

# 2014



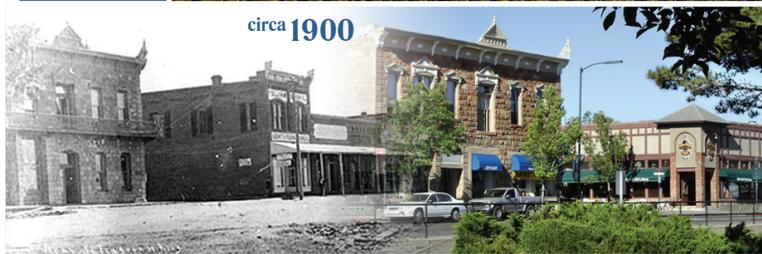
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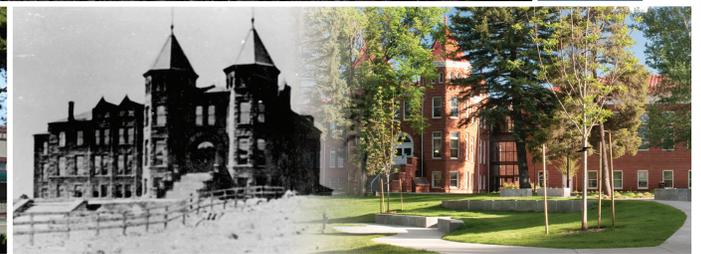
Honoring Flagstaff's  
Remarkable Past,  
Present and Its  
Promising Future



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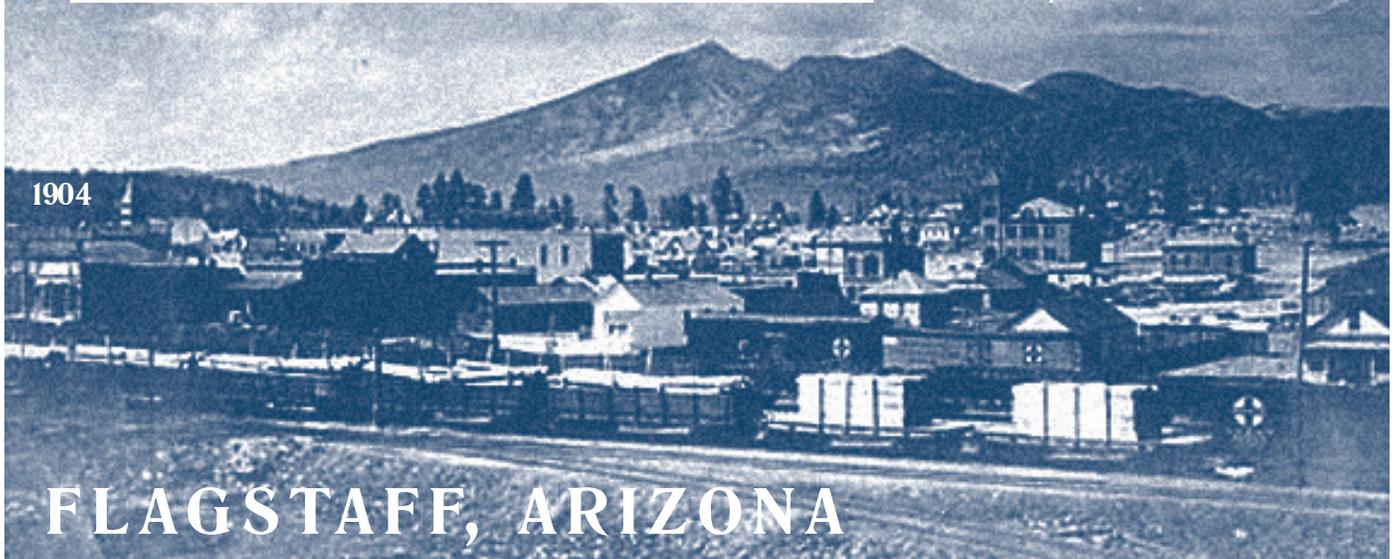
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City of Flagstaff  
Comprehensive Annual  
Financial Report

Fiscal Year Ended  
June 30, 2014

1904



## FLAGSTAFF, ARIZONA

# *Comprehensive Annual Financial Report*

For Fiscal Year Ended  
June 30, 2014

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, 2014**

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# City of Flagstaff

January 15, 2015

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, 2014, 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, 2014, 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 unmodified opinion that the City of Flagstaff's financial statements for the fiscal year ended June 30, 2014, 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, by area, 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. In addition, the Council appoints the City Attorney, City Clerk and City Magistrate of the Court. The City Manager appoints the City Treasurer.

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. A public hearing is 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 experiencing 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 33 out of 41 months when compared to the prior year, same month. In Fiscal Year 2013–2014, most 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	FY2014	% Change
Utilities	\$929,683	\$1,038,953	11.75%
Telecommunications	278,702	317,222	13.82%
Restaurants/Bars	2,066,174	2,187,904	5.89%
Amusements	71,371	73,331	2.75%
Commercial Property Rental	999,391	933,249	-6.62%
Personal Property Rentals	420,974	497,313	18.13%
Constructions Contracting	1,649,710	1,699,327	3.01%
Retail	7,791,090	8,017,986	2.91%
Hotels/Motels	882,658	952,628	7.93%
Other	194,904	179,982	-7.66%
<b>Total</b>	<b>\$15,284,658<sup>1</sup></b>	<b>\$15,897,896</b>	<b>4.01%</b>

While construction is showing growth for the second year in a row 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. Commercial Property Rental decreases were expected and are due to legislative changes that exempted sales tax payments on properties that had common ownership, even if different legal entities. State shared sales tax revenues have increased for the fourth year in a row at 6.3% for FY 2014. State income tax revenues increased by 9.1% even though the total revenue is still below FY 2008 levels. After six years of declines, the highway user (gas tax) revenues increased for the second year in a row at 2.7%. This category also has a great deal of volatility as the State of Arizona can choose to fund other State departments such as the Motor Vehicle Division or the Department of Public Safety as the State looks to balance its own budget. Our community partners in the public, private, and governmental sectors are also experiencing similar growth. The Flagstaff Unified School District continues to realize increases in enrolment for the second year. 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 continues to be limited resource available for new or restored services within the community. Fixed costs, primarily public safety pensions, continue to match or 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.

<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.

The City collects three different 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 November 2024.

As indicated earlier, overall local sales tax increases have been realized for three years in a row. Per Schedule 5 in the Statistical Section, the 1% general city sales tax receipts have increased 8.1% from the prior fiscal year and are now at the highest collection level ever. Within that, Construction and Auto Sales (a subset of the Retail category) continue to be the two most unpredictable sales tax categories. Retail sales posted the highest incremental gain at \$226,986, with auto sales making up 68.0% of the increased revenue.

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 collects 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 four years in a row, now at \$6.3 million dollars.

On November 4, 2014, the City of Flagstaff voters adopted an additional sales tax of 0.33% on all general sales to fund a road repair and street safety initiative. The proceeds from this tax are specifically dedicated to providing overdue maintenance including reconstructions on deteriorating City streets. This tax has a twenty year life and the work program is anticipated to touch every City owned street within the corporate boundary.

State shared revenues include a distribution of a portion of sales tax and income tax collected by the state. These distributions are made based on a city or towns relative share of population in comparison with all other cities and towns. This relative population share was set by the 2010 census. 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 7.9% in FY2014 and the State of Arizona projects continued growth. While recent revenue growth has been experienced, the City's portion of the State Shared Sales Tax is still under the peak revenue year (FY 2007) by 1.4% and State Shared Income Tax is under FY2009 peak revenues by 19.8%. Continued reductions in corporate income tax liability will result in a prolonged recovery of this revenue source as the statewide boon to economic development has not been realized that was anticipated when these reductions were put into place.

Highway user revenue (gas tax) funds (HURF) ended FY 2014 above FY 2013 by 2.7%. While this is a considerable increase, it is still 22.3% 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 increased by 2.6% in FY 2014 which translated into the local increase noted above. 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 and is at continued risk for future revenue sweeps by the State of Arizona.

Even after the value of new construction is added to the total taxable assessed value, property valuations decreased for the fourth year in a row by an additional 12.4% for this tax year. Assessed value has decreased a total of 26.8% 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. as the increase has not been taken for three years, the City now has future authority to take a 6% 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 13.4% in comparison to the prior fiscal year.

While revenues fluctuations continue in some areas, the City increased budgeted revenue in FY 2015 (excluding grants and miscellaneous revenue) by 4.0% which reflects increase in local and state revenues. The City of Flagstaff increased its' overall staffing count by 2.6 full time equivalencies by adding staff in the Library, Water, and Tourism. This is the first year the City has increased its' position count since 2009. Prior to this, the City experienced staffing reductions totaling 130 full time equivalencies.

## **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 restoring fund balance, the City Council also agreed to provide a greater cushion against future recessions by directing that the General Fund balance increase by 1% per year to 20%. This goal was achieved in just two years versus the five year plan and the City General Fund balance is budgeted to be 22.3% for FY 2015 and is maintained at a minimum of 20% over the next five fiscal years.

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

During FY 2014, 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 economically viability and sustainable community objectives. The outcomes of these strategies have been many and in certain cases require sustained efforts over a period of time.

The following are the Councils FY2014 ten goals and associated accomplishments.

### **Repair, Replace, and Maintain Streets & Utilities Infrastructure**

- Completed 13 road projects totaling \$15.13 million dollars
- Completed 8 waterline and sewer line projects totaling \$8.5 million dollars
- Completed 9 water and wastewater capital projects totaling \$4.3 million dollars
- Increased ongoing pavement preservation by \$1 million dollars on an ongoing basis
- Increased pavement preservation by an additional \$1 million dollars on a one-time basis

### **Fund Existing, and Consider Expanded Recreational Services**

- Increased BBB Park maintenance from a level 4 to a level 2
- Increased General Fund Park maintenance from a level 4 to a level 3
- Added Adult Coed Hockey League, Children's Health and Wellness Fair, and continued the Dew Downtown Festival
- Developed the Bushmaster Park concept plan and funded \$1.1 million in improvements

### **Address Core Services Maintenance Facility**

*(Prior activity included the passage of a \$14 million dollar bond in 2012 to assist in funding this facility)*

- Selecting McAllister Ranch as the future location for this facility
- Initiated design of the facility
- Conducted initial neighborhood outreach regarding the sale of the current location

### **Complete the Rio de Flag Flood Control Project**

- The Limited Reevaluation Report (LRR) was completed and submitted to the Army Corps of Engineers Headquarters for review.
- Acquired \$1.6 million dollars in federal funding as a result of the 2014 trip to Washington D.C.

### **Retain, Expand, and Diversify the Economic Base**

- Increased passenger enplanements to the same volume as when there were two airlines
- Added six new and expanding retailers leading to 225 jobs and 70,000 square feet of retail
- Added three new non-retail businesses
- Northern Arizona Center for Entrepreneurship and Technology (NACET) created 46 high wage/low impact jobs
- Secured site, design, easement approval, and construction funding for the new Arizona Public Service (APS) substation.

### **Complete Comprehensive Water Policy**

- Initiated the Feasibility Study with the Coconino Plateau Water Advisory Council Environmental Assessment for the pumping of Red Gap Ranch
- Initiated water and wastewater master planning efforts
- Addressed response strategies for inclement weather conditions

### **Review Financial Viability of Pensions**

- City Manager was the driving force and proposed the creation of a joint Pension Reform Task Force with the Government Financial Officers of Arizona and the Arizona League of Cities and Towns. The agencies agreed with the concept and created the task force in FY 2014. The Management Services Director is a member of this committee.

### **Review all Commissions**

- In process: Work sessions have been held May 2013, April 2014, and September 2014 to review all commissions.

### **Zoning Code Check In and Analysis of the Process and Implementation**

- Flagstaff voters adopted the Regional Plan in May 2014
- Council conducted work sessions on the Zoning Code and evaluated policy and technical elements

- Council prioritized Zoning Map Amendments and Signage from the policy evaluation list
- Zoning code revised for the Zoning Map Amendment process

#### Develop an Ongoing Budget Process

- All budget work sessions are video recorded and posted
- Budget review materials provide more focused information for Council discussions
- Conducted a number of mini budget retreats to review service levels and programs
- Streamlined budget entry for year-end, base-budget, and new and/or increased service levels

#### 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, 2013. This was the 20<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 2013-2014 annual budget (20 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, 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

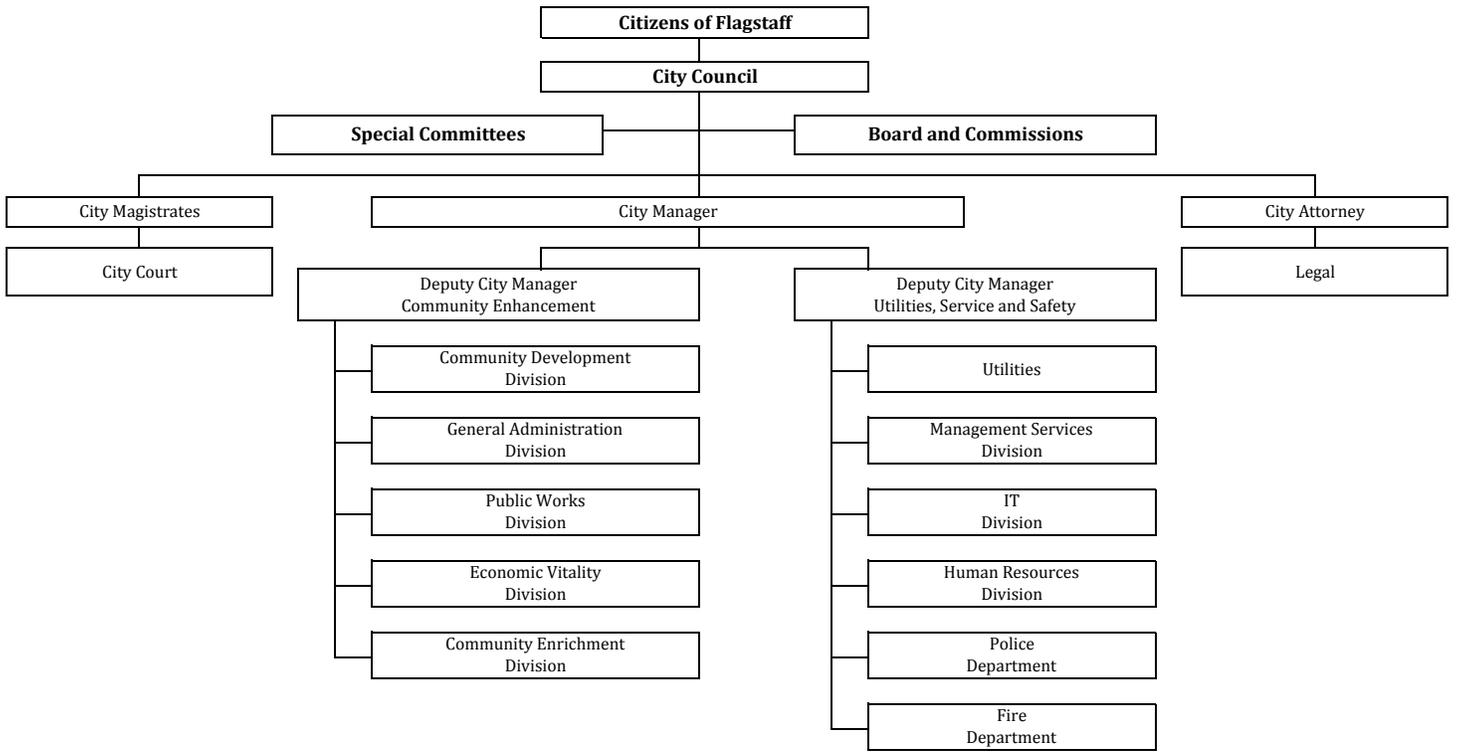
**City of Flagstaff  
Arizona**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

**City of Flagstaff**



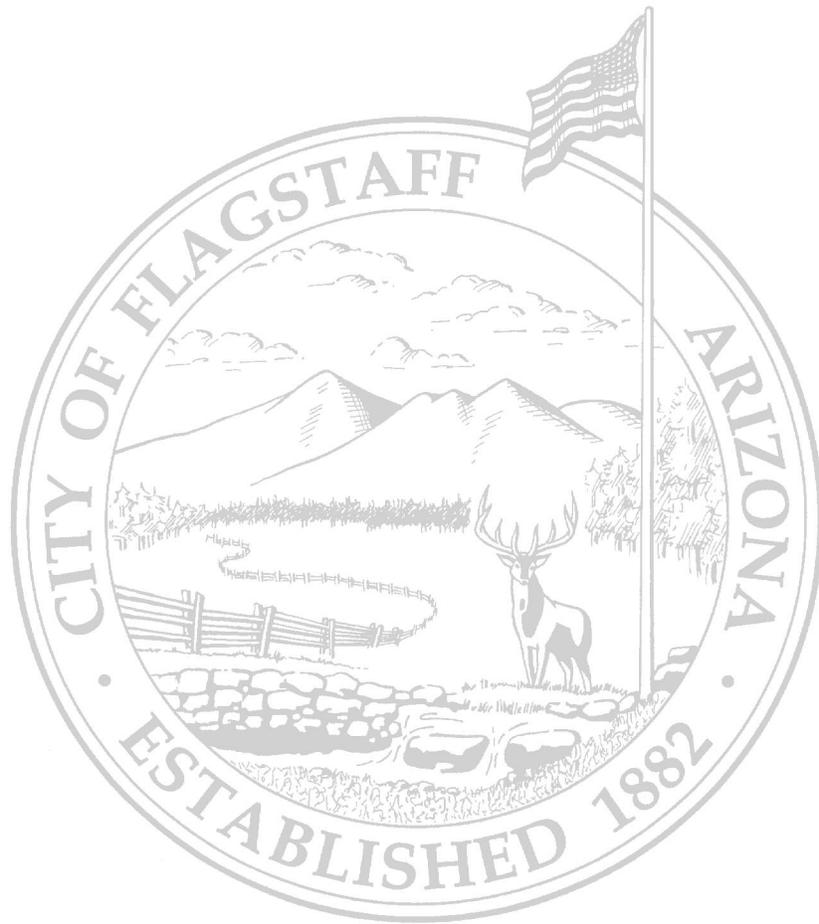
City of Flagstaff, Arizona  
List of Elected and Appointed Officials  
June 30, 2014

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, 2014, 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2014, 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.

### **Adoption of New Accounting Standard**

As described in Note I.D to the financial statements, the City adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As discussed in Note I.D to the financial statements, the City has retroactively restated the previously reported net position to account for bond issuance costs in accordance with this statement. Our opinions are not modified with respect to this matter.

### **Change in Accounting Principle**

As described in Note I.D to the financial statements, the City adopted a change in accounting principle wherein debt service payments, including both principal and interest reductions, are recognized when due. As discussed in Note I.D to the financial statements, the City has retroactively restated the previously reported governmental fund balance to account for timing of debt service payments in accordance with the change in accounting principle. Governmental and business-type activities net position was not impacted by the change. Our opinions are not modified with respect to this matter.

### **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, the financial data submission schedules 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, and the financial data submission schedules 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 by function and activity, the budgetary comparison of the major debt service fund and nonmajor governmental funds, and the financial data submission schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

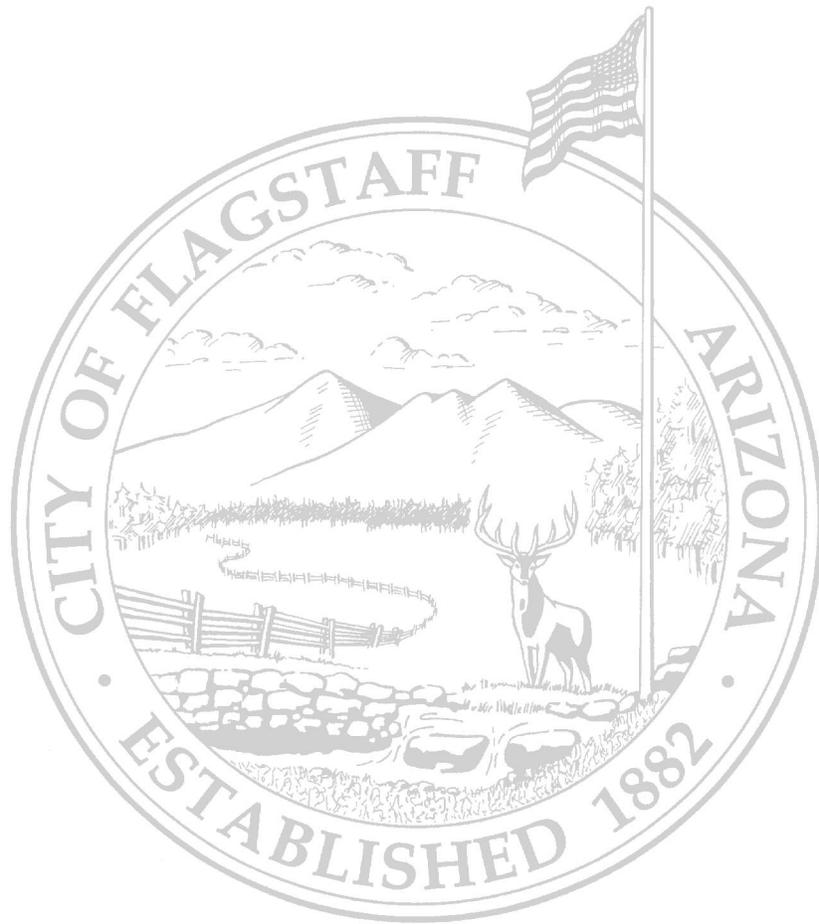
The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2015 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Phoenix, Arizona  
January 15, 2015



## 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, 2014. 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 City has two items that required a restatement of financial statements for the fiscal year ended June 30, 2013. First was the implementation of GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, to show deferred outflows and inflows of resources and presenting retroactively. The second was a change in accounting policy for recognition of debt. In prior years the City's policy was to accrue the recognition of July 1 debt to the prior fiscal year. The City is now recognizing debt in the fiscal year that it is paid. Further discussions in the MD&A are based on the restatements.
- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$652.5 million (net position). Of this amount \$68.3 million (unrestricted) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$17.8 million during the fiscal year. This is a result of an increase in net position in the governmental activities of \$10.1 million and an increase in net position in the business type activities of \$7.7 million.
- As of June 30, 2014, the City's governmental funds reported combined ending fund balances of \$80.4 million, an increase of \$3.0 million in comparison with the prior fiscal year. Approximately 26.8% of this total amount (\$21.6 million) is unassigned fund balance available for spending at the government's discretion.
- As of June 30, 2014, total unassigned fund balance for the general fund was \$21.6 million, or 43.5% of total general fund expenditures (\$49.6 million).
- As of June 30, 2014, the City's proprietary funds reported combined total net position of \$344.2 million, and total unrestricted of \$31.1 million. Unrestricted component of net position in the Water and Wastewater Fund are \$19.9 million and in the Environmental Services Fund are \$10.2 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 19 – 21 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 22–32 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 with the exception of the Housing Authority fund.
- **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.

The basic proprietary fund financial statements can be found on pages 34–43 of this report.

## **Notes to the Financial Statements**

The notes to the financial statements 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 44–91 of this report.

## **Combining statements**

The combining statements referred to earlier in connection with non-major governmental funds are presented on pages 92–96.

## 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, budgetary comparison of other major and non-major governmental funds, and financial data submission schedules. Other supplementary information can be found on pages 98–117 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 \$652.5 million as of June 30, 2014.

Of the City's net position, 82.4% reflects its investment of \$537.9 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.

<b>Net Position</b>						
<b>June 30, 2014 and 2013 (in thousands of dollars)</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2014	2013 – as restated	2014	2013 – as restated	2014	2013 – as restated
Current and other assets	\$ 102,325	\$ 100,579	\$ 46,690	\$ 43,851	\$ 149,015	\$ 144,430
Capital assets	307,939	299,629	354,714	352,170	662,653	651,799
Total assets	<u>410,264</u>	<u>400,208</u>	<u>401,404</u>	<u>396,021</u>	<u>811,668</u>	<u>796,229</u>
Total deferred outflows of resources	<u>1,139</u>	<u>457</u>	<u>-</u>	<u>36</u>	<u>1,139</u>	<u>493</u>
Long-term liabilities	85,361	87,359	49,614	52,520	134,975	139,879
Other liabilities	17,757	15,136	7,616	7,090	25,373	22,226
Total liabilities	<u>103,118</u>	<u>102,495</u>	<u>57,230</u>	<u>59,610</u>	<u>160,348</u>	<u>162,105</u>
Net investment in capital assets	227,347	222,691	310,553	304,561	537,900	527,252
Restricted	43,762	43,856	2,493	2,694	46,255	46,550
Unrestricted	<u>37,176</u>	<u>31,623</u>	<u>31,128</u>	<u>29,192</u>	<u>68,304</u>	<u>60,815</u>
Total net position	<u>\$ 308,285</u>	<u>\$ 298,170</u>	<u>\$ 344,174</u>	<u>\$ 336,447</u>	<u>\$ 652,459</u>	<u>\$ 634,617</u>

Total assets increased mainly due to the net change of restricted and unrestricted cash and investments along with the change in capital assets in the governmental activities. Total liabilities decreased mainly due to the amount of debt paid off versus issued.

A portion of the City's net position, \$46.3 million (7.1%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted component of net position, \$68.3 million (10.5%) 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 1.7% (\$1.7 million). The largest increase was in cash and investments (\$19.4 million) while the largest decreases are in restricted cash and investments (\$12.0 million) and special assessments receivable (\$2.3 million).

Deferred outflows of resources for the governmental activities have increased 149.2% (\$681,391) and are related to deferred loss on bond refunding.

Capital assets of the governmental activities, funded through operations, debt proceeds, grants, and contributions, increased by 2.8% (\$8.3 million) due to capital outlays in excess of current year depreciation and deletions. Major capital outlays include Observatory Mesa land (\$12.1 million), street/utility bond construction (\$4.5 million), annual street improvement program (\$2.6 million), West/Arrowhead street improvements (\$1.8 million) and Aquaplex solar project (\$1.1 million).

Governmental activities long-term liabilities decreased by 2.3% (\$2.0 million) primarily due to defeasance of special assessment debt. Other liabilities increased by 17.3% (\$2.6 million) primarily due to the increase in bonds, notes, and leases payable (\$1.7 million) and accounts payable (\$0.6 million).

Total assets for business-type activities have increased by 1.4% (\$5.4 million). The largest increases were for intergovernmental receivables (\$2.7 million) and capital assets (\$2.5 million). The largest decrease was for accounts receivable, net (\$1.3 million).

Total liabilities for business type activities decreased by 4.0% (\$2.4 million). Major changes include decreases in bonds, notes and leases payable (\$4.0 million) while largest increase was for accounts payable (\$0.6 million).

Overall, the business-type net position has increased by 2.3% (\$7.7 million) due an increase in net investment in capital assets (\$6.0 million) primarily in the water and wastewater fund.

