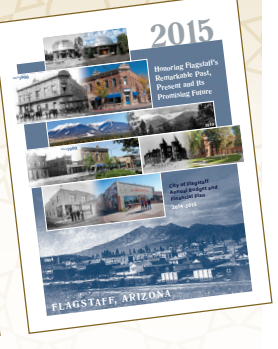
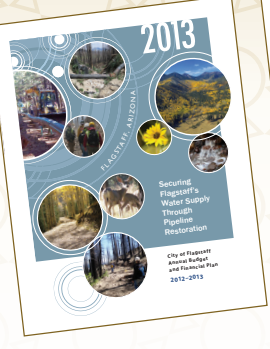


More than  
**20** Years  
of **GFOA**  
Recognition



FLAGSTAFF, ARIZONA

**2015**

**City of Flagstaff  
Comprehensive Annual  
Financial Report  
Fiscal Year Ended  
June 30, 2015**

# *Comprehensive Annual Financial Report*

For Fiscal Year Ended  
June 30, 2015

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, 2015**

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# City of Flagstaff

December 30, 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, 2015, 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, 2015, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Flagstaff's financial statements for the fiscal year ended June 30, 2015, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

## **CITY OF FLAGSTAFF PROFILE**

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

Flagstaff operates under a council-manager form of government as provided by its Charter. The Mayor is elected at large on a non-partisan ballot for a two-year term and six City Council members are elected at large on a non-partisan ballot for four-year terms. 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 Wastewater Sewer, Housing Authority, and Stormwater services.

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

## FACTORS AFFECTING THE CITY'S FINANCIAL CONDITIONS

### Local economy

The City of Flagstaff continues to experience positive economic growth in our community. Since September 2010, the City's sales tax collections have increased 45 out of 53 months when compared to the prior year, same month.

In Fiscal Year 2014–2015, all sales tax categories except one increased when compared to the prior year. The City also enacted a new sales tax category in FY 2015 for Use Tax which collected \$263,312. The following chart summarizes the categorical changes from the prior fiscal year:

Category	FY 2014	FY 2015	% Change
Utilities	1,038,953	1,095,776	5.47%
Telecommunication	317,222	360,236	13.56%
Restaurants/Bars	2,187,904	2,435,598	11.32%
Amusements	73,331	76,022	3.67%
Commercial Property Rental	933,249	956,828	2.53%
Personal Property Rentals	497,313	568,935	14.40%
Construction Contracting	1,699,327	1,912,967	12.57%
Retail	8,017,986	8,526,964	6.35%
Hotels/Motels	952,628	1,089,126	14.33%
Use Tax	-	263,312	n/a
Other	179,982	171,446	-4.74%
<b>Total</b>	<b>15,897,895</b>	<b>17,457,210</b>	<b>9.81%</b>

(Note: This table reflects an activity based reporting and will vary from the City Sales Tax amount reflected in Schedule 5 of the Statistical Section.)

The City collects four 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 four years in a row. Per Schedule 5 in the Statistical Section, the 1% general city sales tax receipts have increased 4.7% 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. While construction is showing growth for the third 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 and auto sales related sales tax revenues to ongoing budgetary needs. Retail sales posted the highest incremental gain at \$508,978, with auto sales making up 19.1% 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 shifts 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 the City's local economy. Overall sales decreased in FY2009 when gas prices were peaking but have since rebounded and have set record highs for five years in a row, now at \$7.0 million dollars.

The fourth tax is a 0.33% sales tax on the same types of general sales. This tax was adopted on November 4, 2014 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.

The City receives taxes from state shared revenues:

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 town's 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%.

With recent revenue growth experienced, the City's portion of the State shared sales Tax still exceeded the previous peak revenue year (FY 2007) by 3.5%. State shared sales tax revenues have increased for the fifth year in a row at 5.0% for FY 2015. However the state shared income tax is under FY 2009 peak revenues by 12.8%. State income tax revenues increased by 8.6%. The State continues to implement reductions in corporate income tax liabilities which are expected to have a neutral impact on these revenues through increased economic development.

Highway user revenue (gas tax) funds (HURF) increased by 11.6% in FY 2015. While this is a considerable increase, it is still 13.3% below FY 2006, the peak revenue year. 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. Recently we have seen lower gas prices which increases the revenues collected. Additional decreases were due to the State shifting revenues 'off the top' to fund other public safety and motor vehicle department needs. In FY 2015 the motor vehicle funding was removed which is part of the increase. 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.

Overall these three state shared revenues grew by 8.5% in FY2015 and the State of Arizona projects continued growth.

Other revenue factors for the City:

Excluding new construction, total assessed valuations have increased 0.13% for tax year 2014, fiscal year 2015. Next tax year, the City will see a 2.23% increase in total assessed valuations. 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 four years, the City now has future authority to take a 10% levy increase for FY 2017). The millage rate for the primary property tax is adjusted annually to generate a levy equal to the prior year, plus new construction.

While revenues fluctuations continue in some areas, the City increased General Fund budgeted revenue in FY 2016 (excluding grants and miscellaneous revenue) by 4.4 % which reflects increases in local and state revenues. The City of Flagstaff increased its overall staffing count by 12.76 full time equivalencies for the upcoming fiscal year. This is the second year the City has increased its position count since 2009. Prior to this, the City experienced staffing reductions totaling 130 full time equivalencies.

Our community partners in the public, private, and governmental sectors are also experiencing growth. The Flagstaff Unified School District continues to realize increases in enrollment for the fourth year in a row in the 2015-16 school year. Northern Arizona University continues to grow and is expected to increase enrollment this school year by 3%. This strong growth is a factor of having three student housing projects being considered in the next year. Development within the City is very strong in every sector; single family, multi-family, commercial and mixed use. With our strong tourism sector, we currently have 6 hotels that are in construction or planning construction in the coming year. The City is currently working to bring a second airline to the community next year. The housing market continues to strengthen as we have seen average housing prices increase 14% to \$337,000 in July 2015. While revenue growth is occurring, there continues to be limited resources 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 expect slow and steady growth and add caution of a possible recession in the next three years. The City will plan accordingly to ensure its financial position remains strong should a recession occur.

## **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. The City made a decision at the beginning of the recession in 2009 to allow the General Fund balance to reduce to 12% through FY 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. The City restored the 15% fund balance in FY 2013 and made a commitment to increase the fund balance to 20% over the next few years. The goal was met in FY 2014 and is planned to be maintained over the next five years.

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

During FY 2015, City Council discussed updating the City Council goals. This work was completed in November 2014. The City Council adopted a budget for FY 2016 aligned with these goals. City staff has worked diligently over the last year to advance the goals.

The following are the Council's eleven goals and associated accomplishments.

### **Invest in our employees and implement retention and attraction strategies**

- 2% market increase for employees and market-based pay for sworn police
- Funded dispatcher retention and attraction pay strategies
- Implemented an Employer Assisted Housing program for officers and dispatch employees
- Provided an additional \$146,000 for employee training citywide

**Ensure Flagstaff has a long-term water supply for current and future needs**

- Water rate study is in process with potential rate increases in FY 2016
- Completed a groundwater level monitoring study for all City-owned water supply wells
- Received a grant for a study of the Red Gap Ranch area water resources
- Implemented phase 2 of the water loss/leak detection survey
- Funded two seasonal Water Conservation Officers and continue to provide water conservation education

**Provide sustainable and equitable public facilities, services, and infrastructure systems in an efficient and effective manner to serve all population areas and demographics**

- Received \$120,000 in grant funding to improve open space public facilities
- Purchased GPS routing software program for trash/recycle collections programs
- Completed an Airport Sustainability Master Plan
- Completed the roof replacement at the main library
- Increased Library's internet speed to 70Mbps and upgraded Wi-Fi access
- Continue to complete the Clay Avenue Wash Detention Basin
- Completed new Bushmaster Park improvements
- Completed annexation, Regional Plan amendment and rezone for Core Services Maintenance Facility
- Research and development of street lighting for dark skies communities
- Implemented the road repair and street safety improvements related to a voter approve sales tax

**Explore and adopt policies to lower the costs associated with housing to the end user**

- Continue the merger of the City's housing related functions with the Flagstaff Housing Authority
- Provided Do It Yourself home energy efficiency kits and training
- Provided high efficiency appliance incentives
- Created an Employer Assisted Housing program for Officers and Dispatch employees

**Develop and implement guiding principles that address public safety service levels through appropriate staffing levels**

- Reduced crime in Flagstaff 11% year to date
- Continued 3 federally-funded officers on the Southside
- Improved employee retention: +7% Dispatch and +13% Patrol
- Added a legal advisor position for the Police Department
- Strengthened Crime Free Multi-Housing partnerships

**Relieve traffic congestion throughout Flagstaff**

- Conducting a Milton Road study
- Reviewing bicycle system modeling
- Review of City's Transportation Impact Analysis procedures and FMPO regional travel model
- Working on the I-40W, I-40E and I-17 Corridor Profiles
- Created a Regional Transportation Plan Steering Committee

**Address key issues and processes related to the implementation of the Regional Plan**

- Provided an update on the Regional Plan 2030 with an Annual Report
- Participated in Student Housing Action Plan with the external working group
- Conducted parking study and extensive public outreach on parking solutions
- Participated in a citizens committee on Dark Skies

**Improve effectiveness of notification, communication, and engagement with residents, neighborhoods and businesses and about City services**

- Implemented Peak Democracy, an online civic engagement forum
- Continue work on zoning code amendments to public notifications and neighborhood meeting requirements
- Provided extensive outreach on the proposed charter amendments
- Body camera program completed for all uniformed officers and supervisors
- Provided an online display of grants awarded to the City

**Foster relationships and maintain economic development commitment to partners**

- Presented revisions to animal keeping chapter of the City Code
- Working in partnership with the State to bring a skilled nursing facility for veterans to Flagstaff
- Continue to marketing Flagstaff as a premier travel destination
- Partnered with Nestle Purina to extend the Government Property Lease Excise Tax (GPLET)
- Opened the Business Accelerator

**Decrease the number of working poor**

- Completed legal research on a local livable wage authority
- Managed the sale of auto park Lot 11 – job creation
- Providing computer training to the un/under employed
- Providing high efficiency incentives to home owners and renters
- Providing job training, one-on-one tutoring and resume/application trainings

**Ensure that we are as prepared as possible for extreme weather events**

- Purchased an emergency backup generator at the landfill
- Built an alternate Emergency Operations Center in conjunction with the Business Accelerator
- Upper Lake Mary watershed monitoring
- Implemented a Monsoon Awareness Program
- Continue the Flagstaff Watershed Protection Project
- Updating the Continuity of Operations Planning

**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, 2014. This was the 21<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.

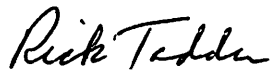
The City also received the GFOA award for Distinguished Budget Presentation for our 2014–2015 annual budget (also 21 years in a row). In order to qualify for the Distinguished Budget Presentation award, the City’s budget document was judged to be proficient in all categories, a Policy Document, a Financial Plan, an Operation Guide, and as a Communication Device.

In addition, the City received the Achievement in Excellence in Procurement award for the fourth 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,

A handwritten signature in black ink that reads "Rick Tadder". The signature is written in a cursive, slightly slanted style.

Rick Tadder  
Management Services Director



Government Finance Officers Association

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

Presented to

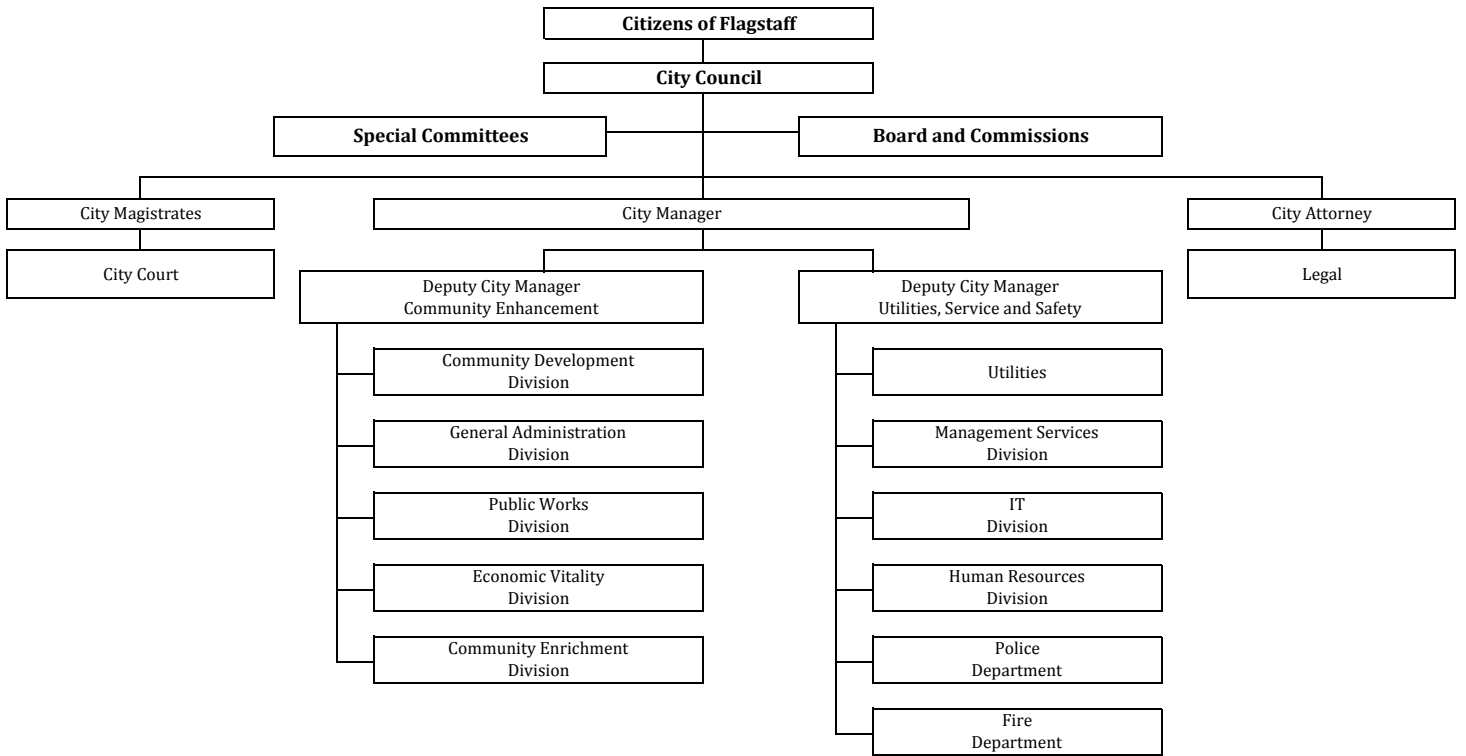
**City of Flagstaff  
Arizona**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2014**

Executive Director/CEO

City of Flagstaff



City of Flagstaff, Arizona  
List of Elected and Appointed Officials  
June 30, 2015

Elected Officials

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

Appointed Officials

City Manager	Josh Copley
City Attorney	Michelle D'Andrea
City Treasurer	Rick Tadder
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, 2015, 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, 2015, 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.

## **Emphasis of Matters**

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

As described in Note 1 to the financial statements, the City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of July 1, 2014. 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, schedules of the City's proportionate share of net pension liabilities, schedules of changes in net pension liabilities and related ratios, and the schedule of the City's pension contributions 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 December 30, 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  
December 30, 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, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii -xi of this report.

### FINANCIAL HIGHLIGHTS

- The City has one item that required a Restatement of Financial Statements for the Fiscal Year beginning July 1, 2014. The restatement was related to implementation of GASB Statement 68, *Accounting and Financial Reporting for Pensions*, which now shows deferred outflows, inflows of resources and net pension obligation and is presented retroactively. The overall impact of prior period adjustment for GASB 68 to the City's net position as of July 1, 2014 is a decrease of \$105.5 million.
- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$551.3 million (net position). Of this amount, \$5.8 million (unrestricted) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$4.4 million during the fiscal year. This is a result of an increase in net position in the governmental activities of \$1.0 million and an increase in net position in the business type activities of \$3.4 million.
- As of June 30, 2015, the City's governmental funds reported combined ending fund balances of \$84.6 million, an increase of \$4.3 million in comparison to the prior fiscal year. Approximately 27.0% of this total amount (\$22.9 million) is unassigned fund balance available for spending at the government's discretion.
- As of June 30, 2015, total unassigned fund balance for the general fund was \$32.2 million, or 45.9% of total general fund expenditures (\$50.5 million).
- As of June 30, 2015, the City's proprietary funds reported combined total net position of \$333.0 million, and total unrestricted of \$18.4 million. The largest unrestricted component of net position is in the Water and Wastewater Fund (\$14.7 million) and in the Environmental Services Fund (\$6.4 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 Supplemental 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, which equal 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 the 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 sections are demonstrated in the table below.

Government Activities		Business-type Activities
Beautification	Human Resources	Airport
Cemetery	Information Services	Environmental Services
City Attorney	Library	Housing Authority
City Council	Municipal Courts	Stormwater Operations
City Manager	Parks	Wastewater
Community Development	Police	Water
Economic Development	Recreation	
Facilities Maintenance	Risk Management	
Financial Services	Streets and Transportation	
Fire	Tourism	
Fleet Management		

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 21 – 23 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, and Special Assessment Bond Fund which are all considered 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 on pages 109-112.

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 22-34 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 36-43 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 44–103 of this report.

### **Combining statements**

The Combining Statements referred to earlier in connection with non-major governmental funds are presented on pages 108–117.

### **Other information**

In addition to the Basic Financial Statements and accompanying Notes to the Financial Statement, this report also presents certain other Supplemental Information concerning the City's capital asset activity, budgetary comparison of other major and non-major governmental funds, and financial data submission schedules. Other Supplemental Information can be found on pages 118–138 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 \$551.3 million as of June 30, 2015.

Of the City's Net Position, 98.1% reflects its investment of \$542.6 million in capital assets (e.g. land, buildings, and equipment), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

**Net Position**  
**June 30, 2015 and 2014 (in thousands of dollars)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<u>2015</u>	<u>2014 *</u>	<u>2015</u>	<u>2014 *</u>	<u>2015</u>	<u>2014 *</u>
Current and other assets	\$ 106,317	\$ 102,325	\$ 49,150	\$ 46,690	\$ 155,467	\$ 149,015
Capital assets	305,103	307,939	352,650	354,714	657,753	662,653
Total assets	<u>411,420</u>	<u>410,264</u>	<u>401,800</u>	<u>401,404</u>	<u>813,220</u>	<u>811,668</u>
Total deferred outflows of resources	<u>23,713</u>	<u>1,139</u>	<u>2,206</u>	<u>-</u>	<u>25,919</u>	<u>1,139</u>
Long-term liabilities	187,552	85,361	61,399	49,614	248,951	134,975
Other liabilities	21,063	17,757	7,184	7,616	28,247	25,373
Total liabilities	<u>208,615</u>	<u>103,118</u>	<u>68,583</u>	<u>57,230</u>	<u>277,198</u>	<u>160,348</u>
Total deferred inflows of resources	<u>8,197</u>	<u>-</u>	<u>2,405</u>	<u>-</u>	<u>10,602</u>	<u>-</u>
Net investment in capital assets	230,658	227,347	311,963	310,553	542,621	537,900
Restricted	259	43,762	2,664	2,493	2,923	46,255
Unrestricted	(12,596)	37,176	18,391	31,128	5,795	68,304
Total net position	<u>\$ 218,321</u>	<u>\$ 308,285</u>	<u>\$ 333,018</u>	<u>\$ 344,174</u>	<u>\$ 551,339</u>	<u>\$ 652,459</u>

\* 2014 not restated for implementation of GASB 68 and 71

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 increased primarily due to an increase in the net pension obligation offset by decreases in bonds notes, debt and lease payables.

A portion of the City's net position, \$2.9 million (0.5%), represents resources that are subject to external restriction on how they may be used. The remaining balance of the unrestricted component of net position, \$5.8 million (1.1%), may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for the government as a whole, as well as for the business-type activities. However, the governmental activities are reporting a negative unrestricted net position due to the implementation of new pension reporting standard and recording of the City's net pension obligation.

Current assets for governmental activities have increased by 3.9% (\$4.0 million). The largest increase was in cash and investments (\$6.8 million) while the largest decreases are in restricted cash and investments (\$3.4 million) and special assessments receivable (\$1.9 million).

Deferred outflows of resources for the governmental activities have increased \$22.6 million and are related to the implementation of the new pension reporting standards.

Capital assets of the governmental activities, funded through operations, debt proceeds, grants, and contributions, decreased by 0.9% (\$2.8 million) due to depreciation and deletions in excess of current year capital outlays. Major capital outlays include the Innovation Mesa Accelerator Building (\$6.3 million), Annual Road Repair & Street Safety Improvement Program (\$3.5 million), and Street/Utility Bond Construction (\$1.5 million).

Governmental activities long-term liabilities increased by 119.7% (\$102.2 million) due the reporting of the net pension obligation of \$111.5 million as required by the implementation of the new pension reporting standards offset by \$10.1 million decrease in long term portion of special assessment debt, bonds, notes and lease payables. Other liabilities increased by 18.6% (\$3.3 million) primarily due to the increase in the current portion of bonds, notes, leases payable (\$1.6 million) and deposits payable (\$0.5 million).

Deferred inflows of resources for governmental activities increased \$8.2 million related to pensions and the implementation of the new pension reporting standards.

Total assets for business-type activities have increased by 0.1% (\$0.4 million). The largest increase was for cash and cash equivalents (\$5.2 million). The largest decrease was for intergovernmental receivables (\$2.3 million).

Total liabilities for business type activities increased by 19.8% (\$11.4 million). Major changes include the addition of the net pension obligation of \$14.3 million as required by the implementation of the new pension reporting standard offset with decreases in bonds, notes and leases payable (\$3.1 million).

Overall, the business-type net position has decreased by 3.2% (\$11.2 million) due to decreases in unrestricted net position (\$12.7 million) related mainly to implementation of the new pension reporting standards and in net investment in capital assets (\$1.4 million). The changes are primarily in the Water and Wastewater Fund, Environmental Services fund and Airport Fund.

## Analysis of Change in Net Position

The City's overall net position has increased by \$4.4 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, 2015 and 2014 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2015	2014 *	2015	2014 *	2015	2014 *
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 7,906	\$ 7,758	\$ 39,620	\$ 39,867	\$ 47,526	\$ 47,625
Operating grants and contributions	6,671	7,072	4,743	4,051	11,414	11,123
Capital grants and contributions	13,008	14,604	4,749	7,836	17,757	22,440
General Revenues:						
Property taxes	11,211	11,045	-	-	11,211	11,045
Sales taxes	42,539	37,676	-	-	42,539	37,676
State shared taxes	16,684	15,667	-	-	16,684	15,667
Investment earnings	1,179	749	304	213	1,483	962
Other	728	2,072	1,613	641	2,341	2,713
Total revenues	<u>99,926</u>	<u>96,643</u>	<u>51,029</u>	<u>52,608</u>	<u>150,955</u>	<u>149,251</u>
<b>Expenses</b>						
General government	17,626	9,798	-	-	17,626	9,798
Public safety	35,254	28,730	-	-	35,254	28,730
Public works	1,664	1,322	-	-	1,664	1,322
Economic and physical development	9,343	8,434	-	-	9,343	8,434
Culture and recreation	12,511	13,370	-	-	12,511	13,370
Highways and streets	18,175	19,018	-	-	18,175	19,018
Interest on long-term debt	2,944	2,947	-	-	2,944	2,947
Water	-	-	14,308	14,011	14,308	14,011
Wastewater	-	-	10,880	10,355	10,880	10,355
Environmental	-	-	12,072	11,638	12,072	11,638
Airport	-	-	4,540	4,118	4,540	4,118
Housing Authority	-	-	6,084	6,091	6,084	6,091
Stormwater	-	-	1,184	1,577	1,184	1,577
Total expenses	<u>97,517</u>	<u>83,619</u>	<u>49,068</u>	<u>47,790</u>	<u>146,585</u>	<u>131,409</u>
Increase in net position before transfers	2,409	13,024	1,961	4,818	4,370	17,842
Transfers	(1,408)	(2,909)	1,408	2,909	-	-
Change in net position	1,001	10,115	3,369	7,727	4,370	17,842
Net position at beginning of year, as restated	217,322	298,170	329,649	336,447	546,971	634,617
Net position at end of year	<u>\$ 218,323</u>	<u>\$ 308,285</u>	<u>\$ 333,018</u>	<u>\$ 344,174</u>	<u>\$ 551,341</u>	<u>\$ 652,459</u>

\* 2014 not restated for implementation of GASB 68 and 71

### Governmental activities

Governmental activities increased the City's net position by \$1.0 million. The key factors for this increase are as follows:

- Revenues exceeded expenses by \$2.4 million as compared to last years' of \$13.0 million.
- Net transfers decreased to a negative \$1.4 million versus last years' of negative \$2.9 million.
- Capital grants and contributions had the largest decrease by dollars at \$1.6 million (10.9%). Economic and physical development increased by \$3.8 million related to the Business Accelerator Project. Culture and recreation decreased \$5.0 million related to last year's state grant to purchase the Observatory Mesa property.
- City sales tax revenues increased by 12.9% (\$4.7 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 \$1.6 million, \$3.7 million, and \$712,521 respectively. The major increase in the transportation tax is related to a new voter approved sales tax for the Street Safety and Road Repair Initiative. The city has seen positive sales tax growth in the last four years.

- State shared taxes had an increase of 6.5% (\$1.0 million). Most of the growth was related to anticipated increases in state shared income tax as these revenues are based on calendar year 2013 returns. There was also a 6.3% increase to state shared sales taxes.
- Property tax had a 1.5% increase primarily due to new construction on the tax records.
- Expenses have increased by \$13.9 million (16.6%) as the economy continues to show moderate growth over the last few years and the City is completing more projects and funding additional operational expenses. There were increases in general government (\$6.7 million), public safety (\$6.5 million), public works (\$0.1 million), economic and physical development (\$0.5 million), and highways and streets (\$.05 million). Decreases were in culture and recreation (\$0.4 million). Many of the expenses are considered onetime funding as the organization is managing the commitments to its ongoing expenses.

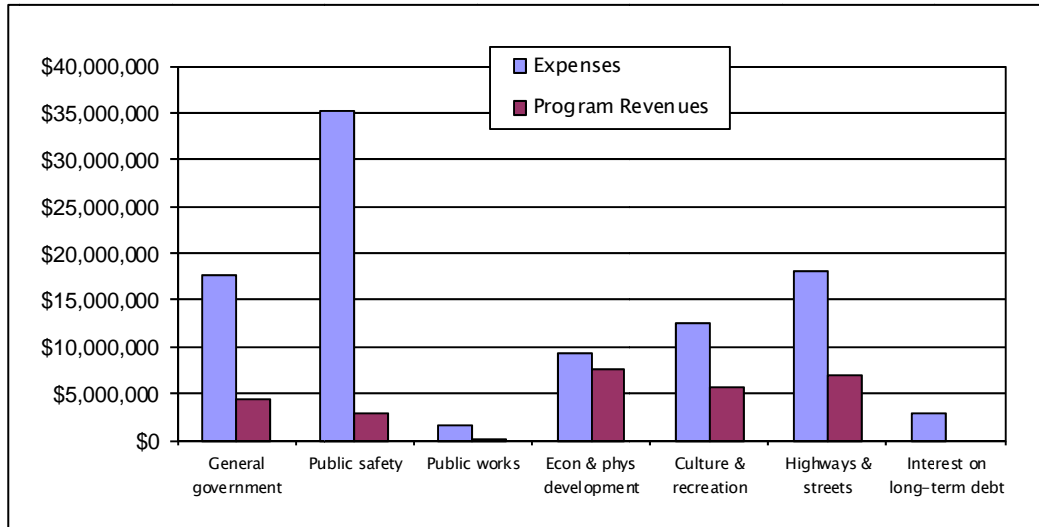
### **Business-type activities**

Business type activity had a net position decrease of \$11 million. The key factors for this decrease include:

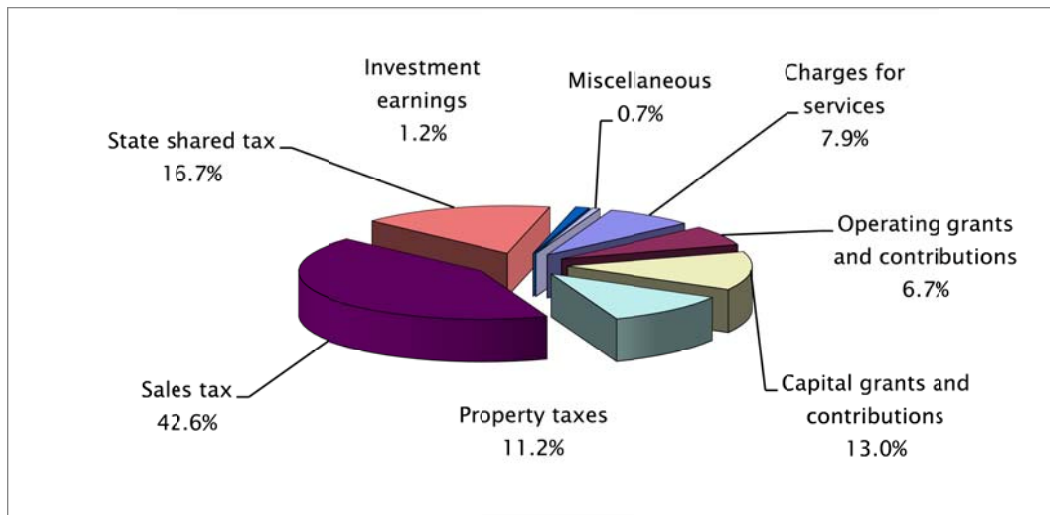
- The implementation of the pension liability required by new accounting standards caused a decrease in the net position by \$14.3 million.
- Charges for service have decreased slightly by 0.5% (\$214,978). Funds with increases were Environmental Services (\$156,382), Airport (\$23,499), Stormwater (\$825), and Housing Authority (\$85,532). The funds with decreased charges for services this year were Water (\$49,877) and Wastewater (\$431,339).
- Operating grants and contributions increased \$691,342.
- Capital grants and contributions have decreased by 39.9% (\$3.1 million) due to decreased grant funded construction at the Airport and decreased developer contribution utility infrastructure.
- Investment earnings are up slightly (\$90,528) and other revenues increased by \$941,147.
- Expenses have increased over the prior year by 2.6% (\$1.3 million). There were increases in the Water Fund (\$296,575) and Wastewater Fund (\$524,793), Environmental Services Fund (\$433,943), and Airport Fund (\$421,928). There were decreases in the Housing Authority Fund (\$19,727) and Stormwater Fund (\$392,401).

