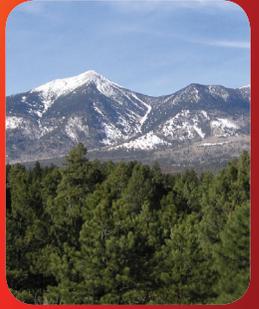
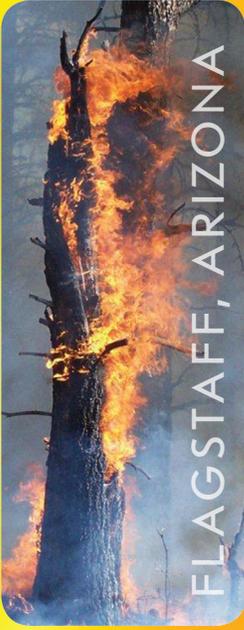
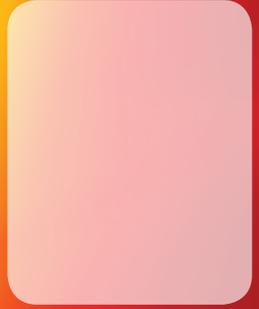
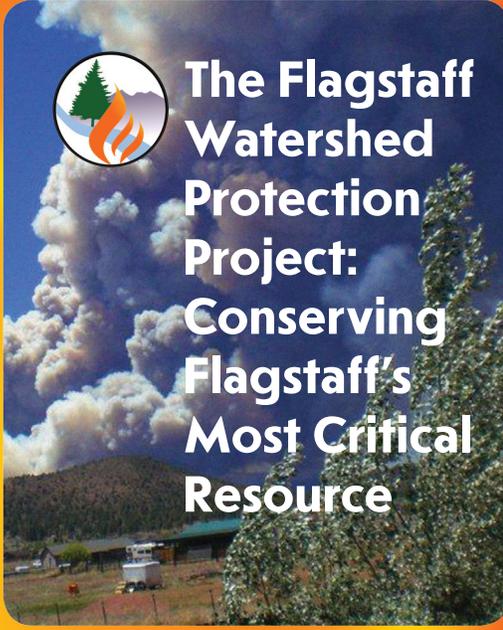


**The Flagstaff  
Watershed  
Protection  
Project:  
Conserving  
Flagstaff's  
Most Critical  
Resource**



**City of Flagstaff  
Comprehensive Annual Financial Report  
Fiscal Year Ended June 30, 2013**

# *Comprehensive Annual Financial Report*

For Fiscal Year Ended  
June 30, 2013

City of Flagstaff, Arizona



Prepared By:  
Management Services Division  
Finance and Budget Section

**City of Flagstaff  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended June 30, 2013**

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# City of Flagstaff

December 23, 2013

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, 2013, as required by Article VI, Section 5 of the City Charter. The report was prepared by the City's Finance Division in accordance with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants.

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

Eide Bailly, LLP a firm of licensed certified public accountants have audited the City of Flagstaff's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Flagstaff for the fiscal year ended June 30, 2013, 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, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

## **CITY OF FLAGSTAFF PROFILE**

Flagstaff is located in Coconino County, Arizona at the intersection of Interstate 17 and Interstate 40. Flagstaff is the largest city in Northern Arizona and is the regional center and county seat for Coconino County, the second largest county in the 48 contiguous states. The current population per the 2010 United States Census is 65,870. The City of Flagstaff became a town in 1894, incorporated as a city in 1928 and its boundaries currently encompass an area of approximately 65 square miles. Flagstaff is nestled at the base of the San Francisco Peaks and is surrounded by one of the largest ponderosa pine forests on earth. Flagstaff drew its name from a very tall pine tree made into a flagpole in 1876 to celebrate our nations' centennial. At nearly 7,000 feet, Flagstaff is one of the highest elevation cities in the United States.

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

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

## FACTORS AFFECTING THE CITY'S FINANCIAL CONDITIONS

### Local economy

The City of Flagstaff, like many municipalities, is starting to see positive economic growth in our community. Excluding sales tax collected on utilities, the City realized declines in all but four months between November 2007 and August 2010 in comparison to the same month in the prior year. Since September 2010, the City has had increases its sales tax collections 22 out of 29 months when compared to the prior year, same month. In Fiscal Year 2012–2013, all sales tax categories increased when compared to the prior year. The following chart summarizes the categorical changes from the prior fiscal year:

Category	FY 2013	FY2012	% Change
Utilities	\$929,683	\$841,855	10.43%
Telecommunications	278,702	193,619	43.94%
Restaurants/Bars	2,066,174	1,944,120	6.28%
Amusements	71,371	69,430	2.80%
Commercial Property Rental	999,391	971,202	2.90%
Personal Property Rentals	420,974	309,393	36.06%
Constructions Contracting	1,649,710	1,496,038	10.27%
Retail	7,791,090	7,463,344	4.39%
Hotels/Motels	889,244	834,345	6.58%
Other	194,904	160,194	21.67%
<b>Total</b>	<b>\$15,291,245<sup>1</sup></b>	<b>\$14,283,540</b>	<b>7.06%</b>

While construction is showing growth for the first time since FY 2008, this is still the most volatile of sales tax categories shown above. The City continues to follow its' practice to not allocate 100% of construction related revenues to ongoing budgetary needs. State shared sales tax revenues have increased for the third year in a row at 4.7%. State income tax revenues increased by 21.0% even though the total revenue is still below FY 2007 levels. After six years of declines, the highway user (gas tax) revenues also increased 7.9% in part due to the discontinuance of shifting funds to the Arizona Department of Transportation, Department of Motor Vehicles. Housing sales are recovering and the median home price made some gains, only to decrease again more recently. Our community partners in the public, private, and governmental sectors are also experiencing similar growth. The Flagstaff Unified School District realized an increase in students for the first time in the past ten years. A number of new projects in the multifamily housing and retail sectors that had been delayed or canceled due to the lack of available capital have been constructed or are in development review. While revenue growth is occurring, there is very limited resource available for new or restored services within the community. Fixed costs to provide employee benefits, property insurance, and utilities continues to outpace the revenue gains. The economic analysts for our local and state region continue to give mixed messages on when the recovery will be sustained.

The City collects three different retail sales taxes:

The first is a 1% tax on all general sales, except for food. This is a general purpose tax that benefits the General Fund. The City of Flagstaff is the only city left in the State of Arizona that has a sunset clause on the general sales tax. This tax must go before the voters every ten years and is currently authorized until

<sup>1</sup> The sales tax total reflected in this table is activity based and will vary from the City Sales Tax amount reflected in Schedule 5 found in the Statistical Section .

November 2024.

As indicated earlier, overall local sales tax increases have been realized for two years in a row. Overall, the 1% general city sales tax receipts have increased 5.8% from the prior fiscal year and are now only 2.4% less in comparison to FY 2008. Construction and auto sales continue to be the two most volatile sales tax categories. The Retail sales tax category has decreased from 52.3% to 50.9% of the total sales tax collected, as construction revenues increase and realize a larger proportionate share of total sales tax collected.

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

The third tax is a Bed, Board, and Beverage (BBB) tax that collect an additional 2% for motel rooms/campgrounds, restaurants, and bars. This revenue is restricted in use to certain economic, arts, beautification, recreation or tourism activities. The BBB tax also has a sunset clause and it is currently authorized until 2028. Tourism is a major industry to our local economy. Overall sales decreased in FY2009 when gas prices were peaking but have since rebounded and have set record highs for three years in a row, now at \$5.9 million dollars.

State shared revenue consists of both a distribution of sales tax and income tax. These distributions are made based on a city or towns relative share of population in comparison with all other cities and towns. Except during census years, Flagstaff's population is determined by the Arizona Department of Economic Security based on a number of factors including new homes and student enrollment. Historically, Flagstaff's greatest challenge was that while population was growing, it was growing at a slower pace than some of the other communities in the state. In the past, this has translated into a decreased proportionate revenue share; however the 2010 census resulted in the City's proportionate population share increasing from 1.25% to 1.31%. Overall state shared revenues grew by 13.2% in FY2013 and the State of Arizona projects continued growth. While recent revenue growth has been experienced, State Shared Sales Tax is still under the peak revenue year (FY 2007) by 7.3% and State Shared Income Tax is under FY2008 peak revenues by 26.5%

Highway user revenue (gas tax) funds (HURF) ended FY 2013 above FY 2012 by 7.9%. While this is a considerable increase, it is still 24.4% below FY 2006, the peak revenue year. HURF revenues that are available for distribution had experienced six consecutive years of decreases. These revenues are distributed based on a fairly complex Arizona Department of Transportation formula, based in part on the amount of fuel purchased in our region. The revenue decreases were initially due to the increased gas pricing resulting in lower sales. Additional decreases were due to the State shifting revenues 'off the top' to fund other public safety and motor vehicle department needs. The gross highway user revenues received by the State of Arizona remained flat in FY 2013, however the revenue available for distribution increased (and our local revenue increased) as the State of Arizona no longer funded a portion of the Arizona Department of Transportation, Motor Vehicle Division from these funds. As evidenced by the increase in BBB taxes and other statistical data, the City remains a popular drive destination from Las Vegas, Los Angeles, and Phoenix; however this revenue is estimated to recover very slowly.

Even after the value of new construction is added to the total taxable assessed value, property valuations

decreased by 3.3% for this tax year. Assessed value has decreased a total of 16.5% from its peak year in FY 2010. Even though the City is statutorily allowed to set a primary property tax rate that would allow for 2% annual growth in revenue plus the additional revenue generated from new construction, the Flagstaff City Council has established a policy of flat revenue for existing properties. When the City doesn't take advantage of the statutorily allowed 2% annual increase, it does not lose the ability to take the increase in the future. Two percent is allowed per year and accumulates (e.g. if the increase is not taken for two years, the City now has future authority to take a 4% levy increase). The millage rate for the primary property tax is adjusted annually to generate a levy equal to the prior year, plus new construction. The millage rate for secondary property taxes remained the same, so as assessed valuation decreased, the revenue also decreased by 4.2% in comparison to the prior fiscal year.

While revenues fluctuations continue in some areas, the City increased budgeted revenue in FY 2014 (excluding grants) by 7.9% which reflects increase in local and state revenues. The City of Flagstaff reduced its' overall staffing count by another 3 positions bringing total staff reductions to 130 full time equivalencies (FTE's) since FY2009.

## **LONG-TERM FINANCIAL PLANNING**

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

### **STRATEGIC FINANCIAL PLAN**

Flagstaff's financial plan requires many elements working in concert with one another. Some of these financial plan elements are financial resource planning, multi-year budget planning, strategic capital improvement project planning, and financial policy impacts all of which are further identified below.

**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.

The City is also developing policy regarding reserving funding generated from one-time resources to address aging infrastructure related to streets, facilities, water, wastewater, parks, and fleet.

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

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

also planned and considered in developing future operating budget plans. Projects with significant operating impacts are carefully timed to avoid contingent liabilities, which future operating resources cannot meet. Pay-as-you-go funding sources are also conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used and/or required, capital project plans are sized to conform to existing debt management policies.

**Financial Policy Planning** – The City of Flagstaff financial policies dictate minimum fund balance levels for the General, Special Revenue, and Enterprise Funds. The General Fund is required to maintain a fund balance of 15% of ongoing revenues and special revenue and enterprise funds are to maintain a 10% fund balance, as calculated against ongoing revenues. As the recession began, the City Council provided a temporary waiver to the General Fund balance requirement reducing it from 15% to 12% for FY 2010. This provided approximately \$1.5 million dollars in one-time funding that was spread over three fiscal years: FY's 2010, 2011, and 2012. While this eased some of the financial shortfall the City was experiencing, it did contribute toward a structural deficit as some ongoing services were funded with this one-time money. As part of the FY2013 budget process, this structural deficit was eliminated and the General Fund balance was restored to 15%. In addition to the restoring fund balance, the City Council also directed to provide a greater cushion against future recessions by directing that the General Fund balance increase by 1% per year to 20%. This goal is being met and the City General Fund balance is budgeted to be 19.4% for FY 2014 and is maintained at a minimum of 17.5% over the next five fiscal years.

## **MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS**

During FY 2013, 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 accomplishments in FY2013 that address the six goals established by council in the summer of 2010.

### **Public Safety**

*The City shall maintain short response times and encourage expanded health services.*

Accomplishments include:

- The Fire Department placed a new Type 1 Engine in service
- The Police Department strengthened their peer and formal counseling abilities through the expansion and additional training for the Crisis Incident Stress Management teams

### **Good Neighborhoods**

*The City shall provide good livability through good neighborhoods, affordable housing, and varied recreational opportunities.*

Accomplishments include:

- The Housing Section completed eleven owner occupied housing rehabilitation projects
- The Housing Section administered development agreements for 91 permanently affordable rental housing units at the Ridge at Clear Creek and Elevation Apartments
- The Police Department conducted 85 community support meetings in addition to neighborhood Block Watch meetings

- Recreation conducted 13 family friendly events including the Easter Eggstravaganza, Concerts in the Park, Children’s Music and Art Festival, and the Halloween Harvest

### **Quality of Life**

*The City shall provide a diversity of arts, culture, and educational opportunities*

Accomplishments include:

- Through a federal grant, the Flagstaff Public Library served as the Job Help Hub coordinating public workshops and one on one work sessions
- The Joe C Montoya Center partnered with Flagstaff Medical Center to offer free health screenings to seniors and also partnered with AARP to provide free tax preparation
- The City Landfill conducted multiple tours for the elementary, middle schools, high schools, and colleges
- The Economic Vitality Division advanced community efforts for workforce development by re-examining curriculums and strengthening relationships with the various public, private, and educational agencies to meet changing industry needs
- Public art projects were completed including the ‘Then and Now’ photographic display and the Lumberyard Mural

### **Community Sustainability**

*The City shall encourage a sustainable community through economic vitality, environmental protection, and social inclusion.*

Accomplishments include:

- A total of 862 kilowatts of solar renewable energy was installed at the Wildcat Hill Wastewater Treatment Plant, City Hall, and the Aquaplex
- The City acquired 478 acres of conservation (open space) land at Picture Canyon
- The Economic Vitality Division assisted eight new retailers in locating to Flagstaff

### **Infrastructure**

*The City shall maintain and deliver quality, reliable infrastructure*

Accomplishments include:

- Utility’s added over 800 new radio read devices into the water meter system
- The City conducted a successful bond election for the Core Services Facility and Forest Health and Water Supply Protection project
- The Capital Section continued delivery of the 2010 Street/Utility Bond projects including completion of Cherry Avenue, Dodge Avenue, and Coconino/Elden/Humphreys
- The Capital Section continued Rio de Flag project coordination with the Army Corps of Engineers including project phase liason for the Thorpe Road Bridge project
- The Utilities Division completed the reconstruction of the Inner Basin Pipeline ahead of schedule and within budget

### **Effective Governance**

*The City shall provide stability to its citizens and employees through the maintenance of good fiscal health.*

- The Procurement Section formed a task force comprised of local contractors to provide feedback and guidance on qualification based evaluation criteria and value added knowledge and experience as part of the Request for Statement of Qualifications procurement process
- The Human Resources Division implemented numerous wellness incentive program enhancements for

- all benefit eligible employees
- The City Fleet Management Section reviewed underutilized vehicles justifications and eliminated 25 vehicles
- The City Council approved annual set asides to address current funding shortfalls for both infrastructure and equipment/vehicles

## 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, 2012. This was the 19<sup>th</sup> consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The City also received the GFOA award for Distinguished Budget Presentation for our 2012–2013 annual budget (19 years in a row). In order to qualify for the Distinguished Budget Presentation award, the City's budget document was judged to be proficient in all categories, a Policy Document, a Financial Plan, an Operation Guide, and as a Communication Device.

In addition, the City received the Achievement in Excellence in Procurement award for the third year in a row by the National Purchasing Institute. This award program was designed to recognize organizational excellence in public procurement measuring innovation, professionalism, productivity, e-procurement, and leadership attributes.

A special note of appreciation is given to Maryellen Pugh, Finance Manager, and Kristi Markey, Accountant, for coordinating the audit and to the entire finance staff who prepared this CAFR.

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

Respectfully Submitted,



Barbara Goodrich  
Management Services Director



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

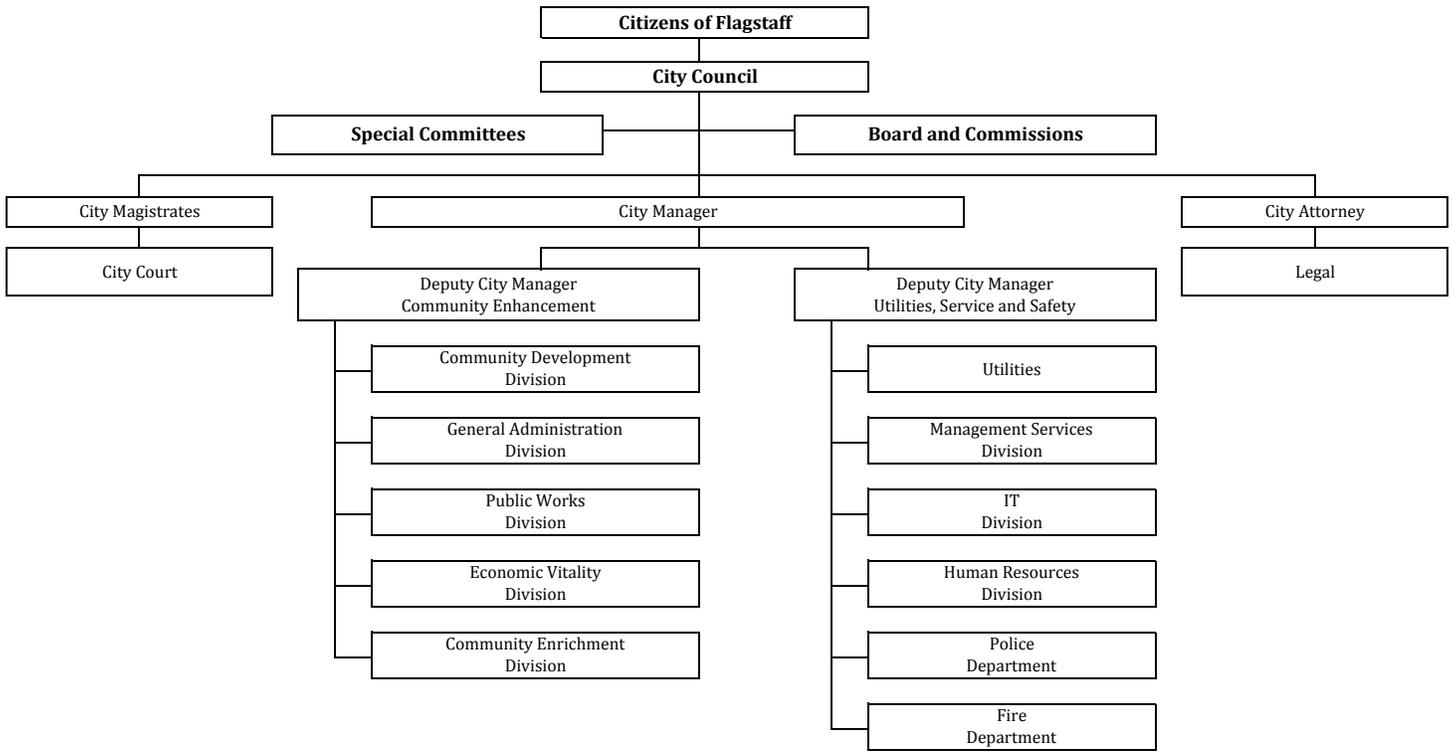
**City of Flagstaff  
Arizona**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO

**City of Flagstaff**



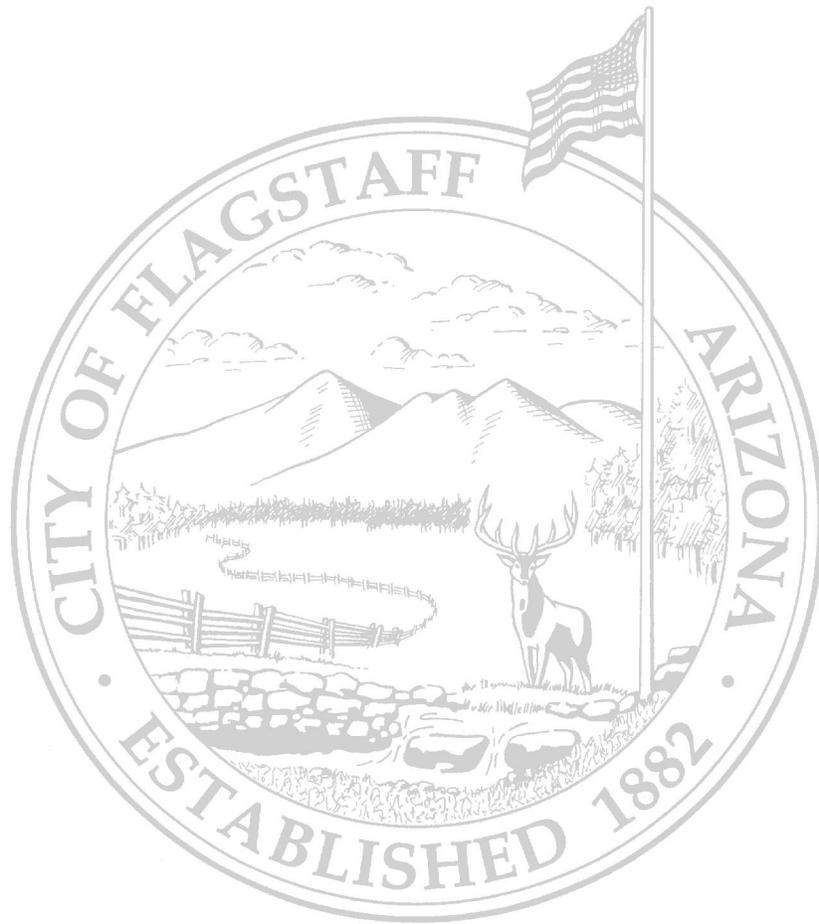
City of Flagstaff, Arizona  
List of Elected and Appointed Officials  
June 30, 2013

Elected Officials

Mayor	Gerald (Jerry) W. Nabours
Vice Mayor	Coral Evans
Councilmember	Celia Barotz
Councilmember	Karla Brewster
Councilmember	Jeff Oravits
Councilmember	Scott Overton
Councilmember	Mark Woodson

Appointed Officials

City Manager	Kevin Burke
City Attorney	Michelle D'Andrea
City Treasurer	Barbara Goodrich
City Clerk	Elizabeth Burke





## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Flagstaff, Arizona (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information and the budgetary comparison of the general fund and major special revenue funds of the City as of June 30, 2013, and the respective changes in financial position and, where, applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

[www.eidebailly.com](http://www.eidebailly.com)

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as noted on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The introductory section, combining nonmajor fund financial statements, the capital assets schedule by function and activity, the budgetary comparison of the major debt service fund and nonmajor governmental funds and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining nonmajor fund financial statements, the capital assets schedule by function and activity, the budgetary comparison of the major debt service fund and nonmajor governmental funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, the capital assets schedule and the budgetary comparisons schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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* in considering the City of Flagstaff's internal control over financial reporting.

  
Phoenix, Arizona  
December 23, 2013

## MANAGEMENT DISCUSSION AND ANALYSIS

As management of the City of Flagstaff (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. 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 –x of this report.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$635.3 million (net position). Of this amount \$61.9 million (unrestricted) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$13.0 million during the fiscal year. This is a result of an increase in net position in the governmental activities of \$7.7 million and an increase in net position in the business type activities of \$5.3 million.
- As of June 30, 2013, the City's governmental funds reported combined ending fund balances of \$71.0 million, an increase of \$11.4 million in comparison with the prior fiscal year. Approximately 27.3% of this total amount (\$19.4 million) is unassigned fund balance available for spending at the government's discretion.
- As of June 30, 2013, total unassigned fund balance for the general fund was \$19.4 million, or 41.7% of total general fund expenditures (\$46.6 million).
- As of June 30, 2012, the City's proprietary funds reported combined total net position of \$336.5 million, and total unrestricted of \$29.2 million. Unrestricted component of net position in the Water and Wastewater Fund are \$19.3 million and in the Environmental Services Fund are \$8.3 million.

### 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 position presents information on all of the City's assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as revenues pertaining to uncollected taxes or expenses pertaining to earned but unused vacation leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include Police, Fire, Community Development, Parks, Recreation, City Council, City Manager, City

Attorney, Municipal Courts, Human Resources, Risk Management, Information Services, Financial Services, Library, Streets and Transportation, Facilities Maintenance, Fleet Management, Cemetery, Beautification, Tourism, and Economic Development. The business-type activities of the City include Water and Wastewater, Airport, Environmental Services, Housing Authority, and Stormwater operations.

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

The government-wide financial statements can be found on pages 17 – 19 of this report.

#### Fund financial statements

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

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

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

The City maintains several individual governmental funds organized according to their type (special revenue, capital projects, 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, Special Assessment Bond fund, and Capital Projects Bond Construction 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, Capital Projects funds, Debt Service funds, and Enterprise funds. A budgetary comparison statement has been provided for the General and special revenue major governmental funds to demonstrate compliance with the respective budgets.

The basic governmental fund financial statements can be found on pages 20–30 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 32–39 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 40–86 of this report.

## **Combining statements**

The combining statements referred to earlier in connection with non-major governmental funds are presented on pages 87–91.

## **Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information concerning the City's capital asset activity. Other supplementary information can be found on pages 93–112 of this report.

## **GOVERNMENT WIDE STATEMENTS FINANCIAL ANALYSIS**

### **Analysis of Net Position**

As noted earlier, net position may serve as a useful indicator of a government's financial position. For the City, assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$635.3 million as of June 30, 2013.

Of the City's net position, 83.0% reflects its investment of \$527.3 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 Position**  
**June 30, 2013 and 2012 (in thousands of dollars)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 101,244	\$ 92,358	\$ 43,855	\$ 40,295	\$ 145,099	\$ 132,653
Capital assets	299,629	295,652	352,170	355,191	651,799	650,843
Total assets	<u>400,873</u>	<u>388,010</u>	<u>396,025</u>	<u>395,486</u>	<u>796,898</u>	<u>783,496</u>
Long-term liabilities	80,137	73,456	49,537	50,068	129,674	123,524
Other liabilities	21,901	23,452	10,037	14,226	31,938	37,678
Total liabilities	<u>102,038</u>	<u>96,908</u>	<u>59,574</u>	<u>64,294</u>	<u>161,612</u>	<u>161,202</u>
Net investment in capital assets	222,691	219,112	304,561	304,418	527,252	523,530
Restricted	43,470	34,680	2,694	2,805	46,164	37,485
Unrestricted	32,674	37,310	29,196	23,969	61,870	61,279
Total net position	<u>\$ 298,835</u>	<u>\$ 291,102</u>	<u>\$ 336,451</u>	<u>\$ 331,192</u>	<u>\$ 635,286</u>	<u>\$ 622,294</u>

Total assets increased due to change in restricted cash and investments in the governmental activities. Total liabilities increased slightly due to additional debt issuance.

A portion of the City's net positions, \$46.2 million (7.3%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted component of net position, \$61.9 million (9.7%) 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 position for the government as a whole, as well as for the business-type activities.

Current assets for governmental activities have increased by 9.6% (\$8.9 million). The largest increase was in restricted cash and investments (\$15.8 million) while the largest decreases are in cash, investments and equivalents (\$6.1 million) and intergovernmental receivable (\$1.0 million).

Capital assets of the governmental activities, funded through operations, debt proceeds, grants, and contributions, increased by 1.3% (\$4.0 million) due to capital outlays in excess of current year depreciation and deletions. Major capital outlays include Picture Canyon land (\$4.9 million), street/utility bond construction (\$4.9 million), West/Arrowhead street improvements, annual street improvement program (\$1.1 million), and fire apparatuses (\$0.8 million).

Governmental activities long-term liabilities increased by 9.1% (\$6.7 million) primarily due issuance of new debt offset with payments on existing debt issues. Other liabilities decreased by 6.6% (\$1.6 million) primarily due to the decrease in deposits payable (\$1.6 million).

Total assets for business-type activities have increased slightly by 0.1% (\$0.5 million). The largest increases were in cash, investments and equivalents (\$6.5 million) and accounts receivable, net (\$1.5 million) while the largest decreases were in intergovernmental receivable (\$4.3 million) and capital assets (\$3.0 million).

Total liabilities for business type activities decreased by 7.3% (\$4.7 million). Major changes include decreases in bonds, notes and leases payable (\$3.2 million) and accounts payable (\$1.8 million) while largest increase was landfill closure and post closure care costs (\$0.2 million).

Overall, the business-type net position has increased by 1.6% (\$5.3 million) due an increase in unrestricted net position (\$5.2 million) primarily in the water and wastewater fund.

### Analysis of Change in Net Position

The City's overall net position has increased by \$13.0 million during the current fiscal year. These increases are explained in the government and business-type activities discussion to follow.

**Changes in Net Position**  
For the Years Ended June 30, 2013 and 2012 (In thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 8,112	\$ 8,036	\$ 38,566	\$ 36,207	\$ 46,678	\$ 44,243
Operating grants and contributions	6,866	7,415	4,884	4,624	11,750	12,039
Capital grants and contributions	11,319	12,201	6,622	7,960	17,941	20,161
General Revenues:						
Property taxes	11,822	11,974	-	-	11,822	11,974
Sales taxes	35,189	33,401	-	-	35,189	33,401
State shared taxes	14,631	13,190	-	-	14,631	13,190
Investment earnings	(396)	322	194	118	(202)	440
Other	1,326	526	825	174	2,151	700
Total revenues	<u>88,869</u>	<u>87,065</u>	<u>51,091</u>	<u>49,083</u>	<u>139,960</u>	<u>136,148</u>
<b>Expenses</b>						
General government	9,218	8,167	-	-	9,218	8,167
Public safety	27,269	27,176	-	-	27,269	27,176
Public works	1,494	1,379	-	-	1,494	1,379
Economic and physical development	8,609	8,894	-	-	8,609	8,894
Culture and recreation	13,836	12,949	-	-	13,836	12,949
Highways and streets	16,990	18,036	-	-	16,990	18,036
Interest on long-term debt	2,902	2,944	-	-	2,902	2,944
Water and wastewater	-	-	22,569	22,709	22,569	22,709
Environmental	-	-	11,671	7,828	11,671	7,828
Airport	-	-	5,227	4,268	5,227	4,268
Housing Authority	-	-	5,986	6,165	5,986	6,165
Stormwater	-	-	1,197	1,362	1,197	1,362
Total expenses	<u>80,318</u>	<u>79,545</u>	<u>46,650</u>	<u>42,332</u>	<u>126,968</u>	<u>121,877</u>
Increase in net position before transfers	8,551	7,520	4,441	6,751	12,992	14,271
Transfers	(818)	(1,134)	818	1,134	-	-
Change in net position	7,733	6,386	5,259	7,885	12,992	14,271
Net position at beginning of year	291,102	284,716	331,192	323,307	622,294	608,023
Net position at end of year	<u>\$ 298,835</u>	<u>\$ 291,102</u>	<u>\$ 336,451</u>	<u>\$ 331,192</u>	<u>\$ 635,286</u>	<u>\$ 622,294</u>

### Governmental activities

Governmental activities increased the City's net position by \$7.7 million. The key factors for this increase are as follows:

- Revenues exceeded expenses by \$8.6 million as compared to last year of \$7.5 million.
- Net transfers decreased to a negative \$0.8 million versus last year of negative \$1.1 million.
- Charges for services have increased less than 1% (\$0.1 million).
- State shared taxes had the largest percentage increase of 10.9% (\$1.4 million). This was related to anticipated increases in state shared income tax as these revenues are based on calendar year 2011 returns.
- City sales tax revenues increased by 5.4% (\$1.8 million). Comparing actual revenues to budgeted revenues the city exceeded the estimates by \$2.6 million. The increase in the city general sales tax, the Bed, Board, and

Beverage sales taxes, and the transportation taxes are \$814,168, \$688,384, and \$285,344 respectively. The city has seen positive sales tax growth in the last two years.

- Property tax had a slight decrease due to decreases in assessed valuation which affects our secondary property tax revenues.
- Expenses have increased slightly (\$773,576, <1.0%) as the economy had stabilized. There were increases in general government (\$1.1 million), public safety (\$0.1 million), public works (\$0.1 million), and culture and recreation (\$0.9 million). Decreases were in economic and physical development (\$0.3 million), highways and streets (\$1.0 million), and interest on long term debt (\$41,186). Some of the expenditures are considered one-time funding as the organization attempts to manage its expenditures in line with revenue.