## Analysis of Change in Net Position

The City's overall net position has increased by \$17.8 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, 2014 and 2013 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2014	2013 – as restated	2014	2013 – as restated	2014	2013 – as restated
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 7,758	\$ 8,112	\$ 39,867	\$ 38,566	\$ 47,625	\$ 46,678
Operating grants and contributions	7,072	6,866	4,051	4,884	11,123	11,750
Capital grants and contributions	14,604	11,319	7,836	6,622	22,440	17,941
General Revenues:						
Property taxes	11,045	11,822	-	-	11,045	11,822
Sales taxes	37,676	35,189	-	-	37,676	35,189
State shared taxes	15,667	14,631	-	-	15,667	14,631
Investment earnings	749	(396)	213	194	962	(202)
Other	2,072	1,326	641	825	2,713	2,151
Total revenues	<u>96,643</u>	<u>88,869</u>	<u>52,608</u>	<u>51,091</u>	<u>149,251</u>	<u>139,960</u>
<b>Expenses</b>						
General government	9,798	9,218	-	-	9,798	9,218
Public safety	28,730	27,269	-	-	28,730	27,269
Public works	1,322	1,494	-	-	1,322	1,494
Economic and physical development	8,434	8,609	-	-	8,434	8,609
Culture and recreation	13,370	13,836	-	-	13,370	13,836
Highways and streets	19,018	16,990	-	-	19,018	16,990
Interest on long-term debt	2,947	2,902	-	-	2,947	2,902
Water and wastewater	-	-	24,366	22,569	24,366	22,569
Environmental	-	-	11,638	11,671	11,638	11,671
Airport	-	-	4,118	5,227	4,118	5,227
Housing Authority	-	-	6,091	5,986	6,091	5,986
Stormwater	-	-	1,577	1,197	1,577	1,197
Total expenses	<u>83,619</u>	<u>80,318</u>	<u>47,790</u>	<u>46,650</u>	<u>131,409</u>	<u>126,968</u>
Increase in net position before transfers	13,024	8,551	4,818	4,441	17,842	12,992
Transfers	(2,909)	(818)	2,909	818	-	-
Change in net position	10,115	7,733	7,727	5,259	17,842	12,992
Net position at beginning of year, as restated	298,170	290,437	336,447	331,188	634,617	621,625
Net position at end of year	<u>\$ 308,285</u>	<u>\$ 298,170</u>	<u>\$ 344,174</u>	<u>\$ 336,447</u>	<u>\$ 652,459</u>	<u>\$ 634,617</u>

### Governmental activities

Governmental activities increased the City's net position by \$10.1 million. The key factors for this increase are as follows:

- Revenues exceeded expenses by \$13.0 million as compared to last year of \$8.6 million.
- Net transfers decreased to a negative \$2.9 million versus last year of negative \$0.8 million.
- Charges for services have decreased 4.4% (\$0.4 million).
- Capital grants and contributions had the largest percentage increase of 29.0% (\$3.3 million). Culture and recreation increased 41.3% (\$1.8 million) related to a state grant to purchase Observatory Mesa property. Highways and streets increased 17.0% (\$1.2 million) related to donated capital.
- City sales tax revenues increased by 7.1% (\$2.5 million). Comparing actual revenues to budgeted revenues the city exceeded the estimates by \$2.5 million. The increase in the city general sales tax, the transportation taxes, and the Bed, Board, and Beverage sales taxes are \$777,992, \$492,614, and \$406,727 respectively. The city has seen positive sales tax growth in the last three years.
- State shared taxes had an increase of 7.1% (\$1.0 million). This was related to anticipated increases in state shared income tax as these revenues are based on calendar year 2012 returns.

- Property tax had a 6.6% decrease due to expected decreases in assessed valuation which affects the City's secondary property tax revenue. This will the City's impact our ability to pay our general obligation debt.
- Expenses have increased by 3.3 million (4.1%) as the economy had stabilized over the last few years and the City are completing more projects and funding additional operational expenses. There were increases in general government (\$0.6 million), public safety (\$1.5 million), highways and streets (\$2.0 million) and interest on long term debt (\$44,489). Decreases were in public works (\$0.2 million), economic and physical development (\$0.2 million), and culture and recreation (\$0.5 million). Many of the expenses are considered one-time funding as the organization attempts to manage its ongoing expenses in line with ongoing revenues.

**Business-type activities**

Business type activity had net position increase of \$7.7 million. The key factors for this increase include:

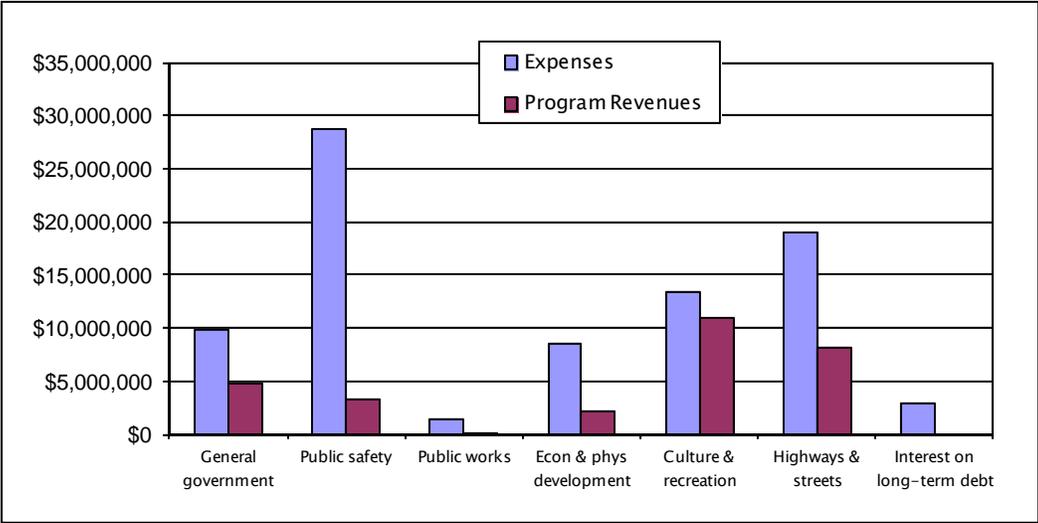
- Charges for service increased by 3.4% (\$1.3 million). Funds with increases were Water and Wastewater (\$802,291), Environmental Services (\$490,113), Airport (\$18,456), and Stormwater (\$10,117). The only fund with decreased charges for services this year was the Housing Authority (\$19,939).
- Operating grants and contributions decreased \$832,893.
- Capital grants and contributions increased by 18.3% (\$1.2 million) due to increased grant funded construction at the Airport.
- Investment earnings are up slightly (\$19,029) and other revenues decreased by \$183,720.
- Expenses have increased over prior year by 2.4% (\$1.1 million). There were increases in the Water and Wastewater fund (\$1.8 million), Housing Authority fund (104,282) and Stormwater fund (\$380,276). There were decreases in the Environmental Services fund (\$33,800), and Airport fund (\$1.1 million).

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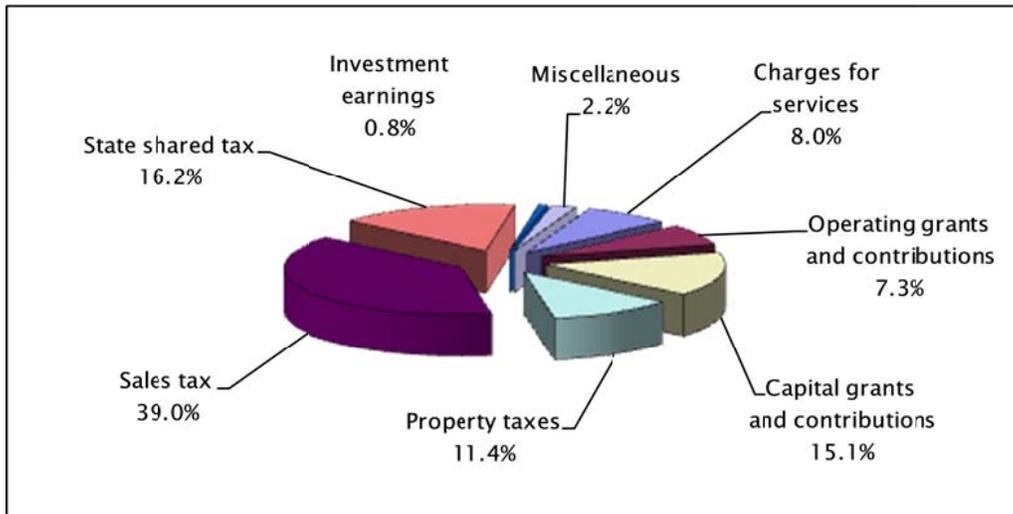
The following two charts illustrate the City's governmental expenses by function and its revenues by source.

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**Expenses and Program Revenues – Governmental Activities**



**Revenues by Source – Governmental Activities**

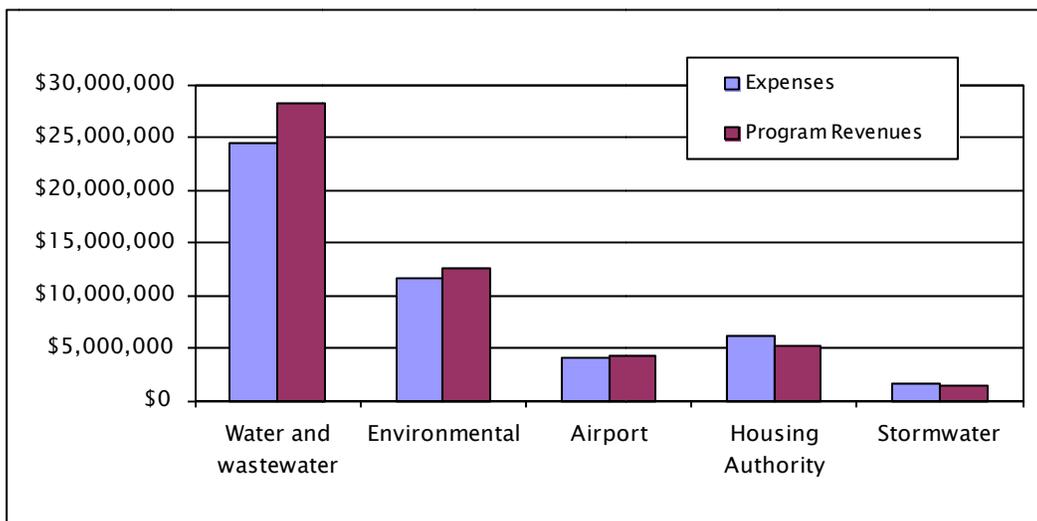


As shown, public safety is the largest function as measured by expense (34.4%) followed by highways & streets (22.7%), and culture and recreation (16.0%).

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 (39.0%), followed by state shared tax (16.2%) and capital grants and contributions (15.1%). Last year sales tax was ranked first, state shared tax was ranked second, and property taxes were ranked third.

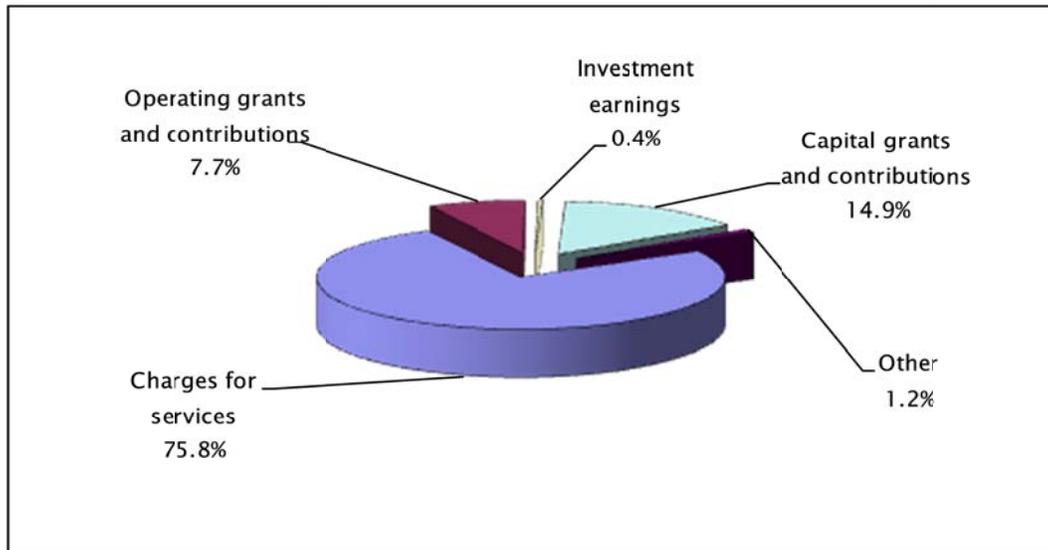
The following two charts illustrate the City's business type expenses by function and its revenues by source.

**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 \$24.4 million for the fiscal year, followed by Environmental Services with \$11.6 million, Housing Authority with \$6.1 million, the Airport with \$4.1 million and Stormwater with \$1.6 million. For the fiscal year, program revenue exceeded expense for the Water and Wastewater Fund, Environmental Services fund, and Airport fund. The Housing Authority and Stormwater funds program expenses exceeded revenues mainly due to depreciation of capital assets. Water & Wastewater, Environmental Services, and Stormwater funds received the majority of their program revenues through charges for services (83.3%, 100.0%, and 97.6% respectively). The Housing Authority fund receives the majority of its program revenue through operating grants and contributions (76.8%) while the Airport fund received the majority of its program revenue through capital grants and contributions (65.3%). Charges for services provided the largest share of revenues (75.8%) for all of the business-type activities, followed by capital grants and contributions (14.9%). The last three years the ranking was the same.

The expenses for the business type activities increased (2.4%, \$1.1 million) as there were increases in Water and Wastewater (8.0%, \$1.8 million), Housing Authority (1.7%, \$104,282), and Stormwater (31.8%, \$380,276) offset by decreases in Environmental Services (0.3%, \$33,800) and Airport (21.2%, \$1.1 million).

Water and wastewater increased user fees rates in fiscal year 2014. Water and wastewater, Environmental Services, Airport, and Stormwater funds increased charge for service revenue at 3.5%, 4.1%, 1.2% and 0.7% respectively. Only the Housing Authority fund saw a decrease in charges for services at 2.0%.

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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 \$80.4 million, an increase of \$9.3 million in comparison with the prior year. Approximately \$21.6 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 (\$712,121) for inventory and perpetual care, (2) restricted (\$50.0 million) for special revenue funds, debt service, development fee projects, court improvements and operations, grant purposes, perpetual care, and capital projects, and (3) assigned (\$8.1 million) for court services, capital reserves, and real estate.

Revenues for governmental functions overall totaled \$97.4 million in the fiscal year ended June 30, 2014 which represents an increase of 11.9% or \$10.4 million from the prior fiscal year. Seven revenue categories show increases over prior year. These include taxes (3.7%, \$1.7 million), intergovernmental (4.7%, \$870,753), grants and entitlements (34.7%, \$3.9 million), special assessments (300.5%, \$2.2 million), investment earnings (\$1.2 million), contributions (114.5%, \$288,963), and miscellaneous revenues (43.7%, \$551,657). The increase in special assessments is due to a developer paying off debt in advance (\$2.1 million). Grants and entitlements increased primarily related to a state grant to assist in the purchase of Observatory Mesa (\$6.0 million). All other revenue categories experienced decreases including charges for services (15.6%, \$503,633), fines and forfeitures (7.3%, \$112,588), and rents (1.0%, \$16,530).

Expenditures for governmental functions (\$102.4 million) increased by 14.8% (\$13.2 million) from the prior fiscal year. Operation expenditures show an increase (5.5%, \$3.5 million) which is related to public safety and highways and streets. Most of the increase in expenditures is related to capital project (44.5%, \$7.4 million). Major capital projects have been discussed in prior sections. In addition debt service increase (34.2%, \$2.2 million) was attributed to the early pay off of debt mentioned in the previous paragraph.

In the fiscal year ended June 30, 2014 expenditures for governmental functions exceeded revenues by approximately \$5.0 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 \$21.6 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 43.5% of General Fund expenditures.

The total fund balance in the City's General Fund increased by \$3.0 million during the fiscal year as revenue increased 7.7% and expenditures increased 6.5%. Overall, the General Fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2014 of \$2.7 million. This is an increase of approximately \$0.7 million over the comparable figure from the prior year which resulted in expenditures in excess of revenues of \$2.0 million.

The Highway User Revenue fund balance increased by \$757,107. Revenues increased \$1.1 million primarily due the sale of property. Expenditures decreased by \$1.5 million for a few reasons. Operating expenditures increased \$3.3 million related the city making budgetary commitments to increased maintenance of our city streets. Capital expenses decreased by \$1.8 million as the focus was more on maintenance this year and the 2010 bond project activity reduced and the bond moneys were spent. Debt service payments remained level this year. Net transfers in increased by \$373,431 as the city transferred additional general fund money to assist with pavement maintenance.

Transportation Fund balances increased by \$4.1 million due a one-time transfer in from the BBB Funds to provide for funding of the FUTS expenditures that were moved to the Transportation Fund this fiscal year.

The Special Assessment Bond fund balance decreased by \$84,376. 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 balance has decreased by \$5.6 million as a result of the purchase of Observatory Mesa land (\$12.1 million) and had offsetting grant revenues (\$6.0 million). The rest of the purchase was paid with issuance of capital debt.

### **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 \$7.7 million. All funds except the Housing Authority had positive growth in their net position for the fiscal year ended June 30, 2014. The Housing Authority fund decreased of \$0.7 million was due to depreciation and planned draw down on unrestricted. The major part of the increase is related to capital contributions (\$11.2 million).

### **Budget Highlights**

The City's final budget matches the original budget which was approved by Council in June 2013. The City looks at the budget to actual at the division level and no division exceeded its appropriation. There was one revenue transfer that was not budgeted for. A transfer was made from the general fund to the capital projects fund (\$13,963) to reimburse the costs related to the USGS campus. There were two transfers that exceeded budget. A transfer was made from the BBB fund to the Transportation fund (\$310,146 additional) for a FUTS projects. Also, a transfer was made from the Environmental Services fund to the Solid Waste fund (\$267,276 additional) as a result from transferring capital assets between the funds as they were split this fiscal year.

The general fund was less than 1% (\$312,993) over the final budgeted total revenues primarily due to taxes, which exceeded budget by \$1.4 million and was offset by grants and entitlements under budget by \$1.2 million. Some of the reasons for grants and entitlements being under budget are due to the city not receiving a couple large fire grants, SAFER grant (\$360,000) and Assistance to Firefighters (\$350,000) along with only spending \$18,301 of the \$418,500 budget for Brownfields Assessments . Expenditures are under budget in all but one division due to controlled spending and carryover of some capital projects. Management services was the only division over budget by only \$14,033 (less than 1.0%). The reason for being over this year was because the city needed additional staffing for software implementation and new financial reporting software. The divisions that are under budget by larger amounts are related to capital projects budgeted but not completed. 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 \$3.9 million for the Rio de Flag flood control project of which only \$76,137 actually transferred at year end. The other significant transfer under budget by \$1.6 million is related to funding for a new court facility which is carried forward to next fiscal year.

## 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, 2014 amount to \$662.6 million. Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress. The total increase in the City's capital assets for the current year was 1.7% (\$10.9 million). The following table reflects the capital assets at the end of the fiscal year:

**Capital Assets, Net of Depreciation**  
**June 30, 2014 and 2013 (in thousands of dollars)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land and other non-depreciable assets	\$ 67,941	\$ 55,762	\$ 13,966	\$ 13,966	\$ 81,907	\$ 69,728
Buildings	56,074	57,877	53,081	54,816	109,155	112,693
Improvements	7,273	7,208	243,488	242,448	250,761	249,656
Machinery and equipment	10,310	11,766	21,795	24,405	32,105	36,171
Infrastructure	159,137	160,030	-	-	159,137	160,030
Construction in progress	7,204	6,986	22,384	16,535	29,588	23,521
<b>Total</b>	<b>\$ 307,939</b>	<b>\$ 299,629</b>	<b>\$ 354,714</b>	<b>\$ 352,170</b>	<b>\$ 662,653</b>	<b>\$ 651,799</b>

Construction in progress had a net increase of 25.8% (\$6.1 million). Major completed construction in progress includes the completion of street and utility bond projects (\$5.7 million), completion of Observatory Mesa land purchase (\$12.1 million), Woodlands/Beulah streetscape (\$0.7 million), and Hillside sewer line replacement (\$0.5 million). Major construction in progress at June 30 includes Rio de Flag drainage project (\$14.1 million), Taxiway Westplex (\$3.1 million), street and utility bond projects (\$2.6 million), West/Arrowhead phase 2 (\$2.6 million), Red Gap pipeline (\$1.6 million), and Switzer Canyon waterline replacement (\$1.3 million) . The increase to land (\$12.2 million) is related to the purchase of Observatory Mesa and donated assets for right of way, easements, drainage, and open space. The decrease to buildings (\$3.5 million) is related to depreciation and the sale of the old fire station. The increase in improvements (\$1.1 million) is related to the completion of the solar projects (\$2.9 million) and drainage improvements and contributed capital less depreciation. Machinery and equipment

decreased by \$4.1 million mainly due to depreciation. Major additions include nine replacement vehicles (\$248,312), ice resurface at the ice rink (\$100,805), Utilities communication and security upgrades (\$277,129). Infrastructure decrease is related to depreciation expense greater than the completion of street projects, 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 66–67 of the Notes to the Financial Statements for further information regarding capital assets.

### Long Term Debt

During fiscal year 2014, the City made a decision to change the accounting practice for recognizing debt. In prior fiscal years the City’s policy was to accrue the recognition of July 1 debt to the prior fiscal year. The City is now recognizing debt in the fiscal year that it is paid. Therefore the fiscal year 2013 amounts are restated. At the end of the current fiscal year, the City had total long-term debt outstanding of \$126.8 million. Of this amount, \$55.1 million is general obligation bonds backed by the full faith and credit of the City, \$8.6 million is improvement district bonds, \$19.1 million is revenue bonds, \$1.3 million is for the Municipal Facility Corporation, \$3.2 million is for certificates of participation, and \$39.5 million are outstanding leases or loans for the airport, water and wastewater, and city-wide energy conservation improvements.

**Outstanding Debt**  
June 30, 2014 and 2013 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 53,341	\$ 49,909	\$ 1,752	\$ 3,125	\$ 55,093	\$ 53,034
Special assessment bonds	8,605	11,020	–	–	8,605	11,020
Revenue bonds	15,495	15,615	3,635	3,972	19,130	19,587
Other debt	4,415	6,830	–	–	4,415	6,830
Lease/Loans	1,234	1,698	38,304	40,517	39,538	42,215
Total debt payable	<u>\$ 83,090</u>	<u>\$ 85,072</u>	<u>\$ 43,691</u>	<u>\$ 47,614</u>	<u>\$ 126,781</u>	<u>\$ 132,686</u>

During fiscal year 2014, the City’s total bonded debt increased by \$5.9 million. The City issued \$14.9 million in general obligation debt for open space projects (\$5.5 million), parks and recreation facilities (\$1.1 million), and for advance refunding (\$8.7 million). The City obtained \$46,169 in loans for water and wastewater projects for development of future water rights. The special assessment debt and revenue bond debt decreased due to early pay off of debt from a developer (\$2.1 million) and annual payments.

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, 2014 is \$40.2 million in the 6% category and \$78.8 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, 2014**

	<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 71-80 of the Notes to the Financial Statements.

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

The Fiscal Year 2014/2015 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, currently at 20% projected.
- General sales tax revenues exceeded budget by \$500,000 million in FY 2014 and we are expecting continued growth of about \$300,000 million in FY 2015.
- Building permits exceeded budget by \$320,000 yet we are conservative in our projections for FY 2015 as we rely on these types of revenues as a onetime impact.
- The focus of the FY 2015 budget was for Council Priorities related to compensation, staffing, and infrastructure.
  - In the General Fund the City was able to fund \$1.02 million for compensation, \$620,000 for staffing and \$890,000 for infrastructure. This was done with a combination of ongoing and onetime funding sources.
  - Other funds made similar funding options. Some of the larger items are \$1.58 million for recreation facilities and parks improvements and \$1.4 million programmed for improvements to our Fourth Street corridor.
- The total authorized positions increased by 2.61 positions. While 7 new positions were added there was an offsetting 4.39 decreases in positions that were either one time funded or reduced to fund some of the new positions.
- The three triggers put in place during FY 2014 budgeting to address pay for maintenance workers and equipment operators, a library reorganization, and phase two of the commissioned police pay structure were all funding in the FY 2015 budget.
- Continue to monitor State legislature to be aware of potential budget impacts on cities.
- Property assessments stabilized this year versus the prior three years of declines. Primary assessed values increased by an average of 1.3%. The City adjusted the tax rate on primary property tax to maintain revenue levels. The secondary property tax assessments rates remain 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.

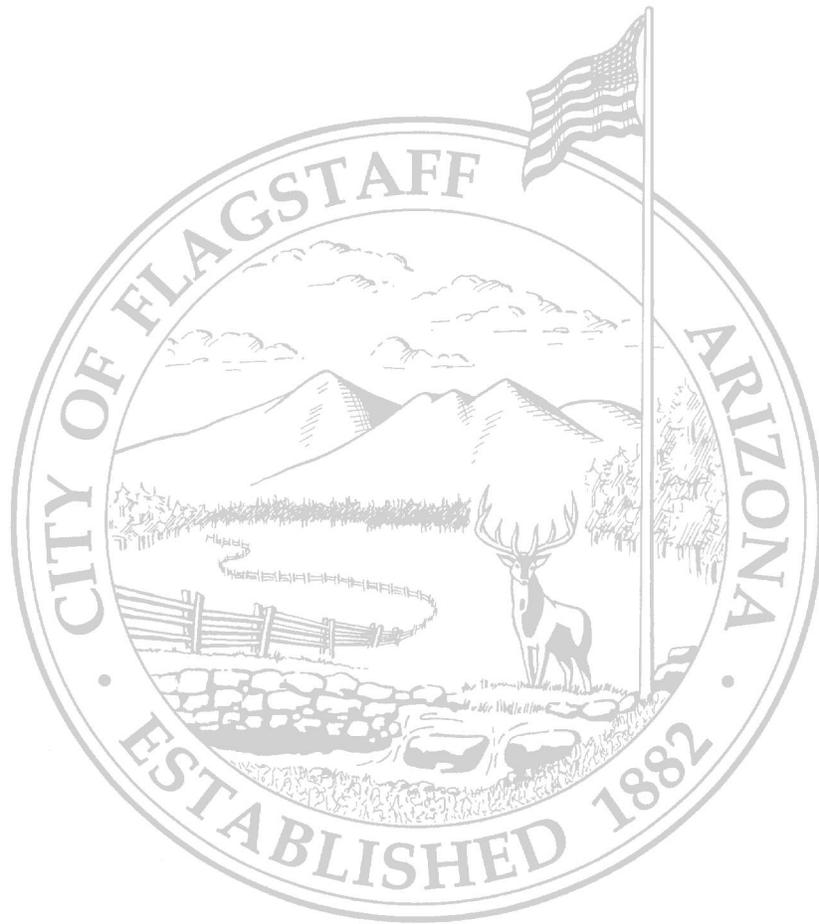
- The city will continue to work on developing a new Core Maintenance Facility which was approved by voters.
- The city will continue to work on the Flagstaff Watershed Protection Program which was approved by voters and is expected to begin forest thinning project in the Spring of 2015.
- Utility rate increases are approved for next year to help support ongoing operational services and restore operation capital and the capital improvement plan to assist with aging infrastructure.
- An updated utilities rate study is expected to be completed in FY 2015.