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

### Expenses and Program Revenues – Governmental Activities



### Revenues by Source – Governmental Activities

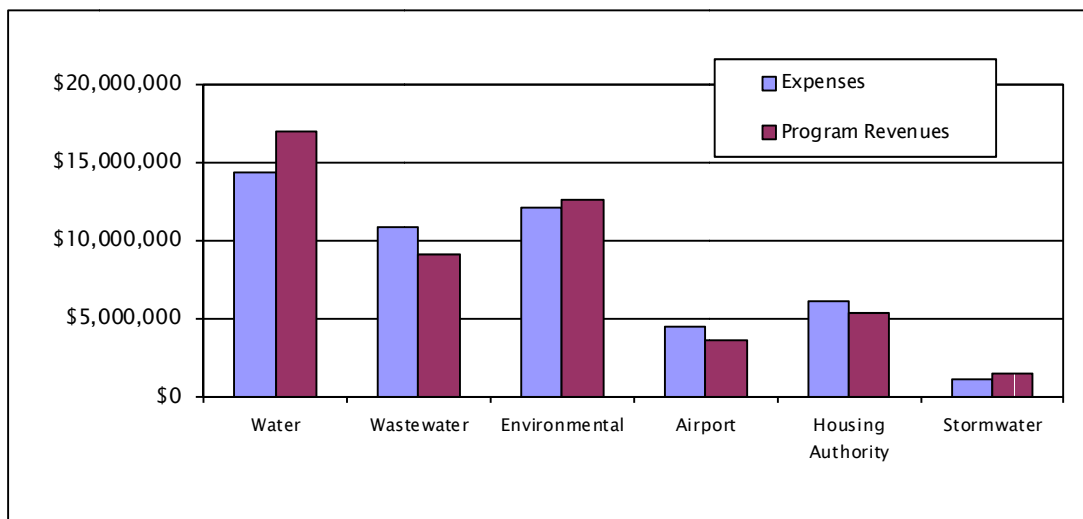


As shown, Public Safety is the largest function as measured by expense (\$35.2 million, 36.2%) followed by Highways & Streets (\$19.5 million, 20.0%), and General Government (\$16.5 million, 17.0%).

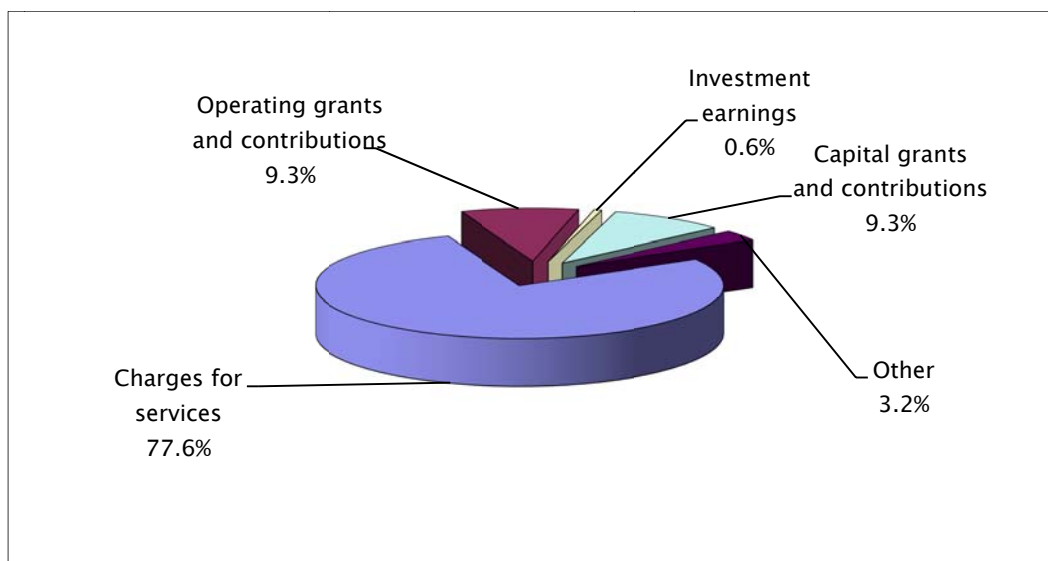
General revenues such as sales taxes, state shared taxes, and property taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, sales tax is the largest single source of funds (\$42.5 million, 42.6%), followed by state shared tax (\$16.7 million, 16.7%) and capital grants and contributions (\$13.0 million, 13.0%). The top three revenues make up 72.3% of total revenues compared to last year's top three of 70.3%. Last year was the same ranking of revenues.

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

### Expenses and Program Revenues – Business Type Activities



### Revenues by Source – Business-type activities



As shown, Water has expenses of \$14.3 million for the fiscal year, followed by Environmental Services with \$12.1 million, Wastewater with \$10.9 million, Housing Authority with \$6.1 million, the Airport with \$4.5 million and Stormwater with \$1.2 million. For the fiscal year, program revenue exceeded expense for the Water and Wastewater Fund, Environmental Services Fund, and Stormwater Fund. The Housing Authority and Airport Funds program 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 (82.7%, 97.9%, 100.0%, and 98.3% respectively). The Housing Authority Fund receives the majority of its program revenue through operating grants and contributions (79.6%) while the Airport Fund received the majority of its program revenue through capital grants and

contributions (52.6%). Charges for services provided the largest share of revenues (80.7%) for all of the business-type activities, followed by capital grants and contributions (9.7%). The last three years the ranking was the same.

The expenses for the business type activities increased (2.6%, \$1.3 million) as there were increases in Water (2.1%, 297,000) and Wastewater (5.1%, \$525,000), Environmental Services (3.2%, \$434,000), and Airport (10.2%, \$421,000) offset by decreases in Housing Authority (.3%, \$20,000) and Stormwater (24.9%, \$392,000).

Water and wastewater increased user fees rates in fiscal year 2015. Environmental Services, Airport, Stormwater and Housing Authority Funds increased charges for service revenue at 1.3%, 1.6%, 8.8% and 0.1%, respectively. Water and Wastewater saw decreases in charges for services of 0.4% and 4.6%, respectively.

### **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 \$84.6 million, an increase of \$4.2 million in comparison with the prior year. Approximately \$22.9 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 (\$617,030) for inventory and perpetual care, (2) restricted (\$53 million) for special revenue funds, debt service, development fee projects, court improvements and operations, grant purposes, perpetual care, and capital projects, and (3) assigned (\$8.2 million) for court services, capital reserves, and real estate.

Revenues for governmental functions overall totaled \$99.7 million in the fiscal year ended June 30, 2015 which represents an increase of 2.3% or \$2.2 million from the prior fiscal year. Five revenue categories show increases over prior year. These include taxes (10.1%, \$4.9 million), intergovernmental (4.9%, \$1 million), charges for services (9.2%, \$252,000), rents (0.6%, \$10,000), and investment earnings (58.5%, \$422,000). The increase in taxes is due to the new Road Repair and Street Safety sales taxes approved by voters in November 2014 and steady growth in our local economy. All other revenue categories experienced decreases, including: grants and entitlements (12.0%, \$1.8 million), special assessments (35.8%, \$1.0 million), licenses and permits (4.4%, 86,000), fines and forfeitures (2.7%, \$39,000), contributions (32.0%, \$173,000), and miscellaneous revenues (64.4%, \$1.2 million). Grants and entitlement decrease is related to an unusually large grant in the prior year. Miscellaneous revenue decreased due to several sales of property held for resale in the prior fiscal year.

Expenditures for governmental functions (\$99.4 million) decreased by 2.9% (\$3.0 million) from the prior fiscal year. Most of the decrease in expenditures is related to capital project expenditures (29.5%, \$7.1 million). Major capital projects have been discussed in prior sections. However, operation expenditures offset the capital expenditures decrease with an increase (6.6%, \$4.4 million) which is related to general government and public safety.

In the fiscal year ended June 30, 2015 revenues for governmental functions exceeded expenditures by approximately \$276,000.

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 \$23.2 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 45.9% of General Fund expenditures.

The total fund balance in the City's General Fund increased by \$1.8 million during the fiscal year as revenue increased 2.4% and expenditures increased 1.8%. Overall, the General Fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2015 of \$3.1 million. This is an increase of approximately \$0.4 million over the comparable figure from the prior year which resulted in expenditures in excess of revenues of \$2.7 million.

The Highway User Revenue Fund balance has increased by \$295,953. Revenues decreased \$240,865 primarily due the sale of property in the prior fiscal year. Expenditures decreased by \$312,454 or 2.9% overall with small decreases in both operation and capital expenditures. Debt service payments remained level this year. Net transfers-in decrease by \$530,633 due to a onetime transfer in the prior year and the corresponding decrease in capital expenditures.

Transportation Fund balances increased by \$5.7 million due the sale of the 4<sup>th</sup> Street property. Revenues increased \$3.5 million due to the new Road Repair and Street Safety (RR & SS) sales tax approved by voters in November 2014. Expenditures increased 2.7 million again due to the capital expenditures related to RR & SS sales tax.

The Special Assessment Bond Fund balance has decreased by \$92,878. This is due to normal pay down of debt. Revenues and expenditure changes are related to the prior year early retirement of 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 an unrestricted net position of \$4.2 million.

Revenues exceeded expenditures in the proprietary funds by \$3.4 million for the fiscal year ended June 30, 2015. All funds, except the Airport Fund, had positive growth in their net position for the fiscal year ended June 30, 2015. The Airport Fund decrease of \$0.7 million was due to depreciation exceeding grant and other funding for capital replacements. The major part of the increase was related to capital contributions (\$4.7 million).

## Budget Highlights

The City's final budget matches the original budget which was approved by Council in June, 2014. The City looks at the budget to actual at the division level and no division exceeded its appropriation. There were four revenue transfers that were not budgeted. One transfer was made from the Capital Projects fund to the Housing and Community Services fund (\$102,000) to reimburse the costs of land related to a land swap needed for the FUTS trails. There are two transfers from the BBB Fund and Capital Project Fund to the Debt Service Fund totaling \$8,760 and a transfer from the Capital Project Fund to the Secondary Property Tax Fund (\$427,224) to move unspent proceeds to pay for debt service expenditures.

The General Fund was less than 2% (\$989,342) over the final budgeted total revenues primarily due to taxes, which exceeded budget by \$1.3 million and was offset by grants and entitlements under budget by \$1.1 million. Some of the reasons for grants and entitlements being under budget are due to the City not receiving several larger grants for Fire and Police including the Assistance to Firefighters (\$279,000) grants, Homeland Security grants and Gang Task Force grants along with only spending \$114,333 of the \$281,500 budget for the Brownfields Assessments grant project .

Expenditures are under budget in all divisions due to controlled spending and carryover of some capital projects. 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 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 \$3.5 million for the Rio de Flag Flood Control Project, of which only \$100,544 actually transferred at year end. The other significant transfer under budget by \$807,000 is related to the funding of airport capital projects and operational needs which was not needed in fiscal year 2015.

## 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, 2015 amount to \$657.8 million. Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress. The total decrease in the City's capital assets for the current year was 0.7% (\$4.9 million). The following table reflects the capital assets at the end of the fiscal year:

**Capital Assets, Net of Depreciation**  
**June 30, 2015 and 2014 (in thousands of dollars)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Land and other non-depreciable assets	\$ 64,845	\$ 67,941	\$ 14,120	\$ 13,966	\$ 78,965	\$ 81,907
Buildings	54,416	56,074	50,459	53,081	104,875	109,155
Improvements	6,623	7,273	248,997	243,488	255,620	250,761
Machinery and equipment	9,347	10,310	20,466	21,795	29,813	32,105
Infrastructure	156,062	159,137	-	-	156,062	159,137
Construction in progress	13,810	7,204	18,608	22,384	32,418	29,588
<b>Total</b>	<b>\$ 305,103</b>	<b>\$ 307,939</b>	<b>\$ 352,650</b>	<b>\$ 354,714</b>	<b>\$ 657,753</b>	<b>\$ 662,653</b>

Construction-in-progress had a net increase of 9.6% (\$2.8 million). Major completed construction-in-progress includes the completion of the Airport Taxiway Westplex (\$4.7 million), Street and Utility Bond Projects (\$4.1 million), Switzer Canyon Waterline Replacement (\$2.6 million) and Solids Dewatering System (\$740,000). Major construction in progress at June 30 includes the Rio de Flag Drainage Project (\$14.2 million), Innovation Mesa Accelerator Building (\$6.8 million), West/Arrowhead Phase 2 (\$3.2 million), Red Gap Pipeline (\$1.7 million), and Industrial Drive (\$1.0 million). The decrease to land (\$2.9 million) is related to the sale of the 4<sup>th</sup> Street property and offset partially by donated assets for right-of-way and easements, and purchase of land for the FUTS trails. The decrease to buildings (\$4.3 million) is related to depreciation. The increase in improvements (\$4.9 million) is related to the completion of the Airport Taxiway Westplex (\$4.7 million), Switzer Canyon Waterline (\$2.6 million) and Drainage Improvements and Contributed Capital less depreciation. Machinery and equipment decreased by \$2.3 million mainly due to depreciation. Major additions include ten vehicles and heavy equipment replacements (\$1.2 million), Wastewater Bar Screens (\$402,474). 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

At the end of the current fiscal year, the City had total long-term debt outstanding of \$115.4 million. Of this amount, \$50.3 million is general obligation bonds backed by the full faith and credit of the City, \$6.7 million is improvement district bonds, \$18.0 million is revenue bonds, \$860,000 is for the Municipal Facility Corporation, \$2.7 million is for certificates of participation, and \$36.8 million are outstanding leases or loans for the airport, water and wastewater, and city-wide energy conservation improvements.

**Outstanding Debt**  
June 30, 2015 and 2014 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 48,920	\$ 53,341	\$ 1,441	\$ 1,752	\$ 50,361	\$ 55,093
Special assessment bonds	6,705	8,605	-	-	6,705	8,605
Revenue bonds	14,675	15,495	3,285	3,635	17,960	19,130
Other debt	3,530	4,415	-	-	3,530	4,415
Lease/Loans	946	1,234	35,880	38,304	36,826	39,538
Total debt payable	<u>\$ 74,776</u>	<u>\$ 83,090</u>	<u>\$ 40,606</u>	<u>\$ 43,691</u>	<u>\$ 115,382</u>	<u>\$ 126,781</u>

During fiscal year 2015, the City's total bonded debt decreased by \$11.4 million. The City did not issue any new debt during the year. The special assessment debt decreased due to early pay off of debt from a developer (\$1.9 million) and the all remaining debt decreases are due to annual schedule debt service 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, 2015 is \$42.8 million in the 6% category and \$92.1 million in the 20% capacity. The allowable debt increased from prior year due to higher assessed valuations and decreasing debt balances. 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, 2015**

	<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 2015/2016 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, except for public safety pension funding discussed below.
- Unrestricted fund balance in the General Fund continues to be above the fiscal policy of 15% of operating revenues. It is currently projected to be 25%. General sales tax revenues exceeded budget by \$1.5 million in FY 2015 and are expected to be flat in FY 2016 due to the uncertainty of revenues caused by the Arizona Department of Revenue starting to collect the city sales taxes on the City's behalf in FY 2016.
- Building permits exceeded budget by \$380,000. However, we remain conservative in our projections for FY 2016 as we rely on these types of revenues as a one-time impact rather than an ongoing source of funding.
- The focus of the FY 2016 budget was for Council Priorities related to employee investment, staffing and technology.
  - In the General Fund the City was able to fund \$1.6 million for compensation, \$276,000 for staffing and \$1.6 million for technology. This was done with a combination of ongoing and onetime funding sources.
  - Other funds made similar funding decisions. Some of the larger items are \$6.1 million for RR & SS pavement preservation and \$1.9 million programmed for the Leroux Waterline and Sewerline replacement.
- The total authorized positions increased by 12.76 positions. While 14.76 FTEs were added, there were offsetting decreases of 2.0 positions that were either onetime funded or reduced to fund some of the new positions.
- Public Safety pension (PSPRS) funding continues to be major funding issue. Public Safety pension required contributions to be increased over \$1.5 million (32%) in FY2016 due to pension contribution rate increases. Fifty percent (50%) of this increase was funding with ongoing dollars and the other half with one time capacity with sufficient continued onetime funding available into the future.
- The City continues to monitor the State legislature to be aware of potential budget impacts on cities including monitoring the outstanding PSPRS lawsuit that could substantially increase required employer contribution rates.
- Property assessments continue to increase at a slow, steady rate. Primary assessed values increased by an average of 2.2%. The City adjusted the tax rate on primary property tax to maintain revenue levels. The secondary property tax rates remain flat.
- The City continues to pursue federal and state grant dollars to enhance the local economy.

- The City continues implementation of the electronic information sharing technology to facilitate transparency in service provision.
- The City will continue to work on the development of the 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.
- An updated Utilities Rate Study is expected to be completed in FY 2016.
- User fee studies relating to the services provided by Community Development, Recreation and Fire are expected to be completed in FY 2016.

### **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, 2015**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash, investments and equivalents	\$ 80,743,702	\$ 31,172,441	\$ 111,916,143
Accounts receivable, net	9,016,935	5,044,432	14,061,367
Intergovernmental receivable	3,385,644	606,888	3,992,532
Special assessments receivable	6,703,577	-	6,703,577
Internal balance	485,640	(485,640)	-
Deposits	112,900	8,763	121,663
Inventory	379,527	-	379,527
Prepaid items	91,800	59,636	151,436
Restricted cash and investments	5,397,599	12,743,241	18,140,840
Capital assets, non-depreciable	78,655,299	32,727,441	111,382,740
Capital assets, depreciable, net	226,447,493	319,922,894	546,370,387
Total assets	<u>411,420,116</u>	<u>401,800,096</u>	<u>813,220,212</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	22,735,716	2,206,162	24,941,878
Deferred charge on debt refundings	977,211	-	977,211
Total deferred outflows of resources	<u>23,712,927</u>	<u>2,206,162</u>	<u>25,919,089</u>
<b>LIABILITIES</b>			
Accounts payable	5,078,270	1,431,172	6,509,442
Accrued payroll	1,322,779	282,391	1,605,170
Construction retainage payable	863,526	80,567	944,093
Interest payable	1,322,202	648,688	1,970,890
Advanced revenue	501,294	902,942	1,404,236
Deposits payable	1,630,360	533,309	2,163,669
Noncurrent liabilities:			
Due within one year:			
Compensated absences	1,668,418	363,773	2,032,191
Claims and judgements	111,580	-	111,580
Special assessment debt, government commitment	261,868	-	261,868
Bonds, notes and leases payable, net	8,302,304	2,941,735	11,244,039
Due in more than one year:			
Compensated absences	2,201,648	476,239	2,677,887
Claims and judgements	166,240	-	166,240
Landfill closure and postclosure care costs	-	7,895,618	7,895,618
Net OPEB obligation	4,344,203	979,004	5,323,207
Net pension liability	111,543,325	14,383,459	125,926,784
Special assessment debt, government commitment	6,474,893	-	6,474,893
Bonds, notes and leases payable, net	62,821,901	37,664,600	100,486,501
Total liabilities	<u>208,614,811</u>	<u>68,583,497</u>	<u>277,198,308</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	8,197,451	2,404,550	10,602,001
<b>NET POSITION</b>			
Net investment in capital assets	230,658,509	311,963,433	542,621,942
Restricted for:			
Capital projects	-	2,664,263	2,664,263
Perpetual care:			
Expendable	34,304	-	34,304
Nonexpendable	224,116	-	224,116
Unrestricted	(12,596,148)	18,390,515	5,794,367
Total net position	<u>\$ 218,320,781</u>	<u>\$ 333,018,211</u>	<u>\$ 551,338,992</u>

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

**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Activities**  
**Year Ended June 30, 2015**

	<u>Program Revenues</u>				
	<u>Expenses</u>	<u>Indirect Expense Allocation</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary government</b>					
Governmental activities:					
General government	\$ 17,625,846	\$ (1,086,016)	\$ 3,091,342	\$ 447,864	\$ 833,624
Public safety	35,255,450	-	879,755	1,802,017	168,956
Public works	1,664,308	(257,048)	520	-	-
Economic and physical development	9,343,417	(446,804)	2,329,258	1,321,026	4,035,158
Culture and recreation	12,511,424	470,178	1,605,120	3,086,915	1,032,456
Highways and streets	18,174,944	1,319,690	-	12,856	6,938,435
Interest on long-term debt	2,944,000	-	-	-	-
Total governmental activities	<u>97,519,389</u>	<u>-</u>	<u>7,905,995</u>	<u>6,670,678</u>	<u>13,008,629</u>
Business-type activities:					
Water	14,307,902		14,043,177	114,174	2,824,177
Wastewater	10,879,594		8,907,760	183,927	9,175
Environmental	12,071,509		12,646,619	-	-
Airport	4,540,208		1,528,202	159,932	1,879,860
Housing authority	6,084,019		1,027,945	4,259,652	35,946
Stormwater	1,184,464		1,466,347	25,000	-
Total business-type activities	<u>49,067,696</u>		<u>39,620,050</u>	<u>4,742,685</u>	<u>4,749,158</u>
<b>Total primary government</b>	<u><u>\$ 146,587,085</u></u>		<u><u>\$ 47,526,045</u></u>	<u><u>\$ 11,413,363</u></u>	<u><u>\$ 17,757,787</u></u>

General revenues:

- Property tax, levied for general purposes
- Property tax, levied for debt service
- Sales taxes
- State shared sales taxes – unrestricted
- Investment earnings
- Miscellaneous
- Gain on disposal of capital assets
- Contributions to permanent fund
- Transfers in (out)
- Total general revenues, contributions and transfers
- Change in net position
- Net position – beginning, 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>
\$ (12,167,000)	\$ -	\$ (12,167,000)
(32,404,722)	-	(32,404,722)
(1,406,740)	-	(1,406,740)
(1,211,171)	-	(1,211,171)
(7,257,111)	-	(7,257,111)
(12,543,343)	-	(12,543,343)
(2,944,000)	-	(2,944,000)
<u>(69,934,087)</u>	<u>-</u>	<u>(69,934,087)</u>
-	2,673,626	2,673,626
-	(1,778,732)	(1,778,732)
-	575,110	575,110
-	(972,214)	(972,214)
-	(760,476)	(760,476)
-	306,883	306,883
-	44,197	44,197
<u>\$ (69,934,087)</u>	<u>\$ 44,197</u>	<u>\$ (69,889,890)</u>
5,625,096	-	5,625,096
5,585,942	-	5,585,942
42,539,371	-	42,539,371
16,683,665	-	16,683,665
1,179,131	303,863	1,482,994
645,571	1,119,502	1,765,073
65,201	493,358	558,559
16,821	-	16,821
(1,407,710)	1,407,710	-
<u>70,933,088</u>	<u>3,324,433</u>	<u>74,257,521</u>
999,001	3,368,630	4,367,631
217,321,780	329,649,581	546,971,361
<u>\$ 218,320,781</u>	<u>\$ 333,018,211</u>	<u>\$ 551,338,992</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2015**

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportation Fund</u>
<b>ASSETS</b>			
Cash and investments	\$ 30,538,088	\$ 4,371,961	\$ 15,207,773
Accounts receivable, net	4,602,704	798,684	2,156,632
Interest receivable	62,223	8,256	31,894
Intergovernmental receivable	353,141	26,893	783,441
Interfund receivable	3,120,000	-	-
Special assessments receivable	-	-	-
Deposits	-	-	112,900
Inventory	323,792	-	-
Restricted cash and investments	-	-	-
<b>Total assets</b>	<b><u>\$ 38,999,948</u></b>	<b><u>\$ 5,205,794</u></b>	<b><u>\$ 18,292,640</u></b>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE</b>			
Liabilities:			
Accounts payable	\$ 2,107,883	\$ 601,962	\$ 656,508
Accrued payroll and compensated absences	1,171,681	42,301	-
Interfund payable	-	-	-
Advanced revenue	236,311	-	163,000
Guaranty and other deposits	1,630,360	-	-
<b>Total liabilities</b>	<b><u>5,146,235</u></b>	<b><u>644,263</u></b>	<b><u>819,508</u></b>
Deferred inflows of resources:			
Unavailable revenue – property taxes	232,623	-	-
Unavailable revenue – special assessments	-	-	-
<b>Total deferred inflows of resources</b>	<b><u>232,623</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
Fund balances:			
Nonspendable	323,792	-	-
Restricted	1,951,220	4,561,531	17,473,132
Assigned	8,192,178	-	-
Unassigned (deficit)	23,153,900	-	-
<b>Total fund balances</b>	<b><u>33,621,090</u></b>	<b><u>4,561,531</u></b>	<b><u>17,473,132</u></b>
<b>Total liabilities, deferred inflows and fund balances</b>	<b><u>\$ 38,999,948</u></b>	<b><u>\$ 5,205,794</u></b>	<b><u>\$ 18,292,640</u></b>

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

Special Assessment Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ 332,199	\$ 25,647,130	\$ 76,097,151
-	946,445	8,504,465
270	49,065	151,708
-	2,222,169	3,385,644
-	-	3,120,000
6,703,577	-	6,703,577
-	-	112,900
-	55,735	379,527
-	5,397,599	5,397,599
<u>\$ 7,036,046</u>	<u>\$ 34,318,143</u>	<u>\$ 103,852,571</u>
\$ -	\$ 2,340,823	\$ 5,707,176
-	108,797	1,322,779
-	3,120,000	3,120,000
-	101,395	500,706
-	-	1,630,360
<u>-</u>	<u>5,671,015</u>	<u>12,281,021</u>
-	-	232,623
6,703,153	-	6,703,153
<u>6,703,153</u>	<u>-</u>	<u>6,935,776</u>
-	293,238	617,030
332,893	28,636,068	52,954,844
-	-	8,192,178
-	(282,178)	22,871,722
<u>332,893</u>	<u>28,647,128</u>	<u>84,635,774</u>
<u>\$ 7,036,046</u>	<u>\$ 34,318,143</u>	<u>\$ 103,852,571</u>

CITY OF FLAGSTAFF  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL ACTIVITIES  
JUNE 30, 2015

Fund balances – total governmental funds balance sheet \$ 84,635,774

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	509,253,452	
Less: accumulated depreciation	<u>(204,150,660)</u>	305,102,792

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

Fines and forfeitures	<u>302,292</u>	302,292
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Deferred outflows and inflows of resources related to pensions and deferred charges on debt refundings are applicable to future reporting periods and, therefore, are not reported in the governmental funds.

Deferred outflows related to pensions	22,735,716	
Deferred outflows related to debt refunding	977,211	
Deferred inflows related to pensions	<u>(8,197,451)</u>	15,515,476

Long-term receivable agreement related to future expenditures are not recognized during the current period and, therefore, are not reported in the governmental funds.

Promissory note forgivable	<u>91,800</u>	91,800
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For purposes of measuring the net pension liability, the long-term liabilities are not due and payable in the current period and, therefore, are not reported as a liability in the funds.

ASRS pension benefits	(31,898,470)	
PSPRS pension benefits	(77,968,252)	
EORP pension benefits	<u>(1,676,603)</u>	(111,543,325)

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 bond and lease payable	(74,776,208)	
Governmental interest payable	(1,322,202)	
Bond premium	(3,084,757)	
Other postemployment benefits	(4,344,203)	
Compensated absences	<u>(3,870,066)</u>	(87,397,436)

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

Property tax	<u>232,622</u>	232,622
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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

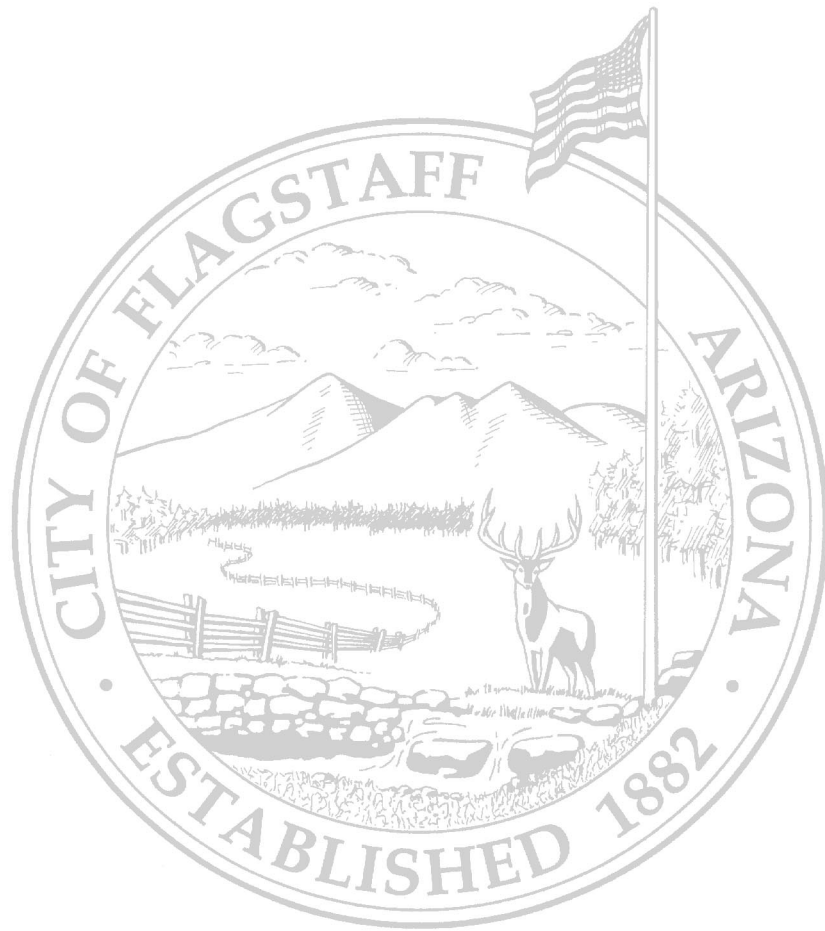
Special assessments	<u>6,703,153</u>	6,703,153
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The internal service fund is used by management to charge the cost of self insurance programs to individual funds.