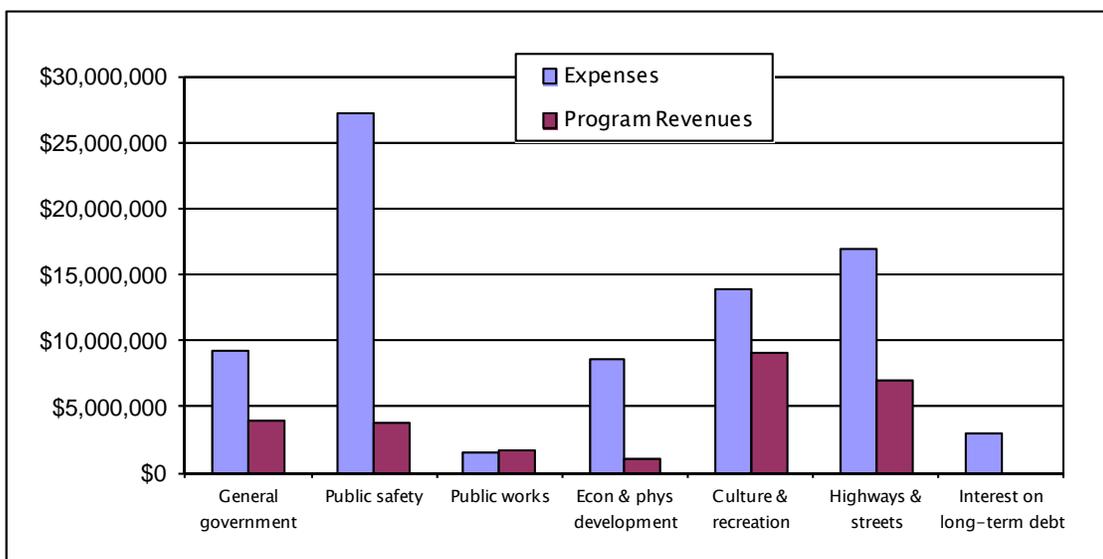
**Business-type activities**

Business type activity had net position increase of \$5.3 million. The key factors for this increase include:

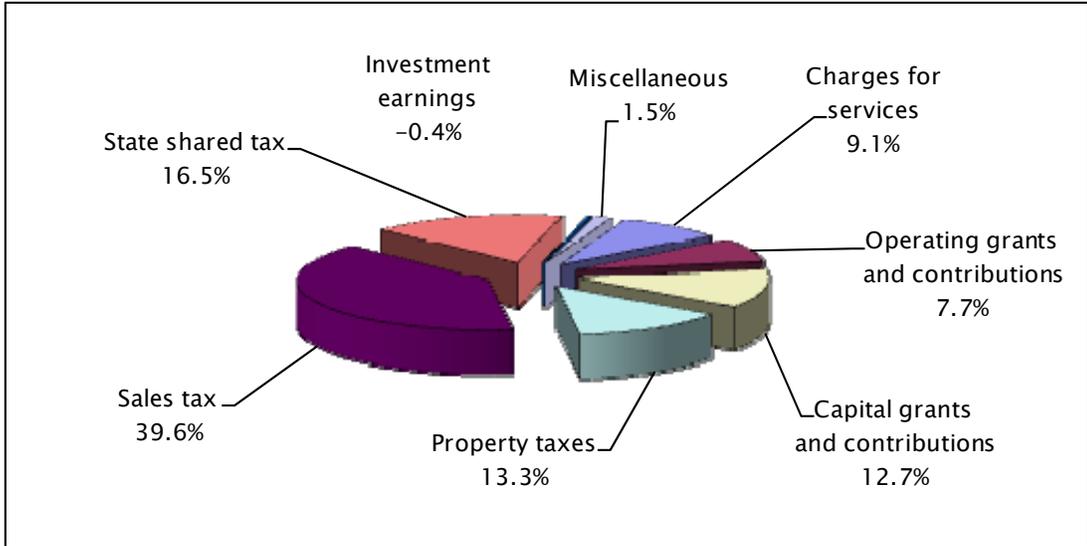
- Charges for service increased by 6.5% (\$2.4 million). Water and wastewater increased \$2.7 million and stormwater increased \$8,803. Environmental services decreased \$30,866, airport decreased \$6,312, and housing authority decreased \$305,864.
- Operating grants and contributions increased \$259,895.
- Capital grants and contributions decreased by 16.8% (\$1.3 million) due to completion of large grant funded projects in the prior year.
- Investment earnings are up slightly (\$76,059) and other revenues increased by \$0.6 million.
- Expenses have increased over prior year by 10.2% (\$4.3 million). There were increases in the environmental services fund (\$3.8 million) and airport fund (\$1.0 million). There were decreases in the water and wastewater fund (\$139,975), housing authority fund (\$179,104) and stormwater fund (\$165,069). The largest change was related to a prior year recalculating the landfill closure costs.

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

**Expenses and Program Revenues - Governmental Activities**



**Revenues by Source - Governmental Activities**

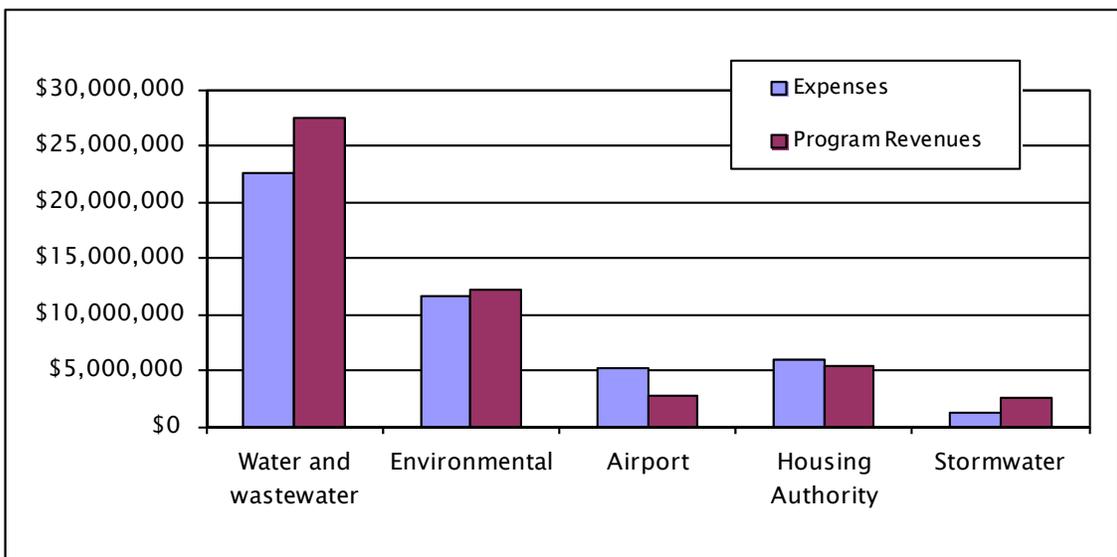


As shown, public safety is the largest function as measured by expense (34.0%) followed by highways & streets (21.2%), and culture and recreation (17.2%).

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 tax is the largest single source of funds (39.6%), followed by state shared tax (16.5%) and property taxes (13.3%). Last year sales tax was ranked first, state shared tax was ranked second, and capital grants and contributions were ranked third.

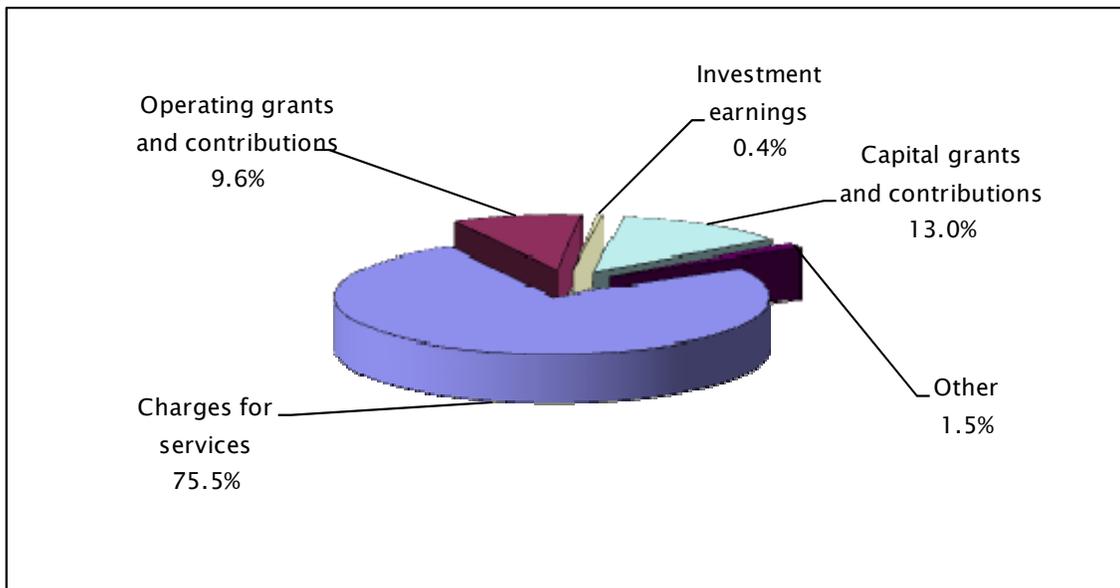
The following two charts illustrate the City's business type expenses by function and its revenues by source.

**Expenses and Program Revenues - Business Type Activities**



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## Revenues by Source – Business-type activities



As shown Water and Wastewater has expenses of \$22.6 million for the fiscal year, followed by Environmental Services with \$11.7 million, Housing Authority with \$6.0 million, the Airport with \$5.2 million and Stormwater with \$1.2 million. For the fiscal year, program revenue exceeded expense for the Water and Wastewater Fund, Environmental Services fund, and Stormwater Fund. The Housing Authority and Airport funds program expenditures exceeded revenues mainly due to depreciation of capital assets. Water & Wastewater, Environmental Services, Airport, and Stormwater funds received the majority of their program revenues through charges for services (82.6%, 99.0%, 56.1% and 58.1% respectively). The Housing Authority receives the majority of its program revenue through operating grants and contributions (79.5%). Charges for services provided the largest share of revenues (75.5%) for all of the business-type activities, followed by capital grants and contributions (13.0%). Last year the ranking was the same.

The operating expenses for the business type activities increased (10.2%, \$4.3 million) there were increases in Environmental Service (49.1%, \$3.8 million) and Airport (22.5%, \$1.0 million) offset by decreases in Water and Wastewater (0.6%, \$139,975), Housing Authority (2.9%, \$179,104) and Stormwater (12.1%, \$165,069). Environmental Services' increase is a result of a prior year recalculating the landfill closure and post closure care funding.

Water and wastewater increased user fees rates in fiscal year 2013. Water and wastewater and Stormwater funds increased charge for service revenue at 13.5% and 0.6% respectively. Environmental Services, Airport, and Housing Authority funds saw decreases in charges for services at 0.3%, 0.4% and 23.4% respectively.

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## 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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General fund, Special Revenue funds, Capital Project funds, and Debt Service funds.

At the end of the fiscal year, the City's governmental funds reported combined ending fund balances of \$71.0 million, an increase of \$11.4 million in comparison with the prior year. Approximately \$19.4 million of the total ending fund balance constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is (1) non spendable (\$638,318) for inventory and perpetual care, (2) restricted (\$43.7 million) for special revenue funds, debt service, development fee projects, court improvements and operations, grant purposes, perpetual care, and capital projects, and (3) assigned (\$7.3 million) for court services, capital reserves, and real estate.

Revenues for governmental functions overall totaled \$87.1 million in the fiscal year ended June 30, 2013 which represents an decrease of 3.4% or \$3.0 million from the prior fiscal year. Five revenue categories show increases over prior year. These include taxes (3.3%, \$1.5 million), intergovernmental (43.5%, \$7.5 million), charges for services (0.5%, \$17,591), rents (3.9%, \$62,396), and miscellaneous revenues (155.9%, \$768,536). The increase in intergovernmental is related to growth in state shared income tax (\$1.2 million). Grants and entitlements increased primarily related to a state grant to assist in the purchase of Picture Canyon (\$2.4 million). All other revenue categories experienced decreases including special assessments (91.3%, \$7.6 million), licenses and permits (1.5%, \$25,739), fines and forfeitures (3.8%, \$60,055), investment earnings (245.0%, \$725,897), and contributions (35.3%, \$137,876). The large decrease in special assessments is due to a developer paying off debt in advance (\$6.4 million).

Expenditures for governmental functions (\$89.2 million) decreased by 2.7% (\$2.4 million) from the prior fiscal year. Operation expenditures show a small increase (1.2%, \$769,548). Most of the decrease in expenditures is related to debt service (46.6%, \$7.9 million) which was attributed to the early pay off of debt mentioned in the previous paragraph and was offset with increased expenditures related to capital projects (39.4%, \$4.7 million). Major capital projects have been discussed in prior sections.

In the fiscal year ended June 30, 2013 expenditures for governmental functions exceeded revenues by approximately \$2.1 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$19.4 million. As a measure of liquidity, it may be useful to compare total unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance represents 41.7% of General Fund expenditures.

The total fund balance in the City's General Fund increased by \$2.6 million during the fiscal year as revenue growth of 2.9% and expenditures increase 5.0%. Overall, the General Fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2013 of \$2.0 million. This is a decrease of approximately \$0.9 million over the comparable figure from the prior year which resulted in expenditures in excess of revenues of \$2.9 million.

The Highway User Revenue fund balance increased by \$765,023. Revenues increased \$316,560 primarily due to increased gas tax revenues. Expenditures decreased by \$938,577 for a few reasons. Operating expenditures decreasing \$2.0 million related to lower cost allocation, prior year settlement costs, and increase work order charge outs. Capital expenses increased by \$2.0 million mainly for the West/Arrowhead street project. Debt service

payments decrease \$1.8 million due to prior year pay off of bonded debt. Net transfers in decreased by \$0.9 million as the city transferred funds in the prior fiscal year to assist in paying debt service.

Transportation Fund balances increased by \$1.0 million due to moderate growth in revenues offset with an increase in expenditures, increases in expenses to the transit agency, and a decrease in transfer out for transportation projects.

The Special Assessment Bond fund balance decreased slightly by \$180,047. This is due to normal pay down of debt. Revenues and expenditure changes are related to the prior year early retirement of debt.

The Capital Projects Bond Construction fund was not designated as a major fund last year. The fund balance has increased by \$4.2 million as a result of issuing capital debt and an increase in grant funded projects. This is offset by an increase in capital expenditures and a reduction in transfers in from other funds.

### **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 component of net position had positive balances for Water and Wastewater, Environmental Services, Airport, Housing Authority, and Stormwater. The internal service fund, which is used to account for risk management and health insurance activities, had unrestricted net position of \$4.3 million.

The total growth in net position for the proprietary funds was \$5.3 million. All funds except the Airport and Housing Authority had positive growth in their net position for the fiscal year ended June 30, 2012. The Airport and Housing Authority fund decreased of \$2.3 million and \$381,877 respectively are mainly due to depreciation. The major part of the increase is related to capital contributions (\$7.9 million).

### **Budget Highlights**

The City's final budget matches the original budget which was approved by Council in June 2012. There may have been a few sections that were over budget, however we look at the budget to actual at the division level and no division exceeded their appropriation. There were three revenue transfers that were not budgeted for. A transfer was made from the general fund to the capital projects fund (\$63,270) to reimburse the costs related to the USGS campus. A transfer was made from the capital projects fund to the internal service fund (\$7,608) for excess balance remaining on a completed project. And a transfer was made from the capital projects fund to the BBB fund (\$4,457) for excess balance remaining on a completed project.

The general fund was less than 1% (\$265,661) under the final budgeted total revenues primarily due to taxes exceeded budget by \$1.4 million offset by grants and entitlements under budget by \$1.9 million. Some of the reasons for grants and entitlements being under budget are due to only spending \$5,725 of the \$1.0 million Brownfield grant and the city did not receive the fire SAFER grant that it applied for (\$288,000). Expenditures are under budget in all but one category due to controlled spending and carryover of some capital projects. The only category over budget was related to community development which was over by only \$1,723. The reason for being over this year was because the city needed to outsource some of the building plans review as we saw a higher level of submittals this year. The divisions that are under budget by larger amounts are related to capital projects budgeted but not completed. Revenue growth in building fees help to offset these costs. Both transfers in and transfers out are less than budgeted (except for the transfer mentioned in the previous paragraph) as many transfers are based on the actual year end expenditure, most significant of which is the budgeted transfer from the general fund to the stormwater fund of \$4.1 million for the Rio de Flag flood control project of which only \$166,493 actually transferred at year end.

## Capital Assets and Debt Administration

### Capital Assets

The City's capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2013 amount to \$651.8 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 0.1% (\$1.0 million). The following table reflects the capital assets at the end of the fiscal year:

**Capital Assets, Net of Depreciation**  
**June 30, 2013 and 2012 (in thousands of dollars)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Land	\$ 55,762	\$ 49,687	\$ 13,966	\$ 12,350	\$ 69,728	\$ 62,037
Buildings	57,877	59,546	54,816	57,565	112,693	117,111
Improvements	7,208	8,124	242,448	237,837	249,656	245,961
Machinery and equipment	11,766	12,230	24,405	24,957	36,171	37,187
Infrastructure	160,030	160,539	-	-	160,030	160,539
Construction in progress	6,986	5,526	16,535	22,482	23,521	28,008
<b>Total</b>	<b>\$ 299,629</b>	<b>\$ 295,652</b>	<b>\$ 352,170</b>	<b>\$ 355,191</b>	<b>\$ 651,799</b>	<b>\$ 650,843</b>

Construction in progress had a net decrease of 16.0% (\$4.5 million). Major completed construction in progress includes the completion of Picture Canyon (\$4.9 million), street and utility bond projects (\$2.3 million), West/Arrowhead phase 1 (\$2.8 million), Taxiway A reconstruction (\$3.2 million), and Inner Basin waterline repair (\$3.9 million). Major construction in progress at June 30 includes street and utility bond projects (\$3.8 million), Red Gap pipeline (\$1.8 million), West/Arrowhead phase 2 (\$0.7 million) and Rio de Flag drainage project (\$14.0 million). The increase to land (\$7.7 million) is related to the purchase of Picture Canyon and donated assets for right of way, easements, drainage, and open space. The decrease to buildings (\$4.4 million) is related to depreciation. The increase in improvements (\$3.7 million) is related to the Taxiway A reconstruction, Inner Basin waterline repair, contributed. Machinery and equipment increased slightly (\$1.0 million). Major additions include fire apparatuses (\$754,533), two graders and a dump truck for streets (\$682,104), three loaders for solid waste (\$658,011), and a compactor for the landfill (\$993,480). Infrastructure decrease is related to excess depreciation over the completion of street and streetscape improvements and contributed capital.

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 61–62 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 \$124.1 million. Of this amount, \$48.8 million is general obligation bonds backed by the full faith and credit of the City, \$11.0 million is improvement district bonds, \$19.1 million is revenue bonds, \$1.3 million is for the Municipal Facility Corporation, \$3.6 is for certificates of participation, and \$40.3 million are outstanding leases or loans for the airport, water and wastewater, and city-wide energy conservation improvements.

**Outstanding Debt  
June 30, 2013 and 2012 (in thousands of dollars)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
General obligation bonds	\$ 47,036	\$ 38,449	\$ 1,752	\$ 3,125	\$ 48,788	\$ 41,574
Special assessment bonds	11,020	11,365	-	-	11,020	11,365
Revenue bonds	15,495	15,615	3,635	3,972	19,130	19,587
Other debt	4,885	7,285	-	-	4,885	7,285
Lease/Loans	1,697	1,120	38,559	38,764	40,256	39,884
Total debt payable	<u>\$ 80,133</u>	<u>\$ 73,834</u>	<u>\$ 43,946</u>	<u>\$ 45,861</u>	<u>\$ 124,079</u>	<u>\$ 119,695</u>

During fiscal year 2012, the City’s total bonded debt increased by \$4.4 million. The City issued \$11.5 million in general obligation debt for street and utility improvements (\$6.5 million), open space projects (\$3.0 million), and forest health and water protection (\$2.0 million). The City obtained \$91,109 in loans for water and wastewater projects for development of future water rights and an aquifer study for the fiscal year ended June 30, 2013. The special assessment debt and revenue bond debt decreased due to annual payments. The City issued \$3.0 million in capital leases commitments related to funding for solar projects.

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, 2013 is \$39.7 million in the 6% category and \$83.4 million in the 20% capacity. The allowable debt decreased from prior year due to lower assessed valuations and additional debt issued. Additional information on the debt limitations and capacities may be found in Schedule 16 in the statistical section of this report.

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

**City of Flagstaff Bonded Debt Ratings  
As of June 30, 2013**

	<b>Moody's Investors Service</b>	<b>Standard &amp; Poor's</b>
General Obligation	Aa2	AA
Municipal Facilities Corporation	Aa3	AA

Additional information on the City's long-term debt can be found in Section IV F on pages 65-75 of the Notes to the Financial Statements.

### **Economic Factors and Next Year's Budget and Rates**

The Fiscal Year 2013/2014 budget preparation was influenced by the following factors:

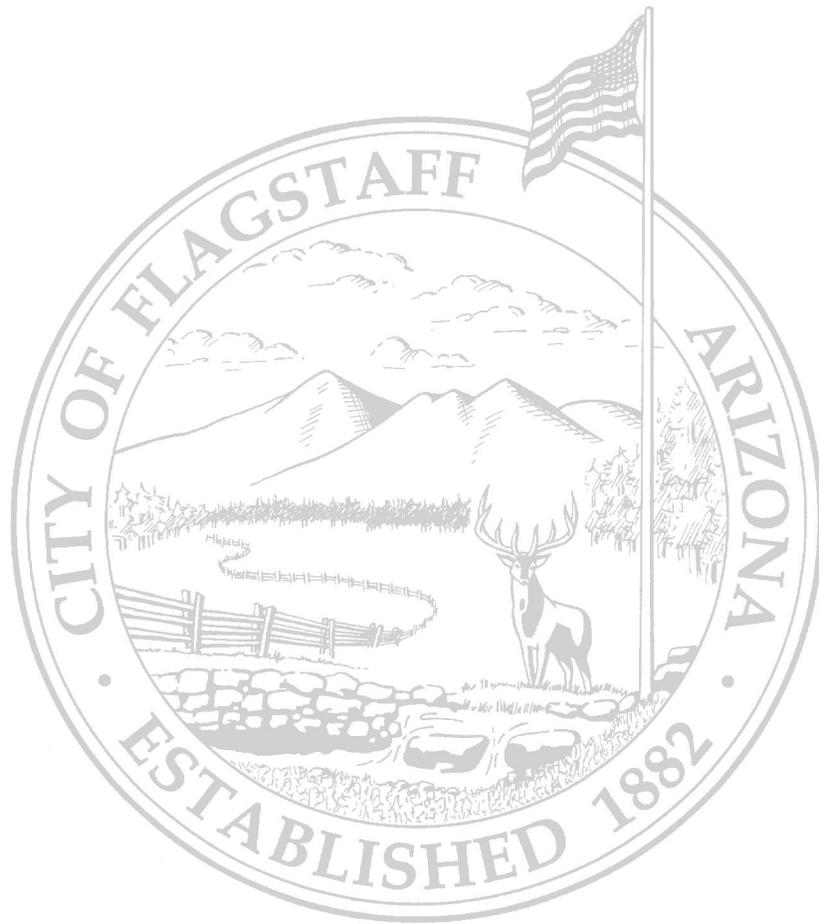
- The City's general fund budget was approved with no structural deficit in ongoing expenditures exceeding ongoing revenues
- Unrestricted fund balance in the general fund continues to be above the fiscal policy of 15% of operating revenues
- General sales tax revenues exceeded budget by \$1.3 million in FY 2013 and we are expecting continued growth of about \$1.1 million in FY 2014
- Building permits are increasing as we estimated an additional \$315,000 in revenue for FY 2014
- The focus of the FY 2014 budget was related to infrastructure and employee compensation
  - The city used multiple methods to help fund infrastructure and employee compensation. After fixed cost increases, like insurance and retirement expenses, there was \$415,000 in new revenues available. The city reduced expenditures in the amount of \$950,000. And the city had reallocated \$1.6 million in appropriations by shifting eligible expenses to other funds outside the general fund
  - The larger increases in appropriations were \$1.6 million for infrastructure and \$1.2 million for compensation
- The total authorized positions decreased by 3.96 positions which was primarily one-time funded positions
- Put three triggers in place to address pay for maintenance workers and equipment operators, a library reorganization, and phase two of the commissioned police pay structure
- Continue to monitor State legislature to be aware of potential budget impacts on cities
- Property assessments saw some large declines this year by 13.9% on limited property value and 13.6% on full cash value. The City adjusted the tax rate on primary property tax to maintain revenue levels. The decline to secondary property tax assessments will reduce the Cities ability to issue debt while keeping the rate flat.
- Due to changes in State legislation, the City Council elections will be moved from May 2014 to November 2014
- The continued pursuit of federal and state grant dollars to enhance the local economy
- The continued implementation of electronic information sharing to facilitate transparency in service provision
- The city will continue to work on developing a new Core Maintenance Facility which was approved by voters
- The city will complete the street and utility bond projects in FY 2014
- The city will work on federal funding and construction in the amount of \$5.3 million related to the airport westplex taxiway rehab.
- Utility rate increases are approved for the next two years to help support ongoing operational services and restore operation capital and the capital improvement plan to assist with aging infrastructure

### **Requests for Information**

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

City of Flagstaff  
Finance and Budget Section  
211 W. Aspen Ave  
Flagstaff, AZ 86001

Main (928) 213-2000  
Arizona Relay 7-1-1



## CITY OF FLAGSTAFF, ARIZONA

## Statement of Net Position

June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash, investments and equivalents	\$ 54,497,596	\$ 25,043,160	\$ 79,540,756
Cash with fiscal agents	2,106,786	-	2,106,786
Accounts receivables, net	7,708,934	6,428,663	14,137,597
Interest receivable	124,841	42,945	167,786
Intergovernmental receivable	2,835,711	259,340	3,095,051
Special assessments receivable	10,896,251	-	10,896,251
Internal balance	428,017	(428,017)	-
Deposits	213,900	13,641	227,541
Prepaid items	3,728	83,015	86,743
Inventory	436,337	148,782	585,119
Bond issuance costs, net	664,939	4,148	669,087
Property held for resale	500,000	-	500,000
Restricted cash and investments	20,827,296	12,258,638	33,085,934
Capital assets:			
Non-depreciable	62,748,128	30,501,593	93,249,721
Depreciable, net	236,881,086	321,668,859	558,549,945
<b>Total assets</b>	<b>400,873,550</b>	<b>396,024,767</b>	<b>796,898,317</b>
<b>LIABILITIES</b>			
Accounts payable	4,098,100	783,654	4,881,754
Accrued payroll	892,798	186,524	1,079,322
Interest payable	1,356,167	766,125	2,122,292
Unearned revenue	425,441	877,203	1,302,644
Deposits payable	1,280,255	442,551	1,722,806
Matured bonds and lease payable	4,938,508	3,667,679	8,606,187
Noncurrent liabilities:			
Due within one year:			
Compensated absences	1,578,127	329,950	1,908,077
Claims and judgements	141,333	-	141,333
Special assessment debt, government commitment	360,000	-	360,000
Bonds, notes and leases payable, net	6,831,005	2,982,692	9,813,697
Due in more than one year:			
Compensated absences	2,066,062	514,811	2,580,873
Claims and judgements	172,741	-	172,741
Landfill closure and postclosure care costs	-	7,410,396	7,410,396
Net OPEB obligation	2,975,694	652,986	3,628,680
Special assessment debt, government commitment	10,660,000	-	10,660,000
Bonds, notes and leases payable, net	64,262,058	40,959,184	105,221,242
<b>Total liabilities</b>	<b>102,038,289</b>	<b>59,573,755</b>	<b>161,612,044</b>
<b>NET POSITION</b>			
Net investment in capital assets	222,690,985	304,560,897	527,251,882
Restricted for:			
Capital projects	21,489,722	2,481,605	23,971,327
Debt service	9,055,904	-	9,055,904
Specific programming	13,091,622	-	13,091,622
Grant and contributions purposes	-	212,657	212,657
Perpetual care:			
Expendable	17,015	-	17,015
Nonexpendable	201,981	-	201,981
Unrestricted	32,288,032	29,195,853	61,483,885
<b>Total net position</b>	<b>\$ 298,835,261</b>	<b>\$ 336,451,012</b>	<b>\$ 635,286,273</b>

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

**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2013**

	<u>Program Revenues</u>				
	<u>Expenses</u>	<u>Indirect Expense Allocation</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary government</b>					
Governmental activities:					
General government	\$ 10,442,808	\$ (1,225,104)	\$ 3,448,665	\$ 366,926	\$ 49,235
Public safety	27,269,325	-	1,491,842	2,255,455	-
Public works	1,718,767	(224,525)	1,611,306	-	-
Economic and physical development	9,210,500	(601,521)	52,386	933,696	-
Culture and recreation	13,342,588	493,299	1,507,855	3,310,202	4,250,406
Highways and streets	15,431,985	1,557,851	-	-	7,018,881
Interest on long-term debt	2,902,196	-	-	-	-
Total governmental activities	<u>80,318,169</u>	<u>-</u>	<u>8,112,054</u>	<u>6,866,279</u>	<u>11,318,522</u>
Business-type activities:					
Water and wastewater	22,568,661		22,629,862	68,499	4,689,500
Environmental	11,671,366		12,000,124	120,004	-
Airport	5,226,977		1,486,247	396,241	769,095
Housing authority	5,986,508		994,123	4,299,385	112,154
Stormwater	1,196,589		1,455,405	-	1,051,394
Total business-type activities	<u>46,650,101</u>		<u>38,565,761</u>	<u>4,884,129</u>	<u>6,622,143</u>
<b>Total primary government</b>	<u><u>\$ 126,968,270</u></u>		<u><u>\$ 46,677,815</u></u>	<u><u>\$ 11,750,408</u></u>	<u><u>\$ 17,940,665</u></u>

General revenues:

- Property tax, levied for general purposes
- Property tax, levied for debt service
- Sales taxes
- State shared sales taxes – unrestricted
- Investment earnings
- Miscellaneous
- Gain on disposal of capital assets
- Contributions to permanent fund
- Transfers in (out)
- Total general revenues, contributions and transfers
- Change in net position
- Net position – beginning
- Net position – ending

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

**Net (Expenses) Revenues and Changes in Net Position**

**Primary Government**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (5,352,878)	\$ -	\$ (5,352,878)
(23,522,028)	-	(23,522,028)
117,064	-	117,064
(7,622,897)	-	(7,622,897)
(4,767,424)	-	(4,767,424)
(9,970,955)	-	(9,970,955)
(2,902,196)	-	(2,902,196)
<u>(54,021,314)</u>	<u>-</u>	<u>(54,021,314)</u>
-	4,819,200	4,819,200
-	448,762	448,762
-	(2,575,394)	(2,575,394)
-	(580,846)	(580,846)
-	1,310,210	1,310,210
-	<u>3,421,932</u>	<u>3,421,932</u>
<u>\$ (54,021,314)</u>	<u>\$ 3,421,932</u>	<u>\$ (50,599,382)</u>
5,398,497	-	5,398,497
6,423,153	-	6,423,153
35,188,913	-	35,188,913
14,630,891	-	14,630,891
(396,124)	194,306	(201,818)
1,285,289	581,015	1,866,304
18,173	243,700	261,873
23,935	-	23,935
(817,761)	817,761	-
<u>61,754,966</u>	<u>1,836,782</u>	<u>63,591,748</u>
7,733,652	5,258,714	12,992,366
<u>291,101,609</u>	<u>331,192,298</u>	<u>622,293,907</u>
<u>\$ 298,835,261</u>	<u>\$ 336,451,012</u>	<u>\$ 635,286,273</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2013**

	General Fund	Highway User Revenue Fund	Transportation Fund
<b>ASSETS</b>			
Cash and investments	\$ 19,913,301	\$ 3,064,579	\$ 3,011,773
Cash with fiscal agents	-	-	1,831,286
Accounts receivable, net	4,326,115	710,200	1,424,914
Interest receivable	50,397	4,419	17,526
Intergovernmental receivables	1,118,980	10,599	1,455,471
Interfund receivable	4,155,000	-	-
Prepaid expense	3,728	-	-
Special assessments receivable	-	-	-
Deposits	-	1,001	212,900
Inventory	390,882	-	-
Property held for resale	-	500,000	-
Restricted cash and investments	3,068,479	-	-
Total assets	\$ 33,026,882	\$ 4,290,798	\$ 7,953,870
 <b>LIABILITIES AND FUND BALANCE</b>			
Liabilities:			
Accounts payable	\$ 1,770,196	\$ 754,119	\$ 37,020
Accrued payroll and compensated absences	791,760	28,208	-
Current bonds payable	385,000	-	1,560,000
Interest payable	38,828	-	271,286
Interfund payable	-	-	-
Unearned revenue	649,563	-	-
Guaranty and other deposits	1,067,355	-	212,900
Total liabilities	4,702,702	782,327	2,081,206
 Fund balances:			
Nonspendable	390,882	-	-
Restricted	1,187,471	3,508,471	5,872,664
Assigned	7,335,230	-	-
Unassigned	19,410,597	-	-
Total fund balances	28,324,180	3,508,471	5,872,664
Total liabilities and fund balances	\$ 33,026,882	\$ 4,290,798	\$ 7,953,870

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

Special Assessment Bond Fund	Capital Projects Bond Construction	Other Governmental Funds	Total Governmental Funds
\$ 233,781	\$ 13,831	\$ 23,455,078	\$ 49,692,343
275,500	-	-	2,106,786
-	-	900,095	7,361,324
442	-	44,155	116,939
-	20,025	230,636	2,835,711
-	-	-	4,155,000
-	-	-	3,728
10,896,251	-	-	10,896,251
-	-	-	213,901
-	-	45,455	436,337
-	-	-	500,000
-	14,620,950	3,137,867	20,827,296
<u>\$ 11,405,974</u>	<u>\$ 14,654,806</u>	<u>\$ 27,813,286</u>	<u>\$ 99,145,616</u>
\$ -	\$ 399,680	\$ 911,340	\$ 3,872,355
-	-	72,830	892,798
-	-	2,993,508	4,938,508
275,500	-	770,553	1,356,167
-	4,100,000	55,000	4,155,000
10,895,827	-	66,735	11,612,125
-	-	-	1,280,255
<u>11,171,327</u>	<u>4,499,680</u>	<u>4,869,966</u>	<u>28,107,208</u>
-	-	247,436	638,318
234,647	10,155,126	22,695,884	43,654,263
-	-	-	7,335,230
-	-	-	19,410,597
<u>234,647</u>	<u>10,155,126</u>	<u>22,943,320</u>	<u>71,038,408</u>
<u>\$ 11,405,974</u>	<u>\$ 14,654,806</u>	<u>\$ 27,813,286</u>	<u>\$ 99,145,616</u>

CITY OF FLAGSTAFF  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2013

Fund balances – total governmental funds balance sheet \$ 71,038,408

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

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

Governmental capital assets	482,543,657	
Less: accumulated depreciation	(181,677,033)	
Transfer of capital assets to business-type activities	<u>(1,237,410)</u>	
		299,629,214

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

Bond issue costs	664,939	
Fines and forfeitures	<u>308,245</u>	973,184

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	(80,133,454)	
Bond premium	(1,979,609)	
Other postemployment benefits	(2,975,694)	
Compensated absences	<u>(3,644,189)</u>	(88,732,946)

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

Property tax	<u>290,857</u>	290,857
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Revenue for long-term special assessments is shown on the governmental fund balance sheet, but is reflected on the statement of net position

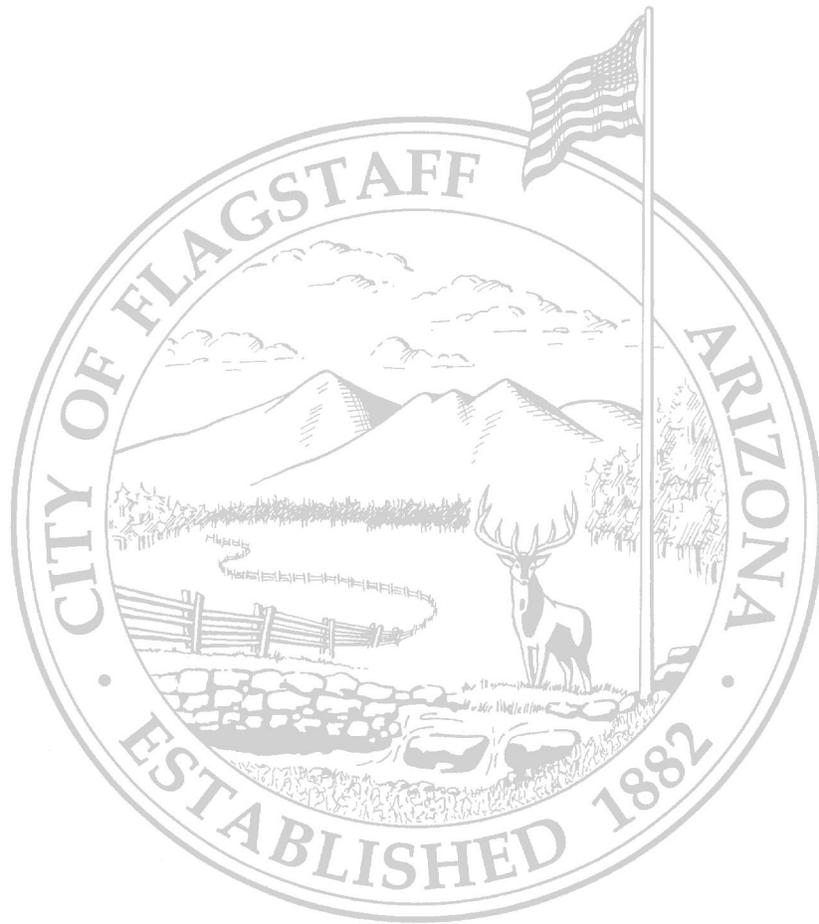
Special assessments	<u>10,895,827</u>	10,895,827
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The internal service fund is used by management to charge the cost of self insurance programs to individual funds.