### **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, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash, investments and equivalents	\$ 73,904,372	\$ 26,354,179	\$ 100,258,551
Accounts receivables, net	7,550,977	5,109,998	12,660,975
Interest receivable	122,514	51,798	174,312
Intergovernmental receivable	2,249,179	2,937,191	5,186,370
Special assessments receivable	8,561,461	-	8,561,461
Internal balance	426,779	(426,779)	-
Deposits	112,900	29,596	142,496
Prepaid items	102,000	33,751	135,751
Inventory	491,439	193,801	685,240
Restricted cash and investments	8,803,155	12,406,525	21,209,680
Capital assets:			
Non-depreciable	75,145,414	36,350,755	111,496,169
Depreciable, net	232,793,661	318,363,313	551,156,974
<b>Total assets</b>	<b>410,263,851</b>	<b>401,404,128</b>	<b>811,667,979</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred loss on debt refundings	1,138,519	-	1,138,519
<b>LIABILITIES</b>			
Accounts payable	4,670,628	1,419,780	6,090,408
Accrued payroll	1,116,903	225,563	1,342,466
Construction retainage payable	424,102	470,124	894,226
Interest payable	1,176,384	696,132	1,872,516
Unearned revenue	496,189	984,045	1,480,234
Deposits payable	1,106,270	364,672	1,470,942
Noncurrent liabilities:			
Due within one year:			
Compensated absences	1,650,689	371,385	2,022,074
Claims and judgements	98,863	-	98,863
Special assessment debt, government commitment	305,000	-	305,000
Bonds, notes and leases payable, net	6,711,878	3,084,659	9,796,537
Due in more than one year:			
Compensated absences	2,079,636	541,995	2,621,631
Claims and judgements	120,832	-	120,832
Landfill closure and postclosure care costs	-	7,649,302	7,649,302
Net OPEB obligation	3,704,242	816,305	4,520,547
Special assessment debt, government commitment	8,300,000	-	8,300,000
Bonds, notes and leases payable, net	71,155,964	40,606,336	111,762,300
<b>Total liabilities</b>	<b>103,117,580</b>	<b>57,230,298</b>	<b>160,347,878</b>
<b>NET POSITION</b>			
Net investment in capital assets	227,347,151	310,552,949	537,900,100
Restricted for:			
Capital projects	15,221,521	2,488,509	17,710,030
Debt service	14,248,005	-	14,248,005
Specific programming	13,828,476	-	13,828,476
Grant and contributions purposes	223,788	4,053	227,841
Perpetual care:			
Expendable	18,684	-	18,684
Nonexpendable	220,682	-	220,682
Unrestricted	37,176,483	31,128,319	68,304,802
<b>Total net position</b>	<b>\$ 308,284,790</b>	<b>\$ 344,173,830</b>	<b>\$ 652,458,620</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, 2014**

	Program Revenues				
	Expenses	Indirect Expense Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government</b>					
Governmental activities:					
General government	\$ 10,732,510	\$ (933,714)	\$ 4,568,438	\$ 219,393	\$ 18,292
Public safety	28,730,111	-	628,038	2,554,510	137,652
Public works	1,573,541	(251,496)	1,215	-	-
Economic and physical development	9,018,496	(584,386)	903,233	1,093,486	231,475
Culture and recreation	12,919,475	450,207	1,656,628	3,203,897	6,006,000
Highways and streets	17,698,346	1,319,389	-	271	8,210,248
Interest on long-term debt	2,946,685	-	-	-	-
Total governmental activities	83,619,164	-	7,757,552	7,071,557	14,603,667
Business-type activities:					
Water and wastewater	24,366,128		23,432,153	-	4,712,620
Environmental	11,637,566		12,490,237	-	-
Airport	4,118,280		1,504,703	98	2,833,675
Housing authority	6,090,790		974,184	4,051,138	252,529
Stormwater	1,576,865		1,465,522	-	36,705
Total business-type activities	47,789,629		39,866,799	4,051,236	7,835,529
<b>Total primary government</b>	<b>\$ 131,408,793</b>		<b>\$ 47,624,351</b>	<b>\$ 11,122,793</b>	<b>\$ 22,439,196</b>

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, as restated
- 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>
\$ (4,992,673)	\$ -	\$ (4,992,673)
(25,409,911)	-	(25,409,911)
(1,320,830)	-	(1,320,830)
(6,205,916)	-	(6,205,916)
(2,503,157)	-	(2,503,157)
(10,807,216)	-	(10,807,216)
(2,946,685)	-	(2,946,685)
<u>(54,186,388)</u>	<u>-</u>	<u>(54,186,388)</u>
-	3,778,645	3,778,645
-	852,671	852,671
-	220,196	220,196
-	(812,939)	(812,939)
-	(74,638)	(74,638)
<u>-</u>	<u>3,963,935</u>	<u>3,963,935</u>
<u>\$ (54,186,388)</u>	<u>\$ 3,963,935</u>	<u>\$ (50,222,453)</u>
5,484,860	-	5,484,860
5,559,957	-	5,559,957
37,675,638	-	37,675,638
15,666,968	-	15,666,968
749,038	213,335	962,373
1,813,164	567,079	2,380,243
241,231	73,916	315,147
18,700	-	18,700
(2,908,700)	2,908,700	-
<u>64,300,856</u>	<u>3,763,030</u>	<u>68,063,886</u>
10,114,468	7,726,965	17,841,433
298,170,322	336,446,865	634,617,187
<u>\$ 308,284,790</u>	<u>\$ 344,173,830</u>	<u>\$ 652,458,620</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportation Fund</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>			
Cash and investments	\$ 30,708,226	\$ 3,949,836	\$ 10,517,074
Accounts receivable, net	4,023,647	753,931	1,476,061
Interest receivable	45,994	5,387	24,439
Intergovernmental receivables	713,316	122,154	786,730
Interfund receivable	110,000	-	-
Special assessments receivable	-	-	-
Deposits	-	-	112,900
Inventory	440,644	-	-
Restricted cash and investments	-	-	-
Total assets	<u>36,041,827</u>	<u>4,831,308</u>	<u>12,917,204</u>
Total assets and deferred outflows	<u>\$ 36,041,827</u>	<u>\$ 4,831,308</u>	<u>\$ 12,917,204</u>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</b>			
Liabilities:			
Accounts payable	\$ 1,693,575	\$ 531,998	\$ 992,467
Accrued payroll and compensated absences	993,645	33,732	-
Interfund payable	-	-	-
Advanced revenue	280,994	-	141,443
Guaranty and other deposits	1,106,270	-	-
Total liabilities	<u>4,074,484</u>	<u>565,730</u>	<u>1,133,910</u>
Deferred inflows of resources:			
Unavailable revenue – property taxes	204,554	-	-
Unavailable revenue – special assessments	-	-	-
Total deferred inflows of resources	<u>204,554</u>	<u>-</u>	<u>-</u>
Fund balances:			
Nonspendable	440,644	-	-
Restricted	1,698,333	4,265,578	11,783,294
Assigned	8,063,998	-	-
Unassigned	21,559,814	-	-
Total fund balances	<u>31,762,789</u>	<u>4,265,578</u>	<u>11,783,294</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 36,041,827</u>	<u>\$ 4,831,308</u>	<u>\$ 12,917,204</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
\$ 427,364	\$ 139,900	\$ 23,338,968	\$ 69,081,368
-	-	968,520	7,222,159
383	-	40,559	116,762
-	251,500	375,479	2,249,179
-	-	-	110,000
8,561,461	-	-	8,561,461
-	-	-	112,900
-	-	50,795	491,439
-	4,783,564	4,019,591	8,803,155
<u>8,989,208</u>	<u>5,174,964</u>	<u>28,793,912</u>	<u>96,748,423</u>
<u>\$ 8,989,208</u>	<u>\$ 5,174,964</u>	<u>\$ 28,793,912</u>	<u>\$ 96,748,423</u>
\$ 2,400	\$ 652,034	\$ 926,406	\$ 4,798,880
-	1,886	87,640	1,116,903
-	-	110,000	110,000
-	-	73,752	496,189
-	-	-	1,106,270
<u>2,400</u>	<u>653,920</u>	<u>1,197,798</u>	<u>7,628,242</u>
-	-	-	204,554
<u>8,561,037</u>	<u>-</u>	<u>-</u>	<u>8,561,037</u>
<u>8,561,037</u>	<u>-</u>	<u>-</u>	<u>8,765,591</u>
-	-	271,477	712,121
425,771	4,521,044	27,324,637	50,018,657
-	-	-	8,063,998
-	-	-	21,559,814
<u>425,771</u>	<u>4,521,044</u>	<u>27,596,114</u>	<u>80,354,590</u>
<u>\$ 8,989,208</u>	<u>\$ 5,174,964</u>	<u>\$ 28,793,912</u>	<u>\$ 96,748,423</u>

CITY OF FLAGSTAFF  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2014

Fund balances – total governmental funds balance sheet \$ 80,354,590

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	501,516,989	
Less: accumulated depreciation	<u>(193,577,914)</u>	
		307,939,075

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

Fines and forfeitures	<u>299,538</u>	299,538
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Long-term receivable agreement related to future expenditures are not recognized during the current period and, therefore, are not in the governmental funds.

Promissory note forgivable	<u>102,000</u>	102,000
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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	(83,089,506)	
Governmental interest payable	(1,176,384)	
Bond premium	(3,383,336)	
Bond refunding loss	1,138,519	
Other postemployment benefits	(3,704,242)	
Compensated absences	<u>(3,730,325)</u>	(93,945,274)

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

Property tax	<u>204,554</u>	204,554
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Unavailable revenue for long-term special assessments is shown on the governmental fund balance sheet, but is reflected on the statement of net position

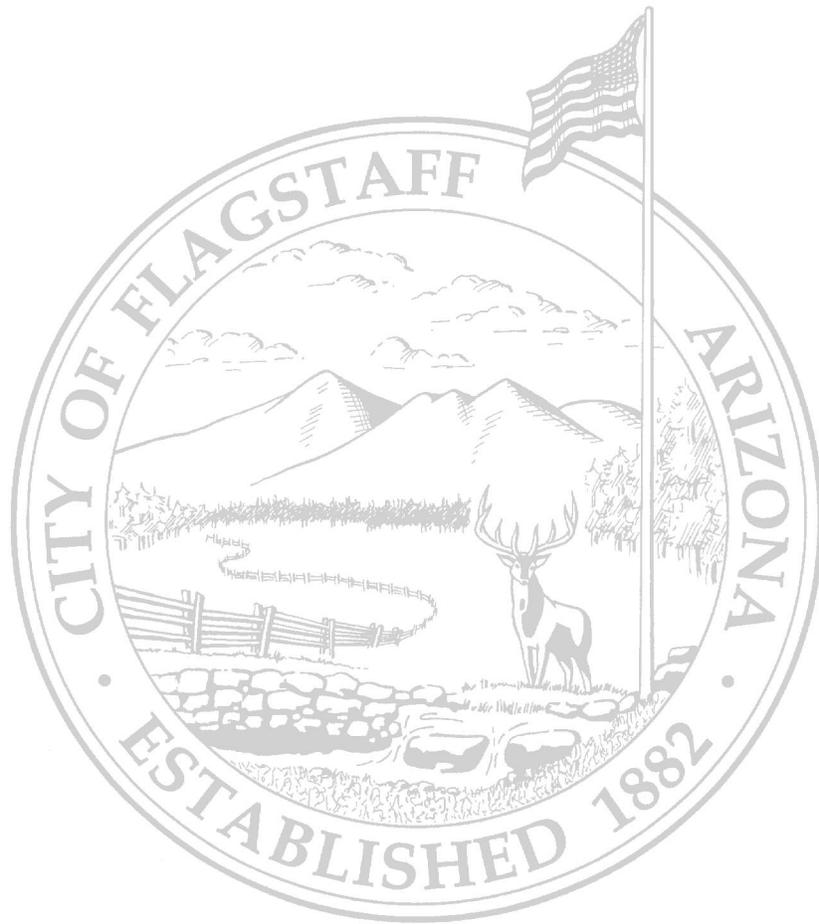
Special assessments	<u>8,561,037</u>	8,561,037
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The internal service fund is used by management to charge the cost of self insurance programs to individual funds.

The assets and liabilities of the internal service funds that are reported with governmental activities.		<u>4,769,270</u>
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Net position of governmental activities – statement of net position \$ 308,284,790

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, 2014**

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportation Fund</u>
<b>REVENUES:</b>			
Taxes	\$ 25,100,084	\$ -	\$ 11,836,972
Intergovernmental	16,516,056	-	-
Grants and entitlements	1,726,644	6,274,105	-
Special assessments	-	-	-
Charges for services	2,734,095	-	-
Licenses and permits	1,952,731	-	-
Fines and forfeitures	1,428,401	-	-
Rents	1,606,932	-	-
Investment earnings	418,374	20,709	92,557
Contributions	440,360	-	6,000
Miscellaneous	393,760	867,930	-
Total revenues	<u>52,317,437</u>	<u>7,162,744</u>	<u>11,935,529</u>
<b>EXPENDITURES:</b>			
Current:			
General governmental	8,914,237	-	-
Public safety	26,564,902	-	-
Public works	999,999	-	-
Economic and physical development	4,441,463	-	-
Culture and recreation	6,084,457	-	29,388
Highways and streets	-	7,729,568	2,787,251
Debt service:			
Principal retirement	882,114	436,835	1,560,000
Interest and other charges	128,976	108,995	514,725
Capital outlay	1,566,078	2,653,599	2,527,177
Total expenditures	<u>49,582,226</u>	<u>10,928,997</u>	<u>7,418,541</u>
Excess (deficiency) of revenues over expenditures	<u>2,735,211</u>	<u>(3,766,253)</u>	<u>4,516,988</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Refunding bonds issued	-	-	-
Payment to bond refunding escrow agent	-	-	-
Issuance of capital debt	-	-	-
Bond premium	-	-	-
Sale of capital assets	533,980	2,080	100,000
Transfers in	3,033,042	4,549,681	2,355,780
Transfers out	(3,287,452)	(28,401)	(2,893,427)
Total other financing sources (uses)	<u>279,570</u>	<u>4,523,360</u>	<u>(437,647)</u>
Net change in fund balances	<u>3,014,781</u>	<u>757,107</u>	<u>4,079,341</u>
Fund balances, beginning of year as restated	<u>28,748,008</u>	<u>3,508,471</u>	<u>7,703,953</u>
Fund balances, end of year	<u>\$ 31,762,789</u>	<u>\$ 4,265,578</u>	<u>\$ 11,783,294</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
\$ -	\$ -	\$ 11,869,702	\$ 48,806,758
-	-	3,068,343	19,584,399
-	6,231,476	1,081,517	15,313,742
2,894,898	-	-	2,894,898
-	-	-	2,734,095
-	-	-	1,952,731
-	-	-	1,428,401
-	-	44,100	1,651,032
1,909	14,738	174,591	722,878
-	-	94,980	541,340
-	-	551,474	1,813,164
<u>2,896,807</u>	<u>6,246,214</u>	<u>16,884,707</u>	<u>97,443,438</u>
-	127,709	-	9,041,946
-	2,609	-	26,567,511
-	31,984	-	1,031,983
-	-	3,771,309	8,212,772
-	133,259	5,198,992	11,446,096
-	7,290	97,202	10,621,311
2,415,000	-	2,993,508	8,287,457
566,183	250,568	1,557,022	3,126,469
-	17,036,766	279,135	24,062,755
<u>2,981,183</u>	<u>17,590,185</u>	<u>13,897,168</u>	<u>102,398,300</u>
<u>(84,376)</u>	<u>(11,343,971)</u>	<u>2,987,539</u>	<u>(4,954,862)</u>
-	-	8,270,000	8,270,000
-	-	(9,382,710)	(9,382,710)
-	5,500,000	1,100,000	6,600,000
-	98,954	1,218,713	1,317,667
-	91,106	830	727,996
-	19,829	2,144,523	12,102,855
-	-	(5,450,161)	(11,659,441)
-	5,709,889	(2,098,805)	7,976,367
<u>(84,376)</u>	<u>(5,634,082)</u>	<u>888,734</u>	<u>3,021,505</u>
<u>510,147</u>	<u>10,155,126</u>	<u>26,707,380</u>	<u>77,333,085</u>
<u>\$ 425,771</u>	<u>\$ 4,521,044</u>	<u>\$ 27,596,114</u>	<u>\$ 80,354,590</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, 2014

Net change in fund balances – total governmental funds \$ 3,021,505

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	24,062,755	
Less current year depreciation	<u>(13,275,318)</u>	10,787,437

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	(14,870,000)	
Premium on debt issued	(1,317,667)	
Donated capital	1,361,303	
Compensated absences	(86,136)	
Other postemployment benefits	(728,548)	
Principal payments on debt	8,287,457	
Interest payment on debt	179,784	
Partial advance refunding on debt	8,565,000	
Advance refunding loss	817,710	
Refunding loss amortization	(86,638)	
Bond premium amortization	<u>321,387</u>	2,443,652

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

Issuance of promissory note receivable	<u>102,000</u>	102,000
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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	(486,765)	
Transfer of capital assets to business-type activities	<u>(3,352,114)</u>	(3,838,879)

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, 2014

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	(2,334,790)	
Property tax	(86,303)	
Fines and forfeitures	(8,707)	(2,429,800)

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	2,393	
Investment income	26,160	28,553

Change in net position of governmental activities – statement of activities		\$ 10,114,468
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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, 2014**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 23,676,706	\$ 23,676,706	\$ 25,084,848	\$ 1,408,142
Intergovernmental	16,111,938	16,111,938	16,516,056	404,118
Grants and entitlements	2,894,407	2,894,407	1,726,644	(1,167,763)
Charges for services	2,912,353	2,912,353	2,734,095	(178,258)
Licenses and permits	1,388,960	1,388,960	1,952,731	563,771
Fines and forfeitures	1,977,038	1,977,038	1,428,401	(548,637)
Rents	1,426,893	1,426,893	1,606,932	180,039
Investment earnings	207,500	207,500	202,597	(4,903)
Contributions	12,120	12,120	440,360	428,240
Miscellaneous	1,165,516	1,165,516	393,760	(771,756)
Total revenues	<u>51,773,431</u>	<u>51,773,431</u>	<u>52,086,424</u>	<u>312,993</u>
<b>EXPENDITURES:</b>				
Current:				
General administration	8,470,643	8,470,643	8,003,390	467,253
Management services	3,171,917	3,171,917	3,185,950	(14,033)
Fire	10,346,646	10,346,646	9,541,383	805,263
Police	17,556,777	17,556,777	17,091,853	464,924
Community development	4,293,997	4,293,997	4,126,187	167,810
Public works	10,674,003	10,674,003	8,308,991	2,365,012
Economic vitality	612,978	612,978	226,897	386,081
Non-departmental	3,526,720	3,526,720	(970,068)	4,496,788
Contingency	1,565,000	1,565,000	67,643	1,497,357
Total expenditures	<u>60,218,681</u>	<u>60,218,681</u>	<u>49,582,226</u>	<u>10,636,455</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(8,445,250)</u>	<u>(8,445,250)</u>	<u>2,504,198</u>	<u>10,949,448</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Issuance of capital debt	4,000,000	4,000,000	-	(4,000,000)
Sale of capital assets	30,300	30,300	533,980	503,680
Transfers in	3,506,081	3,506,081	3,033,042	(473,039)
Transfers out	(8,991,479)	(8,991,479)	(3,287,452)	5,704,027
Total other financing sources (uses)	<u>(1,455,098)</u>	<u>(1,455,098)</u>	<u>279,570</u>	<u>1,734,668</u>
Net change in fund balances	<u>(9,900,348)</u>	<u>(9,900,348)</u>	<u>2,783,768</u>	<u>12,684,116</u>
Budgetary fund balances, beginning of year	<u>19,552,029</u>	<u>19,552,029</u>	<u>19,552,029</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 9,651,681</u>	<u>\$ 9,651,681</u>	<u>\$ 22,335,797</u>	<u>\$ 12,684,116</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 2,783,768	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>231,013</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 3,014,781</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, 2014**

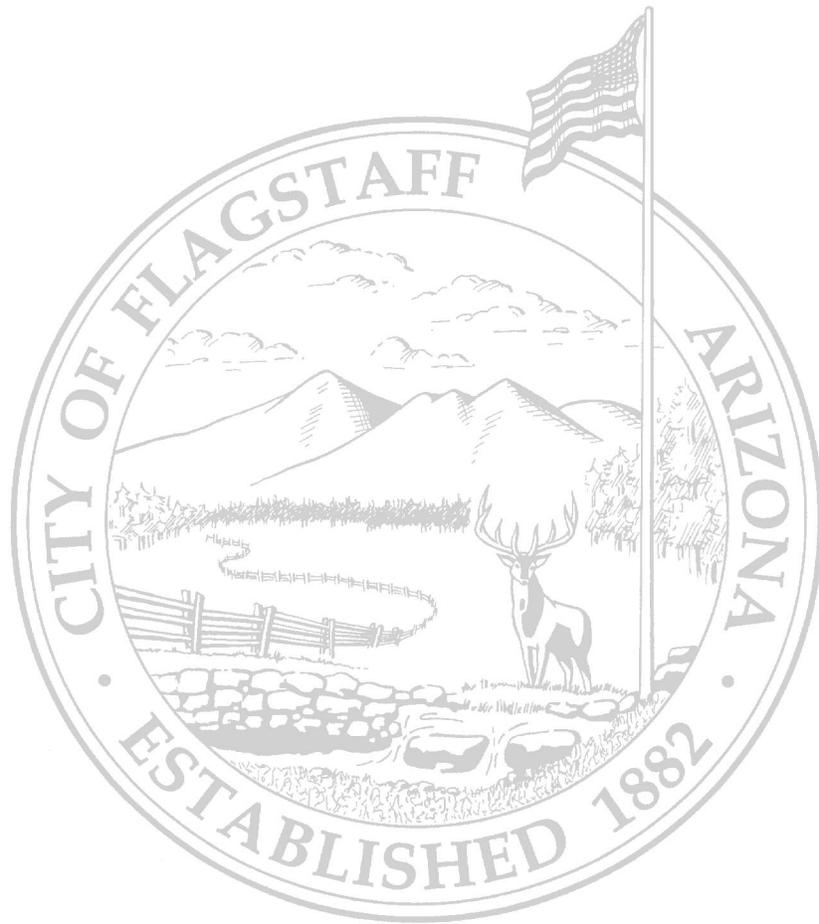
	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Grants and entitlements	\$ 6,155,798	\$ 6,155,798	\$ 6,274,104	\$ 118,306
Investment earnings	6,000	6,000	20,709	14,709
Contributions	540,000	540,000	-	(540,000)
Miscellaneous	-	-	867,931	867,931
Total revenues	<u>6,701,798</u>	<u>6,701,798</u>	<u>7,162,744</u>	<u>460,946</u>
<b>EXPENDITURES:</b>				
Current:				
General administration	109,645	109,645	109,645	-
Management services	66,108	66,108	66,108	-
Community development	7,310,840	7,310,840	2,981,067	4,329,773
Public works	8,859,022	8,859,022	7,123,603	1,735,419
Economic vitality	13,892	13,892	13,892	-
Non-departmental	638,062	638,062	634,682	3,380
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>17,097,569</u>	<u>17,097,569</u>	<u>10,928,997</u>	<u>6,168,572</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,395,771)</u>	<u>(10,395,771)</u>	<u>(3,766,253)</u>	<u>6,629,518</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued	36,000	36,000	-	-
Sale of capital assets	-	-	2,080	2,080
Transfers in	9,102,904	9,102,904	4,549,681	(4,553,223)
Transfers out	(28,401)	(28,401)	(28,401)	-
Total other financing sources (uses)	<u>9,110,503</u>	<u>9,110,503</u>	<u>4,523,360</u>	<u>(4,551,143)</u>
Net change in fund balances budgetary basis	<u>(1,285,268)</u>	<u>(1,285,268)</u>	<u>757,107</u>	<u>2,078,375</u>
Budgetary fund balances, beginning of year	<u>2,546,353</u>	<u>2,546,353</u>	<u>2,546,353</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 1,261,085</u>	<u>\$ 1,261,085</u>	<u>\$ 3,303,460</u>	<u>\$ 2,078,375</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, 2014**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 11,081,675	\$ 11,081,675	\$ 11,832,359	\$ 750,684
Grants and entitlements	1,239,339	1,239,339	-	(1,239,339)
Investment earnings	89,000	89,000	92,557	3,557
Contributions	-	-	6,000	6,000
Miscellaneous	4,500,000	4,500,000	-	(4,500,000)
Total revenues	<u>16,910,014</u>	<u>16,910,014</u>	<u>11,930,916</u>	<u>(4,979,098)</u>
<b>EXPENDITURES:</b>				
Current:				
General administration	41,592	41,592	41,592	-
Management services	251,419	251,419	251,419	-
Community development	3,446,341	3,446,341	391,209	3,055,132
Economic vitality	5,455	5,455	5,455	-
Non-departmental	6,943,202	6,943,202	6,686,784	256,418
Contingency	-	-	42,082	(42,082)
Total expenditures	<u>10,688,009</u>	<u>10,688,009</u>	<u>7,418,541</u>	<u>3,269,468</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,222,005</u>	<u>6,222,005</u>	<u>4,512,375</u>	<u>(1,709,630)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	-	-	100,000	100,000
Transfers in	2,045,634	2,045,634	2,355,780	310,146
Transfers out	(7,332,486)	(7,332,486)	(2,893,427)	4,439,059
Total other financing sources (uses)	<u>(5,286,852)</u>	<u>(5,286,852)</u>	<u>(437,647)</u>	<u>4,849,205</u>
Net change in fund balances	<u>935,153</u>	<u>935,153</u>	<u>4,074,728</u>	<u>3,139,575</u>
Budgetary fund balances, beginning of year	<u>4,397,568</u>	<u>4,397,568</u>	<u>4,397,568</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 5,332,721</u>	<u>\$ 5,332,721</u>	<u>\$ 8,472,296</u>	<u>\$ 3,139,575</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 4,074,728	
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>\$ 4,079,341</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, 2014**

	Business-type Activities – Enterprise Funds		
	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 17,190,900	\$ 7,507,009	\$ 44,825
Receivable, net	3,704,612	1,212,749	34,582
Interfund receivables	2,015,000	-	-
Intergovernmental receivables	123,503	-	2,813,688
Prepaid items	-	-	-
Inventory	193,801	-	-
Total current assets	<u>23,227,816</u>	<u>8,719,758</u>	<u>2,893,095</u>
Noncurrent assets:			
Restricted cash and investments	1,593,915	10,812,610	-
Refundable deposit	29,596	-	-
Capital assets, non-depreciable	15,139,753	1,890,420	3,241,416
Capital assets, depreciable, net	245,560,936	6,959,217	37,375,168
Total non-current assets	<u>262,324,200</u>	<u>19,662,247</u>	<u>40,616,584</u>
Total assets	<u>285,552,016</u>	<u>28,382,005</u>	<u>43,509,679</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	742,948	93,895	366,320
Accrued payroll	98,077	102,364	15,162
Construction retainage payable	195,277	-	256,560
Accrued payroll and compensated absences	185,599	111,390	15,901
Interest payable	696,132	-	-
Advanced revenue	788,066	49,228	14,641
Claims and judgements	-	-	-
Interfund payable	-	-	2,015,000
Deposits payable	309,407	29,447	20,647
Bonds and lease payable, net – current	2,904,056	-	180,603
Total current liabilities	<u>5,919,562</u>	<u>386,324</u>	<u>2,884,834</u>
Noncurrent liabilities:			
Compensated absences	192,744	122,406	13,596
Net OPEB obligation	369,176	285,328	48,182
Claims and judgements	-	-	-
Landfill closure and postclosure care costs	-	7,649,302	-
Capital lease payable	2,281,026	-	1,690,570
Bonds and notes payable, net	36,556,208	-	78,532
Total noncurrent liabilities	<u>39,399,154</u>	<u>8,057,036</u>	<u>1,830,880</u>
Total liabilities	<u>45,318,716</u>	<u>8,443,360</u>	<u>4,715,714</u>
<b>NET POSITION</b>			
Net investment in capital assets	218,764,122	8,849,637	38,410,319
Restricted:			
Grant and contributions purposes	-	-	-
Capital projects	1,593,915	894,594	-
Unrestricted	19,875,263	10,194,414	383,646
Total net position	<u>\$ 240,233,300</u>	<u>\$ 19,938,645</u>	<u>\$ 38,793,965</u>