The assets and liabilities of the internal service fund that are reported with governmental activities.		<u>4,677,633</u>
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Net position of governmental activities – statement of net position \$ 218,320,781

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, 2015**

	General Fund	Highway User Revenue Fund	Transportation Fund
<b>REVENUES:</b>			
Taxes	\$ 25,908,705	\$ -	\$ 15,208,003
Intergovernmental	17,574,331	-	-
Grants and entitlements	1,294,384	6,887,029	92,456
Special assessments	-	-	-
Charges for services	2,986,151	-	-
Licenses and permits	1,866,792	-	-
Fines and forfeitures	1,389,663	-	-
Rents	1,603,322	-	-
Investment earnings	374,174	33,720	143,881
Contributions	262,095	1,130	5,000
Miscellaneous	305,932	-	-
Total revenues	53,565,549	6,921,879	15,449,340
<b>EXPENDITURES:</b>			
Current:			
General government	9,809,718	-	4,813,830
Public safety	27,583,880	-	-
Public works	1,081,157	-	-
Economic and physical development	4,682,707	-	-
Culture and recreation	5,750,634	-	-
Highways and streets	-	7,574,823	362,781
Debt service:			
Principal retirement	721,549	450,776	695,000
Interest and other charges	93,304	96,146	471,750
Capital outlay	771,773	2,494,798	3,790,207
Total expenditures	50,494,722	10,616,543	10,133,568
Excess (deficiency) of revenues over expenditures	3,070,827	(3,694,664)	5,315,772
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of capital assets	72,051	-	2,941,000
Transfers in	2,848,218	4,011,318	550,000
Transfers out	(4,132,795)	(20,701)	(3,116,934)
Total other financing sources (uses)	(1,212,526)	3,990,617	374,066
Net change in fund balances	1,858,301	295,953	5,689,838
Fund balances, beginning of year	31,762,789	4,265,578	11,783,294
Fund balances, end of year	\$ 33,621,090	\$ 4,561,531	\$ 17,473,132

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

Special Assessment Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 12,608,488	\$ 53,725,196
-	2,974,669	20,549,000
-	5,209,735	13,483,604
1,857,884	-	1,857,884
-	-	2,986,151
-	-	1,866,792
-	-	1,389,663
-	57,313	1,660,635
366,217	227,694	1,145,686
-	99,832	368,057
-	339,639	645,571
<u>2,224,101</u>	<u>21,517,370</u>	<u>99,678,239</u>
-	351,144	14,974,692
-	-	27,583,880
-	134,926	1,216,083
-	3,824,087	8,506,794
-	5,279,198	11,029,832
-	97,617	8,035,221
1,900,000	4,545,973	8,313,298
416,979	1,720,003	2,798,182
-	9,887,876	16,944,654
<u>2,316,979</u>	<u>25,840,824</u>	<u>99,402,636</u>
<u>(92,878)</u>	<u>(4,323,454)</u>	<u>275,603</u>
-	-	3,013,051
-	9,967,277	17,376,813
-	(9,113,853)	(16,384,283)
-	853,424	4,005,581
<u>(92,878)</u>	<u>(3,470,030)</u>	<u>4,281,184</u>
<u>425,771</u>	<u>32,117,158</u>	<u>80,354,590</u>
<u>\$ 332,893</u>	<u>\$ 28,647,128</u>	<u>\$ 84,635,774</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, 2015

Net change in fund balances – total governmental funds \$ 4,281,184

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

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

Expenditures for capital assets	16,944,654	
Less current year depreciation	<u>(13,180,130)</u>	3,764,524

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

Net pension expense related to ASRS	(127,068)	
Net pension expense related to PSPRS	(5,458,967)	
Net pension expense related to EORP	(608,389)	
Pension contribution for EORP	152,374	
Donated capital	1,823,902	
Compensated absences	(139,741)	
Other postemployment benefits	(639,961)	
Principal payments on debt	8,313,298	
Fines and forfeitures	2,753	
Interest accural on debt	(145,818)	
Refunding loss amortization	(161,308)	
Bond premium amortization	<u>298,579</u>	3,309,654

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.

Available portion of promissory note	<u>(10,200)</u>	(10,200)
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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	(6,024,469)	
Transfer of capital assets to business-type activities	(2,404,563)	
Transfer of capital assets from business-type activities	<u>4,323</u>	(8,424,709)

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, 2015

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	(1,857,884)	
Property tax	<u>28,069</u>	(1,829,815)

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	(125,082)	
Investment income	<u>33,445</u>	(91,637)

Change in net position of governmental activities – statement of activities		<u><u>\$ 999,001</u></u>
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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, 2015**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 24,374,019	\$ 24,374,019	\$ 25,718,617	\$ 1,344,598
Intergovernmental	17,135,425	17,135,425	17,574,331	438,906
Grants and entitlements	2,382,157	2,382,157	1,294,384	(1,087,773)
Charges for services	2,867,630	2,867,630	2,986,151	118,521
Licenses and permits	1,473,005	1,473,005	1,866,792	393,787
Fines and forfeitures	2,283,752	2,283,752	1,389,663	(894,089)
Rents	1,216,739	1,216,739	1,603,322	386,583
Investment earnings	216,000	216,000	291,595	75,595
Contributions	10,000	10,000	262,095	252,095
Miscellaneous	344,813	344,813	305,932	(38,881)
Total revenues	<u>52,303,540</u>	<u>52,303,540</u>	<u>53,292,882</u>	<u>989,342</u>
<b>EXPENDITURES:</b>				
Current:				
General administration	9,115,681	9,115,681	8,492,611	623,070
Management services	3,357,893	3,357,893	3,330,337	27,556
Fire	10,740,696	10,740,696	10,738,857	1,839
Police	18,378,086	18,378,086	17,484,382	893,704
Community development	4,350,389	4,350,389	4,017,631	332,758
Public works	11,344,740	11,344,740	7,856,449	3,488,291
Economic vitality	464,303	464,303	366,048	98,255
Non-departmental	(1,748,869)	(1,748,869)	(1,793,593)	44,724
Contingency	1,475,000	1,475,000	-	1,475,000
Total expenditures	<u>57,477,919</u>	<u>57,477,919</u>	<u>50,492,722</u>	<u>6,985,197</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,174,379)</u>	<u>(5,174,379)</u>	<u>2,800,160</u>	<u>7,974,539</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	20,000	20,000	72,051	52,051
Transfers in	3,524,656	3,524,656	2,848,218	(676,438)
Transfers out	(9,798,047)	(9,798,047)	(4,132,795)	5,665,252
Total other financing sources (uses)	<u>(6,253,391)</u>	<u>(6,253,391)</u>	<u>(1,212,526)</u>	<u>5,040,865</u>
Net change in fund balances	<u>(11,427,770)</u>	<u>(11,427,770)</u>	<u>1,587,634</u>	<u>13,015,404</u>
Budgetary fund balances, beginning of year	<u>22,596,412</u>	<u>22,596,412</u>	<u>22,596,412</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 11,168,642</u>	<u>\$ 11,168,642</u>	<u>\$ 24,184,046</u>	<u>\$ 13,015,404</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 1,587,634	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			272,667	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			(2,000)	
Adjusted net change in fund balance – GAAP basis			<u>\$ 1,858,301</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, 2015**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Grants and entitlements	\$ 6,577,742	\$ 6,577,742	\$ 6,887,029	\$ 309,287
Investment earnings	6,000	6,000	33,720	27,720
Total revenues	<u>6,583,742</u>	<u>6,583,742</u>	<u>6,920,749</u>	<u>337,007</u>
<b>EXPENDITURES:</b>				
Current:				
General administration	151,660	151,660	151,660	-
Management services	91,171	91,171	91,171	-
Community development	7,929,401	7,929,401	2,390,486	5,538,915
Public works	10,639,677	10,639,677	7,852,173	2,787,504
Economic vitality	14,496	14,496	14,496	-
Non-departmental	116,557	116,557	116,557	-
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>19,042,962</u>	<u>19,042,962</u>	<u>10,616,543</u>	<u>8,426,419</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,459,220)</u>	<u>(12,459,220)</u>	<u>(3,695,794)</u>	<u>8,763,426</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	442,500	442,500	-	(442,500)
Transfers in	9,630,626	9,630,626	4,011,318	(5,619,308)
Transfers out	(20,701)	(20,701)	(20,701)	-
Total other financing sources (uses)	<u>10,052,425</u>	<u>10,052,425</u>	<u>3,990,617</u>	<u>(6,061,808)</u>
Net change in fund balances budgetary basis	<u>(2,406,795)</u>	<u>(2,406,795)</u>	<u>294,823</u>	<u>2,701,618</u>
Budgetary fund balances, beginning of year	<u>3,453,850</u>	<u>3,453,850</u>	<u>3,453,850</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 1,047,055</u>	<u>\$ 1,047,055</u>	<u>\$ 3,748,673</u>	<u>\$ 2,701,618</u>

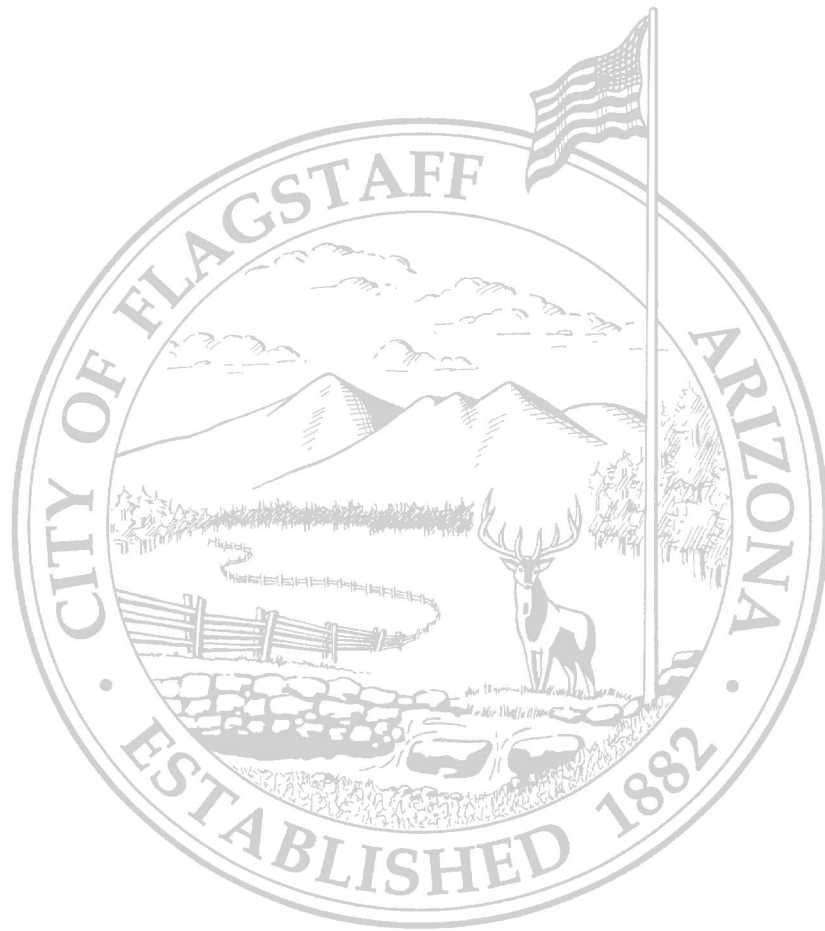
The notes to the financial statements are an integral part of this statement

Adjustment of budgetary basis to GAAP basis net change in fund balances	\$ 294,823
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.	<u>1,130</u>
Adjusted net change in fund balance – GAAP basis	<u>\$ 295,953</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Transportation Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2015**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 11,459,192	\$ 11,459,192	\$ 14,492,042	\$ 3,032,850
Grants and entitlements	129,419	129,419	92,456	(36,963)
Investment earnings	59,640	59,640	143,880	84,240
Contributions	-	-	5,000	5,000
Total revenues	<u>11,648,251</u>	<u>11,648,251</u>	<u>14,733,378</u>	<u>3,085,127</u>
<b>EXPENDITURES:</b>				
Current:				
General administration	39,239	39,239	39,239	-
Management services	265,318	265,318	265,318	-
Community development	4,871,134	4,871,134	344,008	4,527,126
Public works	12,822	12,822	3,600,701	(3,587,879)
Economic vitality	2,952	2,952	2,952	-
Non-departmental	5,738,735	5,738,735	5,871,350	(132,615)
Total expenditures	<u>10,930,200</u>	<u>10,930,200</u>	<u>10,123,568</u>	<u>806,632</u>
Excess (deficiency) of revenues over (under) expenditures	<u>718,051</u>	<u>718,051</u>	<u>4,609,810</u>	<u>3,891,759</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	2,000,000	2,000,000	2,941,000	941,000
Transfers out	(8,109,285)	(8,109,285)	(2,566,934)	5,542,351
Total other financing sources (uses)	<u>(6,109,285)</u>	<u>(6,109,285)</u>	<u>374,066</u>	<u>6,483,351</u>
Net change in fund balances	<u>(5,391,234)</u>	<u>(5,391,234)</u>	<u>4,983,876</u>	<u>10,375,110</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>\$ (993,666)</u>	<u>\$ (993,666)</u>	<u>\$ 9,381,444</u>	<u>\$ 10,375,110</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 4,983,876	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			715,962	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			(10,000)	
Adjusted net change in fund balance – GAAP basis			<u>\$ 5,689,838</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, 2015**

	Business-type Activities – Enterprise Funds		
	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 20,831,909	\$ 8,047,136	\$ 585,659
Receivable, net	3,099,920	1,368,353	82,687
Intergovernmental receivable	406,637	-	85,399
Prepaid items	-	-	-
Total current assets	<u>24,338,466</u>	<u>9,415,489</u>	<u>753,745</u>
Noncurrent assets:			
Restricted cash and investments	1,593,915	11,149,326	-
Refundable deposits	8,763	-	-
Capital assets, non-depreciable	14,505,939	1,890,420	113,365
Capital assets, depreciable, net	245,668,669	6,705,224	39,351,867
Total non-current assets	<u>261,777,286</u>	<u>19,744,970</u>	<u>39,465,232</u>
Total assets	<u>286,115,752</u>	<u>29,160,459</u>	<u>40,218,977</u>
Deferred outflows of resources			
Deferred outflows related to pension	810,758	612,710	460,297
Total assets and deferred outflows of resources	<u>286,926,510</u>	<u>29,773,169</u>	<u>40,679,274</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	1,086,880	144,268	71,958
Accrued payroll	121,245	93,811	18,311
Construction retainage payable	74,863	-	1,050
Accrued compensated absences	156,021	111,122	15,577
Interest payable	648,688	-	-
Advanced revenue	784,960	63,525	42,156
Claims and judgements	-	-	-
Deposits payable	421,831	23,215	14,863
Bonds and lease payable, net – current	2,750,877	-	190,858
Total current liabilities	<u>6,045,365</u>	<u>435,941</u>	<u>354,773</u>
Noncurrent liabilities:			
Compensated absences	184,112	106,990	13,340
Net OPEB obligation	435,040	336,459	56,538
Net pension liability	5,607,217	4,229,186	1,991,916
Claims and judgements	-	-	-
Landfill closure and postclosure care costs	-	7,895,618	-
Capital lease payable	1,938,045	-	1,551,335
Bonds and notes payable, net	34,148,312	-	26,908
Total noncurrent liabilities	<u>42,312,726</u>	<u>12,568,253</u>	<u>3,640,037</u>
Total liabilities	<u>48,358,091</u>	<u>13,004,194</u>	<u>3,994,810</u>
Deferred inflows related to pension			
Total deferred inflows and liabilities	<u>981,174</u>	<u>741,498</u>	<u>123,638</u>
<b>NET POSITION</b>			
Net investment in capital assets	221,262,511	8,595,644	37,695,081
Restricted:			
Capital projects	1,593,915	1,070,348	-
Unrestricted (deficit)	14,730,819	6,361,485	(1,134,255)
Total net position	<u>\$ 237,587,245</u>	<u>\$ 16,027,477</u>	<u>\$ 36,560,826</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
\$ 1,009,795	\$ 697,942	\$ 31,172,441	\$ 4,646,551
135,470	358,002	5,044,432	58,470
25,000	89,852	606,888	-
-	59,636	59,636	-
<u>1,170,265</u>	<u>1,205,432</u>	<u>36,883,397</u>	<u>4,705,021</u>
-	-	12,743,241	-
-	-	8,763	-
14,556,439	1,661,278	32,727,441	-
25,015,695	3,181,439	319,922,894	-
<u>39,572,134</u>	<u>4,842,717</u>	<u>365,402,339</u>	<u>-</u>
<u>40,742,399</u>	<u>6,048,149</u>	<u>402,285,736</u>	<u>4,705,021</u>
86,646	235,751	2,206,162	-
<u>40,829,045</u>	<u>6,283,900</u>	<u>404,491,898</u>	<u>4,705,021</u>
17,775	110,291	1,431,172	234,620
10,676	38,348	282,391	-
4,654	-	80,567	-
14,642	66,411	363,773	-
-	-	648,688	-
-	12,301	902,942	588
-	-	-	111,580
-	73,400	533,309	-
-	-	2,941,735	-
<u>47,747</u>	<u>300,751</u>	<u>7,184,577</u>	<u>346,788</u>
4,600	167,197	476,239	-
46,194	104,773	979,004	-
608,184	1,946,956	14,383,459	-
-	-	-	166,240
-	-	7,895,618	-
-	-	3,489,380	-
-	-	34,175,220	-
<u>658,978</u>	<u>2,218,926</u>	<u>61,398,920</u>	<u>166,240</u>
<u>706,725</u>	<u>2,519,677</u>	<u>68,583,497</u>	<u>513,028</u>
104,858	453,382	2,404,550	-
<u>811,583</u>	<u>2,973,059</u>	<u>70,988,047</u>	<u>513,028</u>
39,567,480	4,842,717	311,963,433	-
-	-	2,664,263	-
449,982	(1,531,876)	18,876,155	4,191,993
<u>\$ 40,017,462</u>	<u>\$ 3,310,841</u>	<u>\$ 333,503,851</u>	<u>\$ 4,191,993</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 (485,640)

Net position of business-type activities \$ 333,018,211

**CITY OF FLAGSTAFF, ARIZONA**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**Year Ended June 30, 2015**

	Business-type Activities – Enterprise Funds		
	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 22,950,937	\$ 12,646,619	\$ 1,528,202
Miscellaneous	305,853	57,043	42,465
Total operating revenues	<u>23,256,790</u>	<u>12,703,662</u>	<u>1,570,667</u>
<b>OPERATING EXPENSES:</b>			
Personnel services	4,957,306	4,278,095	785,137
Contractual services, materials and supplies	10,388,198	6,624,633	883,389
Insurance claims and expenses	-	-	-
Depreciation and amortization	8,462,715	1,152,245	2,759,383
Total operating expenses	<u>23,808,219</u>	<u>12,054,973</u>	<u>4,427,909</u>
Operating income (loss)	<u>(551,429)</u>	<u>648,689</u>	<u>(2,857,242)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest and investment income	196,588	93,265	6,839
Grants and entitlements	298,103	-	159,931
Gain (loss) on disposal of capital asset	(1,576)	(9,315)	-
Passenger facility charges	-	-	279,140
Interest expense	(1,344,788)	-	(106,082)
Total non-operating revenues (expenses)	<u>(851,673)</u>	<u>83,950</u>	<u>339,828</u>
Income (loss) before capital contributions and transfers	<u>(1,403,102)</u>	<u>732,639</u>	<u>(2,517,414)</u>
Capital contributions related to grants	9,173	-	1,879,861
Capital contributions from external sources	2,824,177	-	-
Transfers in	2,181,870	-	-
Transfers out	(501,108)	(293,048)	(16,784)
Change in net position	<u>3,111,010</u>	<u>439,591</u>	<u>(654,337)</u>
Total net position, beginning of year, as restated	<u>234,476,235</u>	<u>15,587,886</u>	<u>37,215,163</u>
Total net position, end of year	<u>\$ 237,587,245</u>	<u>\$ 16,027,477</u>	<u>\$ 36,560,826</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
\$ 1,466,347	\$ 1,027,945	\$ 39,620,050	\$ 6,649,513
4,450	430,551	840,362	-
<u>1,470,797</u>	<u>1,458,496</u>	<u>40,460,412</u>	<u>6,649,513</u>
421,085	1,285,543	11,727,166	-
251,030	4,391,064	22,538,314	-
-	-	-	6,833,456
510,730	407,412	13,292,485	-
<u>1,182,845</u>	<u>6,084,019</u>	<u>47,557,965</u>	<u>6,833,456</u>
287,952	(4,625,523)	(7,097,553)	(183,943)
7,171	-	303,863	33,445
25,000	4,259,652	4,742,686	-
-	504,249	493,358	-
-	-	279,140	-
-	-	(1,450,870)	-
<u>32,171</u>	<u>4,763,901</u>	<u>4,368,177</u>	<u>33,445</u>
320,123	138,378	(2,729,376)	(150,498)
-	35,946	1,924,980	-
-	-	2,824,177	-
323,236	33,200	2,538,306	-
(319,656)	-	(1,130,596)	-
<u>323,703</u>	<u>207,524</u>	<u>3,427,491</u>	<u>(150,498)</u>
39,693,759	3,103,317	330,076,360	4,342,491
<u>\$ 40,017,462</u>	<u>\$ 3,310,841</u>	<u>\$ 333,503,851</u>	<u>\$ 4,191,993</u>

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

Change in net position of business-type activities

(58,861)

\$ 3,368,630

**City of Flagstaff, Arizona**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2015**

	Business-type Activities – Enterprise Funds		
	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 23,724,543	\$ 12,429,032	\$ 1,501,948
Interfund services provided	252,972	131,038	-
Other receipts	-	-	321,605
Payments to suppliers	(7,788,376)	(5,144,193)	(1,103,758)
Interfund services used	(42,026)	(968)	(30,604)
Interfund reimbursement used	(2,119,644)	(1,182,783)	(298,898)
Payments to employees	(4,885,916)	(4,243,986)	(697,757)
Net cash provided (used) by operating activities	<u>9,141,553</u>	<u>1,988,140</u>	<u>(307,464)</u>
<b>Cash flows from noncapital financing activities:</b>			
Transfer from other funds	-	-	-
Transfer to other funds	(499,694)	(290,140)	(16,784)
Interfund loans provided	-	-	(2,015,000)
Interfund loans received	2,015,000	-	-
Net cash provided (used) by noncapital financing activities	<u>1,515,306</u>	<u>(290,140)</u>	<u>(2,031,784)</u>
<b>Cash flows from capital and related financing activities:</b>			
Receipts from grantors	24,142	-	4,768,081
Capital contributions	2,400,809	-	-
Acquisition and construction of capital assets	(5,350,437)	(929,160)	(1,608,031)
Principal payments on capital debt	(2,904,056)	-	(180,604)
Interest paid on capital debt	(1,392,232)	-	(106,082)
Proceeds from insurance reimbursements	-	-	-
Proceeds from sales of capital assets	16,051	18,685	-
Net cash provided (used) by capital and related financing activities	<u>(7,205,723)</u>	<u>(910,475)</u>	<u>2,873,364</u>
<b>Cash flows from investing activities:</b>			
Interest received on investments	189,873	89,318	6,718
Net cash provided (used) by investing activities	<u>189,873</u>	<u>89,318</u>	<u>6,718</u>
Net increase (decrease) in cash and cash equivalents	<u>3,641,009</u>	<u>876,843</u>	<u>540,834</u>
Cash and cash equivalents at beginning of year	<u>18,784,815</u>	<u>18,319,619</u>	<u>44,825</u>
Cash and cash equivalents at end of year	<u>\$ 22,425,824</u>	<u>\$ 19,196,462</u>	<u>\$ 585,659</u>
Classified as:			
Cash, cash equivalents, and investments	\$ 20,831,909	\$ 8,047,136	\$ 585,659
Restricted cash and cash equivalents	1,593,915	11,149,326	-
Totals	<u>\$ 22,425,824</u>	<u>\$ 19,196,462</u>	<u>\$ 585,659</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
\$ 1,461,594	\$ 946,795	\$ 40,063,912	\$ 6,626,075
32,385	-	416,395	-
4,450	398,780	724,835	-
(240,306)	(4,171,238)	(18,447,871)	(6,835,973)
-	(250,846)	(324,444)	-
(107,773)	-	(3,709,098)	-
(396,673)	(1,299,077)	(11,523,409)	-
<u>753,677</u>	<u>(4,375,586)</u>	<u>7,200,320</u>	<u>(209,898)</u>
100,544	33,200	133,744	-
(319,656)	-	(1,126,274)	-
-	-	(2,015,000)	-
-	-	2,015,000	-
<u>(219,112)</u>	<u>33,200</u>	<u>(992,530)</u>	<u>-</u>
-	4,205,746	8,997,969	-
-	-	2,400,809	-
(324,375)	(238,768)	(8,450,771)	-
-	-	(3,084,660)	-
-	-	(1,498,314)	-
-	254,705	254,705	-
-	-	34,736	-
<u>(324,375)</u>	<u>4,221,683</u>	<u>(1,345,526)</u>	<u>-</u>
6,805	-	292,714	33,445
<u>6,805</u>	<u>-</u>	<u>292,714</u>	<u>33,445</u>
216,995	(120,703)	5,154,978	(176,453)
792,800	818,645	38,760,704	4,823,004
<u>\$ 1,009,795</u>	<u>\$ 697,942</u>	<u>\$ 43,915,682</u>	<u>\$ 4,646,551</u>
\$ 1,009,795	\$ 697,942	\$ 31,172,441	\$ 4,646,551
-	-	12,743,241	-
<u>\$ 1,009,795</u>	<u>\$ 697,942</u>	<u>\$ 43,915,682</u>	<u>\$ 4,646,551</u>

(continued)

**Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2015**

	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)	\$ (551,429)	\$ 648,689	\$ (2,857,242)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	8,462,715	1,152,245	2,759,383
Landfill closure and postclosure costs	-	246,316	-
Other receipts	-	-	279,140
(Increase) decrease in assets:			
Accounts receivable	609,407	(153,657)	(47,984)
Allowance for doubtful accounts	2,000	2,000	-
Prepaid items	20,833	-	-
Inventories	193,801	-	-
Increase (decrease) in liabilities:			
Accounts payable	223,518	50,373	(549,872)
Accrued payroll, compensated absences	(15,042)	(24,237)	2,569
OPEB	65,864	51,131	8,356
Pension expense (contribution)	20,568	7,215	76,455
Deposits payable	112,424	(6,232)	(5,784)
Advanced revenue	(3,106)	14,297	27,515
Total adjustments	<u>9,692,982</u>	<u>1,339,451</u>	<u>2,549,778</u>
Net cash provided (used) by operating activities	<u>\$ 9,141,553</u>	<u>\$ 1,988,140</u>	<u>\$ (307,464)</u>
Noncash investing, capital and financing activities:			
Capital assets acquired through contributions from developers	\$ 423,368	\$ -	\$ -
Capital assets transferred to governmental activities	(1,415)	(2,908)	-
Capital assets transferred from governmental activities	2,181,870	-	-
Total noncash investing, capital and financing activities	<u>\$ 2,603,823</u>	<u>\$ (2,908)</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
\$ 287,952	\$ (4,625,523)	\$ (7,097,553)	\$ (183,943)
510,730	407,412	13,292,485	-
-	-	246,316	-
-	-	279,140	-
27,632	(61,341)	374,057	(23,438)
-	-	4,000	-
-	(25,885)	(5,052)	-
-	-	193,801	-
(97,049)	(5,135)	(378,165)	(2,517)
7,661	12,509	(16,540)	-
5,614	31,733	162,698	-
11,137	(57,776)	57,599	-
-	68,229	168,637	-
-	(119,809)	(81,103)	-
<u>465,725</u>	<u>249,937</u>	<u>14,297,873</u>	<u>(25,955)</u>
<u>\$ 753,677</u>	<u>\$ (4,375,586)</u>	<u>\$ 7,200,320</u>	<u>\$ (209,898)</u>
\$ -	\$ -	\$ 423,368	\$ -
-	-	(4,323)	-
222,693	-	2,404,563	-
<u>\$ 222,693</u>	<u>\$ -</u>	<u>\$ 2,823,608</u>	<u>\$ -</u>

(concluded)

**CITY OF FLAGSTAFF, ARIZONA**  
**Notes to the Financial Statement**  
**June 30, 2015**

**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, 2015, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, and amendment of GASB Statement No. 68*. GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts that meet certain criteria, otherwise Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of Statement No. 68. The primary objective of this statement is to improve accounting and financial reporting by local governmental employers about financial support for pensions that are provided by other entities, thus providing decision-useful information, supporting assessments of accountability and interperiod equity, while creating additional transparency. Statement No. 71 applies to amounts associated with contributions, if any, made by a local government employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

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.

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 statements. 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 period 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 occurs when a constraint is placed on its 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 balance, 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. No 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, management of the City landfill, recycling collection services and 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 No. 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), 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 2014-2015, primary and secondary property tax collections amounted to \$5,565,912 and \$5,585,943, respectively.

### **Deferred Outflows of Resources**

When a consumption of net position/fund balance applies to a future period it should not be recognized as an outflow of resources, expense or expenditure until that time. 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 recognizes grant 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 advance revenues. Some grants and contributions consist of capital assets or resources that are restricted 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 the governmental fund 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.

### **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the pension plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **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.

### **Change in Accounting Principle – Prior Period Adjustment**

The implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* is a change in accounting principle, which causes certain prior period net position balances to be restated. This standard requires the liability of employers for defined benefit pension (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees' that is attributed to the employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. Actuarial valuations of the total pension liability are required to be performed at least every two years. Projections of benefits payments are required to be based on the benefit terms and legal agreements existing at the measurement date while incorporating the effects of salary changes, cost-of-living adjustments, and ad hoc postemployment benefit changes if substantive. The projected benefit payments are discounted to their actuarial present value using the long-term expected rate of return and to

attribute the payments to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level of percentage of pay.

