75,791	73,364	70,908	61,175
Calls dispatched to Fire	NA	NA	NA	11,266	11,741	12,364	11,907	12,527	11,011
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 Nine Fiscal Years

Function/Program	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Streets										
Potholes repaired	NA	NA	NA	2,988	1,962	2,443	4,032	4,373	3,256	
Airport										
Fuel Flowage (Gallons Sold)	713,193	698,227	673,786	653,743	705,638	642,643	651,814	627,202	651,373	
Enplanements	36,057	34,984	38,387	42,483	39,646	44,598	44,088	65,418	68,296	
Refuse collection										
Refuse collected (Landfill tonnage)	110,684	128,153	109,608	140,233	154,321	153,121	157,792	142,409	121,529	
Recyclables collected (total tons)	7,886	9,126	9,213	9,816	9,866	10,356	10,472	9,842	10,610	
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	\$ 31,498,803	(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	\$ 18,594,665	(1)
Library										
Visits	NA	NA	564,065	582,726	625,103	643,174	680,253	738,603	743,169	
Circulation	NA	NA	781,893	776,180	758,468	789,621	782,908	887,887	979,962	
Tourism										
Revenue Per Available Room (RevPar)	\$ 48.33	\$ 45.36	\$ 47.95	\$ 52.90	\$ 61.47	\$ 66.86	\$ 60.52	\$ 43.21	\$ 43.05	

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									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public Safety										
Police patrol units (Includes Motorcycle units)	32	32	32	26	26	26	31	34	34	35
Number of fire hydrants	Unavail	2,382	2,435	2,478	2,478	2,598	2,743	3,148	3,150	3,143
Numer of fire stations	6	6	6	6	6	6	6	6	7	7
Culture and recreation										
Number of developed parks	26	27	27	28	27	27	27	26	26	26
Number of undeveloped parks	3	3	3	4	4	4	4	4	4	4
Park acreage	578	586	586	704	702	702	705	712	712	712
Flagstaff Urban Trail System – Miles	21	22	22	28	32	34	34	48	51	51
Recreational Buildings	6	6	6	5	5	5	5	6	6	6
Highways and Streets										
Miles of streets, alleys, and sidewalks (1)	330	350	350	365	365	386	403	690	695	813
Number of street lights	2,777	2,853	2,898	2,921	2,921	3,037	3,107	3,201	3,220	3,350
Water and wastewater										
Miles of sewer (2)	243	250	271	275	275	293	309	265	270	270
Number of manholes	Unavail	5,857	5,979	6,097	6,097	6,496	6,906	7,107	7,261	7,261
Total active water accounts	15,600	15,802	16,356	16,948	18,039	17,872	18,758	18,849	18,371	19,042
Average gallon water usage per household per month	6,848	6,897	6,727	6,070	6,096	5,488	5,600	5,456	5,010	5,123
Airport										
Fixed base operators	1	1	1	1	1	1	1	1	1	1
Locally based aircraft	130	130	130	130	130	130	134	134	134	120
Tiedowns	49	49	49	49	29	18	11	11	11	14
Enclosed hangars	47	42	42	42	42	61	61	61	61	61
Open hangars	38	38	38	38	38	48	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, 2010 to June 1, 2011

Coverage	Limit of Liability
Liability Insurance:	
General Liability*	\$ 1,000,000 / per occurrence
(Includes 2 skateboard parks, bike freestyle park, EMT's)	\$ 2,000,000 / aggregate
Law Enforcement Liability*	\$ 1,000,000 / each wrongful act
	\$ 1,000,000 / aggregate
Auto Liability*	\$ 1,000,000 / each accident
Public Entity Management Errors and Omissions*	\$ 1,000,000 / each wrongful act
(Claims Made Retro Date 6-1-95)	\$ 1,000,000 / total limit
Employment Practices Liability*	\$ 5,000,000 / each wrongful act
(Claims Made Retro Date 6-1-95)	\$ 5,000,000 / total limit
Employee Benefits Liability*	\$ 1,000,000 / each wrongful act
(Claims Made)	\$ 3,000,000 / total limit
* Liability Claims are Subject to a \$50,000 Self Insurance Retention	
Public Entity Cyber Liability	\$ 1,000,000 / each wrongful act
(Claims Made Retro Date 6-1-09)	\$ 1,000,000 / total limit
(\$5,000 deductible each wrongful act)	
Employer's Liability	\$ 1,000,000 / each accident
	\$ 1,000,000 / disease employee
	\$ 1,000,000 / disease policy limit
Worker's Compensation	Statutory
Umbrella/Excess #1 - GL, Auto, Law Enforcement, Employer's Liability	
Public Entity Management, Employee Benefits	\$ 20,000,000 / each event/each wrongful Act / general total limit
(Excludes Airport, Housing Authority, Employment related practices, Failure to Supply Services, Mold, Terrorism, Asbestos, Lead, Condemnation, Sexual Abuse)	
Excess Liability #2 Following Form Over Excess Liability # 1	
(Excluding asbestos, discrimination, terrorism, nuclear)	\$ 5,000,000 / each occurrence/ \$ 5,000,000 / general aggregate
Aviation:	
General Liability	\$ 40,000,000 / each occurrence
Products/Completed Operations	\$ 40,000,000 / aggregate
Personal Injury, Advertising & Malpractice	\$ 40,000,000 / aggregate
Hangar Keepers Liability	\$ 40,000,000 / each aircraft
	\$ 40,000,000 / each occurrence

Coverage	Limit of Liability
Property Insurance:	
Blanket Buildings and Personal Property	\$ 189,975,104 / \$25,000 deductible
Boiler and Machinery included	
Flood Zones B and C	\$ 10,000,000 / \$50,000 deductible
Earthquakes	\$ 15,000,000 / \$25,000 deductible
Business Income/Extra Expense	\$ 7,100,000 / 72 hours
Auto Physical Damage	\$ 24,986,406 / \$1000/comprehensive / \$5000/collision deductible
Flood Zone A Properties	
Municipal Court	\$ 242,000 / building
	\$ 122,700 / contents
City Hall, Library	\$ 500,000 / each building
	\$ 500,000 / contents each (\$5,000 deductible)
Inland Marine:	
Contractors Equipment (actual cash value)	\$ 6,076,150 / \$5,000 deductible
Bookmobile book collection	\$ 238,582 / \$1000 deductible
Lab Equipment	\$ 11,300 / \$1,000 deductible
Employee Hand Tools	\$ 35,000 / \$5,000 deductible
Computer Equipment and Peripherals	\$ 1,438,500 / \$1,000 deductible
Data and Media	\$ 500,000 / \$1,000 deductible
Fine Arts & exhibition floater - Max \$25,000 per item	\$ 78,700 / \$1,000 deductible
City Hall, Visitor Center, Airport Terminal	
Crime:	
Blanket Public Employees and Treasurer	\$ 1,000,000 / \$5,000 deductible
Dishonesty Bond Including Faithful Performance of Duty	
Computer & Funds Transfer Fraud	\$ 1,000,000 / \$5,000 deductible
Theft, Disappearance, & Destruction (Inside and Outside)	\$ 1,000,000 / \$5,000 deductible
Depositors Forgery or Alteration	\$ 1,000,000 / \$5,000 deductible
Money Orders & Counterfeit,	\$ 1,000,000 / \$5,000 deductible
Credit, Debit or Charge Card forgery	\$ 1,000,000 / \$5,000 deductible
International Travel - Executive Assistance	\$ 1,000,000 / Medical Assistance
	\$ 250,000 / Accidental death