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

Business-type Activities – Enterprise Funds			Governmental Activities
Stormwater Fund	Total Other Proprietary Fund	Total	Internal Service Fund
\$ 792,800	\$ 818,645	\$ 26,354,179	\$ 4,823,004
162,736	47,117	5,161,796	35,032
-	-	2,015,000	-
-	-	2,937,191	-
-	33,751	33,751	-
-	-	193,801	-
<u>955,536</u>	<u>899,513</u>	<u>36,695,718</u>	<u>4,858,036</u>
-	-	12,406,525	-
-	-	29,596	-
14,620,710	1,458,456	36,350,755	-
<u>24,915,087</u>	<u>3,552,905</u>	<u>318,363,313</u>	<u>-</u>
<u>39,535,797</u>	<u>5,011,361</u>	<u>367,150,189</u>	<u>-</u>
<u>40,491,333</u>	<u>5,910,874</u>	<u>403,845,907</u>	<u>4,858,036</u>
101,191	115,426	1,419,780	295,850
9,960	-	225,563	-
18,287	-	470,124	-
6,370	52,125	371,385	-
-	-	696,132	-
-	132,110	984,045	-
-	-	-	98,863
-	-	2,015,000	-
-	5,171	364,672	-
-	-	3,084,659	-
<u>135,808</u>	<u>304,832</u>	<u>9,631,360</u>	<u>394,713</u>
5,927	207,322	541,995	-
40,580	73,039	816,305	-
-	-	-	120,832
-	-	7,649,302	-
-	-	3,971,596	-
-	-	36,634,740	-
<u>46,507</u>	<u>280,361</u>	<u>49,613,938</u>	<u>120,832</u>
<u>182,315</u>	<u>585,193</u>	<u>59,245,298</u>	<u>515,545</u>
39,517,510	5,011,361	310,552,949	-
-	4,053	4,053	-
-	-	2,488,509	-
<u>791,508</u>	<u>310,267</u>	<u>31,555,098</u>	<u>4,342,491</u>
<u>\$ 40,309,018</u>	<u>\$ 5,325,681</u>	<u>\$ 344,600,609</u>	<u>\$ 4,342,491</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 (426,779)  
Net position of business-type activities \$ 344,173,830

**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2014**

	Business-type Activities – Enterprise Funds		
	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 23,432,153	\$ 12,490,237	\$ 1,504,703
Miscellaneous	74,255	84,104	33,590
Total operating revenues	<u>23,506,408</u>	<u>12,574,341</u>	<u>1,538,293</u>
<b>OPERATING EXPENSES:</b>			
Personal services	4,851,030	4,083,578	670,719
Contractual services, materials and supplies	9,888,758	6,326,829	564,137
Insurance claims and expenses	-	-	-
Depreciation and amortization	8,176,520	1,227,504	2,767,760
Total operating expenses	<u>22,916,308</u>	<u>11,637,911</u>	<u>4,002,616</u>
Operating income (loss)	<u>590,100</u>	<u>936,430</u>	<u>(2,464,323)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest and investment income	136,384	65,796	5,142
Grants and entitlements	-	-	98
Gain (loss) on disposal of capital asset	32,553	7,771	-
Passenger facility charges	-	-	250,545
Interest expense	(1,450,541)	-	(115,786)
Total non-operating revenues (expenses)	<u>(1,281,604)</u>	<u>73,567</u>	<u>139,999</u>
Income (loss) before capital contributions and transfers	<u>(691,504)</u>	<u>1,009,997</u>	<u>(2,324,324)</u>
Capital contributions related to grants	228,679	-	2,833,675
Capital contributions from external sources	4,483,941	-	-
Capital contributions from internal sources	3,279,750	-	-
Transfers in	-	-	43,000
Transfers out	(157,795)	(322,671)	(33,567)
Change in net position	<u>7,143,071</u>	<u>687,326</u>	<u>518,784</u>
Total net position, beginning of year as restated	<u>233,090,229</u>	<u>19,251,319</u>	<u>38,275,181</u>
Total net position, end of year	<u>\$ 240,233,300</u>	<u>\$ 19,938,645</u>	<u>\$ 38,793,965</u>

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

Business-type Activities – Enterprise Funds			Governmental Activities
Stormwater Fund	Total Other Proprietary Fund	Total	Internal Service Fund
\$ 1,465,522	\$ 974,184	\$ 39,866,799	\$ 7,173,563
641	157,534	350,124	-
<u>1,466,163</u>	<u>1,131,718</u>	<u>40,216,923</u>	<u>7,173,563</u>
491,228	1,001,862	11,098,417	-
592,580	4,684,161	22,056,465	-
-	-	-	7,169,933
493,104	404,767	13,069,655	-
<u>1,576,912</u>	<u>6,090,790</u>	<u>46,224,537</u>	<u>7,169,933</u>
<u>(110,749)</u>	<u>(4,959,072)</u>	<u>(6,007,614)</u>	<u>3,630</u>
6,013	-	213,335	26,160
-	4,051,138	4,051,236	-
-	-	40,324	-
-	-	250,545	-
-	-	(1,566,327)	-
<u>6,013</u>	<u>4,051,138</u>	<u>2,989,113</u>	<u>26,160</u>
<u>(104,736)</u>	<u>(907,934)</u>	<u>(3,018,501)</u>	<u>29,790</u>
-	252,529	3,314,883	-
36,705	-	4,520,646	-
72,364	-	3,352,114	-
338,573	-	381,573	-
(310,954)	-	(824,987)	-
<u>31,952</u>	<u>(655,405)</u>	<u>7,725,728</u>	<u>29,790</u>
<u>40,277,066</u>	<u>5,981,086</u>	<u>336,874,881</u>	<u>4,312,701</u>
<u>\$ 40,309,018</u>	<u>\$ 5,325,681</u>	<u>\$ 344,600,609</u>	<u>\$ 4,342,491</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

1,237
<u>\$ 7,726,965</u>

**City of Flagstaff, Arizona**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2014**

Business-type Activities – Enterprise Funds

	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 24,113,068	\$ 12,507,529	\$ 1,542,004
Interfund services provided	388,430	213,750	-
Other receipts	-	-	284,135
Payments to suppliers	(7,397,721)	(4,831,701)	(208,444)
Interfund services used	(85,243)	(3,166)	(25,639)
Interfund reimbursement used	(1,841,700)	(1,375,538)	(325,523)
Payments to employees	(4,713,835)	(3,986,807)	(660,743)
Net cash provided (used) by operating activities	<u>10,462,999</u>	<u>2,524,067</u>	<u>605,790</u>
<b>Cash flows from noncapital financing activities:</b>			
Transfer from other funds	-	-	43,000
Transfer to other funds	(157,795)	(322,671)	(33,567)
Interfund loans provided	(2,015,000)	-	-
Interfund loans received	-	-	2,015,000
Net cash provided (used) by noncapital financing activities	<u>(2,172,795)</u>	<u>(322,671)</u>	<u>2,024,433</u>
<b>Cash flows from capital and related financing activities:</b>			
Receipts from grantors	151,860	-	232,741
Capital contributions	1,839,657	-	-
Acquisition and construction of capital assets	(5,259,082)	(47,884)	(2,709,988)
Principal payments on capital debt	(3,798,136)	-	(170,898)
Interest paid on capital debt	(1,516,229)	-	(115,786)
Proceeds from capital debt	46,169	-	-
Proceeds from sales of capital assets	32,553	6,695	-
Net cash provided (used) by capital and related financing activities	<u>(8,503,208)</u>	<u>(41,189)</u>	<u>(2,763,931)</u>
<b>Cash flows from investing activities:</b>			
Interest received on investments	129,020	64,527	4,497
Net cash provided (used) by investing activities	<u>129,020</u>	<u>64,527</u>	<u>4,497</u>
Net increase (decrease) in cash and cash equivalents	<u>(83,984)</u>	<u>2,224,734</u>	<u>(129,211)</u>
Cash and cash equivalents at beginning of year	<u>18,868,799</u>	<u>16,094,885</u>	<u>174,036</u>
Cash and cash equivalents at end of year	<u>\$ 18,784,815</u>	<u>\$ 18,319,619</u>	<u>\$ 44,825</u>
Classified as:			
Cash, cash equivalents, and investments	\$ 17,190,900	\$ 7,507,009	\$ 44,825
Restricted cash and cash equivalents	1,593,915	10,812,610	-
Totals	<u>\$ 18,784,815</u>	<u>\$ 18,319,619</u>	<u>\$ 44,825</u>

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

Business-type Activities – Enterprise Funds			Governmental Activities
Stormwater Fund	Total Other Proprietary Fund	Total	Internal Service Fund
\$ 1,442,402	\$ 1,115,878	\$ 40,720,881	\$ 7,177,896
49,726	-	651,906	-
641	157,534	442,310	-
(411,162)	(4,436,886)	(17,285,914)	(7,194,207)
-	(238,901)	(352,949)	-
(117,448)	-	(3,660,209)	-
(489,882)	(976,173)	(10,827,440)	-
<u>474,277</u>	<u>(4,378,548)</u>	<u>9,688,585</u>	<u>(16,311)</u>
338,573	-	381,573	-
(310,954)	-	(824,987)	-
-	-	(2,015,000)	-
-	-	2,015,000	-
<u>27,619</u>	<u>-</u>	<u>(443,414)</u>	<u>-</u>
-	4,303,667	4,688,268	-
-	-	1,839,657	-
(791,853)	(194,234)	(9,003,041)	-
-	-	(3,969,034)	-
-	-	(1,632,015)	-
-	-	46,169	-
-	-	39,248	-
<u>(791,853)</u>	<u>4,109,433</u>	<u>(7,990,748)</u>	<u>-</u>
6,438	-	204,482	34,062
<u>6,438</u>	<u>-</u>	<u>204,482</u>	<u>34,062</u>
(283,519)	(269,115)	1,458,905	17,751
<u>1,076,319</u>	<u>1,087,760</u>	<u>37,301,799</u>	<u>4,805,253</u>
<u>\$ 792,800</u>	<u>\$ 818,645</u>	<u>\$ 38,760,704</u>	<u>\$ 4,823,004</u>
\$ 792,800	\$ 818,645	\$ 26,354,179	\$ 4,823,004
-	-	12,406,525	-
<u>\$ 792,800</u>	<u>\$ 818,645</u>	<u>\$ 38,760,704</u>	<u>\$ 4,823,004</u>

(continued)

**Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2014**

	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)	\$ 590,100	\$ 936,430	\$ (2,464,323)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	8,176,520	1,227,504	2,767,760
Landfill closure and postclosure costs	-	238,906	-
Other receipts	-	-	250,545
(Increase) decrease in assets:			
Accounts receivable	951,540	150,584	89,455
Allowance for doubtful accounts	28,000	-	(20,000)
Prepaid items	(15,956)	-	-
Inventories	(45,019)	-	-
Increase (decrease) in liabilities:			
Accounts payable	625,069	(122,482)	4,531
Accrued payroll, compensated absences	63,431	41,764	240
OPEB	73,764	55,007	9,737
Deposits payable	13,829	(12,550)	(13,512)
Advanced revenue	1,721	8,904	(18,643)
Total adjustments	<u>9,872,899</u>	<u>1,587,637</u>	<u>3,070,113</u>
Net cash provided (used) by operating activities	<u>\$ 10,462,999</u>	<u>\$ 2,524,067</u>	<u>\$ 605,790</u>
Noncash investing, capital and financing activities:			
Capital assets acquired through contributions from developers	\$ 2,644,284	\$ -	\$ -
Trade-in of capital asset	-	6,300	-
Capital assets transferred from governmental activities transfer	3,279,750	-	-
Total noncash investing, capital and financing activities	<u>\$ 5,924,034</u>	<u>\$ 6,300</u>	<u>\$ -</u>

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

Business-type Activities – Enterprise Funds			Governmental Activities
Stormwater Fund	Total Other Proprietary Fund	Total	Internal Service Fund
\$ (110,749)	\$ (4,959,072)	\$ (6,007,614)	\$ 3,630
493,104	404,767	13,069,655	-
-	-	238,906	-
-	-	250,545	-
26,606	92,480	1,310,665	4,333
-	-	8,000	-
-	49,264	33,308	-
-	-	(45,019)	-
63,970	(40,890)	530,198	(24,274)
(6,650)	8,874	107,659	-
7,996	16,815	163,319	-
-	(65,646)	(77,879)	-
-	114,860	106,842	-
<u>585,026</u>	<u>580,524</u>	<u>15,696,199</u>	<u>(19,941)</u>
<u>\$ 474,277</u>	<u>\$ (4,378,548)</u>	<u>\$ 9,688,585</u>	<u>\$ (16,311)</u>
\$ 36,705	\$ -	\$ 2,680,989	\$ -
-	-	6,300	-
72,364	-	3,352,114	-
<u>\$ 109,069</u>	<u>\$ -</u>	<u>\$ 6,039,403</u>	<u>\$ -</u>

(concluded)

**CITY OF FLAGSTAFF, ARIZONA**  
**Notes to the Financial Statement**  
**June 30, 2014**

**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-Manager 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, 2014, the City implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities, for the determination of major funds and addresses other statement of net position and governmental funds balance sheet presentation.

The City implemented the provision of GASB Statement No. 66, *Technical Corrections - 2012; an amendment of GASB Statements No. 10 and No. 62*. The requirements of this statement will improve financial reporting by resolving conflicting guidance that resulted from the issuance of two prior pronouncements. The City also implemented GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which improves the accounting and reporting by local governments that extend and receive nonexchange financial guarantees. The implementation of these standards did not have an impact on the financial statements.

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, which the City has not elected. 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 government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

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

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

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

separate accounting entity with a self-balancing set of accounts, which includes assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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, four 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.
- *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. 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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources 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 based on quoted market prices. 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 2013-2014, primary and secondary property tax collections amounted to \$5,527,539 and \$5,512,116 respectively.

**Deferred Outflows of Resources**

Current refunding and advance refunding resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

**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.

**Deferred Inflows of Resources**

Revenues and other governmental fund financial resources are recognized in the accounting period in which they become both measurable and available. When an asset is recorded in governmental funds financial statements but the revenue is not available, the government reports a deferred inflow of resources until such time as the revenue becomes available. Revenue related to property tax and special assessment liens are recorded in governmental funds but the revenue is not available in the current period so it is reported as a deferred inflow of resources.

**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 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.

**New Accounting Standard and Change in Accounting Principle**

The implementation of GASB Statement No. 65 is a change in accounting principle, which cause certain prior period net position/fund balances to be restated. Under previous accounting standards, bond issuance costs were expensed in the year incurred as part of the governmental funds, then were deferred and amortized over the life of the bonds in the government-wide and proprietary fund statements. GASB Statement No. 65 requires that bond issuance costs no longer be deferred; causing an adjustment to beginning net position that reflects the removal of unamortized bond issuance costs.

The City also elected to change the way debt service is recognized as related to the application of early recognition related to debt service within the governmental funds. This application is allowable under the standards if certain criteria are in place however, the City has elected not to apply early recognition as a way to best align financial reporting with other municipalities and common practices.

The following restated net positions are part of the government-wide financial statements:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net postion, beginning of year, as previously stated:	\$ 298,835,261	\$ 336,451,012
Decrease due to application of GASB 65 – issuance cost	(664,939)	(4,147)
Net postion, beginning of year, as restated:	<u>\$ 298,170,322</u>	<u>\$ 336,446,865</u>

	<u>Governmental Fund Balance at June 30, 2013</u>	<u>Change in accounting principle–debt principal</u>	<u>Change in accounting principle–debt interest</u>	<u>Governmental Fund Balance at July 1, 2013</u>
Fund Balance Restatement				
General fund	\$ 28,324,180	\$ 385,000	\$ 38,828	\$ 28,748,008
Highway user revenue fund	3,508,471	-	-	3,508,471
Transportation fund	5,872,664	1,560,000	271,289	7,703,953
Special assessment bond fund	234,647	-	275,500	510,147
Capital projects bond fund	10,155,126	-	-	10,155,126
Other governmental funds	22,943,320	2,993,508	770,552	26,707,380
Total fund balances	<u>\$ 71,038,408</u>	<u>\$ 4,938,508</u>	<u>\$ 1,356,169</u>	<u>\$ 77,333,085</u>

## 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 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 Assets – Liabilities (2)	Internal Service Fund (3)	Reclass and Eliminations (4)	Statement of Net Position Totals
<b>Assets</b>						
Cash and cash equivalents	\$ 69,081,368	\$ -	\$ -	\$ 4,823,004	\$ -	\$ 73,904,372
Accounts receivable, net	7,222,159	-	299,538	29,280	-	7,550,977
Interest receivable	116,762	-	-	5,752	-	122,514
Intergovernmental receivables	2,249,179	-	-	-	-	2,249,179
Special assessments receivable	8,561,461	-	-	-	-	8,561,461
Interfund receivable	110,000	-	-	426,779	(110,000)	426,779
Inventory	491,439	-	-	-	-	491,439
Restricted cash and cash equivalents	8,803,155	-	-	-	-	8,803,155
Refundable deposits	112,900	-	-	-	-	112,900
Promissory note forgivable	-	-	102,000	-	-	102,000
Capital assets	-	307,939,075	-	-	-	307,939,075
<b>Total Assets</b>	<b>96,748,423</b>	<b>307,939,075</b>	<b>401,538</b>	<b>5,284,815</b>	<b>(110,000)</b>	<b>410,263,851</b>
<b>Deferred Outflows of Resources</b>						
Deferred loss on bond refunding	-	-	1,138,519	-	-	1,138,519
<b>Total assets and deferred outflows of resources</b>	<b>\$ 96,748,423</b>	<b>\$ 307,939,075</b>	<b>\$ 1,540,057</b>	<b>\$ 5,284,815</b>	<b>\$ (110,000)</b>	<b>\$ 411,402,370</b>
<b>Liabilities</b>						
Accounts payable	\$ 4,798,880	\$ -	\$ -	\$ 295,850	\$ -	\$ 5,094,730
Accrued payroll & compensated absenc	1,116,903	-	-	-	-	1,116,903
Interest payable	-	-	1,176,384	-	-	1,176,384
Interfund payable	110,000	-	-	-	(110,000)	-
Advanced revenue	496,189	-	-	-	-	496,189
Guaranty and other deposits	1,106,270	-	-	-	-	1,106,270
Unamortized bond premium	-	-	3,383,336	-	-	3,383,336
Unamortized loss on debt refunding	-	-	-	-	-	-
Compensated absences	-	-	3,730,325	-	-	3,730,325
Claims and judgements	-	-	-	219,695	-	219,695
Other postemployment benefits	-	-	3,704,242	-	-	3,704,242
Unmatured long-term debt	-	-	83,089,506	-	-	83,089,506
<b>Total liabilities</b>	<b>7,628,242</b>	<b>-</b>	<b>95,083,793</b>	<b>515,545</b>	<b>(110,000)</b>	<b>103,117,580</b>
<b>Deferred inflows of resources</b>						
Unavailable revenue – property taxes	204,554	-	(204,554)	-	-	-
Unavailable revenue – special assessme	8,561,037	-	(8,561,037)	-	-	-
<b>Total deferred inflows of resources</b>	<b>8,765,591</b>	<b>-</b>	<b>(8,765,591)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balance – Net Position</b>						
Fund balance/Net Position	80,354,590	307,939,075	(84,778,145)	4,769,270	-	308,284,790
<b>Total liabilities, deferred inflows and fund balance-net position</b>	<b>\$ 96,748,423</b>	<b>\$ 307,939,075</b>	<b>\$ 1,540,057</b>	<b>\$ 5,284,815</b>	<b>\$ (110,000)</b>	<b>\$ 411,402,370</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	\$ 501,516,989
Accumulated depreciation	(193,577,914)
	<u>\$ 307,939,075</u>

(2) Certain receivables are not recognized in the governmental funds, but are earned in the statement of net position.

Promissory note forgivable	\$ 102,000
Court receivables	299,538
	<u>401,538</u>

Certain deferred outflows of resources are not recognized in the governmental funds, but are reported in the statement of net positions.

Deferred loss on bond refunding	<u>\$ 1,138,519</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	\$ 83,089,506
Governmental interest payable	1,176,384
Compensated absences	5,381,014
Other postemployment benefits	3,704,242
Unamortized bond premium	3,383,336
Subtotal	<u>96,734,482</u>
Less: current portion compensated absences	<u>1,650,689</u>
	<u>\$ 95,083,793</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	\$ 8,561,037
Property tax	204,554
	<u>\$ 8,765,591</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>\$ 4,769,270</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	\$ 110,000
Interfund payables	(110,000)
	<u>\$ -</u>

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

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

	Total Governmental Funds	Capital Related Items (1)	Long-Term Revenues/ Expenses (2)	Internal Service Fund (3)	Adjustments and Eliminations (4)	Statement of Activities Totals
<b>Revenues and Other Sources</b>						
Taxes	\$ 48,806,758	\$ -	\$ (86,303)	\$ -	\$ -	\$ 48,720,455
Intergovernmental	19,584,399	-	-	-	(3,917,431)	15,666,968
Grants and entitlements	15,313,742	-	-	-	3,917,431	19,231,173
Special assessments	2,894,898	-	(2,334,790)	-	-	560,108
Charges for services	2,734,095	-	-	-	-	2,734,095
Licenses and permits	1,952,731	-	-	-	-	1,952,731
Fines and forfeitures	1,428,401	-	(8,707)	-	-	1,419,694
Rent	1,651,032	-	-	-	-	1,651,032
Investment earnings	722,878	-	-	26,160	-	749,038
Contributions	541,340	1,361,303	-	-	-	1,902,643
Miscellaneous	1,813,164	-	-	-	-	1,813,164
Total revenue	<u>97,443,438</u>	<u>1,361,303</u>	<u>(2,429,800)</u>	<u>26,160</u>	<u>-</u>	<u>96,401,101</u>
<b>Expenditures/Expenses</b>						
General governmental	9,041,946	563,652	193,489	(291)	933,714	10,732,510
Public safety	26,567,511	1,852,972	310,480	(852)	-	28,730,111
Public works	1,031,983	237,412	52,689	(39)	251,496	1,573,541
Economic and physical development	8,212,772	240,648	(19,060)	(250)	584,386	9,018,496
Culture and recreation	11,446,096	1,833,078	90,905	(397)	(450,207)	12,919,475
Highways and streets	10,621,311	8,547,556	(150,568)	(564)	(1,319,389)	17,698,346
Principal retirement	8,287,457	-	(8,287,457)	-	-	-
Interest and other charges	3,126,469	-	(179,784)	-	-	2,946,685
Capital outlay	24,062,755	(24,062,755)	-	-	-	-
Total expenditures/expenses	<u>102,398,300</u>	<u>(10,787,437)</u>	<u>(7,989,306)</u>	<u>(2,393)</u>	<u>-</u>	<u>83,619,164</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Issuance of capital debt	14,870,000	-	(14,870,000)	-	-	-
Payment to bond refunding escrow agent	(9,382,710)	-	9,382,710	-	-	-
Bond (discount) premium	1,317,667	-	(1,317,667)	-	-	-
Sale of capital assets	727,996	(486,765)	-	-	-	241,231
Transfers in	12,102,855	-	-	-	-	12,102,855
Transfers out	(11,659,441)	-	-	-	(3,352,114)	(15,011,555)
Total other financing sources (uses)	<u>7,976,367</u>	<u>(486,765)</u>	<u>(6,804,957)</u>	<u>-</u>	<u>(3,352,114)</u>	<u>(2,667,469)</u>
Net change for the year	<u>\$ 3,021,505</u>	<u>\$ 11,661,975</u>	<u>\$ (1,245,451)</u>	<u>\$ 28,553</u>	<u>\$ (3,352,114)</u>	<u>\$ 10,114,468</u>

- (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	\$ 24,062,755
Depreciation expense	(13,275,318)
Disposal of capital assets	(486,765)
Donated capital assets	1,361,303
	<u>\$ 11,661,975</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	\$ (2,334,790)
Property tax	(86,303)
Court revenue	(8,707)
	<u>\$ (2,429,800)</u>

When bonds are issued the proceeds and related premiums are reported as an other financing source (uses) in the governmental funds. However, the bond premium and any loss on bond refunding are amortized (expensed) over the life of the bonds.

Capital debt issued	\$ (14,870,000)
Bond premium	(1,317,667)
Amortization of bond premium	321,387
Amortization of refunding loss on debt	(86,638)
Partial advance refunding of debt	9,382,710
	<u>\$ (6,570,208)</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.

Delivery of forgivable promissory note	\$ 102,000
Accrual of long-term compensated absences	(86,136)
Accrual of bond interest	179,784
Accrual of other postemployment benefits	(728,548)
	<u>\$ (532,900)</u>

Repayment 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	\$ 8,287,457
	<u>\$ 8,287,457</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	\$ 26,160
Expenditures	2,393
	<u>\$ 28,553</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	\$ (3,352,114)
	<u>\$ (3,352,114)</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 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 reflects 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, 2014 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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 220,682	\$ 220,682
Inventory	440,644	-	-	-	-	50,795	491,439
Restricted for:							
Library services	-	-	-	-	-	952,750	952,750
Library branch services	-	-	-	-	-	1,027,965	1,027,965
Library programs board directed	-	-	-	-	-	1,563,857	1,563,857
Court improvements and operatio	846,370	-	-	-	-	-	846,370
Debt services	-	-	-	-	425,771	13,822,234	14,248,005
Regional planning	-	-	-	-	-	45,377	45,377
Street improvements	-	4,265,578	3,938,021	-	-	-	8,203,599
Transit	-	-	3,618,323	-	-	-	3,618,323
Economic development	-	-	-	-	-	1,343,780	1,343,780
Arts and science	-	-	-	-	-	502,423	502,423
Culture and recreation	-	-	-	-	-	3,450,364	3,450,364
Perpetual care	-	-	-	-	-	18,684	18,684
Development fee projects	806,073	-	-	-	-	-	806,073
Other capital projects	45,890	-	4,226,950	4,521,044	-	4,597,203	13,391,087
Assigned to:							
Court services	47,960	-	-	-	-	-	47,960
Capital reserve	6,927,183	-	-	-	-	-	6,927,183
Real estate	1,088,855	-	-	-	-	-	1,088,855
Unassigned:	21,559,814	-	-	-	-	-	21,559,814
Total fund balances	\$ 31,762,789	\$ 4,265,578	\$ 11,783,294	\$ 4,521,044	\$ 425,771	\$27,596,114	\$80,354,590

### 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, 2014, the carrying amount of the City's deposits was \$23,169,365 and the bank balance was 23,733,069. The \$563,704 difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2014.

