

FLAGSTAFF ARIZONA

Investing for an affordable future



The City of Flagstaff
June 2004



8th Avenue
Defention Basin

Rio Parking
Replacement

City of Flagstaff

**Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2004**

Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2004

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, 2004

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City of Flagstaff

January 14, 2005

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, 2004, 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.

Nordstrom & Associates, PC, 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, 2004, 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, 2004, 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.

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GAAP require 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 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 2003 census is approximately 61,030. The City of Flagstaff became a town in 1894, incorporated as a city in 1928 and its boundaries currently encompass an area of just over 64 square miles. Flagstaff is nestled at the base of the San Francisco Peaks and is surrounded by one of the largest ponderosa pine forests on earth. Flagstaff drew its name from a very tall pine tree made into a flagpole in 1876 to celebrate our nations centennial. At nearly 7,000 feet, Flagstaff is one of the highest elevation cities in the United States.

Flagstaff enjoys four distinct seasons. Moderate summer temperatures average twenty degrees less than Phoenix, Arizona and are punctuated with afternoon rain showers in July and August. The winter brings an average snowfall of 99 inches, much to the enjoyment of skiers, ice skaters and snowboarders. As the snow thaws into spring, blooming wildflowers are abundant and fragrant along Flagstaff's many hiking trails. Autumn is highlighted with the changing of the aspen leaves that transform the surrounding mountains into a golden tapestry of color. Flagstaff averages 283 days without precipitation each year, so it is not surprising that our residents love the great outdoors, and the mild climate encourages year-round outdoor activities.

In 1855 Lieutenant Beale, in surveying a road from the Rio Grande in New Mexico to Fort Tejon in California, passed over the spot where Flagstaff now stands. While camping at the Eastern extremity of the present town, the lieutenant and his men cut the limbs from a straight pine tree in order to fly the United States flag.

The town's first recognized permanent resident, Thomas F. McMillan, arrived in 1876 and built a cabin at the base of Mars Hill. During the 1880's Flagstaff began to grow, opening its first post office and welcoming the booming railroad industry. The town had timber, sheep and cattle and by 1886 Flagstaff was the biggest city on the main line between Albuquerque and the West Coast.

In 1894 Dr. Percival Lowell chose Flagstaff, due to its great visibility, as the site for the now famous Lowell Observatory. Thirty-six years later, Pluto was discovered through the observatory's telescopes. The Arizona Teacher's College began in 1899, later becoming Northern Arizona University (1966). During the 1920's, Route 66 was built and passed right through town making Flagstaff a popular tourist stop. Flagstaff was incorporated as a City in 1928.

Today, Flagstaff is a community rich with cultural diversity, beauty and history, as well as amazing educational, recreational and scientific opportunities. The city is a year-round Mecca for visitors and many Arizonans maintain a second home here.

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. 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.

The City is subject to both legal and expenditure limitations as set out in the State Constitution. The City cannot adopt a budget that exceeds the expenditure limitation determined annually by the State of Arizona's Economic Estimates Commission. This limitation is based on 1979-80 actual expenditures, adjusted to reflect interim population and cost of living changes. Certain items are specifically exempted, including bond sale proceeds, debt service payments and other long-term obligations, interest earnings, a portion of Highway User Tax revenues, Federal and State grants, and monies received pursuant to intergovernmental agreements. On March 1, 1988, as provided by State statute, the voters of Flagstaff approved a permanent base adjustment of \$1,900,000 to the 1979-80 base amount used in determining the annual expenditure limitation. The permanent increase was for the expenditure of the newly authorized Bed, Board and Booze Tax which was also approved in the March, 1988 election.

FACTORS AFFECTING THE CITY'S FINANCIAL CONDITIONS

The City's employment base continues to be heavily government based. Although this provides stability to the economy during declines, it is subject to other factors. This last year the Arizona state retirement system increased employee mandated contributions which effectively reduced local disposable incomes for individuals working for the City, county, community college, flagstaff unified School district and to some extent Northern Arizona University. The City continues to see further development as a second home market to the Valley of the Sun. The City anticipates land development to slow as there are less residential lots available for construction and commercial land is at premium. However, despite these factors, at the time of this letter we see 4.6% growth in our retail sales and if we back out auto sales, that number climbs to 6.3%.

The City recognizes the high cost of housing as a limiting factor in their ability to attract industrial business to the community, however the service industry has grown to keep up with the local demands. The City Council is looking at redevelopment opportunities and codes that encourage the conservation of precious resources, density awards in residential neighborhoods and traditional neighborhood designs. The Council recently adopted a Big box ordinance that will limit the size of these facilities and require parking garages versus surface parking. This ordinance has been referred by a group in town and will go to a vote of the community in May 2005.

The Council goals have also provided for the expansion of the local Mall, which is a regional shopping center. With the Mall expansion would be the construction of an Auto mall. Construction is anticipated to begin this next year with completion planned for 2007. This project is a real boom to the local economy. It is a known fact that there is significant loss of sales tax revenues to the Valley for many retail items. This is exemplified when a new retailer such as Home Depot opened its first store in town and we experienced real retail growth of 35% in the building materials category.

The City has taken steps to enhance existing employment with the USGS. The voters approved a bond to construct new facilities on the USGS campus in town as needed in the amount of \$61.2 million. This will provide opportunity to meet the growing needs of the Survey. In addition the City is in the process of developing a Science

park in the immediate vicinity to provide for private industry that may benefit from transfer technology from USGS activities.

As we move forward we cannot ignore our biggest economic driver in the community, tourism. The City prepared a request for proposals to construct a conference center hotel and adjacent retail, office and residential development in the downtown area. The City cannot currently accommodate the demand for a conference center with existing facilities in town. The initial feasibility report indicates that the proposed facility in the downtown area would be successful. Financing hotels is a tentative proposal in today's markets, with the downturn many saw as a result of September 11th. The current proposal team is conducting additional research and financial analysis on the project in its entirety. The community looks forward to moving this project forward.

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.

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 tenuous economic recovery, Flagstaff's financial forecast includes very modest revenue growth, potential for State reductions of revenue sharing, and continued increases in demand for city services such as police, fire, transportation and social services. Financial services management role will be to maintain and enhance the continued financial stability for the City of Flagstaff.

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

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

Strategic Capital Improvement Project Planning – Flagstaff Capital Improvement Projects are planned for five or more years and analyzed using City specific prioritization criteria. The operating cost impacts of projects are also planned and considered 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.

Debt Management – Flagstaff has a financial policy that prohibits the issuance of debt for operating expenses. All debt issuances by the City; therefore, are used for financing capital infrastructure or long-lived costly assets. Each debt issuance is evaluated against multiple financial policies, including debt service as a percent of operating expenditures, tax and revenue bases for the repayment of debt, the overall debt burden on the community,

statutory limitations, and market factors affecting tax-exempt interest costs. For each debt issuance, a long-term analysis is performed of the financial (debt) capacity that fits the ability and willingness of the community to pay for the capital projects. Every additional \$1 million in new debt costs approximately \$100,000 in annual debt service operating expenses when amortized over 20 years. Sizing of the City's Capital Improvement Plan based on debt capacity, in conjunction with conservatively estimated pay-as-you-go revenues, will help stabilize per capita debt and lower annual debt service costs to the City over the long-term.

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 were 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.

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.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

During FY 2003-2004, 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 FY2003-2004.

Economic Development/Redevelopment

The City continues to coordinate closely on economic development activities with the Greater Flagstaff Economic Council (GFEC). An additional 64-fulltime jobs at or above the county median wages were created in addition to 183,000 square feet being added to existing industry with a capital investment value of \$11 million. Tourism continues as a mainstay industry in the community. Efforts included a publicity campaign to better inform tourist of conditions during fire and snow seasons and correct winter driving conditions through the "Clear the Road to Flagstaff" campaign. The industry saw a 5.2% increase in revenues.

On the redevelopment front, many projects are in progress. Between inception and implementation redevelopment is a lengthy process. The Flagstaff Mall expansion received rezoning approval; this is a joint project that includes the establishment and reallocation of numerous auto dealers in the community. The City continues negotiations to partner with a private developer to establish a conference hotel and new retail/residential center in the eastern portion of the downtown. An RFP process was established to create a concept for redevelopment of the city's Southside area. This project becomes feasible in the next several years as a result of the construction of the Rio de Flag flood control project in concert with the Army Corp of Engineers.

Fiscal Health

The City was successful in adopting and publishing their five-year capital improvement plan. The City presented to the voters over \$155.1 million in new capital projects to be bond funded and received overwhelming approval. The projects include the relocation for four fire stations for better coverage, construction of a new fire training center and fire tower, a new aquatic facility, land for new parks, a renovated or new multi generational recreation facility, water rights acquisition, additional water wells, renovation of the City wildcat wastewater treatment plant, and expansion of the USGS campus.

Public Safety

The City Council recognizes that the role of public safety encompasses a broad array of interrelated activities. Public order and quality of life issues must be addressed on a broad front through a partnership of shared responsibility and trust between Police, Fire, other city departments, civic organizations and the community. Community safety and well-being must be built from within each neighborhood and cannot be imposed from the outside. The City conducted numerous community activities that strengthen neighborhoods. These included 120 block watch meetings by the police, two citizen police academies, and DARE and GREAT prevention programs in the public schools. Activities also include our partners. The City funds an after school program at various school district sites and works with United Way, whom supports numerous agencies in the community.

Affordable Housing

The goals are manifold to address affordable housing in a community with such a severe deficiency. The programs are many and diverse. The City assisted 38 low and middle income first time homebuyers, provided eviction/foreclosure prevention assistance to 80 households, provided adult day care to 120 individuals and caregivers, completed 8 owner occupied housing rehabilitation projects, and in conjunction with our partners, completed four affordable owner occupied homes. The biggest impact has been the sale of two city parcels for the development of a mixed use development with a 20% affordable factor in the units, some rentals and others owner occupied. Staff has completed training on development of a Land Trust and is awaiting technical assistance from HUD to implement this program locally.

Capital Improvements

Programmed capital infrastructure expenditures facilitate planned growth, economic development and protects existing community investments. Allocating resources through a coordinated planning and engineering process, with high levels of public involvement, assures our community is shaped in alliance with citizen support. The capital program worked on numerous projects through the year and continues to refine the process. Elements that were implemented included a schedule based work program, comprehensive 5-year CIP program, team chartering, project review process, and monthly financial reporting.

Customer Service

A positive customer service culture will enhance the delivery of service both externally and internally. Training was provided on customer service to all employees. Job description and employee evaluations were changed to incorporate customer service as a key element of job duties.

Planning for Growth

With a finite supply of land, we have to provide for the region's growth in a manner that balances growth and conservation.

Collaboration

Strengthen the community by strengthening partnerships with sovereign nations, public, non-profit and private agencies and developing collaborative goals at all levels. The City continues its role with the alliance group that is comprised of Coconino County, Northern Arizona University, Coconino Community College, and the Flagstaff Unified School District. The alliance group sponsored a statement this year to the state legislature supporting the funding of education as a primary goal to the success of the community and the vitality of economic development.

Quality of Life

Consideration is given to quality of life preservation and enhancement in all City actions and appropriations. This is a diverse objective with many outcomes. The City was successful in securing voter authority to purchase \$15 million in water rights to secure the community water needs. Recycling continues to grow increasing the tonnage at the materials recycling facility by 20%. The city also was successful in receiving authorization to issue \$7.6

million in bond financing for FUTS trail and open space land acquisition and \$14.7 million for a multi generational facility and aquatic center.

Organizational Support

The City is preparing a succession plan, as we will experience significant turnover in the next five years due to retirements. The program will align skills assessment today and those needed for the future in a program to offer training to individuals in the City. The City continues its policy with regard to benefits and wages to maintain itself as a top-paying employer in the community.

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, 2003. This was the 10th 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's award for Distinguished Budget Presentation for our 2003-2004 annual budget. In order to qualify for the Distinguished Budget Presentation award, the City's budget document was judged to be proficient as a Policy Document, a Financial Plan, an Operation Guide, and as a Communication Device.

Acknowledgments. A special word of appreciation is due to Barbara Goodrich, Finance Budget Manager and to the entire Accounting staff who prepared this CAFR. As an organization we would be remiss to not also personally recognize Maryellen Pugh, CPA for her tireless efforts in directing the statement drafting and coordination.

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 auditor, Nordstrom and Associates, also contributed significantly to this report.

Respectfully Submitted,



Mary Jo Jenkins
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, 2003

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.



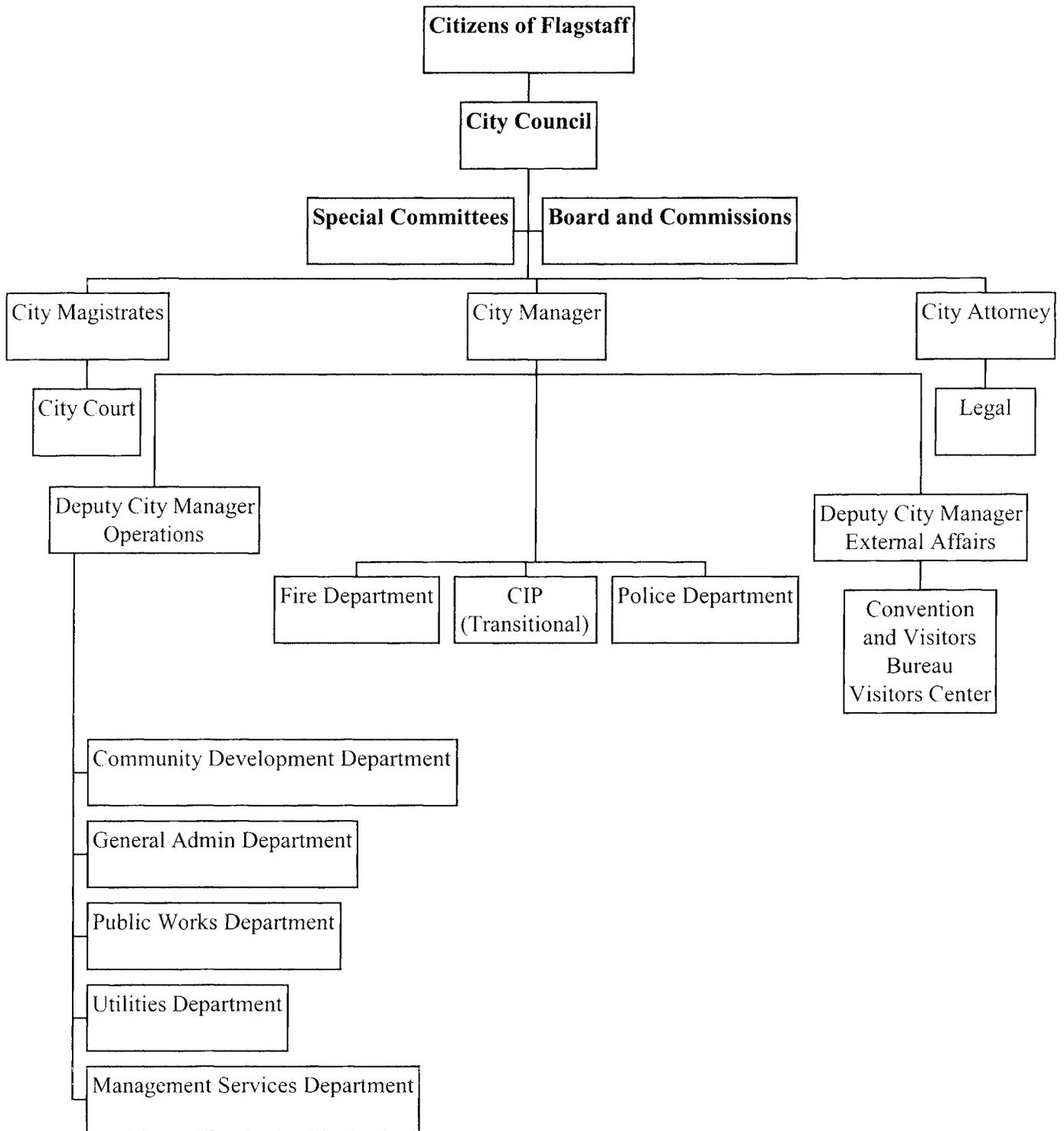
Nancy L. Zjella

President

Jeffrey R. Emer

Executive Director

City of Flagstaff



City of Flagstaff, Arizona
List of Elected and Appointed Officials
June 30, 2004

Elected Officials

Mayor	Joseph C. Donaldson
Vice Mayor	Al White
Councilmember	Art Babbott
Councilmember	Karen K. Cooper
Councilmember	Joseph P. Haughey
Councilmember	Kara M. Kelty
Councilmember	Libby Silva

Appointed Officials

City Manager	David W. Wilcox
City Attorney	Harry Lane (acting)
City Treasurer	Mary Jo Jenkins
City Clerk	Margie Brown

Bruce J. Nordstrom, CPA
Godfrey C. Loper, Jr., CPA
Marjorie T. McClanahan, CPA
Timothy D. Hansen, CPA



MEMBERS
American Institute of
Certified Public Accountants
Arizona Society of Certified
Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund, and aggregate remaining fund information of City of Flagstaff, Arizona (the City), as of and for the year ended June 30, 2004, as listed in the table of contents, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, discretely presented component unit, each major fund, and aggregate remaining fund information of City of Flagstaff, Arizona, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparison for the general, highway user, transportation and BBB funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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 fund statements and schedules, capital assets schedules and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules, and capital assets schedules 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 and statistical sections listed in the table of contents have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards* we have issued our report dated October 18, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and of other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Nordstrom & Associates, P.C.

Flagstaff, Arizona
October 18, 2004

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, 2004. 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 –ix of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$324.6 million (net assets). Of this amount \$57.6 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 \$25.8 million during the fiscal year. This increase is primarily related to capital improvement activity, including the 4th Street Overpass project (\$11.3 million), Sunnyside improvements (\$1.0 million), and contributions from private development (\$7.7 million).
- As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$62.3 million, an increase of \$17.5 million in comparison with the prior fiscal year. Approximately 97% of this total amount (\$60.4 million) is unreserved fund balance available for spending at the government's discretion.
- As of June 30, 2004, total unreserved fund balance for the general fund was \$22.9 million, or 64.5% of total general fund expenditures (\$35.5 million)
- As of June 30, 2004, the City's proprietary funds reported combined total net assets of \$214.4 million, and total unrestricted net assets of \$24.3 million. \$20.9 million of the unrestricted net assets are in the Water and Wastewater Fund.
- The City's governmental activity long-term liabilities increased by \$19.0 million (42.2%) during the current fiscal year. The primary factor in this increase was the \$25 million issuance for the 4th Street Overpass bonds.

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 and 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, 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 a legally separate entity for which the City is financially accountable. Financial information for this component unit, the Greater Flagstaff Economic Council (GFEC) is reported separately from the financial information presented for the primary government itself. The Municipal Property Corporation, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government as a blended component unit.

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

Fund financial statements

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

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

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

The City maintains several individual government funds organized according to their type (special revenue and debt service). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Highway User Revenue fund, Transportation fund, and the BBB fund 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, Debt Service funds, and Enterprise funds. A budgetary comparison statement has been provided for the General and other major governmental funds to demonstrate compliance with the respective budgets.

The basic governmental fund financial statements can be found on pages 18–28 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 used enterprise funds to account for its Water and Wastewater, the Airport, Environmental Services which includes solid waste collection, and Stormwater. Water and Wastewater, the Airport, and Environmental Services 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.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 38–39 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 41–75 of this report.

Other information

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

Combining statements

The combining statements referred to earlier in connection with non-major governmental funds and the non-major proprietary fund are presented immediately following the notes to the financial statements.

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 \$324.6 million as of June 30, 2004.

Of the City's net assets, 69.8% reflects its investment of \$226.5 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, 2004 and 2003 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003 (as restated)	2004	2003 (as restated)	2004	2003 (as restated)
Current and other assets	\$ 82,122	\$ 61,865	\$ 43,032	\$ 43,370	\$ 125,154	\$ 105,235
Capital assets	93,420	73,209	215,398	206,668	308,818	279,877
Total assets	<u>175,542</u>	<u>135,074</u>	<u>258,430</u>	<u>250,038</u>	<u>433,972</u>	<u>385,112</u>
Long-term liabilities	50,601	29,767	33,541	36,258	84,142	66,025
Other liabilities	14,436	10,775	10,772	9,509	25,208	20,284
Total liabilities	<u>65,037</u>	<u>40,542</u>	<u>44,313</u>	<u>45,767</u>	<u>109,350</u>	<u>86,309</u>
Invested in capital assets, net of related debt	41,667	45,411	184,864	173,369	226,531	218,780
Restricted	35,343	14,778	5,161	5,014	40,504	19,792
Unrestricted	33,495	34,343	24,092	25,888	57,587	60,231
Total net assets	<u>\$ 110,505</u>	<u>\$ 94,532</u>	<u>\$ 214,117</u>	<u>\$ 204,271</u>	<u>\$ 324,622</u>	<u>\$ 298,803</u>

An additional portion of the City's net assets, \$40.5 million (12.5%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$57.6 million (17.7%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities with the exception of the Airport fund which ended the year with negative unrestricted net assets of \$195,568.

Current assets increased in governmental activities by 32.7% (\$20.3 million) primarily due to the unspent cash proceeds related to the bonded debt issuance for the 4th Street Project. Approximately \$14.4 million of the \$25 bond issuance was restricted at fiscal year end for this project. In addition, capital projects increased by 27.6% (\$20.2 million) also due to the 4th Street project and other contributed infrastructure from the private sector (\$11.3

million and \$4.3 million, respectively). The 70% increase (\$20.8 million) in long-term liabilities is also due to the 4th Street bonded debt of \$25 million.

Overall business-type net assets increased by 4.8% (\$9.8 million) also due primarily to capital asset additions including the Sunnyside project and a number of contributions from private development for infrastructure.