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

	Governmental Activities	Business-type Activities	Major Enterprise Funds	Nonmajor Enterprise Fund
Net position as previously stated at June 30, 2014:	\$ 308,284,790	\$ 344,173,830	\$ 339,274,928	\$ 5,325,681
Prior period adjustment related to GASB 68 Net pension liability at measurement date of June 30, 2013				
Deferred outflows related to pension	6,401,555	911,962	785,048	126,914
Net pension liability	(97,364,565)	(15,436,211)	(13,086,933)	(2,349,278)
Total prior period adjustment	(90,963,010)	(14,524,249)	(12,301,885)	(2,222,364)
Net position as restated, July 1, 2014	<u>\$ 217,321,780</u>	<u>\$ 329,649,581</u>	<u>\$ 326,973,043</u>	<u>\$ 3,103,317</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. Reconciliations 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	\$ 76,097,151	\$ –	\$ –	\$ 4,646,551	\$ –	\$ 80,743,702
Accounts receivable, net	8,504,465	–	302,292	51,656	–	8,858,413
Interest receivable	151,708	–	–	6,814	–	158,522
Intergovernmental receivables	3,385,644	–	–	–	–	3,385,644
Special assessments receivable	6,703,577	–	–	–	–	6,703,577
Interfund receivable	3,120,000	–	–	485,640	(3,120,000)	485,640
Inventory	379,527	–	–	–	–	379,527
Restricted cash and cash equivalents	5,397,599	–	–	–	–	5,397,599
Refundable deposits	112,900	–	–	–	–	112,900
Promissory note forgivable	–	–	91,800	–	–	91,800
Capital assets	–	305,102,792	–	–	–	305,102,792
<b>Total assets</b>	<b>103,852,571</b>	<b>305,102,792</b>	<b>394,092</b>	<b>5,190,661</b>	<b>(3,120,000)</b>	<b>411,420,116</b>
<b>Deferred Outflows of Resources</b>						
Deferred pension	–	–	22,735,716	–	–	22,735,716
Deferred loss on bond refunding	–	–	977,211	–	–	977,211
<b>Total deferred outflows of resources</b>	<b>–</b>	<b>–</b>	<b>23,712,927</b>	<b>–</b>	<b>–</b>	<b>23,712,927</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 103,852,571</b>	<b>\$ 305,102,792</b>	<b>\$ 24,107,019</b>	<b>\$ 5,190,661</b>	<b>\$ (3,120,000)</b>	<b>\$ 435,133,043</b>
<b>Liabilities</b>						
Accounts payable	\$ 5,707,176	\$ –	\$ –	\$ 234,620	\$ –	\$ 5,941,796
Accrued payroll & compensated absence	1,322,779	–	–	–	–	1,322,779
Interest payable	–	–	1,322,202	–	–	1,322,202
Interfund payable	3,120,000	–	–	–	(3,120,000)	–
Advanced revenue	500,706	–	–	588	–	501,294
Guaranty and other deposits	1,630,360	–	–	–	–	1,630,360
Unamortized bond premium	–	–	3,084,757	–	–	3,084,757
Unamortized loss on debt refunding	–	–	–	–	–	–
Compensated absences	–	–	3,870,066	–	–	3,870,066
Claims and judgements	–	–	–	277,820	–	277,820
Other postemployment benefits	–	–	4,344,203	–	–	4,344,203
Net pension liability	–	–	111,543,325	–	–	111,543,325
Unmatured long-term debt	–	–	74,776,209	–	–	74,776,209
<b>Total liabilities</b>	<b>12,281,021</b>	<b>–</b>	<b>198,940,762</b>	<b>513,028</b>	<b>(3,120,000)</b>	<b>208,614,811</b>
<b>Deferred inflows of resources</b>						
Unavailable revenue – property taxes	232,623	–	(232,623)	–	–	–
Unavailable revenue – special assessmen	6,703,153	–	(6,703,153)	–	–	–
Deferred inflow related to pension	–	–	8,197,451	–	–	8,197,451
<b>Total deferred inflows of resources</b>	<b>6,935,776</b>	<b>–</b>	<b>1,261,675</b>	<b>–</b>	<b>–</b>	<b>8,197,451</b>
<b>Fund Balance – Net Position</b>						
Fund balance/Net Position	84,635,774	305,102,792	(176,095,418)	4,677,633	–	218,320,781
<b>Total liabilities, deferred inflows and fund balance-net position</b>	<b>\$ 103,852,571</b>	<b>\$ 305,102,792</b>	<b>\$ 24,107,019</b>	<b>\$ 5,190,661</b>	<b>\$ (3,120,000)</b>	<b>\$ 435,133,043</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	\$ 509,253,452
Accumulated depreciation	(204,150,660)
	<u>\$ 305,102,792</u>

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

Promissory note forgivable	\$ 91,800
Court receivables	302,292
	<u>394,092</u>

Certain deferred outflows and inflows of resources are applicable to future periods and, therefore, not recognized in the governmental funds, but are reported in the statement of net positions.

Deferred outflows related to pensions	\$ 22,735,716
Deferred loss on bond refunding	977,211
Deferred inflows related to pensions	(8,197,451)
	<u>\$ 15,515,476</u>

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 bond and lease payable	\$ 74,776,208
Governmental interest payable	1,322,202
Compensated absences	5,538,484
Other postemployment benefits	4,344,203
Net pension liability	111,543,325
Unamortized bond premium	3,084,757
Subtotal	<u>200,609,179</u>
Less: current portion compensated absences	1,668,418
	<u>\$ 198,940,761</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	\$ 6,703,153
Property tax	232,622
	<u>\$ 6,935,775</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>\$ 4,677,633</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	\$ 3,120,000
Interfund payables	(3,120,000)
	<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	\$ 53,725,196	\$ -	\$ 28,069	\$ -	\$ 16,683,665	\$ 70,436,930
Intergovernmental	20,549,000	-	-	-	(9,799,494)	10,749,506
Grants and entitlements	13,483,604	-	-	-	(6,884,171)	6,599,433
Special assessments	1,857,884	-	(1,857,884)	-	-	-
Charges for services	2,986,151	-	-	-	-	2,986,151
Licenses and permits	1,866,792	-	-	-	-	1,866,792
Fines and forfeitures	1,389,663	-	2,754	-	-	1,392,417
Rent	1,660,635	-	-	-	-	1,660,635
Investment earnings	1,145,686	-	-	33,445	-	1,179,131
Contributions	368,057	1,823,902	-	-	-	2,191,959
Miscellaneous	645,571	-	-	-	-	645,571
Total revenue	99,678,239	1,823,902	(1,827,061)	33,445	-	99,708,525
<b>Expenditures/Expenses</b>						
General governmental	14,974,692	623,530	766,699	22,442	1,086,016	17,473,379
Public safety	27,583,880	1,771,824	5,844,895	48,267	-	35,248,866
Public works	1,216,083	225,647	(36,401)	1,931	257,048	1,664,308
Economic and physical development	8,506,794	235,376	142,284	12,177	446,804	9,343,435
Culture and recreation	11,029,832	1,823,514	110,506	17,769	(470,178)	12,511,443
Highways and streets	8,035,221	8,500,239	(133,301)	22,496	(1,319,690)	15,104,965
Principal retirement	8,313,298	-	(8,313,298)	-	-	-
Interest and other charges	2,798,182	-	145,818	-	-	2,944,000
Capital outlay	16,944,654	(16,944,654)	-	-	-	-
Total expenditures/expenses	99,402,636	(3,764,524)	(1,472,798)	125,082	-	94,290,396
<b>OTHER FINANCING SOURCES (USES):</b>						
Sale of capital assets	3,013,051	(6,024,469)	-	-	-	(3,011,418)
Transfers in	17,376,813	-	-	-	4,323	17,381,136
Transfers out	(16,384,283)	-	-	-	(2,404,563)	(18,788,846)
Total other financing sources (uses)	4,005,581	(6,024,469)	-	-	(2,400,240)	(4,419,128)
Net change for the year	\$ 4,281,184	\$ (436,043)	\$ (354,263)	\$ (91,637)	\$ (2,400,240)	\$ 999,001

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

Capital outlay	\$ 16,944,654
Depreciation expense	(13,180,130)
Disposal of capital assets	(6,024,469)
Donated capital assets	1,823,902
	<u>\$ (436,043)</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	\$ (1,857,884)
Property tax	28,069
Court revenue	2,754
	<u>\$ (1,827,061)</u>

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

Amortization of bond premium	\$ 298,578
Amortization of refunding loss on debt	(161,308)
	<u>\$ 137,270</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	\$ (10,200)
Accrual of long-term compensated absences	(139,741)
Accrual of bond interest	(145,818)
Pension contributions	16,346,485
Pension benefits earned net of employee contributions	(22,388,535)
Accrual of other postemployment benefits	(639,961)
	<u>\$ (6,977,770)</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	\$ 8,313,298
	<u>\$ 8,313,298</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	\$ 33,445
Expenditures	(125,082)
	<u>\$ (91,637)</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 business-type activities	\$ (2,404,563)
Transfer of capital assets from business-type activities	4,323
	<u>\$ (2,400,240)</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 restricted 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.

### **Deficit Fund Balance**

A deficit unassigned fund balance of \$282,178 exists in the capital projects bond fund. The deficit is a result of beginning construction of bonded projects prior to the receipt of proceeds. Bonding, as approved by voters, will be issued in the next reporting period.

Governmental fund balances as of June 30, 2015 are as follows:

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportatio n Fund</u>	<u>Special Assessment Bond Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balances:						
Nonspendable:						
Perpetual care	\$ -	\$ -	\$ -	\$ -	\$ 237,503	\$ 237,503
Inventory	323,792	-	-	-	55,735	379,527
Restricted for:						
Library services	-	-	-	-	1,180,808	1,180,808
Library branch services	-	-	-	-	1,067,573	1,067,573
Library programs externally directed	-	-	-	-	1,163,222	1,163,222
Court improvements and operations	913,849	-	-	-	-	913,849
Debt service	-	-	1,566,656	332,893	14,090,760	15,990,309
Regional planning	-	-	-	-	50,204	50,204
Street improvements	-	4,561,531	7,126,682	-	-	11,688,213
Transit	-	-	3,958,022	-	-	3,958,022
Public art	-	-	-	-	511,124	511,124
Parks renovations	-	-	-	-	2,430,030	2,430,030
Parks operations	-	-	-	-	1,539,989	1,539,989
Perpetual care	-	-	-	-	20,917	20,917
Development fee projects	982,971	-	-	-	-	982,971
Other capital projects	54,400	-	4,821,772	-	6,581,441	11,457,613
Assigned to:						
Capital reserve	7,087,735	-	-	-	-	7,087,735
Real estate	1,104,443	-	-	-	-	1,104,443
Unassigned:	23,153,900	-	-	-	(282,178)	22,871,722
Total fund balances	<u>\$ 33,621,090</u>	<u>\$ 4,561,531</u>	<u>\$ 17,473,132</u>	<u>\$ 332,893</u>	<u>\$ 28,647,128</u>	<u>\$ 84,635,774</u>

### III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. Budgetary Information

##### Budget Basis of Accounting

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

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

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

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

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

### **Review and Approval**

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

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

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

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

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

## IV. DETAILED NOTES ON ALL FUNDS

### A. Deposits and Investments

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

#### Deposits

At June 30, 2015, the carrying amount of the City's deposits was \$17,498,818 and the bank balance was \$21,834,609. The \$4,335,791 difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2015.

#### 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, 2015.

#### 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, 2015, the City's investments included the following:

Investment Type	Fair Value	Weighted Average Maturity (in years)
Federal agency notes	\$ 23,579,017	2.450
Municipal obligations	1,364,532	1.583
U.S. treasuries	48,899,990	2.710
State investment pool	30,348,250	1.231
Corporate notes	6,604,437	3.208
Bank notes	1,553,534	1.583
Money market	208,405	0.050
Total fair value of investments	<u>\$ 112,558,165</u>	
Portfolio weighted average maturity		2.258

## 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, 2015 is as follows:

Investment Type	Fair Value	Moody's Rating	S&P Rating	% of Investments
Federal agency notes	\$ 23,579,017	Aaa	AA+	20.94
Municipal obligations	1,364,532	Aa2 / Aaa	AA- / AAA	1.21
U.S. treasuries	48,899,990	Aaa	AA+	43.44
State investment pool	30,348,250	AAA / AA-2	AAA f / S1+	26.96
Corporate notes	6,604,437	A1 / Aaa	AA+ / AAA/ A+	5.87
Bank notes	1,553,534	A1	AA-	1.38
Money market	208,405	N/A	N/A	0.19
Total	<u>\$ 112,558,165</u>			<u>100%</u>

## Concentration of Credit Risk

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

At June 30, 2015, 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	\$ 112,558,165
Carrying amount of cash deposits	17,498,818
Total pooled cash and investments	<u>\$ 130,056,983</u>
Pooled cash, equivalents and investments – unrestricted	\$ 111,916,143
Restricted cash and investments	18,140,840
Total pooled cash and investments	<u>\$ 130,056,983</u>

Cash and cash equivalents at June 30, 2015 consisted of the following:

Investments included in cash and cash equivalents	\$ 94,417,327
Carrying amount of unrestricted city deposits	17,485,986
Cash on hand	12,830
Total cash and cash equivalents per statement of net position	<u>\$ 111,916,143</u>

Investment income comprises the following for the year ended June 30, 2015:

Net interest and dividends	\$ 1,400,415
Net increase (decrease) in the fair value of investments	82,579
Total net investment income per statement of activities	<u>\$ 1,482,994</u>

The net increase in the fair value of investments during fiscal year 2014–2015 was \$82,579. 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, 2015 was \$328,951.

In previous years, the City recognized a decrease in fair value of \$1,473,712 consisting of the City's share of a loss on an investment within the Local Government Investment Pool. The State and numerous other bondholders filed suit against the principals, underwriters, trustees, accountants, and others in May 2003. The case is presently pending litigation. There have been several distributions since June 2006. The distributions include payments from the trustee and settlement proceeds received from pending litigation. The City did not receive a distribution this year 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 \$22,706 and the total recovery to date is \$100,897.

## B. Receivables

Receivables as of June 30, 2015, including allowances for uncollectible accounts, are as follows:

Fund	Accounts	Interest	Intergov- ernmental	Special Assessments	Total Receivables
<b>Governmental Activities</b>					
General fund	\$ 5,642,196	\$ 62,223	\$ 353,141	\$ -	\$ 6,057,560
Highway user revenue fund	798,684	8,256	26,893	-	833,833
Transportation fund	2,221,632	31,894	783,441	-	3,036,967
Special assessment fund	-	270	-	6,703,577	6,703,847
Other governmental funds	971,945	49,065	2,222,169	-	3,243,179
Less: allowance for uncollectibles	(827,700)	-	-	-	(827,700)
Total government funds	8,806,757	151,708	3,385,644	6,703,577	19,047,686
Internal services funds	51,656	6,814	-	-	58,470
Total governmental activities	8,858,413	158,522	3,385,644	6,703,577	19,106,156
<b>Business-Type Activities</b>					
Water	2,062,982	24,802	158,624	-	2,246,408
Wastewater	1,104,732	17,404	248,013	-	1,370,149
Environmental services	1,389,641	17,712	-	-	1,407,353
Airport	82,332	1,355	85,399	-	169,086
Stormwater	138,796	1,674	25,000	-	165,470
Flagstaff housing authority	386,186	-	89,852	-	476,038
Less: allowance for uncollectibles	(183,184)	-	-	-	(183,184)
Total business-type activities	4,981,485	62,947	606,888	-	5,651,320
Total activities	\$ 13,839,898	\$ 221,469	\$ 3,992,532	\$ 6,703,577	\$ 24,757,476

The receivables not expected to be collected within one year include \$110,000 of the general fund, \$65,000 of the transportation fund, \$74,000 of the water fund, \$36,000 of the wastewater fund, \$39,000 of the environmental services fund, \$1,000 of the airport fund, \$5,000 of the Stormwater fund, and \$28,184 of the flagstaff housing authority.

## C. Capital Assets

A summary of capital asset activity, for the government-wide financial statements, as of June 30, 2015 is as follows:

	Balance July 1, 2014	Additions	Deletions and Retirements	Transfers In (out)	Balance June 30, 2015
<b>Governmental activities:</b>					
Non-depreciable assets:					
Land	\$ 67,941,456	\$ 2,886,214	\$ (5,982,458)	\$ -	\$ 64,845,212
Construction –in–progress	7,203,958	9,489,739	-	(2,883,610)	13,810,087
Total non-depreciable assets	75,145,414	12,375,953	(5,982,458)	(2,883,610)	78,655,299
Depreciable assets:					
Buildings	76,039,881	-	(212,575)	-	75,827,306
Improvements	20,984,206	374,946	-	-	21,359,152
Machinery and equipment	33,048,389	915,272	(2,242,907)	24,726	31,745,480
Infrastructure	296,299,099	5,102,385	(214,317)	479,047	301,666,214
Total depreciable assets	426,371,575	6,392,603	(2,669,799)	503,773	430,598,152
Accumulated depreciation:					
Buildings	(19,966,253)	(1,648,350)	203,335	-	(21,411,268)
Improvements	(13,711,328)	(1,025,314)	-	-	(14,736,642)
Machinery and equipment	(22,738,826)	(1,860,405)	2,221,071	(20,403)	(22,398,563)
Infrastructure	(137,161,507)	(8,646,061)	203,382	-	(145,604,187)
Total accumulated depreciation	(193,577,914)	(13,180,130)	2,627,788	(20,403)	(204,150,660)
Governmental activities capital assets, net	<u>\$ 307,939,075</u>	<u>\$ 5,588,427</u>	<u>\$ (6,024,469)</u>	<u>\$ (2,400,240)</u>	305,102,792
				Less: associated debt	(74,776,209)
				Less: unamortized premium	(3,084,757)
				Less: construction retainage	(863,526)
				Plus: unamortized loss on current refunding	977,211
				Plus: unspent capital related debt, series 2013	434,695
				Plus: non-capital related debt, series 2013	1,962,000
				Plus: unspent capital related debt, series 2014	906,303
				Net investment in capital assets	<u>\$ 230,658,509</u>

	Balance July 1, 2014	Additions	Deletions and Retirements	Transfers In (out)	Balance June 30, 2015
<b>Business-type activities:</b>					
Non-depreciable assets:					
Land	\$ 13,966,395	\$ 153,320	\$ -	\$ -	\$ 14,119,715
Construction -in-progress	22,384,360	3,552,372	-	(7,329,006)	18,607,726
Total non-depreciable assets	<u>36,350,755</u>	<u>3,705,692</u>	<u>-</u>	<u>(7,329,006)</u>	<u>32,727,441</u>
Depreciable assets:					
Buildings	100,822,223	69,921	(89,000)	-	100,803,144
Improvements	375,551,142	3,649,236	(21,268)	9,689,452	388,868,562
Machinery and equipment	44,770,861	1,449,290	(615,324)	3,826	45,608,653
Total depreciable assets	<u>521,144,226</u>	<u>5,168,447</u>	<u>(725,592)</u>	<u>9,693,278</u>	<u>535,280,359</u>
Accumulated depreciation:					
Buildings	(48,147,319)	(2,285,733)	89,000	-	(50,344,052)
Improvements	(131,776,744)	(8,115,764)	21,270	-	(139,871,238)
Machinery and equipment	(22,856,850)	(2,890,988)	569,695	35,968	(25,142,175)
Total accumulated depreciation	<u>(202,780,913)</u>	<u>(13,292,485)</u>	<u>679,965</u>	<u>35,968</u>	<u>(215,357,465)</u>
Business-type activities capital assets, net	<u>\$ 354,714,068</u>	<u>\$ (4,418,346)</u>	<u>\$ (45,627)</u>	<u>\$ 2,400,240</u>	352,650,335
				Less: associated debt	(40,606,335)
				Less: construction retainage	(80,567)
				Net investment in capital assets	<u>\$ 311,963,433</u>

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

<b>Governmental Activities:</b>	
General government	\$ 623,530
Public safety	1,771,824
Public works	225,647
Economic and physical development	235,376
Culture and recreation	1,823,514
Highway and streets	8,500,239
Total depreciation expense - governmental activities	<u>\$ 13,180,130</u>

## D. Interfund Receivables, Payables, and Transfers

### Interfund receivables and payables

Net interfund receivables and payables between governmental activities and business-type activities of \$485,640 are included in the government-wide financial statements at June 30, 2015. The interfund balances at June 30, 2015 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, 2015 are expected to be repaid within one year.

The following interfund receivables and payables are included in the fund financial statements at June 30, 2015:

Fund	Interfund Receivables	Interfund Payables
<b>Governmental Activities:</b>		
General fund	\$ 3,020,000	\$ -
Other governmental funds	-	3,020,000
Total governmental activities	<u>3,020,000</u>	<u>3,020,000</u>
<b>Business-Type Activities:</b>		
Water and wastewater fund	-	-
Airport fund	-	-
Total business-type activities	<u>-</u>	<u>-</u>
Total governmental and business-type activities	<u>\$ 3,020,000</u>	<u>\$ 3,020,000</u>
Less: fund eliminations	(3,020,000)	
Adjustment for internal service fund elimination	<u>485,640</u>	
Total government-wide statement of net position	<u><u>\$ 485,640</u></u>	

## Transfers

The net transfers of \$1,407,710 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 2015 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, 2015:

Fund	Transfers out	Transfers In
<b>Governmental Activities:</b>		
General fund	\$ 4,132,795	\$ 2,848,218
Highway user revenue fund	20,701	4,011,318
Transportation fund	3,116,934	550,000
Other governmental funds	9,113,853	9,967,277
Total governmental funds	<u>16,384,283</u>	<u>17,376,813</u>
Internal service fund	-	-
Total governmental activities	<u>16,384,283</u>	<u>17,376,813</u>
<b>Business-Type Activities:</b>		
Water fund	501,108	2,181,870
Environmental services fund	293,048	-
Airport fund	16,784	-
Stormwater fund	319,656	323,236
Other business-type fund		33,200
Total business-type activities	<u>1,130,596</u>	<u>2,538,306</u>
Total governmental and business-type activities	<u>\$ 17,514,879</u>	<u>\$ 19,915,119</u>
Less: fund eliminations	(18,507,409)	
Add: net capital assets transfer	<u>2,400,240</u>	
Total government-wide statement of activities	<u>\$ 1,407,710</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 2015 lease expense for the library was \$84,461. The schedule below for future minimum lease expenses reflects the change in the rental rate as of June 30, 2015.

The additional non-cancellable lease is with the Chevelon Butte School District #5 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 2015.

Year Ending June 30	East Flagstaff Library	Chevelon Butte School Dist.#5
2016	\$ 84,461	\$ 7,200
2017	84,461	7,200
2018	84,461	7,200
2019	84,461	7,200
2020	-	7,200
Total	<u>\$ 337,844</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, 2015 were \$169,914 (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 2015 was \$1,660,635. 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
2016	\$ 801,104
2017	801,104
2018	66,759
Total	<u>\$ 1,668,967</u>

In addition, the Airport Fund has several leases under cancellable agreements. The leases are for terminal space, hangars, shades, tie downs, ground leases, rental car agencies and a cafe. Lease revenue in the airport fund for fiscal year 2015 was \$1,343,794.

## 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 funds.

### Advance Refunding

In prior years, the City issued the bonds to advance refund \$8,565,000 of the outstanding series 2006A general obligation bonds of projects 2004 bonds. 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 2006A series bonds is considered defeased, and the City has removed the liability from its accounts. The outstanding principal of the defeased bonds at June 30, 2015 is \$8,565,000.

General obligation bonds outstanding at June 30, 2015:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 40,649,658
Governmental activities – advance refunding	8,270,000
Business-type activities	<u>1,440,999</u>
Total general obligation bonds outstanding	<u>\$ 50,360,657</u>

General Obligation Bonds

Governmental activities:

\$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.	\$ 9,375,000
\$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.	10,860,000
\$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.	2,914,658
\$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.	10,900,000
\$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>48,919,658</u>

Business-type activities:

\$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.	1,440,999
Total business-type activities	<u>1,440,999</u>
Total General Obligation Bonds	<u>\$ 50,360,657</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
2016	5,102,348	1,596,592	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	978,291	71,941	37,308
2020	5,030,894	814,420	74,174	35,041
2021-2025	16,032,696	2,267,778	406,871	138,645
2026-2030	5,370,000	845,375	474,061	70,412
2031-2035	2,135,000	220,100	210,865	6,595
<b>Total</b>	<b>\$ 48,919,658</b>	<b>\$ 9,978,083</b>	<b>\$ 1,440,999</b>	<b>\$ 412,860</b>

#### 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, 2015 was \$86,318,547 and \$41,003,761 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 October 30, 2014, \$1,655,000 of Aspen Place at the Sawmill Improvement District bonds were defeased as related to the early pay off of debt by the developer.

Special assessment bonds outstanding at June 30, 2015:

Purpose	Amount
Governmental activities	\$ 6,705,000

Special assessment bonds payable at June 30, 2015 consist of the following individual issues:

Special Assessment Bonds

Governmental activities:

\$8,900,000 Improvement district bonds, due in annual installments of \$260,000 to \$575,000, through January 1, 2032; interest at 5.0%. Aspen Place at the Sawmill district improvements.	\$ 6,705,000
Total Special Assessment Bonds	<u>\$ 6,705,000</u>

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2016	\$ 260,000	\$ 335,250
2017	275,000	322,250
2018	290,000	308,500
2019	300,000	294,000
2020	315,000	279,000
2021-2025	1,820,000	1,143,500
2026-2030	2,330,000	639,500
2031-2032	1,115,000	84,500
Total	<u>\$ 6,705,000</u>	<u>\$ 3,406,500</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.

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

Revenue bonds outstanding at June 30, 2015:

Purpose	Amount
Governmental activities	\$ 2,840,000
Governmental activities – partial advance refunding	11,835,000
Business-type activities	3,284,743
Total revenue bonds outstanding	<u>\$ 17,959,743</u>

Revenue bonds at June 30, 2015 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.	\$ 11,835,000
\$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.	2,840,000
Total Governmental activities	<u>14,675,000</u>

Business-type activities:

\$6,775,760 Water and wastewater revenue bonds, series 2003 due in annual installments of \$238,431 to \$462,398 through July 1, 2022; interest at 3.548%. Water and sewer improvements.	3,284,743
Total Revenue Bonds	<u>\$ 17,959,743</u>

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

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 1,925,000	\$ 552,488	\$ 362,275	\$ 110,100
2017	1,990,000	485,661	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	2,240,000	224,413	416,482	54,931
2021-2025	3,015,000	431,681	1,340,211	72,421
2026-2030	1,050,000	181,175	-	-
2031	240,000	5,550	-	-
<b>Total</b>	<b>\$ 14,675,000</b>	<b>\$ 2,596,144</b>	<b>\$ 3,284,743</b>	<b>\$ 487,403</b>

### 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 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.	\$ 860,000
<b>Total Municipal Facility Corporation Bonds</b>	<b>\$ 860,000</b>

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
2016	\$ 420,000	\$ 30,875
2017	440,000	10,450
<b>Total</b>	<b>\$ 860,000</b>	<b>\$ 41,325</b>

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, 2015:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	<u>\$ 2,670,000</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.	\$ 2,670,000
Total Certificates of participation	<u>\$ 2,670,000</u>

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

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
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>\$ 2,670,000</u>	<u>\$ 255,055</u>

The following is a summary of debt service requirements, including interest requirements, to maturity for long-term debt at June 30, 2015:

Fiscal Year	General Obligation Bonds	Special Assessment Bonds	Revenue Bonds	Municipal Facility Corporation Bonds	Cetificates of Participation	Total
2016	6,808,287	595,250	2,949,863	450,875	586,670	11,390,945
2017	7,164,112	597,250	2,947,810	450,450	585,673	11,745,294
2018	6,637,822	598,500	2,934,974	-	582,900	10,754,196
2019	6,008,452	594,000	2,938,780	-	583,313	10,124,544
2020	5,954,529	594,000	2,935,826	-	586,500	10,070,856
2021	5,749,133	593,250	2,926,578	-	-	9,268,961
2022	4,262,308	586,750	720,861	-	-	5,569,919
2023	3,986,992	594,750	718,462	-	-	5,300,203
2024	3,302,659	596,500	245,531	-	-	4,144,690
2025	1,544,899	592,250	247,881	-	-	2,385,030
2026	1,546,558	592,250	244,913	-	-	2,383,721
2027	1,543,553	596,250	246,250	-	-	2,386,053
2028	1,541,021	594,000	246,769	-	-	2,381,790
2029	1,546,914	595,750	246,825	-	-	2,389,489
2030	581,803	591,250	246,418	-	-	1,419,471
2031	581,255	595,750	245,549	-	-	1,422,554
2032	580,105	603,750	-	-	-	1,183,855
2033	469,700	-	-	-	-	469,700
2034	472,300	-	-	-	-	472,300
2035	469,200	-	-	-	-	469,200
Less interest	(10,390,943)	(3,406,500)	(3,083,547)	(41,325)	(255,055)	(17,177,370)
	<u>\$50,360,657</u>	<u>\$ 6,705,000</u>	<u>\$17,959,743</u>	<u>\$ 860,000</u>	<u>\$ 2,670,000</u>	<u>\$78,555,400</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, 2015, \$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, 2015 \$.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, 2015 \$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, 2015:

<u>Purpose</u>	<u>Amount</u>
Business-type activities	<u>\$ 31,908,999</u>

Loan payables at June 30, 2015 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.	\$ 5,290,000
\$23,100,000 Wastewater infrastructure finance authority due in annual installment of \$815,834, to 1,571,901 through July 1, 2027; interest at 3.512%. Sewer treatment plant improvements.	17,364,247
\$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.	6,573,149
\$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.	1,095,713
\$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.	186,204
\$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.	427,816
\$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.	893,338
Total water and wastewater loan payable	<u>\$ 31,830,467</u>

Airport:

\$600,000 Arizona Department of Transportation due in quarterly installments of \$5,337 to \$13,548 through January 1, 2016; interest at 5.60%. Hangar construction.	\$ 78,532
Total	<u>\$ 31,908,999</u>

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

Year Ending June 30	Business-type Activities	
	Principal	Interest
2016	\$ 2,031,607	\$ 1,083,938
2017	2,078,489	1,020,593
2018	2,120,175	947,773
2019	2,195,836	873,001
2020	2,273,638	795,562
2021-2025	12,590,632	2,719,196
2026-2030	8,618,620	549,595
Total	<u>\$ 31,908,999</u>	<u>\$ 7,989,658</u>

### Obligations under Capital Leases

The capital lease agreement for renewable energy solar equipment related to governmental activities has assets of \$967,169. Capital lease agreements related to business-type activities consist of the construction of a co-generator at the Wildcat Wastewater Treatment Plant, \$1,014,527, construction of airport hangars, \$489,382, renewable energy solar equipment, \$1,709,103. 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, 2015	Governmental Activities	Business Type Activities
2016	\$ 84,778	\$ 644,507
2017	85,324	645,550
2018	85,894	395,680
2019	86,487	396,810
2020	87,102	397,985
2021-2025	441,683	1,885,837
2026-2029	268,300	512,086
Total future minimum lease payments	<u>1,139,569</u>	<u>4,878,455</u>
Less: imputed interest costs	(193,020)	(906,859)
Present value of future minimum lease payments	<u>\$ 946,550</u>	<u>\$ 3,971,596</u>

## **Pledged Revenues**

The City has pledged future water utility and wastewater utility revenues to repay Water Infrastructure Financing Authority Bonds issued during the period of 1992–2015. 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, 2015, \$35,115,210 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, 2015, net revenue available for service of this debt was \$8,107,874. The debt principal, interest and fees paid in fiscal year 2015 equal \$3,069,927 (37.86% 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, 2015, \$11,835,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2015, net revenues available for service of the debt were \$30,348,121. The debt principal and interest paid in fiscal year 2015 was \$1,164,750 (3.84% of available pledged net revenues). For additional information on pledged revenues for MFC transportation bonds, refer to Schedule 17 in the Statistical Section of this report.