#### 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. All deposits were collateralized at June 30, 2014.

#### 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, 2014, the City's investments included the following

Investment Type	Fair Value	Weighted Average Maturity (in years)
Federal Agency Securities	\$ 24,449,582	2.940
Municipal Obligations	1,380,554	3.440
U.S. Treasuries	34,281,065	2.910
State Investment Pool	33,091,833	2.000
Wells Fargo - money market	73,722	1.000
Corporate Notes	5,022,109	2.670
Total fair value of Investments	\$ 98,298,865	
Portfolio weighted average maturity		2.605

**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, 2014 is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Moody's Rating</u>	<u>S&amp;P Rating</u>	<u>% of Investments</u>
Federal Agency Securities	\$ 24,449,582	AAA	AA+	24.87
Municipal Obligations	1,380,554	AA2/AAA	AA-/AAA	1.40
U.S. Treasury	34,281,065	AAA	AA+	34.87
State investment pool (LGIP) Pool 5	33,091,727	N/A	AAAF/S1+	33.66
State investment pool (LGIP) Pool 7	105	N/A	AA+	0.02
Corporate Notes	5,022,109	AAA/AA1/AA3	AA+/AAA	5.11
Wells Fargo – money market	73,722	N/A	AAAm	0.07
<b>Total</b>	<b>\$ 98,298,865</b>			<b>100%</b>

**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, 2014, 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	\$ 98,298,865
Carrying amount of cash deposits	23,169,366
<b>Total pooled cash and investments</b>	<b>\$ 121,468,231</b>
Pooled cash, equivalents and investments – unrestricted	\$ 100,258,551
Restricted cash and investments	21,209,680
<b>Total pooled cash and investments</b>	<b>\$ 121,468,231</b>

Cash and cash equivalents at June 30, 2014 consisted of the following:

Investments included in cash and cash equivalents	\$ 82,388,440
Carrying amount of unrestricted city deposits	17,857,531
Cash on hand	12,580
<b>Total cash and cash equivalents per statement of net position</b>	<b>\$ 100,258,551</b>

Investment income comprises the following for the year ended June 30, 2014:

Net interest and dividends	\$ 746,596
Net increase (decrease) in the fair value of investments	<u>215,777</u>
Total net investment income per statement of activities	<u>\$ 962,373</u>

The net increase in the fair value of investments during fiscal year 2013–2014 was \$215,777. 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, 2014 was \$472,793.

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 \$9,417 and the total recovery to date is \$1,126,225.

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 \$35,212 and the total recovery to date is \$78,191.

## B. Receivables

Receivables as of June 30, 2014, including allowances for uncollectible accounts, are as follows:

Fund	Accounts	Interest	Intergov- ernmental	Special Assessments	Total Receivables
<b>Governmental Activities</b>					
General fund	\$ 5,101,813	\$ 45,994	\$ 713,316	\$ -	\$ 5,861,123
Highway user revenue fund	753,931	5,387	122,154	-	881,472
Transportation fund	1,525,061	24,439	786,730	-	2,336,230
Special assessment fund	-	383	-	8,561,461	8,561,844
Capital projects fund	-	-	251,500	-	251,500
Other governmental funds	994,020	40,559	375,479	-	1,410,058
Less: allowance for uncollectibles	(853,128)	-	-	-	(853,128)
Total government funds	7,521,697	116,762	2,249,179	8,561,461	18,449,099
Internal services funds	29,280	5,752	-	-	35,032
Total governmental activities	7,550,977	122,514	2,249,179	8,561,461	18,484,131
<b>Business-Type Activities</b>					
Water and wastewater	3,769,121	35,491	123,503	-	3,928,115
Environmental services	1,239,984	13,765	-	-	1,253,749
Airport	34,348	1,234	2,813,688	-	2,849,270
Stormwater	166,428	1,308	-	-	167,736
Flagstaff housing authority	78,159	-	-	-	78,159
Less: allowance for uncollectibles	(178,042)	-	-	-	(178,042)
Total business-type activities	5,109,998	51,798	2,937,191	-	8,098,987
Total activities	\$12,660,975	\$ 174,312	\$ 5,186,370	\$ 8,561,461	\$ 26,583,118

The receivables not expected to be collected within one year include \$108,000 of the general fund, \$55,000 of the transportation fund, \$100,000 of the water and wastewater, \$32,000 of the environmental services fund, \$10,000 of the airport fund, \$5,000 of the Stormwater fund, and \$31,042 of the flagstaff housing authority.

## C. Capital Assets

A summary of capital asset activity, for the government-wide financial statements, as of June 30, 2014 is as follows:

	Balance July 1, 2013	Additions	Deletions and Retirements	Transfers In (out)	Balance June 30, 2014
<b>Governmental activities:</b>					
Non-depreciable assets:					
Land	\$ 55,762,393	\$ 12,068,334	\$ -	\$ 110,729	\$ 67,941,456
Construction -in-progress	6,985,735	4,893,368	(128,467)	(4,546,678)	7,203,958
Total non-depreciable assets	<u>62,748,128</u>	<u>16,961,702</u>	<u>(128,467)</u>	<u>(4,435,949)</u>	<u>75,145,414</u>
Depreciable assets:					
Buildings	76,490,638	-	(450,757)	-	76,039,881
Improvements	19,977,480	1,055,970	(49,246)	-	20,984,204
Machinery and equipment	33,215,505	568,951	(736,066)	-	33,048,390
Infrastructure	288,874,498	6,837,435	(496,668)	1,083,835	296,299,100
Total depreciable assets	<u>418,558,121</u>	<u>8,462,356</u>	<u>(1,732,737)</u>	<u>1,083,835</u>	<u>426,371,575</u>
Accumulated depreciation:					
Buildings	(18,614,045)	(1,666,866)	314,659	-	(19,966,252)
Improvements	(12,769,464)	(974,339)	32,475	-	(13,711,328)
Machinery and equipment	(21,449,835)	(1,998,010)	709,019	-	(22,738,826)
Infrastructure	(128,843,691)	(8,636,103)	318,286	-	(137,161,508)
Total accumulated depreciation	<u>(181,677,035)</u>	<u>(13,275,318)</u>	<u>1,374,439</u>	<u>-</u>	<u>(193,577,914)</u>
Governmental activities capital assets, net	<u>\$ 299,629,214</u>	<u>\$ 12,148,740</u>	<u>\$ (486,765)</u>	<u>\$(3,352,114)</u>	307,939,075
				Less: associated debt	(83,089,506)
				Less: unamortized premium	(3,383,336)
				Less: construction retainage	(424,102)
				Plus: unamortized loss on current refunding	1,138,519
				Plus: unspent capital related debt, series 2013	4,075,722
				Plus: unspent capital related debt, series 2014	1,090,779
				Net investment in capital assets	<u>\$ 227,347,151</u>

	Balance July 1, 2013	Additions	Deletions and Retirements	Transfers In (out)	Balance June 30, 2014
<b>Business-type activities:</b>					
Non-depreciable assets:					
Land	\$ 13,966,395	\$ -	\$ -	\$ -	\$ 13,966,395
Construction -in-progress	16,535,198	6,559,675	-	(710,513)	22,384,360
Total non-depreciable assets	<u>30,501,593</u>	<u>6,559,675</u>	<u>-</u>	<u>(710,513)</u>	<u>36,350,755</u>
Depreciable assets:					
Buildings	100,785,223	37,000	-	-	100,822,223
Improvements	366,292,541	5,284,578	(88,604)	4,062,627	375,551,142
Machinery and equipment	44,850,545	385,128	(464,812)	-	44,770,861
Total depreciable assets	<u>511,928,309</u>	<u>5,706,706</u>	<u>(553,416)</u>	<u>4,062,627</u>	<u>521,144,226</u>
Accumulated depreciation:					
Buildings	(45,968,939)	(2,206,571)	-	28,191	(48,147,319)
Improvements	(123,845,031)	(7,992,126)	88,604	(28,191)	(131,776,744)
Machinery and equipment	(20,445,480)	(2,870,958)	459,588	-	(22,856,850)
Total accumulated depreciation	<u>(190,259,450)</u>	<u>(13,069,655)</u>	<u>548,192</u>	<u>-</u>	<u>(202,780,913)</u>
Business-type activities capital assets, net	<u>\$ 352,170,452</u>	<u>\$ (803,274)</u>	<u>\$ (5,224)</u>	<u>\$ 3,352,114</u>	354,714,068
				Less: associated debt	(43,690,995)
				Less: construction retainage	(470,124)
				Net investment in capital assets	<u>\$ 310,552,949</u>

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

<b>Governmental Activities:</b>	
General government	\$ 563,652
Public safety	1,852,972
Public works	237,412
Economic and physical development	240,648
Culture and recreation	1,833,078
Highway and streets	8,547,556
Total depreciation expense – governmental activities	<u>\$ 13,275,318</u>

## D. Interfund Receivables, Payables, and Transfers

### Interfund receivables and payables

Net interfund receivables and payables between governmental activities and business-type activities of \$426,779 are included in the government-wide financial statements at June 30, 2014. The interfund balances at June 30, 2014 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, 2014 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	\$ 110,000	\$ -
Other governmental funds	-	110,000
Total governmental activities	<u>110,000</u>	<u>110,000</u>
<b>Business-Type Activities:</b>		
Water and wastewater fund	2,015,000	-
Airport fund	-	2,015,000
Total business-type activities	<u>2,015,000</u>	<u>2,015,000</u>
Total governmental and business-type activities	<u>\$ 2,125,000</u>	<u>\$ 2,125,000</u>
Less: fund eliminations	(2,125,000)	
Adjustment for internal service fund elimination	<u>426,779</u>	
Total government-wide statement of net position	<u><u>\$ 426,779</u></u>	

## Transfers

The net transfers of \$2,908,700 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 2014 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, 2014:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers In</u>
<b>Governmental Activities:</b>		
General fund	\$ 3,287,452	\$ 3,033,042
Highway user revenue fund	28,401	4,549,681
Transportation fund	2,893,427	2,355,780
Capital projects bond fund	-	19,829
Other governmental funds	5,450,161	2,144,523
Total governmental funds	<u>11,659,441</u>	<u>12,102,855</u>
Internal service fund	-	-
Total governmental activities	<u>11,659,441</u>	<u>12,102,855</u>
<b>Business-Type Activities:</b>		
Water and wastewater fund	157,795	-
Environmental services fund	322,671	-
Airport fund	33,567	43,000
Stormwater fund	310,954	338,573
Total business-type activities	<u>824,987</u>	<u>381,573</u>
Total governmental and business-type activities	<u>\$ 12,484,428</u>	<u>\$ 12,484,428</u>
Less: fund eliminations	(12,927,842)	
Add: net capital assets transfer	<u>3,352,114</u>	
Total government-wide statement of activities	<u>\$ 2,908,700</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 2014 lease expense for the library was \$83,213. The schedule below for future minimum lease expenses reflects the change in the rental rate as of June 30, 2014.

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 \$7,200 for FY 2014.

### Operating Lease Expenditures

Year Ending June 30	East Flagstaff Library	Chevelon Butte School Dist.#5
2015	\$ 83,213	\$ 7,200
2016	83,213	7,200
2017	83,213	7,200
2018	83,213	7,200
2019	83,213	7,200
Total	<u>\$ 416,065</u>	<u>\$ 36,000</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, 2014 were \$165,070 (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 2014 was \$1,661,408. The City currently has one lease with non-cancellable terms that is for the 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
2015	\$ 799,451
2016	799,451
2017	799,451
2018	66,621
Total	<u>\$ 2,464,974</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 2014 was \$1,332,345.

## 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 April 8, 2014, the City issued \$6,600,000 in GO bonds, series 2014A, related to capital projects approved by voters. Open space projects for \$5.5M was approved by voters on the May 18, 2004 election ballot, these proceeds assisted in the land acquisition of Observatory Mesa. The election of November 5, 1996 resulted in approval of \$1.1M for improvements related to parks and recreation facilities.

On April 8, 2014, the City issued \$8,270,000 in GO refunding bonds, series 2014B, with interest rates ranging between 3.00% and 5.00%. The City issued the bonds to partially advance refund \$8,565,000 of the outstanding series 2006A general obligation bonds of projects 2004, with a interest rate ranging between 3.25% and 4.50%. 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 2006A 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 \$8,565,000 at June 30, 2014.

The partial advance refunding of April 8, 2014, reduced total debt service payments over the next ten years by \$374,454. This results in an economic gain, the difference between the present values of the debt service payments on the old and new debt, of \$309,965, inclusive of \$3,822 funds on hand.

General obligation bonds outstanding at June 30, 2014:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 44,857,927
Governmental activities – current refunding	212,704
Governmental activities – advance refunding	8,270,000
Business-type activities	1,504,660
Business-type activities – refunding	247,296
Total general obligation bonds outstanding	<u>\$ 55,092,587</u>

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. This series was partially refunded on April 8, 2014.	10,995,000
\$8,270,000 Capital projects, series 2014B partial refunding of series 2006 due in annual installments of \$1,940,000 to \$2,205,000 through July 1, 2021; interest rate at 3.00% to 5.00%. Construction related to recreation facilities, fire facilities and equipment, and open space acquisition.	8,270,000
\$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
\$6,600,000 Capital projects, series 2014A due in annual installments of \$200,000 to \$460,000 through July 1, 2034; interest rate at 1.5% to 5.0%. Construction related to parks and recreation facilities improvements and land purchase for open space/Flagstaff Urban Trail System.	6,600,000
Total governmental activities	<u>53,340,631</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>\$ 55,092,587</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
2015	4,420,973	1,590,852	310,957	48,190
2016	5,102,348	1,596,591	65,637	43,710
2017	5,441,644	1,613,152	67,675	41,641
2018	4,886,164	1,642,375	69,775	39,508
2019	4,920,912	1,448,091	71,941	37,308
2020-2024	19,923,590	3,649,142	394,622	151,085
2025-2029	6,130,000	1,048,250	459,789	84,905
2030-2034	2,055,000	303,900	311,560	14,703
2035	460,000	9,200	-	-
Total	<u>\$ 53,340,631</u>	<u>\$ 12,901,553</u>	<u>\$ 1,751,956</u>	<u>\$ 461,050</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.

The City's computation of legal debt margins available for creation of additional debt at June 30, 2014 was \$78,751,669 and \$40,241,777 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.

On November 15, 2013, \$810,000 of Aspen Place at the Sawmill Improvement District bonds were defeased and \$1,270,000 in bonds were defeased on April 7, 2014.

Special assessment bonds outstanding at June 30, 2014:

Purpose	Amount
Governmental activities	<u>\$ 8,605,000</u>

Special assessment bonds payable at June 30, 2014 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. \$ 8,605,000

Total Special Assessment Bonds \$ 8,605,000

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2015	\$ 305,000	\$ 430,250
2016	320,000	415,000
2017	340,000	399,000
2018	355,000	382,000
2019	370,000	364,250
2020-2024	2,155,000	1,524,000
2025-2029	2,750,000	928,500
2030-2032	2,010,000	205,000
Total	<u><u>\$ 8,605,000</u></u>	<u><u>\$ 4,648,000</u></u>

**Revenue Bonds**

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

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

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

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

**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. There is no outstanding principal of the defeased bonds at June 30, 2014.

Revenue bonds outstanding at June 30, 2014:

<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, 2014 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 15,495,000

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 \$ 19,129,606

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
2015	\$ 820,000	\$ 594,313	\$ 349,864	\$ 122,732
2016	1,925,000	552,487	362,274	110,100
2017	1,990,000	485,662	375,127	97,021
2018	2,060,000	403,063	388,434	83,477
2019	2,155,000	312,113	402,214	69,453
2020-2024	5,070,000	593,213	1,756,693	127,352
2025-2029	1,005,000	227,638	-	-
2030-2031	470,000	21,968	-	-
Total	<u>\$ 15,495,000</u>	<u>\$ 3,190,457</u>	<u>\$ 3,634,606</u>	<u>\$ 610,135</u>

**Other Debt**

**Municipal Facility Corporation Bonds**

The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring, and equipping municipal facilities.

In fiscal year 2001, the MFC issued \$4.7M 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, 2014:

Purpose	Amount
Governmental activities	\$ 1,260,000

Municipal facility corporation bonds are comprised of the following issues:

Governmental activities:

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

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

Municipal facility corp bonds

Year Ending June 30	Governmental Activities	
	Principal	Interest
2015	\$ 400,000	\$ 50,350
2016	420,000	30,875
2017	440,000	10,450
Total	<u>\$ 1,260,000</u>	<u>\$ 91,675</u>

Certificates of Participation

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

Certificates of participation bonds outstanding at June 30, 2014:

Purpose	Amount
Governmental activities	<u>\$ 3,155,000</u>

Certificates of participation are comprised of the following issues:

Governmental activities:

\$4,690,000 Certificates of participation, series 2009 due in annual installments of \$435,000 to \$575,000, through October 1, 2019; interest at 3.3137%. Roadway overlay improvements and fire equipment.	\$ 3,155,000
Total Certificates of participation	<u>\$ 3,155,000</u>

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2015	\$ 485,000	\$ 101,445
2016	500,000	86,670
2017	515,000	70,673
2018	530,000	52,900
2019	550,000	33,313
2020	575,000	11,500
Total	<u>\$ 3,155,000</u>	<u>\$ 356,500</u>

The following is a summary of debt service requirements, including interest requirements, to maturity for long-term debt at June 30, 2014:

Fiscal Year	General Obligation Bonds	Special Assessment Bonds	Revenue Bonds	Municipal Facility Corporation Bonds	Cetificates of Participation	Total
2015	6,370,972	735,250	1,886,908	450,350	586,445	10,029,926
2016	6,808,286	735,000	2,949,862	450,875	586,670	11,530,693
2017	7,164,112	739,000	2,947,810	450,450	585,673	11,887,044
2018	6,637,822	737,000	2,934,974	-	582,900	10,892,696
2019	6,478,252	734,250	2,938,780	-	583,313	10,734,594
2020	6,333,204	735,750	2,935,826	-	586,500	10,591,281
2021	6,036,683	736,250	2,926,578	-	-	9,699,511
2022	4,458,902	730,750	720,861	-	-	5,910,513
2023	3,986,992	739,500	718,462	-	-	5,444,953
2024	3,302,659	736,750	245,531	-	-	4,284,940
2025	1,544,899	733,000	247,881	-	-	2,525,780
2026	1,546,558	738,250	244,913	-	-	2,529,721
2027	1,543,553	737,000	246,250	-	-	2,526,803
2028	1,541,021	734,500	246,769	-	-	2,522,290
2029	1,546,914	735,750	246,825	-	-	2,529,489
2030	581,803	730,500	246,418	-	-	1,558,721
2031	581,255	739,000	245,550	-	-	1,565,805
2032	580,105	745,500	-	-	-	1,325,605
2033	469,700	-	-	-	-	469,700
2034	472,300	-	-	-	-	472,300
2035	469,200	-	-	-	-	469,200
Less interest	<u>(13,362,603)</u>	<u>(4,648,000)</u>	<u>(3,800,592)</u>	<u>(91,675)</u>	<u>(356,500)</u>	<u>(22,259,370)</u>
	<u>\$ 55,092,587</u>	<u>\$ 8,605,000</u>	<u>\$19,129,606</u>	<u>\$ 1,260,000</u>	<u>\$ 3,155,000</u>	<u>\$ 87,242,193</u>

**Authorized and Issued Debt**

The voters of the City authorize capital projects and the related debt mechanism to finance these capital projects. On May 18, 2004, voters approved \$47.4M for various capital projects and \$46.6M for future water rights and production, as of June 30, 2014, \$5.0M remains unissued for capital projects and \$.76M 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, 2014 \$.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, 2014 \$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, 2014:

<u>Purpose</u>	<u>Amount</u>
Business-type activities	<u>\$ 33,873,144</u>

Loan payables at June 30, 2014 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
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\$23,100,000 Wastewater infrastructure finance authority due in annual installment of \$815,834, to 1,571,901 through July 1, 2027; interest at 3.512%. Sewer treatment plant improvements.	18,404,554
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\$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
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\$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 \$1,506,835. Remaining available \$593,165. Water feasibility study.	1,183,053
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\$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
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\$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
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\$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
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Total water and wastewater loan payable	<u>\$ 33,745,782</u>
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Airport:

\$600,000 Arizona Department of Transportation due in quarterly installments of \$5,337 to \$13,548 through January 1, 2016; interest at 5.60%. Hangar construction.	\$ 127,362
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Total	<u>\$ 33,873,144</u>
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Annual debt service requirements to maturity for loan payables are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2015	\$ 1,964,145	\$ 1,153,452
2016	2,031,607	1,093,167
2017	2,078,489	1,020,593
2018	2,120,175	947,773
2019	2,195,836	873,001
2020-2024	12,171,750	3,148,531
2025-2029	11,192,317	912,181
2030	118,823	3,641
Total	\$ 33,873,144	\$ 9,152,339

### 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 \$615,612 and renewable energy equipment for governmental activities, \$1,038,372. Capital lease agreements related to business-type activities consist of the construction of a co-generator at the Wildcat Wastewater Treatment Plant, \$1,133,884, construction of airport hangars, \$409,494, renewable energy equipment, \$1,834,927. 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, 2014	Governmental Activities	Business Type Activities
2015	\$ 319,416	\$ 642,867
2016	84,779	644,506
2017	85,325	645,550
2018	85,895	395,680
2019	86,486	396,810
2020-2024	442,166	2,002,625
2025-2029	354,919	793,284
Total future minimum lease payments	1,458,986	5,521,322
Less: imputed interest costs	(225,111)	(1,090,033)
Present value of future minimum lease payments	\$ 1,233,875	\$ 4,431,289

## **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 1992–2014. 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, 2014, \$37,380,388 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, 2014, net revenue available for service of this debt was \$8,903,004. The debt principal, interest and fees paid in fiscal year 2014 equal \$3,037,699 (34.12% 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, 2014, \$12,530,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2014, net revenues available for service of the debt were \$42,048,872. The debt principal and interest paid in fiscal year 2014 was \$2,071,375 (5.17% 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.<sup>5</sup>

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, 2014 \$1,260,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2014, net revenues available for service of this debt were \$12,621,801. The debt principal and interest paid in fiscal year 2014 was \$453,753 (3.59% 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, 2014, \$2,965,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2014, net revenues available for the service of this debt were \$10,302,188. The debt principal and interest paid in fiscal year 2014 was \$248,238 (2.41% 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, 2014 was as follows:

	Beginning Balance		Reductions	Ending Balance	Due Within One Year
	As Restated	Additions			
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 49,909,139	\$ 14,870,000	\$ (11,438,508)	\$ 53,340,631	\$ 4,420,973
Special assessment bonds	11,020,000	-	(2,415,000)	8,605,000	305,000
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	3,625,000	-	(470,000)	3,155,000	485,000
Total bonds payable	<u>83,374,139</u>	<u>14,870,000</u>	<u>(16,388,508)</u>	<u>81,855,631</u>	<u>6,430,973</u>
Capital leases	1,697,823	-	(463,948)	1,233,875	287,325
Bond premium	2,436,739	1,317,666	(371,069)	3,383,336	298,580
Loss on advance refunding	(457,128)	(768,029)	86,638	(1,138,519)	(161,308)
Compensated absences	3,644,189	1,664,263	(1,578,127)	3,730,325	1,650,689
Other postemployment benefits	2,975,694	728,548	-	3,704,242	-
Claims and judgements	314,074	127,779	(222,158)	219,695	98,863
Governmental activity long-term liability	<u>\$ 93,985,530</u>	<u>\$ 17,940,227</u>	<u>\$ (18,937,172)</u>	<u>\$ 92,988,585</u>	<u>\$ 8,605,122</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	349,864
Total bonds payable	<u>7,097,080</u>	<u>-</u>	<u>(1,710,518)</u>	<u>5,386,562</u>	<u>660,821</u>
Water & sewer loan payable	35,552,122	46,169	(1,852,509)	33,745,782	1,915,315
Airport loan payable	173,551	-	(46,189)	127,362	48,830
Capital lease payable	4,791,107	-	(359,818)	4,431,289	459,693
Total loan and leases payable	<u>40,516,780</u>	<u>46,169</u>	<u>(2,258,516)</u>	<u>38,304,433</u>	<u>2,423,838</u>
Bond premium	31,526	-	(31,526)	-	-
Deferred loss on current refunding	(35,835)	-	35,835	-	-
Compensated absences	844,761	398,569	(329,950)	913,380	342,296
Other postemployment benefits	652,986	163,319	-	816,305	-
Landfill closure/postclosure	7,410,396	238,906	-	7,649,302	-
Business-type activity long-term liability	<u>\$ 56,517,694</u>	<u>\$ 846,963</u>	<u>\$ (4,294,675)</u>	<u>\$ 53,069,982</u>	<u>\$ 3,426,955</u>

## V. OTHER INFORMATION

### A. Risk management

The City is exposed to various risks of loss related to torts and public officials' errors and omissions. The City purchases commercial insurance to cover these losses. However, \$50,000 of each claim resulting in a loss is retained by the City. The City provides for the self-insurance retention in the internal service fund. Outstanding claims as of June 30, 2014 have potential exposure to the City of approximately \$219,695 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>
2011-12	\$ 304,742	\$ 57,776	\$ 101,404	\$ 261,114
2012-13	261,114	198,203	145,243	314,074
2013-14	314,074	127,779	222,158	219,695

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 and encumbrances as of June 30, 2014:

Governmental Activities:	
General fund	\$ 599,546
Highway users revenue fund	1,406,555
Capital projects bond fund	1,545,923
Other government funds	1,005,702
Total governmental activities	<u>4,557,726</u>
Business – Type Activities:	
Water and wastewater fund	2,864,433
Environmental services fund	175,726
Airport fund	3,574,303
Stormwater fund	767,913
Total business-type activities	<u>7,382,375</u>
Total governmental and business-type activities	<u>\$ 11,940,101</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.

ASRS

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

PSPRS and EORP

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

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

**Cost Sharing Plans** – For the year ended June 30, 2014, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.54% (11.30% 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 11.54% (10.65% 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, 2014, 2013, and 2012 were \$3,074,097, \$2,999,221, and \$2,884,448 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>
6/30/2014	\$ 2,837,013	\$ 173,151	\$ 63,933
6/30/2013	2,759,607	174,999	64,615
6/30/2012	2,650,792	169,199	64,457

In addition, active EORP members were required by statute to contribute 13.00% of the members' annual covered payroll. The City was required to contribute 26.62% 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, 2014, 2013, and 2012 were \$53,890, \$59,060, and \$55,498 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>
6/30/2014	\$ 50,732	\$ 3,158
6/30/2013	54,797	4,263
6/30/2012	52,487	3,011

**Agent Plan** – For the year ended June 30, 2014, active PSPRS members were required by statute to contribute 10.35% of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 22.52% and 34.64% for Police and Fire respectively. Police personnel contributed \$991,439; Fire personnel contributed \$558,291 during fiscal year 2013-2014. The City annual pension and OPEB cost of \$2,157,217 for police and \$1,868,520 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, 2014, the date of the most recent actuarial valuation, and related information follow.

	PSPRS		
	Police	Fire	EORP
Contribution rates FY13–2014:			
City	32.87%	44.99%	39.62%
Plan members	10.35%	10.35%	13.00%
Annual pension costs*	\$ 2,417,930	\$ 2,063,191	\$ 50,732
Pension contributions made	\$ 2,106,719	\$ 1,784,136	\$ 50,732
Annual OPEB costs – Health Insurance	\$ 50,498	\$ 84,384	\$ 3,158
OPEB contributions made	\$ 50,498	\$ 84,384	\$ 3,158
As of actuarial valuation date:	6/30/2014	6/30/2014	6/30/2014
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	22 years	22 years	22 years
Remaining amortization period–excess	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	4.0% – 8.0%	4.0% – 8.0%	4.25%
Inflation	4.00%	4.00%	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
PSRS – Police – Pension					
6/30/2014	\$	2,106,719	100%	\$	-0-
6/30/2013		1,770,763	100%		-0-
6/30/2012		1,734,804	100%		-0-
PSRS – Police – Health Insurance					
6/30/2014	\$	50,498	100%	\$	-0-
6/30/2013		52,985	100%		-0-
6/30/2012		51,929	100%		-0-
PSRS – Fire – Pension					
6/30/2014	\$	1,784,136	100%	\$	-0-
6/30/2013		1,432,411	100%		-0-
6/30/2012		1,420,778	100%		-0-
PSRS – Fire – Health Insurance					
6/30/2014	\$	84,384	100%	\$	-0-
6/30/2013		86,952	100%		-0-
6/30/2012		95,474	100%		-0-
EORP – Pension					
6/30/2014	\$	50,732	100%	\$	-0-
6/30/2013		54,797	100%		-0-
6/30/2012		52,487	100%		-0-
EORP – Health Insurance					
6/30/2014	\$	3,158	100%	\$	-0-
6/30/2013		4,263	100%		-0-
6/30/2012		3,011	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, 2012 reporting period determines the rates for fiscal year 2014. 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 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>						
6/30/2014	\$ 22,925,492	\$ 60,311,715	38.0%	\$ 37,386,223	\$ 7,425,910	503.5%
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%
<b>PSRS – Police Health Insurance</b>						
6/30/2014	\$ 1,383,853	\$ 1,103,593	125.4%	\$ (280,260)	\$ 7,425,910	0.0%
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%
<b>PSRS – Fire Pension</b>						
6/30/2014	\$ 27,673,638	\$ 69,057,692	40.1%	\$ 41,384,054	\$ 4,788,198	864.3%
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%
<b>PSRS – Fire Health Insurance</b>						
6/30/2014	\$ 2,489,925	\$ 1,554,131	160.2%	\$ (935,794)	\$ 4,788,198	0.0%
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%

## 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, 2014, 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 30.4%. Plan members receiving benefits contribute \$93,156 during fiscal year 2014.