Analysis of Change in Net Assets

The City’s net assets increased by \$25.8 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, 2004 and 2003 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003 (as restated)	2004	2003 (as restated)	2004	2003 (as restated)
Revenues						
Program Revenues:						
Charges for services	\$ 5,424	\$ 7,407	\$ 26,372	\$ 25,143	\$ 31,796	\$ 32,550
Operating grants and contributions	2,679	3,429	287	382	2,966	3,811
Capital grants and contributions	11,757	9,646	10,483	9,461	22,240	19,107
General Revenues:						
Property taxes	7,932	8,010	-	-	7,932	8,010
Sales taxes	25,683	23,971	-	-	25,683	23,971
State shared taxes	12,123	12,073	-	-	12,123	12,073
Unrestricted investment earnings	811	383	719	107	1,530	490
Other	1,773	952	17	24	1,790	976
Total revenues	<u>68,182</u>	<u>65,871</u>	<u>37,878</u>	<u>35,117</u>	<u>106,060</u>	<u>100,988</u>
Expenses						
General government	5,892	4,841	-	-	5,892	4,841
Public safety	18,793	18,270	-	-	18,793	18,270
Public works	1,178	1,169	-	-	1,178	1,169
Economic and physical development	6,473	7,272	-	-	6,473	7,272
Culture and recreation	8,694	8,468	-	-	8,694	8,468
Highways and streets	8,887	6,185	-	-	8,887	6,185
Interest on long-term debt	1,923	1,380	-	-	1,923	1,380
Water and wastewater	-	-	17,250	16,142	17,250	16,142
Environmental	-	-	7,320	2,527	7,320	2,527
Airport	-	-	3,370	3,411	3,370	3,411
Stormwater	-	-	461	-	461	-
Total expenses	<u>51,840</u>	<u>47,585</u>	<u>28,401</u>	<u>22,080</u>	<u>80,241</u>	<u>69,665</u>
Increase in net assets before transfers	16,342	18,286	9,477	13,037	25,819	31,323
Transfers	(369)	(476)	369	476	-	-
Change in net assets	15,973	17,810	9,846	13,513	25,819	31,323
Net assets at beginning of year	94,532	76,722	204,271	190,758	298,803	267,480
Net assets at end of year	<u>\$ 110,505</u>	<u>\$ 94,532</u>	<u>\$ 214,117</u>	<u>\$ 204,271</u>	<u>\$ 324,622</u>	<u>\$ 298,803</u>

Governmental activities.

Governmental activities increased the City’s net assets by \$16.0 million, accounting for 61.9% of the total growth in the net assets of the City. The key factors for this increase are as follows:

- Sales tax revenues continued to increase at both the local and state level. State sales tax levels decreased significantly in the post-9/11 environment and are returning to their normal levels. City sales tax has

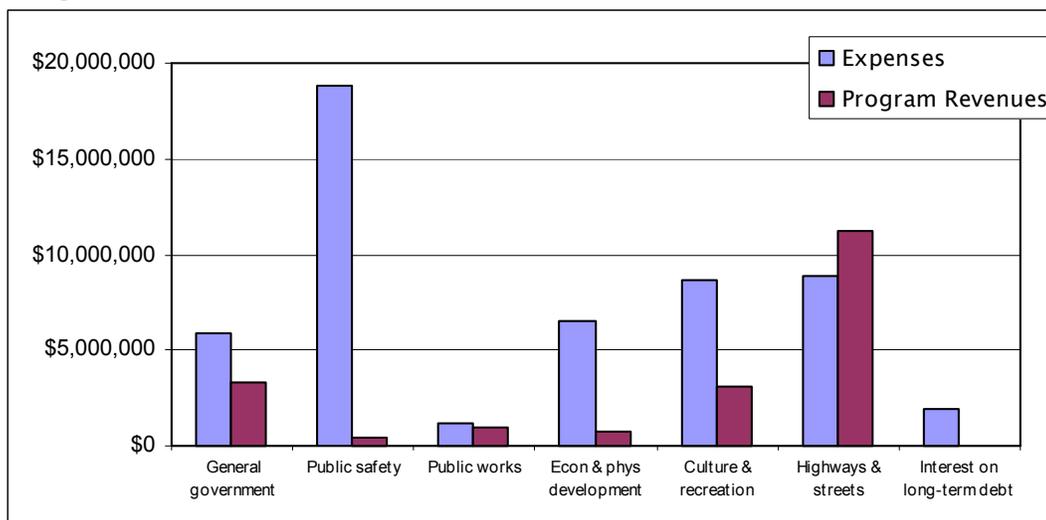
maintained a constant level of growth and BBB taxes are returning to normalized levels with the return of previously realized tourism levels.

- A loss of a total of \$1.5 million in the State’s Local Government Investment Pool (LGIP) was recognized in FY2003. The comparative increase in FY 2004 is more a result of interest earnings normalizing. A recoupment of this investment loss of \$107,385 was recognized in FY 2004 and additional recoupment is not anticipated at this time.
- In addition several large capital projects had to carryover budgeted balances due to the timing of the progress in those projects including the Rio de Flag Flood Control Project (\$3.3 million), the East Flagstaff Gateway (\$8.4 million), and Redevelopment (\$2.1 million).

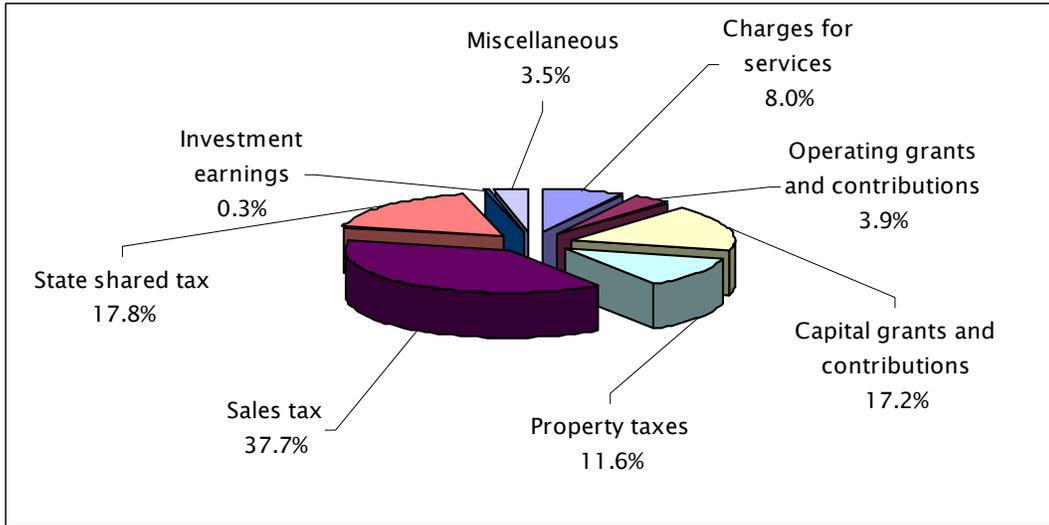
Business-type activities

Business type activity had net asset growth of \$9.8 million. This is due to capital contributions received primarily in the water and wastewater fund. Also, a new fund, Stormwater, was initiated on July 1, 2003, with year-end net assets of \$555,284.

Expenses and Program Revenues – Governmental Activities



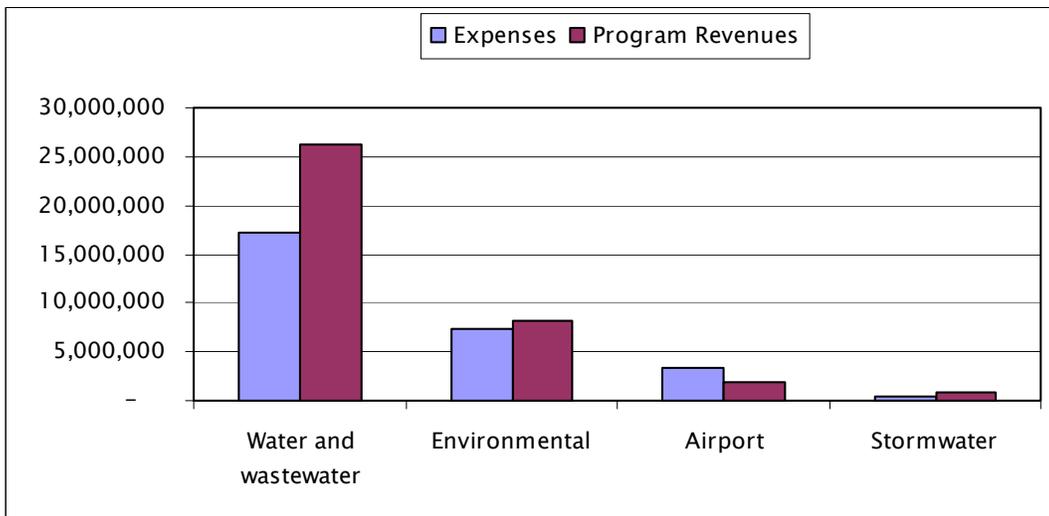
Revenues by Source – Governmental Activities



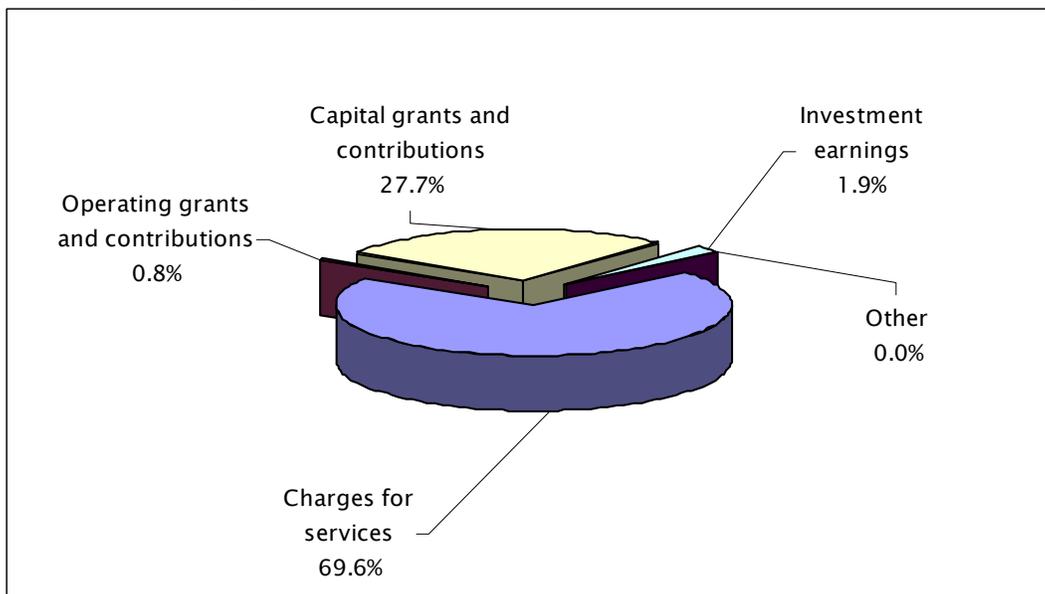
These previous two charts illustrate the City's governmental expenses and revenues by function and its revenues by source. As shown, Public safety is the largest function in expense (36.3%), followed by Highways & streets (17.1%), Culture and recreation (16.8%), and Economic and physical development (12.5%). General revenues such as sales taxes, state shared taxes, and property taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, sales taxes are the largest single source of funds (37.7%), followed by state shared taxes (17.8%), and capital grants and contributions (17.2%).

For the most part, increases in expenses paralleled inflation and growth in the demand for services. However, exceptions did occur in both General government and Highways and streets that grew 21.7% and 43.7% respectively. The expenditure growth in General government occurred primarily due to ongoing downtown redevelopment efforts as facility purchases continued in designated areas. In addition, large insurance increases continued, particularly for liability insurance. The Highway and street expenditure increase is directly attributable to the 4th Street project.

Expenses and Program Revenues – Business Type Activities



Revenues by Source – Business-type activities



As shown in the previous chart, Water and Wastewater has expenses of \$17.2 million for the fiscal year, followed by Environmental Services with \$7.3 million, the Airport with \$3.4 million and Stormwater with \$0.5 million. For the fiscal year, revenues exceeded expense in Water and Wastewater, Environmental Services, and Stormwater. The Airport had expenses exceed revenues due to current year depreciation expense (\$1.8 million). The Water and Wastewater, Environmental Services and Stormwater funds received the majority of their program revenues through charges for services (63.6%, 100% and 65.2%, respectively). The Airport receives 50.4% of support through charges for service and the other 49.6% through capital grants and contributions. Charges for services provided the largest share of revenues (71.0%) for all of the business-type activities, followed by capital grants and contributions (28.2%).

Water and Wastewater expenses increased by 6.9% (\$1.1 million) in comparison with FY 2003. This increase is contractual services, materials, and supplies and relate primarily to ongoing well maintenance.

The Water and Wastewater fund also realized a 20.3% revenue increase which is attributable to the infrastructure contributions made by the private sector and previously referenced in this overview.

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, and Debt Service funds.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$62.3 million, an increase of \$17.5 million in comparison with the prior year. The Transportation fund accounts for 88.3% (\$15.4 million) of this increase, which is primarily the unspent bond proceeds of the 4th Street project which equaled \$14.4 million at June 30, 2004. Approximately \$60.4 million of the total ending fund balance constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to pay debt service (\$1,650,520), (2) for inventory reserve (\$220,779), and perpetual care (\$27,107).

Revenues for governmental functions overall totaled \$63.9 million in the fiscal year ended June 30, 2004 which represents an decrease of 1.0% or \$481,992 from the fiscal year ended June 30, 2003. While the total dollars are relatively equal, variances existed within categories. Sales taxes (including the general sales tax, the transportation tax, and the BBB tax) increased by 7.0% (\$2.2 million) due to a combination of economic growth and a rebound in tourist trade. This growth was offset by a 16.3% (\$2.1 million) decrease in grants and entitlements. Highway User Revenue funds were reduced due to a change in the allocation methodology used by the State of Arizona (net decrease of funds of approximately \$500,000). Additionally, one-time funds of \$850,000 were received in FY 2003 for a one-time exchange transaction.

Expenditures for governmental functions, totaling \$72.7 million, increased by 9.7% (\$6.4 million) from the fiscal year ended June 30, 2003. In the fiscal year ended June 30, 2004 expenditures for governmental functions exceeded revenues by approximately \$8.9 million. Overall debt service (principal and interest) grew by 39.2% (\$2.0 million) due primarily to the payments on the 4th Street bond.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$22.9 million. As a measure of liquidity, it may be useful to compare both total unreserved, undesignated fund balance and total fund balance to total fund expenditures. The unreserved, undesignated fund balance and total fund balance represent 64.5% and 65.1%, respectively, of general fund expenditures.

The fund balance in the City's General Fund increased by \$1.2 million during the fiscal year mainly due to under expenditure (and resultant carryover into the FY 2005 budget year) of a number of capital projects including the Rio de Flag Flood control project and redevelopment efforts, \$3.3 million and \$2.1 million respectively. Overall, the General Fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2004 of \$1.0 million. This is a decrease of approximately \$1.4 million over the comparable figure from the prior year of \$2.4 million.

The Highway User Revenue Fund decreased by \$1.4 million during the fiscal year due to the ongoing completion of capital projects that represent a planned usage of fund balance for capital projects. The Transportation Fund increased by \$15.4 million which has been documented previously as the restricted bond proceeds related to the 4th Street project. The BBB fund increased by \$601,586 due to a number of capital projects that were budgeted, but not completed in FY 2004 including various Streetscape (\$866,212), various FUTS (\$1,342,308), and Recreation capital projects (\$1,972,667).

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 for the Water and Wastewater and Environmental Services were \$20.9 million and \$3.5 million, respectively. The Airport fund had a deficit balance of \$195,568. The internal service fund, which is used to account for risk management and health insurance activities, had unrestricted net assets of \$4.7 million.

The total growth in net assets for the proprietary funds was \$9.9 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities.

Fiduciary funds

The City maintains fiduciary funds for the assets of the Firemen's Pension Trust Fund. As of June 30, 2004, the net assets had decreased by \$2,516.

Budget Highlights

The City's final budget differs from the original budget for certain divisions within the General fund even though the overall original budget remained the same. Council approved transfers from the contingency funds for the following divisions:

General fund contingency transfer:

\$ 10,000	Sales Tax Audit Expenditure
10,000	Public Works – charge outs
<u>60,000</u>	Shop – decrease in shop charge outs
<u>\$ 80,000</u>	

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, 2004 amount to \$308.8 million. Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress. The total increase in the City's capital assets for the current year was 10.3% (\$28.9 million). The following table reflects the capital assets at the end of the fiscal year:

Capital Assets, Net of Depreciation
June 30, 2004 and 2003 (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 9,889	\$ 9,843	\$ 2,357	\$ 2,357	\$ 12,246	\$ 12,200
Buildings	25,501	24,384	47,641	49,160	73,142	73,544
Improvements	7,302	7,762	150,954	144,497	158,256	152,259
Machinery and equipment	8,462	8,623	7,929	4,517	16,391	13,140
Infrastructure	15,581	10,846	-	-	15,581	10,846
Construction in progress	26,685	11,751	6,517	6,137	33,202	17,888
Total	<u>\$ 93,420</u>	<u>\$ 73,209</u>	<u>\$ 215,398</u>	<u>\$ 206,668</u>	<u>\$ 308,818</u>	<u>\$ 279,877</u>

Major capital asset events during the current fiscal year included a 43.7% increase in infrastructure (primarily donated capital) and an 85.6% increase in construction in progress (predominantly the 4th Street project).

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 59 – 61 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 \$79.0 million. Of this amount, \$27.0 million is general obligation bonds backed by the full faith and credit of the City, \$19.7 million is revenue bonds, \$0.7 million is improvement district bonds, \$28.2 million is for the Municipal Facility Corporation, and \$3.4 million are outstanding loans for the airport and water/wastewater.

Outstanding Debt
June 30, 2004 and 2003 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 5,795	\$ 7,485	\$ 21,253	\$ 22,958	\$ 27,048	\$ 30,443
Special assessment bonds	685	944	-	-	685	944
Revenue bonds	13,380	14,790	6,290	6,537	19,670	21,327
Other debt	28,170	4,445	-	-	28,170	4,445
Loans	-	-	3,380	3,716	3,380	3,716
Total debt payable	\$ 48,030	\$ 27,664	\$ 30,923	\$ 33,211	\$ 78,953	\$ 60,875

During fiscal year 2004, the City's total bonded debt increased by approximately \$18.4 million. The City issued \$25 million in new Municipal Facility Corporation debt for the 4th Street Overpass project, as approved by voters in the 2000. This exceeded the debt retirement experience in other bond categories.

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, 2004 is \$27.5 million in the 6% category and \$75.8 million in the 20% capacity. Additional information on the debt limitations and capacities may be found in Table XI 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, 2004

	<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>
General Obligation	AAa3	A+
Water and Sewer Revenue	A-1	A
Street and Highway Revenue	A-1	A+

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

Economic Factors and Next Year's Budget and Rates

The Fiscal Year 2004/2005 budget preparation was influenced by the following factors:

- A conservative economic forecast and limited revenue growth
- Maintenance of level expenditures while minimizing the impact to health and/or safety services
- Maintenance of employee increases to minimize take home impacts after increased deductions due to other employment benefit changes
- Assessment of long range operational impacts due to capital improvements
- Sustained funding of capital projects to better insure against economic downturns in the future

The City of Flagstaff held a bond election in May 2004. Ten capital projects totaling \$155.2 million were approved by the voters. These projects will be funded through lease proceeds, user fees, and secondary property taxes.