The City has pledged certain revenues for the repayment of \$4,700,000 in Municipal Facility Corporation bonds issued in 2001 for the construction of a multipurpose office facility. The bonds are secured by a pledge of the City's state shared revenues not specifically reserved by law or other regulation to be expended for other purposes. At June 30, 2015 \$860,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2015, net revenues available for service of this debt were \$13,543,397. The debt principal and interest paid in fiscal year 2015 was \$450,350 (3.33% 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, 2015, \$2,840,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2015, net revenues available for the service of this debt were \$12,129,085. The debt principal and interest paid in fiscal year 2015 was \$249,563 (2.06% 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, 2015 was as follows:

	Beginning Balance As Restated	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 53,340,631	\$ -	\$ (4,420,973)	\$ 48,919,658	\$ 5,102,348
Special assessment bonds	8,605,000	-	(1,900,000)	6,705,000	260,000
Revenue bonds	15,495,000	-	(820,000)	14,675,000	1,925,000
Municipal facility corporate bonds	1,260,000	-	(400,000)	860,000	420,000
Certificates of participation	3,155,000	-	(485,000)	2,670,000	500,000
Total bonds payable	81,855,631	-	(8,025,973)	73,829,658	8,207,348
Capital leases	1,233,875	-	(287,325)	946,550	58,244
Bond premium	3,383,336	2	(298,580)	3,084,758	298,580
Compensated absences	3,730,325	1,790,430	(1,650,689)	3,870,066	1,668,418
Other postemployment benefits	3,704,242	639,961	-	4,344,203	-
Net pension liability	97,364,565	28,836,637	(14,657,877)	111,543,325	22,735,716
Claims and judgements	219,695	58,125	-	277,820	111,580
Governmental activity long-term liability	\$ 191,491,669	\$ 31,325,155	\$ (24,920,444)	\$ 197,896,380	\$ 33,079,886
<b>Business-type activities:</b>					
Bonds payable:					
General obligation bonds	\$ 1,751,956	\$ -	\$ (310,957)	\$ 1,440,999	\$ 65,637
Water & sewer revenue bonds	3,634,606	-	(349,863)	3,284,743	362,275
Total bonds payable	5,386,562	-	(660,820)	4,725,742	427,912
Water & sewer loan payable	33,745,782	-	(1,915,315)	31,830,467	1,979,984
Airport loan payable	127,362	-	(48,830)	78,532	51,623
Capital lease payable	4,431,289	(2)	(459,693)	3,971,594	482,216
Total loan and leases payable	38,304,433	(2)	(2,423,838)	35,880,593	2,513,823
Compensated absences	913,380	268,928	(342,296)	840,012	363,773
Other postemployment benefits	829,261	149,743	-	979,004	-
Net pension liability	15,436,211	2,375,918	(3,428,670)	14,383,459	2,206,162
Landfill closure/postclosure	7,649,302	246,316	-	7,895,618	-
Business-type activity long-term liability	\$ 68,519,149	\$ 3,040,903	\$ (6,855,624)	\$ 64,704,428	\$ 5,511,670

## 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, 2015 have potential exposure to the City of approximately \$277,820 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>
2012-13	\$ 261,114	\$ 198,203	\$ 145,243	\$ 314,074
2013-14	314,074	127,779	222,158	219,695
2014-15	219,695	194,064	135,939	277,820

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, 2015:

Governmental Activities:	
General fund	\$ 432,907
Highway users revenue fund	2,734,308
Capital projects bond fund	777,507
Other government funds	2,429,257
Total governmental activities	<u>6,373,979</u>
Business – Type Activities:	
Water and wastewater fund	1,049,989
Wastewater fund	1,987,263
Environmental services fund	573,685
Airport fund	2,136,751
Stormwater fund	774,864
Total business–type activities	<u>6,522,552</u>
Total governmental and business–type activities	<u>\$ 12,896,531</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 plans are component units of the State of Arizona.

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 and 2.1.

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 benefit (OPEB) 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 seven-member board, known as The Board of Trustees, and the participating local boards govern the PSPRS 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 benefit (OPEB) plan that covers elected officials and judges of certain state and local governments who were members of the plan on December 31, 2013. This plan was closed to new members as of January 1, 2014. The EORP is governed by Board of Trustees of the PSPRS according to the provisions of A.S.R. Title 38, Chapter 5, and Article 3.

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

ASRS

3300 N. Central Ave.  
P.O. Box 33910  
Phoenix, AZ 85067-3910  
(602) 240-2200/(800) 621-3778  
[www.azasrs.gov](http://www.azasrs.gov)

PSPRS and EORP

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

At June 30, 2015, the City reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities as of June 30, 2015

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
Net pension liabilities	\$ 111,543,325	\$	14,383,459	\$	125,926,784
Deferred outflows of resources	22,735,716		2,206,162		24,941,878
Deferred inflows of resources	(8,197,451)		(2,404,550)		(10,602,001)
Pension expense	13,329,944		1,096,254		14,426,198

The City reported accrued employee benefits of \$9,416 for governmental activities and \$7,602 for business-type activities as related to outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2015.

**ASRS**

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

**Benefits Provided** – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and served credit as follows:

<u>Initial Membership Date:</u>	<u>Before July 1, 2011</u>	<u>On or after July 1, 2011</u>
Years of service and age required to receive benefit	Sum of years and age equals 80  10 years age 62 5 years age 50* any years age 65	30 years age 55  25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

\*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a members' death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the members' account balance that includes the members' contribution and employer's contributions, plus interest earned.

**Contributions** – For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6% (11.48% retirement and 0.12% long-term disability) of the members' annual covered payroll and the City was required by statute to contribute at the actuarially determined rate of 11.6% (10.89% retirement, .59% for health insurance premium, and 0.12% long-term disability) of the active members' annual covered payroll. In addition, the City was required by statute to contribute at the actuarially determined rate of 9.57% (9.51% for retirement and .06% for long-term disability) of annual covered payroll of retired members who worked for the City in positions that would typically be filled by an employee who contributes to the ASRS. The City's contributions to ASRS for the years ended June 30, 2015, 2014, and 2013 were \$3,229,757, \$3,074,097, and \$2,999,221 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 Benefit</u>	<u>Long-term Disability</u>
6/30/2015	\$ 3,002,707	\$ 161,281	\$ 65,769
6/30/2014	2,837,013	173,151	63,933
6/30/2013	2,759,607	174,999	64,615

During fiscal year 2015, the City paid for ASRS pension and related OPEB contributions (health benefit ) 74.5% from governmental funds and 25.5% from enterprise funds.

### **Pension Liability**

At June 30, 2015, the City reported a liability of \$44,778,290 for its proportionate share of the ASRS net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014.



**Actuarial Assumptions**

The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3–6.75%
Inflation factor	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5–year period ended June 30, 2012.

The long–term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building–block method in which best–estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long–term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Arithmetic Real Rates of Return
Equity	63%	7.03%
Fixed income	25%	3.20%
Real estate	8%	4.75%
Commodities	4%	4.50%
Total	100%	

**Discount Rate**

The discount rate used to measure the ASRS pension liability was 8 percent, which is less than the long–term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates as determined by the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long–term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

**Sensitivity of the City’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate**

The following table presents the City’s proportionate shares of the net pension liability calculated using the discount rate of 8 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
City's proportionate share of the net pension liability	\$ 56,597,462	\$ 44,778,290	\$ 38,365,796

### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

### PSPRS

**Benefits provided** – The PSPRS provide retirement, health insurance premium supplement, disability, and survivor benefits. State statute established benefits terms. Retirement disability and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

<b>PSPRS Initial Membership Date:</b>	<u>Before July 1, 2012</u>	<u>On or after July 1, 2012</u>
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years and age 52.5
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 months of last 20 years
<b>Benefit percent</b>		
Normal retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental disability	50% or normal retirement, whichever is greater	
Catastrophic disability	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary disability	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
<b>Survivor benefit</b>		
Retired members	80% of retired member's pension benefit	
Active members	80% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. PSPRS also provides temporary disability benefits of 50 percent of the members' compensation for up to 12 months.

**Employees covered by Benefit Terms**

At June 30, 2015, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS	
	Police	Fire
Inactive employees or beneficiaries currently receiving benefits	66	80
Inactive employees entitled to but not yet receiving benefits	28	14
Active employees	114	73
Total	208	167

**Contributions and Annual OPEB Cost**

State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. 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
Contribution rates FY14-2015:		
Pension	33.86	47.01
Health insurance (OPEB)	1.30	2.25
Combined city	35.16%	49.26%
Active plan members	11.05%	11.05%
As of actuarial valuation date:	6/30/2014	6/30/2014
Annual pension costs*	\$ 2,562,058	\$ 2,368,395
Pension contributions made	\$ 2,625,199	\$ 2,268,517
Annual OPEB costs – Health Insurance	\$ 67,477	\$ 96,788
OPEB contributions made	\$ 97,315	\$ 106,577
Active members pension contributions	\$ 827,182	\$ 523,412
Net pension liability	\$ 37,704,111	\$ 41,767,780

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

In addition, the City was required by statute to contribute at the actuarially determined rate of 19.65 percent for the PSPRS of annual covered payroll of retired members who worked for the City in positions that would typically be filled by an employee who contributes to the PSPRS.

During fiscal year 2015, the City paid for PSPRS pension and OPEB contributions for police with 100% general fund dollars and 96.4% from the general fund plus 3.6% from the airport fund as related to fire contributions.

**Pension Liability**

At June 30, 2015, the City reported net pension liability of \$37,704,111 and \$41,767,780 for police and fire respectively. The net pension liabilities were measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**Pension Actuarial Assumptions**

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

	PSPRS	
	Police	Fire
Amortization method	Level percent-of-pay closed	Level percent-of-pay closed
Remaining amortization period-UAL	22 years	22 years
Remaining amortization period-excess	20 years	20 years
Asset valuation method	7-year smoothed market	7-year smoothed market
Actuarial assumptions:		
Discount rate	7.85%	7.85%
Projected salary increases	4.0% – 8.0%	4.0% – 8.0%
Inflation	4.00%	4.00%
Permanent benefit increase	Included	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)	

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimated ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>PSPRS Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Short term investments	2%	3.25%
Absolute return	4%	6.75%
Risk parity	4%	6.04%
Fixed income	7%	4.75%
Real assets	8%	5.96%
GTAA	10%	5.73%
Private equity	11%	9.50%
Real estate	11%	6.50%
Credit opportunities	13%	8.00%
Non-U.S. equity	14%	8.63%
U.S. equity	16%	7.60%
Total	<u>100%</u>	

The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

## Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Postion (b)	Net Pension Liabilty (a) - (b)
<b>PSPRS – Police</b>			
Balances at June 30, 2014	<u>\$ 50,736,319</u>	<u>\$ 21,453,112</u>	<u>\$ 29,283,207</u>
Changes for the year:			
Service cost	1,312,430	-	1,312,430
Interest on the total pension liability	3,904,338	-	3,904,338
Changes of benefit terms	1,353,950	-	1,353,950
Changes of assumptions or other inputs	6,987,647	-	6,987,647
Differences between expected and actual experience in the measurement of the pension liability	(671,478)	-	(671,478)
Contributions– employer	-	2,311,119	(2,311,119)
Contributions– employee	-	768,029	(768,029)
Benefit payments, including refunds of employee contributions	(3,311,491)	(3,311,491)	-
Net investment income	-	2,757,888	(2,757,888)
Administrative expense	-	-	-
Other changes	-	(1,371,053)	1,371,053
Net changes	<u>9,575,396</u>	<u>1,154,492</u>	<u>8,420,904</u>
Balances at June 30, 2015	<u>\$ 60,311,715</u>	<u>\$ 22,607,604</u>	<u>\$ 37,704,111</u>

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Postion (b)	Net Pension Liability (a) – (b)
<b>PSPRS – Fire</b>			
Balances at June 30, 2014	\$ 57,455,404	\$ 27,151,825	\$ 30,303,579
Changes for the year:			
Service cost	950,445	-	950,445
Interest on the total pension liability	4,390,766	-	4,390,766
Changes of benefit terms	1,553,904	-	1,553,904
Changes of assumptions or other inputs	7,269,797	-	7,269,797
Differences between expected and actual experience in the measurement of the pension liability	1,431,974	-	1,431,974
Contributions– employer	-	2,030,211	(2,030,211)
Contributions– employee	-	525,878	(525,878)
Benefit payments, including refunds of employee contributions	(3,994,598)	(3,994,598)	-
Net investment income	-	3,407,667	(3,407,667)
Administrative expense	-	-	-
Other changes	-	(1,831,071)	1,831,071
Net changes	<u>11,602,288</u>	<u>138,087</u>	<u>11,464,201</u>
Balances at June 30, 2015	<u>\$ 69,057,692</u>	<u>\$ 27,289,912</u>	<u>\$ 41,767,780</u>

#### Sensitivity of the City's Net Pension Liability to Changes in the Discount Rate

The following table presents the City's net pension liabilities calculated using the discount rates noted above as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
<b>PSPRS – Police</b>			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$ 45,112,274	\$ 37,704,111	\$ 31,560,347
<b>PSPRS – Fire</b>			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$ 49,424,045	\$ 41,767,780	\$ 35,341,738

#### Pension Plan Fiduciary Net Position

Detailed information about the pension plans' fiduciary net position is available in the separately issued PSPRS financial reports.

#### Pension Expense

For the year ended June 30, 2015, the City recognized \$5,281,633 and \$5,332,229 pension expense related to police and fire, respectively.

**Pension Deferred Outflows/Inflows of Resources**

At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	PSPRS – Police		PSPRS – Fire	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ (553,840)	\$ 1,177,274	\$ -
Changes of assumptions	5,763,462	-	5,976,745	-
Net difference between projected and actual earnings on pension plan investments	-	(927,316)	-	(1,145,798)
Changes in proportion and differences between city contributions and proportionate share of contributions	-	-	-	-
City contributions subsequent to the measurement date	2,722,514	-	2,375,094	-
<b>Total</b>	<b>\$ 8,485,976</b>	<b>\$ (1,481,156)</b>	<b>\$ 9,529,113</b>	<b>\$ (1,145,798)</b>

The amounts reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows or resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	PSPRS Police	PSPRS Fire
2016	\$ 874,748	\$ 1,261,303
2017	874,748	1,261,303
2018	874,748	1,261,303
2019	874,748	1,261,303
2020	783,314	963,009
Thereafter	-	-
	<b>\$ 4,282,306</b>	<b>\$ 6,008,221</b>

**Agent Plan OPEB Trend Information**

The table below presents the annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years:

Plan	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
<b>PSRS – Police – Health Insurance</b>			
6/30/2015	\$ 67,477	100%	\$ -0-
6/30/2014	50,498	100%	-0-
6/30/2013	52,985	100%	-0-
<b>PSRS – Fire – Health Insurance</b>			
6/30/2015	\$ 96,788	100%	\$ -0-
6/30/2014	84,384	100%	-0-
6/30/2013	86,952	100%	-0-

## Agent Plan OPEB Actuarial Assumptions

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on (1) the plans as understood by the City and plans' members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the City and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2015 contribution requirements are as follow:

### PSPRS OPEB Contribution Requirements

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7 year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5% – 8.5%
Wage growth	4.50%

### PSPRS OPEB Funded Status

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7 year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0% – 8.0%
Wage growth	4.0%

## Agent Plan OPEB Funded Status

The following table presents the funded status of the health insurance premium benefit plans as of the most recent valuation date, June 30, 2015.

	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4) / (5)
<b>PSRS – Police Health Insurance</b>						
6/30/2015	\$ 1,479,701	\$ 1,273,131	116.2%	\$ (206,570)	\$ 7,526,730	0.0%
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%
<b>PSRS – Fire Health Insurance</b>						
6/30/2015	\$ 2,620,900	\$ 1,599,792	163.8%	\$ (1,021,108)	\$ 4,847,679	0.0%
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%

## EORP

### Benefits Provided

The EORP provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average yearly compensation, and service credit as follows:

### EORP

<u>Initial Membership Date:</u>	<u>Before July 1, 2012</u>	<u>On or after July 1, 2012</u>
Years of service and age required to receive benefit	20 years any age 10 years age 62 5 years and age 65 5 years and any age* any years and age if disabled	10 years and age 62 5 years and age 65 any years and age if disabled
Final average salary is based on	Highest 36 months of last 10 years	Highest 60 months of last 10 years
<b>Benefit percent</b>		
Normal retirement	4% per year of service, not to exceed 80%	3.0% per year of service, not to exceed 75%
Disability retirement	80% with 10 or more years of service 40% with 5 to 10 years of service  20% with less than 5 years of service	75% with 10 or more years of service 37.5% with 5 to 10 years of service  18.75% with less than 5 years of service
<b>Survivor benefit</b>		
Retired members	75% of retired member's pension benefit	50% of retired member's pension benefit
Active members and Other Inactive Members	75% of disability retirement benefit	50% of disability retirement benefit

\* With reduced benefits of 0.25% for each month early retirement precedes the member's normal retirement age, with a maximum reduction of 30%

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning.

**Contributions**

State statutes establish active member and employer contribution requirements. Statute also appropriates \$5 million annually through fiscal year 2043 for the EORP from the State of Arizona to supplement the normal cost plus an amount to amortize the unfunded accrued liability. For the year ended June 30, 2015, active EORP members were required by statute to contribute 13.00% of the members’ annual covered payroll. And the City was required contribute a designated portion of certain court fees and 25.06 percent (23.50% for retirement and 1.56% for health insurance premium benefit) of active EORP members’ annual covered payroll. In addition, the City was required to contribute the actuarially determined rate of 12.02% for members who meet certain criteria. The City’s contribution to the pension plan for the year ended June 30, 2015, and 2 preceding years for OPEB, all of which were equal to the required contributions, were as follows.

Plan	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
EORP – Health Insurance			
6/30/2015	\$ 3,467	100%	\$ -0-
6/30/2014	2,898	100%	-0-
6/30/2013	3,158	100%	-0-

**Pension Liability**

At June 30, 2015, the City reported a liability for its proportionate share of the EORP’s net pension liability that reflected a reduction for the City’s proportionate share of the State’s appropriation for EORP. The amount the city recognized as its proportionate liability that was associated with the City was as follows:

City's proportionate share of the EORP net pension liability	\$ 1,676,603
State's proportionate share of the EORP net pension liability associated with the city	<u>157,356,598</u>
Total	<u>\$ 159,033,201</u>

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The City reported a liability at June 30, 2015, which increased by \$926,273 from the City’s prior year liability of \$750,330 due to changes in the EORP’s net pension liability and the City’s proportionate share of the liability. The EORP’s publicly available financial report provides details on the change in the net pension liability.

**Pension Expense and Deferred Outflows/Inflows of Resources**

For the year ended June 30, 2015, the City recognized pension expense for the EORP of \$649,339 and revenue of \$152,374 for the City’s proportionate share of the State’s appropriation to EORP. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

EORP	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,367	\$ -
Changes of assumptions	453,728	
Net difference between projected and actual earnings on pension plan investments	-	(31,787)
Changes in proportion and differences between city contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	40,950	-
Total	\$ 502,045	\$ (31,787)

The \$40,950 reported as deferred outflows of resources related to EORP pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized in pension expense as follows:

Year ending June 30	
2016	\$ 257,600
2017	187,602
2018	(7,947)
2019	(7,947)
2020	-
Thereafter	-
	\$ 429,308

## Actuarial Assumptions

The significant actuarial assumptions used to measure the total pension liability are as follows:

	<u>EORP</u>
Contribution rates FY14–2015:	
City	25.06%
Plan members	13.00%
Annual pension costs	\$ 37,483
Pension contributions made	\$ 37,483
Annual OPEB costs – Health Insurance	\$ 3,467
OPEB contributions made	\$ 3,467
As of actuarial valuation date:	6/30/2014
(based on experience study)	6/30/2014
Active members pension contributions	\$ 558,291
Net pension liability	
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.25%
Inflation	4.00%
Permanent benefit increase	
Mortality rates	RP–2000 mortality table (adjusted by 105% for both males and
*Actuary estimates payroll while the City reports on actual payroll	

The long-term expected rate of return on EORP pension plan investments was determined to be 7.85 percent using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimated of geometric real rates of return for each major asset call are summarized in the following table:

<u>EORP</u> <u>Asset Class</u>	<u>Target</u> <u>Allocation</u>	<u>Expected Real</u> <u>Rate of Return</u>
Short term investments	2%	3.25%
Absolute return	4%	6.75%
Risk parity	4%	6.04%
Fixed income	7%	4.75%
Real assets	8%	5.96%
GTAA	10%	5.73%
Private equity	11%	9.50%
Real estate	11%	6.50%
Credit opportunities	13%	8.00%
Non-U.S. equity	14%	8.63%
U.S. equity	16%	7.60%
Total	<u>100%</u>	

### Discount Rate

The discount rate used to measure the EORP total pension liability was 5.67 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the statutorily set rates, and state contributions will be made as currently required by statute. Based on those assumptions, the pension plans' fiduciary net position was projected to be insufficient to make all project future benefit payments of current plan member. Therefore, to determine the total pension liability for the plan, the long-term expected rate of return on pension plan investments of 7.85 percent was applied to period of projected benefit payments through the year ended June 30, 2030. A municipal bond rate of 4.29 percent obtained from the 20-year Bond Buyer Index, as published by the Federal Reserve as of June 26, 2014, was applied to period of projected benefit payments after June 30, 2030.

### Sensitivity of the City's Proportionate Share of the EORP Net Pension Liability to Changes in the Discount Rate

The following table presents the city's proportionate share of the net pension liability calculated using the discount rate of 5.67 percent, as well as what the city's proportionate share to the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
EORP			
Rate	4.67%	5.67%	6.67%
Net pension liability	\$ 1,957,294	\$ 1,676,603	\$ 1,439,604

### Pension Plan Fiduciary Net Position

Detailed information about the pension plans' fiduciary net position is available in the separately issued EORP financial report.

## 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, 2015, there were 85 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 contributed \$182,941 during fiscal year 2015.

**Annual OPEB Cost and Net OPEB Obligation.** For 2015, the City's annual OPEB cost (expense) of \$972,644 was equal to the ARC, as adjusted by any ARC adjustments, and interest on the net OPEB obligation of \$204,008. On June 30, 2015, the net increase in NOO for governmental activities was \$639,962 and for business-type activities was \$149,741.

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 2015 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>
6/30/2015 \$	972,644 \$	182,941	18.8%	\$ 5,323,207
6/30/2014 *	987,299	93,156	9.4%	4,533,504
6/30/2013 *	991,282	194,833	19.7%	3,639,361

(\*) As restated to include Housing Authority

<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>
6/30/2015 \$	1,046,954 \$	204,008 \$	(278,318) \$	972,644 \$	182,941 \$	789,703 \$	5,323,207
6/30/2014*	1,046,954	163,771	(223,426)	987,299	93,156	894,143	4,533,504
6/30/2013*	1,037,882	127,931	(174,531)	991,282	194,833	796,449	3,639,361

(\*) As restated to include Housing Authority

**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 \$33,304,177, and the ratio of the unfunded actuarial accrued liability to the covered payroll is 29.7 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	\$ 33,304,177	29.7%
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 \$7,895,618 as of June 30, 2015, which is based on 75.90 percent usage of the landfill. The remaining \$2,506,150 will be accrued over the remaining life of the landfill, which is currently estimated to be 11 years.

The accrual for the closure and postclosure care costs for fiscal year 2015 is \$246,316. 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, 2015 the balance of the investments held for those purposes is \$10,099,227. 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, \$10,401,769, 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, 2015. 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 August 28, 2015 the City redeemed \$4,400,000 of its' Aspen Place at the Sawmill Improvement District Bonds as part of a refunding defeasance related to the early pay off of debt by the developer.

**CITY OF FLAGSTAFF, ARIZONA**  
**Required Supplementary Information**  
**Schedule of the City's Proportionate Share of the Net Pension Liability**  
**Cost-Sharing Pension Plans**  
**June 30, 2015**

	Measurement Date	
	2014 *	2013 through 2005
<b>Arizona State Retirement System</b>		
Proportion of the net pension liability	0.302625%	Information
Proportionate share of the net pension liability	\$ 44,778,290	not
Covered employee payroll	26,638,622	available
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	168.09%	-
Plan fiduciary net position as a percentage of the total pension liability	69.49%	
 <b>EORP</b>		
Proportion of the net pension liability	0.2500258%	Information
Proportionate share of the net pension liability	\$ 1,676,603	not
Covered employee payroll	204,400	available
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	1064.00%	
Plan fiduciary net position as a percentage of the total pension liability	31.91%	

\* Measurement date is one year prior to reporting date and is the latest information available at the time of report issuance

**CITY OF FLAGSTAFF, ARIZONA**  
**Required Supplementary Information**  
**Schedule of the Changes in Net Pension Liability and Related Ratios**  
**Agent Pension Plans – PSPRS Police**  
**June 30, 2015**

	Reporting Fiscal Year (Measurement Date)	
	2014 *	2013 through 2005
<b>PSPRS Police</b>		
Total pension liability		
Service cost	\$ 1,312,430	Information not available
Interest on the total pension liability	3,904,338	
Changes of benefit terms	1,353,950	
differences between expected and actual experience		
in the measurement of the pension liability	(671,478)	
changes of assumptions or other inputs	6,987,647	
Benefit payments, including refunds of employee contributions	(3,311,491)	
Net change in total pension liability	9,575,396	
Total pension liability – beginning	50,736,319	
Total pension liability – ending (a)	\$ 60,311,715	
Plan Fiduciary net position		
Contributions – employer	\$ 2,311,119	
Contributions – employee	768,029	
Net investment income	2,757,888	
Benefit payments, including refunds of employee contributions	(3,311,491)	
Other changes	(1,371,053)	
Net change in plan fiduciary net position	1,154,492	
Plan fiduciary net position – beginning	21,453,112	
Plan fiduciary net position – ending (b)	\$ 22,607,604	
Net pension liability – ending (a) – (b)	\$ 37,704,111	
Plan fiduciary net position as a percentage of the total pension liability	37.48%	
Covered–employee payroll	\$ 6,409,245	
Net pension liability as a percentage of covered employee payroll	588.28%	

\* Measurement date is one year prior to reporting date and is the latest information available at the time of report issuance

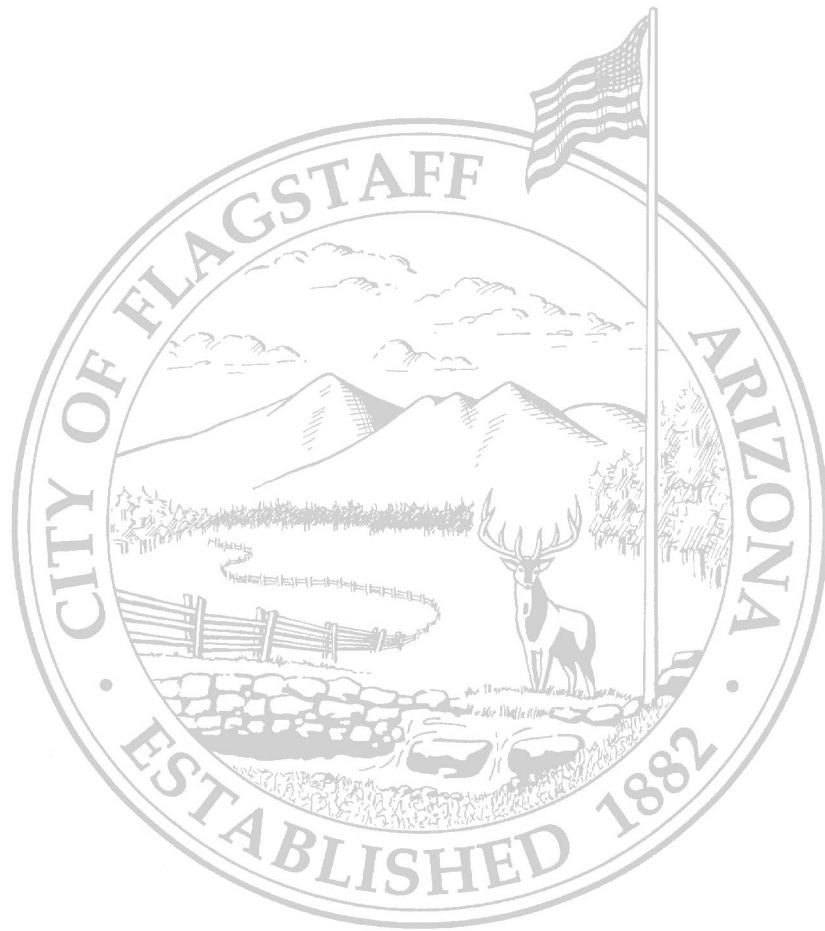
**CITY OF FLAGSTAFF, ARIZONA**  
**Required Supplementary Information**  
**Schedule of the Changes in Net Pension Liability and Related Ratios**  
**Agent Pension Plans – PSPRS Fire**  
**June 30, 2015**

	Reporting Fiscal Year (Measurement Date)	
	2014 *	2014 through 2006
<b>PSPRS Fire</b>		
Total pension liability		Information not available
Service cost	\$ 950,445	
Interest on the total pension liability	4,390,766	
Changes of benefit terms	1,553,904	
differences between expected and actual experience		
in the measurement of the pension liability	1,431,974	
changes of assumptions or other inputs	7,269,797	
Benefit payments, including refunds of employee contributions	(3,994,598)	
Net change in total pension liability	<u>11,602,288</u>	
Total pension liability – beginning	<u>57,455,404</u>	
Total pension liability – ending (a)	<u>\$ 69,057,692</u>	
Plan Fiduciary net position		
Contributions – employer	\$ 2,030,211	
Contributions – employee	525,878	
Net investment income	3,407,667	
Benefit payments, including refunds of employee contributions	(3,994,598)	
Other changes	(1,831,071)	
Net change in plan fiduciary net position	<u>138,087</u>	
Plan fiduciary net position – beginning	<u>27,151,825</u>	
Plan fiduciary net position – ending (b)	<u>\$ 27,289,912</u>	
Net pension liability – ending (a) – (b)	<u>\$ 41,767,780</u>	
Plan fiduciary net position as a percentage of the total pension liability	39.52%	
Covered–employee payroll	\$ 3,965,628	
Net pension liability as a percentage of covered employee payroll	1053.25%	

\* Measurement date is one year prior to reporting date and is the latest information available at the time of report issuance

**CITY OF FLAGSTAFF, ARIZONA**  
**Required Supplementary Information**  
**Schedule of the City's Pension Contributions**  
**June 30, 2015**

	Reporting Fiscal Year		2013 through 2006
	2015	2014	
<b>Arizona State Retirement System</b>			
Statutorily required contributions	\$ 3,002,707	\$ 2,837,013	Information not available
Contributions in relation to the statutorily required contribution	3,002,707	2,837,013	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Covered-employee payroll	27,573,067	26,638,622	
Contributions as a percentage of covered-employee payroll	10.89%	10.65%	
<b>Elected Officials Retirement Plan</b>			
Statutorily required contributions	\$ 37,483	\$ 50,732	Information not available
Contributions in relation to the statutorily required contribution	37,483	50,732	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Covered-employee payroll	157,579	204,400	
Contributions as a percentage of covered-employee payroll	23.79%	24.82%	
<b>PSPRS – Police</b>			
Statutorily required contributions	\$ 2,625,199	\$ 2,106,719	Information not available
Contributions in relation to the statutorily required contribution	2,625,199	2,106,719	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Covered-employee payroll	7,485,806	6,409,245	
Contributions as a percentage of covered-employee payroll	35.07%	32.87%	
<b>PSPRS – Fire</b>			
Statutorily required contributions	\$ 2,268,517	\$ 1,784,136	Information not available
Contributions in relation to the statutorily required contribution	2,268,517	1,784,136	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Covered-employee payroll	4,825,600	3,965,628	
Contributions as a percentage of covered-employee payroll	47.01%	44.99%	



## 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.

### **Capital Projects Funds**

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.