**Annual OPEB Cost and Net OPEB Obligation.** For 2014, the city's annual OPEB cost (expense) of \$985,023 was equal to the ARC, as adjusted by any ARC adjustments, and interest on the net OPEB obligation of \$163,771. On June 30, 2014, the net increase in NOO for governmental activities was \$728,548 and for business-type activities was \$163,319.

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 2014 and two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2014 \$	985,023	\$ 93,156	9.5%	\$ 4,520,547
6/30/2013	987,749	194,833	19.7%	3,628,680
6/30/2012	999,061	392,380	39.3%	2,835,764

<u>Fiscal Year Ended</u>	<u>(1) Annual Required Contribution</u>	<u>(2) Interest on Existing NOO</u>	<u>(3) ARC Adjustment</u>	<u>(4) Annual OPEB Cost (1) + (2) + (3)</u>	<u>(5) Actual Contribution Amount</u>	<u>(6) Net Increase in NOO (4) - (5)</u>	<u>(7) NOO as of End of Year</u>
6/30/2014 \$	1,044,678	\$ 163,771	\$ (223,426)	\$ 985,023	\$ 93,156	\$ 891,867	\$ 4,520,547
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

**Funded Status and Funding Progress.** As of July 1, 2013, the actuarial accrued liability for benefits was \$9,905,500, all of which was unfunded. The covered payroll of active employees covered by the plan is \$32,538,077, and the ratio of the unfunded actuarial accrued liability to the covered payroll is 30.4 percent. Following is a table of the last three years funding progress as available, inclusive of Housing Authority unless noted.

<u>Actuarial Valuation Date</u>	<u>(1) Actuarial Value of Assets</u>	<u>(2) Actuarial Accrued Liability (AAL)</u>	<u>(3) Percent Funded (1) / (2)</u>	<u>(4) Unfunded AAL (2) - (1)</u>	<u>(5) Annual Covered Payroll</u>	<u>(6) Unfunded AAL as a Percentage of Covered Payroll (4) / (5)</u>
7/1/2013	-	\$ 9,905,500	0.0%	\$ 9,905,500	\$ 32,538,077	30.4%
7/1/2011	-	9,808,514	0.0%	9,808,514	31,191,746	31.4%
7/1/2010*	-	12,234,910	0.0%	12,234,910	34,486,958	35.5%

(\* 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, 2013, actuarial valuation, the entry age normal level dollar actuarial cost method, which uses the member's hire date as the entry age, represents the actuarial cost method 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 7.5 percent initially, reduced by decrements to an ultimate rate of five percent over five years. The remaining amortization period at July 1, 2013, 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 \$7,649,302 as of June 30, 2014, which is based on 74.59 percent usage of the landfill. The remaining \$2,606,054 will be accrued over the remaining life of the landfill, which is currently estimated to be 12 years.

The accrual for the closure and postclosure care costs for fiscal year 2014 is \$238,906. 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, 2014 the balance of the investments held for those purposes is \$9,919,774. 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, \$10,255,356, 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, 2014. 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.

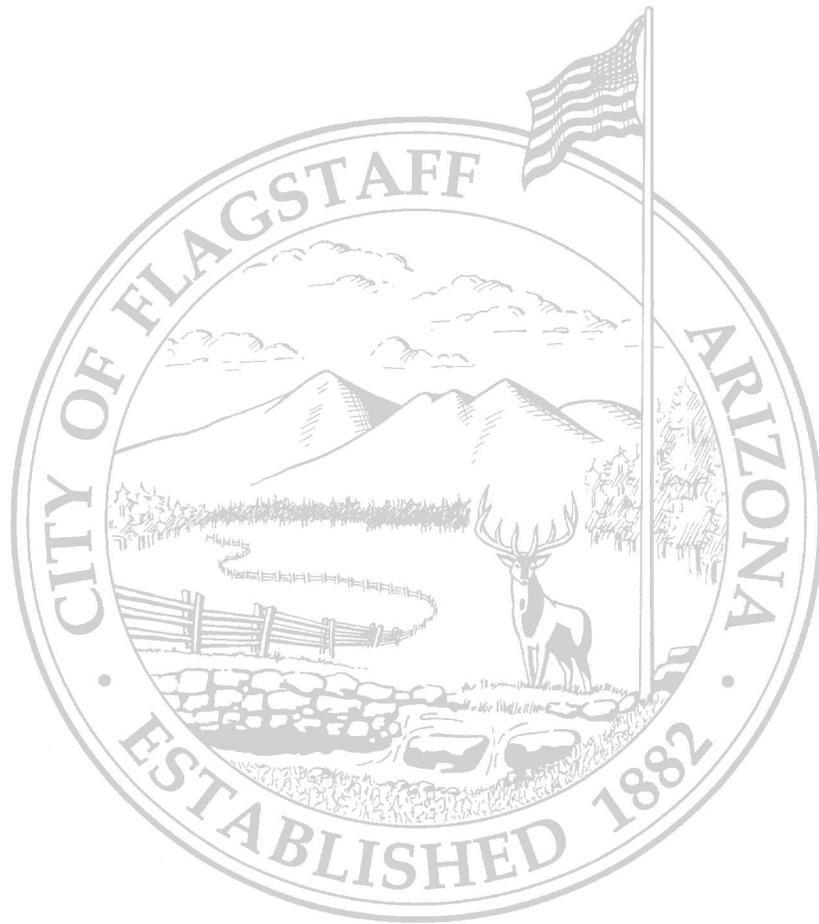
## **F. Subsequent Events**

On October 3, 2014, the City completed the sale of three parcels to Evergreen-Trax LLC for the amount of \$3.1 million. Two of these properties are located on the corner of Route 66 and Fourth Street while the third property is located on the corner of Huntington Drive and Fourth Street. These properties were held for resale upon completion of the Fourth Street Overpass. The proceeds from the sale of the properties will balance out the Fourth Street Overpass Fund.

On October 30, 2014 the City redeemed \$1,655,000 of its' Aspen Place at the Sawmill Improvement District Bonds as part of as refunding defeasance related to the early pay off of debt by the developer.

On October 28, 2014, Council approved a settlement agreement and mutual release related to a filed notice of claim by Capital Improvements, LLC related to the West/Arrowhead capital project. The City made a \$550,000 payment as part of the terms and was able to fund this out of the capital project budget.

On November 4, 2014, on the general election ballot, voters approved an increase to the general sales tax earmarked for the City's Road Repair and Street Safety. An additional .033 rate increase will be used for road repairs, ongoing pavement preservation, bike and pedestrian safety improvements and repairs to underlying water and sewer utility infrastructure. The City also received authority to issue up to \$20 million in debt to be paid back with the new tax revenues.



## 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, 2014**

	Special Revenue Funds			
	Library Fund	BBB Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
<b>ASSETS</b>				
Cash and investments	\$ 1,519,507	\$ 7,008,964	\$ 987,121	\$ 1,690
Accounts receivable, net	97,299	870,843	148	-
Interest receivable	6,185	12,787	1,835	-
Intergovernmental receivables	60	24,718	184,814	165,887
Inventory	-	50,795	-	-
Restricted cash and investments	2,591,822	1,207,087	-	-
Total assets	<u>\$ 4,214,873</u>	<u>\$ 9,175,194</u>	<u>\$ 1,173,918</u>	<u>\$ 167,577</u>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts payable	\$ 540,484	\$ 294,877	\$ 83,028	\$ 7,267
Accrued payroll and compensated absences	57,655	23,450	1,602	4,933
Current bonds payable	-	-	-	-
Interest payable	-	-	-	-
Interfund payable	-	-	-	110,000
Advanced revenue	72,162	1,590	-	-
Total liabilities	<u>670,301</u>	<u>319,917</u>	<u>84,630</u>	<u>122,200</u>
Fund balances:				
Nonspendable:				
Perpetual care	-	-	-	-
Inventory	-	50,795	-	-
Restricted for:				
Library services	952,750	-	-	-
Library branch services	1,027,965	-	-	-
Library programs board directed	1,563,857	-	-	-
Debt service	-	-	-	-
Economic development	-	1,343,780	-	-
Arts and science	-	502,423	-	-
Culture and recreation	-	3,450,364	-	-
Other capital projects	-	3,507,915	1,089,288	-
Regional planning	-	-	-	45,377
Perpetual care	-	-	-	-
Total fund balances	<u>3,544,572</u>	<u>8,855,277</u>	<u>1,089,288</u>	<u>45,377</u>
Total liabilities and fund balances	<u>\$ 4,214,873</u>	<u>\$ 9,175,194</u>	<u>\$ 1,173,918</u>	<u>\$ 167,577</u>

Debt Service Funds		Permanent Fund	
General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Perpetual Care	Total Other Governmental Funds
\$ 750	\$ 13,802,880	\$ 18,056	\$ 23,338,968
-	-	230	968,520
-	19,354	398	40,559
-	-	-	375,479
-	-	-	50,795
-	-	220,682	4,019,591
<u>\$ 750</u>	<u>\$ 13,822,234</u>	<u>\$ 239,366</u>	<u>\$ 28,793,912</u>
\$ 750	\$ -	\$ -	\$ 926,406
-	-	-	87,640
-	-	-	-
-	-	-	-
-	-	-	110,000
-	-	-	73,752
<u>750</u>	<u>-</u>	<u>-</u>	<u>1,197,798</u>
-	-	220,682	220,682
-	-	-	50,795
-	-	-	952,750
-	-	-	1,027,965
-	-	-	1,563,857
-	13,822,234	-	13,822,234
-	-	-	1,343,780
-	-	-	502,423
-	-	-	3,450,364
-	-	-	4,597,203
-	-	-	45,377
-	-	18,684	18,684
<u>-</u>	<u>13,822,234</u>	<u>239,366</u>	<u>27,596,114</u>
<u>\$ 750</u>	<u>\$ 13,822,234</u>	<u>\$ 239,366</u>	<u>\$ 28,793,912</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**Year Ended June 30, 2014**

	Special Revenue Funds			
	Library Fund	BBB Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
<b>REVENUES:</b>				
Taxes	\$ -	\$ 6,309,745	\$ -	\$ -
Intergovernmental	3,063,343	-	-	5,000
Grants and entitlements	46,436	69,650	593,058	372,373
Rents	-	40,020	4,080	-
Investment earnings	28,243	59,542	7,544	-
Contributions	63,460	12,000	-	820
Miscellaneous	45,008	115,875	390,591	-
Total revenues	<u>3,246,490</u>	<u>6,606,832</u>	<u>995,273</u>	<u>378,193</u>
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	-	2,540,202	854,884	376,223
Culture and recreation	4,603,626	595,366	-	-
Highways and streets	-	97,202	-	-
Debt service:				
Principal retirement	-	120,000	-	-
Interest and other charges	-	128,704	-	-
Capital outlay	-	279,135	-	-
Total expenditures	<u>4,603,626</u>	<u>3,760,609</u>	<u>854,884</u>	<u>376,223</u>
Excess (deficiency) of revenues over expenditures	<u>(1,357,136)</u>	<u>2,846,223</u>	<u>140,389</u>	<u>1,970</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Refunding bonds issued	-	-	-	-
Payment to bond refunding escrow agent	-	-	-	-
Issuance of capital debt	-	1,100,000	-	-
Bond premium	-	19,791	-	-
Sale of capital assets	830	-	-	-
Transfers in	1,224,451	261,000	-	22,500
Transfers out	(78,391)	(4,735,198)	-	-
Total other financing sources (uses)	<u>1,146,890</u>	<u>(3,354,407)</u>	<u>-</u>	<u>22,500</u>
Net change in fund balances	<u>(210,246)</u>	<u>(508,184)</u>	<u>140,389</u>	<u>24,470</u>
Fund balances, beginning of year as restated	<u>3,754,818</u>	<u>9,363,461</u>	<u>948,899</u>	<u>20,907</u>
Fund balances, end of year	<u>\$ 3,544,572</u>	<u>\$ 8,855,277</u>	<u>\$ 1,089,288</u>	<u>\$ 45,377</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>
\$ -	\$ 5,559,957	\$ -	\$ 11,869,702
-	-	-	3,068,343
-	-	-	1,081,517
-	-	-	44,100
-	77,592	1,670	174,591
-	-	18,700	94,980
-	-	-	551,474
<u>-</u>	<u>5,637,549</u>	<u>20,370</u>	<u>16,884,707</u>
-	-	-	3,771,309
-	-	-	5,198,992
-	-	-	97,202
2,873,508	-	-	2,993,508
1,428,318	-	-	1,557,022
-	-	-	279,135
<u>4,301,826</u>	<u>-</u>	<u>-</u>	<u>13,897,168</u>
<u>(4,301,826)</u>	<u>5,637,549</u>	<u>20,370</u>	<u>2,987,539</u>
8,270,000	-	-	8,270,000
(9,382,710)	-	-	(9,382,710)
-	-	-	1,100,000
1,198,922	-	-	1,218,713
-	-	-	830
636,572	-	-	2,144,523
-	(636,572)	-	(5,450,161)
<u>722,784</u>	<u>(636,572)</u>	<u>-</u>	<u>(2,098,805)</u>
<u>(3,579,042)</u>	<u>5,000,977</u>	<u>20,370</u>	<u>888,734</u>
<u>3,579,042</u>	<u>8,821,257</u>	<u>218,996</u>	<u>26,707,380</u>
<u>\$ -</u>	<u>\$ 13,822,234</u>	<u>\$ 239,366</u>	<u>\$ 27,596,114</u>

**NON-MAJOR FUNDS  
OTHER PROPRIETARY FUNDS**

**Enterprise Fund**

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

**Housing Authority**

This 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.

**CITY OF FLAGSTAFF, ARIZONA**  
**Combining Statement of Net Position**  
**Non-Major Proprietary Fund**  
**June 30, 2014**

	Business-type Activities – Enterprise Fund	
	Housing Authority	Total Other Proprietary Fund
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 818,645	\$ 818,645
Receivable, net	47,117	47,117
Prepaid items	33,751	33,751
Inventory	-	-
Total current assets	899,513	899,513
Noncurrent assets:		
Capital assets, non-depreciable	1,458,456	1,458,456
Capital assets, depreciable, net	3,552,905	3,552,905
Total non-current assets	5,011,361	5,011,361
Total assets	5,910,874	5,910,874
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	115,426	115,426
Accrued payroll and compensated absences	52,125	52,125
Advanced revenue	132,110	132,110
Deposits payable	5,171	5,171
Total current liabilities	304,832	304,832
Noncurrent liabilities:		
Compensated absences	207,322	207,322
Net OPEB obligation	73,039	73,039
Total noncurrent liabilities	280,361	280,361
Total liabilities	585,193	585,193
<b>NET POSITION</b>		
Net investment in capital assets	5,011,361	5,011,361
Restricted:		
Grant and contributions purposes	4,053	4,053
Unrestricted	310,267	310,267
Total net position	\$ 5,325,681	\$ 5,325,681

**CITY OF FLAGSTAFF, ARIZONA**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Non-Major Proprietary Fund**  
**Year Ended June 30, 2014**

	Business-type Activities – Enterprise Fund	
	Housing Authority	Total Other Proprietary Fund
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 974,184	\$ 974,184
Miscellaneous	157,534	157,534
Total operating revenues	1,131,718	1,131,718
<b>OPERATING EXPENSES:</b>		
Personal services	1,001,862	1,001,862
Contractual services, materials and supplies	4,684,161	4,684,161
Insurance claims and expenses	-	-
Depreciation and amortization	404,767	404,767
Total operating expenses	6,090,790	6,090,790
Operating income (loss)	(4,959,072)	(4,959,072)
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Interest and investment income	-	-
Grants and entitlements	4,051,138	4,051,138
Gain (loss) on disposal of capital asset	-	-
Passenger facility charges	-	-
Interest expense	-	-
Total non-operating revenues (expenses)	4,051,138	4,051,138
Income (loss) before capital contributions and transfers	(907,934)	(907,934)
Capital contributions related to grants	252,529	252,529
Capital contributions from external sources	-	-
Capital contributions from internal sources	-	-
Transfers in	-	-
Transfers out	-	-
Change in net position	(655,405)	(655,405)
Total net position, beginning of year	5,981,086	5,981,086
Total net position, end of year	\$ 5,325,681	\$ 5,325,681

**City of Flagstaff, Arizona**  
**Combining Statement of Cash Flows**  
**Non-Major Proprietary Fund**  
**Year Ended June 30, 2014**

	Business-type Activities – Enterprise Fund	
	Housing Authority	Total Other Proprietary Fund
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 1,115,878	\$ 1,115,878
Interfund services provided	-	-
Other receipts	157,534	157,534
Payments to suppliers	(4,436,886)	(4,436,886)
Interfund services used	(238,901)	(238,901)
Interfund reimbursement used	-	-
Payments to employees	(976,173)	(976,173)
Net cash provided (used) by operating activities	(4,378,548)	(4,378,548)
<b>Cash flows from noncapital financing activities:</b>		
Transfer from other funds	-	-
Transfer to other funds	-	-
Interfund loans provided	-	-
Interfund loans received	-	-
Net cash provided (used) by noncapital financing activities	-	-
<b>Cash flows from capital and related financing activities:</b>		
Receipts from grantors	4,303,667	4,303,667
Capital contributions	-	-
Acquisition and construction of capital assets	(194,234)	(194,234)
Principal payments on capital debt	-	-
Interest paid on capital debt	-	-
Proceeds from capital debt	-	-
Proceeds from sales of capital assets	-	-
Net cash provided (used) by capital and related financing activities	4,109,433	4,109,433
<b>Cash flows from investing activities:</b>		
Interest received on investments	-	-
Net cash provided (used) by investing activities	-	-
Net increase (decrease) in cash and cash equivalents	(269,115)	(269,115)
Cash and cash equivalents at beginning of year	1,087,760	1,087,760
Cash and cash equivalents at end of year	\$ 818,645	\$ 818,645
<b>Classified as:</b>		
Cash, cash equivalents, and investments	\$ 818,645	\$ 818,645
Restricted cash and cash equivalents	-	-
Totals	\$ 818,645	\$ 818,645

(continued)

**Combining Statement of Cash Flows**  
**Non-Major Proprietary Fund**  
**Year Ended June 30, 2014**

	Business-type Activities – Enterprise Fund	
	Housing Authority Fund	Total Other Proprietary Fund
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>		
Operating income (loss)	\$ (4,959,072)	\$ (4,959,072)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	404,767	404,767
(Increase) decrease in assets:		-
Accounts receivable	92,480	92,480
Allowance for doubtful accounts	-	-
Prepaid items	49,264	49,264
Increase (decrease) in liabilities:		-
Accounts payable	(40,890)	(40,890)
Accrued payroll, compensated absences	8,874	8,874
OPEB	16,815	16,815
Deposits payable	(65,646)	(65,646)
Advanced revenue	114,860	114,860
Total adjustments	580,524	580,524
Net cash provided (used) by operating activities	\$ (4,378,548)	\$ (4,378,548)
Noncash investing, capital and financing activities:		
Capital assets acquired through contributions from developers	\$ -	\$ -
Trade-in of capital asset	-	-
Capital assets transferred from governmental activities transfer	-	-
Total noncash investing, capital and financing activities	\$ -	\$ -

(concluded)

## 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, 2014

Program	Land	Buildings	Improvements
General government	\$ 2,645,130	\$ 13,692,410	\$ 2,975,157
Public safety	4,096,419	27,079,396	113,946
Public works	-	5,343,042	185,712
Economic and physical development	-	7,541,573	95,128
Culture and recreation	22,606,610	22,281,151	15,334,827
Highway and streets	38,593,297	102,309	2,279,434
Subtotal	67,941,456	76,039,881	20,984,204
Less: accumulated depreciation	-	(19,966,252)	(13,711,328)
Total governmental funds capital assets	<u>\$ 67,941,456</u>	<u>\$ 56,073,629</u>	<u>\$ 7,272,876</u>

Machinery and Equipment	Construction In Progress	Infrastructure	Total
\$ 1,579,682	\$ 251,570	\$ -	\$ 21,143,949
16,595,520	-	-	47,885,281
1,389,465	-	1,117,226	8,035,445
886,589	494,673	652,947	9,670,910
3,765,122	846,433	9,390,307	74,224,450
8,832,012	5,611,282	285,138,620	340,556,954
33,048,390	7,203,958	296,299,100	501,516,989
(22,738,826)	-	(137,161,508)	(193,577,914)
<u>\$ 10,309,564</u>	<u>\$ 7,203,958</u>	<u>\$ 159,137,592</u>	<u>\$ 307,939,075</u>

City of Flagstaff, Arizona  
 Capital Assets Used in the Operation of Governmental Funds  
 Schedule of Changes By Function and Activity  
 June 30, 2014

Program	Balance July 1, 2013	Additions	Retirements	Transfers In (out)	Balance June 30, 2014
General government	20,234,436	1,055,970	(168,279)	21,822	21,143,949
Public safety	48,281,005	326,025	(699,927)	(21,822)	47,885,281
Public works	8,047,083	7,408	(45,041)	25,994	8,035,444
Economic and physical development	9,222,994	494,673	(20,763)	(25,994)	9,670,910
Culture and recreation	62,207,920	12,615,011	(584,041)	(14,440)	74,224,450
Highway and streets	333,312,811	10,924,971	(343,153)	(3,337,674)	340,556,955
<b>Total</b>	<b>481,306,249</b>	<b>25,424,058</b>	<b>(1,861,204)</b>	<b>(3,352,114)</b>	<b>501,516,989</b>

**CITY OF FLAGSTAFF, ARIZONA**  
**Special Assessment Bond Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2014**

	<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>				
Special assessments	\$ 902,000	\$ 902,000	\$ 2,894,898	\$ 1,992,898
Investment earnings	3,100	3,100	1,909	(1,191)
Total revenues	<u>905,100</u>	<u>905,100</u>	<u>2,896,807</u>	<u>1,991,707</u>
<b>EXPENDITURES:</b>				
Debt service:				
Principal retirement	360,000	360,000	2,415,000	(2,055,000)
Interest and other charges	<u>545,600</u>	<u>545,600</u>	<u>566,183</u>	<u>(20,583)</u>
Total expenditures	<u>905,600</u>	<u>905,600</u>	<u>2,981,183</u>	<u>(2,075,583)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(500)</u>	<u>(500)</u>	<u>(84,376)</u>	<u>(83,876)</u>
Net change in fund balances	<u>(500)</u>	<u>(500)</u>	<u>(84,376)</u>	<u>(83,876)</u>
Budgetary fund balances, beginning of year	<u>414,729</u>	<u>414,729</u>	<u>414,729</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 414,229</u>	<u>\$ 414,229</u>	<u>\$ 330,353</u>	<u>\$ (83,876)</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Capital Projects Bond Construction**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2014**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Grants and entitlements	\$ 10,600,000	\$ 10,600,000	\$ 6,231,476	\$ (4,368,524)
Miscellaneous	17,735,092	17,735,092	-	(17,735,092)
Investment earnings	10,355	10,355	14,738	4,383
Total revenues	<u>28,345,447</u>	<u>28,345,447</u>	<u>6,246,214</u>	<u>(22,099,233)</u>
<b>EXPENDITURES:</b>				
Current:				
Capital outlay	62,277,283	62,277,283	17,590,185	44,687,098
Total expenditures	<u>62,277,283</u>	<u>62,277,283</u>	<u>17,590,185</u>	<u>44,687,098</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(33,931,836)</u>	<u>(33,931,836)</u>	<u>(11,343,971)</u>	<u>22,587,865</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued	25,200,000	25,200,000	5,500,000	(19,700,000)
Bond premium	-	-	98,954	98,954
Sale of capital assets	-	-	91,106	91,106
Transfers in	6,326,000	6,326,000	19,829	(6,306,171)
Total other financing sources (uses)	<u>31,526,000</u>	<u>31,526,000</u>	<u>5,709,889</u>	<u>(25,816,111)</u>
Net change in fund balances	<u>(2,405,836)</u>	<u>(2,405,836)</u>	<u>(5,634,082)</u>	<u>(3,228,246)</u>
Budgetary fund balances, beginning of year	9,255,448	9,255,448	9,255,448	-
Budgetary fund balances, end of year	<u>\$ 6,849,612</u>	<u>\$ 6,849,612</u>	<u>\$ 3,621,366</u>	<u>\$ (3,228,246)</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Library Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2014**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 3,943,537	\$ 3,943,537	\$ 3,063,343	\$ (880,194)
Grants and entitlements	25,000	25,000	46,436	21,436
Investment earnings	37,437	37,437	28,243	(9,194)
Miscellaneous	2,193,861	2,193,861	45,838	(2,148,023)
Total revenues	6,199,835	6,199,835	3,183,860	(3,015,975)
<b>EXPENDITURES:</b>				
Current:				
Culture and recreation	7,300,401	7,300,401	4,603,626	2,696,775
Capital outlay	59,195	59,195	-	59,195
Contingency	222,000	222,000	-	222,000
Total expenditures	7,581,596	7,581,596	4,603,626	2,977,970
Excess (deficiency) of revenues over (under) expenditures	(1,381,761)	(1,381,761)	(1,419,766)	(38,005)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,224,451	1,224,451	1,224,451	-
Transfers out	(328,391)	(328,391)	(78,391)	250,000
Total other financing sources (uses)	896,060	896,060	1,146,060	250,000
Net change in fund balances	(485,701)	(485,701)	(273,706)	211,995
Budgetary fund balances, beginning of year	873,900	873,900	873,900	-
Budgetary fund balances, end of year	\$ 388,199	\$ 388,199	\$ 600,194	\$ 211,995
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ (273,706)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			63,460	
Adjusted net change in fund balance – GAAP basis			\$ (210,246)	