Requests for Information

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

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

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

CITY OF FLAGSTAFF, ARIZONA
Statement of Net Assets
June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Greater Flagstaff Economic Council
ASSETS				
Cash and cash equivalents	\$ 50,249,198	\$ 27,178,954	\$ 77,428,152	\$ 264,539
Cash with fiscal agents	5,468,392	3,775,442	9,243,834	-
Investments	916,011	683,284	1,599,295	-
Accounts receivables, net	5,553,055	3,179,583	8,732,638	111,386
Interest receivable	249,166	165,283	414,449	-
Intergovernmental receivable	2,089,247	580,161	2,669,408	-
Bond proceeds receivable	956,509	-	956,509	-
Special assessments receivable	252,450	-	252,450	-
Internal balance	350,084	(350,084)	-	-
Inventory	227,706	377,711	605,417	-
Deferred bond issuance costs, net	526,807	559,200	1,086,007	-
Other assets	-	-	-	12,049
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	15,282,973	6,881,817	22,164,790	60,000
Capital assets:				
Non-depreciable	36,573,767	8,873,727	45,447,494	-
Depreciable, net	56,846,604	206,524,512	263,371,116	9,032
Total assets	175,541,969	258,429,590	433,971,559	457,006
LIABILITIES				
Accounts payable	3,276,070	1,297,476	4,573,546	23,367
Accrued payroll	840,106	170,456	1,010,562	-
Interest payable	585,017	-	585,017	-
Deferred revenue	747,408	244,983	992,391	-
Deposits payable	1,395,800	40,002	1,435,802	-
Matured bonds and lease payable	3,747,054	-	3,747,054	-
Unamortized bond premium	1,188,712	170,608	1,359,320	-
Liabilities payable from restricted assets	2,656,655	8,847,984	11,504,639	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences	622,513	187,841	810,354	-
Special assessment debt with governmental commitment	270,000	-	270,000	-
Bonds and loans payable	4,610,000	3,008,828	7,618,828	-
Due in more than one year:				
Compensated absences	1,948,014	238,932	2,186,946	-
Landfill closure and postclosure care costs	-	2,191,065	2,191,065	-
Due to primary government	-	-	-	75,301
Special assessment debt with governmental commitment	415,000	-	415,000	-
Bonds and loans payable	42,735,000	27,914,191	70,649,191	-
Total liabilities	65,037,349	44,312,366	109,349,715	98,668
NET ASSETS				
Invested in capital assets, net of related debt	41,666,412	184,863,812	226,530,224	9,032
Restricted for:				
Capital projects	31,859,130	1,991,708	33,850,838	-
Debt service	3,456,432	3,169,655	6,626,087	-
Perpetual care:				
Expendable	567	-	567	-
Nonexpendable	27,107	-	27,107	-
Unrestricted	33,494,972	24,092,049	57,587,021	349,306
Total net assets	\$ 110,504,620	\$ 214,117,224	\$ 324,621,844	\$ 358,338

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

CITY OF FLAGSTAFF, ARIZONA
Statement of Activities
Year Ended June 30, 2004

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 5,891,617	\$ 3,257,393	\$ 33,888	\$ 39,346
Public safety	18,792,832	451,802	-	-
Public Works	1,178,137	976,793	-	-
Economic and physical development	6,473,290	16,164	690,914	-
Culture and recreation	8,693,714	722,236	1,953,851	469,322
Highways and streets	8,886,947	-	-	11,248,662
Interest on long-term debt	1,923,325	-	-	-
Total governmental activities	51,839,862	5,424,388	2,678,653	11,757,330
Business-type activities:				
Water and wastewater	17,250,441	16,678,956	3,000	9,543,326
Environmental	7,319,602	8,201,566	-	-
Airport	3,370,447	944,983	260,343	670,785
Stormwater	460,936	546,807	23,576	268,880
Total business-type activities	28,401,426	26,372,312	286,919	10,482,991
Total primary government	\$ 80,241,288	\$ 31,796,700	\$ 2,965,572	\$ 22,240,321
Component units				
Greater Flagstaff Economic Council	\$ 584,308	\$ -	\$ 580,828	\$ -

General revenues:
Property taxes, levied for general purposes
Property tax, levied for debt service
Sales taxes
State shared sales taxes
Grants and contributions not restricted to specific programs
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			Component Unit
Governmental Activities	Business-type Activities	Total	Greater Flagstaff Economic Council
\$ (2,560,990)	\$ -	\$ (2,560,990)	\$ -
(18,341,030)	-	(18,341,030)	-
(201,344)	-	(201,344)	-
(5,766,212)	-	(5,766,212)	-
(5,548,305)	-	(5,548,305)	-
2,361,715	-	2,361,715	-
(1,923,325)	-	(1,923,325)	-
<u>(31,979,491)</u>	<u>-</u>	<u>(31,979,491)</u>	<u>-</u>
-	8,974,841	8,974,841	-
-	881,964	881,964	-
-	(1,494,336)	(1,494,336)	-
-	378,327	378,327	-
-	8,740,796	8,740,796	-
<u>\$ (31,979,491)</u>	<u>\$ 8,740,796</u>	<u>\$ (23,238,695)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,480)</u>
3,372,859	-	3,372,859	-
4,558,767	-	4,558,767	-
25,682,974	-	25,682,974	-
12,122,563	-	12,122,563	-
810,739	-	810,739	-
218,520	719,023	937,543	3,150
905,717	-	905,717	3,336
634,411	17,302	651,713	-
14,717	-	14,717	-
(369,358)	369,358	-	-
<u>47,951,909</u>	<u>1,105,683</u>	<u>49,057,592</u>	<u>6,486</u>
15,972,418	9,846,479	25,818,897	3,006
94,532,202	204,270,745	298,802,947	355,332
<u>\$ 110,504,620</u>	<u>\$ 214,117,224</u>	<u>\$ 324,621,844</u>	<u>\$ 358,338</u>

CITY OF FLAGSTAFF, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2004

	General Fund	Highway User Revenue Fund	Transportation Fund
ASSETS			
Cash and cash equivalents	\$ 22,179,944	\$ 4,051,431	\$ 7,927,227
Cash with fiscal agents	374,775	1,713,580	1,538,650
Investments	-	206,621	-
Accounts receivable, net	3,049,865	637,122	731,871
Interest receivable	109,323	25,605	46,290
Intergovernmental receivables	655,863	810,418	180,396
Interfund receivable	280,000	-	-
Bond proceeds receivable	956,509	-	-
Special assessments receivable	-	-	-
Inventory	220,779	-	-
Restricted cash and cash equivalents	74,183	-	14,416,274
Total assets	\$ 27,901,241	\$ 7,444,777	\$ 24,840,708
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 874,052	\$ 774,325	\$ 573,415
Accrued payroll and compensated absences	1,295,799	81,379	-
Current bonds payable	265,000	1,410,000	-
Interest payable	109,775	303,580	-
Interfund payable	-	-	-
Deferred revenue	774,600	-	-
Guaranty and other deposits	1,395,800	-	-
Liabilities payable from restricted assets	74,183	-	1,538,650
Total liabilities	4,789,209	2,569,284	2,112,065
Fund balances:			
Reserved for:			
Debt service	-	-	-
Inventory	220,779	-	-
Perpetual care	-	-	-
Unreserved, undesignated, reported in:			
General fund	22,891,253	-	-
Special revenue funds	-	4,875,493	22,728,643
Permanent fund	-	-	-
Total fund balances	23,112,032	4,875,493	22,728,643
Total liabilities and fund balances	\$ 27,901,241	\$ 7,444,777	\$ 24,840,708

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

BBB Fund	Other Governmental Funds	Total Governmental Funds
\$ 5,847,487	\$ 5,177,808	\$ 45,183,897
-	1,841,387	5,468,392
709,390	-	916,011
490,319	487,225	5,396,402
27,228	16,127	224,573
18,620	423,950	2,089,247
-	-	280,000
-	-	956,509
-	252,450	252,450
6,927	-	227,706
-	792,516	15,282,973
<u>\$ 7,099,971</u>	<u>\$ 8,991,463</u>	<u>\$ 76,278,160</u>
\$ 364,014	\$ 128,017	\$ 2,713,823
18,199	67,242	1,462,619
-	2,072,054	3,747,054
-	171,662	585,017
-	280,000	280,000
-	395,688	1,170,288
-	-	1,395,800
-	1,043,822	2,656,655
<u>382,213</u>	<u>4,158,485</u>	<u>14,011,256</u>
-	1,650,520	1,650,520
-	-	220,779
-	27,107	27,107
-	-	22,891,253
6,717,758	3,154,784	37,476,678
-	567	567
<u>6,717,758</u>	<u>4,832,978</u>	<u>62,266,904</u>
<u>\$ 7,099,971</u>	<u>\$ 8,991,463</u>	<u>\$ 76,278,160</u>

CITY OF FLAGSTAFF
 Reconciliation of the Balance Sheet
 to the Statement of Net Assets
 Governmental Activities
 June 30, 2004

Fund balances – total governmental funds balance sheet \$ 62,266,904

Amounts reported for governmental activities in the statements of net assets are different because (also see note 2):

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

Governmental capital assets	122,748,890	
Less: accumulated depreciation	<u>(29,328,519)</u>	93,420,371

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

Deferred bond issue costs	526,807	
Fines and forfeitures	<u>89,309</u>	616,116

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	48,030,000	
Bond premium	1,188,712	
Compensated absences	<u>1,948,014</u>	(51,166,726)

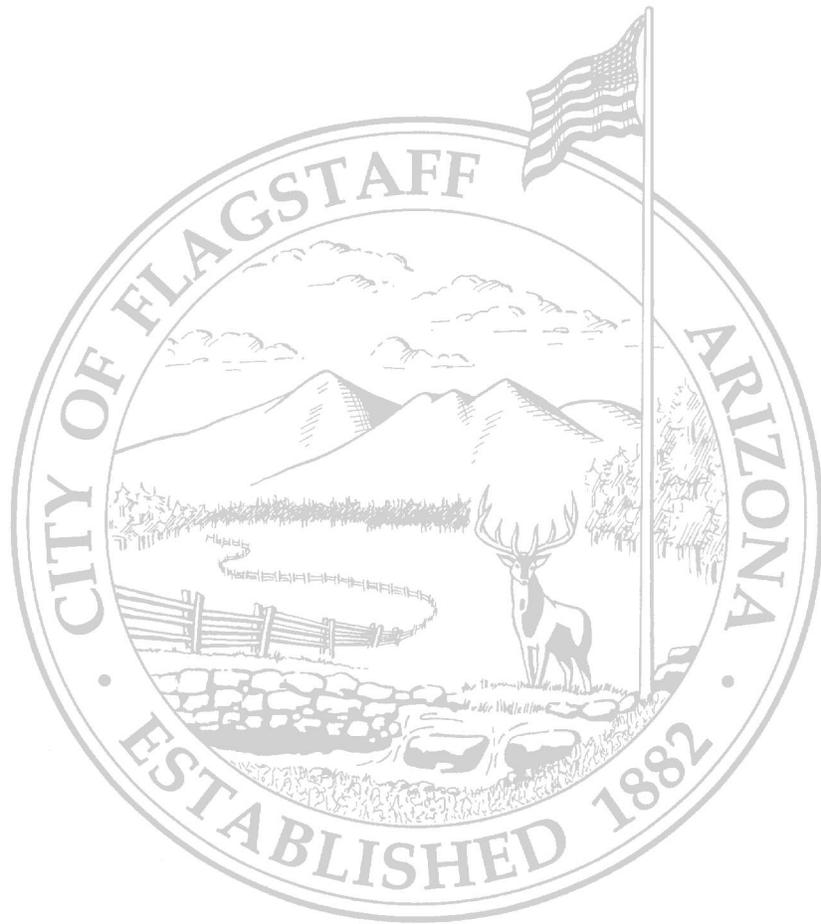
Certain revenues are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

Special assessments	252,450	
Property tax	<u>170,430</u>	422,880

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>4,945,075</u>
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Net assets of governmental activities – statement of net assets \$ 110,504,620



CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004

	General Fund	Highway User Revenue Fund	Transportation Fund
REVENUES:			
Taxes	\$ 17,741,667	\$ -	\$ 7,302,915
Intergovernmental	12,156,451	-	-
Grants and entitlements	842,885	7,289,218	-
Charges for services	1,452,787	-	-
Special assessments	-	-	-
Licenses and permits	2,111,033	-	-
Fines and forfeitures	1,144,562	-	-
Rents	976,793	-	-
Investment earnings	(477,989)	95,485	262,695
Contributions	7,200	-	-
Miscellaneous	546,188	51,706	-
Total revenues	36,501,577	7,436,409	7,565,610
EXPENDITURES:			
Current:			
General governmental	5,335,890	-	-
Public safety	18,015,837	-	-
Public works	966,546	-	-
Economic and physical development	3,399,798	-	-
Culture and recreation	4,389,953	-	-
Highways and streets	-	6,257,757	1,658,831
Debt service:			
Principal retirement	265,000	1,410,000	1,010,000
Interest and other charges	200,433	608,421	1,226,220
Capital outlay	2,939,167	4,258,125	11,264,383
Total expenditures	35,512,624	12,534,303	15,159,434
Excess (deficiency) of revenues over expenditures	988,953	(5,097,894)	(7,593,824)
OTHER FINANCING SOURCES (USES):			
Refunding bonds issued	720,000	-	-
Bonds issued	-	-	25,000,000
Payment to bond refunding escrow agent	(718,127)	-	-
Bond premium	6,966	-	1,052,255
Sale of capital assets	49,049	3,621	-
Transfers in	4,237,210	4,681,369	-
Transfers out	(4,129,206)	(975,000)	(3,034,004)
Total other financing sources (uses)	165,892	3,709,990	23,018,251
Net change in fund balances	1,154,845	(1,387,904)	15,424,427
Fund balances, beginning of year, as restated	21,957,187	6,263,397	7,304,216
Fund balances, end of year	\$ 23,112,032	\$ 4,875,493	\$ 22,728,643

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

<u>BBB Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,063,049	\$ 4,628,523	\$ 33,736,154
-	-	12,156,451
164,066	2,644,765	10,940,934
7,050	-	1,459,837
-	291,684	291,684
-	-	2,111,033
-	-	1,144,562
9,114	-	985,907
115,054	120,188	115,433
-	14,717	21,917
34,438	273,385	905,717
<u>4,392,771</u>	<u>7,973,262</u>	<u>63,869,629</u>
-	-	5,335,890
-	-	18,015,837
-	-	966,546
1,827,543	1,062,625	6,289,966
409,248	2,925,280	7,724,481
86,522	-	8,003,110
-	1,929,000	4,614,000
-	392,952	2,428,026
887,033	-	19,348,708
<u>3,210,346</u>	<u>6,309,857</u>	<u>72,726,564</u>
<u>1,182,425</u>	<u>1,663,405</u>	<u>(8,856,935)</u>
-	-	720,000
-	-	25,000,000
-	-	(718,127)
-	-	1,059,221
-	581,741	634,411
528,056	3,549,899	12,996,534
<u>(1,108,895)</u>	<u>(4,118,787)</u>	<u>(13,365,892)</u>
<u>(580,839)</u>	<u>12,853</u>	<u>26,326,147</u>
<u>601,586</u>	<u>1,676,258</u>	<u>17,469,212</u>
<u>6,116,172</u>	<u>3,156,720</u>	<u>44,797,692</u>
<u>\$ 6,717,758</u>	<u>\$ 4,832,978</u>	<u>\$ 62,266,904</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, 2004

Net change in fund balances – total governmental funds	\$	17,469,212
<p>Amounts reported for governmental activities in the statements of activities are different because:</p>		
<p>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.</p>		
Expenditures for capital assets	23,613,408	
Less current year depreciation	<u>(3,401,776)</u>	20,211,632
<p>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:</p>		
Bond proceeds	(25,720,000)	
Compensated absences	53,053	
Principal payments on debt	5,332,508	
Bond premium	<u>(980,328)</u>	(21,314,767)
<p>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.</p>		
		393,904
<p>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.</p>		
Special assessments	(291,684)	
Property tax	(121,554)	
Fines and forfeitures	<u>(276,951)</u>	(690,189)
<p>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.</p>		
Operating loss	(200,080)	
Investment income	<u>102,706</u>	<u>(97,374)</u>
Change in net assets of governmental activities – statement of activities	\$	<u><u>15,972,418</u></u>

CITY OF FLAGSTAFF, ARIZONA
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2004

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 17,127,501	\$ 17,127,501	\$ 17,741,667	\$ 614,166
Intergovernmental	10,860,516	10,860,516	12,156,451	1,295,935
Grants and entitlements	1,088,070	1,088,070	842,885	(245,185)
Charges for services	1,724,511	1,724,511	1,452,787	(271,724)
Licenses and permits	1,771,066	1,771,066	2,111,033	339,967
Fines and forfeitures	1,244,525	1,244,525	1,144,562	(99,963)
Rents	-	-	976,793	976,793
Investment earnings	418,746	418,746	475,160	56,414
Contributions	-	-	7,200	7,200
Miscellaneous	977,016	977,016	546,188	(430,828)
Total revenues	<u>35,211,951</u>	<u>35,211,951</u>	<u>37,454,726</u>	<u>2,242,775</u>
EXPENDITURES:				
Current:				
General governmental	6,159,162	6,169,162	5,061,704	1,107,458
Public safety	18,697,833	18,697,833	17,961,815	736,018
Public works	951,391	1,021,391	966,546	54,845
Economic and physical development	3,727,867	3,727,867	3,397,798	330,069
Culture and recreation	4,133,154	4,133,154	3,541,058	592,096
Debt service:				
Principal retirement	265,000	265,000	265,000	-
Interest and other charges	200,439	200,439	200,433	6
Capital outlay	11,751,280	11,751,280	4,187,289	7,563,991
Contingency	750,000	670,000	(70,056)	740,056
Total expenditures	<u>46,636,126</u>	<u>46,636,126</u>	<u>35,511,587</u>	<u>11,124,539</u>
Excess (deficiency) of revenues over expenditures	<u>(11,424,175)</u>	<u>(11,424,175)</u>	<u>1,943,139</u>	<u>13,367,314</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	15,750	15,750	49,049	33,299
Transfers in	4,559,165	4,559,165	4,237,210	(321,955)
Transfers out	(5,717,992)	(5,717,992)	(4,129,206)	1,588,786
Total other financing sources (uses)	<u>(1,143,077)</u>	<u>(1,143,077)</u>	<u>157,053</u>	<u>1,300,130</u>
Net change in fund balances	<u>(12,567,252)</u>	<u>(12,567,252)</u>	<u>2,100,192</u>	<u>14,667,444</u>
Budgetary fund balances, beginning of year	<u>18,204,628</u>	<u>18,204,628</u>	<u>18,204,628</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 5,637,376</u>	<u>\$ 5,637,376</u>	<u>\$ 20,304,820</u>	<u>\$ 14,667,444</u>
Adjustment from budetary basis to GAAP basis net change in fund balances			\$ 2,100,192	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			(226,183)	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			(719,164)	
Adjusted net change in fund balance – GAAP basis			<u>\$ 1,154,845</u>	

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

CITY OF FLAGSTAFF, ARIZONA
Highway User Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2004

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 8,875,246	\$ 8,875,246	\$ 7,289,218	\$ (1,586,028)
Investment earnings	20,000	20,000	95,485	75,485
Miscellaneous	1,761,261	1,761,261	51,706	(1,709,555)
Total revenues	<u>10,656,507</u>	<u>10,656,507</u>	<u>7,436,409</u>	<u>(3,220,098)</u>
EXPENDITURES:				
Current:				
Highways and streets	4,215,749	4,215,749	3,923,518	292,231
Debt service:				
Principal retirement	1,410,000	1,410,000	1,410,000	-
Interest and other charges	624,836	624,836	608,421	16,415
Capital outlay	18,949,510	18,949,510	6,587,807	12,361,703
Contingency	500,000	400,000	1,632	398,368
Total expenditures	<u>25,700,095</u>	<u>25,600,095</u>	<u>12,531,378</u>	<u>13,068,717</u>
Excess (deficiency) of revenues over expenditures	<u>(15,043,588)</u>	<u>(14,943,588)</u>	<u>(5,094,969)</u>	<u>9,848,619</u>
OTHER FINANCING SOURCES (USES):				
Bonds issued	805,000	805,000	-	(805,000)
Sale of capital assets	-	-	3,621	3,621
Transfers in	11,183,028	11,183,028	4,681,369	(6,501,659)
Transfers out	(975,000)	(975,000)	(975,000)	-
Total other financing sources (uses)	<u>11,013,028</u>	<u>11,013,028</u>	<u>3,709,990</u>	<u>(7,303,038)</u>
Net change in fund balances	<u>(4,030,560)</u>	<u>(3,930,560)</u>	<u>(1,384,979)</u>	<u>2,545,581</u>
Budgetary fund balances, beginning of year	<u>5,345,185</u>	<u>5,345,185</u>	<u>5,345,185</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 1,314,625</u>	<u>\$ 1,414,625</u>	<u>\$ 3,960,206</u>	<u>\$ 2,545,581</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ (1,384,979)	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			<u>(2,925)</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ (1,387,904)</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, 2004

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 7,050,874	\$ 7,050,874	\$ 7,302,915	\$ 252,041
Investment earnings	1,364,000	1,364,000	262,695	(1,101,305)
Total revenues	<u>8,414,874</u>	<u>8,414,874</u>	<u>7,565,610</u>	<u>(849,264)</u>
EXPENDITURES:				
Current:				
Highways and streets	2,016,199	2,016,199	1,676,966	339,233
Debt service:				
Principal retirement	500,000	500,000	1,010,000	(510,000)
Interest and other charges	1,250,000	1,250,000	1,226,220	23,780
Capital outlay	10,699,075	10,699,075	11,246,248	(547,173)
Total expenditures	<u>14,465,274</u>	<u>14,465,274</u>	<u>15,159,434</u>	<u>(694,160)</u>
Excess (deficiency) of revenues over expenditures	<u>(6,050,400)</u>	<u>(6,050,400)</u>	<u>(7,593,824)</u>	<u>(1,543,424)</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(8,267,692)</u>	<u>(8,267,692)</u>	<u>(3,034,004)</u>	<u>5,233,688</u>
Total other financing sources (uses)	<u>(8,267,692)</u>	<u>(8,267,692)</u>	<u>(3,034,004)</u>	<u>5,233,688</u>
Net change in fund balances	<u>(14,318,092)</u>	<u>(14,318,092)</u>	<u>(10,627,828)</u>	<u>3,690,264</u>
Budgetary fund balances, beginning of year	<u>27,275,704</u>	<u>27,275,704</u>	<u>27,275,704</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 12,957,612</u>	<u>\$ 12,957,612</u>	<u>\$ 16,647,876</u>	<u>\$ 3,690,264</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ (10,627,828)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>26,052,255</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 15,424,427</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, 2004

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 3,885,294	\$ 3,885,294	\$ 4,063,049	\$ 177,755
Grants and entitlements	1,775,000	1,775,000	164,066	(1,610,934)
Charges for services	-	-	7,050	7,050
Rents	-	-	9,114	9,114
Investment earnings	130,167	130,167	115,054	(15,113)
Miscellaneous	70,065	70,065	34,438	(35,627)
Total revenues	<u>5,860,526</u>	<u>5,860,526</u>	<u>4,392,771</u>	<u>(1,467,755)</u>
EXPENDITURES:				
Current:				
Economic and physical development	1,966,803	1,966,803	1,822,705	144,098
Culture and recreation	494,251	494,251	406,846	87,405
Highways and streets	-	-	36,408	(36,408)
Capital outlay	6,236,866	6,236,866	944,387	5,292,479
Contingency	<u>95,000</u>	<u>95,000</u>	<u>-</u>	<u>95,000</u>
Total expenditures	<u>8,792,920</u>	<u>8,792,920</u>	<u>3,210,346</u>	<u>5,582,574</u>
Excess (deficiency) of revenues over expenditures	<u>(2,932,394)</u>	<u>(2,932,394)</u>	<u>1,182,425</u>	<u>4,114,819</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,015,266	1,015,266	528,056	(487,210)
Transfers out	<u>(1,593,317)</u>	<u>(1,593,317)</u>	<u>(1,108,895)</u>	<u>484,422</u>
Total other financing sources (uses)	<u>(578,051)</u>	<u>(578,051)</u>	<u>(580,839)</u>	<u>(2,788)</u>
Net change in fund balances	<u>(3,510,445)</u>	<u>(3,510,445)</u>	<u>601,586</u>	<u>4,112,031</u>
Budgetary fund balances, beginning of year	<u>5,617,074</u>	<u>5,617,074</u>	<u>5,617,074</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 2,106,629</u>	<u>\$ 2,106,629</u>	<u>\$ 6,218,660</u>	<u>\$ 4,112,031</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, 2004

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22,251,181	\$ 4,685,477
Cash with fiscal agents	3,514,477	-
Restricted cash and cash equivalents	1,610,490	4,875,315
Investments	70,000	613,284
Accounts receivable, net	2,251,051	800,507
Interest receivable	126,040	36,589
Interfund receivables	400,000	-
Intergovernmental receivables	-	-
Inventory	377,711	-
Deferred bond issuance costs, net	559,200	-
Total current assets	<u>31,160,150</u>	<u>11,011,172</u>
Noncurrent assets:		
Capital assets, non-depreciable	5,754,611	1,971,748
Capital assets, depreciable, net	<u>173,600,582</u>	<u>4,568,172</u>
Total non-current assets	<u>179,355,193</u>	<u>6,539,920</u>
Total assets	<u>210,515,343</u>	<u>17,551,092</u>
LIABILITIES		
Current liabilities:		
Accounts payable	760,609	139,282
Accrued payroll and compensated absences	225,574	99,008
Deferred revenue	114,334	130,649
Unamortized bond premium	158,464	-
Interfund payable	-	-
Lease and notes payable	-	-
Liabilities payable from restricted assets	3,697,530	4,889,489
Deposits payable	-	17,340
Total current liabilities	<u>4,956,511</u>	<u>5,275,768</u>
Noncurrent liabilities:		
Compensated absences	177,201	51,106
Landfill closure and postclosure care costs	-	2,191,065
Bonds and notes payable	<u>28,981,423</u>	-
Total noncurrent liabilities	<u>29,158,624</u>	<u>2,242,171</u>
Total liabilities	<u>34,115,135</u>	<u>7,517,939</u>
NET ASSETS		
Invested in capital assets, net of related debt	150,774,506	6,539,920
Restricted:		
Capital projects	1,593,915	-
Debt service	3,169,655	-
Unrestricted	<u>20,862,132</u>	<u>3,493,233</u>
Total net assets	<u>\$ 176,400,208</u>	<u>\$ 10,033,153</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.