### **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, 2015**

	Special Revenue Funds			
	Library Fund	BBB Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
<b>ASSETS</b>				
Cash and investments	\$ 1,983,125	\$ 8,580,144	\$ 957,285	\$ 780
Accounts receivable, net	-	945,863	450	-
Interest receivable	7,219	17,934	1,549	-
Intergovernmental receivable	-	10,000	137,835	327,943
Inventory	-	55,735	-	-
Restricted cash and investments	2,230,795	974,714	-	-
Total assets	<u>\$ 4,221,139</u>	<u>\$ 10,584,390</u>	<u>\$ 1,097,119</u>	<u>\$ 328,723</u>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities:				
Accounts payable	\$ 682,495	\$ 469,981	\$ 46,322	\$ 37,588
Accrued payroll and compensated absences	66,910	28,772	1,851	5,931
Interfund payable	-	-	-	210,000
Advanced revenue	60,131	16,234	30	25,000
Total liabilities	<u>809,536</u>	<u>514,987</u>	<u>48,203</u>	<u>278,519</u>
Fund balances:				
Nonspendable:				
Perpetual care	-	-	-	-
Inventory	-	55,735	-	-
Restricted for:				
Library services	1,180,808	-	-	-
Library branch services	1,067,573	-	-	-
Library programs board directed	1,163,222	-	-	-
Debt service	-	-	-	-
Public art	-	511,124	-	-
Park renovations	-	2,430,030	-	-
Park maintenance and operations	-	1,539,989	-	-
Other capital projects	-	5,532,525	1,048,916	-
Regional planning	-	-	-	50,204
Perpetual care	-	-	-	-
Unassigned (deficit):	-	-	-	-
Total fund balances	<u>3,411,603</u>	<u>10,069,403</u>	<u>1,048,916</u>	<u>50,204</u>
Total liabilities and fund balances	<u>\$ 4,221,139</u>	<u>\$ 10,584,390</u>	<u>\$ 1,097,119</u>	<u>\$ 328,723</u>

Debt Service Funds		Capital Projects Funds	Permanent Fund	Total Other Governmental Funds
General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Capital Projects Bond Construction	Perpetual Care	
\$ -	\$ 14,069,071	\$ 39,851	\$ 16,874	\$ 25,647,130
-	-	-	132	946,445
-	21,689	198	476	49,065
-	-	1,746,391	-	2,222,169
-	-	-	-	55,735
-	-	1,951,152	240,938	5,397,599
<u>\$ -</u>	<u>\$ 14,090,760</u>	<u>\$ 3,737,592</u>	<u>\$ 258,420</u>	<u>\$ 34,318,143</u>
\$ -	\$ -	\$ 1,104,437	\$ -	\$ 2,340,823
-	-	5,333	-	108,797
-	-	2,910,000	-	3,120,000
-	-	-	-	101,395
<u>-</u>	<u>-</u>	<u>4,019,770</u>	<u>-</u>	<u>5,671,015</u>
-	-	-	237,503	237,503
-	-	-	-	55,735
-	-	-	-	1,180,808
-	-	-	-	1,067,573
-	-	-	-	1,163,222
-	14,090,760	-	-	14,090,760
-	-	-	-	511,124
-	-	-	-	2,430,030
-	-	-	-	1,539,989
-	-	-	-	6,581,441
-	-	-	-	50,204
-	-	-	20,917	20,917
-	-	(282,178)	-	(282,178)
<u>-</u>	<u>14,090,760</u>	<u>(282,178)</u>	<u>258,420</u>	<u>28,647,128</u>
<u>\$ -</u>	<u>\$ 14,090,760</u>	<u>\$ 3,737,592</u>	<u>\$ 258,420</u>	<u>\$ 34,318,143</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**Year Ended June 30, 2015**

	Special Revenue Funds			
	Library Fund	BBB Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
<b>REVENUES:</b>				
Taxes	\$ -	\$ 7,022,545	\$ -	\$ -
Intergovernmental	2,969,669	-	-	5,000
Grants and entitlements	44,818	48,270	593,462	488,027
Rents	-	49,393	7,920	-
Investment earnings	34,925	77,386	8,047	-
Contributions	49,099	812	33,000	100
Miscellaneous	51,149	156,621	131,869	-
Total revenues	<u>3,149,660</u>	<u>7,355,027</u>	<u>774,298</u>	<u>493,127</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	-
Public works	-	-	-	-
Economic and physical development	-	2,526,617	786,670	510,800
Culture and recreation	4,568,699	710,499	-	-
Highways and streets	-	97,370	-	-
Debt service:				
Principal retirement	-	125,000	-	-
Interest and other charges	-	127,303	-	-
Capital outlay	338,685	652,035	-	-
Total expenditures	<u>4,907,384</u>	<u>4,238,824</u>	<u>786,670</u>	<u>510,800</u>
Excess (deficiency) of revenues over expenditures	<u>(1,757,724)</u>	<u>3,116,203</u>	<u>(12,372)</u>	<u>(17,673)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,663,951	624,030	102,000	22,500
Transfers out	(39,196)	(2,526,107)	(130,000)	-
Total other financing sources (uses)	<u>1,624,755</u>	<u>(1,902,077)</u>	<u>(28,000)</u>	<u>22,500</u>
Net change in fund balances	<u>(132,969)</u>	<u>1,214,126</u>	<u>(40,372)</u>	<u>4,827</u>
Fund balances, beginning of year	<u>3,544,572</u>	<u>8,855,277</u>	<u>1,089,288</u>	<u>45,377</u>
Fund balances, end of year	<u>\$ 3,411,603</u>	<u>\$ 10,069,403</u>	<u>\$ 1,048,916</u>	<u>\$ 50,204</u>

<u>Debt Service Funds</u>		<u>Capital Projects Funds</u>	<u>Permanent Fund</u>	
<u>General Obligation Bond Fund</u>	<u>Secondary Property Tax Revenue Fund</u>	<u>Capital Projects Bond Construction</u>	<u>Perpetual Care</u>	<u>Total Other Governmental Funds</u>
\$ -	\$ 5,585,943	\$ -	\$ -	\$ 12,608,488
-	-	-	-	2,974,669
-	-	4,035,158	-	5,209,735
-	-	-	-	57,313
-	98,275	6,828	2,233	227,694
-	-	-	16,821	99,832
-	-	-	-	339,639
-	<u>5,684,218</u>	<u>4,041,986</u>	<u>19,054</u>	<u>21,517,370</u>
-	-	351,144	-	351,144
-	-	134,926	-	134,926
-	-	-	-	3,824,087
-	-	-	-	5,279,198
-	-	247	-	97,617
4,420,973	-	-	-	4,545,973
1,430,703	-	161,997	-	1,720,003
-	-	<u>8,897,156</u>	-	<u>9,887,876</u>
<u>5,851,676</u>	-	<u>9,545,470</u>	-	<u>25,840,824</u>
<u>(5,851,676)</u>	<u>5,684,218</u>	<u>(5,503,484)</u>	<u>19,054</u>	<u>(4,323,454)</u>
5,851,676	427,224	1,275,896	-	9,967,277
-	<u>(5,842,916)</u>	<u>(575,634)</u>	-	<u>(9,113,853)</u>
<u>5,851,676</u>	<u>(5,415,692)</u>	<u>700,262</u>	-	<u>853,424</u>
-	<u>268,526</u>	<u>(4,803,222)</u>	<u>19,054</u>	<u>(3,470,030)</u>
-	<u>13,822,234</u>	<u>4,521,044</u>	<u>239,366</u>	<u>32,117,158</u>
<u>\$ -</u>	<u>\$ 14,090,760</u>	<u>\$ (282,178)</u>	<u>\$ 258,420</u>	<u>\$ 28,647,128</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, 2015**

	Business-type Activities – Enterprise Fund	
	Housing Authority	Total Other Proprietary Fund
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 697,942	\$ 697,942
Receivable, net	358,002	358,002
Intergovernmental receivables	89,852	89,852
Prepaid items	59,636	59,636
Total current assets	1,205,432	1,205,432
Noncurrent assets:		
Capital assets, non-depreciable	1,661,278	1,661,278
Capital assets, depreciable, net	3,181,439	3,181,439
Total non-current assets	4,842,717	4,842,717
Total assets	6,048,149	6,048,149
Deferred outflows – pension	235,751	235,751
Total assets and deferred outflows	6,283,900	6,283,900
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	110,291	110,291
Accrued payroll	38,348	38,348
Accrued compensated absences	66,411	66,411
Advanced revenue	12,301	12,301
Deposits payable	73,400	73,400
Total current liabilities	300,751	300,751
Noncurrent liabilities:		
Compensated absences	167,197	167,197
Net OPEB obligation	104,773	104,773
Net pension liability	1,946,956	1,946,956
Total noncurrent liabilities	2,218,926	2,218,926
Total liabilities	2,519,677	2,519,677
Deferred inflows – pension	453,382	453,382
Total liabilities and deferred inflows	2,973,059	2,973,059
<b>NET POSITION</b>		
Net investment in capital assets	4,842,717	4,842,717
Unrestricted (deficit)	(1,531,876)	(1,531,876)
Total net position	\$ 3,310,841	\$ 3,310,841

**CITY OF FLAGSTAFF, ARIZONA**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Non-Major Proprietary Fund**  
**Year Ended June 30, 2015**

	Business-type Activities – Enterprise Fund	
	Housing Authority	Total Other Proprietary Fund
<b>OPERATING REVENUES:</b>		
Charges for services	\$ 1,027,945	\$ 1,027,945
Miscellaneous	430,551	430,551
Total operating revenues	1,458,496	1,458,496
Personnel services	1,285,543	1,285,543
Contractual services, materials and supplies	4,391,064	4,391,064
Depreciation and amortization	407,412	407,412
Total operating expenses	6,084,019	6,084,019
Operating income (loss)	(4,625,523)	(4,625,523)
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Grants and entitlements	4,259,652	4,259,652
Gain (loss) on disposal of capital asset	504,249	504,249
Total non-operating revenues (expenses)	4,763,901	4,763,901
Income (loss) before capital contributions and transfers	138,378	138,378
Capital contributions related to grants	35,946	35,946
Transfers in	33,200	33,200
Change in net position	207,524	207,524
Total net position, beginning of year	3,103,317	3,103,317
Total net position, end of year	\$ 3,310,841	\$ 3,310,841

**City of Flagstaff, Arizona**  
**Combining Statement of Cash Flows**  
**Non-Major Proprietary Fund**  
**Year Ended June 30, 2015**

	Business-type Activities – Enterprise Fund	
	Housing Authority	Total Other Proprietary Fund
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 946,795	\$ 946,795
Other receipts	398,780	398,780
Payments to suppliers	(4,171,238)	(4,171,238)
Interfund services used	(250,846)	(250,846)
Payments to employees	(1,299,077)	(1,299,077)
Net cash provided (used) by operating activities	<u>(4,375,586)</u>	<u>(4,375,586)</u>
<b>Cash flows from noncapital financing activities:</b>		
Transfer from other funds	33,200	33,200
Net cash provided (used) by noncapital financing activities	<u>33,200</u>	<u>33,200</u>
<b>Cash flows from capital and related financing activities:</b>		
Receipts from grantors	4,205,746	4,205,746
Acquisition and construction of capital assets	(238,768)	(238,768)
Proceeds from insurance reimbursement	254,705	254,705
Net cash provided (used) by capital and related financing activities	<u>4,221,683</u>	<u>4,221,683</u>
Net increase (decrease) in cash and cash equivalents	<u>(120,703)</u>	<u>(120,703)</u>
Cash and cash equivalents at beginning of year	<u>818,645</u>	<u>818,645</u>
Cash and cash equivalents at end of year	<u>\$ 697,942</u>	<u>\$ 697,942</u>
Classified as:		
Cash, cash equivalents, and investments	\$ 697,942	\$ 697,942
Restricted cash and cash equivalents	-	-
Totals	<u>\$ 697,942</u>	<u>\$ 697,942</u>

(continued)

**Combining Statement of Cash Flows**  
**Non-Major Proprietary Fund**  
**Year Ended June 30, 2015**

	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)	\$ (4,625,523)	\$ (4,625,523)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	407,412	407,412
(Increase) decrease in assets:		-
Accounts receivable	(61,341)	(61,341)
Prepaid items	(25,885)	(25,885)
Increase (decrease) in liabilities:		-
Accounts payable	(5,135)	(5,135)
Accrued payroll, compensated absences	12,509	12,509
OPEB	31,733	31,733
Pension expense (contribution)	(57,776)	(57,776)
Deposits payable	68,229	68,229
Advanced revenue	(119,809)	(119,809)
Total adjustments	249,937	249,937
Net cash provided (used) by operating activities	\$ (4,375,586)	\$ (4,375,586)
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, 2015

Program	Land	Buildings	Improvements
General government	\$ 3,811,946	\$ 13,514,271	\$ 2,975,159
Public safety	3,936,510	27,044,960	113,946
Public works	90,547	5,343,042	221,973
Economic and physical development	81,783	7,541,573	95,128
Culture and recreation	24,382,673	22,281,151	15,673,512
Highway and streets	32,541,753	102,309	2,279,434
Subtotal	64,845,212	75,827,306	21,359,152
Less: accumulated depreciation	-	(21,411,268)	(14,736,642)
Total governmental funds capital assets	<u>\$ 64,845,212</u>	<u>\$ 54,416,038</u>	<u>\$ 6,622,510</u>

Machinery and Equipment	Construction In Progress	Infrastructure	Total
\$ 1,185,450	\$ 251,570	\$ -	\$ 21,738,396
15,809,769	498,438	-	47,403,623
1,358,935	-	1,117,226	8,131,723
778,090	6,828,149	652,947	15,977,670
3,699,343	1,048,548	9,698,938	76,784,165
8,913,893	5,183,382	290,197,103	339,217,875
31,745,480	13,810,087	301,666,214	509,253,452
(22,398,563)	-	(145,604,187)	(204,150,660)
<u>\$ 9,346,917</u>	<u>\$ 13,810,087</u>	<u>\$ 156,062,028</u>	<u>\$ 305,102,792</u>

City of Flagstaff, Arizona  
Capital Assets Used in the Operation of Governmental Funds  
Schedule of Changes By Function and Activity  
June 30, 2015

Program	Balance July 1, 2014	Additions	Retirements	Transfers In (out)	Balance June 30, 2015
General government	21,143,949	1,230,316	(630,470)	(5,400)	21,738,396
Public safety	47,885,281	639,359	(979,869)	(141,148)	47,403,623
Public works	8,035,444	-	(51,731)	148,010	8,131,723
Economic and physical development	9,670,910	6,409,364	(125,868)	23,264	15,977,670
Culture and recreation	74,224,450	2,668,380	(65,777)	(42,886)	76,784,165
Highway and streets	340,556,955	7,821,139	(6,798,543)	(2,361,677)	339,217,875
Total	<u>501,516,989</u>	<u>18,768,557</u>	<u>(8,652,257)</u>	<u>(2,379,837)</u>	<u>509,253,452</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Special Assessment Bond Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2015**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Special assessments	\$ 735,250	\$ 735,250	\$ 2,222,075	\$ 1,486,825
Investment earnings	1,830	1,830	2,025	195
Total revenues	737,080	737,080	2,224,100	1,487,020
<b>EXPENDITURES:</b>				
Debt service:				
Principal retirement	305,000	305,000	1,900,000	(1,595,000)
Interest and other charges	435,850	435,850	416,978	18,872
Total expenditures	740,850	740,850	2,316,978	(1,576,128)
Excess (deficiency) of revenues over (under) expenditures	(3,770)	(3,770)	(92,878)	(89,108)
Net change in fund balances	(3,770)	(3,770)	(92,878)	(89,108)
Budgetary fund balances, beginning of year	236,375	236,375	236,375	-
Budgetary fund balances, end of year	\$ 232,605	\$ 232,605	\$ 143,497	\$ (89,108)

**CITY OF FLAGSTAFF, ARIZONA**  
**Library Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2015**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Intergovernmental	\$ 3,595,743	\$ 3,595,743	\$ 2,969,669	\$ (626,074)
Grants and entitlements	79,000	79,000	44,819	(34,181)
Investment earnings	37,624	37,624	34,925	(2,699)
Contributions	33,000	33,000	49,099	16,099
Miscellaneous	1,926,291	1,926,291	51,148	(1,875,143)
Total revenues	<u>5,671,658</u>	<u>5,671,658</u>	<u>3,149,660</u>	<u>(2,521,998)</u>
<b>EXPENDITURES:</b>				
Current:				
Culture and recreation	7,520,320	7,520,320	4,907,384	2,612,936
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>7,620,320</u>	<u>7,620,320</u>	<u>4,907,384</u>	<u>2,712,936</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,948,662)</u>	<u>(1,948,662)</u>	<u>(1,757,724)</u>	<u>190,938</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,663,951	1,663,951	1,663,951	-
Transfers out	(289,196)	(289,196)	(39,196)	250,000
Total other financing sources (uses)	<u>1,374,755</u>	<u>1,374,755</u>	<u>1,624,755</u>	<u>250,000</u>
Net change in fund balances	<u>(573,907)</u>	<u>(573,907)</u>	<u>(132,969)</u>	<u>440,938</u>
Budgetary fund balances, beginning of year	<u>873,900</u>	<u>873,900</u>	<u>873,900</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 299,993</u>	<u>\$ 299,993</u>	<u>\$ 740,931</u>	<u>\$ 440,938</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**BBB Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2015**

	<u>Budget</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes	\$ 6,167,976	\$ 6,167,976	\$ 6,982,052	\$ 814,076
Grants and entitlements	35,000	35,000	48,270	13,270
Rents	110,058	110,058	49,393	(60,665)
Investment earnings	42,395	42,395	77,386	34,991
Miscellaneous	139,130	139,130	156,622	17,492
Total revenues	<u>6,494,559</u>	<u>6,494,559</u>	<u>7,313,723</u>	<u>819,164</u>
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	2,591,088	2,591,088	2,526,618	64,470
Culture and recreation	561,946	561,946	582,282	(20,336)
Highways and streets	-	-	24,959	(24,959)
Debt service:				
Principal retirement	125,000	125,000	125,000	-
Interest and other charges	211,918	211,918	127,303	84,615
Capital outlay	5,891,573	5,891,573	852,662	5,038,911
Contingency	240,070	240,070	-	240,070
Total expenditures	<u>9,621,595</u>	<u>9,621,595</u>	<u>4,238,824</u>	<u>5,382,771</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,127,036)</u>	<u>(3,127,036)</u>	<u>3,074,899</u>	<u>6,201,935</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	251,000	251,000	251,000	-
Transfers out	(2,591,493)	(2,591,493)	(2,153,078)	438,415
Total other financing sources (uses)	<u>(2,340,493)</u>	<u>(2,340,493)</u>	<u>(1,902,078)</u>	<u>438,415</u>
Net change in fund balances	<u>(5,467,529)</u>	<u>(5,467,529)</u>	<u>1,172,821</u>	<u>6,640,350</u>
Budgetary fund balances, beginning of year	<u>7,527,691</u>	<u>7,527,691</u>	<u>7,527,691</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 2,060,162</u>	<u>\$ 2,060,162</u>	<u>\$ 8,700,512</u>	<u>\$ 6,640,350</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ 1,172,821	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			41,305	
Adjusted net change in fund balance – GAAP basis			<u>\$ 1,214,126</u>	

**CITY OF FLAGSTAFF, ARIZONA**  
**Community Redevelopment Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2015**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Grants and entitlements	\$ 1,995,202	\$ 1,995,202	\$ 593,462	\$ (1,401,740)
Investment earnings	-	-	8,047	8,047
Miscellaneous	650,000	650,000	139,789	(510,211)
Total revenues	2,645,202	2,645,202	741,298	(1,903,904)
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	2,823,031	2,823,031	786,670	2,036,361
Total expenditures	2,823,031	2,823,031	786,670	2,036,361
Excess (deficiency) of revenues over (under) expenditures	(177,829)	(177,829)	(45,372)	132,457
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	102,000	(102,000)
Transfers out	(152,500)	(152,500)	(130,000)	22,500
Total other financing sources (uses)	(152,500)	(152,500)	(28,000)	(79,500)
Net change in fund balances	(330,329)	(330,329)	(73,372)	52,957
Budgetary fund balances, beginning of year	1,088,854	1,088,854	1,088,854	-
Budgetary fund balances, end of year	\$ 758,525	\$ 758,525	\$ 1,015,482	\$ 52,957
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ (73,372)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			33,000	
Adjusted net change in fund balance – GAAP basis			\$ (40,372)	

**CITY OF FLAGSTAFF, ARIZONA**  
**EDA Revolving Loan Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2015**

	<u>Budget</u>		Actual Amounts Budgetary Basis	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Investment earnings	\$ 2,201	\$ 2,201	\$ -	\$ (2,201)
Total revenues	<u>2,201</u>	<u>2,201</u>	<u>-</u>	<u>(2,201)</u>
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	220,000	220,000	-	220,000
Total expenditures	<u>220,000</u>	<u>220,000</u>	<u>-</u>	<u>220,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(217,799)</u>	<u>(217,799)</u>	<u>-</u>	<u>217,799</u>
Net change in fund balances	<u>(217,799)</u>	<u>(217,799)</u>	<u>-</u>	<u>217,799</u>
Budgetary fund balances, beginning of year	<u>220,071</u>	<u>220,071</u>	220,071	-
Budgetary fund balances, end of year	<u>\$ 2,272</u>	<u>\$ 2,272</u>	<u>\$ 220,071</u>	<u>\$ 217,799</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ -	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>-</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ -</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, 2015**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Grants and entitlements	\$ 1,147,579	\$ 1,147,579	\$ 488,027	\$ (659,552)
Intergovernmental	5,000	5,000	5,000	-
Total revenues	1,152,579	1,152,579	493,027	(659,552)
<b>EXPENDITURES:</b>				
Current:				
Economic and physical development	925,079	925,079	510,800	414,279
Contingency	250,000	250,000	-	250,000
Total expenditures	1,175,079	1,175,079	510,800	664,279
Excess (deficiency) of revenues over (under) expenditures	(22,500)	(22,500)	(17,773)	4,727
<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	-	-	4,727	4,727
Budgetary fund balances, beginning of year	-	-	-	-
Budgetary fund balances, end of year	\$ -	\$ -	\$ 4,727	\$ 4,727
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 4,727	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			100	
Adjusted net change in fund balance – GAAP basis			\$ 4,827	

**CITY OF FLAGSTAFF, ARIZONA**  
**General Obligation Bond Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2015**

	<u>Budget</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>EXPENDITURES:</b>				
Debt service:				
Principal retirement	\$ 4,838,474	\$ 4,838,474	\$ 4,420,973	\$ 417,501
Interest and other charges	<u>2,657,720</u>	<u>2,657,720</u>	<u>1,430,703</u>	<u>1,227,017</u>
Total expenditures	<u>7,496,194</u>	<u>7,496,194</u>	<u>5,851,676</u>	<u>1,644,518</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,496,194)</u>	<u>(7,496,194)</u>	<u>(5,851,676)</u>	<u>1,644,518</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	<u>7,496,194</u>	<u>7,496,194</u>	<u>5,851,676</u>	<u>(1,644,518)</u>
Total other financing sources (uses)	<u>7,496,194</u>	<u>7,496,194</u>	<u>5,851,676</u>	<u>(1,644,518)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Secondary Property Tax Revenue Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
**Year Ended June 30, 2015**

	<u>Budget</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Taxes	\$ 5,611,045	\$ 5,611,045	\$ 5,585,943	\$ (25,102)
Investment earnings	<u>61,800</u>	<u>61,800</u>	<u>98,275</u>	<u>36,475</u>
Total revenues	<u>5,672,845</u>	<u>5,672,845</u>	<u>5,684,218</u>	<u>11,373</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	427,224	427,224
Transfers out	<u>(7,496,194)</u>	<u>(7,496,194)</u>	<u>(5,842,916)</u>	<u>1,653,278</u>
Total other financing sources (uses)	<u>(7,496,194)</u>	<u>(7,496,194)</u>	<u>(5,415,692)</u>	<u>2,080,502</u>
Net change in fund balances	<u>(1,823,349)</u>	<u>(1,823,349)</u>	<u>268,526</u>	<u>2,091,875</u>
Budgetary fund balances, beginning of year	<u>7,384,991</u>	<u>7,384,991</u>	<u>7,384,991</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 5,561,642</u>	<u>\$ 5,561,642</u>	<u>\$ 7,653,517</u>	<u>\$ 2,091,875</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, 2015**

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Grants and entitlements	\$ 4,394,303	\$ 4,394,303	\$ 4,035,158	\$ (359,145)
Miscellaneous	10,255,866	10,255,866	-	(10,255,866)
Investment earnings	1,880	1,880	6,828	4,948
Total revenues	<u>14,652,049</u>	<u>14,652,049</u>	<u>4,041,986</u>	<u>(10,610,063)</u>
<b>EXPENDITURES:</b>				
Current:				
Capital outlay	47,203,426	47,203,426	9,545,470	37,657,956
Total expenditures	<u>47,203,426</u>	<u>47,203,426</u>	<u>9,545,470</u>	<u>37,657,956</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(32,551,377)</u>	<u>(32,551,377)</u>	<u>(5,503,484)</u>	<u>27,047,893</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Bonds issued	23,662,500	23,662,500	-	(23,662,500)
Transfers in	7,370,896	7,370,896	1,275,896	(6,095,000)
Transfers out	-	-	(575,634)	(575,634)
Total other financing sources (uses)	<u>31,033,396</u>	<u>31,033,396</u>	<u>700,262</u>	<u>(30,333,134)</u>
Net change in fund balances	<u>(1,517,981)</u>	<u>(1,517,981)</u>	<u>(4,803,222)</u>	<u>(3,285,241)</u>
Budgetary fund balances, beginning of year	<u>2,888,630</u>	<u>2,888,630</u>	<u>2,888,630</u>	<u>-</u>
Budgetary fund balances, end of year	<u>\$ 1,370,649</u>	<u>\$ 1,370,649</u>	<u>\$ (1,914,592)</u>	<u>\$ (3,285,241)</u>

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Net Position Accounts**  
**Year Ended June 30, 2015**

	Public Housing 14.850 & 14.872	Housing Choice Vouchers 14.871	Business Activities	Moderate Rehab- ilitation 14.856	Elimination	Total
<b>Assets:</b>						
<b>Current Assets:</b>						
<b>Cash:</b>						
Cash – Unrestricted	\$ 548,762	\$ 82,087	\$ -	\$ 12,560	\$ -	\$ 643,409
Cash – Other Restricted	-	-	-	-	-	-
Cash – Tenant Security Deposits	73,400	-	-	-	-	73,400
<b>Total Cash</b>	<b>\$ 622,162</b>	<b>\$ 82,087</b>		<b>\$ 12,560</b>	<b>\$ -</b>	<b>\$ 716,809</b>
<b>Accounts Receivables:</b>						
Accounts Receivable – PHA Projects	-	-	-	-	-	-
Accounts Receivable – HUD Other Projects	34,127	17,537	-	4,988	-	56,652
Accounts Receivable – Other Government	4,098	-	33,200	-	-	37,298
Accounts Receivable – Miscellaneous	249,544	1,779	102,577	-	-	353,900
Accounts Receivable – Tenants	27,980	208	-	-	-	28,188
Allowance for Doubtful Accounts – Tenants	(672)	(208)	-	-	-	(880)
Allowance for Doubtful Accounts – Other Fraud Recovery	-	-	(27,304)	-	-	(27,304)
Allowance for Doubtful Accounts – Fraud	-	-	-	-	-	-
Accrued Interest Receivable	-	-	-	-	-	-
<b>Total Receivables, Net</b>	<b>315,077</b>	<b>19,316</b>	<b>108,473</b>	<b>4,988</b>	<b>-</b>	<b>447,854</b>
<b>Current investments</b>						
Investments – Unrestricted	-	-	-	-	-	-
Investments – Restricted	-	-	-	-	-	-
Prepaid Expenses and Other Assets	54,901	1,587	3,148	-	-	59,636
Inventories	-	-	-	-	-	-
Allowance for Obsolete Inventories	-	-	-	-	-	-
Inter Program Due From	-	-	50,278	620	(50,898)	-
Assets Held for Sale	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>992,140</b>	<b>102,990</b>	<b>161,899</b>	<b>18,168</b>	<b>(50,898)</b>	<b>1,224,299</b>
<b>Noncurrent Assets:</b>						
<b>Capital Assets:</b>						
Land	1,446,035	-	-	-	-	1,446,035
Buildings	8,459,745	-	-	-	-	8,459,745
Furniture, Equipment & Machinery – Dwellings	887,236	43,489	-	-	-	930,725
Furniture, Equipment & Machinery – Administration	537,556	-	-	-	-	537,556
Leasehold Improvements	-	-	-	-	-	-
Accumulated Depreciation	(6,703,096)	(43,489)	-	-	-	(6,746,585)
Construction in Progress	215,243	-	-	-	-	215,243
<b>Total Capital Assets, Net</b>	<b>4,842,719</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,842,719</b>
Notes receivable – Noncurrent	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-
<b>Total Non-Current Assets</b>	<b>4,842,719</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,842,719</b>
<b>Deferred Outflow of Resources</b>	<b>159,991</b>	<b>28,656</b>	<b>47,103</b>	<b>-</b>	<b>-</b>	<b>235,750</b>
<b>Total Assets and Deferred Outflow of Resources</b>	<b>5,994,850</b>	<b>131,646</b>	<b>209,002</b>	<b>18,168</b>	<b>(50,898)</b>	<b>6,302,768</b>

(continued)

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Net Position Accounts**  
**Year Ended June 30, 2015**