The assets and liabilities of the internal service funds that are reported with governmental activities.		<u>4,740,717</u>
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Net position of governmental activities – statement of net position \$ 298,835,261

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



**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2013**

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportation Fund</u>
<b>REVENUES:</b>			
Taxes	\$ 23,534,907	\$ -	\$ 11,215,211
Intergovernmental	15,494,513	-	-
Grants and entitlements	1,659,326	6,018,340	-
Special assessments	-	-	-
Charges for services	3,237,728	-	-
Licenses and permits	1,656,135	-	-
Fines and forfeitures	1,540,989	-	-
Rents	1,611,306	-	-
Investment earnings	(739,244)	10,995	89,879
Contributions	159,340	26,013	-
Miscellaneous	425,409	2,120	-
Total revenues	<u>48,580,409</u>	<u>6,057,468</u>	<u>11,305,090</u>
<b>EXPENDITURES:</b>			
Current:			
General governmental	8,474,220	-	-
Public safety	25,092,004	-	-
Public works	1,106,896	-	-
Economic and physical development	3,993,179	-	-
Culture and recreation	5,987,474	-	-
Highways and streets	-	4,444,997	4,403,018
Debt service:			
Principal retirement	853,902	422,893	1,560,000
Interest and other charges	124,348	121,891	549,073
Capital outlay	918,865	4,458,888	-
Total expenditures	<u>46,550,888</u>	<u>9,448,669</u>	<u>6,512,091</u>
Excess (deficiency) of revenues over expenditures	<u>2,029,521</u>	<u>(3,391,201)</u>	<u>4,792,999</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Issuance of capital debt	1,014,557	-	-
Bond premium	-	-	-
Sale of capital assets	40,796	8,375	-
Transfers in	2,261,384	4,233,250	-
Transfers out	(2,702,301)	(85,401)	(3,808,907)
Total other financing sources (uses)	<u>614,436</u>	<u>4,156,224</u>	<u>(3,808,907)</u>
Net change in fund balances	<u>2,643,957</u>	<u>765,023</u>	<u>984,092</u>
Fund balances, beginning of year	<u>25,680,223</u>	<u>2,743,448</u>	<u>4,888,572</u>
Fund balances, end of year	<u>\$ 28,324,180</u>	<u>\$ 3,508,471</u>	<u>\$ 5,872,664</u>

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

Special Assessment Bond Fund	Capital Projects Bond Construction	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 12,334,328	\$ 47,084,446
-	-	3,219,133	18,713,646
-	2,409,025	1,282,701	11,369,392
722,733	-	-	722,733
-	-	-	3,237,728
-	-	-	1,656,135
-	-	-	1,540,989
-	-	56,256	1,667,562
2,696	20,309	185,709	(429,656)
-	-	67,024	252,377
-	-	833,978	1,261,507
<u>725,429</u>	<u>2,429,334</u>	<u>17,979,129</u>	<u>87,076,859</u>
-	5,866	-	8,480,086
-	7,145	-	25,099,149
-	112,428	-	1,219,324
-	56,992	4,246,196	8,296,367
-	40,872	5,264,171	11,292,517
-	109,565	81,452	9,039,032
345,000	-	2,993,508	6,175,303
560,476	-	1,546,408	2,902,196
-	10,018,004	1,260,635	16,656,392
<u>905,476</u>	<u>10,350,872</u>	<u>15,392,370</u>	<u>89,160,366</u>
<u>(180,047)</u>	<u>(7,921,538)</u>	<u>2,586,759</u>	<u>(2,083,507)</u>
-	11,460,000	-	12,474,557
-	542,689	-	542,689
-	-	579	49,750
-	175,699	6,200,455	12,870,788
-	(12,065)	(5,850,073)	(12,458,747)
-	<u>12,166,323</u>	<u>350,961</u>	<u>13,479,037</u>
<u>(180,047)</u>	<u>4,244,785</u>	<u>2,937,720</u>	<u>11,395,530</u>
<u>414,694</u>	<u>5,910,341</u>	<u>20,005,600</u>	<u>59,642,878</u>
<u>\$ 234,647</u>	<u>\$ 10,155,126</u>	<u>\$ 22,943,320</u>	<u>\$ 71,038,408</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, 2013

Net change in fund balances – total governmental funds \$ 11,395,530

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

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

Expenditures for capital assets	16,656,392	
Less current year depreciation	<u>(13,163,349)</u>	3,493,043

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

Capital-related debt issued	(12,474,557)	
Premium on debt issued	(542,689)	
Donated capital	2,131,679	
Compensated absences	(16,218)	
Other postemployment benefits	(649,301)	
Principal payments on debt	6,175,303	
Advance refunding loss	(65,304)	
Bond premium	<u>321,388</u>	(5,119,699)

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

Issuance cost on new bonds	97,410	
Amortization of issuance costs	<u>(85,362)</u>	12,048

Certain transactions related to capital assets in the governmental funds reflect proceeds. However, in the statement of activities these transactions reflect net gain (loss).

Loss on disposal of capital assets	(409,995)	
Transfer of capital assets to business-type activities	<u>(1,237,410)</u>	(1,647,405)

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

(continued)

CITY OF FLAGSTAFF  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013

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 unearned in the governmental funds because they do not provide current financial resources due to unavailability are recognized in the statement of activities.

Special assessments	(350,200)	
Property tax	(73,883)	
Fines and forfeitures	13,510	(410,573)

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.

Net allocated (loss) assigned to governmental activities	(30,432)	
Transfers	7,608	
Investment income	33,532	10,708

Change in net position of governmental activities – statement of activities		\$ 7,733,652
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The notes to the financial statements are an integral part of this statement

(concluded)

**CITY OF FLAGSTAFF, ARIZONA**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2013**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 22,162,925	\$ 22,162,925	\$ 23,519,671	\$ 1,356,746
Intergovernmental	15,284,300	15,284,300	15,494,513	210,213
Grants and entitlements	3,590,221	3,590,221	1,659,326	(1,930,895)
Charges for services	3,028,980	3,028,980	3,237,728	208,748
Licenses and permits	790,930	790,930	1,656,135	865,205
Fines and forfeitures	2,015,460	2,015,460	1,540,989	(474,471)
Rents	2,128,583	2,128,583	1,611,306	(517,277)
Investment earnings	213,350	213,350	230,271	16,921
Contributions	12,000	12,000	159,340	147,340
Miscellaneous	573,600	573,600	425,409	(148,191)
Total revenues	<u>49,800,349</u>	<u>49,800,349</u>	<u>49,534,688</u>	<u>(265,661)</u>
<b>EXPENDITURES:</b>				
Current:				
General administration	8,395,367	8,395,367	7,645,357	750,010
Management services	3,123,808	3,123,808	3,040,628	83,180
Community development	3,715,394	3,715,394	3,717,117	(1,723)
Fire	10,215,163	10,215,163	9,949,598	265,565
Police	16,875,477	16,875,477	15,968,273	907,204
Public works	7,400,090	7,400,090	5,113,351	2,286,739
Economic vitality	1,200,701	1,200,701	171,783	1,028,918
Community enrichment	3,222,068	3,222,068	3,206,917	15,151
Non-departmental	569,928	569,928	(2,361,062)	2,930,990
Contingency	1,150,000	1,150,000	98,926	1,051,074
Total expenditures	<u>55,867,996</u>	<u>55,867,996</u>	<u>46,550,888</u>	<u>9,317,108</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,067,647)</u>	<u>(6,067,647)</u>	<u>2,983,800</u>	<u>9,051,447</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Issuance of capital debt	-	-	1,014,557	1,014,557
Sale of capital assets	1,046,000	1,046,000	40,796	(1,005,204)
Transfers in	3,746,398	3,746,398	2,261,384	(1,485,014)
Transfers out	(8,068,985)	(8,068,985)	(2,702,301)	5,366,684
Total other financing sources (uses)	<u>(3,276,587)</u>	<u>(3,276,587)</u>	<u>614,436</u>	<u>3,891,023</u>
Net change in fund balances	<u>(9,344,234)</u>	<u>(9,344,234)</u>	<u>3,598,236</u>	<u>12,942,470</u>
Budgetary fund balances, beginning of year	<u>18,392,248</u>	<u>18,392,248</u>	<u>18,392,248</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 9,048,014</u>	<u>\$ 9,048,014</u>	<u>\$ 21,990,484</u>	<u>\$ 12,942,470</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 3,598,236	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>(954,279)</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 2,643,957</u>	

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

**CITY OF FLAGSTAFF, ARIZONA**  
**Highway User Revenue Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2013**

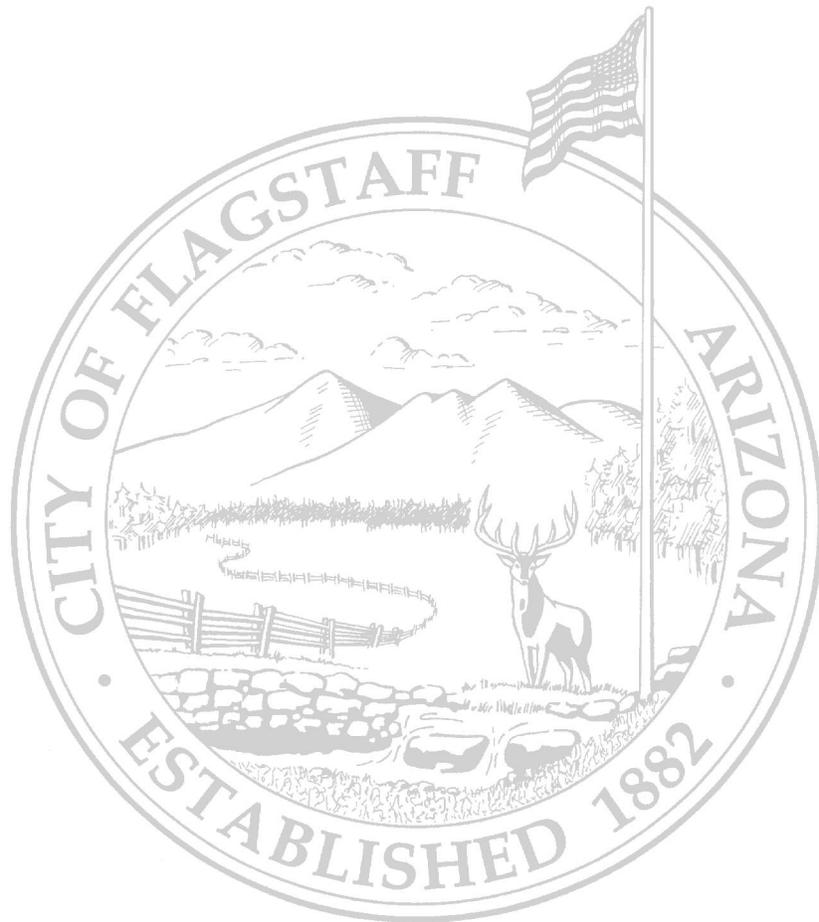
	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Grants and entitlements	\$ 5,555,000	\$ 5,555,000	\$ 6,018,340	\$ 463,340
Investment earnings	7,000	7,000	10,995	3,995
Miscellaneous	540,000	540,000	3,295	(536,705)
Total revenues	<u>6,102,000</u>	<u>6,102,000</u>	<u>6,032,630</u>	<u>(69,370)</u>
<b>EXPENDITURES:</b>				
Current:				
General administration	118,391	118,391	118,391	-
Management services	73,428	73,428	73,428	-
Community development	533,783	533,783	533,783	-
Economic vitality	24,888	24,888	24,888	-
Public works	13,527,647	13,527,647	8,612,643	4,915,004
Non-departmental	85,536	85,536	85,536	-
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>14,463,673</u>	<u>14,463,673</u>	<u>9,448,669</u>	<u>5,015,004</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,361,673)</u>	<u>(8,361,673)</u>	<u>(3,416,039)</u>	<u>4,945,634</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	7,863,965	7,863,965	4,233,250	(3,630,715)
Transfers out	(85,401)	(85,401)	(85,401)	-
Total other financing sources (uses)	<u>7,778,564</u>	<u>7,778,564</u>	<u>4,147,849</u>	<u>(3,630,715)</u>
Net change in fund balances budgetary basis	<u>(583,109)</u>	<u>(583,109)</u>	<u>731,810</u>	<u>1,314,919</u>
Budgetary fund balances, beginning of year	<u>1,811,716</u>	<u>1,811,716</u>	<u>1,811,716</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 1,228,607</u>	<u>\$ 1,228,607</u>	<u>\$ 2,543,526</u>	<u>\$ 1,314,919</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 731,810	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>33,213</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 765,023</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, 2013**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 10,223,455	\$ 10,223,455	\$ 11,210,598	\$ 987,143
Investment earnings	40,000	40,000	89,879	49,879
Total revenues	<u>10,263,455</u>	<u>10,263,455</u>	<u>11,300,477</u>	<u>1,037,022</u>
<b>EXPENDITURES:</b>				
Current:				
General administration	52,014	52,014	52,014	-
Management services	215,009	215,009	215,009	-
Economic vitality	7,789	7,789	7,789	-
Non-departmental	7,798,412	7,798,412	6,237,279	1,561,133
Total expenditures	<u>8,073,224</u>	<u>8,073,224</u>	<u>6,512,091</u>	<u>1,561,133</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,190,231</u>	<u>2,190,231</u>	<u>4,788,386</u>	<u>2,598,155</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Refunding bonds issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Bond premium	-	-	-	-
Sale of capital assets	4,500,000	4,500,000	-	(4,500,000)
Transfers out	<u>(7,304,698)</u>	<u>(7,304,698)</u>	<u>(3,808,907)</u>	<u>3,495,791</u>
Total other financing sources (uses)	<u>(2,804,698)</u>	<u>(2,804,698)</u>	<u>(3,808,907)</u>	<u>(1,004,209)</u>
Net change in fund balances	<u>(614,467)</u>	<u>(614,467)</u>	<u>979,479</u>	<u>1,593,946</u>
Budgetary fund balances, beginning of year	<u>3,215,623</u>	<u>3,215,623</u>	<u>3,215,623</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 2,601,156</u>	<u>\$ 2,601,156</u>	<u>\$ 4,195,102</u>	<u>\$ 1,593,946</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 979,479	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>4,613</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 984,092</u>	

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



**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2013**

	Business-type Activities – Enterprise Funds		
	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 17,274,884	\$ 5,430,162	\$ 174,036
Receivable, net	4,676,788	1,362,064	103,392
Intergovernmental receivables	46,683	-	212,657
Prepaid items	-	-	-
Inventory	148,782	-	-
Total current assets	<u>22,147,137</u>	<u>6,792,226</u>	<u>490,085</u>
Noncurrent assets:			
Restricted cash and investments	1,593,915	10,664,723	-
Refundable deposit	13,640	-	-
Bond issuance costs, net	4,148	-	-
Capital assets, non-depreciable	12,569,966	1,890,420	113,365
Capital assets, depreciable, net	245,124,128	8,137,761	39,984,938
Total non-current assets	<u>259,305,797</u>	<u>20,692,904</u>	<u>40,098,303</u>
Total assets	<u>281,452,934</u>	<u>27,485,130</u>	<u>40,588,388</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	313,156	216,377	42,297
Accrued payroll and compensated absences	245,655	160,408	29,243
Bonds and lease payable – mature	3,667,675	-	-
Interest payable	766,125	-	-
Unearned revenue	786,345	40,324	33,284
Claims and judgements	-	-	-
Deposits payable	295,578	41,997	34,159
Bonds and lease payable, net – current	2,811,797	-	170,899
Total current liabilities	<u>8,886,331</u>	<u>459,106</u>	<u>309,882</u>
Noncurrent liabilities:			
Compensated absences	167,334	133,988	15,176
Net OPEB obligation	295,412	230,321	38,445
Claims and judgements	-	-	-
Landfill closure and postclosure care costs	-	7,410,396	-
Capital lease payable	2,499,439	-	1,822,343
Bonds and notes payable, net	36,510,041	-	127,361
Total noncurrent liabilities	<u>39,472,226</u>	<u>7,774,705</u>	<u>2,003,325</u>
Total liabilities	<u>48,358,557</u>	<u>8,233,811</u>	<u>2,313,207</u>
<b>NET POSITION</b>			
Net investment in capital assets	212,205,142	10,028,181	37,977,700
Restricted:			
Grant and contributions purposes	-	-	-
Capital projects	1,593,915	887,690	-
Unrestricted	19,295,320	8,335,448	297,481
Total net position	<u>\$ 233,094,377</u>	<u>\$ 19,251,319</u>	<u>\$ 38,275,181</u>

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

Business-type Activities – Enterprise Funds			Governmental Activities
Housing Authority	Stormwater Fund	Total	Internal Service Fund
\$ 1,087,760	\$ 1,076,319	\$ 25,043,161	\$ 4,805,253
139,597	189,767	6,471,608	47,267
-	-	259,340	-
83,015	-	83,015	-
-	-	148,782	-
<u>1,310,372</u>	<u>1,266,086</u>	<u>32,005,906</u>	<u>4,852,520</u>
-	-	12,258,638	-
-	-	13,640	-
-	-	4,148	-
1,446,035	14,481,807	30,501,593	-
3,775,859	24,646,173	321,668,859	-
<u>5,221,894</u>	<u>39,127,980</u>	<u>364,446,878</u>	<u>-</u>
<u>6,532,266</u>	<u>40,394,066</u>	<u>396,452,784</u>	<u>4,852,520</u>
156,316	55,508	783,654	225,745
61,996	19,172	516,474	-
-	-	3,667,675	-
-	-	766,125	-
17,250	-	877,203	-
-	-	-	141,333
70,817	-	442,551	-
-	-	2,982,696	-
<u>306,379</u>	<u>74,680</u>	<u>10,036,378</u>	<u>367,078</u>
188,577	9,736	514,811	-
56,224	32,584	652,986	-
-	-	-	172,741
-	-	7,410,396	-
-	-	4,321,782	-
-	-	36,637,402	-
<u>244,801</u>	<u>42,320</u>	<u>49,537,377</u>	<u>172,741</u>
<u>551,180</u>	<u>117,000</u>	<u>59,573,755</u>	<u>539,819</u>
5,221,894	39,127,980	304,560,897	-
212,657	-	212,657	-
-	-	2,481,605	-
546,535	1,149,086	29,623,870	4,312,701
<u>\$ 5,981,086</u>	<u>\$ 40,277,066</u>	<u>\$ 336,879,029</u>	<u>\$ 4,312,701</u>

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

	(428,017)
Net position of business-type activities	<u>\$ 336,451,012</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2013**

	Business-type Activities – Enterprise Funds		
	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 22,629,862	\$ 12,000,124	\$ 1,486,247
Miscellaneous	107,026	74,899	-
Total operating revenues	<u>22,736,888</u>	<u>12,075,023</u>	<u>1,486,247</u>
<b>OPERATING EXPENSES:</b>			
Personal services	4,449,338	4,070,421	620,265
Contractual services, materials and supplies	8,360,839	6,487,004	1,345,845
Insurance claims and expenses	-	-	-
Depreciation and amortization	8,217,604	1,109,355	2,769,290
Total operating expenses	<u>21,027,781</u>	<u>11,666,780</u>	<u>4,735,400</u>
Operating income (loss)	<u>1,709,107</u>	<u>408,243</u>	<u>(3,249,153)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest and investment income	109,599	74,884	1,990
Grants and entitlements	68,499	120,004	396,241
Gain (loss) on disposal of capital asset	31,100	181,700	(333,653)
Passenger facility charges	-	-	199,659
Interest expense	(1,532,010)	-	(124,968)
Total non-operating revenues (expenses)	<u>(1,322,812)</u>	<u>376,588</u>	<u>139,269</u>
Income (loss) before capital contributions and transfers	<u>386,295</u>	<u>784,831</u>	<u>(3,109,884)</u>
Capital contributions related to grants	1,520,370	-	769,095
Capital contributions from external sources	3,169,130	-	-
Capital contributions from internal sources	664,334	-	-
Transfers in	-	112,428	99,000
Transfers out	(157,794)	(319,759)	(33,567)
Change in net position	<u>5,582,335</u>	<u>577,500</u>	<u>(2,275,356)</u>
Total net position, beginning of year	<u>227,512,042</u>	<u>18,673,819</u>	<u>40,550,537</u>
Total net position, end of year	<u>\$ 233,094,377</u>	<u>\$ 19,251,319</u>	<u>\$ 38,275,181</u>

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

Business-type Activities – Enterprise Funds			Governmental Activities
Housing Authority	Stormwater Fund	Total	Internal Service Fund
\$ 994,123	\$ 1,455,405	\$ 38,565,761	\$ 6,579,466
198,969	462	381,356	-
<u>1,193,092</u>	<u>1,455,867</u>	<u>38,947,117</u>	<u>6,579,466</u>
1,068,298	467,503	10,675,825	-
4,506,853	261,033	20,961,574	-
-	-	-	6,625,879
403,099	467,584	12,966,932	-
<u>5,978,250</u>	<u>1,196,120</u>	<u>44,604,331</u>	<u>6,625,879</u>
<u>(4,785,158)</u>	<u>259,747</u>	<u>(5,657,214)</u>	<u>(46,413)</u>
-	7,833	194,306	33,532
4,299,385	-	4,884,129	-
(8,258)	-	(129,111)	-
-	-	199,659	-
-	-	(1,656,978)	-
<u>4,291,127</u>	<u>7,833</u>	<u>3,492,005</u>	<u>33,532</u>
<u>(494,031)</u>	<u>267,580</u>	<u>(2,165,209)</u>	<u>(12,881)</u>
112,154	-	2,401,619	-
-	1,051,394	4,220,524	-
-	573,076	1,237,410	-
-	166,986	378,414	7,608
-	(286,943)	(798,063)	-
<u>(381,877)</u>	<u>1,772,093</u>	<u>5,274,695</u>	<u>(5,273)</u>
<u>6,362,963</u>	<u>38,504,973</u>	<u>331,604,334</u>	<u>4,317,974</u>
<u>\$ 5,981,086</u>	<u>\$ 40,277,066</u>	<u>\$ 336,879,029</u>	<u>\$ 4,312,701</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 position of business-type activities	(15,981)
	<u>\$ 5,258,714</u>

**City of Flagstaff, Arizona**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2013**

	Business-type Activities – Enterprise Funds		
	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 20,889,880	\$ 11,639,246	\$ 1,469,678
Interfund services provided	409,797	225,275	-
Other receipts	69,690	-	199,659
Payments to suppliers	(7,987,491)	(4,782,814)	(1,178,414)
Interfund services used	(93,297)	(3,465)	(26,057)
Interfund reimbursement used	(1,937,730)	(1,324,786)	(373,329)
Payments to employees	(4,340,483)	(4,014,974)	(604,991)
Net cash provided (used) by operating activities	<u>7,010,366</u>	<u>1,738,482</u>	<u>(513,454)</u>
<b>Cash flows from noncapital financing activities:</b>			
Transfer from other funds	-	112,428	99,000
Transfer to other funds	(157,794)	(319,759)	(33,567)
Interfund loans paid	-	-	(2,600,000)
Interfund loans received	2,600,000	-	-
Net cash provided (used) by noncapital financing activities	<u>2,442,206</u>	<u>(207,331)</u>	<u>(2,534,567)</u>
<b>Cash flows from capital and related financing activities:</b>			
Receipts from grantors	1,401,154	221,422	3,246,213
Capital contributions	2,801,941	-	769,095
Acquisition and construction of capital assets	(2,710,983)	(2,056,804)	(548,237)
Principal payments on capital debt	(5,023,164)	-	(161,718)
Interest paid on capital debt	(1,575,887)	-	(124,968)
Proceeds from capital debt	2,027,552	-	-
Proceeds from sales of capital assets	31,101	181,700	30,900
Net cash provided (used) by capital and related financing activities	<u>(3,048,286)</u>	<u>(1,653,682)</u>	<u>3,211,285</u>
<b>Cash flows from investing activities:</b>			
Interest received on investments	107,766	77,870	2,314
Net cash provided (used) by investing activities	<u>107,766</u>	<u>77,870</u>	<u>2,314</u>
Net increase (decrease) in cash and cash equivalents	<u>6,512,052</u>	<u>(44,661)</u>	<u>165,578</u>
Cash and cash equivalents at beginning of year	12,356,747	16,139,546	8,458
Cash and cash equivalents at end of year	<u>\$ 18,868,799</u>	<u>\$ 16,094,885</u>	<u>\$ 174,036</u>
Classified as:			
Cash, cash equivalents, and investments	\$ 17,274,884	\$ 5,430,162	\$ 174,036
Restricted cash and cash equivalents	1,593,915	10,664,723	-
Totals	<u>\$ 18,868,799</u>	<u>\$ 16,094,885</u>	<u>\$ 174,036</u>

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

Business-type Activities – Enterprise Funds			Governmental Activities
Housing Authority Fund	Stormwater Fund	Total	Internal Service Fund
\$ 1,069,508	\$ 1,375,156	\$ 36,443,468	\$ 6,583,242
-	53,848	688,920	-
198,969	462	468,780	-
(4,275,465)	(124,767)	(18,348,951)	(6,355,843)
(238,901)	-	(361,720)	-
-	(119,010)	(3,754,855)	-
(1,037,382)	(465,104)	(10,462,934)	-
<u>(4,283,271)</u>	<u>720,585</u>	<u>4,672,708</u>	<u>227,399</u>
-	166,986	378,414	7,608
-	(286,943)	(798,063)	-
-	-	(2,600,000)	-
-	-	2,600,000	-
<u>-</u>	<u>(119,957)</u>	<u>(419,649)</u>	<u>7,608</u>
4,411,539	1,189	9,281,517	-
-	-	3,571,036	-
(112,154)	(794,377)	(6,222,555)	-
-	-	(5,184,882)	-
-	-	(1,700,855)	-
-	-	2,027,552	-
<u>-</u>	<u>-</u>	<u>243,701</u>	<u>-</u>
<u>4,299,385</u>	<u>(793,188)</u>	<u>2,015,514</u>	<u>-</u>
-	8,879	196,829	37,708
<u>-</u>	<u>8,879</u>	<u>196,829</u>	<u>37,708</u>
16,114	(183,681)	6,465,402	272,715
1,071,646	1,260,000	30,836,397	4,532,538
<u>\$ 1,087,760</u>	<u>\$ 1,076,319</u>	<u>\$ 37,301,799</u>	<u>\$ 4,805,253</u>
\$ 1,087,760	\$ 1,076,319	\$ 25,043,161	\$ 4,805,253
-	-	12,258,638	-
<u>\$ 1,087,760</u>	<u>\$ 1,076,319</u>	<u>\$ 37,301,799</u>	<u>\$ 4,805,253</u>

(continued)

**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2013**

	Business-type Activities – Enterprise Funds		
	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating income (loss)	\$ 1,709,107	\$ 408,243	\$ (3,249,153)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	8,217,604	1,109,355	2,769,290
Landfill closure and postclosure costs	-	247,184	-
Other receipts	69,690	-	199,659
(Increase) decrease in assets:			
Accounts receivable	(1,327,881)	(143,054)	1,033
Allowance for doubtful accounts	2,000	(34,000)	-
Prepaid items	-	-	-
Inventories	52,521	-	-
Increase (decrease) in liabilities:			
Accounts payable	(1,710,200)	128,755	(231,955)
Accrued payroll, compensated absences	47,234	3,563	6,604
OPEB	61,621	51,884	8,670
Deposits payable	(34,708)	(191)	1,042
Deferred revenue	(76,622)	(33,257)	(18,644)
Total adjustments	<u>5,301,259</u>	<u>1,330,239</u>	<u>2,735,699</u>
Net cash provided (used) by operating activities	<u>\$ 7,010,366</u>	<u>\$ 1,738,482</u>	<u>\$ (513,454)</u>
Noncash investing, capital and financing activities:			
Capital assets acquired through contributions from developers	\$ 1,807,359	\$ -	\$ -
Reduction of principal capital debt by lender	(10,507)	-	-
Capital assets transferred from governmental activities transfer	664,334	-	-
Total noncash investing, capital and financing activities	<u>\$ 2,461,186</u>	<u>\$ -</u>	<u>\$ -</u>

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

Business-type Activities – Enterprise Funds			Governmental Activities
Housing Authority Fund	Stormwater Fund	Total	Internal Service Fund
\$ (4,785,158)	\$ 259,747	\$ (5,657,214)	\$ (46,413)
403,099	467,584	12,966,932	-
-	-	247,184	-
-	-	269,349	-
76,049	(26,401)	(1,420,254)	3,776
-	-	(32,000)	-
(1,957)	-	(1,957)	-
-	-	52,521	-
(14,812)	17,256	(1,810,956)	270,036
16,608	(4,733)	69,276	-
14,308	7,132	143,615	-
1,242	-	(32,615)	-
7,350	-	(121,173)	-
<u>501,887</u>	<u>460,838</u>	<u>10,329,922</u>	<u>273,812</u>
<u>\$ (4,283,271)</u>	<u>\$ 720,585</u>	<u>\$ 4,672,708</u>	<u>\$ 227,399</u>
\$ -	\$ 1,051,394	\$ 2,858,753	\$ -
-	-	(10,507)	-
-	573,076	1,237,410	-
<u>\$ -</u>	<u>\$ 1,624,470</u>	<u>\$ 4,085,656</u>	<u>\$ -</u>

(concluded)

**CITY OF FLAGSTAFF, ARIZONA**  
**Notes to the Financial Statement**  
**June 30, 2013**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

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

The accounting policies of the City of Flagstaff conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to Governmental Units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. For the year ended June 30, 2013, the City implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 amends the net asset reporting requirements set in Statement No. 34, *Basic Financial Statements – and Management’s discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The City implemented the provision of GABS Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements in this statement will improve financial reporting by contributing to the GASB’s efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It eliminates the need for financial statement prepares and auditors to determine which FASB and AICPA pronouncement provisions apply, thereby resulting in a more consistent application of financial reporting.

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

Blended Component Unit: The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring and equipping municipal facilities. For financial reporting purposes, transactions of the MFC are included as if it were part of the City’s operations. In fiscal year 2001 the MFC issued \$4.7 million in bonds for construction on additional facilities owned by the City and currently leased to the United States Geological Survey (USGS). These bonds will be repaid through USGS lease proceeds. In fiscal year 2004 the MFC issued \$25 million in bonds for construction of the Fourth Street Overpass and was partially advance refunded in 2012 . The voters approved this debt financing in the May 2000 General Election. These bonds will be repaid with the transportation sales tax that was also approved in the May 2000 Election.

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

## **B. Government-Wide and Fund Financial Statements**

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

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

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

Interdepartmental services performed by one department for another are credited to the performing department and charged to the receiving department to reflect the accurate costs of programs. These indirect costs have been eliminated 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 and are part of the fund statements. Interfund services provided and used are eliminated in the process of consolidation.

The government-wide statement of net position reports all financial and capital resources of the government. It is displayed in a format of assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, with the assets and liabilities shown in order of their relative liquidity. Net position is required to be displayed in three components: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in the net position. The portion of unspent related debt proceeds or deferred inflows of resources at the end of the reporting is not included in the calculation of net investment in capital assets; instead that portion of the debt or deferred inflows of resources is included in the same net position component as the unspent amount. Restricted net position is when a constraint 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 position not otherwise classified as restricted, is 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 position is available.

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds. 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 governmental-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

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

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

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a

separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

The City uses the following fund categories:

## **Governmental Fund Types**

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

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

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes. There are two 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. Resources allocated to this fund come mainly from the State and must be used for Street construction, reconstruction and maintenance.
- *Transportation Tax Fund* accounts for the receipt and expenditures of the Transportation Tax money as authorized by voters on May 16, 2000. These resources are restricted to financing improvements in the Areas of the 4<sup>th</sup> Street overpass project, Safe to School/Pedestrian and Bike projects, Traffic Flow and Safety improvements, Transit Service operations and enhancements, and to repay the bonding related to the 4<sup>th</sup> Street overpass.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal and interest. The Special Assessment Bond Fund is presented as major in the current year.