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

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Other Proprietary Fund	Total	Internal Service Fund
\$ 23,403	\$ 218,893	\$ 27,178,954	\$ 5,065,301
260,965	-	3,775,442	-
396,012	-	6,881,817	-
-	-	683,284	-
107,196	20,829	3,179,583	67,344
2,343	311	165,283	24,593
-	-	400,000	94,897
570,971	9,190	580,161	-
-	-	377,711	-
-	-	559,200	-
<u>1,360,890</u>	<u>249,223</u>	<u>43,781,435</u>	<u>5,252,135</u>
1,018,569	128,799	8,873,727	-
<u>28,088,711</u>	<u>267,047</u>	<u>206,524,512</u>	<u>-</u>
<u>29,107,280</u>	<u>395,846</u>	<u>215,398,239</u>	<u>-</u>
<u>30,468,170</u>	<u>645,069</u>	<u>259,179,674</u>	<u>5,252,135</u>
318,034	79,551	1,297,476	562,247
26,759	6,956	358,297	-
-	-	244,983	-
12,144	-	170,608	-
494,897	-	494,897	-
28,001	-	28,001	-
260,965	-	8,847,984	-
22,662	-	40,002	-
<u>1,163,462</u>	<u>86,507</u>	<u>11,482,248</u>	<u>562,247</u>
7,347	3,278	238,932	-
-	-	2,191,065	-
<u>1,913,595</u>	<u>-</u>	<u>30,895,018</u>	<u>-</u>
<u>1,920,942</u>	<u>3,278</u>	<u>33,325,015</u>	<u>-</u>
<u>3,084,404</u>	<u>89,785</u>	<u>44,807,263</u>	<u>562,247</u>
27,181,541	395,846	184,891,813	-
397,793	-	1,991,708	-
-	-	3,169,655	-
(195,568)	159,438	24,319,235	4,689,888
<u>\$ 27,383,766</u>	<u>\$ 555,284</u>	<u>\$ 214,372,411</u>	<u>\$ 4,689,888</u>

Net assets of business-type activities

(255,187)
\$ 214,117,224

CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2004

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
OPERATING REVENUES:		
Charges for services	\$ 16,670,981	\$ 8,200,245
Miscellaneous	15,089	-
Total operating revenues	<u>16,686,070</u>	<u>8,200,245</u>
OPERATING EXPENSES:		
Personal services	4,046,281	2,408,529
Contractual services, materials and supplies	6,598,792	4,036,094
Insurance claims and expenses	-	-
Depreciation and amortization	5,277,001	846,843
Total operating expenses	<u>15,922,074</u>	<u>7,291,466</u>
Operating income (loss)	<u>763,996</u>	<u>908,779</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest and investment income	541,778	166,941
Grants and entitlements	3,000	-
Gain on sale of capital asset	6,272	4,492
Interest expense	(1,259,589)	-
Miscellaneous	(7,114)	1,321
Total non-operating revenues (expenses)	<u>(715,653)</u>	<u>172,754</u>
Income (loss) before capital contributions and transfers	<u>48,343</u>	<u>1,081,533</u>
Capital contributions	9,543,326	-
Transfers in	2,018,421	15,000
Transfers out	<u>(2,018,421)</u>	<u>(429,678)</u>
Change in net assets	<u>9,591,669</u>	<u>666,855</u>
Total net assets, beginning of year, as restated	<u>166,808,539</u>	<u>9,366,298</u>
Total net assets, end of year	<u>\$ 176,400,208</u>	<u>\$ 10,033,153</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

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

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Other Proprietary Fund	Total	Internal Service Fund
\$ 950,920	\$ 546,807	\$ 26,368,953	\$ 5,640,700
-	-	15,089	644
<u>950,920</u>	<u>546,807</u>	<u>26,384,042</u>	<u>5,641,344</u>
487,434	254,437	7,196,681	-
954,392	201,540	11,790,818	-
-	-	-	5,951,650
<u>1,813,358</u>	<u>1,833</u>	<u>7,939,035</u>	<u>-</u>
<u>3,255,184</u>	<u>457,810</u>	<u>26,926,534</u>	<u>5,951,650</u>
<u>(2,304,264)</u>	<u>88,997</u>	<u>(542,492)</u>	<u>(310,306)</u>
9,473	831	719,023	102,706
931,128	23,576	957,704	-
6,538	-	17,302	-
(102,758)	-	(1,362,347)	-
<u>(5,937)</u>	<u>-</u>	<u>(11,730)</u>	<u>(2,319)</u>
<u>838,444</u>	<u>24,407</u>	<u>319,952</u>	<u>100,387</u>
<u>(1,465,820)</u>	<u>113,404</u>	<u>(222,540)</u>	<u>(209,919)</u>
-	268,880	9,812,206	-
611,036	235,000	2,879,457	-
-	(62,000)	(2,510,099)	-
<u>(854,784)</u>	<u>555,284</u>	<u>9,959,024</u>	<u>(209,919)</u>
<u>28,238,550</u>	<u>-</u>	<u>204,413,387</u>	<u>4,899,807</u>
<u>\$ 27,383,766</u>	<u>\$ 555,284</u>	<u>\$ 214,372,411</u>	<u>\$ 4,689,888</u>
		<u>(255,187)</u>	
		<u>\$ 214,117,224</u>	

City of Flagstaff, Arizona
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
Cash flows from operating activities:		
Receipts from customers	\$ 17,322,386	\$ 8,103,064
Payments to suppliers	(6,572,635)	(3,936,050)
Payments to employees	(3,998,481)	(2,414,556)
Other receipts (payments)	7,975	(17,262)
Net cash provided (used) by operating activities	<u>6,759,245</u>	<u>1,735,196</u>
Cash flows from noncapital financing activities:		
Transfer from other funds	2,018,421	15,000
Transfer to other funds	(2,018,421)	(429,678)
Interfund loans paid	(300,000)	-
Interfund loans received	-	-
Net cash provided (used) by noncapital financing activities	<u>(300,000)</u>	<u>(414,678)</u>
Cash flows from capital and related financing activities:		
Receipts from grantors	-	-
Capital contributions	1,893,566	-
Acquisition and construction of capital assets	(6,951,023)	(960,745)
Principal payments on capital debt	(2,301,618)	-
Interest paid on capital debt	(1,263,307)	-
Increase in deferred bond issuance costs	(91,588)	-
Proceeds from insurance	-	260,000
Proceeds from sales of capital assets	6,272	19,063
Net cash provided (used) by capital and related financing activities	<u>(8,707,698)</u>	<u>(681,682)</u>
Cash flows from investing activities:		
Interest received on investments	503,532	161,325
Net cash provided (used) by investing activities	<u>503,532</u>	<u>161,325</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,744,921)</u>	<u>800,161</u>
Cash and cash equivalents at beginning of year	29,191,069	9,373,915
Cash and cash equivalents at end of year	<u>\$ 27,446,148</u>	<u>\$ 10,174,076</u>
Classified as:		
Cash, cash equivalents, and investments	\$ 22,251,181	\$ 4,685,477
Cash and investments	70,000	613,284
Restricted cash with fiscal agents	3,514,477	-
Restricted cash and cash equivalents	1,610,490	4,875,315
Totals	<u>\$ 27,446,148</u>	<u>\$ 10,174,076</u>

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

Business-type Activities – Enterprise Funds			Governmental Activities
Airport Fund	Other Proprietary Fund	Total	Internal Service Fund
\$ 940,867	\$ 525,978	\$ 26,892,295	\$ 5,626,323
(701,942)	(121,989)	(11,332,616)	(5,852,119)
(481,923)	(244,203)	(7,139,163)	-
(5,937)	-	(15,224)	(1,675)
<u>(248,935)</u>	<u>159,786</u>	<u>8,405,292</u>	<u>(227,471)</u>
611,036	(62,000)	2,582,457	-
-	235,000	(2,213,099)	-
(100,000)	-	(400,000)	-
400,000	-	400,000	-
<u>911,036</u>	<u>173,000</u>	<u>369,358</u>	<u>-</u>
564,762	14,386	579,148	-
-	-	1,893,566	-
(853,841)	(128,799)	(8,894,408)	-
(281,524)	-	(2,583,142)	-
(106,540)	-	(1,369,847)	-
-	-	(91,588)	-
-	-	260,000	-
<u>6,538</u>	<u>-</u>	<u>31,873</u>	<u>-</u>
<u>(670,605)</u>	<u>(114,413)</u>	<u>(10,174,398)</u>	<u>-</u>
<u>7,628</u>	<u>520</u>	<u>673,005</u>	<u>95,961</u>
<u>7,628</u>	<u>520</u>	<u>673,005</u>	<u>95,961</u>
(876)	218,893	(726,743)	(131,510)
681,256	-	39,246,240	5,196,811
<u>\$ 680,380</u>	<u>\$ 218,893</u>	<u>\$ 38,519,497</u>	<u>\$ 5,065,301</u>
\$ 23,403	\$ 218,893	\$ 27,178,954	\$ 5,065,301
-	-	683,284	-
260,965	-	3,775,442	-
396,012	-	6,881,817	-
<u>\$ 680,380</u>	<u>\$ 218,893</u>	<u>\$ 38,519,497</u>	<u>\$ 5,065,301</u>

(continued)

City of Flagstaff, Arizona
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

	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)	\$ 763,996	\$ 908,779
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	5,277,001	846,843
Landfill closure and postclosure costs	-	(46,513)
Non-operating inflow (outflow)	(7,114)	1,321
(Increase) decrease in assets:		
Accounts receivable	648,612	(98,502)
Inventories	(46,299)	-
Increase (decrease) in liabilities:		
Accounts payable	72,456	129,295
Accrued payroll and compensated absences	47,800	(6,027)
Deposits payable	(12,589)	-
Deferred revenue	15,382	-
Total adjustments	<u>5,995,249</u>	<u>826,417</u>
Net cash provided (used) by operating activities	<u>\$ 6,759,245</u>	<u>\$ 1,735,196</u>
Noncash investing, capital and financing activities:		
Capital assets acquired through contributions from developers	\$ 7,649,760	\$ -
Total noncash investing, capital and financing activities	<u>\$ 7,649,760</u>	<u>\$ -</u>

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

<u>Airport Fund</u>	<u>Other Proprietary Fund</u>	<u>Total</u>	<u>Governmental Activities</u> <u>Internal Service Fund</u>
\$ (2,304,264)	\$ 88,997	\$ (542,492)	\$ (310,306)
1,813,358	1,833	7,939,035	-
-	-	(46,513)	-
(5,937)	-	(11,730)	(2,319)
(2,483)	(20,829)	526,798	(14,377)
-	-	(46,299)	-
252,450	79,551	533,752	99,531
5,511	10,234	57,518	-
697	-	(11,892)	-
(8,267)	-	7,115	-
<u>2,055,329</u>	<u>70,789</u>	<u>8,947,784</u>	<u>82,835</u>
<u>\$ (248,935)</u>	<u>\$ 159,786</u>	<u>\$ 8,405,292</u>	<u>\$ (227,471)</u>
<u>\$ -</u>	<u>\$ 268,880</u>	<u>\$ 7,918,640</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 268,880</u>	<u>\$ 7,918,640</u>	<u>\$ -</u>

CITY OF FLAGSTAFF, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

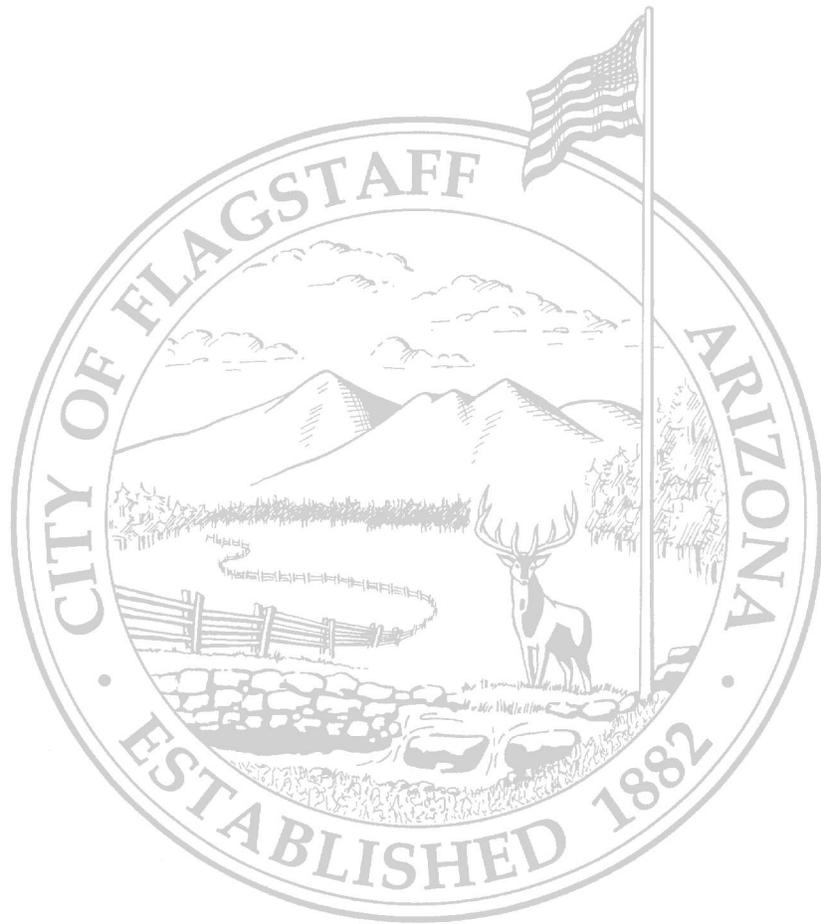
	Firemen's Pension Fund
ASSETS	
Cash and cash equivalents	\$ 218,208
Interest receivable	1,006
Total assets	219,214
LIABILITIES	
Other liabilities	-
Total liabilities	-
NET ASSETS	
Held in trust for pension benefits and other purposes	\$ 219,214

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

CITY OF FLAGSTAFF, ARIZONA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Firemen's Pension Fund
ADDITIONS:	
Investment earnings	\$ 4,367
Other income	317
Total additions	4,684
 DEDUCTIONS:	
Retirement payments	7,200
Total deductions	7,200
Change in net assets	(2,516)
Net assets – beginning of year	221,730
Net assets – end of year	\$ 219,214

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



CITY OF FLAGSTAFF, ARIZONA
Notes to the Financial Statement
June 30, 2004

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 United States of America generally accepted accounting principles (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.

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. The discretely presented component unit is reported in a separate column in the Government Wide Statement of Net Assets and Activities to emphasize it is legally separate from the government. The discretely presented component unit year-end is June 30.

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 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.

Discretely Presented Component Unit: The Greater Flagstaff Economic Council (GFEC) is responsible for planning and encouraging economic growth within the City of Flagstaff's jurisdiction. GFEC has an eighteen member Board of Directors, of which the Mayor and Vice Mayor are Directors who can directly or indirectly appoint two additional Directors. The remaining members of the Board are voted in by GFEC members. The economic resources of the GFEC are used almost entirely for the benefit of the City's constituents. Of the \$584,164 reported in program revenue, 71.3% (\$416,717) was funded by the City of Flagstaff signifying the organization is fiscally dependent on the City. GFEC is presented as a governmental fund type. Complete financial statements for the Greater Flagstaff Economic Council may be obtained at the entity's office: 1300 South Milton #125, Flagstaff, AZ 86001.

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (statement of net assets and statement of activities) report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

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

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

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

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

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.

Also part of the basic financial statements are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although the new model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or

expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. The City has opted to add the Bed, Board, and Booze (BBB) Fund as major fund because of community focus. 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.

GASB Statement 34 requires reporting of infrastructure such as roads, bridges, canal systems, ditches, water systems, sewer systems, and recreational assets on a prospective basis effective July 1, 2002 and retrospectively for all major infrastructure assets acquired or constructed since 1980. This reporting is required to be in place by fiscal year 2007. Accordingly, infrastructure assets acquired or constructed beginning in 1980 through June 30, 2002 are not included in the government-wide 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 (enterprise) fund and fiduciary 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 City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

The City uses the following fund categories:

GOVERNMENTAL FUND TYPES

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

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

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

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

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal and interest.

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.

- The *Perpetual Care Fund* accounts for the perpetual care of the City's cemetery.

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; three are presented as major funds in the basic financial statements and are used to account for the operation of the City's water and wastewater system, environmental services, and airport.

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.

FIDUCIARY FUND TYPES

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements since they are not assets of the City available to support City programs.

Firemen's Pension Fund is a pension trust fund that is used to account for the activity of the City's single-employer retirement system. This fund is accounted for on the same basis as a proprietary fund, using the same measurement focus and basis of accounting.

Non-Current Governmental Assets/Liabilities

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

Basis of Accounting

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

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

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

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

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

The accrual basis of accounting is followed for all enterprise funds and the pension trust fund, whereby 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.

D. ASSETS, LIABILITIES, AND NET ASSETS

Pooled 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 authorized the government to invest in the State's Local Government Investment Pool, 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.

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 or less when purchased. 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 Enterprise Fund, the BBB Fund, the Airport Enterprise Fund and the General Obligation Bond Fund. General Obligation bonds are serviced by each of these funds. For fiscal year 2003-2004, primary and secondary property tax collections amounted to \$3,424,657 and \$4,628,523 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.

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, drainage systems, 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 \$5000 (\$25,000 for capital improvement projects and infrastructure assets) and an estimated useful life greater than three years. Such assets are recorded at historical cost if purchased or constructed. 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

Committed Construction

At June 30, 2004 there were major uncompleted construction contracts as follows:

HURF/Transportation Fund	\$ 3,427,283
Airport Fund	4,978,322
Water/Wastewater Fund	2,055,669
BBB Fund	<u>1,176,499</u>
	<u>\$ 11,637,773</u>

Compensated Absences

Vacation and sick leave is granted to all regular and part-time employees. The annual amount of vacation time accrued varies depending on years of service. Accumulated vacation leave vests and the City is obligated to make payment if the employee terminates. 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.

Sick leave accrues at rates based on the classification of each employee and years of service. 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. These amounts are also accumulated in the government and business-type fund statements as well as the government-wide statements.

Long-Term Obligations

In the government-wide financial statements, and enterprise 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 are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

Interfund Transactions

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

Fund Equity

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

Statement of Cash Flows

The City considers all high liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents. In a statement of cash flows, cash receipts and payments are classified according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities.

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.

Arbitrage

Arbitrage is generated when the a local government temporarily reinvests bond proceeds (generally during construction periods) and interest earnings are generated in excess of the interest due and payable on the bond. While there are certain exceptions in which the local government may keep the excess earnings, most instances require that the local government remit these excess earnings to the federal government. Rebatable amounts are recorded at such time they are actually due and payable to the federal government. The City of Flagstaff did not have any rebatable arbitrage for the year ended June 30, 2004.

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. Additional reconciliation's are provided as shown on the following page:

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	Statement of Net Assets Totals
Assets						
Cash and cash equivalents	\$ 45,183,897	\$ -	\$ -	\$ 5,065,301	\$ -	\$ 50,249,198
Cash with fiscal agents	5,468,392	-	-	-	-	5,468,392
Investments	916,011	-	-	-	-	916,011
Accounts receivable, net	5,396,402	-	89,309	67,344	-	5,553,055
Interest receivable	224,573	-	-	24,593	-	249,166
Intergovernmental receivables	2,089,247	-	-	-	-	2,089,247
Bond proceeds receivable	956,509	-	-	-	-	956,509
Special assessments receivable	252,450	-	-	-	-	252,450
Interfund receivable	280,000	-	-	350,084	(280,000)	350,084
Prepaid items	-	-	526,807	-	-	526,807
Inventory	227,706	-	-	-	-	227,706
Restricted cash and cash equivalents	15,282,973	-	-	-	-	15,282,973
Capital assets	-	93,420,371	-	-	-	93,420,371
Total Assets	\$ 76,278,160	\$ 93,420,371	\$ 616,116	\$ 5,507,322	\$ (280,000)	\$ 175,541,969
Liabilities and Net Assets						
Accounts payable	\$ 2,713,823	\$ -	\$ -	\$ 562,247	\$ -	\$ 3,276,070
Accrued payroll and compensated absences	1,462,619	-	-	-	(622,513)	840,106
Interest payable	585,017	-	-	-	-	585,017
Interfund payable	280,000	-	-	-	(280,000)	-
Deferred revenue	1,170,288	-	(422,880)	-	-	747,408
Guaranty and other deposits	1,395,800	-	-	-	-	1,395,800
Unamortized bond premium	-	-	1,188,712	-	-	1,188,712
Liabilities payable from restricted assets	2,656,655	-	-	-	-	2,656,655
Compensated absences – current	-	-	1,948,014	-	622,513	2,570,527
Current bonds/contracts payable	3,747,054	-	48,030,000	-	-	51,777,054
Fund balance/Net Assets	62,266,904	93,420,371	(50,127,730)	4,945,075	-	110,504,620
Total liabilities and net assets	\$ 76,278,160	\$ 93,420,371	\$ 616,116	\$ 5,507,322	\$ (280,000)	\$ 175,541,969

(1) Capital assets (land, buildings, equipment, etc.) that are to be used in governmental activities are purchased or constructed, 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	\$ 122,748,890
Accumulated depreciation	(29,328,519)
	<u>\$ 93,420,371</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>\$ 526,807</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>\$ 89,309</u>
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly are not reported as fund liabilities in the governmental fund statement. All liabilities, both current and long-term are reported in the statement of net assets.