**CITY OF FLAGSTAFF, ARIZONA**  
**BBB Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2014**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 5,932,025	\$ 5,932,025	\$ 6,311,295	\$ 379,270
Grants and entitlements	320,000	320,000	69,650	(250,350)
Rents	54,040	54,040	40,020	(14,020)
Investment earnings	26,270	26,270	59,542	33,272
Contributions	-	-	10,479	10,479
Miscellaneous	75,620	75,620	115,875	40,255
Total revenues	<u>6,407,955</u>	<u>6,407,955</u>	<u>6,606,861</u>	<u>198,906</u>
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	2,812,990	2,812,990	2,540,745	272,245
Culture and recreation	584,115	584,115	593,723	(9,608)
Highways and streets	-	-	97,202	(97,202)
Debt service:				
Principal retirement	125,000	125,000	120,000	5,000
Interest and other charges	130,553	130,553	128,704	1,849
Capital outlay	3,952,760	3,952,760	279,135	3,673,625
Contingency	115,000	115,000	1,100	113,900
Total expenditures	<u>7,720,418</u>	<u>7,720,418</u>	<u>3,760,609</u>	<u>3,959,809</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,312,463)</u>	<u>(1,312,463)</u>	<u>2,846,252</u>	<u>4,158,715</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued	1,100,000	1,100,000	1,100,000	-
Bond premium	-	-	19,791	19,791
Transfers in	261,000	261,000	261,000	-
Transfers out	(4,641,593)	(4,641,593)	(4,735,198)	(93,605)
Total other financing sources (uses)	<u>(3,280,593)</u>	<u>(3,280,593)</u>	<u>(3,354,407)</u>	<u>(73,814)</u>
Net change in fund balances	<u>(4,593,056)</u>	<u>(4,593,056)</u>	<u>(508,155)</u>	<u>4,084,901</u>
Budgetary fund balances, beginning of year	<u>7,753,693</u>	<u>7,753,693</u>	<u>7,753,693</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 3,160,637</u>	<u>\$ 3,160,637</u>	<u>\$ 7,245,538</u>	<u>\$ 4,084,901</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ (508,155)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>(29)</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ (508,184)</u>	

**CITY OF FLAGSTAFF, ARIZONA**  
**Community Redevelopment Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2014**

	<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>				
Grants and entitlements	\$ 1,572,174	\$ 1,572,174	\$ 593,058	\$ (979,116)
Investment earnings	-	-	7,544	7,544
Miscellaneous	650,000	650,000	394,671	(255,329)
Total revenues	<u>2,222,174</u>	<u>2,222,174</u>	<u>995,273</u>	<u>(1,226,901)</u>
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	<u>2,778,741</u>	<u>2,778,741</u>	<u>854,884</u>	<u>1,923,857</u>
Total expenditures	<u>2,778,741</u>	<u>2,778,741</u>	<u>854,884</u>	<u>1,923,857</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(556,567)</u>	<u>(556,567)</u>	<u>140,389</u>	<u>696,956</u>
Net change in fund balances	<u>(556,567)</u>	<u>(556,567)</u>	<u>140,389</u>	<u>696,956</u>
Budgetary fund balances, beginning of year	<u>796,818</u>	<u>796,818</u>	<u>796,818</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 240,251</u>	<u>\$ 240,251</u>	<u>\$ 937,207</u>	<u>\$ 696,956</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 140,389	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			-	
Adjusted net change in fund balance – GAAP basis			<u>\$ 140,389</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, 2014**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Grants and entitlements	\$ 910,071	\$ 910,071	\$ 372,373	\$ (537,698)
Intergovernmental	5,000	5,000	5,000	-
Total revenues	915,071	915,071	377,373	(537,698)
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	687,571	687,571	376,223	311,348
Contingency	250,000	250,000	-	250,000
Total expenditures	937,571	937,571	376,223	561,348
Excess (deficiency) of revenues over (under) expenditures	(22,500)	(22,500)	1,150	23,650
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	22,500	22,500	22,500	-
Total other financing sources (uses)	22,500	22,500	22,500	-
Net change in fund balances	-	-	23,650	23,650
Budgetary fund balances, beginning of year	-	-	-	-
Budgetary fund balances, end of year	\$ -	\$ -	\$ 23,650	\$ 23,650
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 23,650	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			820	
Adjusted net change in fund balance – GAAP basis			\$ 24,470	

**CITY OF FLAGSTAFF, ARIZONA**  
**General Obligation Bond Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2014**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>EXPENDITURES:</b>				
Debt service:				
Principal retirement	\$ 5,075,273	\$ 5,075,273	\$ 2,873,508	\$ 2,201,765
Interest and other charges	2,384,852	2,384,852	1,428,318	956,534
Total expenditures	<u>7,460,125</u>	<u>7,460,125</u>	<u>4,301,826</u>	<u>3,158,299</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,460,125)</u>	<u>(7,460,125)</u>	<u>(4,301,826)</u>	<u>3,158,299</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Refunding bonds issued	-	-	8,270,000	(8,270,000)
Payment to bond refunding escrow agent	-	-	(9,382,710)	9,382,710
Bond premium	-	-	1,198,922	(1,198,922)
Transfers in	7,460,125	7,460,125	636,572	(6,823,553)
Total other financing sources (uses)	<u>7,460,125</u>	<u>7,460,125</u>	<u>722,784</u>	<u>(6,909,765)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(3,579,042)</u>	<u>(3,751,466)</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>\$ (3,230,687)</u>	<u>\$ (3,751,466)</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, 2014**

	<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	\$ 5,530,453	\$ 5,530,453	\$ 5,559,957	\$ 29,504
Investment earnings	59,700	59,700	77,592	17,892
Total revenues	<u>5,590,153</u>	<u>5,590,153</u>	<u>5,637,549</u>	<u>47,396</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(7,460,125)	(7,460,125)	(636,572)	6,823,553
Total other financing sources (uses)	<u>(7,460,125)</u>	<u>(7,460,125)</u>	<u>(636,572)</u>	<u>6,823,553</u>
Net change in fund balances	<u>(1,869,972)</u>	<u>(1,869,972)</u>	<u>5,000,977</u>	<u>6,870,949</u>
Budgetary fund balances, beginning of year	<u>8,471,639</u>	<u>8,471,639</u>	<u>8,471,639</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 6,601,667</u>	<u>\$ 6,601,667</u>	<u>\$ 13,472,616</u>	<u>\$ 6,870,949</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ 5,000,977	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			-	
Adjusted net change in fund balance – GAAP basis			<u>\$ 5,000,977</u>	

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Net Position Accounts**  
**Year Ended June 30, 2014**

	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, 2014**

	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, 2014**

	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, 2014**

	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
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	575,605	-	-	-	-	-	575,605
Protective Services							
Protective Services - Other	-	-	-	-	-	-	-
Total Protective Services	-	-	-	-	-	-	-
General Expense							
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
Total General Expenses	196,583	29,516	15,055	457	-	-	241,611
Financial Expenses							
Interest Expense - Mortgage Payable	-	-	-	-	-	-	-
Amortization of Bond Issue Costs	-	-	-	-	-	-	-
Total Financial Expenses	-	-	-	-	-	-	-
Total Operating Expenses	1,885,465	298,061	46,267	56,048	10,586	-	2,296,427
Excess of Operating Revenue over Operating Expenses	85,770	3,145,138	(6,673)	-	75,711	-	3,299,946

(continued)

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Revenue, Expense, and Changes in Fund Net Position Accounts**  
**Year Ended June 30, 2014**

	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
Other Expenses							
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
Total Other Expense	403,099	3,201,687	-	-	75,568	-	3,680,354
<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>
Other Financing Sources (Uses)							
Transfer of Funds	-	-	-	-	-	-	-
Transfer of Equity	-	-	-	-	-	-	-
Prior Period Adjustments	-	-	-	-	-	-	-
Total Other financing Sources (Uses)	-	-	-	-	-	-	-
Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(317,329)	(56,549)	(6,673)	-	143	-	(380,408)
Beginning Net Position	5,955,400	292,950	100,527	-	12,616	-	6,361,493
Ending Net Position	\$ 5,638,071	\$ 236,401	\$ 93,854	\$ -	\$ 12,759	\$ -	\$ 5,981,085
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, 2014**

	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, 2014**

	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, 2014**

	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	124
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	133
These schedules contain information to help the reader assess the city's most significant local revenue source, sales tax.	
Debt Capacity	138
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	149
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	151
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)*

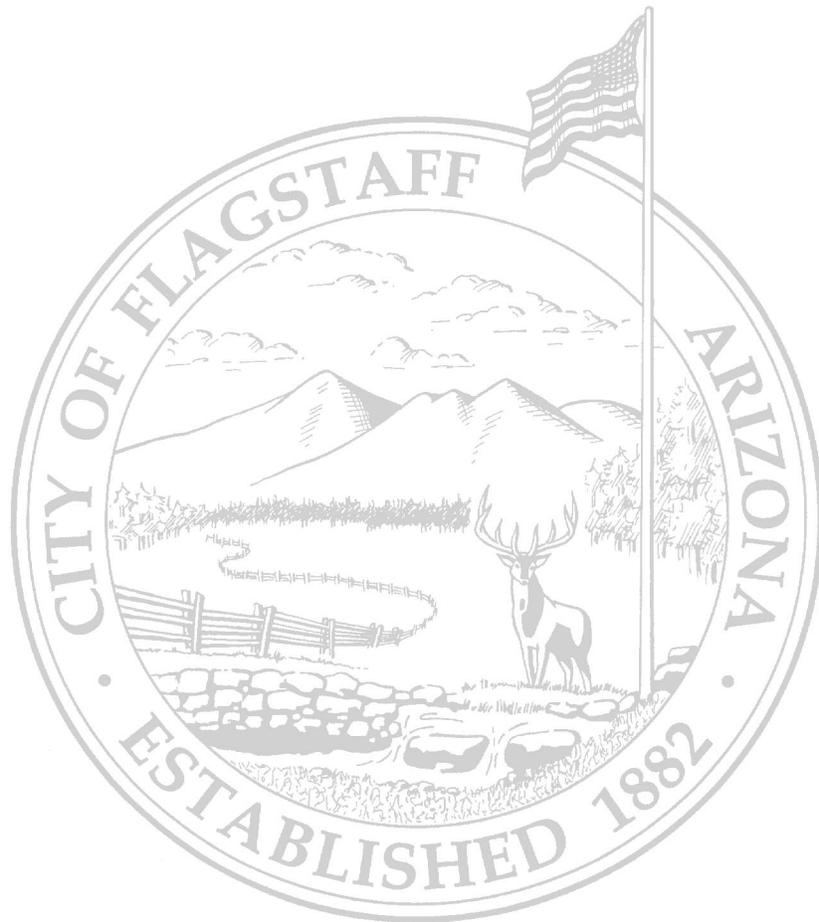
	Fiscal Year									
	2004	2005	2007	2008	2009	2010	2011	2012	2013	2014
<b>Governmental activities</b>										
Net investment in capital assets	\$ 41,666,412	\$ 46,759,889	\$ 204,594,974	(1) \$ 214,268,448	\$ 215,672,933	\$ 213,762,870	\$ 217,879,986	\$ 219,112,469	\$ 222,690,985	\$ 227,347,151
Restricted	35,343,236	20,670,257	13,795,935	14,875,852	7,975,269	18,213,829	23,971,870	34,679,441	43,856,244	43,761,156
Unrestricted	33,494,972	56,392,865	36,514,677	(2) 39,248,151	34,766,602	49,463,587	42,863,692	37,309,699	32,288,032	37,176,483
Total governmental activities net position	\$ 110,504,620	\$ 123,823,011	\$ 254,905,586	\$ 268,392,451	(3) \$ 258,414,804	(4) \$ 281,440,286	\$ 284,715,548	\$ 291,101,609	\$ 298,835,261	\$ 308,284,790
<b>Business-type activities</b>										
Net investment in capital assets	\$ 184,863,812	\$ 200,551,217	\$ 264,381,730	\$ 276,783,163	\$ 291,707,810	\$ 302,784,152	\$ 303,113,402	\$ 304,418,393	\$ 304,560,897	\$ 310,552,949
Restricted	5,161,363	3,200,521	2,424,615	1,593,915	1,593,915	2,209,327	3,003,129	2,805,002	2,694,262	2,492,562
Unrestricted	24,092,049	24,948,848	19,267,461	16,250,436	11,547,792	10,895,855	17,190,191	23,968,903	29,195,853	31,128,319
Total business-type activities and net position	\$ 214,117,224	\$ 228,700,586	\$ 286,073,806	\$ 294,627,514	\$ 304,849,517	\$ 315,889,334	\$ 323,306,722	\$ 331,192,298	\$ 336,451,012	\$ 344,173,830
<b>Primary government</b>										
Net investment in capital assets	\$ 226,530,224	\$ 247,311,106	\$ 468,976,704	\$ 491,051,611	\$ 507,380,743	\$ 516,547,022	\$ 520,993,388	\$ 523,530,862	\$ 527,251,882	\$ 537,900,100
Restricted	40,504,599	23,870,778	16,270,550	16,469,767	9,569,184	20,423,156	26,974,999	37,484,442	46,550,506	46,263,718
Unrestricted	57,587,021	81,341,713	55,782,138	55,498,587	46,314,394	60,359,442	60,053,883	61,278,603	61,483,885	68,304,802
Total primary government net position	\$ 324,621,844	\$ 352,523,597	\$ 540,979,392	\$ 563,019,965	\$ 563,264,321	\$ 597,329,620	\$ 608,022,270	\$ 622,293,907	\$ 635,286,273	\$ 652,458,620

(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



Schedule 2  
City of Flagstaff  
Changes in Net Position  
Last Ten Fiscal Years  
*(accrual basis of accounting)*

	Fiscal Year									
	2004	2005	2006	2008	2009	2010	2011	2012	2013	2014
<b>Expenses</b>										
Governmental activities:										
General government	\$ 5,891,617	\$ 5,441,945	\$ 7,458,583	\$ 11,271,031	\$ 10,913,187	\$ 8,238,178	\$ 7,850,954	\$ 9,406,406	\$ 10,442,808	\$ 10,732,510
Public safety	18,792,832	21,018,114	22,525,292	27,030,331	29,287,433	26,592,968	25,987,193	27,175,720	27,269,325	28,730,111
Public works	1,178,137	1,320,459	1,454,731	1,894,089	2,109,221	1,502,626	1,754,033	1,615,941	1,718,767	1,573,541
Economic and physical development	6,473,290	6,807,311	7,842,985	10,556,175	10,346,982	8,827,578	8,474,776	9,639,003	9,210,500	9,018,496
Culture and recreation	8,693,714	9,426,600	8,328,945	11,607,116	13,120,917	12,507,679	12,854,824	12,434,695	13,342,588	12,919,475
Highways and streets	8,886,947	10,011,231	12,043,242	15,515,643	19,297,615	17,856,121	19,275,381	16,328,771	15,431,985	17,698,346
Interest on long-term debt	1,923,325	2,042,555	2,167,626	2,916,380	3,651,521	3,918,110	3,370,918	2,944,057	2,902,196	2,946,685
Total governmental activities expense	\$ 51,839,862	\$ 56,068,215	\$ 61,821,404	\$ 80,790,765	\$ 88,726,876	\$ 79,443,260	\$ 79,568,079	\$ 79,544,593	\$ 80,318,169	\$ 83,619,164
Business-type activities:										
Water and wastewater	17,250,441	17,297,017	18,452,368	23,420,282	22,802,316	21,731,286	21,491,239	22,708,636	22,568,661	24,366,128
Environmental	7,319,602	8,548,715	9,096,420	11,423,164	11,782,540	11,091,078	11,610,370	7,828,286	11,671,366	11,637,566
Airport	3,370,447	3,749,669	3,519,749	3,608,322	4,197,447	4,273,609	4,584,733	4,268,099	5,226,977	4,118,280
Housing Authority	-	-	-	-	-	-	5,811,922	6,165,612	5,986,508	6,090,790
Stormwater	460,936	479,700	791,791	1,160,604	1,203,436	1,258,072	1,121,555	1,361,658	1,196,589	1,576,865
Total business-type activities expense	\$ 28,401,426	\$ 30,075,101	\$ 31,860,328	\$ 39,612,372	\$ 39,985,739	\$ 38,354,045	\$ 44,619,819	\$ 42,332,291	\$ 46,650,101	\$ 47,789,629
Total primary government expense	\$ 80,241,288	\$ 86,143,316	\$ 93,681,732	\$ 120,403,137	\$ 128,712,615	\$ 117,797,305	\$ 124,187,898	\$ 121,876,884	\$ 126,968,270	\$ 131,408,793
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	\$ 3,257,393	\$ 3,611,862	\$ 4,886,354	\$ 3,746,890	\$ 3,099,884	\$ 3,285,242	\$ 2,646,424	\$ 3,364,479	\$ 3,448,665	\$ 4,568,438
Public safety	451,802	498,506	815,167	1,227,979	1,451,405	1,283,697	1,144,636	1,611,109	1,491,842	628,038
Public works	976,793	1,213,714	1,180,097	1,483,275	1,350,832	1,471,550	1,537,188	1,551,419	1,611,306	1,215
Economic and physical development	16,164	321,915	332,356	315,462	369,987	291,211	162,715	53,747	52,386	903,233
Culture and recreation	722,236	680,755	683,906	762,410	1,559,617	1,420,094	1,442,901	1,455,067	1,507,855	1,656,628
Highways and streets	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	2,678,653	4,147,529	3,791,526	3,320,597	5,990,756	6,654,978	7,965,474	7,414,767	6,866,279	7,071,557
Capital grants and contributions	11,757,330	15,180,401	21,566,549	16,324,928	9,880,762	36,949,681	9,226,778	12,200,969	11,318,522	14,603,667
Total governmental activities program revenues	\$ 19,860,371	\$ 25,654,682	\$ 33,255,955	\$ 27,181,541	\$ 23,703,243	\$ 51,356,453	\$ 24,126,116	\$ 27,651,557	\$ 26,296,855	\$ 29,433,776



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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010*	2011	2012	2013	2014
<b>General Fund</b>										
Reserved	\$ 200,401	\$ 232,190	\$ 1,260,236	\$ 308,979	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	29,124,795	28,574,855	29,960,235	27,492,853	-	-	-	-	-	-
Nonspendable	-	-	-	-	280,376	376,728	427,267	359,923	390,882	440,644
Restricted	-	-	-	-	106,144	785,720	796,345	758,303	800,953	1,698,333
Committed	-	-	-	-	-	86,568	85,119	282,888	386,518	-
Assigned	-	-	-	-	-	8,595,100	6,882,947	7,075,902	7,335,230	8,063,998
Unassigned	-	-	-	-	22,203,764	13,412,219	15,160,509	17,203,207	19,410,597	21,559,814
<b>Total general fund</b>	<b>\$ 29,325,196</b>	<b>\$ 28,807,045 (1)</b>	<b>\$ 31,220,471</b>	<b>\$ 27,801,832</b>	<b>\$ 22,590,284</b>	<b>\$ 23,256,335</b>	<b>\$ 23,352,187</b>	<b>\$ 25,680,223</b>	<b>\$ 28,324,180</b>	<b>\$ 31,762,789</b>
<b>All Other Governmental Funds</b>										
Reserved	\$ 1,556,450	\$ 30,107,878	\$ 47,350,460	\$ 20,611,579	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	33,041,256	22,893,640	16,332,830	16,498,123	-	-	-	-	-	-
Capital project funds	-	-	-	(763,744)	-	-	-	-	-	-
Permanent fund	1,426	3,271	6,567	9,916	-	-	-	-	-	-
Nonspendable	-	-	-	-	216,878	206,678	214,333	219,564	247,436	271,477
Restricted	-	-	-	-	4,299,450	19,720,079	23,012,954	33,743,091	42,466,792	48,320,324
Committed	-	-	-	-	-	2,228,605	-	-	-	-
Assigned	-	-	-	-	8,955,106	651,650	-	-	-	-
Unassigned	-	-	-	-	-	-	(2,863,781)	-	-	-
<b>Total all other governmental funds</b>	<b>\$ 34,599,132</b>	<b>\$ 53,004,789</b>	<b>\$ 63,689,857</b>	<b>\$ 36,355,874</b>	<b>\$ 13,471,434</b>	<b>\$ 22,807,012</b>	<b>\$ 20,363,506</b>	<b>\$ 33,962,655</b>	<b>\$ 42,714,228</b>	<b>\$ 48,591,801</b>

(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	2007	2008	2009	2010	2011	2012	2013	2014
<b>REVENUES:</b>										
Taxes	\$ 33,736,154	\$ 35,529,373	\$ 41,976,134	\$ 43,964,317	\$ 43,555,388	\$ 43,200,268	\$ 43,799,128	\$ 45,577,128	\$ 47,084,446	\$ 48,806,758
Intergovernmental	12,156,451	17,545,686	18,779,168	20,425,088	21,364,739	19,450,213	17,488,021	17,230,696	18,713,646	19,584,399
Grants and entitlements	10,940,934	9,564,110	12,185,406	13,556,680	9,609,508	11,172,862	10,583,483	9,721,569	11,369,392	15,313,742
Charges for services	1,459,837	1,834,067	2,605,880	2,704,333	3,324,838	3,057,423	2,926,237	3,220,137	3,237,728	2,894,898
Special assessments	291,684	218,500	2,927	2,449	2,382	1,510,217	701,447	8,286,453	722,733	2,734,095
Licenses and permits	2,111,033	2,063,718	2,438,599	1,815,062	1,377,580	1,441,874	739,040	1,681,874	1,656,135	1,952,731
Fines and forfeitures	1,144,562	1,250,494	1,290,667	1,336,146	1,517,558	1,636,157	1,673,306	1,601,044	1,540,989	1,428,401
Rents	985,907	1,220,007	1,480,686	1,496,858	1,421,772	1,588,214	1,617,912	1,605,166	1,667,562	1,651,032
Investment earnings	115,433	1,589,293	3,920,473	3,731,116	1,366,931	413,594	224,363	296,241	(429,656)	722,878
Contributions	21,917	22,229	2,981,982	1,308,938	1,328,524	544,393	166,417	390,253	252,377	541,340
Miscellaneous	905,717	277,972	1,377,552	819,325	381,984	228,969	1,719,608	492,971	1,261,507	1,813,164
Total revenues	63,869,629	71,115,449	89,039,474	91,160,312	85,251,204	84,244,184	81,638,962	90,103,532	87,076,859	97,443,438
<b>EXPENDITURES:</b>										
General governmental	5,335,890	6,158,308	8,194,214	10,229,814	9,848,252	7,926,726	7,113,922	7,453,963	8,480,086	9,041,946
Public safety	18,015,837	19,140,415	22,994,522	25,696,174	27,374,083	25,159,777	24,476,615	25,301,495	25,099,149	26,567,511
Public works	966,546	1,005,745	1,615,049	1,617,311	1,645,703	1,360,447	1,299,027	1,146,692	1,219,324	1,031,983
Economic and physical development	6,289,966	6,424,057	9,344,676	10,335,964	9,991,927	8,601,808	8,202,024	8,584,826	8,296,367	8,212,772
Culture and recreation	7,724,481	8,341,105	8,648,628	10,267,649	12,158,087	10,615,754	10,782,848	10,576,877	11,292,517	11,446,096
Highways and streets	8,003,110	8,951,097	7,859,004	8,505,722	11,187,402	9,313,158	10,612,033	9,593,074	9,039,032	10,621,311
Debt service:										
Principal retirement	4,614,000	4,880,000	5,313,222	5,046,398	5,034,991	6,065,522	6,761,179	13,654,681	6,175,303	8,287,457
Interest and other charges	2,428,026	2,148,734	3,210,879	3,020,927	3,750,657	3,996,963	3,451,706	3,346,253	2,902,196	3,126,469
Capital outlay	19,348,708	17,053,841	26,403,203	46,465,549	30,796,072	12,446,280	11,785,480	11,951,834	16,656,392	24,062,755
Total expenditures	72,726,564	74,103,302	93,583,397	121,185,508	111,787,174	85,486,435	84,484,834	91,609,695	89,160,366	102,398,300
Excess of revenues over (under) expenditures	(8,856,935)	(2,987,853)	(4,543,923)	(30,025,196)	(26,535,970)	(1,242,251)	(2,845,872)	(1,506,163)	(2,083,507)	(4,954,862)
<b>OTHER FINANCING SOURCES (USES):</b>										
Proceeds of refunding bonds	720,000	-	-	-	-	-	-	13,924,136	-	8,270,000
Issuance of capital debt	25,000,000	-	19,075,000	-	-	8,330,000	-	16,797,287	12,474,557	6,600,000
Loan issued	-	3,800,000	-	-	-	-	-	-	-	-
Payment to bond refunding escrow agent	(718,127)	-	-	-	-	-	-	(15,394,336)	-	(9,382,710)
Lease issued	-	-	-	-	109,352	-	-	-	-	-
Bond premium	1,059,221	-	46,707	-	-	58,370	-	2,264,386	542,689	1,317,667
Insurance recoveries	-	-	-	-	-	1,920,000	1,058,985	-	-	-
Sale of capital assets	634,411	2,114,398	252,329	2,176,808	63,894	1,084,211	45,655	43,890	49,750	727,996
Transfers in	12,996,534	15,312,931	17,756,847	17,181,576	21,626,308	15,224,243	13,661,630	14,872,935	12,870,788	12,102,855
Transfers out	(13,365,892)	(16,582,052)	(19,488,466)	(20,085,809)	(23,359,573)	(18,525,100)	(14,268,052)	(15,074,950)	(12,458,747)	(11,659,441)
Total other financing sources (uses)	26,326,147	4,645,277	17,642,417	(722,425)	(1,560,019)	8,091,724	498,218	17,433,348	13,479,037	7,976,367
Net change in fund balances	\$ 17,469,212	\$ 1,657,424	\$ 13,098,494	\$ (30,752,621)	\$ (28,095,989)	\$ 6,849,473	\$ (2,347,654)	\$ 15,927,185	\$ 11,395,530	\$ 3,021,505
Debt service as a percentage of non capital expenditures	13.19%	12.32%	12.69%	10.80%	10.85%	13.78%	14.05%	21.34%	12.52%	14.57%

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
2005	3,619	4,856	1,943	4,331	13,148	7,632	35,529						
2006	4,209	4,881	2,083	4,623	14,707	8,602	39,105						
2007	4,453	5,188	1,838	4,992	16,071	9,434	41,976						
2008	4,616	6,219	2,189	5,187	16,150	9,605	43,966						
2009	4,882	7,254	2,246	5,052	14,384	10,035	43,853						
2010	5,150	7,620	2,133	5,074	13,595	9,628	43,200						
2011	5,259	7,184	2,339	5,259	13,893	9,865	43,799						
2012	5,473	6,703	2,348	5,626	14,900	10,527	45,577						
2013	5,472	6,423	2,303	5,911	15,760	11,215	47,084						
2014	5,571	5,560	2,487	6,310	17,042	11,837	48,807						
Change 2004-2013	53.94%	14.50%	28.00%	45.69%	29.62%	55.10%	37.37%						

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

Fiscal Year	State		State Income Tax	County Auto In-Lieu Tax	Highway User Tax	Local		State HB 2565	Federal Grants	State Grants & Other State	County LEAF IGA	County Library District Funding *	Other	Total
	Sales Tax	State				Transportation Assistance	Transportation Assistance							
2005	4,900,117	4,918,476	2,461,425	7,171,383	313,843	-	1,772,181	2,868,033	628,198	2,068,947	39,640	27,142,243		
2006	5,652,335	5,655,641	2,655,653	7,942,771	304,341	55,665	2,386,011	940,441	420,426	2,241,811	-	28,255,095		
2007	5,815,473	6,946,680	2,792,404	7,855,427	293,502	-	2,822,315	1,214,162	721,797	2,559,375	-	31,021,135		
2008	5,623,144	8,610,567	2,758,307	7,422,359	225,965	58,782	4,868,431	981,142	668,153	3,559,362	-	34,776,212		
2009	4,868,072	9,149,290	2,611,289	6,412,329	251,536	-	1,711,609	1,234,065	897,337	4,125,223	32,795	31,293,545		
2010	4,490,087	7,899,626	2,490,360	6,429,355	156,218	-	3,885,697	701,592	757,241	3,762,831	50,068	30,623,075		
2011	4,711,821	5,955,305	2,481,126	6,300,885	-	-	3,181,076	1,101,522	744,070	3,531,607	64,092	28,071,504		
2012	5,147,101	5,559,476	2,483,245	5,576,167	-	-	3,544,253	601,149	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	3,255,824	791,906	3,214,133	76,716	30,083,038		
2014	5,733,507	7,342,048	2,591,413	6,168,102	-	-	2,281,211	6,864,429	793,898	3,063,343	60,190	34,898,141		