	Public Housing 14.850 & 14.872	Housing Choice Vouchers 14.871	Business Activities	Moderate Rehab- ilitation 14.856	Elimination	Total
<b>Liabilities and Net Position:</b>						
<b>Liabilities:</b>						
<b>Current Liabilities:</b>						
Bank Overdraft	-	-	18,866	-	-	18,866
Accounts Payable <= 90 Days	33,105	918	39,455	1,529	-	75,007
Accrued Wage/Payroll Taxes Payable	-	-	-	-	-	-
Accrued Compensated Absences	59,727	3,985	2,699	-	-	66,411
Accrued Interest Payable	-	-	-	-	-	-
Accounts Payable – HUD PHA Programs	-	-	-	3,984	-	3,984
Account Payable – PHA Projects	-	-	-	-	-	-
Accounts Payable – Other Government	69,647	-	-	-	-	69,647
Tenant Security Deposits	73,400	-	-	-	-	73,400
Unearned Revenues	12,301	-	-	-	-	12,301
Current Portion of L-T Debt – Capital	-	-	-	-	-	-
Current Portion of L-T Debt – Operating	-	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-	-
Accrued Liabilities – Other	-	-	-	-	-	-
Inter Program – Due To	40,535	9,718	620	25	(50,898)	-
<b>Total Current Liabilities</b>	<b>288,715</b>	<b>14,621</b>	<b>61,640</b>	<b>5,538</b>	<b>(50,898)</b>	<b>319,616</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	128,563	35,867	2,767	-	-	167,197
Accrued Pension and OPEB Liabilities	1,403,984	245,348	402,398	-	-	2,051,730
<b>Total Non-Current Liabilities</b>	<b>1,532,547</b>	<b>281,215</b>	<b>405,165</b>	<b>-</b>	<b>-</b>	<b>2,218,927</b>
<b>Total Liabilities</b>	<b>1,821,262</b>	<b>295,836</b>	<b>466,805</b>	<b>5,538</b>	<b>(50,898)</b>	<b>2,538,543</b>
Deferred Inflow of Resources	309,489	54,613	89,280	-	-	453,382
<b>Net Position:</b>						
Net Investment in Capital Assets	4,842,719	-	-	-	-	4,842,719
Restricted Net Position	-	13,253	-	-	-	13,253
Unrestricted Net Position	(978,620)	(232,056)	(347,083)	12,630	-	(1,545,129)
<b>Total Equity/Net Position</b>	<b>3,864,099</b>	<b>(218,803)</b>	<b>(347,083)</b>	<b>12,630</b>	<b>-</b>	<b>3,310,843</b>
<b>Total Liabilities, Deferred Inflows of Resources and Equity/Net Position</b>	<b>\$ 5,994,850</b>	<b>\$ 77,033</b>	<b>\$ 119,722</b>	<b>\$ 18,168</b>	<b>\$ (50,898)</b>	<b>\$ 5,849,386</b>

(concluded)

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Revenue, Expense, and Changes in Fund Net Position Accounts**  
**Year Ended June 30, 2015**

	Public Housing 14.850 & 14.872	Housing Choice Vouchers 14.871	Business Activities	Moderate Rehab- ilitation 14.856	Elimination	Total
<b>Revenues:</b>						
Net Tenant Rental Revenue	\$ 991,541	\$ -	\$ -	\$ -	\$ -	\$ 991,541
Tenant Revenue - Other	25,988	-	-	-	-	25,988
<b>Total Tenant Revenue</b>	<b>1,017,529</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,017,529</b>
HUD PHA Operating Grants	848,065	3,325,787	-	85,800	-	4,259,652
Capital Grants	35,946	-	-	-	-	35,946
Management Fee	-	-	-	-	-	-
Asset Management Fee	-	-	-	-	-	-
Bookkeeping Fee	-	-	-	-	-	-
Front Line Service Fee	-	-	-	-	-	-
Other Fees	-	-	-	-	-	-
Other Government Grants	-	-	-	-	-	-
Investment Income - Unrestricted	-	-	-	-	-	-
Mortgage Interest Income	-	-	-	-	-	-
Proceeds -Disposition of Assets Held for Sale	-	-	-	-	-	-
Cost of Sale of Assets	-	-	-	-	-	-
Fraud Recovery	36,405	3,892	-	-	-	40,297
Other Revenue	5,756	46,671	356,594	357	(10,362)	399,016
Gain or Loss on Sale of Capital Assets	504,249	-	-	-	-	504,249
Investment Income - Restricted	-	-	-	-	-	-
<b>Total Revenue</b>	<b>2,447,950</b>	<b>3,376,350</b>	<b>356,594</b>	<b>86,157</b>	<b>(10,362)</b>	<b>6,256,689</b>
<b>Expenses:</b>						
<b>Administrative</b>						
Administrative Salaries	480,764	164,685	107,630	-	-	753,079
Auditing Fees	5,600	1,960	840	-	-	8,400
Management Fee	-	-	-	-	-	-
Bookkeeping Fee	-	-	-	-	-	-
Advertising and Marketing	538	325	-	-	-	863
Employee Benefit - Administrative	229,178	38,965	64,646	-	-	332,789
Office Expenses	75,522	22,972	14,925	51	-	113,470
Legal Expense	2,978	-	-	-	-	2,978
Travel	9,766	1,294	1,580	-	-	12,640
Allocated Overhead	-	-	-	-	-	-
Other	3,566	1,518	1,724	10,362	(10,362)	6,808
<b>Total Administrative</b>	<b>807,912</b>	<b>231,719</b>	<b>191,345</b>	<b>10,413</b>	<b>(10,362)</b>	<b>1,231,027</b>
<b>Tenant Services</b>						
Asset Management Fee	-	-	-	-	-	-
Tenant Services - Salaries	-	-	-	-	-	-
Relocation Costs	-	-	-	-	-	-
Employee Benefit - Tenant Services	-	-	-	-	-	-
Tenant Services - Other	570	-	-	-	-	570
<b>Total Tenant Services</b>	<b>570</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>570</b>
<b>Utilities</b>						
Water	113,604	-	-	-	-	113,604
Electricity	19,531	-	-	-	-	19,531
Gas	144,195	-	-	-	-	144,195
Fuel	-	-	-	-	-	-
Labor	-	-	-	-	-	-
Sewer	55,477	-	-	-	-	55,477
Employee Benefit - Utilities	-	-	-	-	-	-
Other Utilities Expense	-	-	-	-	-	-
<b>Total Utilities</b>	<b>332,807</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>332,807</b>

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Revenue, Expense, and Changes in Fund Net Position Accounts**  
**Year Ended June 30, 2015**

	Public Housing 14.850 & 14.872	Housing Choice Vouchers 14.871	Business Activities	Moderate Rehab- ilitation 14.856	Elimination	Total
(continued)						
Ordinary Maintenance and Operations						
Labor	343,807	-	144,534	-	-	488,341
Materials and Other	39,443	-	-	-	-	39,443
Ordinary Maintenance and Operations Contracts	134,085	-	-	-	-	134,085
Employee Benefit Contributions – Ordinary Maintenance	-	-	-	-	-	-
<b>Total Maintenance</b>	<b>517,335</b>	<b>-</b>	<b>144,534</b>	<b>-</b>	<b>-</b>	<b>661,869</b>
Protective Services						
Protective Services – Labor	-	-	-	-	-	-
Protective Services – Other Contract Costs	18,852	-	-	-	-	18,852
Protective Services – Other	-	-	-	-	-	-
Employee Benefit – Protective Services	-	-	-	-	-	-
<b>Total Protective Services</b>	<b>18,852</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,852</b>
General Expense						
Property Insurance	40,012	-	-	-	-	40,012
Liability Insurance	20,631	3,674	-	-	-	24,305
Workmen's Compensation	16,638	2,864	7,194	-	-	26,696
All Other Insurance	14,007	557	300	-	-	14,864
<b>Total insurance Premiums</b>	<b>91,288</b>	<b>7,095</b>	<b>7,494</b>	<b>-</b>	<b>-</b>	<b>105,877</b>
Other General Expenses	13,518	7,154	16,174	-	-	36,846
Compensated Absences	(6,348)	9,952	-	-	-	3,604
Payments in Lieu of Taxes	69,647	-	-	-	-	69,647
Bad debt – Tenant Rents	19,119	-	-	-	-	19,119
Bad debt – Mortgages	-	-	-	-	-	-
Bad debt – Other	-	-	-	-	-	-
Severance Expense	-	-	-	-	-	-
<b>Total General Expenses</b>	<b>95,936</b>	<b>17,106</b>	<b>16,174</b>	<b>-</b>	<b>-</b>	<b>129,216</b>
Financial Expenses						
Interest Expense – Mortgage Payable	-	-	-	-	-	-
Interest on Notes Payable (Short & Long Term)	-	-	-	-	-	-
Amortization of Bond Issue Costs	-	-	-	-	-	-
<b>Total Financial Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Operating Expenses</b>	<b>1,864,700</b>	<b>255,920</b>	<b>359,547</b>	<b>10,413</b>	<b>(10,362)</b>	<b>2,480,218</b>
<b>Excess of Operating Revenue over Operating Expenses</b>	<b>583,250</b>	<b>3,120,430</b>	<b>(2,953)</b>	<b>75,744</b>	<b>-</b>	<b>3,776,471</b>
(continued)						
Other Expenses						
Extraordinary Maintenance	15,386	-	-	-	-	15,386
Casualty Losses – Non-capitalized	-	-	-	-	-	-
Housing Assistance Payments	-	3,072,190	-	75,438	-	3,147,628
HAP Portability-In	-	31,720	-	-	-	31,720
Depreciation Expense	407,412	-	-	-	-	407,412
Fraud Losses	-	-	-	-	-	-
Capital Outlays – Governmental Funds	-	-	-	-	-	-
Debt Principal Payment – Governmental Funds	-	-	-	-	-	-
Dwelling Units Rent Expense	-	-	-	-	-	-
<b>Total Other Expense</b>	<b>422,798</b>	<b>3,103,910</b>	<b>-</b>	<b>75,438</b>	<b>-</b>	<b>3,602,146</b>
<b>Total Expenses</b>	<b>2,287,498</b>	<b>3,359,830</b>	<b>359,547</b>	<b>85,851</b>	<b>(10,362)</b>	<b>6,082,364</b>

**CITY OF FLAGSTAFF, ARIZONA**  
**Financial Data Submission Summary**  
**Revenue, Expense, and Changes in Fund Net Position Accounts**  
**Year Ended June 30, 2015**

	Public Housing 14.850 & 14.872	Housing Choice Vouchers 14.871	Business Activities	Moderate Rehab- ilitation 14.856	Elimination	Total
Other Financing Sources (Uses)						
Operating Transfer In	72,487	22,500	-	-	-	94,987
Operating transfer Out	(72,487)	-	(22,500)	-	-	(94,987)
Operating Transfers from/to Primary Government	-	-	33,200	-	-	33,200
Operating Transfers from/to Component Unit	-	-	-	-	-	-
Proceeds from Notes, Loans and Bonds	-	-	-	-	-	-
Proceeds from Property Sales	-	-	-	-	-	-
Extraordinary Items, Net Gain/Loss	-	-	-	-	-	-
Special Items (Net Gain/Loss)	-	-	-	-	-	-
Inter Project Excess Cash Transfer In	-	-	-	-	-	-
Inter Project Excess Cash Transfer Out	-	-	-	-	-	-
Transfers between Program and Project - In	-	-	-	-	-	-
Transfers between Project and Program - Out	-	-	-	-	-	-
Transfer of Funds	-	-	-	-	-	-
Transfer of Equity	-	-	-	-	-	-
Prior Period Adjustments	-	-	-	-	-	-
Total Other financing Sources (Uses)	-	22,500	10,700	-	-	33,200
Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	160,452	39,020	7,747	306	-	207,525
Beginning Net Position	5,220,683	9,879	82,796	12,324	-	5,325,682
Required Annual Debt Principal Payments	-	-	-	-	-	-
Prior Period Adjustments, Equity Transfers and Correction of Errors	(1,517,036)	(267,702)	(437,626)	-	-	(2,222,364)
Changes in Compensated Absence Balance	-	-	-	-	-	-
Changes in Contingent Liability Balance	-	-	-	-	-	-
Changes in Unrecognized Pension Transition Liability	-	-	-	-	-	-
Changes in Special Term/Severance Benefits Liability	-	-	-	-	-	-
Changes in Allowance for Doubtful Accounts - Dwelling Rents	-	-	-	-	-	-
Changes in Allowance for Doubtful Accounts - Other	-	-	-	-	-	-
Ending Net Position	\$ 3,864,099	\$ (218,803)	\$ (347,083)	\$ 12,630	\$ -	\$ 3,310,843
Administrative Fee Equity	\$ -	\$ (232,056)	\$ -	\$ -	\$ -	\$ (232,056)
Housing Assistance Payments Equity		\$ 13,253				\$ 13,253
Unit Months Available	3,150	4,457		144		7,751
Number of Unit Months Leased	3,092	4,181		140		7,413
Excess Cash	\$ 503,208					\$ 503,208
Land Purchases						\$ -
Building Purchases	\$ 35,946					\$ 35,946
Furniture & Equipment - Dwelling Purchases						\$ -
Furniture & Equipment - Administrative Purchases						\$ -
Leasehold Improvements Purchases						\$ -
Infrastructure Purchases						\$ -
CFFP Debt Service Payments						\$ -
Replacement Housing Factor Funds						\$ -

(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, 2015**

	Operating Fund Program	Capital Fund Grants	Other Project Total
<b>Revenues:</b>			
Net Tenant Rental Revenue	\$ 991,541		\$ 991,541
Tenant Revenue – Other	25,988		25,988
<b>Total Tenant Revenue</b>	<b>1,017,529</b>	<b>-</b>	<b>1,017,529</b>
HUD PHA Operating Grants	667,092	180,973	848,065
Capital Grants		35,946	35,946
Management Fee			-
Asset Management Fee			-
Bookkeeping Fee			-
Front Line Service Fee			-
Other Fees			-
Other Government Grants			-
Investment Income – Unrestricted			-
Mortgage Interest Income			-
Fraud Recovery	36,405		36,405
Other Revenue	5,756		5,756
Gain or Loss on Sale of Capital Assets	504,249		504,249
Investment Income – Restricted			-
<b>Total Revenue</b>	<b>2,231,031</b>	<b>216,919</b>	<b>2,447,950</b>
<b>Expenses:</b>			
<b>Administrative</b>			
Administrative Salaries	\$438,176	42,588	480,764
Auditing Fees	\$5,600		5,600
Management Fee			
Bookkeeping Fee			
Advertising and Marketing	\$538		538
Employee Benefit – Administrative	\$215,871	13,307	229,178
Office Expenses	\$50,753	24,769	75,522
Legal Expense	\$2,978		2,978
Travel	\$9,766		9,766
Allocated Overhead			
Other	\$3,566		3,566
<b>Total Administrative</b>	<b>727,248</b>	<b>80,664</b>	<b>807,912</b>
<b>Tenant Services</b>			
Tenant Services – Salaries			-
Relocation Costs			-
Employee Benefit – Tenant Services			-
Tenant Services – Other	570		570
<b>Total Tenant Services</b>	<b>570</b>	<b>-</b>	<b>570</b>
<b>Utilities</b>			
Water	\$113,604		113,604
Electricity	\$19,531		19,531
Gas	\$144,195		144,195
Sewer	\$55,477		55,477
Employee Benefit – Utilities			-
Other Utilities Expense			-
<b>Total Utilities</b>	<b>332,807</b>	<b>-</b>	<b>332,807</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, 2015**

	Operating Fund Program	Capital Fund Grants	Other Project Total
Ordinary Maintenance and Operations			
Labor	343,807		343,807
Materials and Other	27,328	12,115	39,443
Contracts	106,967	27,118	134,085
Employee Benefit Contributions			-
Total Maintenance	<u>478,102</u>	<u>39,233</u>	<u>517,335</u>
Protective Services			
Protective Services – Labor	-	-	-
Protective Services – Other Contract Costs	18,852	-	18,852
Protective Services – Other	-	-	-
Employee Benefit – Protective Services	-	-	-
Total Protective Services	<u>18,852</u>	<u>-</u>	<u>18,852</u>
General Expense			
Property Insurance	\$40,012		40,012
Liability Insurance	\$20,631		20,631
Workmen's Compensation	\$15,628	1,010	16,638
All Other Insurance	\$14,007		14,007
Total insurance Premiums	<u>90,278</u>	<u>1,010</u>	<u>91,288</u>
Other General Expenses	13,518		13,518
Compensated Absences	(6,348)		(6,348)
Payments in Lieu of Taxes	69,647		69,647
Bad debt – Tenant Rents	19,119		19,119
Bad debt – Mortgages	-		-
Bad debt – Other	-		-
Severance Expense	-	-	-
Total General Expenses	<u>186,214</u>	<u>1,010</u>	<u>187,224</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>1,743,793</u>	<u>120,907</u>	<u>1,864,700</u>
Excess of Operating Revenue over Operating Expenses	<u>487,238</u>	<u>96,012</u>	<u>583,250</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, 2015**

	Operating Fund Program	Capital Fund Grants	Other Project Total
Other Expenses			
Extraordinary Maintenance	15,386	-	15,386
Casualty Losses – Non-capitalized	-	-	-
Housing Assistance Payments	-	-	-
HAP Portability-In	-	-	-
Depreciation Expense	407,412	-	407,412
Total Other Expense	<u>422,798</u>	<u>-</u>	<u>422,798</u>
 Total Expenses	<u>2,166,591</u>	<u>120,907</u>	<u>2,287,498</u>
Other Financing Sources (Uses)			
Operating Transfer In	72,487	-	72,487
Operating transfer Out	-	(72,487)	(72,487)
Operating Transfers from/to Primary Government	-	-	-
Operating Transfers from/to Component Unit	-	-	-
Proceeds from Notes, Loans and Bonds	-	-	-
Proceeds from Property Sales	-	-	-
Extraordinary Items, Net Gain/Loss	-	-	-
Special Items (Net Gain/Loss)	-	-	-
Inter Project Excess Cash Transfer In	-	-	-
Inter Project Excess Cash Transfer Out	-	-	-
Transfers between Program and Project – In	-	-	-
Transfers between Project and Program – Out	-	-	-
Transfer of Funds	-	-	-
Transfer of Equity	-	-	-
Prior Period Adjustments	-	-	-
Total Other financing Sources (Uses)	<u>72,487</u>	<u>(72,487)</u>	<u>-</u>
Excess (Deficiency) of Total Revenue Over (Under)			
Total Expenses	<u>136,927</u>	<u>23,525</u>	<u>160,452</u>
Beginning Net Position	<u>5,220,683</u>	<u>-</u>	<u>5,220,683</u>
Required Annual Debt Principal Payments	-	-	-
Prior Period Adjustments, Equity Transfers and Correction of Errors	(1,481,090)	(35,946)	(1,517,036)
Changes in Compensated Absence Balance	-	-	-
Changes in Contingent Liability Balance	-	-	-
Changes in Unrecognized Pension Transition Liability	-	-	-
Changes in Special Term/Severance Benefits Liability	-	-	-
Changes in Allowance for Doubtful Accounts – Dwelling Rents	-	-	-
Changes in Allowance for Doubtful Accounts – Other	-	-	-
Ending Net Position	<u>5,357,610</u>	<u>23,525</u>	<u>5,381,135</u>
Administrative Fee Equity	-	-	-
Housing Assistance Payments Equity	-	-	-
Unit Months Available	3,150	-	3,150
Number of Unit Months Leased	3,092	-	3,092
Excess Cash	503,208	-	503,208
Land Purchases	-	-	-
Building Purchases	-	35,946	35,946
Furniture & Equipment – Dwelling Purchases	-	-	-
Furniture & Equipment – Administrative Purchases	-	-	-
Leasehold Improvements Purchases	-	-	-
Infrastructure Purchases	-	-	-
CFFP Debt Service Payments	-	-	-
Replacement Housing Factor Funds	-	-	-

(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	142
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	151
These schedules contain information to help the reader assess the city's most significant local revenue source, sales tax.	
Debt Capacity	156
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	167
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	169
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									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Governmental activities</b>										
Net investment in capital assets	\$ 184,594,782	\$ 204,594,974	(1) \$ 214,268,448	\$ 215,672,933	\$ 213,762,870	\$ 217,879,986	\$ 219,112,469	\$ 222,690,985	\$ 227,347,151	\$ 230,658,509
Restricted	45,560,390	13,795,935	14,875,852	7,975,269	18,213,829	23,971,870	34,679,441	43,856,244	43,761,156	258,420
Unrestricted	10,448,150	36,514,677	(2) 39,248,151	34,766,602	49,463,587	42,863,692	37,309,699	32,288,032	37,176,483	(12,596,148)
<b>Total governmental activities net position</b>	<b>\$ 240,603,322</b>	<b>\$ 254,905,586</b>	<b>\$ 268,392,451</b>	<b>(3) \$ 258,414,804</b>	<b>(4) \$ 281,440,286</b>	<b>\$ 284,715,548</b>	<b>\$ 291,101,609</b>	<b>\$ 298,835,261</b>	<b>\$ 308,284,790</b>	<b>\$ 218,320,781</b>
<b>Business-type activities</b>										
Net investment in capital assets	\$ 230,035,130	\$ 264,381,730	\$ 276,783,163	\$ 291,707,810	\$ 302,784,152	\$ 303,113,402	\$ 304,416,393	\$ 304,560,897	\$ 310,552,949	\$ 311,963,433
Restricted	2,392,858	2,424,615	1,593,915	1,593,915	2,209,327	3,003,129	2,805,002	2,694,262	2,492,562	2,664,263
Unrestricted	20,303,463	19,267,461	16,250,436	11,547,792	10,895,855	17,190,191	23,968,903	29,195,853	31,128,319	18,390,515
<b>Total business-type activities and net position</b>	<b>\$ 252,731,451</b>	<b>\$ 286,073,806</b>	<b>\$ 294,627,514</b>	<b>\$ 304,849,517</b>	<b>\$ 315,889,334</b>	<b>\$ 323,306,722</b>	<b>\$ 331,192,298</b>	<b>\$ 336,451,012</b>	<b>\$ 344,173,830</b>	<b>\$ 333,018,211</b>
<b>Primary government</b>										
Net investment in capital assets	\$ 414,629,912	\$ 468,976,704	\$ 491,051,611	\$ 507,380,743	\$ 516,547,022	\$ 520,993,388	\$ 523,530,862	\$ 527,251,882	\$ 537,900,100	\$ 542,621,942
Restricted	47,953,248	16,220,550	16,469,767	9,569,184	20,423,156	26,974,999	37,484,442	46,550,506	46,253,718	2,922,683
Unrestricted	30,751,613	55,782,138	55,498,587	46,314,394	60,359,442	60,053,883	61,278,603	61,483,885	68,304,802	5,794,367
<b>Total primary government net position</b>	<b>\$ 493,334,773</b>	<b>\$ 540,979,392</b>	<b>\$ 563,019,965</b>	<b>\$ 563,264,321</b>	<b>\$ 597,329,620</b>	<b>\$ 608,022,270</b>	<b>\$ 622,293,907</b>	<b>\$ 635,286,273</b>	<b>\$ 652,458,620</b>	<b>\$ 551,338,992</b>

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



	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Expenses</b>										
Governmental activities:										
General government	\$ 7,458,583	\$ 9,035,268	\$ 11,271,031	\$ 10,913,187	\$ 8,238,178	\$ 7,850,954	\$ 9,406,406	\$ 10,442,808	\$ 10,732,510	\$ 17,625,846
Public safety	22,525,292	23,994,991	27,030,331	29,287,433	26,592,968	23,997,193	27,175,720	27,269,325	28,730,111	35,255,450
Public works	1,454,731	1,882,489	1,894,089	2,109,221	1,502,626	1,754,033	1,615,941	1,718,767	1,573,541	1,664,308
Economic and physical development	7,842,985	9,508,406	10,556,175	10,346,982	8,827,578	8,474,776	9,639,003	9,210,500	9,018,496	9,343,417
Culture and recreation	8,328,845	10,089,469	11,607,116	13,120,917	12,507,679	12,854,824	12,434,695	13,342,588	12,919,475	12,511,424
Highways and streets	12,043,242	14,557,140	15,515,643	19,297,615	17,856,121	19,275,381	16,328,771	15,431,985	17,698,346	18,174,944
Interest on long-term debt	2,167,626	3,090,140	2,916,380	3,651,521	3,918,110	3,370,918	2,944,057	2,902,196	2,946,685	2,944,000
Total governmental activities expense	61,821,404	72,157,903	80,790,765	88,726,876	79,443,260	79,568,079	79,544,593	80,318,169	83,619,164	97,519,389
Business-type activities:										
Water	18,452,368	19,945,366	23,420,282	22,802,316	21,731,286	21,491,239	22,708,636	22,568,661	24,366,128	14,307,902
Wastewater	9,096,420	10,073,853	11,423,164	11,782,540	11,091,078	11,610,370	7,828,286	11,671,366	11,637,566	10,879,594
Environmental	3,519,749	3,162,391	3,608,322	4,197,447	4,273,609	4,584,733	4,268,099	5,226,977	4,118,280	4,540,208
Airport	-	-	-	-	-	5,811,922	6,165,612	5,986,508	6,090,790	6,084,019
Housing Authority	791,791	1,019,248	1,160,604	1,203,436	1,258,072	1,121,555	1,361,658	1,196,589	1,576,865	1,184,464
Stormwater	31,860,328	34,200,858	39,612,372	39,985,739	38,354,045	44,619,819	42,332,291	46,650,101	47,789,629	49,067,696
Total business-type activities expense	\$ 93,681,732	\$ 106,358,761	\$ 120,403,137	\$ 128,712,615	\$ 117,797,305	\$ 124,187,898	\$ 121,876,884	\$ 126,968,270	\$ 131,408,793	\$ 146,587,085
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
General government	\$ 4,886,354	\$ 4,171,853	\$ 3,746,890	\$ 3,095,884	\$ 3,285,242	\$ 2,646,424	\$ 3,364,479	\$ 3,448,665	\$ 4,568,438	\$ 3,091,342
Public safety	815,167	704,800	1,227,979	1,451,405	1,283,697	1,144,636	1,611,109	1,491,842	628,038	879,755
Public works	1,180,097	1,455,461	1,483,275	1,350,832	1,471,550	1,537,188	1,551,188	1,611,306	1,215	520
Economic and physical development	332,356	562,135	315,462	369,987	291,211	162,715	53,747	52,386	903,233	2,329,258
Culture and recreation	683,906	742,088	762,410	1,559,617	1,420,094	1,442,901	1,455,067	1,507,855	1,656,628	1,605,120
Highways and streets	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	3,791,526	2,062,329	3,320,597	5,990,756	6,654,978	7,965,474	7,414,767	6,866,279	7,071,557	6,670,678
Capital grants and contributions	21,566,549	19,356,271	16,324,928	9,880,762	36,949,681	9,226,778	12,200,969	11,318,522	14,603,667	13,008,629
Total governmental activities program revenues	33,255,955	29,054,937	27,181,341	23,703,243	51,356,453	24,126,116	27,651,557	26,296,855	29,432,776	27,585,302



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

	Fiscal Year									
	2006	2007	2008	2009	2010*	2011	2012	2013	2014	2015
General Fund										
Reserved	\$ 232,190	\$ 1,260,236	\$ 308,979	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	28,574,855	29,960,235	27,492,853	-	-	-	-	-	-	-
Nonspendable	-	-	-	280,376	376,728	427,267	359,923	390,882	440,644	323,792
Restricted	-	-	-	106,144	785,720	796,345	758,303	800,953	1,698,333	1,951,220
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	8,192,178
Unassigned	-	-	-	22,203,764	13,412,219	15,160,509	17,203,207	19,410,597	21,559,814	23,153,900
Total general fund	\$ 28,807,045	(1) \$ 31,220,471	\$ 27,801,832	\$ 22,590,284	\$ 23,256,335	\$ 23,352,187	\$ 25,680,223	\$ 28,324,180	\$ 31,762,789	\$ 33,621,090
All Other Governmental Funds										
Reserved	\$ 30,107,878	\$ 47,350,460	\$ 20,611,579	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	22,893,640	16,332,830	16,498,123	-	-	-	-	-	-	-
Capital project funds	-	-	(763,744)	-	-	-	-	-	-	-
Permanent fund	3,271	6,567	9,916	-	-	-	-	-	-	-
Nonspendable	-	-	-	216,878	206,678	214,333	219,564	247,436	271,477	293,238
Restricted	-	-	-	4,299,450	19,720,079	23,012,954	33,743,091	42,466,792	48,320,324	51,003,624
Committed	-	-	-	-	2,228,605	-	-	-	-	-
Assigned	-	-	-	8,955,106	651,650	-	-	-	-	-
Unassigned	-	-	-	-	-	(2,863,781)	-	-	-	(282,178)
Total all other governmental funds	\$ 53,004,789	\$ 63,689,857	\$ 36,355,874	\$ 13,471,434	\$ 22,807,012	\$ 20,363,506	\$ 33,962,655	\$ 42,714,228	\$ 48,591,801	\$ 51,014,684

(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									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>REVENUES:</b>										
Taxes	\$ 39,104,903	\$ 41,976,134	\$ 43,964,317	\$ 43,555,388	\$ 43,200,268	\$ 43,799,128	\$ 45,577,128	\$ 47,084,446	\$ 48,806,758	\$ 53,725,196
Intergovernmental	17,173,416	18,779,168	20,425,088	21,364,739	19,450,213	17,488,021	17,230,696	18,713,646	19,584,399	20,549,000
Grants and entitlements	10,880,792	12,185,406	13,556,680	9,609,508	11,172,862	10,583,483	9,721,569	11,369,392	15,313,742	13,483,604
Charges for services	2,199,819	2,605,880	2,704,333	3,324,838	3,057,423	2,926,237	3,220,137	3,237,728	2,894,898	1,857,884
Special assessments	30,016	2,927	2,449	2,382	1,510,217	701,447	8,286,453	722,733	2,734,095	2,986,151
Licenses and permits	2,834,506	2,438,599	1,815,062	1,377,580	1,441,874	739,040	1,681,874	1,656,135	1,866,792	1,866,792
Fines and forfeitures	1,394,174	1,290,667	1,336,146	1,517,558	1,636,157	1,673,306	1,601,044	1,540,989	1,428,401	1,389,663
Rents	1,195,464	1,480,686	1,496,858	1,421,772	1,588,214	1,617,912	1,605,166	1,667,562	1,651,032	1,660,635
Investment earnings	2,238,285	3,920,473	3,731,116	1,366,931	413,594	224,363	296,241	(429,656)	722,878	1,145,686
Contributions	129,930	2,981,982	1,308,938	1,328,524	544,393	166,417	390,253	252,377	541,340	368,057
Miscellaneous	204,678	1,377,552	819,325	381,984	228,969	1,719,608	492,971	1,261,507	1,813,164	645,571
Total revenues	77,385,983	89,039,474	91,160,312	85,251,204	84,244,184	81,638,962	90,103,532	87,076,859	97,443,438	99,678,239
<b>EXPENDITURES:</b>										
General governmental	6,621,976	8,194,214	10,229,814	9,848,252	7,926,726	7,113,922	7,453,963	8,480,086	9,041,946	14,974,692
Public safety	21,626,547	22,994,522	25,696,174	27,374,083	25,159,777	24,476,615	25,301,495	25,099,149	26,567,511	27,583,880
Public works	1,168,424	1,615,049	1,617,311	1,645,703	1,360,447	1,299,027	1,146,692	1,219,324	1,031,983	1,216,083
Economic and physical development	7,640,313	9,344,676	10,335,964	9,991,927	8,601,808	8,202,024	8,584,826	8,296,367	8,212,772	8,506,794
Culture and recreation	7,178,029	8,648,628	10,267,649	12,158,087	10,615,754	10,782,848	10,576,877	11,292,517	11,446,096	11,029,832
Highways and streets	10,700,196	7,859,004	8,505,722	11,187,402	9,313,158	10,612,033	9,593,074	9,039,032	10,621,311	8,035,221
Debt service:										
Principal retirement	6,505,449	5,313,222	5,046,398	5,034,991	6,065,522	6,761,179	13,654,681	6,175,303	8,287,457	8,313,298
Interest and other charges	2,552,016	3,210,879	3,020,927	3,750,657	3,996,963	3,451,706	3,346,253	2,902,196	3,126,469	2,798,182
Capital outlay	25,054,173	26,403,203	46,465,549	30,796,072	12,446,280	11,785,480	11,951,834	16,656,392	24,062,755	16,944,654
Total expenditures	89,047,123	93,583,397	121,185,508	111,787,174	85,486,435	84,484,834	91,609,695	89,160,366	102,398,300	99,402,636
Excess of revenues over (under) expenditures	(11,661,140)	(4,543,923)	(30,025,196)	(26,535,970)	(1,242,251)	(2,845,872)	(1,506,163)	(2,083,507)	(4,954,862)	275,603
<b>OTHER FINANCING SOURCES (USES):</b>										
Proceeds of refunding bonds	-	-	-	-	-	-	-	-	-	-
Issuance of capital debt	31,500,000	19,075,000	-	-	8,330,000	-	13,924,136	-	8,270,000	-
Payment to bond refunding escrow agent	-	-	-	-	-	-	16,797,287	12,474,557	6,600,000	-
Lease issued	-	-	-	109,352	-	-	(15,394,336)	-	(9,382,710)	-
Bond premium	220,086	46,707	-	-	58,370	-	2,264,386	542,689	1,317,667	-
Insurance recoveries	-	-	-	-	1,920,000	1,058,985	-	-	-	-
Sale of capital assets	37,892	252,329	2,176,808	63,894	1,084,211	45,655	43,890	49,750	727,996	3,013,051
Transfers in	17,317,133	17,756,847	17,181,576	21,626,308	15,224,243	13,661,630	14,872,935	12,870,788	12,102,855	17,376,813
Transfers out	(19,584,684)	(19,488,466)	(20,085,809)	(23,359,573)	(18,525,100)	(14,268,052)	(15,074,950)	(12,458,747)	(11,659,441)	(16,384,283)
Total other financing sources (uses)	29,490,427	17,642,417	(727,425)	(1,560,019)	8,091,724	498,218	17,433,348	13,479,037	7,976,367	4,005,581
Net change in fund balances	\$ 17,829,287	\$ 13,098,494	\$ (30,752,621)	\$ (28,095,989)	\$ 6,849,473	\$ (2,347,654)	\$ 15,927,185	\$ 11,395,530	\$ 3,021,505	\$ 4,281,184
Debt service as a percentage of non capital expenditures	14.15%	12.69%	10.80%	10.85%	13.78%	14.05%	21.34%	12.52%	14.57%	13.48%