Bonds payable	\$ 52,910,000
Compensated absences	2,589,072
Unamortized bond premium	1,188,712
Subtotal	<u>56,687,784</u>
Less: current compensated absences	641,058
current portion of bonds	4,880,000
	<u>\$ 51,166,726</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 special assessment	\$ 252,450
Deferred property tax	170,430
	<u>\$ 422,880</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.

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	Statement of Activities Totals
Revenues and Other Sources						
Taxes	\$ 33,736,154	\$ -	\$ (121,554)	\$ -	\$ -	\$ 33,614,600
Intergovernmental	12,156,451	-	-	-	-	12,156,451
Grants and entitlements	10,940,934	-	-	-	-	10,940,934
Charges for services	1,459,837	-	-	-	-	1,459,837
Special assessments	291,684	-	(291,684)	-	-	-
Licenses and permits	2,111,033	-	-	-	-	2,111,033
Fines and forfeitures	1,144,562	-	(276,951)	-	-	867,611
Rent	985,907	-	-	-	-	985,907
Investment earnings	115,433	-	381	102,706	-	218,520
Contributions	21,917	4,264,700	-	-	-	4,286,617
Miscellaneous	905,717	-	-	-	-	905,717
Total revenue	63,869,629	4,264,700	(689,808)	102,706	-	67,547,227
Expenditures/Expenses						
General governmental	5,335,890	592,159	(61,441)	25,009	-	5,891,617
Public safety	18,015,837	701,965	-	75,030	-	18,792,832
Public works	966,546	205,338	-	6,253	-	1,178,137
Economic and physical development	6,289,966	157,312	1,002	25,010	-	6,473,290
Culture and recreation	7,724,481	940,082	(5,238)	34,389	-	8,693,714
Highways and streets	8,003,110	804,920	44,528	34,389	-	8,886,947
Principal retirement	4,614,000	-	(4,614,000)	-	-	-
Interest and other charges	2,428,026	-	(504,701)	-	-	1,923,325
Capital outlay	19,348,708	(19,348,708)	-	-	-	-
Total expenditures/expenses	72,726,564	(15,946,932)	(5,139,850)	200,080	-	51,839,862
OTHER FINANCING SOURCES (USES):						
Refunding bonds issued	720,000	-	(720,000)	-	-	-
Bonds issued	25,000,000	-	(25,000,000)	-	-	-
Payment to bond refunding escrow agent	(718,127)	-	718,127	-	-	-
Bond (discount) premium	1,059,221	-	(1,059,221)	-	-	-
Sale of capital assets	634,411	-	-	-	-	634,411
Transfers in	12,996,534	-	-	-	-	12,996,534
Transfers out	(13,365,892)	-	-	-	-	(13,365,892)
Total other financing sources (uses)	26,326,147	-	(26,061,094)	-	-	265,053
Net change for the year	\$ 17,469,212	\$ 20,211,632	\$(21,611,052)	\$ (97,374)	\$ -	\$ 15,972,418

(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	\$ 19,348,708
Depreciation expense	(3,401,776)
Donated assets	4,264,700
	<u>\$ 20,211,632</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	\$ (291,684)
Property tax	(121,554)
Court revenue	(276,951)
	<u>\$ (690,189)</u>

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

Issuance costs on bonds issued and refunding	\$ 454,614
Amortization of bond issuance costs	(39,420)
	<u>\$ 415,194</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	<u>\$ 53,053</u>
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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	\$ 4,614,381
Bond refunding	(720,000)
Bonds issued	(25,000,000)
Payment to bond refunding escrow agent	718,127
Bond premium on bonds issued and refunding	(1,009,714)
Amortization of bond premium	8,096
	<u>\$ (21,389,110)</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	\$ 102,706
Expenditures	(200,080)
	<u>\$ (97,374)</u>

C. FOOTNOTE INFORMATION FOR FUND BALANCE RESTATEMENTS

Change in Accounting Estimate and Accounting Error

The City has changed the manner in which it accounts for the 60-day tax accrual for franchise, BBB and transportation tax receivables. In addition, an accounting error was discovered in the prior year related to encumbrance liquidation. The impact of these changes in accounting estimate and accounting error are reflected as a restatement of \$165,335 to the beginning net assets on the government-wide statement of activities and as a restatement of beginning fund balance on the government funds / General Fund, Transportation Fund, and BBB Fund statement of revenues, expenditures, and changes in fund balances.

An accounting error was discovered and corrected in the environmental services landfill capacity resulting in a prior period adjustment. The discovery in part was a result of a prior landfill capacity change that was never reflected and thus, resulted in a change to the remaining landfill capacity liability calculation. This amounted to a cumulative effect of \$5,029,620 restatement of beginning net assets on the proprietary funds / Environmental Services Fund statement of revenues, expenses, and changes in fund net assets.

Net assets:	<u>Governmental Activities</u>
Fund balance at June 30, 2003, as previously reported:	
General	\$ 21,959,733
Special revenue	21,713,198
Debt Service	946,819
Permanent	<u>12,607</u>
Total fund balances at June 30, 2003, as previously reported	<u>44,632,357</u>
Change in accounting estimate:	
Tax accrual – beginning current balance	165,389
Encumbrance – prior year adjustment	<u>(54)</u>
Governmental fund balance at July 1, 2003	<u>\$ 44,797,692</u>

Change in beginning net assets for proprietary funds

Net assets:	<u>Business-Type Activities</u>
Environmental Services Fund balance at June 30, 2003, as previously reported:	\$ 4,336,678
Accounting Error:	
Landfill closure/post closure liability – capacity error	<u>5,029,620</u>
Environmental Services net assets at July 1, 2003	<u>\$ 9,366,298</u>

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 that are expected to be 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 and landfill closure and post closure accrual, are not included in the budget.
- All funds except the Internal Service Fund are budgeted.
- 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 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 May. 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 July. Two public hearings are held on the content of the budget. Final adoption occurred on July 1, 2003. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues, e.g., Passengers Facility Charges, and expenditures that cannot be accurately determined when the budget is adopted,

e.g., grants. The Resolution adopting the annual budget requires Council authorization for any expenditure from contingencies, as well as transfer of budget authority between departments.

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

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

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

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The City did not realize any excess expenditure over appropriations at the department level (the legal level of budgetary control). However, there were six divisions that did have excess expenditures.

In the General Fund, the Capital Improvement Division expenditures exceeded appropriations by \$139,978, the Risk Management Division expenditures exceeded appropriations by \$1,897, the Community Development Administration Division expenditures exceeded appropriations by \$15,177, the Building and Development Services Division expenditures exceeded appropriations by \$7,319, and the G.O. Debt Division expenditures exceeded appropriations by \$786. These over expenditures were funded by under expenditures of other divisions within their respective department.

In the Transportation Fund, the Fourth Street Overpass capital division expenditures exceeded appropriations by \$547,173 and the Fourth Street Debt Service division expenditures exceeded appropriations by \$486,220. This over expenditure was funded by available fund balance.

In the Airport Fund, the Contingencies division expenses exceeded appropriations by \$200. This over expense was funded by under expenses in the airport operating division.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

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 cash equivalents".

At June 30, 2004, the carrying amount of the City's deposits was \$20,490,097 and the bank balance was \$19,307,342. The \$1,182,755 difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2004. Of the City's deposits, \$10,281,715 was covered by federal depository insurance or by collateral held by the City's agent in the City's name. The remaining \$9.2 million was not collateralized as it was anticipated that funding would transfer to fiscal agents for June 30, 2004 bond payments. As the City was not aware of the transaction delay, the City was not able to notify the banking institution in advance. The bank generally monitors and collateralizes the City balance within 24 hours, so the City was over-collateralized on July 1. The trust department pledges a pool of collateral against all trust deposits it holds.

At year-end, the book value of deposits for GFEC, a discretely presented component unit, was \$264,539, which was covered by federal depository insurance or by collateral held by the entity's agent in GFEC's name.

Investments: 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 LGIP is a part of the State 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. The fair value of the participant's position in the pool approximates the value of that participant pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk. All other investments were insured or registered in the City's name, or were held by the City or its agent in the City's name. It is the City's policy generally to hold investments until maturity. The fair value of the investments is based on quoted market values. The City has no investments held by a counter party's trust department or agent. The City is in compliance with the provisions of Statement No. 31 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which require certain investments to be reported at fair value rather than at cost.

The City's investments at June 30, 2004 are summarized below to give an indication of risk assumed by the City at year-end. Category 1 included investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker of dealer, but not in the City's name.

The City's investment in the State of Arizona's local government investment pool is stated at fair value, which also approximates the value of the investment upon withdrawal.

At June 30, 2004, the City's investments included the following:

	Category			Fair Amount
	1	2	3	
U.S. Government Securities	\$ 58,149,827	\$ 14,416,275	\$ -	\$ 72,566,102
Certificate of Deposit	7,409,153	-	-	7,409,153
Local Government Securities	126,822	-	-	126,822
Municipal Securities	70,000	-	-	70,000
	<u>\$ 65,755,802</u>	<u>\$ 14,416,275</u>	<u>\$ -</u>	<u>80,172,077</u>
Investments Not Categorized:				
State of Arizona Investment Pool				9,773,897
Total Investments				<u>\$ 89,945,974</u>

Reconciliation of pooled cash and investments as reported on the Government-wide Statement of Net Assets

Carrying Amount of Investments	\$ 89,945,974
Carrying Amount of Cash Deposits	20,490,097
Total Pooled Cash and Investments	<u>\$ 110,436,071</u>
Pooled Cash and Investments – Unrestricted	\$ 79,027,447
Restricted Cash with Fiscal Agent and Investments	31,408,624
Total Pooled Cash and Investments	<u>\$ 110,436,071</u>

B. RECEIVABLES

Receivables as of June 30, 2004, including allowances for uncollectible accounts, are as follows:

Fund	Accounts	Interest	Intergov- ernmental	Bond Proceeds	Special Assessments	Total Receivables
Governmental Activities						
General	\$ 4,072,349	\$ 109,323	\$ 655,863	\$ 956,509	\$ -	\$ 5,794,044
Highway User Revenue	637,122	25,605	810,418	-	-	1,473,145
Transportation	731,871	46,290	180,396	-	-	958,557
BBB	490,319	27,228	18,620	-	-	536,167
Other Governmental Funds	487,225	16,127	423,950	-	252,450	1,179,752
Less: Allowance for Uncollectibles	(933,175)	-	-	-	-	(933,175)
Total Government Funds	5,485,711	224,573	2,089,247	956,509	252,450	9,008,490
Internal Services Funds	67,344	24,593	-	-	-	91,937
Total Governmental Activities	5,553,055	249,166	2,089,247	956,509	252,450	9,100,427
Business-Type Activities						
Water and Wastewater	2,291,051	126,040	-	-	-	2,417,091
Environmental Services	815,507	36,589	-	-	-	852,096
Airport	112,196	2,343	570,971	-	-	685,510
Stormwater	20,829	311	9,190	-	-	30,330
Less: Allowance for Uncollectibles	(60,000)	-	-	-	-	(60,000)
Total Business-Type Activities	3,179,583	165,283	580,161	-	-	3,925,027
Grand Totals	\$ 8,732,638	\$ 414,449	\$ 2,669,408	\$ 956,509	\$ 252,450	\$ 13,025,454

C. CAPITAL ASSETS

The City has not completed its evaluation of the City's entire infrastructure as of June 30, 2004, and therefore, is considered to be in a transition period. This period represents the timing between the adoption of the general provisions of GASB Statement No. 34 and when the City begins to report its retroactive major general infrastructure assets. Infrastructure assets currently reported represent assets placed in service since the inception of GASB Statement No. 34, which became instrumental as of June 30, 2003. No infrastructure prior to this date has been accounted for. The City will complete the infrastructure evaluation prior to June 30, 2007.

A summary of capital asset activity, for the government-wide financial statements, for the fiscal year ended June 30, 2004 is as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions and Retirements</u>	<u>Transfers In (out)</u>	<u>Balances June 30, 2004</u>
Governmental activities:					
Non-depreciable assets:					
Land	\$ 9,842,489	\$ 46,360	\$ -	\$ -	\$ 9,888,849
Construction -in-progress	11,750,626	15,004,325	-	(70,033)	26,684,918
Total non-depreciable assets	<u>21,593,115</u>	<u>15,050,685</u>	<u>-</u>	<u>(70,033)</u>	<u>36,573,767</u>
Depreciable assets:					
Buildings	33,532,760	1,926,435	-	-	35,459,195
Improvements	13,235,365	244,454	-	32,068	13,511,887
Machinery and equipment	20,153,228	1,361,030	(358,311)	(32,068)	21,123,879
Infrastructure	10,979,326	5,030,803	-	70,033	16,080,162
Total depreciable assets	<u>77,900,679</u>	<u>8,562,722</u>	<u>(358,311)</u>	<u>70,033</u>	<u>86,175,123</u>
Accumulated depreciation:					
Buildings	(9,148,320)	(809,613)	-	-	(9,957,933)
Improvements	(5,472,888)	(737,199)	-	-	(6,210,087)
Machinery and equipment	(11,530,493)	(1,489,592)	358,311	-	(12,661,774)
Infrastructure	(133,354)	(365,371)	-	-	(498,725)
Total accumulated depreciation	<u>(26,285,055)</u>	<u>(3,401,775)</u>	<u>358,311</u>	<u>-</u>	<u>(29,328,519)</u>
Governmental activities capital assets, net	<u>\$ 73,208,739</u>	<u>\$ 20,211,632</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,420,371</u>
	<u>Balances July 01, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers In (out)</u>	<u>Balances June 30, 2004</u>
Business-type activities:					
Non-depreciable assets:					
Land	\$ 2,357,360	\$ -	\$ -	\$ -	\$ 2,357,360
Construction -in-progress	6,137,036	5,802,763	-	(5,423,432)	6,516,367
Total non-depreciable assets	<u>8,494,396</u>	<u>5,802,763</u>	<u>-</u>	<u>(5,423,432)</u>	<u>8,873,727</u>
Depreciable assets:					
Buildings	72,488,407	27,890	-	84,006	72,600,303
Improvements	208,510,672	9,688,818	-	1,989,449	220,188,939
Machinery and equipment	14,805,618	1,293,577	(1,141,652)	3,349,977	18,307,520
Total depreciable assets	<u>295,804,697</u>	<u>11,010,285</u>	<u>(1,141,652)</u>	<u>5,423,432</u>	<u>311,096,762</u>
Accumulated depreciation:					
Buildings	(23,328,420)	(1,630,892)	-	-	(24,959,312)
Improvements	(64,013,650)	(5,221,084)	-	-	(69,234,734)
Machinery and equipment	(10,288,874)	(1,087,060)	997,730	-	(10,378,204)
Total accumulated depreciation	<u>(97,630,944)</u>	<u>(7,939,036)</u>	<u>997,730</u>	<u>-</u>	<u>(104,572,250)</u>
Business-type activities capital assets, net	<u>\$ 206,668,149</u>	<u>\$ 8,874,012</u>	<u>\$ (143,922)</u>	<u>\$ -</u>	<u>\$ 215,398,239</u>

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

General government	\$ 592,158
Public safety	701,965
Public works	205,338
Economic and physical development	157,312
Culture and recreation	940,082
Highway and streets	804,920
Total depreciation expense – governmental activities	<u>\$ 3,401,775</u>

D. INTERFUND RECEIVABLES, PAYABLES, and TRANSFERS

Interfund receivables and payables

Net interfund receivables and payables between governmental activities and business-type activities of \$350,084 are included in the government-wide financial statements at June 30, 2004. The interfund balances at June 30, 2004 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, 2004 are expected to be repaid within one year. The following interfund receivables and payables are included in the fund financial statements at June 30, 2004:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
General	\$ 280,000	\$ -
Other Governmental Funds	-	280,000
Internal Service	94,897	-
Total governmental funds	<u>374,897</u>	<u>280,000</u>
Business-Type Funds:		
Water and Wastewater	400,000	-
Airport	-	494,897
Total enterprise funds	<u>400,000</u>	<u>494,897</u>
Grand Totals	<u>\$ 774,897</u>	<u>\$ 774,897</u>

Transfers

The net transfers of \$369,358 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. The following transfers are reflected in the fund financial statements for the year ended June 30, 2004:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers In</u>
Governmental Funds:		
General	\$ 4,129,206	\$ 4,237,210
Highway User Revenue	975,000	4,681,369
Transportation	3,034,004	-
BBB	1,108,895	528,056
Other Governmental Funds	4,118,787	3,549,899
Total governmental funds	<u>13,365,892</u>	<u>12,996,534</u>
Business-Type Funds:		
Water and Wastewater	2,018,421	2,018,421
Environmental Services	429,678	15,000
Airport	-	611,036
Other Proprietary	62,000	235,000
Total enterprise funds	<u>2,510,099</u>	<u>2,879,457</u>
Grand Totals	<u>\$ 15,875,991</u>	<u>\$ 15,875,991</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 2004 lease expense for the library was \$61,924. The schedule below for future minimum lease expenses reflects the change in the rental rate as of July 1, 2004.

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>East Flagstaff</u> <u>Library</u>
2005	\$ 63,336
2006	63,336
2007	63,336
2008	63,336
2009	63,336
2010-2013	<u>232,231</u>
Total	<u>\$ 548,911</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, 2004 were \$119,424.

Operating Lease Revenues

The City leases several City-owned buildings under cancelable and non-cancelable agreements. The carrying value of the leased assets is \$4,976,224 (cost of \$5,252,367 less accumulated depreciation of \$276,143) with current depreciation of \$145,614. Certain leases contain provisions for future rate increases based on changes in the Consumer Price Index. Total revenue for fiscal year 2004 was \$890,485. The City currently has one lease with non-cancelable terms that is for USGS building #6, which is guaranteed through August 2013. 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>Fiscal Year</u> <u>Ending June 30</u>		<u>USGS</u> <u>Building #6</u>
2005	\$	762,999
2006		763,675
2007		763,675
2008		763,675
2009		763,675
2010-2013		<u>2,418,305</u>
Total	\$	<u><u>6,236,004</u></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 2004 was \$716,986. The carrying value of the leased assets is \$3,668,356 (cost of \$6,508,528 less accumulated depreciation of \$2,840,172) with current year depreciation of \$149,635.

F. LONG-TERM DEBT

General Obligation Bonds

The City of Flagstaff issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligations bonds issued in prior years was \$30,442,848. During the year, \$30,054 of accretion had been added to Water and Wastewater General Obligation bonds.

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, 2004 are:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 5,075,000
Governmental activities - refunding	720,000
Business type activities	2,147,902
Business type activities - refunding	<u>19,105,000</u>
	<u>\$27,047,902</u>

General obligation bonds payable at June 30, 2004 are comprised of the following individual issues:

Governmental Activities:

\$5,500,000 Public Safety Bonds, Series 1997 due in annual installments of \$1,105,000 through July 1, 2005; interest at 4.7% to 6.5%.	\$ 1,105,000
\$4,000,000 Parks and Recreation Bonds, Series 1997 due in annual installments of \$405,000 to \$465,000 through July 1, 2006; interest rate at 4.6% to 4.8%.	870,000
\$3,100,000 Parks and Recreation, Series 2001 due in annual installments of \$385,000 to \$505,000 through July 1, 2014; interest rate at 4.375% to 4.75%.	3,100,000
\$720,000 Parks and Recreation Refunding Series 2003 due in annual installments of \$255,000 to \$465,000 through July 1, 2008; interest rate at 3.0% - 3.25%.	720,000
Total Governmental Activities	<u>5,795,000</u>

Business-type activities:

Water and Wastewater:

\$924,240 Wastewater Improvement Project of 1991 Capital Appreciation Bonds due in three installments: \$595,827 due July 1, 1997, plus interest at 5.8%; \$124,349 due July 1, 2002, plus interest at 6.3%; \$204,064 due July 1, 2007, plus interest at 6.75%. Shown at combined accreted value.	\$ 467,902
\$8,000,000 Water Improvement Project Bonds Series 1997, due in annual installments of \$1,680,000, through July 1, 2013; interest at 4.5%. Fiscal years 2007 - 2012 refunded in December, 2003.	1,680,000
\$13,845,000 Water and Wastewater Refunding Bonds Series 2001, due in annual installments of \$1,605,000 to \$2,355,000 through July 1, 2009; interest at 3% to 5%.	9,895,000
\$8,230,000 Water Refunding bond Series 2003, due in annual installments of \$190,000 to \$1,960,000 through July 1, 2013; interest at 3.0% - 3.25%.	<u>7,760,000</u>
Total Water and Wastewater	<u>19,802,902</u>

Airport:

\$2,025,000 Airport Refunding Bonds Series 2001 due in annual installments of \$235,000 to \$345,000 through July 1, 2009; interest at 3% to 5%.	<u>1,450,000</u>
Total Business-type Activities	<u>21,252,902</u>
Total General Obligation Bonds	<u>\$ 27,047,902</u>

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

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 1,510,000	\$ 256,531	\$ 2,405,000	\$ 831,643
2006	465,000	185,559	2,495,000	750,293
2007	465,000	163,238	3,042,902	763,714
2008	640,000	149,289	2,795,000	545,350
2009	405,000	124,158	3,055,000	409,988
2010-2014	<u>2,310,000</u>	<u>330,042</u>	<u>7,460,000</u>	<u>696,628</u>
Total	<u>\$ 5,795,000</u>	<u>\$ 1,208,817</u>	<u>\$ 21,252,902</u>	<u>\$ 3,997,616</u>

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, 2004 are:

<u>Purpose</u>	<u>Amount</u>
Governmental Activities	\$685,000

Special assessment bonds payable at June 30, 2004 are comprised of the following individual issues:

Governmental Activities	
\$1,525,000 1994 Improvement District series bonds due in annual installments of \$55,000 to \$200,000, through January 1, 2005; interest at 5.7%.	\$ 200,000
\$720,000 1999 Improvement District series bonds due in annual installments of \$43,000 to \$94,000, through January 1, 2010; interest at 4.9%.	<u>485,000</u>
Total Special Assessment Bonds	\$ <u>685,000</u>

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

<u>Year Ending</u> <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 270,000	\$ 27,750
2006	75,000	18,497
2007	76,000	14,799
2008	82,000	10,927
2009	88,000	6,761
2010	<u>94,000</u>	<u>2,303</u>
Total	\$ <u>685,000</u>	\$ <u>81,037</u>

Revenue Bonds

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

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

Revenue bonds outstanding at June 30, 2004 are:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 5,580,000
Governmental activities – refunding	7,800,000
Business type activities	<u>6,290,440</u>
	<u>\$19,670,440</u>

Revenue bonds at June 30, 2004 are comprised of the following individual issues:

Governmental Activities:

Street Construction:

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

\$9,375,000 Street and Highway Revenue Refunding Bond Series 2003 serial bonds due in installments of \$165,000 to \$1,940,000 through July 1, 2009; interest at 2% to 3.5% 7,800,000

Total Governmental Activities 13,380,000

Business-type Activities:

Water & Sewer:

\$6,775,760 Water and Wastewater Revenue Bonds due in annual installments of \$238,431 to \$462,398 through July 1, 2022; interest at 3.548% 6,290,440

Total Revenue Bonds \$ 19,670,440

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
2005	\$ 1,825,000	\$ 571,910	\$ 255,648	\$ 223,153
2006	1,890,000	526,285	264,717	214,084
2007	1,940,000	469,585	274,108	204,693
2008	1,400,000	411,385	283,832	194,969
2009	1,460,000	344,010	293,900	184,901
2010–2014	4,865,000	565,465	1,633,492	760,514
2015–2019	–	–	1,944,532	449,474
2020–2023	–	–	1,340,211	96,193
Total	<u>\$ 13,380,000</u>	<u>\$ 2,888,640</u>	<u>\$ 6,290,440</u>	<u>\$ 2,327,981</u>

Other Debt

Municipal Facility Corporation Bonds

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

Municipal facility corporation bonds outstanding at June 30, 2004 are:

<u>Purpose</u>	<u>Amount</u>
Governmental Activities	\$28,170,000

Municipal facility corporation bonds are comprised of the following issue:

\$4,700,000 USGS Project Bonds Series 12 (2001) due in annual installments of \$255,000 to \$440,000 through August 1, 2016; interest at 4% to 4.75%	\$ 4,180,000
\$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%.	23,990,000
Total Other Debt	\$ <u>28,170,000</u>

<u>Year Ending</u> <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,275,000	\$ 1,223,699
2006	1,285,000	1,162,699
2007	1,295,000	1,128,799
2008	1,315,000	1,094,499
2009	1,375,000	1,031,385
2010-2014	9,360,000	4,241,973
2015-2020	<u>12,265,000</u>	<u>2,213,025</u>
Total	<u>\$ 28,170,000</u>	<u>\$ 12,096,079</u>

Loans Payable

In July 1992 the City of Flagstaff entered into a loan agreement with the Wastewater Infrastructure Finance Authority of Arizona for the purpose of constructing reclaimed water lines for the new reclaimed water plant. The \$6,000,000 loan is scheduled to be paid in annual installments over twenty years with an interest rate of 3.402%. The unpaid principal of the loan at June 30, 2004 is \$2,888,081.