- *Special Assessment Bond Fund*, accounts for the accumulation of resources for and the payment of principal, interest and related costs for all improvement district bonds issued by the City and repaid by the special assessment district.

Capital Projects Fund is used to account for major capital acquisition and construction separate from ongoing operating activities. Resources for capital projects typically result from the issuance of general obligation or other government debt. Capital Projects Funds are presented as major funds.

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. Resources are generated from ongoing plot sales with a portion allocated to perpetuity.

## **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 position, net 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 five enterprise funds all of which are presented as major funds in the basic financial statements.

- *Water and Wastewater Fund* accounts for the City water pumping, treatment and distribution systems and the City wastewater collection, and treatment systems.
- *Environmental Services Fund* accounts for the operations of City refuse and management of the City landfill. A recycling collection services as well as the management of sustainability programs.
- *Airport Fund* that accounts for the construction, operations and maintenance of the City airport.
- *Housing Authority Fund* accounts for low income rental assistance along with federal housing programs such as low income public housing and voucher programs that enhance this funds ability to provide services.
- *Stormwater Fund* accounts for the construction, operations and maintenance activities of the City stormwater system.

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

### **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 plus deferred outflows of resources, equals current liabilities plus deferred inflows of resources, plus fund balance. Operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net change in fund balances.

Enterprise funds are accounted for on a flow of economic resources measurement focus whereby all assets plus deferred outflows of resources, less liabilities and deferred inflows of resources associated with the operation of these funds, equals net position, as presented on the statement of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

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

Expenditures are generally recorded when the related fund liability is incurred, as under accrual accounting. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. However, debt service expenditures, as well as, expenditures related to compensated absences, claims and judgments are recorded only to the extent they have matured.

Revenues susceptible to accrual include property tax, privilege license tax, highway user tax, state shared sales tax, vehicle license tax, and interest earned on investments. Licenses and permits, charges for services, fines and forfeitures, parks and recreation charges and miscellaneous revenues are recorded when received in cash since they are generally not measurable until actually received. Only the portion of special assessment receivables due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period.

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

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

### **Budgets and Budgetary Accounting**

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

- The maximum legal expenditure permitted for the year is the total budget as adopted. The expenditure appropriations in the adopted budget are maintained in the City's financial system by department within individual funds. Department appropriations may be amended during the year, within administrative guidelines and adopted Council policies.
- The initial budget for the fiscal year may be amended during the year in a legally permissible manner.
- The City Manager is generally authorized to transfer budgeted amounts within any specific section's expenditure appropriation. Any budget revisions requiring a transfer between divisions must be approved by the City Council. City manager, human resources, and information technology are example sections of the general administration division.
- All unencumbered expenditure appropriations expire at the end of the fiscal year.
- Encumbered amounts are re-budgeted in the following year as deemed appropriate and necessary after review by the Budget Committee. Budgetary carry forwards are approved by the City Council as part of the budget adoption process.
- All funds of the City have legally adopted budgets with the exception of the internal service fund and perpetual care fund. Formal integration of these budgets into the City's financial systems is employed as a management control device during the year for all funds.

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

## **D. Assets, Liabilities, and Net Position**

### **Cash and Investments**

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

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

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

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

### **Receivables and Payables**

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

Under Arizona tax laws, there are two property tax levies, primary and secondary. Primary property taxes are not restricted as to use and are used to finance the general operations of the City. Secondary property taxes are restricted for general obligation bonded debt service. The secondary property tax levy is recorded as revenue in a debt service fund and transferred to the Water and Wastewater Fund and the General Obligation Bond Fund. General Obligation bonds are serviced by each of these funds. For fiscal year 2012-2013, primary and secondary property tax collections amounted to \$5,472,380 and \$6,423,153 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 position, because they are maintained in trust accounts and their use is limited by applicable debt covenants. Typically, restricted assets, committed assets and assigned assets are used prior to using unassigned assets when both are available for the same purpose.

**Grant Revenue**

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

**Capital Assets**

Capital assets, whether owned by governmental activities or business-type activities, are recorded and depreciated (unless the modified approach is used) in the government-wide financial statements. The City has chosen not to apply the modified approach to any networks or subsystems of infrastructure assets. No long-term assets or depreciation are shown in the governmental fund financial statements.

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

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

Major 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	10–50
Improvements	10–20
Machinery and Equipment	5–25
Infrastructure	25–75

### **Compensated Absences**

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

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

### **Other Postemployment Benefits**

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

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

### **Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the straight line method, though the GAAP preferred method is the effective rate model.

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, 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 Balance**

In the fund financial statements, restricted fund balance is defined as that portion of fund balance that can be spent only for the specific purposes stipulated by constitution, external resource or through enabling legislation. Committed fund balance includes amounts constrained to specific purposes determined by a formal action of the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed,

amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint, this action would represent a city ordinance. Assigned fund balance amounts are intended to be used by the government for specific purposes but do not meet the criteria to be restricted or committed. Intent can be expressed by the City Council or by the budget committee with final review completed during the annual budget process; the City has no formal policy in place. Assigned fund balance represents the remaining amount that is not restricted or committed in governmental funds other than the general fund, which is classified as unassigned. Nonspendable fund balance represents amounts that are required to be maintained intact, such as inventories, and nonexpendable portion of permanent funds.

#### **Use of Estimates**

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

## **II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

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

	Total Governmental Funds	Capital Assets (1)	Long-Term Liabilities (2)	Internal Service Fund (3)	Reclass and Eliminations (4)	Statement of Net Position Totals
<b>Assets</b>						
Cash and cash equivalents	\$ 49,692,343	\$ -	\$ -	\$ 4,805,253	\$ -	\$ 54,497,596
Cash with fiscal agents	2,106,786	-	-	-	-	2,106,786
Accounts receivable, net	7,361,324	-	308,245	39,365	-	7,708,934
Interest receivable	116,939	-	-	7,902	-	124,841
Intergovernmental receivables	2,835,711	-	-	-	-	2,835,711
Special assessments receivable	10,896,251	-	-	-	-	10,896,251
Interfund receivable	4,155,000	-	-	428,017	(4,155,000)	428,017
Issuance costs - Prepaid items	3,728	-	664,939	-	-	668,667
Inventory	436,337	-	-	-	-	436,337
Restricted cash and cash equivalents	20,827,296	-	-	-	-	20,827,296
Refundable deposits	213,900	-	-	-	-	213,900
Property held for sale	500,000	-	-	-	-	500,000
Capital assets	-	299,629,214	-	-	-	299,629,214
<b>Total Assets</b>	<b>\$ 99,145,615</b>	<b>\$ 299,629,214</b>	<b>\$ 973,184</b>	<b>\$ 5,280,537</b>	<b>\$ (4,155,000)</b>	<b>\$ 400,873,550</b>

**Liabilities and Net Position**

Accounts payable	\$ 3,872,355	\$ -	\$ -	\$ 225,745	\$ -	\$ 4,098,100
Accrued payroll & compensated absenc	892,798	-	-	-	-	892,798
Interest payable	1,356,167	-	-	-	-	1,356,167
Interfund payable	4,155,000	-	-	-	(4,155,000)	-
Unearned revenue	11,612,125	-	(11,186,684)	-	-	425,441
Guaranty and other deposits	1,280,255	-	-	-	-	1,280,255
Current bonds and lease payable	4,938,508	-	-	-	-	4,938,508
Unamortized bond premium	-	-	1,979,609	-	-	1,979,609
Compensated absences	-	-	3,644,189	-	-	3,644,189
Claims and judgements	-	-	-	314,074	-	314,074
Other postemployment benefits	-	-	2,975,694	-	-	2,975,694
Unmatured long-term debt	-	-	80,133,454	-	-	80,133,454
Fund balance/Net Position	71,038,408	299,629,214	(76,573,078)	4,740,717	-	298,835,261
<b>Total liabilities and net position</b>	<b>\$ 99,145,616</b>	<b>\$ 299,629,214</b>	<b>\$ 973,184</b>	<b>\$ 5,280,536</b>	<b>\$ (4,155,000)</b>	<b>\$ 400,873,550</b>

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

Costs of capital assets	\$ 482,543,658
Accumulated depreciation	(181,677,034)
Transfer of capital assets to business-type activities	<u>(1,237,410)</u>
	<u>\$ 299,629,214</u>

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

Unamortized bond issue costs	<u>\$ 664,939</u>
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Certain receivables are not recognized in the governmental funds, but are earned in the statement of net position.

Court receivables	<u>\$ 308,245</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 position.

Governmental bonds payable	\$ 85,071,962
Compensated absences	5,222,316
Other postemployment benefits	2,975,694
Unamortized bond premium	<u>1,979,609</u>
Subtotal	<u>95,249,581</u>
Less: current portion compensated absences	1,578,127
Less: current portion of bonds and leases	<u>4,938,508</u>
	<u>\$ 88,732,946</u>

Revenue for the long-term special assessment receivables and property tax shown on the governmental fund statements is not reflected on the statements of net position.

Special assessment	\$ 10,895,827
Property tax	<u>290,857</u>
	<u>\$ 11,186,684</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 position, but are not included on the governmental fund balance sheet.

ISF net position	<u>\$ 4,740,717</u>
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(4) Certain interfund transactions between governmental activities and between business-type activities are eliminated in the consolidation of those activities for the statement of net position.

Interfund receivables	\$ 4,155,000
Interfund payables	<u>(4,155,000)</u>
	<u>\$ -</u>

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

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

	Total Governmental Funds	Capital Related Items (1)	Long-Term Revenues/ Expenses (2)	Internal Service Fund (3)	Adjustments and Eliminations (4)	Statement of Activities Totals
<b>Revenues and Other Sources</b>						
Taxes	\$ 47,084,446	\$ -	\$ (73,883)	\$ -	\$ -	\$ 47,010,563
Intergovernmental	24,721,387	-	-	-	(10,090,496)	14,630,891
Grants and entitlements	5,361,651	-	-	-	10,090,496	15,452,147
Special assessments	722,733	-	(350,200)	-	-	372,533
Charges for services	3,237,728	-	-	-	-	3,237,728
Licenses and permits	1,656,135	-	-	-	-	1,656,135
Fines and forfeitures	1,540,989	-	13,510	-	-	1,554,499
Rent	1,663,692	-	-	-	-	1,663,692
Investment earnings	(429,656)	-	-	33,532	-	(396,124)
Contributions	252,377	2,131,679	-	-	-	2,384,056
Miscellaneous	1,265,377	-	-	-	19,912	1,285,289
Total revenue	87,076,859	2,131,679	(410,573)	33,532	19,912	88,851,409
<b>Expenditures/Expenses</b>						
General governmental	8,480,086	608,634	125,361	3,623	1,225,104	10,442,808
Public safety	25,099,149	1,851,513	307,946	10,717	-	27,269,325
Public works	1,219,324	257,048	17,281	589	224,525	1,718,767
Economic and physical development	8,296,367	229,308	79,920	3,384	601,521	9,210,500
Culture and recreation	11,292,517	2,512,536	25,394	5,440	(493,299)	13,342,588
Highways and streets	9,039,032	8,102,640	(158,515)	6,679	(1,557,851)	15,431,985
Principal retirement	6,175,303	-	(6,175,303)	-	-	-
Interest and other charges	2,902,196	-	-	-	-	2,902,196
Capital outlay	16,656,392	(16,656,392)	-	-	-	-
Total expenditures/expenses	89,160,366	(3,094,713)	(5,777,916)	30,432	-	80,318,169
<b>OTHER FINANCING SOURCES (USES):</b>						
Issuance of capital debt	12,474,557	-	(12,474,557)	-	-	-
Bond (discount) premium	542,689	-	(542,689)	-	-	-
Sale of capital assets	49,750	(11,665)	-	-	(19,912)	18,173
Transfers in	12,870,788	-	-	7,608	-	12,878,396
Transfers out	(12,458,747)	(1,237,410)	-	-	-	(13,696,157)
Total other financing sources (uses)	13,479,037	(1,249,075)	(13,017,246)	7,608	(19,912)	(799,588)
Net change for the year	\$ 11,395,530	\$ 3,977,317	\$ (7,649,903)	\$ 10,708	\$ -	\$ 7,733,652

(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 position decreases by the amount of depreciation expense charged for the year.

Capital outlay	\$	16,656,392
Depreciation expense		(13,163,349)
Disposal of capital assets		(409,995)
Donated capital assets		2,131,679
	\$	<u>5,214,727</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 unearned for governmental fund reporting, but are not for government-wide reporting.

Special assessment received	\$	(350,200)
Property tax		(73,883)
Court revenue		13,510
	\$	<u>(410,573)</u>

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

Amortization of bond issuance costs	\$	(85,362)
Issuance cost on new bonds		97,410
Advance refunding loss		(65,304)
	\$	<u>(53,256)</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	\$	(16,218)
Accrual of other postemployment benefits		(649,301)
	\$	<u>(665,519)</u>

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

Principal bond payments	\$	6,175,303
Capital debt issued		(12,474,557)
Bond premium		(542,689)
Amortization of bond premium		321,388
	\$	<u>(6,520,555)</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	\$	41,140
Expenditures		(30,432)
	\$	<u>10,708</u>

(4)

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

Transfer of capital assets to enterprise fund	\$	(1,237,410)
	\$	<u>(1,237,410)</u>

## Fund Balance Classification

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The classifications of nonspendable, restricted, committed, assigned, and unassigned designate the relative strength of the constraints placed on the how the amounts can be spent. Classification of fund balances imposed by the reporting government, whether by administrative policy or legislative action of the City Council, are shown in aggregate on the government fund financial statements, but not on the proprietary statement of net position. Restricted net position on the government-wide financial statements reflect restrictions imposed by external sources.

Nonspendable fund balance represents amounts that are nonspendable such as inventories and nonexpendable portion of permanent funds. Restricted fund balances represent constraints placed on the use of resources imposed externally by creditors, grantors, contributors, or laws and regulations of other governments. Resources imposed by constitutional provisions of enabling legislation that allows the ability to levy, charge, or mandate payment of resources are also classified as restricted. Committed fund balance includes amounts that can be used only for the specific purposes determined by adoption of a city ordinance by the City Council, the government's highest level of decision-making authority. A formal action would also be required to modify or rescind an established commitment as related to the adopted city ordinance. Assigned fund balance amounts are intended to be used by the government for specific purposes but do not meet the criteria to be restricted or committed. Assigned fund balance is expressed by the direction of the City Council and budget committee as part of the annual budgeting process. Authority to assign amounts used for specific purposes is confirmed as part of the annual budgeting process, the City has no formal policy that establishes this practice. Unassigned fund balance represents the remaining amount that is not restricted, committed, nonspendable nor assigned in the general fund.

Consideration is made that committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes which both restricted and unrestricted fund balance is available. Also, committed, assigned, or unassigned amounts are considered to have been spent when expenditure is incurred for purposes for which amounts in unrestricted fund balance classification could be used. Absent of a minimum fund balance policy, the City, through the budgeting process establishes a minimum fund balance level to maintain as part of that process. A minimum balance of 12% is suggested in the general fund and a 10% fund balance is suggested for special revenue and enterprise funds.

Governmental fund balances as of June 30, 2013 are as follows:

	General Fund	Highway User Revenue Fund	Transportation Fund	Capital Projects Fund	Special Assessment Bond Fund	Other Governmental Funds	Total Governmental Funds
Fund balances:							
Nonspendable:							
Perpetual care	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 201,981	\$ 201,981
Inventory	390,882	-	-	-	-	45,455	436,337
Restricted for:							
Library services	-	-	-	-	-	818,932	818,932
Library branch services	-	-	-	-	-	1,004,065	1,004,065
Library programs board directed	-	-	-	-	-	1,931,821	1,931,821
Court improvements and operations	756,793	-	-	-	-	-	756,793
Debt services	-	-	-	-	234,647	8,821,257	9,055,904
Regional planning	-	-	-	-	-	20,907	20,907
Street improvements	-	3,508,471	1,013,002	-	-	-	4,521,473
Transit	-	-	3,497,000	-	-	-	3,497,000
Economic development	-	-	-	-	-	1,151,616	1,151,616
Arts and science	-	-	-	-	-	460,066	460,066
Culture and recreation	-	-	-	-	-	2,050,902	2,050,902
Perpetual care	-	-	-	-	-	17,015	17,015
Development fee projects	386,518	-	-	-	-	-	386,518
Other capital projects	44,160	-	1,362,662	10,155,126	-	6,419,303	17,981,251
Assigned to:							
Court services	45,028	-	-	-	-	-	45,028
Capital reserve	6,735,840	-	-	-	-	-	6,735,840
Real estate	554,362	-	-	-	-	-	554,362
Unassigned:	19,410,597	-	-	-	-	-	19,410,597
Total fund balances	<u>\$ 28,324,180</u>	<u>\$ 3,508,471</u>	<u>\$ 5,872,664</u>	<u>\$10,155,126</u>	<u>\$ 234,647</u>	<u>\$22,943,320</u>	<u>\$71,038,408</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 delivered after June 30.

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

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

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

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

### **Review and Approval**

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

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

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

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

Budget authority can be transferred between line items within a section. At year-end, division budgets are reviewed and budget authority is transferred from contingencies by Resolution, if between divisions, as necessary. Council can also amend total appropriations for a division during the year by Resolution as long as there is a corresponding increase/decrease in another division so that the expenditure limitation is not exceeded.

## IV. DETAILED NOTES ON ALL FUNDS

### A. Deposits and Investments

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

#### Deposits

At June 30, 2013, the carrying amount of the City's deposits was \$15,015,125 and the bank balance was \$16,937,787. The \$1,922,662 difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2013.

#### Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Statutes and the City's investment policy require collateral for demand deposits, certificates of deposit, and repurchase agreements at 102 percent of all deposits not covered by federal depository insurance. All investments are either registered in the City's name or are held by a third party in the City's name. Beginning January 1, 2013, non-interest bearing accounts will only be insured for up to \$250,000, which is the maximum deposit insurance amount per section 343 of the Dodd-Frank Wall Street reform. As of June 30, 2013, the City had not executed a tri-party collateral agreement with Wells Fargo and Bank of New York Mellon Trust Company. As a result, the City's secure deposits are only insured up to the maximum deposit insurance amount of \$250,000. The City is in the process of negotiating the tri-party agreement.

#### Interest Rate Risk

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

At June 30, 2013, the City's investments included the following

Investment Type	Fair Value	Weighted Average Maturity (in years)
Federal Agency Securities	\$ 34,499,822	3.040
Municipal Obligations	1,350,462	4.430
U.S. Treasuries	18,764,229	3.100
State Investment Pool	44,215,659	2.000
Wells Fargo – money market	167,017	1.000
FDIC Guaranteed Certificate of Deposit	721,162	1.000
Total fair value of Investments	\$ 99,718,351	
Portfolio weighted average maturity		2.591

**Credit Risk**

City resolution and State Statutes authorized the City to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, repurchase agreements, SEC registered money market accounts, certificates of deposit within the top three ratings by a nationally recognized rating agency, and the State of Arizona Local Government Investment Pool (LGIP).

The credit quality ratings of investments as described by nationally recognized Standard and Poor’s and Moody’s rating service as of June 30, 2013 is as follows:

Investment Type	Fair Value	Moody's Rating	S&P Rating	% of Investments
Federal Agency Securities	\$ 34,499,822	AAA	AA+	0.35
Municipal Obligations	1,350,462	AA2	AA	0.01
U.S. Treasury	18,764,229	AAA	AA+	0.19
State investment pool (LGIP) Pool 5	42,631,158	N/A	AAAF/S1+	0.43
State investment pool (LGIP) Pool 7	1,584,501	N/A	AA+	0.02
FDIC Guaranteed Certificates of Deposit	721,162	N/A	N/A	0.00
Wells Fargo – money market	167,017	N/A	AAAm	0.00
Total	<u>\$ 99,718,351</u>			<u>100%</u>

**Concentration of Credit Risk**

The City’s investment policy establishes that its investment portfolio, to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities shall not exceed the following. Fully insured or collateralized CD’s no more than 25%, US agency securities 100%, State, county, school district and other district municipal bonds or debt with an A rating or better no more than 25%, repurchase agreements 100%, and local government investment pool 100%.

At June 30, 2013, the City’s cash and investments included the following:

**Total City cash deposits and investments at fair value are as follows:**

Carrying amount of investments	\$ 99,718,351
Carrying amount of cash deposits	15,015,125
Total pooled cash and investments	<u>\$ 114,733,476</u>
Pooled cash, equivalents and investments – unrestricted	\$ 79,540,756
Restricted cash with fiscal agent	2,106,786
Restricted cash and investments	33,085,934
Total pooled cash and investments	<u>\$ 114,733,476</u>

Cash and cash equivalents at June 30, 2013 consisted of the following:

Investments included in cash and cash equivalents	\$ 79,528,226
Cash on hand	12,530
Total cash and cash equivalents per statement of net position	<u>\$ 79,540,756</u>

Investment income comprises the following for the year ended June 30, 2013:

Net interest and dividends	\$	767,696
Net increase (decrease) in the fair value of investments		(969,514)
Total net investment income per statement of activities	\$	<u>(201,818)</u>

The net decrease in the fair value of investments during fiscal year 2012-2013 was \$969,514. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain (loss) on investments held at June 30, 2013 was (\$714,390).

In previous years, the City recognized a decrease in fair value of \$1,473,712 consisting of the City's share of a loss on an investment within the Local Government Investment Pool. The State and numerous other bondholders filed suit against the principals, underwriters, trustees, accountants, and others in May 2003. The case is presently pending litigation. There have been several distributions since June 2006. The distributions include payments from the trustee and settlement proceeds received from pending litigation. The City did receive distributions this year in the amount of \$335,562 and the total recovery to date is \$1,116,808.

In previous years, the City recognized a decrease in fair value of \$289,104 consisting of the City's share of a loss on an investment within the Local Government Investment Pool relating to Lehman Brothers Chapter 11 filing. The State has filed claims on behalf of the LGIP investors. The City received a distribution this year in the amount of \$25,546 and the total recovery to date is \$42,979.

## B. Receivables

Receivables as of June 30, 2013, including allowances for uncollectible accounts, are as follows:

Fund	Accounts	Interest	Intergov- ernmental	Special Assessments	Total Receivables
<b>Governmental Activities</b>					
General fund	\$ 5,368,033	\$ 50,397	\$ 1,118,980	\$ -	\$ 6,537,410
Highway user revenue fund	710,200	4,419	10,599	-	725,218
Transportation fund	1,474,914	17,526	1,455,471	-	2,947,911
Special assessment fund	-	442	-	10,896,251	10,896,693
Capital projects fund	-	-	20,025	-	20,025
Other governmental funds	945,095	44,155	230,636	-	1,219,886
Less: allowance for uncollectibles	(828,673)	-	-	-	(828,673)
<b>Total government funds</b>	<b>7,669,569</b>	<b>116,939</b>	<b>2,835,711</b>	<b>10,896,251</b>	<b>21,518,470</b>
Internal services funds	39,365	7,902	-	-	47,267
<b>Total governmental activities</b>	<b>7,708,934</b>	<b>124,841</b>	<b>2,835,711</b>	<b>10,896,251</b>	<b>21,565,737</b>
<b>Business-Type Activities</b>					
Water and wastewater	4,720,661	28,127	46,683	-	4,795,471
Environmental services	1,390,568	12,496	-	-	1,403,064
Airport	123,803	589	212,657	-	337,049
Stormwater	192,034	1,733	-	-	193,767
Flagstaff housing authority	170,055	-	-	-	170,055
Less: allowance for uncollectibles	(168,458)	-	-	-	(168,458)
<b>Total business-type activities</b>	<b>6,428,663</b>	<b>42,945</b>	<b>259,340</b>	<b>-</b>	<b>6,730,948</b>
<b>Total activities</b>	<b>\$14,137,597</b>	<b>\$ 167,786</b>	<b>\$ 3,095,051</b>	<b>\$ 10,896,251</b>	<b>\$ 28,296,685</b>

The receivables not expected to be collected within one year include \$733,673 of the general fund, \$39,000 of the transportation fund, \$72,000 of the water and wastewater, \$41,000 of the environmental services fund, \$21,000 of the airport fund, \$4,000 of the Stormwater fund, and \$30,450 of the flagstaff housing authority.

## C. Capital Assets

A summary of capital asset activity, for the government-wide financial statements, as of June 30, 2013 is as follows:

	Balance July 1, 2012	Additions	Deletions and Retirements	Transfers In (out)	Balance June 30, 2013
<b>Governmental activities:</b>					
Non-depreciable assets:					
Land	\$ 49,687,004	\$ 5,168,073	\$ -	\$ 907,316	\$ 55,762,393
Construction -in-progress	5,525,768	4,606,163	(394,386)	(2,751,810)	6,985,735
Total non-depreciable assets	55,212,772	9,774,236	(394,386)	(1,844,494)	62,748,128
Depreciable assets:					
Buildings	76,490,638	-	-	-	76,490,638
Improvements	19,958,582	18,322	(43,015)	43,591	19,977,480
Machinery and equipment	32,044,625	1,624,206	(606,172)	152,846	33,215,505
Infrastructure	280,939,697	7,371,307	-	563,493	288,874,497
Total depreciable assets	409,433,542	9,013,835	(649,187)	759,930	418,558,120
Accumulated depreciation:					
Buildings	(16,944,873)	(1,669,172)	-	-	(18,614,045)
Improvements	(11,834,964)	(973,572)	39,072	-	(12,769,464)
Machinery and equipment	(19,814,142)	(2,077,353)	594,506	(152,846)	(21,449,835)
Infrastructure	(120,400,438)	(8,443,252)	-	-	(128,843,690)
Total accumulated depreciation	(168,994,417)	(13,163,349)	633,578	(152,846)	(181,677,034)
Governmental activities capital assets, net	<u>\$ 295,651,897</u>	<u>\$ 5,624,722</u>	<u>\$ (409,995)</u>	<u>\$ (1,237,410)</u>	299,629,214
				Less: associated debt	(85,071,960)
				Less: unamortized premium	(2,436,739)
				Plus: unamortized loss on current refunding	457,128
				Plus: unspent capital related debt, series 2013	10,113,342
				Net investment in capital assets	<u>\$ 222,690,985</u>

	Balance July 1, 2012	Additions	Deletions and Retirements	Transfers In (out)	Balance June 30, 2013
<b>Business-type activities:</b>					
Non-depreciable assets:					
Land	\$ 12,349,896	\$ 152,462	\$ -	\$ 1,464,037	\$ 13,966,395
Construction -in-progress	22,481,654	1,826,525	(41,551)	(7,731,430)	16,535,198
Total non-depreciable assets	<u>34,831,550</u>	<u>1,978,987</u>	<u>(41,551)</u>	<u>(6,267,393)</u>	<u>30,501,593</u>
Depreciable assets:					
Buildings	101,291,482	-	(32,476)	(473,783)	100,785,223
Improvements	354,537,629	4,753,420	(977,094)	7,978,586	366,292,541
Machinery and equipment	43,852,422	2,348,900	(1,197,931)	(152,846)	44,850,545
Total depreciable assets	<u>499,681,533</u>	<u>7,102,320</u>	<u>(2,207,501)</u>	<u>7,351,957</u>	<u>511,928,309</u>
Accumulated depreciation:					
Buildings	(43,725,544)	(2,275,871)	32,476	-	(45,968,939)
Improvements	(116,701,093)	(7,789,772)	645,834	-	(123,845,031)
Machinery and equipment	(18,894,968)	(2,901,289)	1,197,931	152,846	(20,445,480)
Total accumulated depreciation	<u>(179,321,605)</u>	<u>(12,966,932)</u>	<u>1,876,241</u>	<u>152,846</u>	<u>(190,259,450)</u>
Business-type activities capital assets, net	<u>\$ 355,191,478</u>	<u>\$ (3,885,625)</u>	<u>\$ (372,811)</u>	<u>\$ 1,237,410</u>	352,170,452
				Less: associated debt	(47,613,862)
				Less: unamortized premium	(31,527)
				Plus: unamortized loss on current refunding	35,834
				Net investment in capital assets	<u>\$ 304,560,897</u>

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

<b>Governmental Activities:</b>	
General government	\$ 540,319
Public safety	1,861,967
Public works	237,774
Economic and physical development	243,172
Culture and recreation	1,923,582
Highway and streets	8,356,535
Total depreciation expense - governmental activities	<u>\$ 13,163,349</u>

## D. Interfund Receivables, Payables, and Transfers

### Interfund receivables and payables

Net interfund receivables and payables between governmental activities and business-type activities of \$428,017 are included in the government-wide financial statements at June 30, 2013. The interfund balances at June 30, 2013 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, 2013 are expected to be repaid within one year.

The following interfund receivables and payables are included in the fund financial statements at June 30, 2013:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<b>Governmental Activities:</b>		
General fund	\$ 4,155,000	\$ -
Capital projects bond construction	-	4,100,000
Other governmental funds	-	55,000
Total governmental activities	<u>4,155,000</u>	<u>4,155,000</u>
<b>Business-Type Activities:</b>		
Water and wastewater fund	-	-
Airport fund	-	-
Total business-type activities	<u>-</u>	<u>-</u>
Total governmental and business-type activities	<u>\$ 4,155,000</u>	<u>\$ 4,155,000</u>
Less: fund eliminations	(4,155,000)	
Adjustment for internal service fund elimination	<u>428,017</u>	
Total government-wide statement of net position	<u>\$ 428,017</u>	

## Transfers

The net transfers of \$817,761 from governmental activities to business-type activities on the government-wide statement of activities are primarily debt service and operational subsidies from the General Fund. There were no significant transfers during fiscal year 2013 that were either non-routine in nature or inconsistent with the activities of the fund making the transfer. The following transfers are reflected in the fund financial statements for the year ended June 30, 2013:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers In</u>
<b>Governmental Activities:</b>		
General fund	\$ 2,702,301	\$ 2,261,384
Highway user revenue fund	85,401	4,233,250
Transportation fund	3,808,907	-
Other governmental funds	5,862,138	6,376,154
Total governmental funds	<u>12,458,747</u>	<u>12,870,788</u>
Internal service fund	-	7,608
Total governmental activities	<u>12,458,747</u>	<u>12,878,396</u>
<b>Business-Type Activities:</b>		
Water and wastewater fund	157,794	-
Environmental services fund	319,759	112,428
Airport fund	33,567	99,000
Stormwater fund	286,943	166,986
Total business-type activities	<u>798,063</u>	<u>378,414</u>
Total governmental and business-type activities	<u>\$ 13,256,810</u>	<u>\$ 13,256,810</u>
Less: fund eliminations	(13,676,459)	
Add: net capital assets transfer	<u>1,237,410</u>	
Total government-wide statement of activities	<u>\$ 817,761</u>	

## E. Leases

### Operating Leases Expenditures

The City leases library spaces under both non-cancellable and cancellable operating leases. The non-cancellable lease is for the East Flagstaff Library. The initial intergovernmental agreement was dated September 10, 2002, and was amended on September 8, 2008, to reflect an ending date of June 30, 2017. The agreement has automatic renewal for an additional two years, terminating on June 30, 2019, if neither party send a written notice of intent to terminate to the other party at least 60 days prior to the expiration of the initial term. Either party may terminate the lease at any time for any reason or no reason, without penalty, upon 180 days written notice. Fiscal year 2013 lease expense for the library was \$81,421. The schedule below for future minimum lease expenses reflects the change in the rental rate as of June 30, 2013.

The additional cancellable lease is the Chevelon Butte School District #5 and Coconino county Library District for facility use. It is a four (4) year lease beginning September 1, 2011, and is automatically renewed an additional four years, indefinitely, unless 30 days notice is given by either party. Total lease expense was \$6,600 for FY 2013.

### Operating Lease Expenditures

Year Ending June 30	East Flagstaff Library	Chevelon Butte School Dist.#5
2014	\$ 81,421	\$ 6,600
2015	81,421	6,600
2016	81,421	6,600
2017	81,421	6,600
2018	81,421	6,600
Total	<u>\$ 407,105</u>	<u>\$ 33,000</u>

In addition, 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, 2013 were \$146,969 (inclusive of the Chevelon Butte School Library).

### Operating Lease Revenues

The City leases several City-owned buildings under cancellable and non-cancellable agreements. Certain leases contain provisions for future rate increases based on changes in the consumer Price Index. Total revenue for fiscal year 2013 was \$1,663,714. The City currently has one lease with non-cancellable terms that is for USGS building #6, which is guaranteed through August 2018. The following table represents the future minimum lease receivable from the lease with non-cancellable terms. The amounts shown include revenue related to the asset and the operational expenses.

Year Ending June 30	USGS Building #6
2014	\$ 792,606
2015	792,606
2016	792,606
2017	792,606
2018	66,051
Total	<u>\$ 3,236,475</u>

In addition, the Airport Fund has several leases under cancellable agreements. The leases are for terminal space, hangars, shades, tiedowns, ground leases and a cafe. Lease revenue in the airport fund for fiscal year 2013 was \$1,337,646.

## F. Long-Term Debt

### General Obligation Bonds

The City of Flagstaff issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

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

On March 20, 2013, the City issued \$11,460,000 in GO bonds, series 2013, related to capital projects approved by voters. Open space projects for \$3.0M was approved by voters on the May 18, 2004 election. The 2010 election resulted in approval of \$6.46M for improvements related to street and utility infrastructure, and on November 6, 2012 voters approved \$10M in forest health and water protection funds, in which, \$2.0M were issued as part of this series.