\* - 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				
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	
2014	28,918,422	215,081,441	123,988,197	389,760,175	87,055,619	670,692,616	1.6795	

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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013*	2014
Construction	\$ 163,846	\$ 233,747	\$ 260,024	\$ 263,386	\$ 181,245	\$ 150,239	\$ 166,894	\$ 150,868	\$ 164,971	\$ 169,933
Building Materials	72,152	82,481	79,703	75,493	66,641	60,143	61,781	62,665	-	-
Auto Sales	127,760	129,671	133,497	118,282	78,819	85,806	99,786	121,296	148,211	163,657
Restaurants and Bars	215,624	232,359	248,819	255,578	250,555	251,271	261,384	277,954	206,617	218,790
Hotel/Motel	-	-	-	-	-	-	-	-	88,924	95,263
Retail	556,165	586,841	637,225	619,805	582,029	546,765	544,356	557,375	630,898	638,142
Other	134,824	144,635	154,183	163,463	155,193	152,042	151,461	154,497	196,534	200,109
Utilities	199	4,892	68,840	71,299	69,175	66,392	63,784	116,273	92,968	103,895
<b>TOTAL</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>	<b>\$ 1,589,789</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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total City	1.7127	1.6627	1.5929	1.5519	1.5519	1.4913	1.4845	1.5283	1.5497	1.6795
Primary									0.7131	0.8429
Secondary									0.8366	0.8366
School District	5.7236	6.0786	5.9009	4.7713	4.8334	3.8860	4.6772	4.9458	4.8712	5.1939
Maintenance									3.6182	3.9803
Adjacent Ways									0.0459	0.0096
15% M&O Override									0.6126	0.7061
Capital Override									0.1833	0.0000
Class B Bond									0.4112	0.4979
Community College	0.5660	0.5525	0.5269	0.4865	0.4643	0.4267	0.4308	0.4734	0.4927	0.5879
Maintenance									0.3875	0.4636
Bond									0.1052	0.1243
County	1.2212	1.2010	0.7521	0.7588	0.7603	0.7244	0.7245	0.7656	0.7847	0.9022
General Fund									0.4480	0.5466
Library District									0.2367	0.2556
Fire District Assistance									0.1000	0.1000
Total	9.2235	9.4948	8.7728	7.5685	7.6099	6.5284	7.3170	7.7131	7.6983	8.3635

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

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

Taxpayer *	2014			2004		
	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	\$ 16,979,201	1	2.53%	\$ 10,357,999	1	2.06%
W L Gore & Associates	13,395,589	2	2.00%	9,724,306	2	1.94%
Nestle Purina PetCare Company	4,569,652	3	0.68%			
Qwest Corporation	3,479,770	5	0.52%	9,633,860	3	1.92%
Wal-Mart Stores	3,569,153	4	0.53%			
Flagstaff Mall Associated Ltd. Partnership	2,959,068	6	0.00%	3,250,000	7	0.65%
Unisource Energy Corporation	2,433,440	8	0.36%			
BNSF Railway Company	2,559,062	7	0.38%			
Ridge at Clear Creek LLC	2,215,553	10	0.33%			
Walgreens Arizona Drug Co	2,354,755	9	0.35%			
Tucson Electric and Power Co. (T&D)	-		0.00%	6,487,177	4	1.29%
Little America Refining Co	-		0.00%	4,218,039	5	0.84%
Ralston Purina	-		0.00%	3,840,863	6	0.77%
Flagstaff Medical Center	-		0.00%	2,292,480	10	0.46%
Cone Company George & Thomas DBA	-		0.00%	3,155,380	8	0.63%
SACO Management Inc.	-		0.00%	2,369,850	9	0.47%
<b>Total Principal Taxpayers</b>	<b>\$ 54,515,243</b>		<b>7.68%</b>	<b>\$ 55,329,954</b>		<b>11.03%</b>

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
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%
2014	11,050,626	10,778,695	97.5%	169,762	10,948,457	97.5%

\* Percentage of Levy is estimated

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

Fiscal Year	City				State of Arizona	Coconino County	Total
	General Sales Tax	Bed, Board & Beverage	Transportation				
2005	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%	
2006	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%	
2007	1.0000%	2.0000%	0.6010%	5.6000%	1.1250%	10.3260%	
2008	1.0000%	2.0000%	0.6010%	5.6000%	1.1250%	10.3260%	
2009	1.0000%	2.0000%	0.7210%	5.6000%	1.1250%	10.4460%	
2010	1.0000%	2.0000%	0.7210%	6.6000%	1.1250%	11.4460%	
2011	1.0000%	2.0000%	0.7210%	6.6000%	1.1250%	11.4460%	
2012	1.0000%	2.0000%	0.7210%	6.6000%	1.1250%	11.4460%	
2013	1.0000%	2.0000%	0.7210%	6.6000%	1.1250%	11.4460%	
2014	1.0000%	2.0000%	0.7210%	5.6000%	1.1250%	10.4460%	

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				
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	2.6%	1,547.23	
2007	31,230	19,339	7,725	24,315	3,097	13,310	5,496	32,957	4,482	141,951	3.8%	2,194.23	
2008	29,350	19,257	6,325	23,000	2,728	10,515	5,212	32,275	4,227	132,889	3.5%	2,054.15	
2009	27,645	19,169	4,865	21,625	2,430	7,460	4,918	37,006	3,960	129,078	3.4%	1,969.99	
2010	25,865	18,615	6,665	19,890	6,964	5,690	4,614	36,257	3,679	128,239	3.4%	1,946.85	
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	2.7%	1,817.14	
2013	48,134	11,055	16,328	1,260	5,335	1,748	3,634	33,873	4,686	126,053	2.7%	1,867.40	
2014	54,824	8,639	16,211	1,260	4,400	1,752	3,635	33,873	4,431	129,025	2.6%	1,911.42	

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	Business-Type Activities			
	General Obligation Bonds	General Obligation Bonds		(a)	(b)
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%	481.59
2011	24,015	3,830	27,845	3.2%	422.73
2012	38,449	3,125	41,574	5.3%	631.15
2013	38,214	1,752	39,966	5.2%	606.74
2014	47,781	1,752	49,533	7.4%	751.98

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	\$ 39,150	64.41%	\$ 25,218
<b>Other debt</b>			
Coconino County Special Assessments	450	0.00%	-
Subtotal, overlapping debt			25,218
<b>City direct debt</b>			<u>85,334</u>
<b>Total direct and overlapping debt</b>			<u>\$ 110,552</u>

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

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

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



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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>20% Debt Limit</b>										
Debt limit equal to 20% of assessed valuation	\$ 111,336	\$ 124,840	\$ 150,108	\$ 175,756	\$ 183,268	\$ 172,808	\$ 158,274	\$ 153,055	\$ 132,213	\$ 134,139
Total net debt applicable to 20% limit	21,644	35,227	43,860	39,514	35,105	35,105	27,845	41,841	48,788	55,388
Legal debt margin (Available borrowing capacity)	\$ 89,692	\$ 89,613	\$ 106,248	\$ 136,242	\$ 148,163	\$ 137,703	\$ 130,429	\$ 111,214	\$ 83,425	\$ 78,751
Total net debt applicable to the 20% limit as a percentage of debt limit	24.13%	39.31%	41.28%	29.00%	23.69%	25.49%	21.35%	37.62%	58.48%	70.33%

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>6% Debt Limit</b>										
Debt limit equal to 6% of assessed valuation	\$ 33,401	\$ 37,452	\$ 45,032	\$ 52,727	\$ 54,981	\$ 51,842	\$ 47,482	\$ 45,917	\$ 39,664	\$ 40,242
Total net debt applicable to 6% limit	1,225	14,202	680	351	-	-	-	-	-	-
Legal debt margin (Available borrowing capacity)	\$ 32,176	\$ 23,250	\$ 44,352	\$ 52,376	\$ 54,981	\$ 51,842	\$ 47,482	\$ 45,917	\$ 39,664	\$ 40,242
Total net debt applicable to the 6% limit as a percentage of debt limit	3.81%	61.08%	1.53%	0.67%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**Legal Debt Margin Calculation for Fiscal Year 2014**

Net Secondary Assessed Value as of June 30, 2014	\$	<u>670,692,616</u>
<b>20% Limitation</b>		
Debt Limit of 20% of Assessed Value	\$	134,138,523
Debt applicable to limit:		
General Obligation Bonds		<u>55,387,587</u>
Legal 20% debt margin (Available borrowing capacity)	\$	<u>78,750,936</u>
<b>6% Limitation</b>		
Debt Limit of 6% of Assessed Value	\$	40,241,557
Debt applicable to limit:		
General Obligation Bonds		<u>—</u>
Legal 6% debt margin (Available borrowing capacity)	\$	<u>40,241,557</u>

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

Water and Sewer Revenue Bonds									
Fiscal Year	Gross Revenues (1)	Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage		
				Principal (3)	Interest (4)	Total			
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		
2014	23,642,792	14,739,788	8,903,004	2,252,132	785,567	3,037,699	2.93		

(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	Debt Service Requirements			Coverage
		Principal (1)	Interest (2)	Total	
		Highway User Revenue Bonds			
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	5,576,167	1,725,000	94,875	1,819,875	3.06
2013	6,007,741	-	-	-	-
2014	6,168,102	-	-	-	-

(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	Debt Service Requirements				Coverage
	Revenue (1)	Principal (2)	Interest (3)	Total	
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
2014	12,621,802	385,000	68,753	453,753	27.82

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

(2) MFC 1992 Refunding series 1 2 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)	Revenue (2)	Debt Service Requirements			Coverage
		Principal (3)	Interest	Total	
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
2014	42,048,872	1,560,000	511,375	2,071,375	20.30

(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)	Debt Service Requirements				Coverage
	Revenue (2)	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
2014	10,302,188	120,000	128,237	248,237	41.50

(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	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	Education Level – Percent		Education Level – Percent Bachelor's Degree or Higher	School Enrollment	Unemployment Rate
					High School Grad or Higher				
2005	61,185	3,472,652	28,045	26.8	89.8%	89.8%	39.4%	13,389	5.10%
2006	62,030	3,472,652	28,045	26.8	89.8%	89.8%	39.4%	13,171	5.00%
2007	62,030	3,472,652	28,045	26.8	89.8%	89.8%	39.4%	13,453	3.40%
2008	64,200	3,767,194	29,879	26.8	89.8%	89.8%	39.4%	13,040	4.60%
2009	64,693	3,767,194	29,879	26.8	89.8%	89.8%	39.4%	12,910	7.50%
2010	65,522	3,767,194	29,879	26.8	89.8%	89.8%	39.4%	12,600	7.70%
2011	65,870	4,481,137	34,510	26.6	90.0%	90.0%	39.2%	11,839	8.90%
2012	65,870	4,481,137	34,999	26.6	90.6%	90.6%	39.9%	10,623	9.20%
2013	65,870	4,620,811	34,353	26.6	90.4%	90.4%	42.0%	10,623	8.10%
2014	67,502	4,906,294	35,933	26.6	90.6%	90.6%	41.8%	10,623	6.90%

**Sources:**

- Population – Arizona Department of Administration
- Personal Income – 2005 – 2007 Arizona Department of Economic Security, Workforce Development Statistics, estimate from 2008
- Personal Income – 2008 – 2014 AZ Dept of Administration–Office of Employment and Population Statistics
- Per Capita Income – 2005 – 2009 Arizona Department of Economic Security, Workforce Development Statistics, estimate from 2008
- Per Capita Income – 2010–2014 AZ Dept of Administration–Office of Employment and Population Statistics
- Median Age – 2010 US Census
- Education Level – 2010 US Census
- School Enrollment – Arizona Department of Education and National Center for Education Statistics
- Unemployment – Arizona Department of Administration – Office of Employment and Population Statistics

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

<u>Employer</u>	2013 (2)			2007 (1)		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Northern Arizona University	2,571	1	4.66%	3,778	1	12.26%
Flagstaff Medical Center	2,200	2	3.99%	1,985	2	6.44%
W.L. Gore & Associates	1,950	3	3.53%	1,300	4	4.22%
Flagstaff United School District	1,375	4	2.49%	1,560	3	5.06%
Coconino County	1,200	5	2.18%	1,205	5	3.91%
City of Flagstaff	657	6	1.19%	901	6	2.92%
Coconino Community College	-		0.00%	580	7	1.88%
Walmart	630	7	1.14%	400	10	1.30%
Walgreens & Distribution Center	407	8	0.74%	434	8	1.41%
Grand Canyon Railway	-		0.00%	402	9	1.30%
SCA Tissue	255	9	0.46%	-		0.00%
Nestle Purina	240	10	0.44%	-		0.00%
<b>Total</b>	<b>11,485</b>		<b>20.82%</b>	<b>12,545</b>		<b>40.70%</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									
	2005	2006	2007	2008	2009	2010 (1)	2011 (2)	2012	2013	2014
General Government										
Management services	74.25	75.75	82.89	87.39	89.14	86.75	86.50	84.55	85.00	86.00
Capital management	14.50	13.50	13.50	13.50	13.50	11.00	11.00	8.00	7.00	7.00
City Court	26.50	26.50	26.50	27.63	29.63	25.88	25.18	25.18	24.18	24.35
Public Safety										
Police	151.00	160.00	164.00	174.00	181.00	168.00	168.00	172.00	171.00	169.00
Fire	96.75	97.75	100.75	101.75	101.75	99.00	92.00	85.00	85.00	85.00
Public Works	25.00	26.00	27.00	31.00	31.00	29.00	26.50	26.50	26.00	25.00
Economic and physical development										
Building	43.00	49.25	52.25	58.50	57.50	47.20	41.00	39.20	39.20	41.50
Planning	17.25	15.25	21.75	20.88	24.88	24.38	22.88	22.88	21.88	20.88
Tourism	13.75	13.75	15.75	16.75	16.75	15.75	13.25	12.49	12.49	12.93
Culture and recreation										
Library	40.00	40.00	43.13	47.14	53.77	50.77	50.77	51.40	51.40	51.40
Parks, recreation, and beautification	63.95	67.53	68.82	98.23	99.69	87.86	86.86	88.81	84.88	86.03
Highways and Streets	36.25	36.25	37.25	40.56	41.06	36.31	36.31	36.31	34.97	35.52
Water and wastewater	74.50	76.50	79.00	80.25	81.75	64.50	62.50	61.50	61.50	62.00
Environmental services	52.25	54.00	62.60	61.60	68.10	65.58	63.58	59.60	58.50	55.43
Airport	9.50	9.50	10.00	10.50	10.50	9.50	9.50	9.50	9.50	9.50
Stormwater	5.00	6.50	6.50	6.50	6.50	6.00	6.00	6.00	6.00	5.50
Flagstaff Housing Authority	-	-	-	-	-	-	23.50	23.50	24.00	22.00
Total	743.45	768.03	811.69	876.18	906.52	827.48	825.33	812.42	802.50	799.04

(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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Court</b>										
Criminal Filings	9,227	9,705	9,553	11,659	9,330	9,326	8,531	8,857	8,695	8,375
Traffic filings	11,253	10,575	8,951	10,665	10,639	13,471	12,010	9,217	8,340	7,726
Domestic Violence/Other filings	673	616	530	744	445	468	370	547	477	468
<b>Fire</b>										
Emergency responses	6,722	7,684	8,227	7,616	7,550	6,668	7,274	7,438	8,023	8,730
Fires response	228	351	314	267	263	247	175	213	185	177
Other calls	1,905	1,323	1,472	1,573	2,151	1,906	2,378	2,226	2,298	2,532
Inspections assigned	2,006	1,966	1,984	1,981	1,794	572	1,174	1,468	1,411	1,340
Plan Reviews	1,348	1,280	1,314	1,284	1,250	401	528	535	559	512
<b>Fuel Management</b>										
Plan Assessment (Acres)	1,065	585	-	400	-	-	N/A*	N/A*	N/A*	N/A*
Site Marking (Acres)	311	662	764	178	224	294	586	128	284	511
Site Thinning (Acres)	792	694	1,173	902	761	376	809	197	276	541
Prescription Burn (Acres)	834	557	1,210	1,070	1,190	551	342	697	540	778
<b>Police</b>										
Felony reports	4,979	5,337	4,973	3,978	3,661	3,073	2,973	2,940	2,910	2,564
Misdemeanor reports	12,378	13,381	13,123	13,413	12,939	12,293	11,786	11,253	11,040	10,383
Domestic violence incidents	1,464	1,598	1,625	1,573	1,470	1,953	1,923	1,961	2,023	1,688
Non-crime reports	8,818	9,136	8,913	11,043	10,996	9,480	9,827	9,886	9,841	7,174
Accident reports	3,616	3,313	3,374	3,322	2,917	2,776	2,735	2,574	2,568	2,180
Calls dispatched to Police/Sheriff	73,559	77,239	75,791	73,364	70,908	61,175	57,899	57,188	60,003	56,373
Calls dispatched to Fire	11,266	11,741	12,364	11,907	12,527	11,011	11,130	13,320	11,497	11,464
Calls dispatched to Medical	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									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Streets										
Potholes repaired	2,988	1,962	2,443	4,032	4,373	3,256	1,498	1,877	2,054	3,605
Airport										
Fuel Flowage (Gallons Sold)	653,743	705,638	642,643	651,814	627,202	651,373	850,327	526,406	490,401	544,028
Enplanements	42,483	39,646	44,598	44,088	65,418	68,296	63,407	62,872	60,190	61,691
Refuse collection										
Refuse collected (Landfill tonnage)	140,233	154,321	153,121	157,792	142,409	121,529	138,703	137,815	145,793	144,411
Recyclables collected (total tons)	9,816	9,866	10,356	10,472	9,842	10,610	8,869	8,101	8,388	8,343
Community Development										
Residential Permit Valuation	(1) \$ 87,180,707	\$ 97,895,269	\$ 38,895,496	\$ 25,278,055	\$ 31,498,803	\$ 9,314,074	\$ 8,472,938	(1)	(1)	(1)
Commercial Permit Valuation	(1) \$ 12,324,654	\$ 26,130,677	\$ 37,962,373	\$ 27,199,698	\$ 18,594,665	\$ 13,395,325	\$ 17,703,762	(1)	(1)	(1)
Library										
Visits	582,726	625,103	643,174	680,253	738,603	743,169	763,928	739,706	715,033	687,735
Circulation	776,180	758,468	789,621	782,908	887,887	979,962	1,029,062	1,182,956	1,164,789	1,117,652
Tourism										
Revenue Per Available Room (RevPar)	\$ 52.90	\$ 61.47	\$ 66.86	\$ 60.52	\$ 43.21	\$ 43.05	\$ 45.26	\$ 48.81	\$ 53.52	\$ 56.10

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

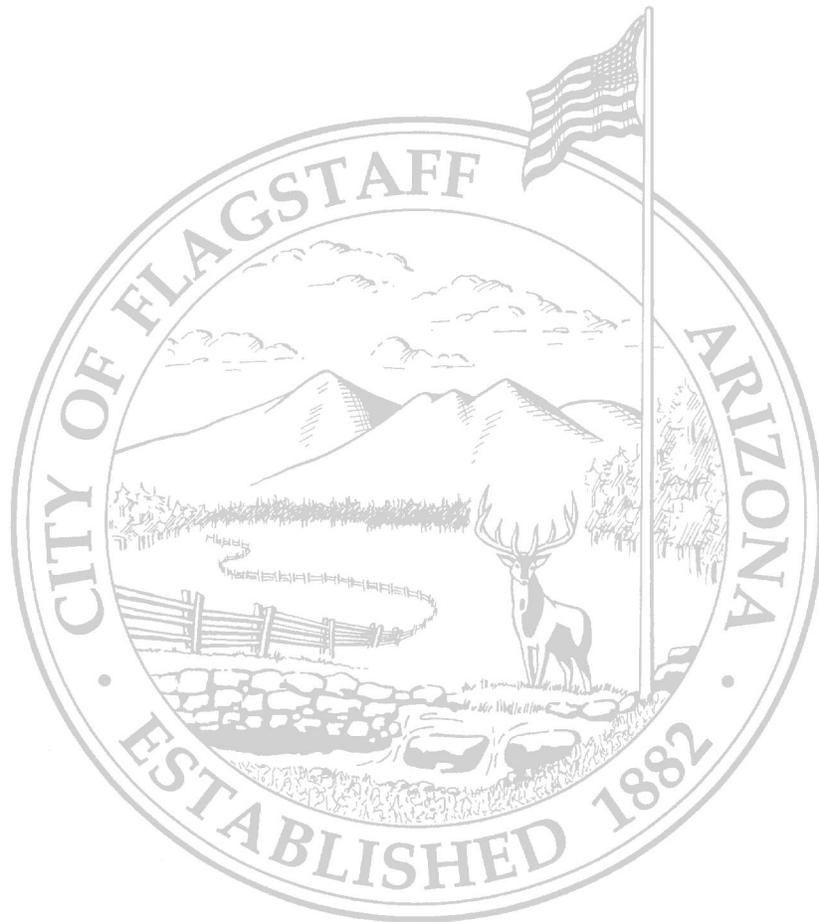
Schedule 22  
City of Flagstaff  
Capital Asset Statistics by Function / Program  
Last Ten Fiscal Years

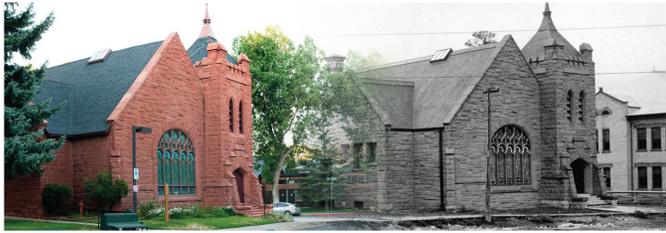
Function / Program	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Public Safety</b>										
Police patrol units (Includes Motorcycle units)	26	26	31	34	34	35	37	37	37	37
Number of fire hydrants	2,478	2,598	2,743	3,148	3,150	3,143	3,176	3,179	3,242	3,242
Number of fire stations	6	6	6	6	7	7	7	7	6	6
<b>Culture and recreation</b>										
Number of developed parks	27	27	27	26	26	26	24	23	23	23
Number of undeveloped parks	4	4	4	4	4	4	5	4	4	4
Park acreage	702	702	705	712	712	712	735	680	710	710
Flagstaff Urban Trail System - Miles	32	34	34	48	51	51	53	53	55	55
Recreational Buildings	5	5	5	6	6	6	4	4	4	4
<b>Highways and Streets</b>										
Miles of streets, alleys, and sidewalks (1)	365	386	403	690	695	813	814	814	814	844
Number of street lights	2,921	3,037	3,107	3,201	3,220	3,350	3,466	3,466	3,466	3,466
<b>Water and wastewater</b>										
Miles of sewer (2)	275	293	309	265	270	270	271	271	274	274
Number of manholes	6,097	6,496	6,906	7,107	7,261	7,261	7,308	7,308	7,403	7,403
Total active water accounts	18,039	17,872	18,758	18,849	18,371	19,042	22,092	19,020	20,107	19,961
Average gallon water usage per household per month	6,096	5,488	5,600	5,456	5,010	5,123	5,107	5,339	6,326	5,022
<b>Airport</b>										
Fixed base operators	1	1	1	1	1	1	1	1	1	1
Locally based aircraft	130	130	134	134	134	120	122	125	209	134
Tiedowns	29	18	11	11	11	14	11	11	11	11
Enclosed hangars	42	61	61	61	61	61	61	61	61	61
Open hangars	38	48	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
<b>Liability Insurance:</b> General Liability* (Includes 2 skateboard parks, bike freestyle park, EMT's) Law Enforcement Liability* Auto Liability* Public Entity Management Errors and Omissions* (Claims Made Retro Date 6-1-95) Employment Practices Liability* (Claims Made Retro Date 6-1-95) Employee Benefits Liability* (Claims Made) Limited Abuse or Molestation Liability * Liability Claims are Subject to a \$75,000 Self Insurance Retention Public Entity Cyber Liability (Claims Made Retro Date 6-1-09) (\$5,000 deductible each wrongful act) Employer's Liability Worker's Compensation	\$ 1,000,000 / per occurrence \$ 2,000,000 / aggregate \$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate \$ 1,000,000 / each wrongful act \$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate \$ 5,000,000 / each wrongful act \$ 5,000,000 / aggregate \$ 1,000,000 / each employee \$ 3,000,000 / aggregate \$ 1,000,000 / each offense \$ 1,000,000 / aggregate \$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate \$ 1,000,000 / each accident \$ 1,000,000 / disease employee \$ 1,000,000 / disease policy limit Statutory	Property Insurance: Blanket Buildings and Personal Property Boiler and Machinery included Flood Zones high risk Flood Zones B and C Earthquakes Business Income/Extra Expense Auto Physical Damage Flood Zone A Properties Municipal Court City Hall, Library Inland Marine: Contractors Equipment (actual cash value) Bookmobile book collection Lab Equipment Employee Hand Tools Computer Equipment and Peripherals Data and Media Fine Arts & exhibition floater – Max \$25,000 per i Max \$25,000 per item City Hall, Visitor Center, Airport Terminal Crime: Blanket Public Employees and Treasurer Dishonesty Bond Including Faithful Performance of Duty Computer & Funds Transfer Fraud Theft, Disappearance, & Destruction (Inside and Outside) Depositors Forgery or Alteration Money Orders & Counterfeit, Credit, Debit or Charge Card forgery International Travel – Executive Assistance Kidnap and Extortion Worldwide (some countries excluded)	\$ 203,538,782 / \$25,000 deductible \$ 2,500,000 / \$50,000 deductible \$ 10,000,000 / \$50,000 deductible \$ 15,000,000 / \$25,000 deductible \$ 7,000,000 / 72 hours \$ 25,367,353 / \$1000/comprehensive / \$5000/collision deductible \$ 242,000 / building \$ 122,700 / contents \$ 500,000 / each building \$ 500,000 / contents each (\$5,000 deductible) \$ 7,391,884 / \$5,000 deductible \$ 238,582 / \$1000 deductible \$ 11,300 / \$1,000 deductible \$ 35,000 / \$5,000 deductible \$ 1,438,500 / \$1,000 deductible \$ 500,000 / \$1,000 deductible 78,700 / \$1,000 deductible \$ 1,000,000 / \$5,000 deductible \$ 1,000,000 / Medical Assistance \$ 250,000 / Accidental death \$ 100,000 / Each Loss
Umbrella/Excess #1 – GL, Auto, Law Enforcement, Employer's Liability Public Entity Management, Employee Benefits 10,000 retained limit (ded) (Excludes Airport, Housing Authority, Employment related practices, Failure to Supply Services, Mold, Terrorism, Asbestos, Lead, Condemnation, Sexual Abuse) Excess Liability #2 Following Form Over Excess Liability #1 (Excluding asbestos, discrimination, terrorism, nuclear) Aviation: General Liability Products/Completed Operations Personal Injury, Advertising & Malpractice Hangar Keepers Liability	\$ 20,000,000 / each occurrence \$ 20,000,000 / general aggregate \$ 5,000,000 / each occurrence / \$ 5,000,000 / general aggregate \$ 40,000,000 / each occurrence \$ 40,000,000 / aggregate \$ 40,000,000 aggregate \$ 40,000,000 / each aircraft \$ 40,000,000 / each occurrence		





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**211 West Aspen Avenue**  
**Flagstaff, Arizona 86001**

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