In September 1999 the City of Flagstaff entered into a loan agreement with Arizona Department of Transportation Aeronautics Division for the purpose of constructing a 14 unit T hangar. The \$600,000 loan is scheduled to be paid in quarterly installments over 17 years with an annual interest rate of 5.6%. The unpaid principal amount of the loan an June 30, 2004 is \$491,596.

Advance Refundings

The City of Flagstaff issued \$8,950,000 of General Obligation bonds in December 2003 to provide resources to purchase U.S. Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$8,455,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased. The advance refunding was undertaken to reduce total debt service payments over the next ten years by \$331,222 and resulted in an economic gain of \$283,328.

Changes in long term liabilities

Non-current liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 7,485,000	\$ 720,000	\$ (2,410,000)	\$ 5,795,000	\$ 1,510,000
Special Assessment Bonds	944,000	-	(259,000)	685,000	270,000
Revenue Bonds	14,790,000	-	(1,410,000)	13,380,000	1,825,000
Municipal Facility Corp Bonds	4,445,000	25,000,000	(1,275,000)	28,170,000	1,275,000
Total Bonds Payable	27,664,000	25,720,000	(5,354,000)	48,030,000	4,880,000
Compensated Absences	2,102,987	629,014	(161,474)	2,570,527	622,513
Governmental Activity Long-term Liability	<u>\$ 29,766,987</u>	<u>\$ 26,349,014</u>	<u>\$ (5,515,474)</u>	<u>\$ 50,600,527</u>	<u>\$ 5,502,513</u>
Business-type Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 22,957,848	\$ 8,260,054	\$ (9,965,000)	\$ 21,252,902	\$ 2,405,000
Water & Sewer Revenue Bonds	6,537,329	-	(246,889)	6,290,440	255,648
Total Bonds Payable	29,495,177	8,260,054	(10,211,889)	27,543,342	2,660,648
Airport Loan Payable	518,083	-	(26,487)	491,596	28,001
Water & Sewer Loan Payable	3,197,726	-	(309,645)	2,888,081	320,179
Landfill Closure/Postclosure	2,807,387	-	(616,322)	2,191,065	-
Compensated Absences	240,322	209,678	(23,227)	426,773	187,841
Business-type Activity Long term Liability	<u>\$ 36,258,695</u>	<u>\$ 8,469,732</u>	<u>\$ (11,187,570)</u>	<u>\$ 33,540,857</u>	<u>\$ 3,196,669</u>

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

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, 2004 have potential exposure to the City of approximately \$194,677 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.

Fiscal Year	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability
2001-02	\$ 189,000	\$ 198,808	\$ 163,178	\$ 224,630
2002-03	224,630	328,835	142,265	411,200
2003-04	411,200	8,352	224,875	194,677

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. Contingent liabilities

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. The City has a compliance agreement for Americans with Disability Act with the Department of Justice (DOJ) and until all items are completed to the satisfaction of the DOJ, there remains a minimal amount of liability.

C. Retirement and pension plans

Plan Descriptions – The City contributes to the four 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 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 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.

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

1020 E. Missouri Ave.
Phoenix, AZ 85014
(602) 255–5575

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, 2004, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 5.70% (5.20% retirement and 0.50% long–term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2004, 2003, and 2002 were \$1,170,656, \$578,235 and \$488,126, respectively, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7.00% of the members' annual covered payroll. The City was required to contribute 14.54% of the members' annual covered payroll, as determined by actuarial valuation. The City's contributions to EORP for the years ended June 30, 2004, 2003, and 2002 were \$3,804, \$1,861 and \$3,928 respectively, which were equal to the required contributions for the year. In addition, a payment of \$4,220 was made in each year as an installment due for its unfunded accrued liability.

Agent Plan – For the year ended June 30, 2004, 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 11.78% and 9.05 % for Police and Fire respectively.

Annual Pension Cost – The City's pension cost for the agent plan for the year ended June 30, 2003, the date of the most recent actuarial valuation, and related information follow.

<u>Contribution rates:</u>	<u>PSPRS</u>
City – Police	11.78%
City – Fire	9.05%
Plan members	7.65%
Annual pension cost	\$ 636,801
Contributions made	\$ 636,801
Actuarial valuation date	6/30/04
Actuarial cost method	Individual entry age
Actuarial assumptions:	
Investment rate of return	9.0%
Projected salary increases	6.5% – 9.5%
Includes inflation at	5.5%
Amortization method	Level percentage open
Remaining amortization period from 7-1-00	20 years
Asset valuation method	Smoothed market value

Trend Information – 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>
PSPRS 2004			
Police	\$443,928	100%	\$ -0-
Fire	192,873	100%	-0-
PSPRS 2003			
Police	199,908	100%	-0-
Fire	78,897	100%	-0-
PSPRS 2002			
Police	252,029	100%	-0-
Fire	126,024	100%	-0-

Funding Progress – An analysis of funding progress for each of the agent plans as of the most recent actuarial valuations, June 30, 2003 follows.

	(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)
PSPRS 2003						
Police	\$ 23,684,969	\$ 25,745,977	92.0%	\$ 3,774,967	\$ 2,061,008	-%
Fire	33,430,859	31,576,303	105.9%	(1,854,556)	4,086,288	-%
PSPRS 2002						
Police	23,377,239	22,375,146	104.5%	(1,002,093)	4,415,016	-%
Fire	33,288,928	27,957,056	119.1%	(5,331,872)	3,944,841	-%
PSPRS 2001						
Police	23,526,642	19,303,399	121.9%	(4,223,243)	4,330,952	-%
Fire	33,219,516	24,683,085	134.6%	(8,536,431)	4,545,100	-%

VOLUNTEER FIREMEN'S RELIEF AND PENSION FUND

The Volunteer Firemen's Relief and Pension Fund ("Fund") is a single-employer defined benefit pension trust fund administered by the City. A fireman having served as a member of the City's Fire Department prior to 1978, and who is not a paid member of a fire department or a member of the Public Safety Retirement System, is eligible to receive benefits.

The fund does not issue a stand-alone report or is included in any other report than the City's.

A fireman who has served for 25 years or more, or who has reached sixty years of age, and served twenty years or more, shall be paid a monthly pension not to exceed \$250 per month based on the benefits available to members of the fire department as determined by the board of trustees. Such pension may be increased or decreased in amount, or discontinued at the discretion of the Fund's board of trustees. The Fund's funding provisions and all other requirements are established by state statute.

At June 30, 2004, the number of firemen covered by the Fund was classified as follows:

Retirees and beneficiaries currently receiving benefits	3
Active employees:	
Non-vested	<u>3</u>
Total covered firemen	<u><u>6</u></u>

Funding Status and Progress:

Per state statute there is no requirement that an actuarial valuation be performed to determine that the Volunteer Firemen's Relief and Pension Fund is fully funded. If the funds provided in the Fund are insufficient to pay fully the pensions authorized pursuant to the statute, the fund shall be prorated among those entitled thereto.

Contributions:

State statute requires a 5% contribution of annual compensation each from the City and the employee. Because no compensation was paid by the City to volunteer firemen, no contribution was made during the current fiscal year. No member or City contributions have been made to this fund since fiscal year ended June 30, 1979.

Trend Information:

Trend information for ten years is presented below:

Fiscal Year June 30	Net Assets Available for Benefits	Revenues				Expenses
		Employee Contributions	Employer Contributions	Investment Income	Other Income	Benefit Payments
1995	\$ 209,232	\$ -	\$ -	\$ 11,396	\$ 166	\$ 4,800
1996	211,198	-	-	11,390	177	9,601
1997	213,721	-	-	11,922	201	9,600
1998	216,843	-	-	12,332	390	9,600
1999	218,401	-	-	11,068	89	9,600
2000	221,678	-	-	12,877	-	9,600
2001	226,593	-	-	13,620	96	8,800
2002	226,632	-	-	7,125	114	7,200
2003	221,202	-	-	4,630	122	7,200
2004	218,208	-	-	4,367	318	7,200

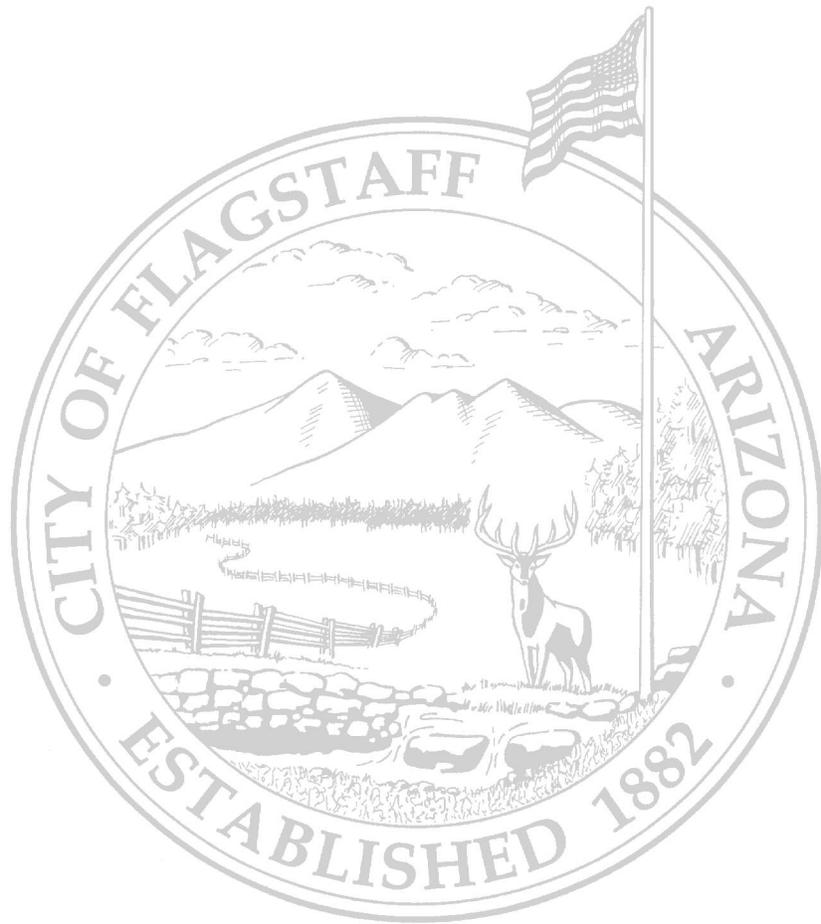
D. Landfill closure and postclosure care cost

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 \$7,080,554 as of June 30, 2004, which is based on 52 percent usage of the landfill. The remaining \$6,525,478 will be accrued over the remaining life of the landfill, which is currently estimated to be 18 years. The accrual for these closure and postclosure care costs for fiscal year 2004 was \$(46,513), which reflects a decrease in liability due to the correction of accounting estimate for the landfill capacity. Based on current estimates for landfill closure and postclosure care costs, the City is setting aside legally restricted funds to insure sufficient funds will be available to meet these requirements. The City makes annual contributions to finance closure and postclosure care costs; at June 30, 2004 the balance of the investments held for those purposes is \$4,875,315. These 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, \$13,606,033, 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, 2004. 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.



NON-MAJOR FUNDS

OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

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

Library Fund

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

Real Estate Proceeds Fund

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

Community Redevelopment

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

Metropolitan Planning Organization

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

Debt Service Funds

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

General Obligation Bond

This fund accounts for the accumulation of resources for and the payments of principal, interest and costs of General Obligation Bonds.

Special Assessment Bond Fund

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

Secondary Property Tax Revenue Fund

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

Permanent Fund

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

Perpetual Care

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

NON-MAJOR FUNDS

PROPRIETARY FUNDS

Enterprise Funds

Enterprise funds are used to account for operations that provide services to the general public for a fee.

Stormwater fund

This fund is to minimize public and private losses due to flood conditions within the City of Flagstaff, and to comply with the applicable stormwater regulations.



CITY OF FLAGSTAFF, ARIZONA
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2004

Special Revenue Funds

	Library Fund	Real Estate Proceeds Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
ASSETS				
Cash and cash equivalents	\$ 930,994	\$ 900,921	\$ 1,673,351	\$ 20,117
Cash with fiscal agents	-	-	-	-
Accounts receivable, net	277,739	144,101	51,060	13,750
Interest receivable	5,986	4,803	5,239	-
Intergovernmental receivables	-	-	174,384	249,566
Special assessments receivable	-	-	-	-
Restricted cash and cash equivalents	766,083	-	-	-
Total assets	<u>\$ 1,980,802</u>	<u>\$ 1,049,825</u>	<u>\$ 1,904,034</u>	<u>\$ 283,433</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 48,061	\$ -	\$ 78,801	\$ 92
Accrued payroll and compensated absences	63,901	-	-	3,341
Current bonds payable	-	-	402,054	-
Interest payable	-	-	-	-
Interfund payable	-	-	-	280,000
Deferred revenue	-	143,238	-	-
Liabilities payable from restricted assets	1,043,822	-	-	-
Total liabilities	<u>1,155,784</u>	<u>143,238</u>	<u>480,855</u>	<u>283,433</u>
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Perpetual care	-	-	-	-
Unreserved, undesignated, reported in:				
Special revenue funds	825,018	906,587	1,423,179	-
Permanent fund	-	-	-	-
Total fund balances	<u>825,018</u>	<u>906,587</u>	<u>1,423,179</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,980,802</u>	<u>\$ 1,049,825</u>	<u>\$ 1,904,034</u>	<u>\$ 283,433</u>

Debt Service Funds			Permanent Fund	Total Other Governmental Funds
General Obligation Bond Fund	Special Assessment Bond Fund	Secondary Property Tax Revenue Fund	Perpetual Care	
\$ 11,730	\$ 533,319	\$ 1,106,809	\$ 567	\$ 5,177,808
1,825,519	15,868	-	-	1,841,387
-	-	-	575	487,225
-	-	-	99	16,127
-	-	-	-	423,950
-	252,450	-	-	252,450
-	-	-	26,433	792,516
<u>\$ 1,837,249</u>	<u>\$ 801,637</u>	<u>\$ 1,106,809</u>	<u>\$ 27,674</u>	<u>\$ 8,991,463</u>
\$ -	\$ 1,063	\$ -	\$ -	\$ 128,017
-	-	-	-	67,242
1,670,000	-	-	-	2,072,054
155,519	16,143	-	-	171,662
-	-	-	-	280,000
-	252,450	-	-	395,688
-	-	-	-	1,043,822
<u>1,825,519</u>	<u>269,656</u>	<u>-</u>	<u>-</u>	<u>4,158,485</u>
11,730	531,981	1,106,809	-	1,650,520
-	-	-	27,107	27,107
-	-	-	-	3,154,784
-	-	-	567	567
<u>11,730</u>	<u>531,981</u>	<u>1,106,809</u>	<u>27,674</u>	<u>4,832,978</u>
<u>\$ 1,837,249</u>	<u>\$ 801,637</u>	<u>\$ 1,106,809</u>	<u>\$ 27,674</u>	<u>\$ 8,991,463</u>

CITY OF FLAGSTAFF, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2004

	Special Revenue Funds			
	Library Fund	Real Estate Proceeds Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Grants and entitlements	1,953,851	-	359,503	331,411
Special assessments	-	-	-	-
Investment earnings	20,429	30,942	15,904	-
Contributions	-	-	-	-
Miscellaneous	73,472	879	196,607	-
Total revenues	<u>2,047,752</u>	<u>31,821</u>	<u>572,014</u>	<u>331,411</u>
EXPENDITURES:				
Current:				
Economic and physical development	-	9,649	721,565	331,411
Culture and recreation	2,925,280	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	<u>2,925,280</u>	<u>9,649</u>	<u>721,565</u>	<u>331,411</u>
Excess (deficiency) of revenues over expenditures	<u>(877,528)</u>	<u>22,172</u>	<u>(149,551)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	-	13,418	568,323	-
Transfers in	1,155,256	-	375,400	-
Transfers out	-	(150,000)	-	-
Total other financing sources (uses)	<u>1,155,256</u>	<u>(136,582)</u>	<u>943,723</u>	<u>-</u>
Net change in fund balances	<u>277,728</u>	<u>(114,410)</u>	<u>794,172</u>	<u>-</u>
Fund balances, beginning of year	<u>547,290</u>	<u>1,020,997</u>	<u>629,007</u>	<u>-</u>
Fund balances, end of year	<u>\$ 825,018</u>	<u>\$ 906,587</u>	<u>\$ 1,423,179</u>	<u>\$ -</u>

Debt Service Funds			Permanent Fund	
General Obligation Bond Fund	Special Assessment Bond Fund	Secondary Property Tax Revenue Fund	Perpetual Care	Total Other Governmental Funds
\$ -	\$ -	\$ 4,628,523	\$ -	\$ 4,628,523
-	-	-	-	2,644,765
-	291,684	-	-	291,684
206	45,689	6,668	350	120,188
-	-	-	14,717	14,717
-	2,427	-	-	273,385
<u>206</u>	<u>339,800</u>	<u>4,635,191</u>	<u>15,067</u>	<u>7,973,262</u>
-	-	-	-	1,062,625
-	-	-	-	2,925,280
1,670,000	259,000	-	-	1,929,000
<u>349,242</u>	<u>43,710</u>	<u>-</u>	<u>-</u>	<u>392,952</u>
<u>2,019,242</u>	<u>302,710</u>	<u>-</u>	<u>-</u>	<u>6,309,857</u>
<u>(2,019,036)</u>	<u>37,090</u>	<u>4,635,191</u>	<u>15,067</u>	<u>1,663,405</u>
-	-	-	-	581,741
2,019,243	-	-	-	3,549,899
-	-	(3,968,787)	-	(4,118,787)
<u>2,019,243</u>	<u>-</u>	<u>(3,968,787)</u>	<u>-</u>	<u>12,853</u>
<u>207</u>	<u>37,090</u>	<u>666,404</u>	<u>15,067</u>	<u>1,676,258</u>
<u>11,523</u>	<u>494,891</u>	<u>440,405</u>	<u>12,607</u>	<u>3,156,720</u>
<u>\$ 11,730</u>	<u>\$ 531,981</u>	<u>\$ 1,106,809</u>	<u>\$ 27,674</u>	<u>\$ 4,832,978</u>

CITY OF FLAGSTAFF, ARIZONA
Combining Statement of Net Assets
Non-Major Proprietary Fund
June 30, 2004

	Stormwater Fund	Total Other Proprietary Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 218,893	\$ 218,893
Accounts receivable, net	20,829	20,829
Interest receivable	311	311
Intergovernmental receivables	9,190	9,190
Total current assets	249,223	249,223
Noncurrent assets:		
Capital assets, non-depreciable	128,799	128,799
Capital assets, depreciable, net	267,047	267,047
Total non-current assets	395,846	395,846
Total assets	645,069	645,069
LIABILITIES		
Current liabilities:		
Accounts payable	79,551	79,551
Accrued payroll and compensated absences	6,956	6,956
Total current liabilities	86,507	86,507
Noncurrent liabilities:		
Compensated absences	3,278	3,278
Total noncurrent liabilities	3,278	3,278
Total liabilities	89,785	89,785
NET ASSETS		
Invested in capital assets, net of related debt	395,846	395,846
Restricted:		
Unrestricted	159,438	159,438
Total net assets	\$ 555,284	\$ 555,284

CITY OF FLAGSTAFF, ARIZONA
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Non-Major Proprietary Fund
Year Ended June 30, 2004