General obligation bonds outstanding at June 30, 2013:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 46,822,927
Governmental activities - current refunding	212,704
Business-type activities	1,504,660
Business-type activities - refunding	<u>247,296</u>
Total general obligation bonds outstanding	<u>\$ 48,787,587</u>

General obligation bonds payable at June 30, 2013 consist of the following individual issues:

Governmental activities:

\$3,015,000 GO Refunding Series 2011 – Parks and recreation portion of \$1,394,136, due in annual installments of \$212,704 to \$964,104 through July 1, 2014; interest rate at 2.0% to 5.0%. Parks improvements.	\$ 212,704
\$31,500,000 Capital projects, series 2006 due in annual installments of \$1,180,000 to \$2,445,000 through July 1, 2023; interest rate at 3.25% to 5.25%. Consturction related to recreation facilities, fire facilities and equipment, and open space acquisition.	19,560,000
\$12,845,000 Capital projects, series 2011 due in annual installments of \$335,000 to \$2,320,000 through July 1, 2020; interest rate at 1.0% to 4.0%. Construction related to fire facilities, streets and utility improvements, and public safety communication system.	12,510,000
\$3,952,287 Public Safety Communications, series 2011 due in annual installments of \$289,956 to \$446,582 through July 1, 2021; interest rate at 2.40%. Construction related to public safety communication system.	3,292,927
\$11,460,000 Capital projects, series 2013 due in annual installments of \$560,000 to \$950,000 through July 1, 2028; interest rate at 1.625% to 4.0%. Construction related to forest initiative, streets and utility improvements, and open space/Flagstaff Urban Trail System.	11,460,000
Total governmental activities	<u>47,035,631</u>

Business-type activities:

\$3,015,000 GO Refunding Series 2011 – Water improvement project bonds as portion of \$1,620,864, due in annual installments of \$247,296 to \$1,120,896 through July 1 2014; interest rate at 2.0% to 5.0%	247,296
\$1,633,933 Water infrastructure finance authority, due in annual installments of \$61,745 to \$107,043 through July 1, 2031; interest at 3.104%. Original amount \$1,833,828 less deobligated amount of \$199,895. Red Gap Wells.	1,504,660
Total business-type activities	<u>1,751,956</u>
Total General Obligation Bonds	<u>\$ 48,787,587</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
2014	4,420,973	1,688,071	310,957	51,651
2015	4,987,348	1,455,428	65,637	44,729
2016	5,191,644	1,289,093	67,675	42,691
2017	4,636,164	1,126,862	69,775	40,591
2018	4,695,912	990,213	71,941	38,425
2019-2023	18,663,590	2,539,732	394,622	157,208
2024-2028	4,440,000	434,199	459,789	92,042
2029-2031	-	-	311,560	19,538
Total	<u>\$ 47,035,631</u>	<u>\$ 9,523,598</u>	<u>\$ 1,751,956</u>	<u>\$ 486,875</u>

#### Statutory Debt Limitation

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

The City's computation of legal debt margins available for creation of additional debt at June 30, 2013 was \$83,425,011 and \$39,663,779 for the 20 percent and 6 percent debt limits, respectively. Also, see Schedule 16 in the Statistical Section for related information.

#### 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, 2013:

Purpose	Amount
Governmental activities	<u>\$ 11,020,000</u>

Special assessment bonds payable at June 30, 2013 consist of the following individual issues:

**Special Assessment Bonds**

Governmental activities:

\$11,690,000 Improvement district bonds, due in annual installments of \$325,000 to \$870,000, through January 1, 2032; interest at 5.0%. Aspen Place at the Sawmill district improvements.	\$ 11,020,000
<b>Total Special Assessment Bonds</b>	<u><u>\$ 11,020,000</u></u>

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2014	\$ 360,000	\$ 542,000
2015	380,000	523,500
2016	395,000	504,125
2017	420,000	483,750
2018	440,000	462,250
2019–2023	2,540,000	1,951,000
2024–2028	3,250,000	1,230,750
2029–2032	3,235,000	333,625
Total	\$ 11,020,000	\$ 6,031,000

**Revenue Bonds**

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

In fiscal year 2004, the MFC issued \$25 million in bonds for the construction of the Fourth Street Overpass on land owned by the City. The City will make lease payments equal to the debt service on both issues and will obtain legal title upon payment in full of the bonds. The City has collateralized the contracts payable to the MFC by a pledge of the City’s State Shared Revenues which comprise sales and income taxes imposed and collected by the State and distributed to counties and municipal governments pursuant to law and State revenue-sharing which the City presently or in the future receives from the State and which are not earmarked by the State for a contrary or inconsistent purpose.

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

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

**Advance Refunding**

On March 21, 2012, the City issued \$12,530,000 in pledged revenue refunding bonds with interest rates ranging between 3.0% and 5.0%. The City issued the bonds to advance refund \$13,025,000 of the outstanding series 2003 Fourth Street Municipal Facility Corporation revenue bonds, with an interest rate ranging between 4.0% and 5.25%. The City used the net proceeds along with other resources to purchase U.S. Treasury securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2003 series bonds. As a result, that portion of the 2003 series bonds is considered defeased, and the City has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$13,331,391 at June 30, 2013.

Revenue bonds outstanding at June 30, 2013:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 2,965,000
Governmental activities – partial advance refunding	12,530,000
Business-type activities	3,634,606
Total revenue bonds outstanding	<u>\$ 19,129,606</u>

Revenue bonds at June 30, 2013 consist of the following individual issues:

Revenue Bonds

Governmental activities:

\$12,530,000 Fourth Street Pledged Revenue Refunding bonds, series 2012 due in annual installments of \$695,000 to \$2,165,000 through July 1, 2020; interest at 3.0% to 5.0%. Street and bridge infrastructure.	\$ 12,530,000
\$3,370,000 Greater Arizona Development Authority revenue bonds, series 2010A, due in annual installments of \$50,000 to \$240,000 through August 1, 2030; interest at 2.0% to 4.625%. Business incubator construction.	2,965,000
Total Governmental activities	<u>15,495,000</u>

Business-type activities:

\$6,775,760 Water and wastewater revenue bonds, series 2003 due in annual installments of \$238,431 to \$462,398 through July 1, 2022; interest at 3.548%. Water and sewer improvements.	3,634,606
Total Revenue Bonds	<u>\$ 19,129,606</u>

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

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 820,000	\$ 606,613	\$ 349,863	\$ 128,938
2015	1,925,000	582,013	362,275	116,526
2016	1,990,000	522,962	375,127	103,675
2017	2,060,000	448,363	388,434	90,367
2018	2,155,000	357,762	402,214	76,587
2019-2023	5,070,000	693,037	1,756,693	158,511
2024-2028	1,005,000	250,175	-	-
2029-2030	470,000	32,838	-	-
Total	\$ 15,495,000	\$ 3,493,763	\$ 3,634,606	\$ 674,604

**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 \$4.7M certificates of participation 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 \$25M in bonds for construction of the Fourth Street Overpass, as approved by voters in May 2000 general election. This issue was partially refunded on March 21, 2012 with pledged revenue bonds.

Municipal Facility Corporate bonds outstanding at June 30, 2013:

Purpose	Amount
Governmental activities	\$ 1,260,000

Municipal facility corporation bonds are comprised of the following issues:

**Municipal Facility Corporation Bonds**

Governmental activities:

\$4,700,000 USGS Project Municipal Facility Corporation bonds, series 12 (2001) due in annual installments of \$255,000 to \$440,000, through August 1, 2016; interest at 4.0 to 4.75%. Facility construction.	\$ 1,260,000
<b>Total Municipal Facility Corporation Bonds</b>	<b>\$ 1,260,000</b>

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2014	\$ 400,000	\$ 59,850
2015	420,000	40,850
2016	440,000	20,900
Total	\$ 1,260,000	\$ 121,600

Certificates of Participation

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

Certificates of participation bonds outstanding at June 30, 2013:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	<u>\$ 3,625,000</u>

Certificates of participation are comprised of the following issues:

Certificates of participation

Governmental activities:

\$4,690,000 Certificates of participation, series 2009 due in annual installments of \$435,000 to \$575,000, through October 1, 2019; interest at 3.3137%. Roadway overlay improvements and fire equipment.	\$ 3,625,000
Total Certificates of participation	\$ 3,625,000

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

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 470,000	\$ 115,770
2015	485,000	101,445
2016	500,000	86,670
2017	515,000	70,673
2018	530,000	52,900
2019-2020	1,125,000	44,812
Total	\$ 3,625,000	\$ 472,270

The following is a summary of debt service requirements, including interest requirements, to maturity for long-term debt at June 30, 2013:

Fiscal Year	General Obligation Bonds	Special Assessment Bonds	Revenue Bonds	Municipal Facility Corporation Bonds	Cetificates of Participation	Total
2014	6,471,652	902,000	1,905,414	459,850	585,770	10,324,686
2015	6,553,142	903,500	2,985,814	460,850	586,445	11,489,751
2016	6,591,103	899,125	2,991,764	460,900	586,670	11,529,562
2017	5,873,392	903,750	2,987,164		585,673	10,349,979
2018	5,796,491	902,250	2,991,563		582,900	10,273,204
2019	5,733,441	899,750	2,985,264		583,312	10,201,767
2020	5,538,091	901,125	2,981,163		586,500	10,006,879
2021	4,032,616	896,375	732,288			5,661,279
2022	3,577,603	895,500	730,277			5,203,380
2023	2,873,401	898,250	249,250			4,020,901
2024	1,085,416	899,500	251,812			2,236,728
2025	1,087,416	894,375	248,950			2,230,741
2026	1,083,016	897,750	250,875			2,231,641
2027	1,081,317	894,500	251,625			2,227,442
2028	1,088,865	894,625	251,913			2,235,403
2029	110,366	893,000	251,737			1,255,103
2030	110,366	889,625	251,100			1,251,091
2031	110,366	894,250				1,004,616
2032		891,750				891,750
Less interest	(10,010,473)	(6,031,000)	(4,168,367)	(121,600)	(472,270)	(20,803,710)
	<u>\$ 48,787,587</u>	<u>\$ 11,020,000</u>	<u>\$ 19,129,606</u>	<u>\$ 1,260,000</u>	<u>\$ 3,625,000</u>	<u>\$ 83,822,193</u>

**Authorized and Issued Debt**

The voters of the City authorize capital projects and the related debt mechanism to finance these capital projects. Voters approved \$8.2M during the bond election of November 5, 1996 to fund park and recreation facilities, as of June 30, 2013, \$1.1M is authorized and unissued. May 18, 2004, voters approved \$47.4M for various capital projects and \$46.6M for future water rights and production, as of June 30, 2013, \$10.5M remains unissued for capital projects and \$.8M remains unissued for future water rights and production. November 2, 2010 voters approved \$21.2M for public safety communication system and various street and utilities improvements, as of June 30, 2013 \$.36M remains unissued. November 6, 2012 voters approved \$14M for a Core Service Maintenance Facility and \$10M for Forest Health and Watershed Protection, as of June 30, 2013 \$14M and \$8M remains unissued, respectively.

**Loans Payable**

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

Loans outstanding as of June 30, 2013:

Purpose	Amount
Business-type activities	<u>\$ 33,873,164</u>

Loan payables at June 30, 2013 consist of the following individual financing options:

Business-type activities:

Water and wastewater:

\$7,900,000 Water infrastructure finance authority due in annual installments of \$295,000 to \$525,000 through July 1, 2026; interest at 3.28%. Water infrastructure acquisition.	\$ 5,645,000
\$23,100,000 Wastewater infrastructure finance authority due in annual installment of \$815,834, to 1,571,901 through July 1, 2027; interest at 3.512%. Sewer treatment plant improvements.	18,404,554
\$8,500,000 Water infrastructure finance authority due in annual installment of \$289,766 to \$591,940 through July 1, 2028; interest at 3.073%, as adjusted on 12/7/12 . Water production improvements and acquisition.	6,923,844
\$2,100,000 Water infrastructure finance authority due in annual installment of \$77,263 to \$138,320 through July 1, 2029; interest at 3.113%. Amount issued to-date \$1,460,666. Remaining available \$639,334. Water feasibility study.	1,136,884
\$232,500 Water infrastructure finance authority due in annual installment of \$8,737 to \$15,054 through July 1, 2029; interest at 2.905%. Well improvements.	196,001
\$594,950 Water infrastructure finance authority due in annual installment of \$22,813 to \$33,603 through July 1, 2029; interest at 2.45%. Original amount issued \$1,000,000, amount deobligated \$405,050. Well infrastructure improvements.	451,188
\$1,100,000 as amended 10/02/09, \$800,000 Water infrastructure finance authority due in annual installment of \$31,475 to \$70,168 through July 1, 2029; interest at 2.45%. Amount issued to-date \$1,008,891. Local aquifer study.	942,142
Total water and wastewater loan payable	<u>\$ 33,699,613</u>

Airport:

\$600,000 Arizona Department of Transportation due in quarterly installments of \$5,337 to \$13,548 through January 1, 2016; interest at 5.60%. Hangar construction.	\$ 173,551
Total	<u>\$ 33,873,164</u>

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

Year Ending June 30	Business-type Activities	
	Principal	Interest
2014	\$ 1,961,504	\$ 1,199,198
2015	2,028,815	1,130,244
2016	2,103,204	1,058,883
2017	2,147,083	985,065
2018	2,195,836	911,045
2019-2023	12,171,750	3,359,540
2024-2028	11,146,149	1,115,008
2029	118,823	7,285
Total	<u>\$ 33,873,164</u>	<u>\$ 9,766,268</u>

### Obligations under Capital Leases

On June 24, 2013, the City entered into a new capital lease agreement for the installation of renewable energy equipment consisting of solar panels at three sites; the Aquaplex, along with the Wildcat and Rio de Flag Wastewater Treatment Plants. Construction is in progress for the installation of the panels.

Capital lease agreement for energy saving equipment related to governmental activities has assets of \$1,032,824. The construction of a co-generator at Wildcat Wastewater Treatment Plant and construction of airport hangars represents total business assets of \$1,372,598 and \$409,494, respectively. These lease agreements generally require annual payments and the lease terms vary from 10 to 21 years. The lease agreements qualify as capital leases for accounting purposes and, therefore have been recorded at the present value of their future minimum lease payments as of the date of inception.

Fiscal Year Ending June 30, 2013	Governmental Activities	Business Type Activities
2014	\$ 512,657	\$ 562,215
2015	319,416	642,866
2016	84,779	644,506
2017	85,325	520,072
2018	85,894	395,680
2019-2023	438,837	1,996,272
2024-2028	408,843	1,127,952
2029	35,891	68,495
Total future minimum lease payments	1,971,642	5,958,058
Less: imputed interest costs	(273,819)	(1,271,599)
Present value of future minimum lease payments	<u>\$ 1,697,823</u>	<u>\$ 4,686,459</u>

### **Pledged Revenues**

The City has pledged future water utility and wastewater utility revenues to repay Water Infrastructure Financing Authority Bonds issued during the period of 1992–2013. The various bonds were issued for the purchase or construction of various water or wastewater infrastructure including wells, water distribution lines, wastewater collection lines, and treatment plant improvements. At June 30, 2013, \$37,334,219 remains outstanding to be repaid by future water and wastewater revenues, if such revenues prove insufficient, the remainder will be repaid as a general obligation of the City. For the fiscal year ended June 30, 2013, net revenue available for service of this debt was \$10,036,310. The debt principal, interest and fees paid in fiscal year 2013 equal \$3,674,830 (36.62% of available pledged net revenues). For additional information on pledged revenues related to revenue bonds, refer to Schedule 17 in the Statistical Section of this report.

The City has pledged certain revenues for the repayment of \$25,000,000 in Municipal Facility Corporation bonds issued in 2004. The bonds were issued to construct transportation infrastructure. The bonds have a senior lien on the 0.16% transportation sales tax and a secondary lien on the excise taxes and state shared revenues not specifically reserved by law or other regulation to be expended for other purposes. On March 21, 2012 a partial advance refunding of \$12,530,000 was completed on the 2004 bonds and replaced with pledged revenue refunding bonds series 2012, holding the 2004 bonds senior. At June 30, 2013, \$12,530,000 remains outstanding to be repaid by future revenues, of which \$1,560,000 is senior. For the fiscal year ended June 30, 2013, net revenues available for service of the debt were \$37,962,078. The debt principal and interest paid in fiscal year 2013 was \$2,102,575 (5.54% of available pledged net revenues). For additional information on pledged revenues for MFC transportation bonds, refer to Schedule 17 in the Statistical Section of this report.

The City has pledged certain revenues for the repayment of \$4,700,000 in Municipal Facility Corporation bonds issued in 2001 for the construction of a multipurpose office facility. The bonds are secured by a pledge of the City's state shared revenues not specifically reserved by law or other regulation to be expended for other purposes. At June 30, 2013 \$1,260,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2013, net revenues available for service of this debt were \$11,657,403. The debt principal and interest paid in fiscal year 2013 was \$462,656 (3.97% of available pledged net revenues). For additional information on pledged revenues for MFC other than transportation bonds, refer to Schedule 17 in the Statistical Section of this report.

The City has pledged certain revenues for the repayment of \$3,370,000 Greater Arizona Development Authority (GADA) revenue bonds issued in 2011 for the construction of a business incubator facility at the U.S. Geological Survey Campus. The bonds are secured by a pledge of the City's state shared revenues not specifically reserved by law or other regulation to be expended for other purposes. At June 30, 2013, \$2,965,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2013, net revenues available for the service of this debt were \$9,304,790. The debt principal and interest paid in fiscal year 2013 was \$250,038 (2.69% of available pledged net revenues). For additional information on pledged revenues for GADA revenue bonds, refer to Schedule 17 in the Statistical Section of this report.

### Changes in long-term liabilities

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

Non-current liability activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 38,449,139	\$ 11,460,000	\$ (2,873,508)	\$ 47,035,631	\$ 4,420,973
Special assessment bonds	11,365,000	-	(345,000)	11,020,000	360,000
Revenue bonds	15,615,000	-	(120,000)	15,495,000	820,000
Municipal facility corporate bonds	3,205,000	-	(1,945,000)	1,260,000	400,000
Certificates of participation	4,080,000	-	(455,000)	3,625,000	470,000
Total bonds payable	<u>72,714,139</u>	<u>11,460,000</u>	<u>(5,738,508)</u>	<u>78,435,631</u>	<u>6,470,973</u>
Capital leases	1,120,061	1,014,557	(436,795)	1,697,823	463,948
Bond premium	2,215,437	542,690	(321,390)	2,436,737	321,388
Deferred loss on advance refunding	(522,432)	-	65,304	(457,128)	(65,304)
Compensated absences	3,627,971	1,644,741	(1,628,523)	3,644,189	1,578,127
Other postemployment benefits	2,326,392	649,302	-	2,975,694	-
Claims and judgements	261,114	198,203	(145,243)	314,074	141,333
Governmental activity long-term liability	<u>\$ 81,742,682</u>	<u>\$ 15,509,493</u>	<u>\$ (8,205,155)</u>	<u>\$ 89,047,020</u>	<u>\$ 8,910,465</u>
<b>Business-type activities:</b>					
Bonds payable:					
General obligation bonds	\$ 3,124,597	\$ -	\$ (1,372,641)	\$ 1,751,956	\$ 310,957
Water & sewer revenue bonds	3,972,483	-	(337,877)	3,634,606	349,863
Total bonds payable	<u>7,097,080</u>	<u>-</u>	<u>(1,710,518)</u>	<u>5,386,562</u>	<u>660,820</u>
Water & sewer loan payable	35,471,520	91,109	(1,863,016)	33,699,613	1,915,315
Airport loan payable	217,241	-	(43,690)	173,551	46,189
Capital lease payable	3,074,992	1,936,443	(324,976)	4,686,459	364,677
Total loan and leases payable	<u>38,763,753</u>	<u>2,027,552</u>	<u>(2,231,682)</u>	<u>38,559,623</u>	<u>2,326,181</u>
Bond premium	63,053	-	(31,527)	31,526	31,526
Deferred loss on current refunding	(71,669)	-	35,834	(35,835)	(35,835)
Compensated absences	808,354	347,162	(310,755)	844,761	329,950
Other postemployment benefits	509,371	143,615	-	652,986	-
Landfill closure/postclosure	7,163,212	247,184	-	7,410,396	-
Business-type activity long-term liability	<u>\$ 54,333,154</u>	<u>\$ 2,765,513</u>	<u>\$ (4,248,648)</u>	<u>\$ 52,850,019</u>	<u>\$ 3,312,642</u>

## V. OTHER INFORMATION

### A. Risk management

The City is exposed to various risks of loss related to torts and public officials' errors and omissions. The City purchases commercial insurance to cover these losses. However, \$50,000 of each claim resulting in a loss is retained by the City. The City provides for the self-insurance retention in the internal service fund. Outstanding claims as of June 30, 2013 have potential exposure to the City of approximately \$314,074 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 position of the Internal Service Fund is designated for future losses related to the self-insurance retention. Settled claims have not exceeded commercial coverage in the last three fiscal years.

<u>Fiscal Year</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2010-11	\$ 440,566	\$ 78,889	\$ 214,713	\$ 304,742
2011-12	304,742	57,776	101,404	261,114
2012-13	261,114	198,203	145,243	314,074

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

### B. Commitments and contingent liabilities

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

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

The following table presents the City's commitments as of June 30, 2013:

Governmental Activities:

General fund	\$	423,944
Highway users revenue fund		3,429,627
BBB fund		464,942
Capital projects fund		2,437,386
Other governmental funds		387,934
Total governmental activities		<u>7,143,833</u>

Business - Type Activities:

Water and wastewater fund		2,508,304
Environmental services fund		-
Airport fund		4,998,461
Stormwater fund		1,046,410
Total business-type activities		<u>8,553,175</u>
Total governmental and business-type activities	\$	<u>15,697,008</u>

### C. Retirement and pension plans

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

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

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

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

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

multiple-employer defined benefit plan. Accordingly, the disclosures that follow reflect the EORP as if it were an agent multiple-employer defined benefit plan.

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

<p><u>ASRS</u>          3300 N. Central Ave.          P.O. Box 33910          Phoenix, AZ 85067-3910          (602) 240-2200/(800) 621-3778</p>	<p><u>PSPRS and EORP</u>          3010 E. Camelback Rd., Suite 200          Phoenix, AZ 85016-4416            (602) 255-5575  <a href="http://www.psprs.com">www.psprs.com</a></p>
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**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, 2013, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.14% (10.90% retirement and 0.24% long-term disability) of the members' annual covered payroll and the City was required by statute to contribute at the actuarially determined rate of 11.14% (10.25% retirement, .65% for health insurance premium, and 0.24% long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2013, 2012, and 2011 were \$2,999,222, \$2,884,449, and \$2,642,362 respectively, inclusive of Housing Authority. The City contribution for the current and two preceding years, all of which were equal to the required contributions, were as follows:

	<u>Retirement</u>	<u>Health Insurance</u>	<u>Long-term Disability</u>
6/30/2013	\$ 2,759,607	\$ 174,999	\$ 64,615
6/30/2012	2,650,792	169,199	64,457
6/30/2011	2,417,024	158,273	67,065

In addition, active EORP members were required by statute to contribute 11.50% of the members' annual covered payroll. The City was required to contribute 24.94% of the members' annual covered payroll, the aggregate of which is determined by actuarial valuation. The health insurance premium portion of the contribution rate for normal cost was actuarially set at 1.80% of covered payroll. The City's contributions to EORP for the years ended June 30, 2013, 2012, and 2011 were \$59,060, \$55,498, and \$48,203 respectively, which equal the required contributions for each year, and is inclusive of Housing Authority. The City contributions for the current and two preceding years, all of which were equal to the required contributions, were as follow:

	<u>Retirement</u>	<u>Health Insurance</u>
6/30/2013	\$ 54,797	\$ 4,263
6/30/2012	52,487	3,011
6/30/2011	46,828	1,375

**Agent Plan** – For the year ended June 30, 2013, active PSPRS members were required by statute to contribute 9.55% of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 19.67% and 28.25% for Police and Fire respectively. Police personnel contributed \$885,449; Fire personnel contributed \$513,626 during fiscal year 2012-2013. The City annual pension and OPEB cost of \$1,823,748 for police and \$1,519,363 for fire is based on actual payroll costs and may vary to the City's annual required

contribution since the actuary basis is based on estimated payroll costs. Benefit and contribution provisions are established by state law and may be amended only by the State of Arizona Legislature (A.R.S. Section 38-843).

**Annual Pension Cost** – The City's pension cost for the agent plan for the year ended June 30, 2013, the date of the most recent actuarial valuation, and related information follow.

	PSPRS		
	Police	Fire	EORP
Contribution rates FY12-2013:			
City	19.67%	28.25%	24.94%
Plan members	9.55%	9.55%	11.50%
Annual pension costs*	\$ 2,036,851	\$ 1,721,727	\$ 54,797
Pension contributions made	\$ 1,770,763	\$ 1,432,411	\$ 54,797
Annual OPEB costs – Health Insurance	\$ 52,985	\$ 86,952	\$ 4,263
OPEB contributions made	\$ 52,985	\$ 86,952	\$ 4,263
As of actuarial valuation date:	6/30/2013	6/30/2013	6/30/2013
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent-of-pay closed	Level percent-of-pay closed	Level dollar closed
Remaining amortization period-UAL	23 years	23 years	23 years
Remaining amortization period-excess	20 years	20 years	20 years
Asset valuation method	7-year smoothed market	7-year smoothed market	7-year smoothed market
Actuarial assumptions:			
Investment rate of return	7.85%	7.85%	7.85%
Projected salary increases	4.5% – 8.5%	4.5% – 8.5%	4.25%
Inflation	4.50%	4.50%	4.00%
Cost of living adjustments	None	None	None

\*Actuary estimates payroll while the City reports on actual payroll

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

Contributions Required and Contributions Made

Plan		Annual Pension Cost (APC) *	Percentage of APC Contributed		Net Pension Obligation
<b>PSRS – Police – Pension</b>					
6/30/2013	\$	1,770,763	100%	\$	-0-
6/30/2012		1,734,804	100%		-0-
6/30/2011		1,698,848	100%		-0-
<b>PSRS – Police – Health Insurance</b>					
6/30/2013	\$	52,985	100%	\$	-0-
6/30/2012		51,929	100%		-0-
6/30/2011		49,918	100%		-0-
<b>PSRS – Fire – Pension</b>					
6/30/2013	\$	1,432,411	100%	\$	-0-
6/30/2012		1,420,778	100%		-0-
6/30/2011		1,380,272	100%		-0-
<b>PSRS – Fire – Health Insurance</b>					
6/30/2013	\$	86,952	100%	\$	-0-
6/30/2012		95,474	100%		-0-
6/30/2011		90,626	100%		-0-
<b>EORP – Pension</b>					
6/30/2013	\$	54,797	100%	\$	-0-
6/30/2012		52,487	100%		-0-
6/30/2011		46,828	100%		-0-
<b>EORP – Health Insurance</b>					
6/30/2013	\$	4,263	100%	\$	-0-
6/30/2012		3,011	100%		-0-
6/30/2011		1,375	100%		-0-

\*Actuary estimates payroll while the City reports on actual payroll

**Schedule of Funding Progress** – An analysis of funding progress for each of the agent plans as of the most recent actuarial valuations; June 30, 2011 reporting period determines the rates for fiscal year 2013. Benefits are disaggregated and reported separately. The EORP, by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement No. 43, paragraphs 5 and 41, the valuation for the EORP on its statutory basis as a cost-sharing plan and, therefore, actuarial information for the City, as a participating government, is not available.

	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4) / (5)
<b>PSRS – Police Pension</b>						
6/30/2013 \$	24,004,933 \$	50,736,319	47.3% \$	26,731,386 \$	6,928,981	385.8%
6/30/2012	24,405,305	50,077,922	48.7%	25,672,617	7,083,003	362.5%
6/30/2011	25,208,537	45,968,224	54.8%	20,759,687	6,801,375	305.2%
<b>PSRS – Police Health Insurance</b>						
6/30/2013 \$	- \$	1,113,009	0.0% \$	1,113,009 \$	6,928,981	16.1%
6/30/2012	-	1,170,030	0.0%	1,170,030	7,083,003	16.5%
6/30/2011	-	1,159,297	0.0%	1,159,297	6,801,375	17.0%
<b>PSRS – Fire Pension</b>						
6/30/2013 \$	30,383,466 \$	57,455,404	52.9% \$	27,071,938 \$	4,613,508	586.8%
6/30/2012	31,459,483	56,007,099	56.2%	24,547,616	4,546,952	539.9%
6/30/2011	32,146,592	51,857,015	62.0%	19,710,423	4,606,922	427.8%
<b>PSRS – Fire Health Insurance</b>						
6/30/2013 \$	- \$	1,531,410	0.0% \$	1,531,410 \$	4,613,508	33.2%
6/30/2012	-	1,553,913	0.0%	1,553,913	4,546,952	34.2%
6/30/2011	-	1,563,996	0.0%	1,563,996	4,606,922	33.9%

#### D. Other Post Employment Benefits (OPEB) Plan

##### Postemployment Healthcare Plan

**Plan description.** The City of Flagstaff provides post-retirement healthcare insurance benefits for its retirees as an agent multiple-employer plan which is administered through, Northern Arizona Public Employee Benefit Trust (NAPEBT). NAPEBT provides benefits to eligible retirees through the same plan as active city employees and their beneficiaries up to the age of 65; the implicit rate subsidy exists through the duration of the coverage. Substantially, all of the City's employees may become eligible for those benefits when they qualify for retirement. To be eligible a retiree must qualify to receive retirement benefits from the Arizona State Retirement System and elect coverage at date of retirement. NAPEBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on their website: [www.napebt.com/community\\_docs](http://www.napebt.com/community_docs). As of June 30, 2013, there were 76 retirees who elected coverage.

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

The city has elected to not fund the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City's implicit subsidy rate to covered payroll is actuarially determined at 23.4%. Plan members receiving benefits contribute \$194,833 during fiscal year 2013.

**Annual OPEB Cost and Net OPEB Obligation.** For 2013, the city's annual OPEB cost (expense) of \$987,749 was equal to the ARC, as adjusted by any ARC adjustments, and interest on the net OPEB obligation of \$127,931. On June 30, 2013, the net increase in NOO for governmental activities was \$649,301 and for business-type activities was \$136,466.

The city's annual OPEB cost; inclusive of Housing Authority, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2013	\$ 987,749	\$ 194,833	19.7%	\$ 3,628,680
6/30/2012	999,061	392,380	39.3%	2,835,764
6/30/2011	1,249,702	159,002	12.7%	2,229,083

Fiscal Year Ended	(1) Annual Required Contribution	(2) Interest on Existing NOO	(3) ARC Adjustment	(4) Annual OPEB Cost (1) + (2) + (3)	(5) Actual Contribution Amount	(6) Net Increase in NOO (4) - (5)	(7) NOO as of End of Year
6/30/2013	\$ 1,034,349	\$ 127,931	\$ (174,531)	\$ 987,749	\$ 194,833	\$ 792,916	\$ 3,628,680
6/30/2012	1,035,681	100,534	(137,154)	999,061	392,380	606,681	2,835,764
6/30/2011	1,268,106	50,526	(68,930)	1,249,702	159,002	1,090,700	2,229,083

**Funded Status and Funding Progress.** As of July 1, 2011, the actuarial accrued liability for benefits was \$9,808,514, all of which was unfunded. The covered payroll of active employees covered by the plan is \$41,941,781, and the ratio of the unfunded actuarial accrued liability to the covered payroll is 23.4 percent. Following is a table of the last three years funding progress as available, inclusive of Housing Authority unless noted.

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(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)
7/1/2011	-	\$ 9,808,514	0.0%	\$ 9,808,514	\$ 41,941,781	23.4%
7/1/2010*	-	12,234,910	0.0%	12,234,910	34,486,958	35.5%
7/1/2008*	-	8,946,294	0.0%	8,946,294	42,292,297	21.2%

(\*) Information not available for Housing Authority

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents

multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the July 1, 2011, actuarial valuation, the entry age normal, level dollar, actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return with no inflation rate factor and no projected salary increases factor, due to level dollar valuation used. Healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of five percent over eight years. The remaining amortization period at July 1, 2011, was 30 years, open, level dollar amount. The City has elected to perform biennial actuary valuations.

## **E. Landfill closure and postclosure care cost**

State and federal laws and regulations require the City to place a final cover on its Cinderlake landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The City reports a portion of these closures and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The estimated liability for landfill closure and postclosure care costs has a balance of \$7,410,396, as of June 30, 2013, which is based on 73.25 percent usage of the landfill. The remaining \$2,706,454 will be accrued over the remaining life of the landfill, which is currently estimated to be 13 years.

The accrual for the closure and postclosure care costs for fiscal year 2013 is \$247,184. Based on current estimates for landfill closure and postclosure care costs, the City is setting aside legally restricted funds to ensure sufficient funds will be available to meet these requirements. The City makes annual contributions to finance closure and postclosure care costs; at June 30, 2013 the balance of the investments held for those purposes is \$9,783,057. The investments are reported as restricted cash and investments in the City's Environmental Service Fund, and are held by the State of Arizona Local Government Investment Pool.

The estimated total current cost of the landfill closure and postclosure care, \$10,116,850, 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, 2013. 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 U.S. Forest Service. This land is adjacent to the existing landfill and will be used to open additional cells as needed. As these cells are utilized, additional liabilities for closure and postclosure care requirements will be accrued. The City applied existing policy to the

Environmental services fund increasing its' expenditures as City residential and commercial collection programs are now charged for landfill fees.

## **F. Subsequent Events**

On November 15, 2013, the City redeemed \$810,000 of its' Aspen Place at the Sawmill Improvement District Bonds as part of a refunding defeasance related to the property owner selling to another developer.

## 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.

#### **Bed, Board and Beverage Tax Fund**

This fund accounts for the Bed, Board and Beverage tax revenues as approved by voters in the 2010 general election and related expenditures. These resources are restricted for use in the areas of Beautification, Economic Development, Tourism, Arts & Science, and Recreation.