	Stormwater Fund	Total Other Proprietary Fund
OPERATING REVENUES:		
Charges for services	\$ 546,807	\$ 546,807
Total operating revenues	546,807	546,807
OPERATING EXPENSES:		
Personal services	254,437	254,437
Contractual services, materials and supplies	201,540	201,540
Depreciation and amortization	1,833	1,833
Total operating expenses	457,810	457,810
Operating income (loss)	88,997	88,997
NON-OPERATING REVENUES (EXPENSES):		
Interest and investment income	831	831
Grants and entitlements	23,576	23,576
Total non-operating revenues (expenses)	24,407	24,407
Income (loss) before capital contributions and transfers	113,404	113,404
Capital contributions	268,880	268,880
Transfers in	235,000	235,000
Transfers out	(62,000)	(62,000)
Change in net assets	555,284	555,284
Total net assets, beginning of year	-	-
Total net assets, end of year	\$ 555,284	\$ 555,284

City of Flagstaff, Arizona
Combining Statement of Cash Flows
Non-major Proprietary Funds
For the Year Ended June 30, 2004

	Business-type Activities – Enterprise Funds	
	Stormwater	Total Other Proprietary Fund
Cash flows from operating activities:		
Receipts from customers	\$ 525,978	\$ 525,978
Payments to suppliers	(121,989)	(121,989)
Payments to employees	(244,203)	(244,203)
Net cash provided (used) by operating activities	<u>159,786</u>	<u>159,786</u>
Cash flows from noncapital financing activities:		
Transfer from other funds	(62,000)	(62,000)
Transfer to other funds	235,000	235,000
Net cash provided (used) by noncapital financing activities	<u>173,000</u>	<u>173,000</u>
Cash flows from capital and related financing activities:		
Receipts from grantors	14,386	14,386
Acquisition and construction of capital assets	(128,799)	(128,799)
Net cash provided (used) by capital and related financing activities	<u>(114,413)</u>	<u>(114,413)</u>
Cash flows from investing activities:		
Interest received on investments	520	520
Net cash provided (used) by investing activities	<u>520</u>	<u>520</u>
Net increase (decrease) in cash and cash equivalents	<u>218,893</u>	<u>218,893</u>
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	<u>\$ 218,893</u>	<u>\$ 218,893</u>
Classified as:		
Cash, cash equivalents, and investments	\$ 218,893	\$ 218,893
Totals	<u>\$ 218,893</u>	<u>\$ 218,893</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 88,997	\$ 88,997
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	1,833	1,833
(Increase) decrease in assets:		
Accounts receivable	(20,829)	(20,829)
Increase (decrease) in liabilities:		
Accounts payable	79,551	79,551
Accrued payroll and compensated absences	10,234	10,234
Total Adjustments	<u>70,789</u>	<u>70,789</u>
Net cash provided (used) by operating activities	<u>\$ 159,786</u>	<u>\$ 159,786</u>
Noncash investing, capital and financing activities:		
Capital assets acquired through contributions from developers	\$ 268,880	\$ 268,880
Total noncash investing, capital and financing activities	<u>\$ 268,880</u>	<u>\$ 268,880</u>

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City of Flagstaff, Arizona
 Capital Assets Used in the Operation of Governmental Funds
 Schedule By Function and Activity
 June 30, 2004

<u>Program</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements</u>
General government	\$ 4,557,137	\$ 12,252,201	\$ 16,142
Public safety	265,259	12,038,695	61,303
Public works	-	5,924,036	192,887
Economic and physical development	1,292,918	2,752,669	12,983
Culture and recreation	3,055,060	2,389,283	11,293,780
Highway and streets	718,475	102,310	1,934,792
Subtotal	9,888,849	35,459,194	13,511,887
Less: accumulated depreciation	-	(9,957,932)	(6,210,087)
Total governmental funds capital assets	<u>\$ 9,888,849</u>	<u>\$ 25,501,262</u>	<u>\$ 7,301,800</u>

Machinery and Equipment	Infrastructure	Construction In Progress	Total
\$ 3,288,088	\$ -	\$ 5,525,634	\$ 25,639,202
6,727,145	-	-	19,092,402
907,889	-	-	7,024,812
842,668	-	-	4,901,238
2,559,816	446,862	409,742	20,154,543
6,798,274	15,633,300	20,749,542	45,936,693
21,123,880	16,080,162	26,684,918	122,748,890
(12,661,775)	(498,725)	-	(29,328,519)
<u>\$ 8,462,105</u>	<u>\$ 15,581,437</u>	<u>\$ 26,684,918</u>	<u>\$ 93,420,371</u>

City of Flagstaff, Arizona
 Capital Assets Used in the Operation of Governmental Funds
 Schedule of Changes By Function and Activity
 June 30, 2004

Program	Balance July 1, 2003	Additions	Retirements	Transfers In (out)	Balance June 30, 2004
General government	\$ 25,184,614	\$ 454,587.69	\$ -	\$ -	\$ 25,639,202
Public safety	18,949,132	383,189	(239,919)	-	19,092,402
Public works	7,035,000	-	(10,188)	-	7,024,812
Economic and physical development	2,929,048	1,984,694	(12,504)	-	4,901,238
Culture and recreation	18,912,804	1,271,351	(29,612)	-	20,154,543
Highway and streets	26,483,196	19,519,585	(66,088)	-	45,936,693
Total	<u>\$ 99,493,794</u>	<u>\$ 23,613,407</u>	<u>\$ (358,311)</u>	<u>\$ -</u>	<u>\$ 122,748,890</u>

CITY OF FLAGSTAFF, ARIZONA
Library Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2004

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 2,460,151	\$ 2,460,151	\$ 1,953,851	\$ (506,300)
Investment earnings	21,000	21,000	20,429	(571)
Miscellaneous	29,000	29,000	73,472	44,472
Total revenues	<u>2,510,151</u>	<u>2,510,151</u>	<u>2,047,752</u>	<u>(462,399)</u>
EXPENDITURES:				
Current:				
Culture and recreation	3,554,990	3,554,990	2,885,185	669,805
Capital outlay	158,394	158,394	40,095	118,299
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>3,813,384</u>	<u>3,813,384</u>	<u>2,925,280</u>	<u>888,104</u>
Excess (deficiency) of revenues over expenditures	<u>(1,303,233)</u>	<u>(1,303,233)</u>	<u>(877,528)</u>	<u>425,705</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,155,256	1,155,256	1,155,256	-
Transfers out	(250,000)	(250,000)	-	250,000
Total other financing sources (uses)	<u>905,256</u>	<u>905,256</u>	<u>1,155,256</u>	<u>250,000</u>
Net change in fund balances	<u>(397,977)</u>	<u>(397,977)</u>	<u>277,728</u>	<u>675,705</u>
Budgetary fund balances, beginning of year	<u>564,830</u>	<u>564,830</u>	<u>564,830</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 166,853</u>	<u>\$ 166,853</u>	<u>\$ 842,558</u>	<u>\$ 675,705</u>

CITY OF FLAGSTAFF, ARIZONA
Real Estate Proceeds Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2004

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment earnings	\$ 30,350	\$ 30,350	\$ 30,942	\$ 592
Miscellaneous	-	-	879	879
Total revenues	<u>30,350</u>	<u>30,350</u>	<u>31,821</u>	<u>1,471</u>
EXPENDITURES:				
Capital outlay	<u>685,000</u>	<u>685,000</u>	<u>9,649</u>	<u>675,351</u>
Total expenditures	<u>685,000</u>	<u>685,000</u>	<u>9,649</u>	<u>675,351</u>
Excess (deficiency) of revenues over expenditures	<u>(654,650)</u>	<u>(654,650)</u>	<u>22,172</u>	<u>676,822</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	297,000	297,000	13,418	(283,582)
Transfers out	-	-	(150,000)	(150,000)
Total other financing sources (uses)	<u>297,000</u>	<u>297,000</u>	<u>(136,582)</u>	<u>(433,582)</u>
Net change in fund balances	<u>(357,650)</u>	<u>(357,650)</u>	<u>(114,410)</u>	<u>243,240</u>
Budgetary fund balances, beginning of year	<u>1,021,900</u>	<u>1,021,900</u>	<u>1,021,900</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 664,250</u>	<u>\$ 664,250</u>	<u>\$ 907,490</u>	<u>\$ 243,240</u>

CITY OF FLAGSTAFF, ARIZONA
Community Redevelopment Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2004

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 1,463,261	\$ 1,463,261	\$ 359,503	\$ (1,103,758)
Investment earnings	1,500	1,500	15,904	14,404
Miscellaneous	1,946	1,946	196,607	194,661
Total revenues	<u>1,466,707</u>	<u>1,466,707</u>	<u>572,014</u>	<u>(894,693)</u>
EXPENDITURES:				
Current:				
Economic and physical development	2,380,271	2,380,271	721,565	1,658,706
Total expenditures	<u>2,380,271</u>	<u>2,380,271</u>	<u>721,565</u>	<u>1,658,706</u>
Excess (deficiency) of revenues over expenditures	<u>(913,564)</u>	<u>(913,564)</u>	<u>(149,551)</u>	<u>764,013</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	-	-	568,323	568,323
Transfers in	375,400	375,400	375,400	-
Total other financing sources (uses)	<u>375,400</u>	<u>375,400</u>	<u>943,723</u>	<u>568,323</u>
Net change in fund balances	<u>(538,164)</u>	<u>(538,164)</u>	<u>794,172</u>	<u>1,332,336</u>
Budgetary fund balances, beginning of year	<u>545,036</u>	<u>545,036</u>	<u>545,036</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 6,872</u>	<u>\$ 6,872</u>	<u>\$ 1,339,208</u>	<u>\$ 1,332,336</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, 2004

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 298,126	\$ 298,126	\$ 331,411	\$ 33,285
Total revenues	<u>298,126</u>	<u>298,126</u>	<u>331,411</u>	<u>33,285</u>
EXPENDITURES:				
Current:				
Economic and physical development	298,126	398,126	331,411	66,715
Total expenditures	<u>298,126</u>	<u>398,126</u>	<u>331,411</u>	<u>66,715</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(100,000)</u>	<u>-</u>	<u>100,000</u>
Net change in fund balances	<u>-</u>	<u>(100,000)</u>	<u>-</u>	<u>100,000</u>
Budgetary fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ -</u>	<u>\$ (100,000)</u>	<u>\$ -</u>	<u>\$ 100,000</u>

CITY OF FLAGSTAFF, ARIZONA
General Obligation Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2004

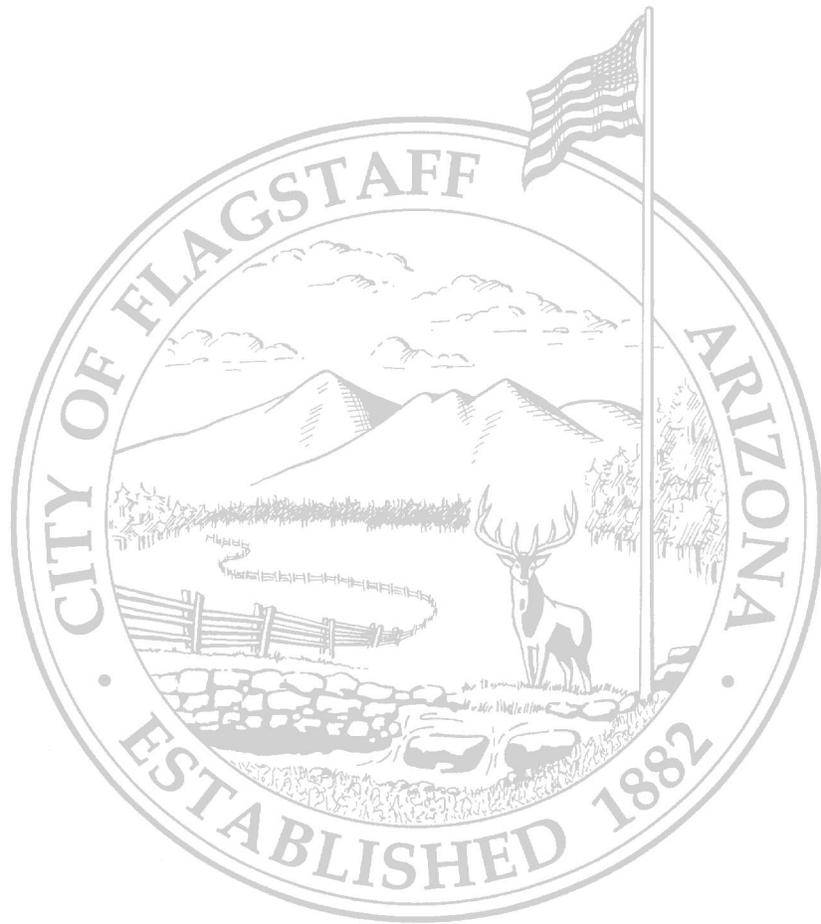
	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment earnings	\$ 300	\$ 300	\$ 206	\$ (94)
Total revenues	<u>300</u>	<u>300</u>	<u>206</u>	<u>(94)</u>
EXPENDITURES:				
Current:				
Debt service:				
Principal retirement	2,018,456	2,018,456	1,670,000	348,456
Interest and other charges	-	-	349,242	(349,242)
Total expenditures	<u>2,018,456</u>	<u>2,018,456</u>	<u>2,019,242</u>	<u>(786)</u>
Excess (deficiency) of revenues over expenditures	<u>(2,018,156)</u>	<u>(2,018,156)</u>	<u>(2,019,036)</u>	<u>(880)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	2,018,456	2,018,456	2,019,243	787
Total other financing sources (uses)	<u>2,018,456</u>	<u>2,018,456</u>	<u>2,019,243</u>	<u>787</u>
Net change in fund balances	<u>300</u>	<u>300</u>	<u>207</u>	<u>(93)</u>
Budgetary fund balances, beginning of year	<u>12,081</u>	<u>12,081</u>	<u>12,081</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 12,381</u>	<u>\$ 12,381</u>	<u>\$ 12,288</u>	<u>\$ (93)</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, 2004

	<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	\$ 203,214	\$ 203,214	\$ 291,684	\$ 88,470
Investment earnings	30,197	30,197	45,689	15,492
Miscellaneous	-	-	2,427	2,427
Total revenues	<u>233,411</u>	<u>233,411</u>	<u>339,800</u>	<u>106,389</u>
EXPENDITURES:				
Current:				
Debt service:				
Principal retirement	259,000	259,000	259,000	-
Interest and other charges	43,568	43,568	43,710	(142)
Total expenditures	<u>302,568</u>	<u>302,568</u>	<u>302,710</u>	<u>(142)</u>
Excess (deficiency) of revenues over expenditures	<u>(69,157)</u>	<u>(69,157)</u>	<u>37,090</u>	<u>106,247</u>
Net change in fund balances	<u>(69,157)</u>	<u>(69,157)</u>	<u>37,090</u>	<u>106,247</u>
Budgetary fund balances, beginning of year	<u>453,031</u>	<u>453,031</u>	<u>453,031</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 383,874</u>	<u>\$ 383,874</u>	<u>\$ 490,121</u>	<u>\$ 106,247</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, 2004

	<u>Budget</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes	\$ 4,550,192	\$ 4,550,192	\$ 4,628,523	\$ 78,331
Investment earnings	7,200	7,200	6,668	(532)
Total revenues	<u>4,557,392</u>	<u>4,557,392</u>	<u>4,635,191</u>	<u>77,799</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(3,972,564)	(3,972,564)	(3,968,787)	3,777
Total other financing sources (uses)	<u>(3,972,564)</u>	<u>(3,972,564)</u>	<u>(3,968,787)</u>	<u>3,777</u>
Net change in fund balances	<u>584,828</u>	<u>584,828</u>	<u>666,404</u>	<u>81,576</u>
Budgetary fund balances, beginning of year	<u>357,631</u>	<u>357,631</u>	<u>357,631</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 942,459</u>	<u>\$ 942,459</u>	<u>\$ 1,024,035</u>	<u>\$ 81,576</u>



Statistical Section

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Table I
City of Flagstaff, Arizona
Government-Wide Expenses by Function
Last Ten Fiscal Years

Fiscal Year	General Government	Public Safety	Public Works	Economic and Physical Development	Culture and Recreation	Highways and Streets	Interest on Long Tem Debt	Water and Wastewater	Environmental Services	Airport	Storwmater	Total
2003	\$ 4,840,896	\$ 18,270,468	\$ 1,169,302	\$ 7,272,115	\$ 8,467,575	\$ 6,184,553	\$ 1,380,182	\$ 16,142,040	\$ 7,556,614	\$ 3,411,603	\$ -	\$ 74,695,348
2004	5,891,617	18,792,832	1,178,137	6,473,290	8,693,714	8,886,947	1,923,325	17,250,441	7,319,602	3,370,447	460,936	80,241,288

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.
These amounts are presented on the accrual basis of accounting.

Table II
City of Flagstaff, Arizona
Government-Wide Revenues
Last Ten Fiscal Years

Fiscal Year	Program Revenues			General Revenues					Total
	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Property Tax	Sales Tax	State Shared Tax	Investment Earnings	Miscellaneous	
2003	\$ 32,550,332	\$ 3,810,679	\$ 19,106,918	\$ 8,010,293	\$ 23,805,566	\$ 12,073,108	\$ 383,111	\$ 952,308	\$ 100,692,315
2004	31,796,700	2,965,572	22,240,321	7,931,626	25,682,974	12,122,563	218,520	3,101,909	106,060,185

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.
These amounts are presented on the accrual basis of accounting.

Table III
City of Flagstaff, Arizona
General Government Expenditures by Function
Last Ten Fiscal Years

Fiscal Year	General Government	Public Safety	Public Works Development	Economic and Physical Development	Culture and Recreation	Highway and Streets	Debt Service	Capital	Total
2003	\$ 4,453,180	\$ 17,202,980	\$ 948,944	\$ 7,060,275	\$ 7,599,703	\$ 5,676,050	\$ 5,059,182	\$ 18,304,161	\$ 66,304,475
2004	5,335,890	18,015,837	966,546	6,289,966	7,724,481	8,003,110	7,042,026	19,348,708	72,726,564

Includes all governmental fund types.

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.

These amounts are presented on the modified accrual basis of accounting.

Table IV
City of Flagstaff, Arizona
General Government Revenues by Source
Last Ten Fiscal Years

Fiscal Year	Taxes	Licenses and Permits	Intergovernmental Revenues	Charges for Services	Fines and Forfeits	Other Revenues	Total
1995	\$ 17,576,915	\$ 834,368	\$ 15,322,232	\$ 720,238	\$ 572,728	\$ 3,450,303	\$ 38,476,784
1996	18,112,121	1,322,309	16,095,776	872,608	808,543	1,581,552	38,792,909
1997	18,776,929	1,279,410	17,704,496	871,284	782,451	2,333,295	41,747,865
1998	19,576,193	1,246,090	19,079,704	920,566	783,854	2,497,159	44,103,566
1999	20,582,542	1,335,184	22,621,143	837,373	838,306	2,468,401	48,682,949
2000	22,197,133	1,324,340	26,778,117	1,030,249	837,695	5,243,779	57,411,313
2001	28,340,957	1,318,450	26,203,650	1,025,625	993,585	3,570,180	61,452,447
2002	30,986,091	2,014,357	24,008,885	1,676,615	991,131	3,520,493	63,197,572
2003	31,523,875	2,378,728	24,820,870	1,729,275	1,303,069	2,595,804	64,351,621
2004	33,736,154	2,111,033	23,097,385	1,459,837	1,144,562	2,320,658	63,869,629

Includes all governmental fund types.