#### **Community Redevelopment**

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

#### **Metropolitan Planning Organization**

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

### **Debt Service Funds**

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

#### **General Obligation Bond Fund**

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

#### **Secondary Property Tax Revenue Fund**

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

### **Permanent Fund**

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

#### **Perpetual Care**

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

**CITY OF FLAGSTAFF, ARIZONA**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2013**

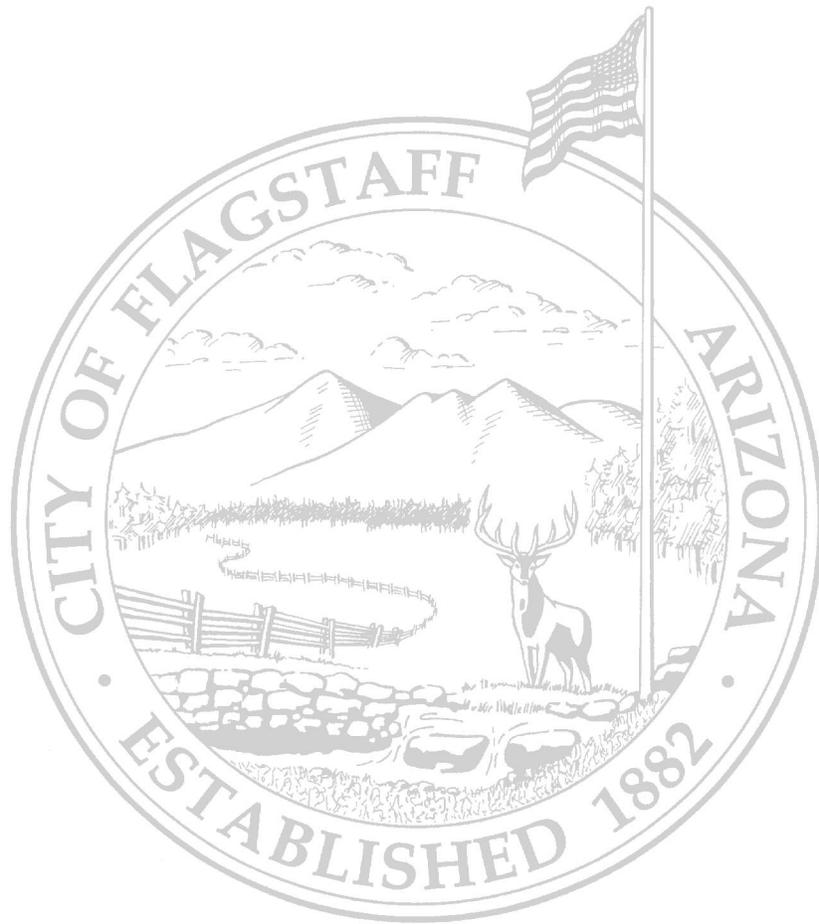
	Special Revenue Funds			
	Library Fund	BBB Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
<b>ASSETS</b>				
Cash and investments	\$ 1,396,299	\$ 8,749,236	\$ 868,454	\$ 2,680
Accounts receivable, net	93,982	802,480	198	-
Interest receivable	7,354	15,667	1,716	-
Intergovernmental receivables	-	57,853	93,077	79,706
Inventory	-	45,455	-	-
Restricted cash and investments	2,935,886	-	-	-
Total assets	<u>\$ 4,433,521</u>	<u>\$ 9,670,691</u>	<u>\$ 963,445</u>	<u>\$ 82,386</u>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts payable	\$ 571,414	\$ 281,142	\$ 13,314	\$ 1,522
Accrued payroll and compensated absences	47,124	20,088	1,231	4,387
Current bonds payable	-	120,000	-	-
Interest payable	-	65,019	-	-
Interfund payable	-	-	-	55,000
Unearned revenue	60,165	6,000	-	570
Total liabilities	<u>678,703</u>	<u>492,249</u>	<u>14,545</u>	<u>61,479</u>
Fund balances:				
Nonspendable:				
Perpetual care	-	-	-	-
Inventory	-	45,455	-	-
Restricted for:				
Library services	818,932	-	-	-
Library branch services	1,004,065	-	-	-
Library programs board directed	1,931,821	-	-	-
Debt service	-	-	-	-
Economic development	-	1,151,616	-	-
Arts and science	-	460,066	-	-
Culture and recreation	-	2,050,902	-	-
Other capital projects	-	5,470,403	948,900	-
Regional planning	-	-	-	20,907
Perpetual care	-	-	-	-
Total fund balances	<u>3,754,818</u>	<u>9,178,442</u>	<u>948,900</u>	<u>20,907</u>
Total liabilities and fund balances	<u>\$ 4,433,521</u>	<u>\$ 9,670,691</u>	<u>\$ 963,445</u>	<u>\$ 82,386</u>

Debt Service Funds		Permanent Fund	
General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Perpetual Care	Total Other Governmental Funds
\$ 3,622,990	\$ 8,802,241	\$ 13,178	\$ 23,455,078
-	-	3,435	900,095
-	19,016	402	44,155
-	-	-	230,636
-	-	-	45,455
-	-	201,981	3,137,867
<u>\$ 3,622,990</u>	<u>\$ 8,821,257</u>	<u>\$ 218,996</u>	<u>\$ 27,813,286</u>
\$ 43,948	\$ -	\$ -	\$ 911,340
-	-	-	72,830
2,873,508	-	-	2,993,508
705,534	-	-	770,553
-	-	-	55,000
-	-	-	66,735
<u>3,622,990</u>	<u>-</u>	<u>-</u>	<u>4,869,966</u>
-	-	201,981	201,981
-	-	-	45,455
-	-	-	818,932
-	-	-	1,004,065
-	-	-	1,931,821
-	8,821,257	-	8,821,257
-	-	-	1,151,616
-	-	-	460,066
-	-	-	2,050,902
-	-	-	6,419,303
-	-	-	20,907
-	-	17,015	17,015
-	8,821,257	218,996	22,943,320
<u>\$ 3,622,990</u>	<u>\$ 8,821,257</u>	<u>\$ 218,996</u>	<u>\$ 27,813,286</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**Year Ended June 30, 2013**

	Special Revenue Funds			
	Library Fund	BBB Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
<b>REVENUES:</b>				
Taxes	\$ -	\$ 5,911,175	\$ -	\$ -
Intergovernmental	3,214,133	-	-	5,000
Grants and entitlements	53,882	463,060	509,775	255,984
Rents	-	52,386	3,870	-
Investment earnings	33,993	67,031	7,809	-
Contributions	32,588	6,521	-	3,980
Miscellaneous	43,360	100,559	690,059	-
Total revenues	<u>3,377,956</u>	<u>6,600,732</u>	<u>1,211,513</u>	<u>264,964</u>
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	-	2,494,359	1,472,674	279,163
Culture and recreation	4,622,933	641,238	-	-
Highways and streets	-	81,452	-	-
Debt service:				
Principal retirement	-	120,000	-	-
Interest and other charges	-	130,505	-	-
Capital outlay	11,201	1,249,434	-	-
Total expenditures	<u>4,634,134</u>	<u>4,716,988</u>	<u>1,472,674</u>	<u>279,163</u>
Excess (deficiency) of revenues over expenditures	<u>(1,256,178)</u>	<u>1,883,744</u>	<u>(261,161)</u>	<u>(14,199)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	579	-	-	-
Transfers in	1,140,651	1,125,957	-	22,493
Transfers out	(78,391)	(1,846,328)	(14,000)	-
Total other financing sources (uses)	<u>1,062,839</u>	<u>(720,371)</u>	<u>(14,000)</u>	<u>22,493</u>
Net change in fund balances	<u>(193,339)</u>	<u>1,163,373</u>	<u>(275,161)</u>	<u>8,294</u>
Fund balances, beginning of year	<u>3,948,157</u>	<u>8,015,069</u>	<u>1,224,061</u>	<u>12,613</u>
Fund balances, end of year	<u>\$ 3,754,818</u>	<u>\$ 9,178,442</u>	<u>\$ 948,900</u>	<u>\$ 20,907</u>

<u>Debt Service Funds</u>		<u>Permanent Fund</u>	
<u>General Obligation Bond Fund</u>	<u>Secondary Property Tax Revenue Fund</u>	<u>Perpetual Care</u>	<u>Total Other Governmental Funds</u>
\$ -	\$ 6,423,153	\$ -	\$ 12,334,328
-	-	-	3,219,133
-	-	-	1,282,701
-	-	-	56,256
-	75,132	1,744	185,709
-	-	23,935	67,024
-	-	-	833,978
<u>-</u>	<u>6,498,285</u>	<u>25,679</u>	<u>17,979,129</u>
-	-	-	4,246,196
-	-	-	5,264,171
-	-	-	81,452
2,873,508	-	-	2,993,508
1,415,903	-	-	1,546,408
-	-	-	1,260,635
<u>4,289,411</u>	<u>-</u>	<u>-</u>	<u>15,392,370</u>
<u>(4,289,411)</u>	<u>6,498,285</u>	<u>25,679</u>	<u>2,586,759</u>
-	-	-	579
3,911,354	-	-	6,200,455
-	(3,911,354)	-	(5,850,073)
<u>3,911,354</u>	<u>(3,911,354)</u>	<u>-</u>	<u>350,961</u>
<u>(378,057)</u>	<u>2,586,931</u>	<u>25,679</u>	<u>2,937,720</u>
<u>378,057</u>	<u>6,234,326</u>	<u>193,317</u>	<u>20,005,600</u>
<u>\$ -</u>	<u>\$ 8,821,257</u>	<u>\$ 218,996</u>	<u>\$ 22,943,320</u>



## Other Supplementary Information

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City of Flagstaff, Arizona  
Capital Assets Used in the Operation of Governmental Funds  
Schedule By Function and Activity  
June 30, 2013

Program	Land	Buildings	Improvements
General government	\$ 2,645,130	\$ 13,692,410	\$ 1,919,187
Public safety	4,096,419	27,530,153	113,946
Public works	-	5,343,042	185,712
Economic and physical development	-	7,541,573	95,128
Culture and recreation	10,427,547	22,281,151	15,384,073
Highway and streets	38,593,297	102,309	2,279,434
Subtotal	55,762,393	76,490,638	19,977,480
Less: accumulated depreciation	-	(18,614,045)	(12,769,464)
Total governmental funds capital assets	<u>\$ 55,762,393</u>	<u>\$ 57,876,593</u>	<u>\$ 7,208,016</u>

Machinery and Equipment	Construction In Progress	Infrastructure	Total
\$ 1,621,383	\$ 356,325	\$ -	\$ 20,234,435
16,540,487	-	-	48,281,005
1,401,104	-	1,117,225	8,047,083
933,346	-	652,947	9,222,994
3,855,449	619,765	9,639,935	62,207,920
8,863,736	6,009,645	277,464,390	333,312,811
33,215,505	6,985,735	288,874,497	481,306,248
(21,449,835)	-	(128,843,690)	(181,677,034)
\$ 11,765,670	\$ 6,985,735	\$ 160,030,807	\$ 299,629,214

City of Flagstaff, Arizona  
Capital Assets Used in the Operation of Governmental Funds  
Schedule of Changes By Function and Activity  
June 30, 2013

Program	Balance July 1, 2012	Additions	Retirements	Transfers In (out)	Balance June 30, 2013
General government	\$ 22,137,709	\$ 357,099	\$ (2,314,779)	\$ 54,406	\$ 20,234,435
Public safety	47,285,120	784,507	136,078	75,300	48,281,005
Public works	7,828,486	-	218,960	(363)	8,047,083
Economic and physical development	9,337,387	-	(114,393)	-	9,222,994
Culture and recreation	56,080,415	7,660,219	(1,556,217)	23,503	62,207,920
Highway and streets	321,977,197	9,986,246	2,586,779	(1,237,410)	333,312,811
Total	<u>\$ 464,646,314</u>	<u>\$ 18,788,071</u>	<u>\$ (1,043,573)</u>	<u>\$ (1,084,564)</u>	<u>\$ 481,306,248</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, 2013**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Special assessments	\$ 904,625	\$ 904,625	\$ 722,733	\$ (181,892)
Investment earnings	1,400	1,400	2,696	1,296
Total revenues	<u>906,025</u>	<u>906,025</u>	<u>725,429</u>	<u>(180,596)</u>
<b>EXPENDITURES:</b>				
Debt service:				
Principal retirement	345,000	345,000	345,000	-
Interest and other charges	<u>563,225</u>	<u>563,225</u>	<u>560,476</u>	<u>2,749</u>
Total expenditures	<u>908,225</u>	<u>908,225</u>	<u>905,476</u>	<u>2,749</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,200)</u>	<u>(2,200)</u>	<u>(180,047)</u>	<u>(177,847)</u>
Net change in fund balances	<u>(2,200)</u>	<u>(2,200)</u>	<u>(180,047)</u>	<u>(177,847)</u>
Budgetary fund balances, beginning of year	<u>239,090</u>	<u>239,090</u>	<u>239,090</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 236,890</u>	<u>\$ 236,890</u>	<u>\$ 59,043</u>	<u>\$ (177,847)</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Capital Projects Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2013**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Grants and entitlements	\$ 6,762,500	\$ 6,762,500	\$ 2,409,025	\$ (4,353,475)
Miscellaneous	3,976,000	3,976,000	-	(3,976,000)
Investment earnings	13,230	13,230	20,309	7,079
Total revenues	<u>10,751,730</u>	<u>10,751,730</u>	<u>2,429,334</u>	<u>(8,322,396)</u>
<b>EXPENDITURES:</b>				
Current:				
Capital outlay	74,559,305	74,559,305	10,350,872	64,208,433
Total expenditures	<u>74,559,305</u>	<u>74,559,305</u>	<u>10,350,872</u>	<u>64,208,433</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(63,807,575)</u>	<u>(63,807,575)</u>	<u>(7,921,538)</u>	<u>55,886,037</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued	56,110,000	56,110,000	11,460,000	(44,650,000)
Bond premium	-	-	542,689	542,689
Sale of capital assets	8,320,000	8,320,000	-	(8,320,000)
Transfers in	1,000,000	1,000,000	175,699	(824,301)
Transfers out	-	-	(12,065)	(12,065)
Total other financing sources (uses)	<u>65,430,000</u>	<u>65,430,000</u>	<u>12,166,323</u>	<u>(53,263,677)</u>
Net change in fund balances	<u>1,622,425</u>	<u>1,622,425</u>	<u>4,244,785</u>	<u>2,622,360</u>
Budgetary fund balances, beginning of year	<u>5,213,186</u>	<u>5,213,186</u>	<u>5,213,186</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 6,835,611</u>	<u>\$ 6,835,611</u>	<u>\$ 9,457,971</u>	<u>\$ 2,622,360</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Library Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2013**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 3,843,535	\$ 3,843,535	\$ 3,214,133	\$ (629,402)
Grants and entitlements	52,400	52,400	53,882	1,482
Investment earnings	27,250	27,250	33,993	6,743
Miscellaneous	2,453,363	2,453,363	43,360	(2,410,003)
Total revenues	<u>6,376,548</u>	<u>6,376,548</u>	<u>3,345,368</u>	<u>(3,031,180)</u>
<b>EXPENDITURES:</b>				
Current:				
Culture and recreation	7,596,016	7,596,016	4,622,675	2,973,341
Capital outlay	-	-	11,201	(11,201)
Contingency	100,000	100,000	258	99,742
Total expenditures	<u>7,696,016</u>	<u>7,696,016</u>	<u>4,634,134</u>	<u>3,061,882</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,319,468)</u>	<u>(1,319,468)</u>	<u>(1,288,766)</u>	<u>30,702</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	-	-	579	579
Transfers in	1,140,651	1,140,651	1,140,651	-
Transfers out	<u>(328,391)</u>	<u>(328,391)</u>	<u>(78,391)</u>	<u>250,000</u>
Total other financing sources (uses)	<u>812,260</u>	<u>812,260</u>	<u>1,062,839</u>	<u>250,579</u>
Net change in fund balances	<u>(507,208)</u>	<u>(507,208)</u>	<u>(225,927)</u>	<u>281,281</u>
Budgetary fund balances, beginning of year	<u>810,264</u>	<u>810,264</u>	<u>810,264</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 303,056</u>	<u>\$ 303,056</u>	<u>\$ 584,337</u>	<u>\$ 281,281</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ (225,927)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			32,588	
Adjusted net change in fund balance – GAAP basis			<u>\$ (193,339)</u>	

**CITY OF FLAGSTAFF, ARIZONA**  
**BBB Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2013**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 5,531,750	\$ 5,531,750	\$ 5,912,725	\$ 380,975
Grants and entitlements	1,452,471	1,452,471	463,060	(989,411)
Rents	290,823	290,823	52,386	(238,437)
Investment earnings	244,126	244,126	67,031	(177,095)
Contributions	-	-	5,000	5,000
Miscellaneous	89,875	89,875	100,559	10,684
Total revenues	7,609,045	7,609,045	6,600,761	(1,008,284)
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	2,579,204	2,579,204	2,494,359	84,845
Culture and recreation	584,645	584,645	641,238	(56,593)
Highways and streets	-	-	81,452	(81,452)
Debt service:				
Principal retirement	218,397	218,397	120,000	98,397
Interest and other charges	215,756	215,756	130,505	85,251
Capital outlay	7,729,049	7,729,049	1,249,434	6,479,615
Contingency	335,000	335,000	-	335,000
Total expenditures	11,662,051	11,662,051	4,716,988	6,945,063
Excess (deficiency) of revenues over (under) expenditures	(4,053,006)	(4,053,006)	1,883,773	5,936,779
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued	1,100,000	1,100,000	-	(1,100,000)
Transfers in	1,121,500	1,121,500	1,125,957	4,457
Transfers out	(2,081,342)	(2,081,342)	(1,846,328)	235,014
Total other financing sources (uses)	140,158	140,158	(720,371)	(860,529)
Net change in fund balances	(3,912,848)	(3,912,848)	1,163,402	5,076,250
Budgetary fund balances, beginning of year	7,065,420	7,065,420	7,065,420	-
Budgetary fund balances, end of year	\$ 3,152,572	\$ 3,152,572	\$ 8,228,822	\$ 5,076,250
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ 1,163,402	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			(29)	
Adjusted net change in fund balance – GAAP basis			\$ 1,163,373	

**CITY OF FLAGSTAFF, ARIZONA**  
**Community Redevelopment Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2013**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Grants and entitlements	\$ 1,739,731	\$ 1,739,731	\$ 564,097	\$ (1,175,634)
Charges for services	-	-	20,615	20,615
Investment earnings	-	-	7,809	7,809
Miscellaneous	483,000	483,000	646,314	163,314
Total revenues	<u>2,222,731</u>	<u>2,222,731</u>	<u>1,238,835</u>	<u>(983,896)</u>
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	3,432,324	3,432,324	1,499,996	1,932,328
Total expenditures	<u>3,432,324</u>	<u>3,432,324</u>	<u>1,499,996</u>	<u>1,932,328</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,209,593)</u>	<u>(1,209,593)</u>	<u>(261,161)</u>	<u>948,432</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(14,000)	(14,000)	(14,000)	-
Total other financing sources (uses)	<u>(14,000)</u>	<u>(14,000)</u>	<u>(14,000)</u>	<u>-</u>
Net change in fund balances	<u>(1,223,593)</u>	<u>(1,223,593)</u>	<u>(275,161)</u>	<u>948,432</u>
Budgetary fund balances, beginning of year	<u>1,533,801</u>	<u>1,533,801</u>	<u>1,533,801</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 310,208</u>	<u>\$ 310,208</u>	<u>\$ 1,258,640</u>	<u>\$ 948,432</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, 2013**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Grants and entitlements	\$ 480,604	\$ 480,604	\$ 273,244	\$ (207,360)
Intergovernmental	5,000	5,000	5,000	-
Total revenues	485,604	485,604	278,244	(207,360)
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	408,097	408,097	296,423	111,674
Contingency	100,000	100,000	-	100,000
Total expenditures	508,097	508,097	296,423	211,674
Excess (deficiency) of revenues over (under) expenditures	(22,493)	(22,493)	(18,179)	4,314
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	22,493	22,493	22,493	-
Total other financing sources (uses)	22,493	22,493	22,493	-
Net change in fund balances	-	-	4,314	4,314
Budgetary fund balances, beginning of year	-	-	-	-
Budgetary fund balances, end of year	\$ -	\$ -	\$ 4,314	\$ 4,314
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 4,314	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			3,980	
Adjusted net change in fund balance – GAAP basis			\$ 8,294	

**CITY OF FLAGSTAFF, ARIZONA**  
**General Obligation Bond Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2013**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES:</b>				
Debt service:				
Principal retirement	\$ 5,456,156	\$ 3,030,000	\$ 4,289,411	\$ (1,259,411)
Interest and other charges	-	1,915,431	-	1,915,431
Total expenditures	<u>5,456,156</u>	<u>4,945,431</u>	<u>4,289,411</u>	<u>656,020</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,456,156)</u>	<u>(4,945,431)</u>	<u>(4,289,411)</u>	<u>656,020</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	5,456,156	4,945,431	3,911,354	(1,034,077)
Total other financing sources (uses)	<u>5,456,156</u>	<u>4,945,431</u>	<u>3,911,354</u>	<u>(1,034,077)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(378,057)</u>	<u>(378,057)</u>
Budgetary fund balances, beginning of year	<u>348,355</u>	<u>348,355</u>	<u>348,355</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 348,355</u>	<u>\$ 348,355</u>	<u>\$ (29,702)</u>	<u>\$ (378,057)</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, 2013**

	<u>Budget</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes	\$ 6,402,304	\$ 6,402,304	\$ 6,423,153	\$ 20,849
Investment earnings	32,700	32,700	75,132	42,432
Total revenues	<u>6,435,004</u>	<u>6,435,004</u>	<u>6,498,285</u>	<u>63,281</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	650,000	650,000	-	(650,000)
Transfers out	<u>(5,456,156)</u>	<u>(5,456,156)</u>	<u>(3,911,354)</u>	<u>1,544,802</u>
Total other financing sources (uses)	<u>(4,806,156)</u>	<u>(4,806,156)</u>	<u>(3,911,354)</u>	<u>894,802</u>
Net change in fund balances	<u>1,628,848</u>	<u>1,628,848</u>	<u>2,586,931</u>	<u>958,083</u>
Budgetary fund balances, beginning of year	<u>5,297,244</u>	<u>5,297,244</u>	<u>5,297,244</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 6,926,092</u>	<u>\$ 6,926,092</u>	<u>\$ 7,884,175</u>	<u>\$ 958,083</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Net Position Accounts**  
**Year Ended June 30, 2013**

	Public Housing 14.850 & 14.872	Housing Choice Vouchers 14.871	Business Activities	Resident Opportunity and Supportive Services 14.870	Moderate Rehab- ilitation 14.856	Elimination	Total
<b>Assets:</b>							
<b>Current Assets:</b>							
<b>Cash:</b>							
Cash – Unrestricted	\$ 639,166	\$ 79,472	\$ 70,546		\$ 11,812		\$ 800,996
Cash – Other Restricted		215,946					215,946
Cash – Tenant Security Deposits	70,817						70,817
<b>Total Cash</b>	<b>709,983</b>	<b>295,418</b>	<b>70,546</b>	<b>-</b>	<b>11,812</b>	<b>-</b>	<b>1,087,759</b>
<b>Accounts Receivables:</b>							
Accounts Receivable – PHA Projects	-	-	-	-	-	-	-
Accounts Receivable – HUD Other Projects	86,878	-	-	3,552	3,063	-	93,493
Accounts Receivable – Other Government	-	-	-	-	-	-	-
Accounts Receivable – Miscellaneous	-	2,066	66,548	-	-	-	68,614
Accounts Receivable – Tenants	7,416	-	-	-	-	-	7,416
Allowance for Doubtful Accounts – Tenants	(2,622)	-	-	-	-	-	(2,622)
Allowance for Doubtful Accounts – Other	-	-	(27,304)	-	-	-	(27,304)
Fraud Recovery	-	532	-	-	-	-	532
Allowance for Doubtful Accounts – Fraud	-	(532)	-	-	-	-	(532)
Accrued Interest Receivable	-	-	-	-	-	-	-
<b>Total Receivables, Net</b>	<b>91,672</b>	<b>2,066</b>	<b>39,244</b>	<b>3,552</b>	<b>3,063</b>	<b>-</b>	<b>139,597</b>
<b>Current investments</b>							
Investments – Unrestricted	-	-	-	-	-	-	-
Investments – Restricted	-	-	-	-	-	-	-
Prepaid Expenses and Other Assets	58,806	3,872	20,337	-	-	-	83,015
Inventories	-	-	-	-	-	-	-
Allowance for Obsolete Inventories	-	-	-	-	-	-	-
Inter Program Due From	2,038	-	-	-	-	(2,038)	-
Assets Held for Sale	-	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>862,499</b>	<b>301,356</b>	<b>130,127</b>	<b>3,552</b>	<b>14,875</b>	<b>(2,038)</b>	<b>1,310,371</b>
<b>Noncurrent Assets:</b>							
<b>Capital Assets:</b>							
Land	1,446,035	-	-	-	-	-	1,446,035
Buildings	8,349,012	-	-	-	-	-	8,349,012
Furniture, Equipment & Machinery – Dwellings	887,236	-	-	-	-	-	887,236
Furniture, Equipment & Machinery – Administration	567,014	43,489	-	-	-	-	610,503
Leasehold Improvements	-	-	-	-	-	-	-
Accumulated Depreciation	(6,027,402)	(43,489)	-	-	-	-	(6,070,891)
Construction in Progress	-	-	-	-	-	-	-
<b>Total Capital Assets, Net</b>	<b>5,221,895</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,221,895</b>
Notes receivable – Noncurrent	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-
<b>Total Non-Current Assets</b>	<b>5,221,895</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,221,895</b>
<b>Total Assets</b>	<b>6,084,394</b>	<b>301,356</b>	<b>130,127</b>	<b>3,552</b>	<b>14,875</b>	<b>(2,038)</b>	<b>6,532,266</b>

(continued)

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Net Position Accounts**  
**Year Ended June 30, 2013**

	Public Housing 14.850 & 14.872	Housing Choice Vouchers 14.871	Business Activities	Resident Opportunity and Supportive Services 14.870	Moderate Rehab- ilitation 14.856	Elimination	Total
<b>Liabilities and Net Position:</b>							
<b>Liabilities:</b>							
<b>Current Liabilities:</b>							
Bank Overdraft	-	-	-	-	-	-	-
Accounts Payable <= 90 Days	55,165	3,857	28,179	402	2,116	-	89,719
Accrued Wage/Payroll Taxes Payable	20,779	4,460	432	1,112	-	-	26,783
Accrued Compensated Absences	17,537	17,174	503	-	-	-	35,214
Accrued Interest Payable	-	-	-	-	-	-	-
Accounts Payable – HUD PHA Programs	-	-	-	-	-	-	-
Account Payable – PHA Projects	-	-	-	-	-	-	-
Accounts Payable – Other Government	66,597	-	-	-	-	-	66,597
Tenant Security Deposits	70,817	-	-	-	-	-	70,817
Deferred Revenues	10,814	6,436	-	-	-	-	17,250
Current Portion of L-T Debt – Capital	-	-	-	-	-	-	-
Current Portion of L-T Debt – Operating	-	-	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-	-	-
Accrued Liabilities – Other	-	-	-	-	-	-	-
Inter Program – Due To	-	-	-	2,038	-	(2,038)	-
<b>Total Current Liabilities</b>	<b>241,709</b>	<b>31,927</b>	<b>29,114</b>	<b>3,552</b>	<b>2,116</b>	<b>(2,038)</b>	<b>306,380</b>
<b>Noncurrent Liabilities</b>							
Long-term Debt, Net of Current – Capital	-	-	-	-	-	-	-
Long-term Debt, Net of Current – Operating	-	-	-	-	-	-	-
Non-current Liabilities – Other	-	-	-	-	-	-	-
Accrued Compensated Absences	157,829	26,219	4,529	-	-	-	188,577
Accrued Pension and OPEB Liabilities	46,785	6,809	2,630	-	-	-	56,224
<b>Total Non-Current Liabilities</b>	<b>204,614</b>	<b>33,028</b>	<b>7,159</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>244,801</b>
<b>Total Liabilities</b>	<b>446,323</b>	<b>64,955</b>	<b>36,273</b>	<b>3,552</b>	<b>2,116</b>	<b>(2,038)</b>	<b>551,181</b>
<b>Net Position:</b>							
Net Investment in Capital Assets	5,221,895	-	-	-	-	-	5,221,895
Restricted Net Position	-	212,657	-	-	-	-	212,657
Unrestricted Net Position	416,176	23,744	93,854	-	12,759	-	546,533
<b>Total Equity/Net Position</b>	<b>5,638,071</b>	<b>236,401</b>	<b>93,854</b>	<b>-</b>	<b>12,759</b>	<b>-</b>	<b>5,981,085</b>
<b>Total Liabilities and Equity/Net Position</b>	<b>\$6,084,394</b>	<b>\$ 301,356</b>	<b>\$ 130,127</b>	<b>\$ 3,552</b>	<b>\$ 14,875</b>	<b>\$ (2,038)</b>	<b>\$6,532,266</b>

(concluded)

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Revenue, Expense, and Changes in Fund Net Position Accounts**  
**Year Ended June 30, 2013**

	Public Housing 14.850 & 14.872	Housing Choice Vouchers 14.871	Business Activities	Resident Opportunity and Supportive Services 14.870	Moderate Rehab- ilitation 14.856	Elimination	Total
<b>Revenues:</b>							
Net Tenant Rental Revenue	\$ 969,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 969,709
Tenant Revenue - Other	24,414	-	-	-	-	-	24,414
<b>Total Tenant Revenue</b>	<b>994,123</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>994,123</b>
HUD PHA Operating Grants	858,964	3,298,076	-	56,048	86,297	-	4,299,385
Capital Grants	112,154	-	-	-	-	-	112,154
Management Fee	-	-	-	-	-	-	-
Asset Management Fee	-	-	-	-	-	-	-
Bookkeeping Fee	-	-	-	-	-	-	-
Front Line Service Fee	-	-	-	-	-	-	-
Other Fees	-	-	-	-	-	-	-
Other Government Grants	-	-	-	-	-	-	-
Investment Income - Unrestricted	-	-	-	-	-	-	-
Mortgage Interest Income	-	-	-	-	-	-	-
Fraud Recovery	-	7,598	-	-	-	-	7,598
Other Revenue	14,252	137,525	39,594	-	-	-	191,371
Gain or Loss on Sale of Capital Assets	(8,258)	-	-	-	-	-	(8,258)
Investment Income - Restricted	-	-	-	-	-	-	-
<b>Total Revenue</b>	<b>1,971,235</b>	<b>3,443,199</b>	<b>39,594</b>	<b>56,048</b>	<b>86,297</b>	<b>-</b>	<b>5,596,373</b>
<b>Expenses:</b>							
<b>Administrative</b>							
Administrative Salaries	471,569	173,728	17,152	-	-	-	662,449
Auditing Fees	8,346	2,908	1,019	-	727	-	13,000
Management Fee	-	-	-	-	9,859	-	9,859
Bookkeeping Fee	-	-	-	-	-	-	-
Advertising and Marketing	416	277	-	30	-	-	723
Employee Benefit - Administrative	140,116	51,493	8,356	-	-	-	199,965
Office Expenses	73,076	22,631	622	1,175	-	-	97,504
Legal Expense	14,339	3,428	-	-	-	-	17,767
Travel	37,706	6,562	3,074	1,801	-	-	49,143
Other	11,199	7,518	989	-	-	-	19,706
<b>Total Administrative</b>	<b>756,767</b>	<b>268,545</b>	<b>31,212</b>	<b>3,006</b>	<b>10,586</b>	<b>-</b>	<b>1,070,116</b>
<b>Tenant Services</b>							
Tenant Services - Salaries	-	-	-	39,518	-	-	39,518
Relocation Costs	-	-	-	-	-	-	-
Employee Benefit - Tenant Services	-	-	-	13,027	-	-	13,027
Tenant Services - Other	31,443	-	-	40	-	-	31,483
<b>Total Tenant Services</b>	<b>31,443</b>	<b>-</b>	<b>-</b>	<b>52,585</b>	<b>-</b>	<b>-</b>	<b>84,028</b>
<b>Utilities</b>							
Water	110,404	-	-	-	-	-	110,404
Electricity	17,863	-	-	-	-	-	17,863
Gas	138,679	-	-	-	-	-	138,679
Sewer	58,121	-	-	-	-	-	58,121
Employee Benefit - Utilities	-	-	-	-	-	-	-
Other Utilities Expense	-	-	-	-	-	-	-
<b>Total Utilities</b>	<b>325,067</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>325,067</b>

(continued)

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Revenue, Expense, and Changes in Fund Net Position Accounts**  
**Year Ended June 30, 2013**

	Public Housing 14.850 & 14.872	Housing Choice Vouchers 14.871	Business Activities	Resident Opportunity and Supportive Services 14.870	Moderate Rehab- ilitation 14.856	Elimination	Total
<b>Ordinary Maintenance and Operations</b>							
Labor	343,727	-	-	-	-	-	343,727
Materials and Other	35,420	-	-	-	-	-	35,420
Employee Benefit Contributions	99,707	-	-	-	-	-	99,707
Garbage & Trash Removal Contacts	48,599	-	-	-	-	-	48,599
Heating & Cooling Contracts	4,126	-	-	-	-	-	4,126
Landscape & Grounds Contracts	-	-	-	-	-	-	-
Unit Turnaround Contracts	-	-	-	-	-	-	-
Electrical Contracts	75	-	-	-	-	-	75
Plumbing Contracts	2,485	-	-	-	-	-	2,485
Extermination Contracts	3,356	-	-	-	-	-	3,356
Janitorial Contracts	19,890	-	-	-	-	-	19,890
Routine Maintenance Contracts	-	-	-	-	-	-	-
Contracts-Other	18,220	-	-	-	-	-	18,220
<b>Total Maintenance</b>	<b>575,605</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>575,605</b>
<b>Protective Services</b>							
Protective Services - Other	-	-	-	-	-	-	-
<b>Total Protective Services</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>General Expense</b>							
Property Insurance	44,519	-	-	-	-	-	44,519
Liability Insurance	16,356	3,413	-	-	-	-	19,769
Workmen's Compensation	19,546	3,916	396	372	-	-	24,230
All Other Insurance	12,824	1,554	402	85	-	-	27,054
Other General Expenses	11,825	19,128	158	-	-	-	31,111
Compensated Absences	12,120	1,430	445	-	-	-	13,995
Payments in Lieu of Taxes	66,597	-	-	-	-	-	66,597
Bad debt - Tenant Rents	1,287	-	-	-	-	-	1,287
Bad debt - Other	11,508	75	13,654	-	-	-	25,237
<b>Total General Expenses</b>	<b>196,583</b>	<b>29,516</b>	<b>15,055</b>	<b>457</b>	<b>-</b>	<b>-</b>	<b>241,611</b>
<b>Financial Expenses</b>							
Interest Expense - Mortgage Payable	-	-	-	-	-	-	-
Amortization of Bond Issue Costs	-	-	-	-	-	-	-
<b>Total Financial Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Operating Expenses</b>	<b>1,885,465</b>	<b>298,061</b>	<b>46,267</b>	<b>56,048</b>	<b>10,586</b>	<b>-</b>	<b>2,296,427</b>
<b>Excess of Operating Revenue over Operating Expenses</b>	<b>85,770</b>	<b>3,145,138</b>	<b>(6,673)</b>	<b>-</b>	<b>75,711</b>	<b>-</b>	<b>3,299,946</b>