Table V
City of Flagstaff
Tax Revenues by Source
Last Ten Fiscal Years

Fiscal Year	General Property Tax	Secondary Property Tax	Franchise and Other Taxes	City Sales Tax	Bed, Board and Booze Tax	Transportation Tax	Total
1995	\$ 1,868,077	\$ 4,062,533	\$ 1,304,684	\$ 7,362,140	\$ 2,979,481	\$ -	\$ 17,576,915
1996	2,137,125	3,344,441	1,260,317	8,240,709	3,129,529	-	18,112,121
1997	2,243,818	3,402,803	1,358,283	8,491,913	3,280,112	-	18,776,929
1998	2,405,865	3,355,628	1,512,456	8,966,287	3,335,957	-	19,576,193
1999	2,577,557	3,537,987	1,560,789	9,369,406	3,536,803	-	20,582,542
2000	2,759,130	3,777,091	1,505,710	10,510,380	3,644,822	-	22,197,133
2001	2,853,091	3,896,103	1,690,043	10,810,658	3,747,822	5,343,240	28,340,957
2002	3,070,491	4,197,777	1,790,846	11,782,781	3,817,028	6,327,168	30,986,091
2003	3,427,509	4,415,081	1,783,098	11,468,608	3,826,975	6,602,604	31,523,875
2004	3,424,657	4,628,523	2,262,292	12,054,718	4,063,049	7,302,915	33,736,154

Table VI
City of Flagstaff, Arizona
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Total Collections as a Percent of Current Levy	Outstanding Delinquent Collections	Outstanding Delinquent Taxes as a Percent of Current Levy
1995	\$ 5,910,644	\$ 5,610,061	94.9%	\$ 320,549	\$ 5,930,610	100.3%	\$ 186,826	3.2%
1996	5,424,449	5,400,777	99.6%	80,789	5,481,566	101.1%	265,339	4.9%
1997	5,638,222	5,566,676	98.7%	79,945	5,646,621	100.1%	248,572	4.4%
1998	5,754,253	5,651,170	98.2%	110,323	5,761,493	100.1%	217,244	3.8%
1999	6,138,071	6,036,950	98.4%	78,594	6,115,544	99.6%	216,717	3.5%
2000	6,526,010	6,443,879	98.7%	92,342	6,536,221	100.2%	211,305	3.2%
2001	6,936,955	6,658,250	96.0%	90,944	6,749,194	97.3%	218,230	3.1%
2002	7,271,109	7,194,162	98.9%	74,106	7,268,268	100.0%	257,060	3.5%
2003	7,613,349	7,625,852	100.2%	92,457	7,718,309	101.0%	292,203	3.8%
2004	7,897,298	7,791,735	98.7%	261,445	8,053,180	102.0%	170,430	2.2%

Table VII
City of Flagstaff, Arizona
Primary Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Property		Personal Property		Total		Ratio of Total Assessed Value to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1995	\$ 272,017,549	\$ 1,972,867,568	\$ 22,083,172	\$ 88,333,062	\$ 294,100,721	\$ 2,061,200,630	1- 7.0
1996	285,152,896	2,097,918,383	20,719,183	82,906,354	305,872,079	2,180,824,737	1- 7.1
1997	317,127,846	2,352,739,798	12,461,600	103,490,735	329,589,446	2,456,230,533	1- 7.5
1998	329,932,001	2,458,882,909	22,781,372	97,754,981	352,713,373	2,556,637,890	1- 7.2
1999	353,421,490	2,642,062,329	22,180,026	98,903,475	375,601,516	2,740,965,804	1- 7.3
2000	379,547,012	2,802,287,566	30,717,569	137,001,286	410,264,581	2,939,288,852	1- 7.2
2001	400,324,857	2,834,495,586	52,116,286	234,449,089	452,441,143	3,068,944,675	1- 6.8
2002	427,130,788	3,023,897,189	53,042,977	238,857,013	480,173,765	3,262,754,202	1- 6.8
2003	444,529,682	3,188,608,091	54,874,705	249,515,175	499,404,387	3,438,123,266	1- 6.9
2004	483,209,070	3,496,252,851	50,207,599	225,502,713	533,416,669	3,721,755,564	1- 7.0

Table VIII
City of Flagstaff, Arizona
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	City	School District	Community College	County	State	Total
1995	2.0823	6.3778	0.3706	1.1622	0.4700	10.4629
1996	1.7983	6.7903	0.3728	1.1472	0.4700	10.5786
1997	1.8283	6.5237	0.3784	1.1386	-	9.8690
1998	1.7127	6.6634	0.3869	1.1168	-	9.8798
1999	1.7127	6.5477	0.3952	1.1094	-	9.7650
2000	1.7127	6.5585	0.5947	1.1444	-	10.0103
2001	1.7127	6.6885	0.5724	1.1336	-	10.1072
2002	1.7127	6.6741	0.5717	1.0951	-	10.0536
2003	1.7127	6.7590	0.5809	1.1941	-	10.2467
2004	1.7127	6.3679	0.5775	1.2369	-	9.8950

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

Table IX
City of Flagstaff, Arizona
Principal Taxpayers
Tax Year 2004

Taxpayer	Type of Business	Net Assessed Valuation	As a Percentage of the City Total Secondary Assessed Valuation
Arizona Public Service Company	Utility	\$ 10,357,999	2.06%
W L Gore & Associates Inc.	Manufacturer	9,724,306	1.94%
Qwest Corporation	Utility	9,633,860	1.92%
Tucson Electric and Power Co. (T&D)	Utility	6,487,177	1.29%
Little America Refining Co.	Hotel/Tourism	4,218,039	0.84%
Ralston Purina	Manufacturer	3,840,863	0.77%
Flagstaff Mall Associated Ltd. Partnership	Shopping Center	3,250,000	0.65%
SACO Management Inc.	Property Management	2,369,850	0.47%
Flagstaff Medical Center	Health Care	2,292,480	0.46%
Cone Company George & Thomas DBA	Manufacturing	3,155,380	0.63%
Total Principal Taxpayers		55,329,954	11.03%
Other Taxpayers		446,325,486	88.97%
Total Secondary Assessed Valuation		\$ 501,655,440	100.00%

Source: Arizona Department of Revenue, Central Information Services

Table X
City of Flagstaff, Arizona
Special Assessment Collections
Last Ten Fiscal Years

Fiscal Year	Current Assessments Due	Current Assessments Collected (1)	Ratio of Collections to Amounts Due	Total Outstanding Current and Delinquent Assessments (2)
1995	\$ -	\$ -	N/A	\$ 3,408
1996	53,958	53,958	100.00%	3,408
1997	127,535	132,847	104.17%	1,058
1998	136,791	170,026	124.30%	-
1999	137,661	157,640	114.51%	-
2000	145,142	175,863	121.17%	529
2001	186,494	269,794	144.67%	5,379
2002	207,154	350,894	169.39%	5,923
2003	206,129	360,158	174.72%	-
2004	203,214	291,684	143.54%	414

(1) Includes prepayments.

(2) Includes principal and interest.

Table XI
City of Flagstaff, Arizona
Computation of Legal Debt Margin
June 30, 2004

Secondary Assessed Value (1)		<u>\$ 501,655,440</u>
<u>Special Improvement Legal Debt Margin</u>		
Debt Limit 20 Percent of Assessed Value – Special Improvements		\$ 100,331,088
Amount of Debt Applicable to Debt Limit		
Total Bonded Debt	\$ 34,030,231	
Less:		
Current Portion	2,315,000	
Other Deductions Allowed by Law:		
Water Revenue Bonds	6,537,329	
Special Assessment Bonds	<u>685,000</u>	
Total Amount of Debt Applicable to Debt Limit		<u>24,492,902</u>
Legal Debt Margin Available for Water, Sewer, Light, Parks and Open Space Projects		<u>\$ 75,838,186</u>
<u>General Legal Debt Margin</u>		
Debt Limit 6 Percent of Assessed Value – General		\$ 30,099,326
Amount of Debt Applicable to Debt Limit		
Total Bonded Debt	\$ 48,395,000	
Less:		
Current Portion	1,605,000	
Other Deductions Allowed by Law:		
Other Debt	29,445,000	
Highway User Revenue Bonds	<u>14,790,000</u>	
Total Amount of Debt Applicable to Debt Limit		<u>2,555,000</u>
Legal Debt Margin – Available for All Other Projects		<u>\$ 27,544,326</u>

(1) Abstract published by the Arizona State Department of Revenue.

Table XII

City of Flagstaff, Arizona
 Percent of Net General Bonded Debt to Secondary Assessed Value
 and Net General Bonded Debt Per Capita
 Last Ten Fiscal Years

Fiscal Year	Population (1)	Secondary Assessed Value (2)	Gross Bonded Debt	Less Current Portion	Net Bonded Debt	Percent of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1995	52,701 *	\$ 284,954,647	\$ 44,029,701	\$ 4,270,000	\$ 39,759,701	14%	\$ 754
1996	53,966	294,100,721	39,830,151	3,595,000	36,235,151	12%	671.44
1997	55,885	310,066,911	53,809,898	4,371,000	49,438,898	16%	884.65
1998	58,145	340,743,258	49,470,273	4,170,000	45,300,273	13%	779.09
1999	59,945	362,625,557	45,333,746	4,465,000	40,868,746	11%	681.77
2000	52,894 **	385,566,202	40,904,461	4,405,000	36,499,461	9%	690.05
2001	57,700	408,592,733	36,537,570	2,805,000	33,732,570	8%	584.62
2002	59,160	429,030,400	36,873,231	2,888,505	33,984,726	8%	574.45
2003	61,030	464,257,886	34,012,849	3,570,000	30,442,849	7%	498.82
2004	61,270	501,655,440	30,967,902	3,920,000	27,047,902	5%	441.45

(1) Arizona Department of Economic Security projected population increases except 1995 and 2000, which are official census figures.

(2) From County Assessors Office.

* 1995 Special Census.

** Census estimates exceeded actual 2000 census results.
 FY2000 adjusted to reflect population per U.S. Census official results

Table XIII

City of Flagstaff, Arizona
 Ratio of Annual Debt Service Expenditures for
 General Bonded Debt to Total General Governmental Expenditures
 Last Ten Fiscal Years

Fiscal Year	Principal	Interest and Other Charges	Total Debt Service	Total General Expenditures	Ratio of Debt Service to General Expenditures (Percent)
1995	\$ 4,270,000	\$ 2,937,532	\$ 7,207,532	\$ 38,220,225	18.86%
1996	3,595,000	2,612,598	6,207,598	35,742,952	17.37%
1997	4,371,000	2,660,912	7,031,912	38,110,976	18.45%
1998	4,170,000	2,826,759	6,996,759	43,610,081	16.04%
1999	4,465,000	2,516,329	6,981,329	45,156,409	15.46%
2000	4,405,000	2,242,254	6,647,254	54,107,289	12.29%
2001	2,805,000	1,953,098	4,758,098	52,523,698	9.06%
2002	2,979,000	1,443,074	4,422,074	68,918,699	6.42%
2003	3,679,000	1,373,322	5,052,322	66,304,475	7.62%
2004	4,614,000	2,428,026	7,042,026	72,726,564	9.68%

Table XIV
City of Flagstaff, Arizona
Computation of Direct and Overlapping Debt
June 30, 2004

The general obligation debt of all local governmental units which provide services within the City's boundaries, and which must be borne by properties in the City (commonly called overlapping debt), is summarized below:

<u>Governmental Units</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to the City</u>	<u>Direct and Overlapping Debt</u>
City of Flagstaff	\$ 27,047,902	100.0%	\$ 27,047,902
School District #1	46,827,861	65.0%	<u>30,438,110</u>
			<u><u>\$ 57,486,012</u></u>

Table XV

City of Flagstaff, Arizona
 Schedule of Water and Wastewater Revenue Bond Coverage
 Last Ten Fiscal Years

Fiscal Year	Gross Revenues	Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1995	\$ 14,916,620	\$ 7,097,153	\$ 7,819,467	\$ -	\$ -	\$ -	\$ -
1996	16,475,146	7,136,236	9,338,910	-	-	-	-
1997	16,515,478	7,973,540	8,541,938	-	-	-	-
1998	16,767,650	7,916,657	8,850,993	-	-	-	-
1999	16,773,884	7,700,535	9,073,349	-	-	-	-
2000	17,606,349	8,311,186	9,295,163	-	-	-	-
2001	18,337,310	9,757,448	8,579,862	-	-	-	-
2002	17,637,708	9,587,743	8,049,965	-	-	-	-
2003	16,769,463	9,865,571	6,903,892	238,431	17,741	256,172	26.95
2004	17,227,848	10,645,073	6,582,775	246,890	231,034	477,924	13.77

Table XVI

City of Flagstaff, Arizona
Demographic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	School Enrollment (2)	Unemployment Rate (3)
1995	52,701	11,880	6.6%
1996	53,966	11,826	6.1%
1997	55,885	12,679	6.5%
1998	58,145	13,249	6.6%
1999	59,945	12,880	6.6%
2000	52,894	12,682	5.2%
2001	57,700	13,969	4.8%
2002	59,160	13,566	5.1%
2003	61,030	12,905	5.8%
2004	61,270	13,176	5.2%

(1) Arizona Department of Economic Security estimated projected population except for the years, 2000, which are official census figures and 1995, which represent the special census figures.

(2) Arizona Department of Education and National Center for Education Statistics.

(3) Arizona Department of Economic Security.
(2004 is a draft estimate provided by AZ DES)

Note: Annual per capita income, median age, and education level data are not available.

Table XVII

City of Flagstaff, Arizona
 Property Value, Construction, and Bank Deposits
 Last Ten Fiscal Years

Fiscal Year	Residential Construction (1)		Commercial and Industrial Construction (1)		Quarterly Bank Deposits Coconino County (\$000) (2)	Property Value (3)			
	Number of Permits	Value	Number of Permits	Value		Estimated Cash Value	Commercial	Residential	Nontaxable
1995	488	\$ 46,305,342	181	\$ 15,953,231	\$ 464,764	\$ 1,929,201,462	\$ 768,914,972	\$ 1,041,012,663	\$ 119,273,827
1996	564	68,880,721	169	24,418,924	462,848	2,170,269,429	818,081,181	1,205,903,371	146,284,877
1997	513	58,580,988	198	39,495,278	347,956 *	2,219,561,893	832,894,205	1,238,946,076	147,721,612
1998	528	45,783,140	182	33,570,116	482,770	2,458,001,305	849,315,340	1,446,181,407	162,504,558
1999	524	78,015,349	183	35,999,041	458,285	2,644,019,764	867,782,208	1,609,395,170	166,842,386
2000	586	46,399,420	122	43,592,693	460,217	2,813,033,675	930,939,338	1,698,835,707	183,258,630
2001	550	50,615,526	127	35,722,301	490,905	2,991,862,619	992,147,419	1,795,884,090	203,831,110
2002	758	69,026,395	152	43,642,285	615,806	3,134,105,000	1,037,581,165	1,886,615,936	209,907,899
2003	740	67,267,554	170	38,865,819	881,222	3,329,380,591	1,072,502,563	1,997,820,625	259,057,403
2004	709	87,188,212	139	20,152,607	788,255	3,485,996,311	1,096,247,804	2,123,907,477	265,841,030

(1) City Building Department.

(2) Arizona Bankers Association.

This represents deposits in the 2nd quarter of the fiscal year for banks which reported.

(3) Abstract published by the Arizona State Department of Revenue.

* Number is exclusive of one large non-participating financial institute in Coconino County.

Table XVIII

City of Flagstaff, Arizona
Miscellaneous Statistics

Date of Incorporation		Employees as of June 30, 2004		Elections	
May 26, 1894		Merit System	549	Number of Registered Voters	
Date Charter Adopted		Exempt	113	Last Municipal Election May 2004	29,068
October 3, 1958		Temporary	213	Number of Votes Cast	
Date of Latest Charter Amendment		Elected Officials	7	Last Municipal Election May 2004	11,650
June 29, 1998				Percentage of Registered Voters	
		Total Payroll for the Year Ending 2004: \$	31,659,134	Voting in Last Municipal Election	40.08%
Form of Government		Fire Protection		Parks and Recreation	
Council, City Manager		Number of Stations	6	Number of Developed Parks	27
Area – Square Miles		Number of Employees (FTE)	96.75	Number of Un–developed Parks	4
2004	64.400	Police Protection		Park Acreage	702.34
Miles of Streets, Alleys and Sidewalks		Number of Employees (FTE)	151	Flagstaff Urban Trail System–Miles	32.32
Streets	213.72	Number of Calls for Service per		Number of Other Facilities:	
Alleys	10.15	Annual Report–12/31/02	55,709	Recreation Centers	4
Sidewalks	152.40	Ave. Patrol Officers for 24 hour period	19	Tennis Courts	17
Miles of Sewer		Vehicular Patrol Units	26	Racquetball Courts	4
Storm	41.96	Coconino County Jail Prisoner Capacity	562	Ramadas	11
Sanitary	247.21	Pulliam Airport		Softball/Baseball Fields	17
Number of Street Lights	2,980	Fixed Base Operators	1	Ice Rinks	1
Number of Fire Hydrants	2,539	Locally Based Aircraft	130	Playgrounds	20
Number of Manholes	6,402	Tiedowns	29	Skate Tracks	2
		Enclosed Hangars	42	Soccer Fields	4
		Open Hangars	38	Disc Golf Course	1
				Basketball Courts	19
				Volleyball Courts	6
				Horseshoe Courts	12
				Off Leash Areas–Bark Parks	2
				Swimming Pools (School Owned)	2

Table XVIII (continued)

City of Flagstaff, Arizona
Miscellaneous Statistics

Education		Sales Tax		Population	
Number of Schools:		Retail Sales Last 15 Fiscal Years:		Census Population Count—Last Five Censuses:	
Public Elementary	12	2004	\$ 1,593,931,781	2004***	61,270
Public Middle School	2	2003	1,458,775,346	2003**	61,030
Public High School	3	2002	1,404,232,492	2002**	59,160
Alternative Schools	2	2001	1,324,735,136	2001**	57,700
Magnet Schools	3	2000	1,238,195,104	2000	52,894
Charter Schools	11	1999	1,117,197,604	1995*	52,701
Private Schools	6	1998	1,065,133,746	1990	45,854
Community College (Coconino)	1	1997	1,016,570,260	1985*	38,247
University (Northern Arizona)	1	1996	965,100,588	1980	34,743
		1995	905,801,130		
		1994	867,566,687	*Special Census	
Number of Teachers (Fall 2003):		1993	776,546,307	**DES Estimate	
Flagstaff Unified School District	836	1992	686,784,204	**Preliminary DES Estimate	
No. AZ University Faculty—Full Time	711	1991	659,778,700		
Coconino Community College Faculty	299	1990	631,835,742		
				2000 Census Information:	
Number of Students (Fall 2003):		Total Sales Tax Revenue for Fiscal Year 2004		Age Distribution of Population	
Flagstaff Unified School District	11,377		\$ 11,544,443	for Urbanized Areas Only	
Charter	1,484			1–4 Years	3,546
Private (Fall 2001)	315			5–17 Years	9,288
Northern Arizona University		Utility Enterprise		18–24 Years	11,487
Flagstaff Campus	12,874	Total Active Accounts on June 30, 2004		25–44 Years	16,111
All Locations	18,824	Water		45–64 Years	8,309
Coconino Community College		Sewer		65+ Years	4,153
Flagstaff Campuses (2)	3,165	Average Gallons/Household/Month			<u>52,894</u>
All Locations	3,785				
		Plants Capacity (Million Gallons per Day):		Number of Housing Units	21,396
		Water Treatment Plant		Average Persons per Housing Unit	2.59
		Reservoir Filtration Plant		Average Family Size	3.13
		Wildcat Hill Plant		Median Household Income	\$ 37,146
		Rio de Flag Reclaim Plant		Per Capita Income (2000)	\$ 18,637
		Wells			
		Reservoirs		2000 Census information available at the following websites:	
		Reclaimed Reservoirs		http://www.census.gov/census2000/states/az.html	
		Miles of Water Lines		http://www.de.state.az.us/links/economic/webpage/index.html	
		Miles of Reclaimed Lines			
		Miles of Sewer Lines			

Table XIX
City of Flagstaff, Arizona
Intergovernmental Revenue by Source
Governmental Funds
Last Ten Fiscal Years

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
1995	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1996	\$ 3,734,332	\$ 3,553,021	\$ 1,355,828	\$ 5,700,737	\$ 364,931	\$ -	\$ 360,439	\$ 115,134	\$ -	\$ 911,354	\$ -	\$ 16,095,776
1997	3,845,330	4,170,641	1,504,060	5,852,957	366,453	-	694,916	380,042	-	890,097	-	17,704,496
1998	4,061,346	4,725,837	1,533,501	5,371,446	394,318	-	1,448,951	553,963	-	955,342	35,000	19,079,704
1999	4,353,556	5,489,912	1,847,142	7,207,158	367,911	-	1,763,054	272,297	-	1,101,729	218,384	22,621,143
2000	4,785,424	6,062,290	1,902,188	7,427,210	367,461	312,249	1,474,751	370,391	-	1,068,817	3,007,336	26,778,117
2001	4,919,575	6,432,879	1,913,662	7,969,703	360,806	142,793	1,731,823	317,059	-	1,835,109	580,241	26,203,650
2002	4,076,034	5,526,159	1,803,900	7,771,416	300,246	47,598	2,348,793	437,543	-	1,423,105	274,091	24,008,885
2003	4,136,724	5,557,918	2,378,466	7,408,116	315,026	-	1,743,613	823,701	-	1,607,306	850,000	24,820,870
2004	4,449,982	4,777,145	2,427,367	6,975,351	313,868	-	1,160,966	454,212	468,069	1,921,433	148,992	23,097,385

Table XX

City of Flagstaff, Arizona
 Insurance Summary
 In Effect June 1, 2003 to May 31, 2004

Coverage	Limit of Liability	Coverage	Limit of Liability
Liability Insurance:		Property Insurance:	
General Liability*	\$ 1,000,000 / per occurrence	Blanket Building and Contents, including light and signals	\$ 95,866,723 / \$25,000 deductible
(Includes 2 Skateboard Parks)	\$ 2,000,000 / aggregate	Flood Zones B and C	\$ 10,000,000 / \$25,000 deductible
Law Enforcement Liability*	\$ 1,000,000 / each wrongful act	Earthquakes	\$ 10,000,000 / \$25,000 deductible
	\$ 1,000,000 / aggregate	Flood Zone A Properties	
Auto Liability*	\$ 1,000,000 / each accident	Municipal Court	\$ 220,000 / building
Public Entry Management Errors and Omissions*	\$ 1,000,000 / each claim		\$ 116,900 / contents
(Claims Made Retro Date 6-1-95)	\$ 1,000,000 / aggregate	City Hall, Library	\$ 500,000 / each building
Employment Practices Liability*	\$ 2,000,000 / each wrongful act		\$ 500,000 / contents each
(Claims Made Retro Date 6-1-95)	\$ 2,000,000 / aggregate		(\$5,000 deductible)
Healthcare Professional (for EMTs)*	\$ 2,000,000 / each person	Contractors Equipment (actual cash value)	\$ 6,292,799 / \$5,000 deductible
(Claims Made Retro Date 6-1-95)	\$ 2,000,000 / aggregate	Computer Equipment and Peripherals	\$ 5,818,610 / \$1,000 deductible
Employee Benefits Liability*	\$ 1,000,000 each employee	Computer Data and Media	\$ 500,000 / \$1,000 deductible
	\$ 3,000,000 aggregate	Laptops and Portables -	
* Liability Claims are Subject to a \$50,000 Self Insurance Retention		Replacement Cost Coverage	\$ 248,500 / \$1,000 deductible
Employer's Liability	\$ 1,000,000 / each accident	Fine Arts Exhibition Floater	\$ 25,000 / each location
	\$ 1,000,000 / disease employee	City Hall, Visitor Center, Airport Terminal	\$1,000 deductible
	\$ 1,000,000 / disease policy limit	Boiler and Machinery	\$ 25,000,000 / \$5,000 deductible
Worker's Compensation	Statutory		
Excess Liability #1 Following Form Over General Liability, Auto, Law Enforcement, Public Entity Management, Employee Benefits Liability		Crime:	
	\$ 10,000,000 / each occurrence	Blanket Public Employees and Treasurer	\$ 1,000,000 / \$5,000 deductible
	Wrongful Act / aggregate	Dishonesty Bond Including Faithful Performance of Duty	
(Excludes Employment Practices and Healthcare Professional)		Computer Fraud	\$ 250,000 / \$5,000 deductible
Excess Liability #2 Following Form Over Excess Liability # 1		Theft, Disappearance, & Destruction (Inside and Outside)	\$ 5,000 / \$500 deductible
Excluding Discrimination, Employment-related Practices, and Failure to supply.	\$ 15,000,000 / each occurrence		
	Wrongful Act / aggregate	Aviation:	
		Products/Completed Operations Liability,	\$ 30,000,000 / each occurrence
		Contractual, Construction & Demolition	\$ 30,000,000 / aggregate
		Hangar Keepers Liability	\$ 30,000,000 / each aircraft
			\$ 30,000,000 / each occurrence

1900 2000
The City of Flagstaff



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