(continued)

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Revenue, Expense, and Changes in Fund Net Position Accounts**  
**Year Ended June 30, 2013**

	Public Housing 14.850 & 14.872	Housing Choice Vouchers 14.871	Business Activities	Resident Opportunity and Supportive Services 14.870	Moderate Rehab- ilitation 14.856	Elimination	Total
<b>Other Expenses</b>							
Extraordinary Maintenance	-	-	-	-	-	-	-
Casualty Losses – Non-capitalized	-	-	-	-	-	-	-
Housing Assistance Payments	-	3,081,142	-	-	75,568	-	3,156,710
HAP Portability-In	-	120,545	-	-	-	-	120,545
Depreciation Expense	403,099	-	-	-	-	-	403,099
<b>Total Other Expense</b>	<b>403,099</b>	<b>3,201,687</b>	<b>-</b>	<b>-</b>	<b>75,568</b>	<b>-</b>	<b>3,680,354</b>
<b>Total Expenses</b>	<b>2,288,564</b>	<b>3,499,748</b>	<b>46,267</b>	<b>56,048</b>	<b>86,154</b>	<b>-</b>	<b>5,976,781</b>
<b>Other Financing Sources (Uses)</b>							
Transfer of Funds	-	-	-	-	-	-	-
Transfer of Equity	-	-	-	-	-	-	-
Prior Period Adjustments	-	-	-	-	-	-	-
<b>Total Other financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Excess (Deficiency) of Total Revenue Over (Under) Total Expenses</b>	<b>(317,329)</b>	<b>(56,549)</b>	<b>(6,673)</b>	<b>-</b>	<b>143</b>	<b>-</b>	<b>(380,408)</b>
<b>Beginning Net Position</b>	<b>5,955,400</b>	<b>292,950</b>	<b>100,527</b>	<b>-</b>	<b>12,616</b>	<b>-</b>	<b>6,361,493</b>
<b>Ending Net Position</b>	<b>\$ 5,638,071</b>	<b>\$ 236,401</b>	<b>\$ 93,854</b>	<b>\$ -</b>	<b>\$ 12,759</b>	<b>\$ -</b>	<b>\$ 5,981,085</b>
Administrative Fee Equity	\$ -	\$ 23,744	\$ -	\$ -	\$ -	\$ -	\$ 96,939
Housing Assistance Payments Equity	\$ -	\$ 219,852	\$ -	\$ -	\$ -	\$ -	\$ 423,848
Unit Months Available	3,180	4,296	-	-	144	-	7,620
Number of Unit Months Leased	3,136	4,287	-	-	139	-	7,563

(concluded)

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Revenue, Expense, and Changes in Fund Net Position Accounts**  
**Public Housing – Consolidated**  
**Year Ended June 30, 2013**

	Operating Fund Program	Capital Fund Grants	Other Project Total
<b>Revenues:</b>			
Net Tenant Rental Revenue	\$ 969,709	\$ -	\$ 969,709
Tenant Revenue – Other	24,414	-	24,414
<b>Total Tenant Revenue</b>	<b>994,123</b>	<b>-</b>	<b>994,123</b>
HUD PHA Operating Grants	588,400	270,564	858,964
Capital Grants	-	112,154	112,154
Management Fee	-	-	-
Asset Management Fee	-	-	-
Bookkeeping Fee	-	-	-
Front Line Service Fee	-	-	-
Other Fees	-	-	-
Other Government Grants	-	-	-
Investment Income – Unrestricted	-	-	-
Mortgage Interest Income	-	-	-
Fraud Recovery	-	-	-
Other Revenue	14,252	-	14,252
Gain or Loss on Sale of Capital Assets	(8,258)	-	(8,258)
Investment Income – Restricted	-	-	-
<b>Total Revenue</b>	<b>1,588,517</b>	<b>382,718</b>	<b>1,971,235</b>
<b>Expenses:</b>			
<b>Administrative</b>			
Administrative Salaries	430,067	41,502	471,569
Auditing Fees	8,346	-	8,346
Management Fee	-	-	-
Bookkeeping Fee	-	-	-
Advertising and Marketing	416	-	416
Employee Benefit – Administrative	128,859	11,257	140,116
Office Expenses	50,386	22,690	73,076
Legal Expense	14,339	-	14,339
Travel	20,308	17,398	37,706
Allocated Overhead	-	-	-
Other	11,199	-	11,199
<b>Total Administrative</b>	<b>663,920</b>	<b>92,847</b>	<b>756,767</b>
<b>Tenant Services</b>			
Tenant Services – Salaries	-	-	-
Relocation Costs	-	-	-
Employee Benefit – Tenant Services	-	-	-
Tenant Services – Other	31,443	-	31,443
<b>Total Tenant Services</b>	<b>31,443</b>	<b>-</b>	<b>31,443</b>
<b>Utilities</b>			
Water	110,404	-	110,404
Electricity	17,863	-	17,863
Gas	138,679	-	138,679
Sewer	58,121	-	58,121
Employee Benefit – Utilities	-	-	-
Other Utilities Expense	-	-	-
<b>Total Utilities</b>	<b>325,067</b>	<b>-</b>	<b>325,067</b>

(continued)

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Revenue, Expense, and Changes in Fund Net Position Accounts**  
**Public Housing – Consolidated**  
**Year Ended June 30, 2013**

	Operating Fund Program	Capital Fund Grants	Other Project Total
Ordinary Maintenance and Operations			
Labor	343,727	-	343,727
Materials and Other	35,420	-	35,420
Employee Benefit Contributions	99,707	-	99,707
Garbage & Trash Removal Contracts	48,599	-	48,599
Heating & Cooling Contracts	4,126	-	4,126
Landscape & Grounds Contracts	-	-	-
Unit Turnaround Contracts	-	-	-
Electrical Contracts	75	-	75
Plumbing Contracts	2,485	-	2,485
Extermination Contracts	3,356	-	3,356
Janitorial Contracts	19,890	-	19,890
Routine Maintenance Contracts	-	-	-
Contracts-Other	18,220	-	18,220
Total Maintenance	<u>575,605</u>	<u>-</u>	<u>575,605</u>
Protective Services			
Protective Services – Other	-	-	-
Total Protective Services	<u>-</u>	<u>-</u>	<u>-</u>
General Expense			
Property Insurance	44,519	-	44,519
Liability Insurance	16,356	-	16,356
Workmen's Compensation	18,802	744	19,546
All Other Insurance	12,788	36	12,824
Total insurance Premiums	<u>92,465</u>	<u>780</u>	<u>93,245</u>
Other General Expenses	11,826	-	11,825
Compensated Absences	12,120	-	12,120
Payments in Lieu of Taxes	66,597	-	66,597
Bad debt – Tenant Rents	1,287	-	1,287
Bad debt – Other	11,508	-	11,508
Total General Expenses	<u>195,803</u>	<u>780</u>	<u>196,583</u>
Financial Expenses			
Interest Expense – Mortgage Payable	-	-	-
Amortization of Bond Issue Costs	-	-	-
Total Financial Expenses	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>1,791,838</u>	<u>93,627</u>	<u>1,885,465</u>
Excess of Operating Revenue over Operating Expenses	<u>(203,321)</u>	<u>289,091</u>	<u>85,770</u>

(continued)

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Revenue, Expense, and Changes in Fund Net Position Accounts**  
**Public Housing – Consolidated**  
**Year Ended June 30, 2013**

	Operating Fund Program	Capital Fund Grants	Other Project Total
Other Expenses			
Extraordinary Maintenance	-	-	-
Casualty Losses – Non-capitalized	-	-	-
Housing Assistance Payments	-	-	-
HAP Portability-In	-	-	-
Depreciation Expense	403,099	-	403,099
Total Other Expense	<u>403,099</u>	<u>-</u>	<u>403,099</u>
Total Expenses	<u>2,194,937</u>	<u>93,627</u>	<u>2,333,082</u>
Transfer of Funds	176,937	(176,937)	-
Transfer of Equity	112,154	(112,154)	-
Prior Period Adjustments	-	-	-
Total Other financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	<u>(317,329)</u>	<u>-</u>	<u>(361,847)</u>
Beginning Net Position	<u>5,955,400</u>	<u>-</u>	<u>5,955,400</u>
Ending Net Position	<u>5,638,071</u>	<u>-</u>	<u>5,638,071</u>

(concluded)

# Statistical Section

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

<u>Contents</u>	<u>Page</u>
Financial Trends	114
These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.	
Revenue Capacity	123
These schedules contain information to help the reader assess the city's most significant local revenue source, sales tax.	
Debt Capacity	128
These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.	
Demographic and Economic Information	139
These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place.	
Operating Information	141
These schedules contain service and infrastructure data to help the reader understand how the information in the city's financial report relates to the services the City provides and the activities it performs.	

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

Schedule 1  
City of Flagstaff  
Net Position by Component  
Last Ten Fiscal Years  
*(accrual basis of accounting)*

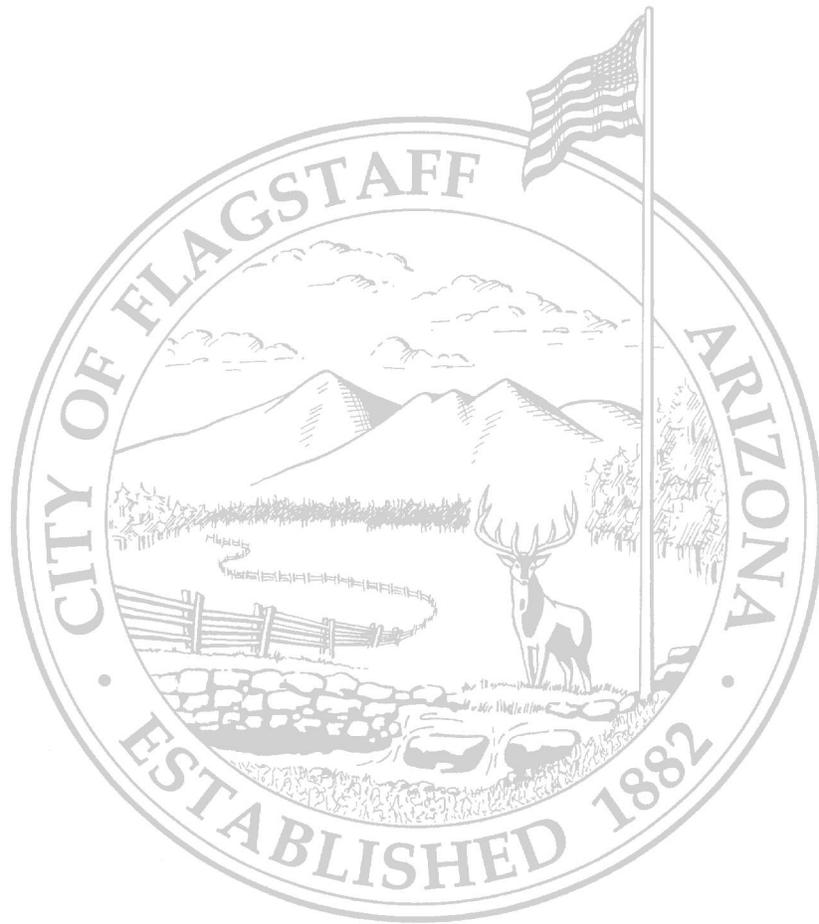
	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Governmental activities</b>										
Net investment in capital assets	\$ 41,666,412	\$ 46,759,889	\$ 184,594,782	\$ 204,594,974	(1) \$ 214,268,448	\$ 215,672,933	\$ 213,762,870	\$ 217,879,986	\$ 219,112,469	\$ 222,690,985
Restricted	35,343,236	20,670,257	45,560,390	13,795,935	14,875,852	7,975,269	18,213,829	23,971,870	34,679,441	43,856,244
Unrestricted	33,494,972	56,392,865	10,448,150	36,514,677	(2) 39,248,151	34,766,602	49,463,587	42,863,692	37,309,699	32,288,032
Total governmental activities net position	\$ 110,504,620	\$ 123,823,011	\$ 240,603,322	\$ 254,905,586	(3) 268,392,451	\$ 258,414,804	(4) 281,440,286	\$ 284,715,548	\$ 291,101,609	\$ 298,835,261
<b>Business-type activities</b>										
Net investment in capital assets	\$ 184,863,812	\$ 200,551,217	\$ 230,035,130	\$ 264,381,730	\$ 276,783,163	\$ 291,707,810	\$ 302,784,152	\$ 303,113,402	\$ 304,418,393	\$ 304,560,897
Restricted	5,161,363	3,200,521	2,392,858	2,424,615	1,593,915	1,593,915	2,209,327	3,003,129	2,803,002	2,694,262
Unrestricted	24,092,049	24,948,848	20,303,463	19,267,461	16,250,436	11,547,792	10,895,855	17,190,191	23,968,903	29,195,853
Total business-type activities and net position	\$ 214,117,224	\$ 228,700,586	\$ 252,731,451	\$ 286,073,806	\$ 294,627,514	\$ 304,849,517	\$ 315,889,334	\$ 323,306,722	\$ 331,192,298	\$ 336,451,012
<b>Primary government</b>										
Net investment in capital assets	\$ 226,530,224	\$ 247,311,106	\$ 414,629,912	\$ 468,976,704	\$ 491,051,611	\$ 507,380,743	\$ 516,547,022	\$ 520,993,388	\$ 523,530,862	\$ 527,251,882
Restricted	40,504,599	23,870,778	47,953,248	16,220,550	16,469,767	9,569,184	20,423,156	26,974,999	37,484,442	46,550,506
Unrestricted	57,587,021	81,341,713	30,751,613	55,782,138	55,498,587	46,314,394	60,359,442	60,053,883	61,278,603	61,483,885
Total primary government net position	\$ 324,621,844	\$ 352,523,597	\$ 493,334,773	\$ 540,979,392	\$ 563,019,965	\$ 563,264,321	\$ 597,329,620	\$ 608,022,270	\$ 622,293,907	\$ 635,286,273

(1) FY 2007 restated for retroactive reporting of infrastructure

(2) FY 2007 restated for retroactive reporting due to an accounting error

(3) FY 2008 change in calculations within categories due to calculation error. No net change to total net position.

(4) FY 2009 restated for change due to accounting error



	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Expenses</b>										
Governmental activities:										
General government	\$ 5,891,617	\$ 5,441,945	\$ 7,458,583	\$ 9,035,268	\$ 11,271,031	\$ 10,913,187	\$ 8,238,178	\$ 7,850,954	\$ 9,406,406	\$ 10,442,808
Public safety	18,792,832	21,018,114	22,525,292	23,994,991	27,030,331	29,287,433	26,592,968	25,987,193	27,175,720	27,269,325
Public works	1,178,137	1,320,459	1,454,731	1,882,489	1,894,089	2,109,221	1,502,626	1,754,033	1,615,941	1,718,767
Economic and physical development	6,473,290	6,807,311	7,842,985	9,508,406	10,536,175	10,346,982	8,827,578	8,474,776	9,639,003	9,210,500
Culture and recreation	8,693,714	9,426,600	8,328,945	10,089,469	11,607,116	13,120,917	12,854,824	12,434,695	13,342,588	13,342,588
Highways and streets	8,886,947	10,011,231	12,043,242	14,557,140	15,515,643	19,297,615	17,856,121	19,275,381	16,328,771	15,431,985
Interest on long-term debt	1,933,325	2,042,555	2,167,626	3,090,140	2,916,380	3,651,521	3,918,110	3,370,918	2,944,057	2,902,196
Total governmental activities expense	\$ 51,839,862	\$ 56,066,215	\$ 61,821,404	\$ 72,157,903	\$ 80,790,765	\$ 88,726,876	\$ 79,443,260	\$ 79,568,079	\$ 79,544,593	\$ 80,318,169
Business-type activities:										
Water and wastewater	17,250,441	17,297,017	18,452,368	19,945,366	23,420,282	22,802,316	21,731,286	21,491,239	22,708,636	22,568,661
Environmental	7,319,602	8,548,715	9,096,420	10,073,853	11,423,164	11,782,540	11,091,078	11,610,370	7,828,286	11,671,366
Airport	3,370,447	3,749,669	3,519,749	3,162,391	3,608,322	4,197,447	4,273,609	4,584,733	4,268,099	5,226,977
Housing Authority	-	-	-	-	-	-	-	5,811,922	6,165,612	5,986,508
Stormwater	460,936	479,700	791,791	1,019,248	1,160,604	1,203,436	1,258,072	1,121,555	1,361,658	1,196,589
Total business-type activities expense	\$ 28,401,426	\$ 30,075,101	\$ 31,860,328	\$ 34,200,858	\$ 39,612,372	\$ 39,985,739	\$ 38,354,045	\$ 44,619,819	\$ 42,332,291	\$ 46,650,101
Total primary government expense	\$ 80,241,288	\$ 86,143,316	\$ 93,681,732	\$ 106,358,761	\$ 120,403,137	\$ 128,712,615	\$ 117,797,305	\$ 124,187,898	\$ 121,876,884	\$ 126,968,270
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	\$ 3,257,393	\$ 3,611,862	\$ 4,886,354	\$ 4,171,853	\$ 3,746,890	\$ 3,099,884	\$ 3,285,242	\$ 2,646,424	\$ 3,364,479	\$ 3,448,665
Public safety	451,802	498,506	815,167	704,800	1,227,979	1,451,405	1,283,697	1,144,636	1,611,109	1,491,842
Public works	976,793	1,213,714	1,180,097	1,455,461	1,483,275	1,350,832	1,471,550	1,537,188	1,551,419	1,611,306
Economic and physical development	16,164	321,915	332,356	562,135	315,462	369,987	291,211	162,715	53,747	52,386
Culture and recreation	722,236	680,755	683,906	742,088	762,410	1,559,617	1,420,094	1,442,901	1,455,067	1,507,855
Highways and streets	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	2,678,653	4,147,529	3,791,526	2,062,329	3,320,597	5,990,756	6,654,978	7,965,474	7,414,767	6,866,279
Capital grants and contributions	11,757,330	15,180,401	21,566,549	19,356,271	16,324,928	9,880,762	36,949,681	9,226,778	12,200,969	11,318,522
Total governmental activities program revenues	\$ 19,860,371	\$ 25,654,682	\$ 33,255,955	\$ 29,054,937	\$ 27,181,541	\$ 23,703,243	\$ 31,356,453	\$ 24,126,116	\$ 27,651,557	\$ 26,296,855



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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010*	2011	2012	2013
General Fund										
Reserved	\$ 220,779	\$ 200,401	\$ 232,190	\$ 1,260,236	\$ 308,979	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	22,891,253	29,124,795	28,574,855	29,960,235	27,492,853	-	-	-	-	-
Nonspendable	-	-	-	-	-	280,376	376,728	427,267	359,923	390,882
Restricted	-	-	-	-	-	106,144	785,720	796,345	758,303	800,953
Committed	-	-	-	-	-	-	86,568	85,119	282,888	386,518
Assigned	-	-	-	-	-	-	8,595,100	6,882,947	7,075,902	7,335,230
Unassigned	-	-	-	-	-	22,203,764	13,412,219	15,160,509	17,203,207	19,410,597
Total general fund	\$ 23,112,032	\$ 29,325,196	\$ 28,807,045	(1) \$ 31,220,471	\$ 27,801,832	\$ 22,590,284	\$ 23,256,335	\$ 23,352,187	\$ 25,680,223	\$ 28,324,180
All Other Governmental Funds										
Reserved	\$ 1,677,627	\$ 1,556,450	\$ 30,107,878	\$ 47,350,460	\$ 20,611,579	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	37,476,678	33,041,256	22,893,640	16,332,830	16,498,123	-	-	-	-	-
Capital project funds	-	-	-	-	(763,744)	-	-	-	-	-
Permanent fund	567	1,426	3,271	6,567	9,916	-	-	-	-	-
Nonspendable	-	-	-	-	-	216,878	206,678	214,333	219,564	247,436
Restricted	-	-	-	-	-	4,299,450	19,720,079	23,012,954	33,743,091	42,466,792
Committed	-	-	-	-	-	-	2,228,605	-	-	-
Assigned	-	-	-	-	-	-	651,650	-	-	-
Unassigned	-	-	-	-	-	-	-	(2,863,781)	-	-
Total all other governmental funds	\$ 39,154,872	\$ 34,599,132	\$ 53,004,789	\$ 63,689,857	\$ 36,355,874	\$ 13,471,434	\$ 22,807,012	\$ 20,363,506	\$ 33,962,655	\$ 42,714,228

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

\* FY2010: Implementation of GASB-54 Fund Balance Classification

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>REVENUES:</b>										
Taxes	\$ 33,736,154	\$ 35,529,373	\$ 39,104,903	\$ 41,976,134	\$ 43,964,317	\$ 43,555,388	\$ 43,200,268	\$ 43,799,128	\$ 45,577,128	\$ 47,084,446
Intergovernmental	12,156,451	17,545,686	17,173,416	18,779,168	20,425,088	21,364,739	19,450,213	17,488,021	17,230,696	18,713,646
Grants and entitlements	10,940,934	9,564,110	10,880,792	12,185,406	13,556,680	9,609,508	11,172,862	10,583,483	9,721,569	11,369,392
Charges for services	1,459,837	1,834,067	2,199,819	2,605,880	2,704,333	3,324,838	3,057,423	2,926,237	3,220,137	3,237,728
Special assessments	291,684	218,500	30,016	2,927	2,449	2,382	1,510,217	701,447	8,286,453	722,733
Licenses and permits	2,111,033	2,063,718	2,834,506	2,438,599	1,815,062	1,377,580	1,441,874	739,040	1,681,874	1,656,135
Fines and forfeitures	1,144,562	1,250,494	1,394,174	1,290,667	1,336,146	1,517,558	1,636,157	1,673,306	1,601,044	1,540,989
Rents	985,907	1,220,007	1,195,464	1,480,686	1,496,858	1,421,772	1,588,214	1,617,912	1,605,166	1,667,562
Investment earnings	115,433	1,589,293	2,238,285	3,920,473	3,731,116	1,366,931	413,594	224,363	296,241	(429,656)
Contributions	21,917	22,229	129,930	2,981,982	1,308,938	1,328,524	544,393	166,417	390,253	252,377
Miscellaneous	905,717	277,972	204,678	1,377,552	819,325	381,984	228,969	1,719,608	492,971	1,261,507
Total revenues	\$ 63,869,629	\$ 71,115,449	\$ 77,385,983	\$ 89,039,474	\$ 91,160,312	\$ 85,251,204	\$ 84,244,184	\$ 81,638,962	\$ 90,103,532	\$ 87,076,859
<b>EXPENDITURES:</b>										
General governmental	5,335,890	6,158,308	6,621,976	8,194,214	10,229,814	9,848,252	7,926,726	7,113,922	7,453,963	8,480,086
Public safety	18,015,837	19,140,415	21,626,547	22,994,522	25,696,174	27,374,083	25,159,777	24,476,615	25,301,495	25,099,149
Public works	966,546	1,005,745	1,168,424	1,615,049	1,617,311	1,645,703	1,360,447	1,299,027	1,146,692	1,219,324
Economic and physical development	6,289,966	6,424,057	7,640,313	9,344,676	10,335,964	9,991,927	8,601,808	8,202,024	8,584,826	8,296,367
Culture and recreation	7,724,481	8,341,105	7,178,029	8,648,628	10,267,649	12,158,087	10,615,754	10,782,848	10,576,877	11,292,517
Highways and streets	8,003,110	8,951,097	10,700,196	7,859,004	8,505,722	11,187,402	9,313,158	10,612,033	9,593,074	9,039,032
Debt service:										
Principal retirement	4,614,000	4,880,000	6,505,449	5,313,222	5,046,398	5,034,991	6,065,522	6,761,179	13,654,681	6,175,303
Interest and other charges	2,428,026	2,148,734	2,552,016	3,210,879	3,020,927	3,750,657	3,996,963	3,451,706	3,346,253	2,902,196
Capital outlay	19,348,708	17,053,841	25,054,173	26,403,203	46,465,549	30,796,072	12,446,280	11,785,480	11,951,834	16,656,392
Total expenditures	\$ 72,726,564	\$ 74,103,302	\$ 89,047,123	\$ 93,583,397	\$ 121,185,508	\$ 111,787,174	\$ 85,486,435	\$ 84,484,834	\$ 91,609,695	\$ 89,160,366
Excess of revenues over (under) expenditures	(8,856,935)	(2,987,853)	(11,661,140)	(4,543,923)	(30,025,196)	(26,535,970)	(1,242,251)	(2,845,872)	(1,506,163)	(2,083,507)
<b>OTHER FINANCING SOURCES (USES):</b>										
Proceeds of refunding bonds	720,000	-	-	-	-	-	-	-	13,924,136	-
Issuance of capital debt	25,000,000	-	31,500,000	19,075,000	-	-	8,330,000	-	16,797,287	12,474,557
Loan issued	-	3,800,000	-	-	-	-	-	-	-	-
Payment to bond refunding escrow agent	(718,127)	-	-	-	-	-	-	-	(15,394,336)	-
Lease issued	-	-	-	-	-	109,352	-	-	-	-
Bond premium	1,059,221	-	220,086	46,707	-	-	58,370	-	2,264,386	542,689
Insurance recoveries	-	-	-	-	-	-	1,920,000	1,058,985	-	-
Sale of capital assets	634,411	2,114,398	37,892	252,329	2,176,808	63,894	1,084,211	45,655	43,890	49,750
Transfers in	12,996,534	15,312,931	17,317,133	17,756,847	17,181,576	21,626,308	15,224,243	13,661,630	14,872,935	12,870,788
Transfers out	(13,365,892)	(16,582,052)	(19,584,684)	(19,488,466)	(20,085,809)	(23,359,573)	(18,525,100)	(14,268,052)	(15,074,950)	(12,458,747)
Total other financing sources (uses)	26,326,147	4,645,277	29,490,427	17,642,417	(727,425)	(1,560,019)	8,091,224	498,218	17,433,348	13,479,037
Net change in fund balances	\$ 17,469,212	\$ 1,657,424	\$ 17,829,287	\$ 13,098,494	\$ (30,752,621)	\$ (28,095,989)	\$ 6,849,473	\$ (2,347,654)	\$ 15,927,185	\$ 11,395,530
Debt service as a percentage of non capital expenditures	13.19%	12.32%	14.15%	12.69%	10.80%	10.85%	13.78%	14.05%	21.34%	12.52%

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

Fiscal Year	General Property Tax		Secondary Property Tax		Franchise and Other Taxes		City Sales Tax		Bed, Board and Booze Tax		Transportation Tax		Total
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	
2004	\$ 3,425	33.736%	\$ 4,628	45.122%	\$ 2,262	22.142%	\$ 12,055	117.823%	\$ 4,063	39.577%	\$ 7,303	71.122%	\$ 33,736
2005	3,619	35.529%	4,856	47.122%	1,943	18.912%	13,148	127.823%	4,331	42.482%	7,632	73.823%	35,529
2006	4,209	41.105%	4,881	47.622%	2,083	20.272%	14,707	142.823%	4,623	45.272%	8,602	83.122%	39,105
2007	4,453	43.434%	5,188	50.522%	1,838	18.042%	16,071	155.823%	4,992	48.823%	9,434	91.122%	41,976
2008	4,616	45.187%	6,219	60.522%	2,189	21.422%	16,150	156.823%	5,187	50.522%	9,605	93.122%	43,966
2009	4,882	47.853%	7,254	70.522%	2,246	22.022%	14,384	139.823%	5,052	49.272%	10,035	97.122%	43,853
2010	5,150	50.200%	7,620	74.228%	2,133	20.823%	13,595	131.823%	5,074	49.522%	9,628	93.228%	43,200
2011	5,259	51.279%	7,184	70.279%	2,339	23.022%	13,893	134.823%	5,259	51.279%	9,865	95.799%	43,799
2012	5,473	53.577%	6,703	65.272%	2,348	23.022%	14,900	144.823%	5,626	54.823%	10,527	102.272%	45,577
2013	5,472	53.577%	6,423	62.823%	2,303	22.622%	15,760	153.823%	5,911	57.823%	11,215	109.272%	47,084
Change 2004-2013	59.77%		38.79%		1.81%		30.73%		45.48%		53.57%		39.57%

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

Fiscal Year	State Sales Tax	State Income Tax	County Auto In-Lieu Tax	Highway User Tax	Local			State Grants & Other State	County LEAF IGA	County Library District Funding *	Other	Total
					State HB 2565	Federal Grants	Transportation Assistance					
2004	\$ 4,449,982	\$ 4,777,145	\$ 2,427,367	\$ 6,975,351	\$ 313,868	\$ -	\$ 1,160,966	\$ 468,069	\$ 1,987,433	\$ 148,992	\$ 23,163,385	
2005	4,900,117	4,918,476	2,461,425	7,171,383	313,843	-	1,772,181	628,198	2,068,947	39,640	27,142,243	
2006	5,652,335	5,655,641	2,655,653	7,942,771	304,341	55,665	2,386,011	420,426	2,241,811	-	28,255,095	
2007	5,815,473	6,946,680	2,792,404	7,855,427	293,502	-	2,822,315	721,797	2,559,375	-	31,021,135	
2008	5,623,144	8,610,567	2,758,307	7,422,359	225,965	58,782	4,868,431	668,153	3,559,362	-	34,776,212	
2009	4,868,072	9,149,290	2,611,289	6,412,329	251,536	-	1,711,609	897,337	4,125,223	32,795	31,293,545	
2010	4,490,087	7,899,626	2,490,360	6,429,355	156,218	-	3,885,697	757,241	3,762,831	50,068	30,623,075	
2011	4,711,821	5,955,305	2,481,126	6,300,885	-	-	3,181,076	744,070	3,531,607	64,092	28,071,504	
2012	5,147,101	5,559,476	2,483,245	5,569,896	-	-	3,544,253	759,606	3,163,052	118,216	26,952,265	
2013	5,391,580	6,728,479	2,510,832	6,007,741	-	-	2,105,827	791,906	3,214,133	76,716	30,083,038	

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

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

Fiscal Year	Centrally Valued Property	Vacant,				Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
		Commercial Property	Agricultural, and Government Property	Residential Property	Property			
2004	\$ 35,621,681	\$ 194,944,521	\$ 62,099,966	\$ 215,320,769	\$ 43,729,051	\$ 464,257,886	1.7127	
2005	29,405,068	211,870,593	65,128,715	242,190,760	46,939,696	501,655,440	1.7127	
2006	27,328,709	221,179,062	82,683,618	276,187,028	50,697,830	556,680,587	1.6627	
2007	27,532,435	237,795,313	100,985,606	315,182,546	57,296,001	624,199,899	1.5929	
2008	28,051,846	261,009,908	125,377,258	398,783,838	62,684,483	750,538,367	1.5519	
2009	28,940,765	281,348,845	140,117,313	500,150,890	71,775,990	878,781,823	1.5519	
2010	27,478,520	286,101,952	151,630,088	529,950,871	78,819,714	916,341,717	1.4913	
2011	25,750,042	274,992,074	146,079,309	502,351,037	85,132,993	864,039,469	1.4845	
2012	26,651,155	265,230,915	133,909,755	447,421,001	81,844,375	791,368,451	1.5283	
2013	28,837,059	255,823,684	124,373,673	436,787,954	80,555,433	765,266,937	1.5497	

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

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

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Construction	\$ 158,506	\$ 163,846	\$ 233,747	\$ 260,024	\$ 263,386	\$ 181,245	\$ 150,239	\$ 166,894	\$ 150,868	\$ 164,971
Building Materials	70,063	72,152	82,481	79,703	75,493	66,641	60,143	61,781	62,665	-
Auto Sales	124,147	127,760	129,671	133,497	118,282	78,819	85,806	99,786	121,296	63,634
Restaurants and Bars	202,966	215,624	232,359	248,819	255,578	250,555	251,271	261,384	277,954	206,617
Hotel/Motel	-	-	-	-	-	-	-	-	-	88,924
Retail	529,705	556,165	586,841	637,225	619,805	582,029	546,765	544,356	557,375	715,475
Other	125,687	134,824	144,635	154,183	163,463	155,193	152,042	151,461	154,497	196,534
Utilities	53	199	4,892	68,840	71,299	69,175	66,392	63,784	116,273	92,968
<b>TOTAL</b>	<b>\$ 1,211,127</b>	<b>\$ 1,270,570</b>	<b>\$ 1,414,626</b>	<b>\$ 1,582,291</b>	<b>\$ 1,567,306</b>	<b>\$ 1,383,657</b>	<b>\$ 1,312,658</b>	<b>\$ 1,349,446</b>	<b>\$ 1,440,928</b>	<b>\$ 1,529,123</b>

\*NOTES: FY13 reflects a change in tax categories reported to proactively reflect possible New State Sales Tax Codes

- a) Building Materials is no longer tracked individually, now is tracked as part of Retail
- b) Prior to FY13, Auto Sales included Auto Services which is now included in Retail
- c) Prior to FY13, Hotel/Motel was included with Restaurant and Bars

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

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total City	1.7127	1.7127	1.6627	1.5929	1.5519	1.5519	1.4913	1.4845	1.5283	0.7131
Primary										0.8366
Secondary										3.6182
School District	6.3679	5.7236	6.0786	5.9009	4.7713	4.8334	3.8860	4.6772	4.9458	0.0459
Maintenance										0.6126
Adjacent Ways										0.1833
15% M&O Override										0.4112
Capital Override										0.3875
Class B Bond										0.1052
Community College	0.5775	0.5660	0.5525	0.5269	0.4865	0.4643	0.4267	0.4308	0.4734	0.4480
Maintenance										0.2367
Bond										0.1000
County	1.2369	1.2212	1.2010	0.7521	0.7588	0.7603	0.7244	0.7245	0.7656	
General Fund										
Library District										
Fire District Assistance										
Total	9.8950	9.2235	9.4948	8.7728	7.5685	7.6099	6.5284	7.3170	7.7131	7.6983

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

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

Taxpayer *	2013			2003		
	Total Assessed Value	Rank	As a Percentage of the City Total Secondary Assessed Valuation	Total Assessed Value	Rank	As a Percentage of the City Total Secondary Assessed Valuation
Arizona Public Service Company	\$ 17,1147,023	1	2.24%	\$ 10,904,209	2	2.35%
W L Gore & Associates	12,851,171	2	1.68%	9,024,038	4	1.94%
Nestle Purina PetCare Company	4,603,873	3	0.60%			
Qwest Corporation	4,034,349	4	0.53%	9,888,282	3	2.13%
Wal-Mart Stores	3,546,846	5	0.46%			
Flagstaff Mall Associated Ltd. Partnership	3,235,942	6	0.00%	3,250,000	7	0.70%
Unisource Energy Corporation	2,422,510	7	0.32%			
BNSF Railway Company	2,371,683	8	0.31%			
Ridge at Clear Creek LLC	2,247,343	9	0.29%			
Walgreens Arizona Drug Co	2,226,561	10	0.29%	2,656,145	9	0.57%
Northern Arizona Gas Division (Citizens Utilities)	-		0.00%	11,928,523	1	2.57%
Little America Refining Co	-		0.00%	4,266,517	6	0.92%
Ralston Purina	-		0.00%	5,081,044	5	1.09%
Consolidated Investment Co. Inc.	-		0.00%	3,197,108	8	0.69%
SACO Management Inc.	-		0.00%	2,268,475	10	0.49%
Total Principal Taxpayers	\$ 54,687,301		6.72%	\$ 62,464,341		13.45%

Source: Coconino County Assessor Office

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2004	7,897,298	7,791,735	98.7%	261,445	8,053,180	99.7%*
2005	8,494,694	8,330,157	98.1%	145,051	8,475,208	99.7%*
2006	9,075,322	8,958,733	98.7%	131,194	9,089,927	99.5%*
2007	9,615,015	9,495,935	98.8%	145,415	9,641,350	99.8%*
2008	10,935,835	10,728,465	98.1%	106,120	10,834,585	99.5%
2009	12,253,760	11,934,997	97.4%	200,344	12,135,341	99.3%
2010	12,750,836	12,477,413	97.9%	293,015	12,770,429	100.0%
2011	12,497,535	12,113,128	96.9%	330,118	12,443,246	96.9%
2012	12,015,988	11,635,211	96.8%	540,896	12,176,107	96.8%
2013	11,828,399	11,553,471	97.7%	332,418	11,885,889	97.7%

\* Percentage of Levy is estimated

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

Fiscal Year	City				Total
	General Sales Tax	Bed, Board & Beverage	Transportation	State of Arizona	
2004	1.0000%	2.0000%	0.6010%	5.6000%	10.1260%
2005	1.0000%	2.0000%	0.6010%	5.6000%	10.1260%
2006	1.0000%	2.0000%	0.6010%	5.6000%	10.1260%
2007	1.0000%	2.0000%	0.6010%	5.6000%	10.3260%
2008	1.0000%	2.0000%	0.6010%	5.6000%	10.3260%
2009	1.0000%	2.0000%	0.7210%	5.6000%	10.4460%
2010	1.0000%	2.0000%	0.7210%	6.6000%	11.4460%
2011	1.0000%	2.0000%	0.7210%	6.6000%	11.4460%
2012	1.0000%	2.0000%	0.7210%	6.6000%	11.4460%
2013	1.0000%	2.0000%	0.7210%	6.6000%	11.4460%

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

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

Fiscal Year	Governmental Activities					Business-Type Activities					Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Special Assessment Bonds	Revenue Bonds	Municipal Facility Corporation Bonds	COP Capital Leases	General Obligation Bonds	Revenue Bonds	Term Loan Payable	Capital Leases				
2004	5,795	685	13,380	28,170	-	21,253	6,290	3,380	-	78,953	2.3%	1,290.40	
2005	4,285	415	11,555	26,895	3,800	18,880	6,035	3,031	2,732	77,628	2.2%	1,251.46	
2006	32,875	340	9,665	25,610	3,455	16,294	5,770	2,671	2,652	99,332	2.9%	1,601.35	
2007	31,230	19,339	7,725	24,315	3,097	13,310	5,496	32,957	4,482	141,951	3.8%	2,211.07	
2008	29,350	19,257	6,325	23,000	2,728	10,515	5,212	32,275	4,227	132,889	3.5%	2,069.92	
2009	27,645	19,169	4,865	21,625	2,430	7,460	4,918	37,006	3,960	129,078	3.4%	1,995.24	
2010	25,865	18,615	6,665	19,890	6,964	5,690	4,614	36,257	3,679	128,239	3.4%	1,957.19	
2011	24,015	18,130	4,930	18,095	1,542	3,830	4,299	37,491	3,384	115,716	3.1%	1,756.73	
2012	38,449	11,365	15,615	3,205	5,200	3,125	3,972	35,689	3,075	119,695	3.2%	1,817.14	
2013	45,937	10,985	14,663	1,260	5,310	1,756	3,634	33,873	4,686	122,104	2.7%	1,853.71	

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements. See Schedule 18 for personal income and population data.

These amounts are presented on the accrual basis of accounting.

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

Fiscal Year	General Bonded Debt Outstanding		Total	Percentage of Actual Taxable Value of Property	Per Capita
	Governmental Activities General Obligation Bonds	Business-Type Activities General Obligation Bonds			
2004	5,795	21,253	27,048	5.8%	441.46
2005	4,285	18,880	23,165	4.6%	378.61
2006	32,875	16,294	49,169	8.8%	792.66
2007	31,230	13,310	44,540	7.1%	718.04
2008	29,350	10,515	39,865	5.3%	620.95
2009	27,645	7,460	35,105	4.0%	542.64
2010	25,865	5,690	31,555	3.4%	491.51
2011	24,015	3,830	27,845	3.2%	433.72
2012	38,449	3,125	41,574	5.3%	634.50
2013	38,214	1,752	39,966	5.2%	606.74

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

a: See Schedule 7 for property value data

b: Population data can be found in Schedule 18

These amounts are presented on the accrual basis of accounting.

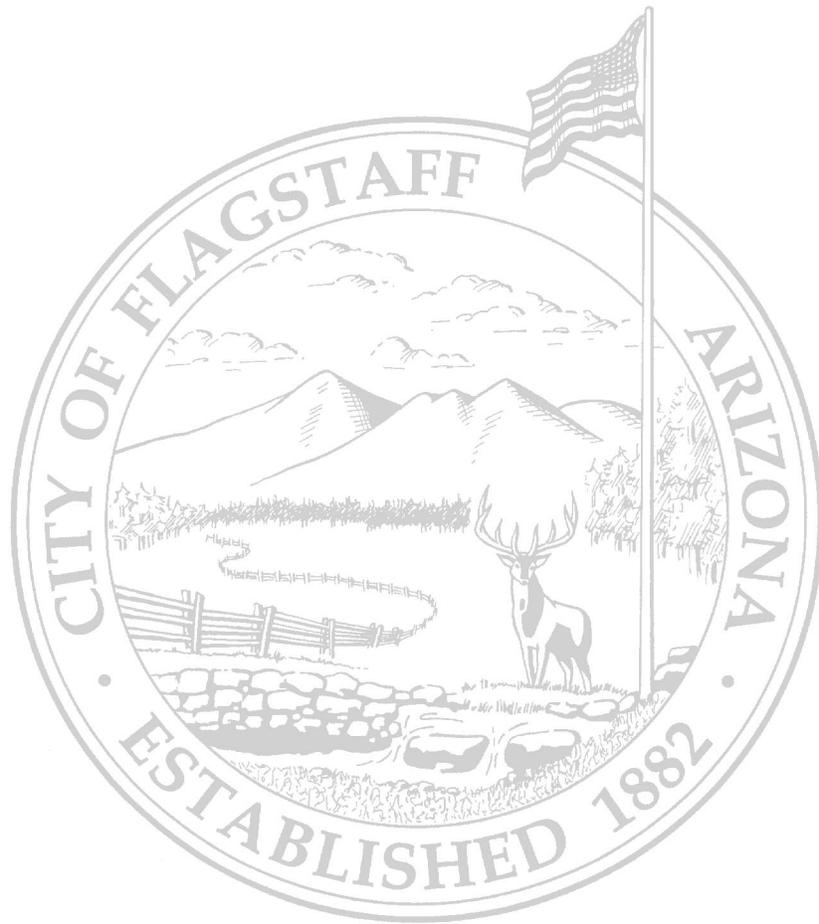
Schedule 15  
 City of Flagstaff  
 Direct and Overlapping Governmental Activities Debt  
*(dollars in thousands, except per capita)*

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable*</u>	<u>Estimated Share of Overlapping Debt</u>
<b>Debt repaid with property taxes</b>			
Flagstaff Unified School District	\$ 43,450	63.91%	\$ 27,771
<b>Other debt</b>			
Coconino County Special Assessments	866	0.00%	-
Subtotal, overlapping debt			27,771
<b>City direct debt</b>			<u>73,834</u>
<b>Total direct and overlapping debt</b>			<u>\$ 101,605</u>

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

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

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



	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>20% Debt Limit</b>										
Debt limit equal to 20% of assessed valuation	\$ 100,331	\$ 111,336	\$ 124,840	\$ 150,108	\$ 175,756	\$ 183,268	\$ 172,808	\$ 158,274	\$ 153,055	\$ 132,213
Total net debt applicable to 20% limit	24,493	21,644	35,227	43,860	39,514	35,105	35,105	27,845	41,841	48,788
Legal debt margin (Available borrowing capacity)	\$ 75,838	\$ 89,692	\$ 89,613	\$ 106,248	\$ 136,242	\$ 148,163	\$ 137,703	\$ 130,429	\$ 111,214	\$ 83,425
Total net debt applicable to the 20% limit as a percentage of debt limit	32.30%	24.13%	39.31%	41.28%	29.00%	23.69%	25.49%	21.35%	37.62%	58.48%

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>6% Debt Limit</b>										
Debt limit equal to 6% of assessed valuation	\$ 30,099	\$ 33,401	\$ 37,452	\$ 45,032	\$ 52,727	\$ 54,981	\$ 51,842	\$ 47,482	\$ 45,917	\$ 39,664
Total net debt applicable to 6% limit	2,555	1,225	14,202	680	351	-	-	-	-	-
Legal debt margin (Available borrowing capacity)	\$ 27,544	\$ 32,176	\$ 23,250	\$ 44,352	\$ 52,376	\$ 54,981	\$ 51,842	\$ 47,482	\$ 45,917	\$ 39,664
Total net debt applicable to the 6% limit as a percentage of debt limit	9.28%	3.81%	61.08%	1.53%	0.67%	0.00%	0.00%	0.00%	0.00%	0.00%

**Legal Debt Margin Calculation for Fiscal Year 2013**

Net Secondary Assessed Value as of June 30, 2013	\$ <u>661,062,990</u>
<b>20% Limitation</b>	
Debt Limit of 20% of Assessed Value	\$ 132,212,598
Debt applicable to limit:	
General Obligation Bonds	<u>48,787,587</u>
Legal 20% debt margin (Available borrowing capacity)	\$ <u>83,425,011</u>
<b>6% Limitation</b>	
Debt Limit of 6% of Assessed Value	\$ 39,663,779
Debt applicable to limit:	
General Obligation Bonds	<u>-</u>
Legal 6% debt margin (Available borrowing capacity)	\$ <u>39,663,779</u>

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

Fiscal Year	Gross Revenues (1)	Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal (3)	Interest (4)	Total	
2004	\$ 17,227,848	\$ 10,645,073	\$ 6,582,775	\$ 246,890	\$ 231,034	\$ 477,924	13.77
2005	16,851,956	10,693,901	6,158,055	255,648	223,153	478,801	12.86
2006	17,755,038	11,791,895	5,963,143	264,717	214,084	478,801	12.45
2007	18,235,171	12,892,795	5,342,376	274,108	204,693	478,801	11.16
2008	18,380,351	16,229,816	2,150,535	283,832	194,969	478,801	4.49
2009	17,459,105	14,633,986	2,825,119	2,130,093	1,287,569	3,417,662	0.83
2010	17,585,198	11,758,135	5,827,063	2,356,705	1,483,072	3,839,777	1.52
2011	18,824,260	11,663,208	7,161,052	2,443,196	1,475,327	3,918,523	1.83
2012	19,996,116	12,655,773	7,340,343	2,540,658	1,449,842	3,990,500	1.84
2013	22,846,487	12,810,177	10,036,310	2,252,132	807,256	3,059,388	3.28

(1) Includes total operating revenues and investment income of the water and wastewater fund.

(2) Includes total operating expenses of the water and wastewater fund less depreciation.

(3) Includes principal for water and sewer revenue bonds, water infrastructure finance authority (WIFA).

(4) Bond interest payments only. Does not include amortization of loss on refunding, capitalized interest, agent fees or amortization of bond issuance costs that are included in interest expense on the statement of revenues, expenses, and changes in net position.

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

Fiscal Year	Highway User Tax Revenue	Highway User Revenue Bonds				Coverage
		Debt Service Requirements				
		Principal (1)	Interest (2)	Total		
2004	\$ 6,975,351	\$ 1,410,000	\$ 607,160	\$ 2,017,160	3.46	
2005	7,171,383	1,825,000	571,910	2,396,910	2.99	
2006	7,540,081	1,890,000	526,285	2,416,285	3.12	
2007	7,855,427	1,940,000	469,585	2,409,585	3.26	
2008	7,422,359	1,400,000	411,385	1,811,385	4.10	
2009	6,412,329	1,460,000	344,010	1,804,010	3.55	
2010	6,429,355	1,520,000	280,135	1,800,135	3.57	
2011	6,300,885	1,620,000	190,455	1,810,455	3.48	
2012	5,569,896	1,725,000	94,875	1,819,875	3.06	
2013	6,007,741	-	-	-	-	

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

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

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

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

Fiscal Year	Revenue (1)	Debt Service Requirements			Coverage
		Principal (2)	Interest (3)	Total	
2004	\$ 8,764,929	\$ 265,000	\$ 197,198	\$ 462,198	18.96
2005	9,356,995	275,000	186,598	461,598	20.27
2006	10,847,378	285,000	175,598	460,598	23.55
2007	12,302,955	295,000	164,198	459,198	26.79
2008	13,771,313	310,000	152,398	462,398	29.78
2009	13,557,828	320,000	139,534	459,534	29.50
2010	11,929,099	335,000	125,614	460,614	25.90
2011	10,206,755	350,000	110,371	460,371	22.17
2012	10,247,131	365,000	94,446	459,446	22.30
2013	11,657,403	385,000	77,656	462,656	25.20

(1) State sales tax, state income tax less debt service requirements for MFC debt other than transportation.

(2) MFC 1992 Refunding series 12 2001 – USGS projects.

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

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

**Municipal Facility Corporation Bonds As Parital Refunded with Pledged Revenue Bonds  
Transportation MFC Debt**

Fiscal Year (1)	Debt Service Requirements				Coverage
	Revenue (2)	Principal (3)	Interest	Total	
2004	\$ 29,860,760	\$ 1,010,000	\$ 839,966	\$ 1,849,966	16.14
2005	31,085,459	1,000,000	1,037,100	2,037,100	15.26
2006	35,725,917	1,000,000	987,100	1,987,100	17.98
2007	39,681,382	1,000,000	964,600	1,964,600	20.20
2008	41,483,415	1,005,000	942,100	1,947,100	21.31
2009	38,586,144	1,055,000	891,850	1,946,850	19.82
2010	35,708,503	1,400,000	860,200	2,260,200	15.80
2011	33,777,368	1,445,000	814,700	2,259,700	14.95
2012	36,547,598	1,500,000	574,838	2,074,838	17.61
2013	37,962,078	1,560,000	542,575	2,102,575	18.06

(1) Trend information not available prior to fiscal year 2004.  
(2) Pledged revenues on the Municipal Facility Corporation Bonds include the city base rate sales tax, transportation sales tax, franchise sales tax, licenses and permits, charges for services, fine and forfeits, other revenue, state sales tax, and state revenue sharing. Less the debt service requirements for transportation MFC bonds.  
(3) MFC revenue bond series 2004 Fourth Street, partial advance refunding pledged revenue series 2012

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

**Greater Arizona Development Authority  
 Revenue Bonds**

Fiscal Year (1)	Revenue (2)	Debt Service Requirements			Coverage
		Principal (3)	Interest	Total	
2010	\$ 9,031,670	\$ 50,000	\$ 56,297	\$ 106,297	84.97
2011	7,169,310	115,000	135,938	250,938	28.57
2012	7,657,621	120,000	133,638	253,638	30.19
2013	9,340,790	120,000	130,037	250,037	37.36

(1) New Issue no trend information available, prior to fiscal year 2010

(2) Pledges revenues on the Greater Arizona Development Authority Bonds include the state revenue sharing. Less the debt service.

(3) GADA infrastructure revenue bond series 2010A

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

Year	Personal Income		Per Capita Personal Income	Median Age	Education Level – Percent		Education Level – Percent Bachelor's Degree or Higher	School Enrollment	Unemployment Rate
	(thousands of dollars)	Population			High School Grad or Higher				
2004	3,226,683	61,270	26,328	26.8	89.8%	89.8%	39.4%	13,176	5.20%
2005	3,472,652	61,185	28,045	26.8	89.8%	89.8%	39.4%	13,389	5.10%
2006	3,472,652	62,030	28,045	26.8	89.8%	89.8%	39.4%	13,171	5.00%
2007	3,472,652	62,030	28,045	26.8	89.8%	89.8%	39.4%	13,453	3.40%
2008	3,767,194	64,200	29,879	26.8	89.8%	89.8%	39.4%	13,040	4.60%
2009	3,767,194	64,693	29,879	26.8	89.8%	89.8%	39.4%	12,910	7.50%
2010	3,767,194	65,522	29,879	26.8	89.8%	89.8%	39.4%	12,600	7.70%
2011	4,481,137	65,870	34,510	26.6	90.0%	90.0%	39.2%	11,839	8.90%
2012	4,481,137	65,870	34,999	26.6	90.6%	90.6%	39.9%	10,623	9.20%
2013	4,620,811	65,870	34,353	26.6	90.4%	90.4%	42.0%	10,623	8.10%

**Sources:**

- Population – Arizona Department of Commerce, except for 2000 which is the official census number
- Personal Income – 1998 – 2005 Arizona Department of Economic Security, Workforce Development Statistics
- Personal Income – 2006 – 2007 Arizona Department of Economic Security, Workforce Development Statistics
- Personal Income – 2006 – 2007 Arizona Department of Economic Security, Workforce Development Statistics, estimate from 2008
- Personal Income – 2011 Arizona Department of Administration–Office of Employment and Population Statistics, estimate from 2009
- Per Capita Income – 1998 – 2005 Arizona Department of Economic Security, Workforce Development Statistics
- Per Capita Income – 2006 – 2009 Arizona Department of Economic Security, Workforce Development Statistics, estimate from 2008
- Per Capita Income–2011 Arizona Department of Administration–Office of Employment and Population Statistics, estimate 2009
- Median age – 2000 US Census
- Education level – 2000 US Census
- School enrollment – Arizona Department of Education and National Center for Education Statistics
- Unemployment – Arizona Department of Economic Security, August 2009

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

<u>Employer</u>	2013 (2)			2006 (1)		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Northern Arizona University	2,571	1	4.66%	3,393	1	6.15%
Flagstaff Medical Center	2,200	2	3.99%	1,999	2	3.62%
W.L. Gore & Associates	1,950	3	3.53%	1,300	3	2.36%
Flagstaff United School District	1,375	4	2.49%	1,700	4	3.08%
Coconino County	1,200	5	2.18%	1,075	5	1.95%
City of Flagstaff	657	6	1.19%	948	6	1.72%
Coconino Community College	-	7	0.00%	400	7	0.73%
Walmart	630	7	1.14%	-	-	0.00%
Walgreens & Distribution Center	407	8	0.74%	400	8	0.73%
Grand Canyon Railway	-	9	0.00%	400	9	0.73%
SCA Tissue	255	9	0.46%	279	10	0.51%
Nestle Purina	240	10	0.44%	-	-	0.00%
<b>Total</b>	<b>11,485</b>		<b>20.82%</b>	<b>11,894</b>		<b>21.56%</b>
2010 U.S. Census Labor Force	55,170			55,170		

**Source:**

- (1) Arizona Department of Economic Security  
This is the most historical information available
- (2) Flagstaff Chamber of Commerce  
as of March 2013

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

Function/Program	Full-time Equivalent Employees as of June 30									
	2004	2005	2006	2007	2008	2009	2010 (1)	2011 (2)	2012	2013
General Government										
Management services	73.00	74.25	75.75	82.89	87.39	89.14	86.75	86.50	84.55	85.00
Capital management	15.50	14.50	13.50	13.50	13.50	13.50	11.00	11.00	8.00	7.00
City Court	26.50	26.50	26.50	26.50	27.63	29.63	25.88	25.18	25.18	24.18
Public Safety										
Police	150.00	151.00	160.00	164.00	174.00	181.00	168.00	168.00	172.00	171.00
Fire	96.75	96.75	97.75	100.75	101.75	101.75	99.00	92.00	85.00	85.00
Public Works	27.00	25.00	26.00	27.00	31.00	31.00	29.00	26.50	26.50	26.00
Economic and physical development										
Building	43.75	43.00	49.25	52.25	58.50	57.50	47.20	41.00	39.20	39.20
Planning	17.25	17.25	15.25	21.75	20.88	24.88	24.38	22.88	22.88	21.88
Tourism	11.75	13.75	13.75	15.75	16.75	16.75	15.75	13.25	12.49	12.49
Culture and recreation										
Library	39.50	40.00	40.00	43.13	47.14	53.77	50.77	50.77	51.40	51.40
Parks, recreation, and beautification	67.75	63.95	67.53	68.82	98.23	99.69	87.86	86.86	88.81	84.88
Highways and Streets	36.25	36.25	36.25	37.25	40.56	41.06	36.31	36.31	36.31	34.97
Water and wastewater	73.00	74.50	76.50	79.00	80.25	81.75	64.50	62.50	61.50	61.50
Environmental services	45.75	52.25	54.00	62.60	61.60	68.10	65.58	63.58	59.60	58.50
Airport	9.50	9.50	9.50	10.00	10.50	10.50	9.50	9.50	9.50	9.50
Stormwater	5.75	5.00	6.50	6.50	6.50	6.50	6.00	6.00	6.00	6.00
Flagstaff Housing Authority	-	-	-	-	-	-	-	23.50	23.50	24.00
<b>Total</b>	<b>739.00</b>	<b>743.45</b>	<b>768.03</b>	<b>811.69</b>	<b>876.18</b>	<b>906.52</b>	<b>827.48</b>	<b>825.33</b>	<b>812.42</b>	<b>802.50</b>

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

(2) In fiscal year 2011, the city began reporting the Housing Authority in the financial statements.

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

Function/Program	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Court</b>										
Criminal Filings	10,236	9,227	9,705	9,553	11,659	9,330	9,326	8,531	8,857	8,695
Traffic filings	10,388	11,253	10,575	8,951	10,665	10,639	13,471	12,010	9,217	8,340
Domestic Violence/Other filings	682	673	616	530	744	445	468	370	547	477
<b>Fire</b>										
Emergency responses	5,616	6,722	7,684	8,227	7,616	7,550	6,668	7,274	7,438	8,023
Fires response	265	228	351	314	267	263	247	175	213	185
Other calls	2,023	1,905	1,323	1,472	1,573	2,151	1,906	2,378	2,226	2,298
Inspections assigned	2,212	2,006	1,966	1,984	1,981	1,794	572	1,174	1,468	1,411
Plan Reviews	1,340	1,348	1,280	1,314	1,284	1,250	401	528	535	559
<b>Fuel Management</b>										
Plan Assessment (Acres)	2,020	1,065	585	-	400	-	-	N/A*	N/A*	N/A*
Site Marking (Acres)	408	311	662	764	178	224	294	586	128	284
Site Thinning (Acres)	521	792	694	1,173	902	761	376	809	197	276
Prescription Burn (Acres)	709	834	557	1,210	1,070	1,190	551	342	697	540
<b>Police</b>										
Felony reports	NA	4,979	5,337	4,973	3,978	3,661	3,073	2,973	2,940	2,910
Misdemeanor reports	NA	12,378	13,381	13,123	13,413	12,939	12,293	11,786	11,253	11,040
Domestic violence incidents	NA	1,464	1,598	1,625	1,573	1,470	1,953	1,923	1,961	2,023
Non-crime reports	NA	8,818	9,136	8,913	11,043	10,996	9,480	9,827	9,886	9,841
Accident reports	NA	3,616	3,313	3,374	3,322	2,917	2,776	2,735	2,574	2,568
Calls dispatched to Police/Sheriff	NA	73,559	77,239	75,791	73,364	70,908	61,175	57,899	57,188	60,003
Calls dispatched to Fire	NA	11,266	11,741	12,364	11,907	12,527	11,011	11,130	13,320	11,497
Calls dispatched to Medical	NA	9,435	9,175	9,960	-	-	-	-	-	-

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

Function/Program	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Streets										
Potholes repaired	NA	2,988	1,962	2,443	4,032	4,373	3,256	1,498	1,877	2,054
Airport										
Fuel Flowage (Gallons Sold)	673,786	653,743	705,638	642,643	651,814	627,202	651,373	850,327	526,406	490,401
Enplanements	38,387	42,483	39,646	44,598	44,088	65,418	68,296	63,407	62,872	60,190
Refuse collection										
Refuse collected (Landfill tonnage)	109,608	140,233	154,321	153,121	157,792	142,409	121,529	138,703	137,815	145,793
Recyclables collected (total tons)	9,213	9,816	9,866	10,356	10,472	9,842	10,610	8,869	8,101	8,388
Community Development										
Residential Permit Valuation	(1) \$ 67,214,811	\$ 87,180,707	\$ 97,895,269	\$ 38,895,496	\$ 25,278,055	\$ 31,498,803	\$ 9,314,074	\$ 8,472,938	(1)	(1)
Commercial Permit Valuation	(1) \$ 18,123,934	\$ 12,324,654	\$ 26,130,677	\$ 37,962,373	\$ 27,199,698	\$ 18,594,665	\$ 13,395,325	\$ 17,703,762	(1)	(1)
Library										
Visits	564,065	582,726	625,103	643,174	680,253	738,603	743,169	763,928	739,706	715,033
Circulation	781,893	776,180	758,468	789,621	782,908	887,887	979,962	1,029,062	1,182,956	1,164,789
Tourism										
Revenue Per Available Room (RevPar)	\$ 47.95	\$ 52.90	\$ 61.47	\$ 66.86	\$ 60.52	\$ 43.21	\$ 43.05	\$ 45.26	\$ 48.81	\$ 53.52

Sources: Various city departments

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

(2) 2012 data is as of 12/19/2012 and subject to update

\* Records no longer tracked

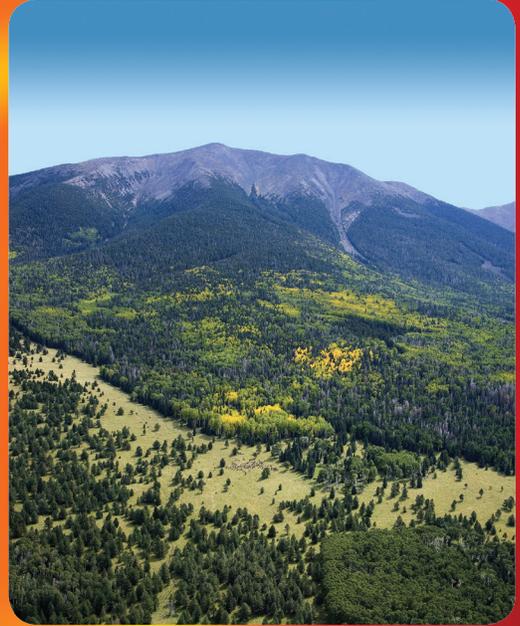
Schedule 22  
City of Flagstaff  
Capital Asset Statistics by Function / Program  
Last Ten Fiscal Years

Function / Program	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Public Safety</b>										
Police patrol units (Includes Motorcycle units)	26	26	26	31	34	34	35	37	37	37
Number of fire hydrants	2,478	2,478	2,598	2,743	3,148	3,150	3,143	3,176	3,179	3,242
Numer of fire stations	6	6	6	6	6	7	7	7	7	6
<b>Culture and recreation</b>										
Number of developed parks	28	27	27	27	26	26	26	24	23	23
Number of undeveloped parks	4	4	4	4	4	4	4	5	4	4
Park acreage	704	702	702	705	712	712	712	735	680	710
Flagstaff Urban Trail System - Miles	28	32	34	34	48	51	51	53	53	55
Recreational Buildings	5	5	5	5	6	6	6	4	4	4
<b>Highways and Streets</b>										
Miles of streets, alleys, and sidewalks (1)	365	365	386	403	690	695	813	814	814	814
Number of street lights	2,921	2,921	3,037	3,107	3,201	3,220	3,350	3,466	3,466	3,466
<b>Water and wastewater</b>										
Miles of sewer (2)	275	275	293	309	265	270	270	271	271	274
Number of manholes	6,097	6,097	6,496	6,906	7,107	7,261	7,261	7,308	7,308	7,403
Total active water accounts	16,948	18,039	17,872	18,758	18,849	18,371	19,042	22,092	19,020	20,107
Average gallon water usage per household per month	6,070	6,096	5,488	5,600	5,456	5,010	5,123	5,107	5,339	6,326
<b>Airport</b>										
Fixed base operators	1	1	1	1	1	1	1	1	1	1
Locally based aircraft	130	130	130	134	134	134	120	122	125	209
Tiedowns	49	29	18	11	11	11	14	11	11	11
Enclosed hangars	42	42	61	61	61	61	61	61	61	61
Open hangars	38	38	48	48	48	48	48	48	48	48

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

(2) Database Correction

Coverage	Limit of Liability	Coverage	Limit of Liability
Liability Insurance:		Property Insurance:	
General Liability* (Includes 2 skateboard parks, bike freestyle park, EMT's)	\$ 1,000,000 / per occurrence \$ 2,000,000 / aggregate	Blanket Buildings and Personal Property	\$ 203,538,782 / \$25,000 deductible
Law Enforcement Liability*	\$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate	Boiler and Machinery included	\$ 2,500,000 / \$50,000 deductible
Auto Liability*	\$ 1,000,000 / each accident \$ 1,000,000 / each wrongful act	Flood Zones high risk	\$ 10,000,000 / \$50,000 deductible
Public Entity Management Errors and Omissions* (Claims Made Retro Date 6-1-95)	\$ 1,000,000 / aggregate \$ 5,000,000 / each wrongful act	Flood Zones B and C	\$ 15,000,000 / \$25,000 deductible
Employment Practices Liability* (Claims Made Retro Date 6-1-95)	\$ 5,000,000 / aggregate \$ 1,000,000 / each employee	Earthquakes	\$ 7,000,000 / 72 hours
Employee Benefits Liability* (Claims Made)	\$ 3,000,000 / aggregate \$ 1,000,000 / each offense	Business Income/Extra Expense	\$ 25,367,353 / \$1000/comprehensive
Limited Abuse or Molestation Liability	\$ 1,000,000 / aggregate	Auto Physical Damage	\$ 500,000 / contents each \$ 500,000 / collision deductible
* Liability Claims are Subject to a \$50,000 Self Insurance Retention		Flood Zone A Properties	\$ 242,000 / building \$ 122,700 / contents
Public Entity Cyber Liability (Claims Made Retro Date 6-1-09) (\$5,000 deductible each wrongful act)	\$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate	Municipal Court	\$ 500,000 / each building \$ 500,000 / contents each (\$5,000 deductible)
Employer's Liability	\$ 1,000,000 / each accident \$ 1,000,000 / disease employee \$ 1,000,000 / disease policy limit	City Hall, Library	
Worker's Compensation	Statutory	Inland Marine:	
Umbrella/Excess #1 - GL, Auto, Law Enforcement, Employer's Liability	\$ 20,000,000 / each occurrence	Contractors Equipment (actual cash value)	\$ 7,391,884 / \$5,000 deductible
Public Entity Management, Employee Benefits	\$ 20,000,000 / general aggregate	Bookmobile book collection	\$ 238,582 / \$1000 deductible
10,000 retained limit (ded)		Lab Equipment	\$ 11,300 / \$1,000 deductible
(Excludes Airport, Housing Authority, Employment related practices, Failure to Supply Services, Mold, Terrorism, Asbestos, Lead, Condemnation, Sexual Abuse)		Employee Hand Tools	\$ 35,000 / \$5,000 deductible
Excess Liability #2 Following Form Over Excess Liability # 1 (Excluding asbestos, discrimination, terrorism, nuclear)	\$ 5,000,000 / each occurrence/ \$ 5,000,000 / general aggregate	Computer Equipment and Peripherals	\$ 1,438,500 / \$1,000 deductible
Aviation:		Data and Media	\$ 500,000 / \$1,000 deductible
General Liability	\$ 40,000,000 / each occurrence	Fine Arts & exhibition floater - Max \$25,000 per item	\$ 78,700 / \$1,000 deductible
Products/Completed Operations	\$ 40,000,000 / aggregate	Max \$25,000 per item	
Personal Injury, Advertising & Malpractice	\$ 40,000,000 / aggregate	City Hall, Visitor Center, Airport Terminal	
Hangar Keepers Liability	\$ 40,000,000 / each aircraft \$ 40,000,000 / each occurrence	Crime:	
		Blanket Public Employees and Treasurer	\$ 1,000,000 / \$5,000 deductible
		Dishonesty Bond Including Faithful Performance of Duty	\$ 1,000,000 / \$5,000 deductible
		Computer & Funds Transfer Fraud	\$ 1,000,000 / \$5,000 deductible
		Theft, Disappearance, & Destruction (Inside and Outside)	\$ 1,000,000 / \$5,000 deductible
		Depositors Forgery or Alteration	\$ 1,000,000 / \$5,000 deductible
		Money Orders & Counterfeit,	\$ 1,000,000 / \$5,000 deductible
		Credit, Debit or Charge Card forgery	\$ 1,000,000 / \$5,000 deductible
		International Travel - Executive Assistance	\$ 1,000,000 / Medical Assistance
		Kidnap and Extortion Worldwide	\$ 250,000 / Accidental death \$ 100,000 / Each Loss



**The Flagstaff Watershed Protection Project**  
is made possible through the following partnerships:

- U.S. DEPARTMENT OF AGRICULTURE, FOREST SERVICE
- THE STATE OF ARIZONA
- COCONINO COUNTY
- GREATER FLAGSTAFF FORESTS PARTNERSHIP
- NORTHERN ARIZONA UNIVERSITY



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