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
2006	4,209	4,881	2,083	14,707	4,623	8,602	39,105						
2007	4,453	5,188	1,838	16,071	4,992	9,434	41,976						
2008	4,616	6,219	2,189	16,150	5,187	9,605	43,966						
2009	4,882	7,254	2,246	14,384	5,052	10,035	43,853						
2010	5,150	7,620	2,133	13,595	5,074	9,628	43,200						
2011	5,259	7,184	2,339	13,893	5,259	9,865	43,799						
2012	5,473	6,703	2,348	14,900	5,626	10,527	45,577						
2013	5,472	6,423	2,303	15,760	5,911	11,215	47,084						
2014	5,571	5,560	2,487	17,042	6,310	11,837	48,807						
2015	5,597	5,586	2,467	17,845	7,022	15,208	53,725						
Change 2006-2015	32.98%	14.44%	18.43%	21.34%	51.89%	76.80%	37.39%						

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

Fiscal Year	State Sales Tax	State Income Tax	County Auto In-Lieu Tax	Highway User Tax	Local			State Grants & Other State	County LEAF IGA	County Library District Funding *	Other	Total
					State HB 2565	Federal Grants	Transportation Assistance					
2006	5,652,335	5,655,641	2,655,653	7,942,771	304,341	55,665	2,386,011	420,426	2,241,811	-	28,255,095	
2007	5,815,473	6,946,680	2,792,404	7,855,427	293,502	-	2,822,315	721,797	2,559,375	-	31,021,135	
2008	5,623,144	8,610,567	2,758,307	7,422,359	225,965	58,782	4,868,431	668,153	3,559,362	-	34,776,212	
2009	4,868,072	9,149,290	2,611,289	6,412,329	251,536	-	1,711,609	897,337	4,125,223	32,795	31,293,545	
2010	4,490,087	7,899,626	2,490,360	6,429,355	156,218	-	3,885,697	757,241	3,762,831	50,068	30,623,075	
2011	4,711,821	5,955,305	2,481,126	6,300,885	-	-	3,181,076	744,070	3,531,607	64,092	28,071,504	
2012	5,147,101	5,559,476	2,483,245	5,576,167	-	-	3,544,253	759,606	3,163,052	118,216	26,952,265	
2013	5,391,580	6,728,479	2,510,832	6,007,741	-	-	2,105,827	791,906	3,214,133	76,716	30,083,038	
2014	5,733,507	7,342,048	2,591,413	6,168,102	-	-	2,281,211	793,898	3,063,343	60,190	34,898,141	
2015	6,019,776	7,973,971	2,689,916	6,884,173	-	-	4,993,449	800,478	2,969,669	95,190	34,032,604	

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

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

Fiscal Year	Centrally Valued Property	Vacant,				Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
		Commercial Property	Agricultural, and Government Property	Residential Property	Property			
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	
2015	30,046,573	217,466,880	123,834,908	429,223,625	88,064,490	712,507,496	-	

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)*

	2006	2007	2008	2009	2010	2011	2012	2013*	2014	2015
Construction	\$ 233,747	\$ 260,024	\$ 263,386	\$ 181,245	\$ 150,239	\$ 166,894	\$ 150,868	\$ 164,971	\$ 169,933	\$ 191,297
Building Materials	82,481	79,703	75,493	66,641	60,143	61,781	62,665	-	-	-
Auto Sales	129,671	133,497	118,282	78,819	85,806	99,786	121,296	148,211	163,657	173,371
Restaurants and Bars	232,359	248,819	255,578	250,555	251,271	261,384	277,954	206,617	218,790	243,560
Hotel/Motel	-	-	-	-	-	-	-	88,924	95,263	108,913
Retail	586,841	637,225	619,805	582,029	546,765	544,356	557,375	630,898	638,142	679,325
Other	144,635	154,183	163,463	155,193	152,042	151,461	154,497	196,534	200,109	213,248
Utilities	4,892	68,840	71,299	69,175	66,392	63,784	116,273	92,968	103,895	109,578
TOTAL	\$ 1,414,626	\$ 1,582,291	\$ 1,567,306	\$ 1,383,657	\$ 1,312,658	\$ 1,349,446	\$ 1,440,928	\$ 1,529,123	\$ 1,589,789	\$ 1,719,292

\*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									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total City	1.6627	1.5929	1.5519	1.5519	1.4913	1.4845	1.5283	1.5497	1.6795	1.6784
Primary								0.7131	0.8429	0.8418
Secondary								0.8366	0.8366	0.8366
School District	6.0786	5.9009	4.7713	4.8334	3.8860	4.6772	4.9458	4.8712	5.1939	5.1867
Maintenance								3.6182	3.9803	3.7886
Adjacent Ways								0.0459	0.0096	0.0259
15% M&O Override								0.6126	0.7061	0.7138
Capital Override								0.1833	0.0000	0.0357
Class B Bond								0.4112	0.4979	0.6227
Community College	0.5525	0.5269	0.4865	0.4643	0.4267	0.4308	0.4734	0.4927	0.5879	0.6056
Maintenance								0.3875	0.4636	0.4788
Bond								0.1052	0.1243	0.1268
County	1.2010	0.7521	0.7588	0.7603	0.7244	0.7245	0.7656	0.7847	0.9022	0.9202
General Fund								0.4480	0.5466	0.5646
Library District								0.2367	0.2556	0.2556
Fire District Assistance								0.1000	0.1000	0.1000
Total	9.4948	8.7728	7.5685	7.6099	6.5284	7.3170	7.7131	7.6983	8.3635	8.3909

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

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

Taxpayer *	2015			2005		
	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	\$ 18,056,955	1	2.53%	\$ 11,202,424	1	2.01%
W L Gore & Associates	13,856,962	2	1.94%	10,109,600	2	1.82%
Nestle Purina PetCare Company	4,001,669	3	0.56%	4,171,498	4	0.75%
Wal-Mart Stores	3,467,133	4	0.49%			
Qwest Corporation	3,409,362	5	0.48%	9,580,227	3	1.72%
Little America Hotels & Resorts Inc	3,338,504	6	0.47%	3,830,418	6	0.69%
Flagstaff Mall SPE LLC	2,986,867	7	0.42%	3,250,000	8	0.58%
Unisource Energy Corporation	2,583,775	8	0.36%	2,538,753	9	0.46%
BNSF Railway Company	2,394,644	9	0.34%			
Walgreens Arizona Drug Co	2,369,114	10	0.33%	3,867,713	5	0.69%
Ridge at Clear Creek LLC	2,326,331	11	0.33%			
Elevation Flagstaff AZ LLC	2,208,475	12	0.31%			
Northern Arizona Healthcare Corp	2,013,878	13	0.28%			
First American Title	1,978,429	14	0.28%			
Hope Tribe Economic Development Corp	1,854,874	15	0.26%			
Flagstaff Medical Center Inc	1,846,240	16	0.26%			
<b>Total Principal Taxpayers</b>	<b>\$ 68,693,212</b>		<b>9.64%</b>	<b>\$ 48,550,633</b>		<b>8.72%</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
2006	9,075,322	8,958,733	98.7%	131,194	9,089,927	100.2%
2007	9,615,015	9,495,935	98.8%	141,012	9,636,947	100.2%
2008	10,935,835	10,728,465	98.1%	222,871	10,951,336	100.1%
2009	12,253,760	11,934,997	97.4%	309,164	12,244,162	99.9%
2010	12,750,836	12,477,413	97.9%	288,851	12,766,264	100.1%
2011	12,497,535	12,113,128	96.9%	473,677	12,586,805	100.7%
2012	12,015,988	11,635,211	96.8%	300,188	11,935,400	99.3%
2013	11,828,399	11,553,471	97.7%	315,044	11,868,515	100.3%
2014	11,050,626	10,778,695	97.5%	145,544	10,924,239	98.9%
2015	11,172,785	11,002,896	98.5%	-	11,002,896	98.5%

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				
2006	1.0000%	2.0000%	0.6010%	0.6010%	5.6000%	0.9250%	10.1260%
2007	1.0000%	2.0000%	0.6010%	0.6010%	5.6000%	1.1250%	10.3260%
2008	1.0000%	2.0000%	0.6010%	0.6010%	5.6000%	1.1250%	10.3260%
2009	1.0000%	2.0000%	0.7210%	0.7210%	5.6000%	1.1250%	10.4460%
2010	1.0000%	2.0000%	0.7210%	0.7210%	6.6000%	1.1250%	11.4460%
2011	1.0000%	2.0000%	0.7210%	0.7210%	6.6000%	1.1250%	11.4460%
2012	1.0000%	2.0000%	0.7210%	0.7210%	6.6000%	1.1250%	11.4460%
2013	1.0000%	2.0000%	0.7210%	0.7210%	6.6000%	1.1250%	11.4460%
2014	1.0000%	2.0000%	0.7210%	0.7210%	5.6000%	1.1250%	10.4460%
2015	1.0000%	2.0000%	1.0510%	1.0510%	5.6000%	1.3000%	10.9510%

Source: City of Flagstaff – Sales Tax / Business Licenses  
<http://www.flagstaff.az.gov/index.aspx?nid=53>

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				
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	55,571 *	8,639	16,603	1,260	4,400	1,752	3,635	33,873	4,431	130,164	2.7%	1,928.30	
2015	50,857	6,737	15,781	860	3,625	1,441	3,285	31,909	3,972	118,467	2.2%	1,707.24	

\* - As restated due to refunding loss

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

These amounts are presented on the accrual basis of accounting.

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

Fiscal Year	General Bonded Debt Outstanding		Total	Percentage of Actual Taxable Value of Property	Per Capita
	Governmental Activities General Obligation Bonds	Business-Type Activities General Obligation Bonds			
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
2015	43,334	1,441	44,775	6.3%	663.31

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.

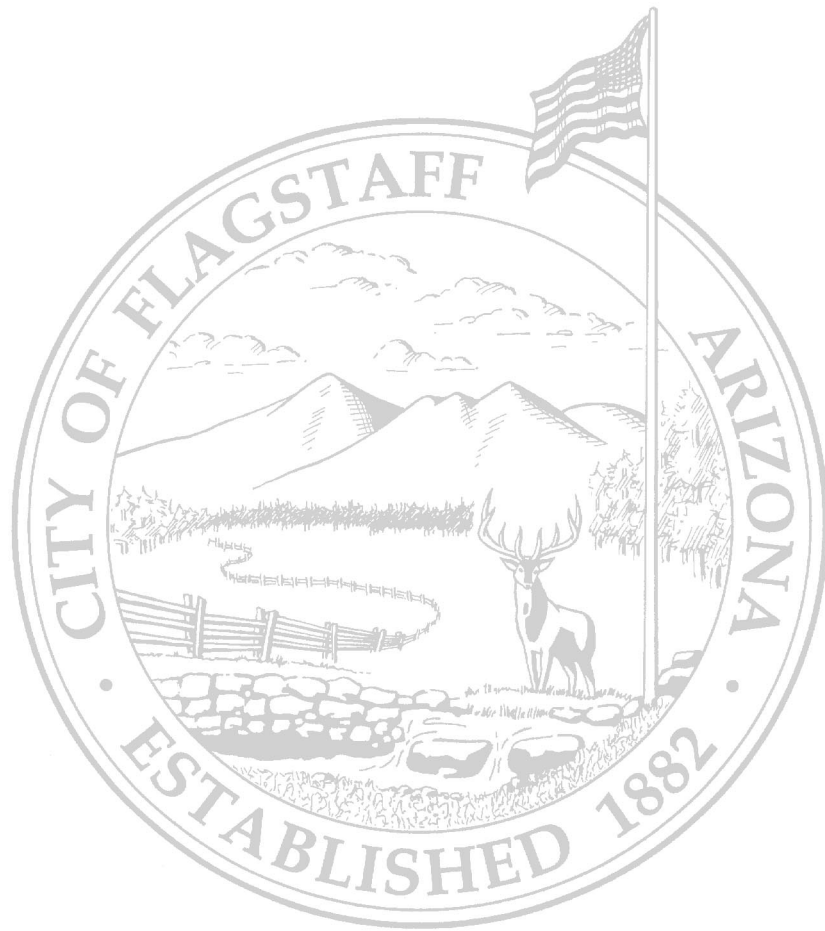
Schedule 15  
 City of Flagstaff  
 Direct and Overlapping Governmental Activities Debt  
*(dollars in thousands, except per capita)*

<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	\$ 33,900	65.17%	22,093
<b>Other debt</b>			
Coconino County Special Assessments	345	0.00%	-
Subtotal, overlapping debt			22,093
<b>City direct debt</b>			<u>77,860</u>
<b>Total direct and overlapping debt</b>			<u>\$ 99,953</u>

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

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

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



	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>20% Debt Limit</b>										
Debt limit equal to 20% of assessed valuation	\$ 124,840	\$ 150,108	\$ 175,756	\$ 183,268	\$ 172,808	\$ 158,274	\$ 153,055	\$ 132,213	\$ 134,139	\$ 142,501
Total net debt applicable to 20% limit	35,227	43,860	39,514	35,105	35,105	27,845	41,841	48,788	55,388	50,361
Legal debt margin (Available borrowing capacity)	\$ 89,613	\$ 106,248	\$ 136,242	\$ 148,163	\$ 137,703	\$ 130,429	\$ 111,214	\$ 83,425	\$ 78,751	\$ 92,141
Total net debt applicable to the 20% limit as a percentage of debt limit	39.31%	41.28%	29.00%	23.69%	25.49%	21.35%	37.62%	58.48%	70.33%	54.66%

	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>6% Debt Limit</b>										
Debt limit equal to 6% of assessed valuation	\$ 37,452	\$ 45,032	\$ 52,727	\$ 54,981	\$ 51,842	\$ 47,482	\$ 45,917	\$ 39,664	\$ 40,242	\$ 42,750
Total net debt applicable to 6% limit	14,202	680	351	-	-	-	-	-	-	-
Legal debt margin (Available borrowing capacity)	\$ 23,250	\$ 44,352	\$ 52,376	\$ 54,981	\$ 51,842	\$ 47,482	\$ 45,917	\$ 39,664	\$ 40,242	\$ 42,750
Total net debt applicable to the 6% limit as a percentage of debt limit	61.08%	1.53%	0.67%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**Legal Debt Margin Calculation for Fiscal Year 2015**

Net Secondary Assessed Value as of June 30, 2015 \$ 712,507,496

**20% Limitation**

Debt Limit of 20% of Assessed Value \$ 142,501,499

Debt applicable to limit:

General Obligation Bonds 50,360,657

Legal 20% debt margin (Available borrowing capacity) \$ 92,140,842

**6% Limitation**

Debt Limit of 6% of Assessed Value \$ 42,750,450

Debt applicable to limit:

General Obligation Bonds -

Legal 6% debt margin (Available borrowing capacity) \$ 42,750,450

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			
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		
2015	23,453,378	15,345,504	8,107,874	2,328,839	741,086	3,069,925	2.64		

- (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	
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	-	-	-	-
2015	6,884,173	-	-	-	-

(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

Fiscal Year	Revenue (1)	Debt Service Requirements			Coverage
		Principal (2)	Interest (3)	Total	
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
2015	13,543,397	400,000	50,350	450,350	30.07

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

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

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

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

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

Fiscal Year	Revenue (1)	Debt Service Requirements			Coverage
		Principal (2)	Interest	Total	
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	25,841,021	1,500,000	574,838	2,074,838	12.45
2013	25,842,019	1,560,000	542,575	2,102,575	12.29
2014	28,973,317	1,560,000	511,375	2,071,375	13.99
2015	30,348,121	695,000	469,750	1,164,750	26.06

(1) 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. Refunding Series 2012 excludes state revenue sharing income and sales tax

(2) MFC revenue bond series 2004 Fourth Street, partial advance refunding pledged revenue series 2012

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

Greater Arizona Development Authority  
 Revenue Bonds

Fiscal Year (1)	Revenue (2)	Debt Service Requirements			Coverage
		Principal (3)	Interest	Total	
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
2015	12,129,085	125,000	124,562	249,562	48.60

- (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				
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	90.6%	90.6%	41.8%	11,839	8.90%
2012	65,870	4,481,137	34,999	26.6	90.6%	90.6%	41.8%	10,623	9.20%
2013	65,870	4,620,811	34,353	26.6	90.6%	90.6%	41.8%	10,623	8.10%
2014	67,502	4,906,294	35,933	26.6	90.6%	90.6%	41.8%	10,623	6.90%
2015	69,391	5,399,899	39,220	26.6	90.6%	90.6%	41.8%	11,766	6.48%

**Sources:**

- Population – Arizona Department of Administration--Employment and Population Statistics
- Personal Income – 2006 – 2007 Arizona Department of Economic Security, Workforce Development Statistics, estimate from 2008
- Personal Income – 2008 – 2015 Arizona Department of Administration--Employment and Population Statistics
- Per Capita Income – 2006 – 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 – 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>	2014 (2)			2008 (1)		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Northern Arizona University	2,815	1	5.10%	2,497	1	4.53%
Flagstaff Medical Center	2,300	2	4.17%	2,104	2	3.81%
W.L. Gore & Associates	2,200	3	3.99%	1,800	3	3.26%
Flagstaff United School District	1,436	4	2.60%	1,436	4	2.60%
Coconino County	1,294	5	2.35%	1,294	5	2.35%
City of Flagstaff (3)	872	6	1.58%	876	6	1.59%
Walmart	630	7	1.14%	338	10	0.61%
Grand Canyon Railway	421	8	0.76%	450	8	0.82%
SCA Tissue	279	9	0.51%			
Dell Systems	250	10	0.45%			
Nestle Purina PetCare	240	11	0.44%			
Little America Hotel	220	12	0.40%			
<b>Total</b>	<b>12,957</b>		<b>23.49%</b>	<b>10,795</b>		<b>19.57%</b>
2010 U.S. Census Labor Force	55,170			55,170		

**Source:**

- (1) Arizona Department of Economic Security
- (2) Economic Collaborative of Northern Arizona
- (3) Includes part-time employees excluded from Sched. 20

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

Function/Program	2007	2008	2009	2010 (1)	2011 (2)	2012	2013	2014	2015
General Government									
Management services	82.89	87.39	89.14	86.75	86.50	84.55	85.00	86.00	91.00
Capital management	13.50	13.50	13.50	11.00	11.00	8.00	7.00	7.00	8.00
City Court	26.50	27.63	29.63	25.88	25.18	25.18	24.18	24.35	26.35
Public Safety									
Police	164.00	174.00	181.00	168.00	168.00	172.00	171.00	169.00	167.00
Fire	100.75	101.75	101.75	99.00	92.00	85.00	85.00	85.00	88.00
Public Works	27.00	31.00	31.00	29.00	26.50	26.50	26.00	25.00	25.50
Economic and physical development									
Building	52.25	58.50	57.50	47.20	41.00	39.20	39.20	41.50	42.98
Planning	21.75	20.88	24.88	24.38	22.88	22.88	21.88	20.88	16.88
Tourism	15.75	16.75	16.75	15.75	13.25	12.49	12.49	12.93	13.93
Culture and recreation									
Library	43.13	47.14	53.77	50.77	50.77	51.40	51.40	51.40	53.43
Parks, recreation, and beautification	68.82	98.23	99.69	87.86	86.86	88.81	84.88	86.03	90.13
Highways and Streets	37.25	40.56	41.06	36.31	36.31	36.31	34.97	35.52	33.02
Water and wastewater	79.00	80.25	81.75	64.50	62.50	61.50	61.50	62.00	66.00
Environmental services	62.60	61.60	68.10	65.58	63.58	59.60	58.50	55.43	56.25
Airport	10.00	10.50	10.50	9.50	9.50	9.50	9.50	9.50	9.50
Stormwater	6.50	6.50	6.50	6.00	6.00	6.00	6.00	5.50	4.50
Flagstaff Housing Authority	-	-	-	-	23.50	23.50	24.00	22.00	22.00
<b>Total</b>	<b>811.69</b>	<b>876.18</b>	<b>906.52</b>	<b>827.48</b>	<b>825.33</b>	<b>812.42</b>	<b>802.50</b>	<b>799.04</b>	<b>814.47</b>

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

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

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

Function/Program	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Court</b>										
Criminal Filings	9,705	9,553	11,659	9,330	9,326	8,531	8,857	8,695	8,375	7,273
Traffic filings	10,575	8,951	10,665	10,639	13,471	12,010	9,217	8,340	7,726	8,428
Domestic Violence/Other filings	616	530	744	445	468	370	547	477	468	554
<b>Purchasing</b>										
Credit card rebates received	-	-	-	23,348	21,677	31,878	33,923	34,395	48,128	72,037
<b>Fire</b>										
Emergency responses	7,684	8,227	7,616	7,550	6,668	7,274	7,438	8,023	8,730	9,432
Fires response	351	314	267	263	247	175	213	185	177	184
Other calls	1,323	1,472	1,573	2,151	1,906	2,378	2,226	2,298	2,532	2,654
Inspections assigned	1,966	1,984	1,981	1,794	572	1,174	1,468	1,411	1,340	2,341
Plan Reviews	1,280	1,314	1,284	1,250	401	528	535	559	512	659
<b>Fuel Management</b>										
Plan Assessment (Acres)	585	-	400	-	-	N/A*	N/A*	N/A*	N/A*	2,300
Site Marking (Acres)	662	764	178	224	294	586	128	284	511	70
Site Thinning (Acres)	694	1,173	902	761	376	809	197	276	541	820
Prescription Burn (Acres)	557	1,210	1,070	1,190	551	342	697	540	778	333
<b>Police</b>										
Felony reports	5,337	4,973	3,978	3,661	3,073	2,973	2,940	2,910	2,564	2,511
Misdemeanor reports	13,381	13,123	13,413	12,939	12,293	11,786	11,253	11,040	10,383	8,980
Domestic violence incidents	1,598	1,625	1,573	1,470	1,953	1,923	1,961	2,023	1,688	1,550
Non-crime reports	9,136	8,913	11,043	10,996	9,480	9,827	9,886	9,841	7,174	6,036
Accident reports	3,313	3,374	3,322	2,917	2,776	2,735	2,574	2,568	2,180	2,590
<b>Calls dispatched to Police/Sheriff</b>										
Calls dispatched to Fire	77,239	75,791	73,364	70,908	61,175	57,899	57,188	60,003	56,373	58,590
Calls dispatched to Medical	11,741	12,364	11,907	12,527	11,011	11,130	13,320	11,497	11,464	11,777
	9,175	9,960	-	-	-	-	-	-	-	-

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

Function/Program	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Streets										
Potholes repaired	1,962	2,443	4,032	4,373	3,256	1,498	1,877	2,054	3,605	1,174
Airport										
Fuel Flowage (Gallons Sold)	705,638	642,643	651,814	627,202	651,373	850,327	526,406	490,401	544,028	566,387
Enplanements	39,646	44,598	44,088	65,418	68,296	63,407	62,872	60,190	61,691	62,578
Refuse collection										
Refuse collected (Landfill tonnage)	154,321	153,121	157,792	142,409	121,529	138,703	137,815	145,793	144,411	143,528
Recyclables collected (total tons)	9,866	10,356	10,472	9,842	10,610	8,869	8,101	8,388	8,343	8,340
Community Development										
Residential Permit Valuation	(1) \$ 97,895,269	\$ 38,895,496	\$ 25,278,055	\$ 31,498,803	\$ 9,314,074	\$ 8,472,938	\$ 65,299,515	\$ 43,609,942	\$ 75,489,761	(1)
Commercial Permit Valuation	(1) \$ 26,130,677	\$ 37,962,373	\$ 27,199,698	\$ 18,594,665	\$ 13,395,325	\$ 17,703,762	\$ 20,338,552	\$ 14,479,348	\$ 19,978,010	(1)
Library										
Visits	625,103	643,174	680,253	738,603	743,169	763,928	739,706	715,033	687,735	673,246
Circulation	758,468	789,621	782,908	887,887	979,962	1,029,062	1,182,956	1,164,789	1,117,652	1,002,125
Tourism										
Revenue Per Available Room (RevPar)	\$ 61.47	\$ 66.86	\$ 60.52	\$ 43.21	\$ 43.05	\$ 45.26	\$ 50.94	\$ 54.61	\$ 59.99	\$ 67.62

**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

\* Records no longer tracked

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

Function/Program	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public Safety										
Police patrol units (Includes Motorcycle units)	26	31	34	34	35	37	37	37	37	37
Number of fire hydrants	2,598	2,743	3,148	3,150	3,143	3,176	3,179	3,242	3,242	3,254
Number of fire stations	6	6	6	7	7	7	7	6	6	6
Culture and recreation										
Number of developed parks	27	27	26	26	26	24	23	23	23	23
Number of undeveloped parks	4	4	4	4	4	5	4	4	4	4
Park acreage	702	705	712	712	712	735	680	710	710	736
Flagstaff Urban Trail System – Miles	34	34	48	51	51	53	53	55	55	55
Recreational Buildings	5	5	6	6	6	4	4	4	4	4
Highways and Streets										
Miles of streets, alleys, and sidewalks (1)	386	403	690	695	813	814	814	814	844	844
Number of street lights	3,037	3,107	3,201	3,220	3,350	3,466	3,466	3,466	3,466	3,466
Water and wastewater										
Miles of sewer (2)	293	309	265	270	270	271	271	274	274	276
Number of manholes	6,496	6,906	7,107	7,261	7,261	7,308	7,308	7,403	7,403	7,493
Total active water accounts	17,872	18,758	18,849	18,371	19,042	22,092	19,020	20,107	19,961	19,934
Average gallon water usage per household per month	5,488	5,600	5,456	5,010	5,123	5,107	5,339	6,326	5,022	4,562
Airport										
Fixed base operators	1	1	1	1	1	1	1	1	1	1
Locally based aircraft	130	134	134	134	120	122	125	209	134	134
Tiedowns	18	11	11	11	14	11	11	11	11	11
Enclosed hangars	61	61	61	61	61	61	61	61	61	61
Open hangars	48	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
Liability Insurance: General Liability* (Includes 2 skateboard parks, bike freestyle park, EMT's) Law Enforcement Liability* Auto Liability Auto Physical Damage 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 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) Aviation: General Liability Products/Completed Operations Personal Injury, Advertising & Malpractice Hangar Keepers Liability	\$ 1,000,000 / per occurrence \$ 2,000,000 / aggregate \$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate \$ 1,000,000 / each accident \$ 25,259,135 / \$1000/comprehensive / \$5000/collision deductible \$ 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 \$ 20,000,000 / each occurrence \$ 20,000,000 / 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	Property Insurance: Blanket Buildings and Personal Property Boiler and Machinery Flood Zones B and C Earthquakes Business Income/Extra Expense Flood Zone A Properties Municipal Court Deductible Inland Marine: Contractors Equipment (actual cash value) Bookmobile book collection Employee Hand Tools Computer Equipment and Peripherals Data and Media Fine Arts & exhibition floater 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)	\$ 216,647,226 / \$25,000 deductible included \$ 10,000,000 / \$50,000 deductible \$ 15,000,000 / \$50,000 deductible \$ 2,500,000 / 48 hours \$ 242,000 / building \$ 122,700 / contents \$ 5,000 / each building \$250,000 per item / \$25,000 deductible \$1,000,000 aggregate / \$25,000 deductible \$ 250,000 / \$25,000 deductible included / \$25,000 deductible included / \$25,000 deductible included / \$25,000 deductible \$ 250,000 / \$25,000 deductible \$ 500,000 / \$25,000 deductible \$ 1,000,000 / \$5,000 deductible \$ 1,000,000 / \$5,000 deductible \$ 1,000,000 / \$5,000 deductible \$ 1,000,000 / \$5,000 deductible \$ 1,000,000 / \$5,000 deductible \$ 1,500,000 / Medical Assistance \$ 250,000 / Accidental death \$ 250,000 / Each Loss



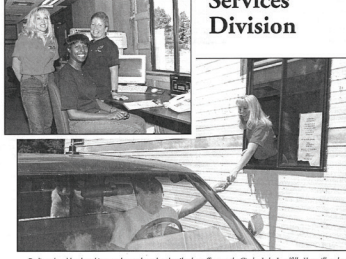
**Customer Service  
in the Utilities Department**



*The City of Flagstaff Utilities Department is consistently rated as an example of the best in providing customer service. Jim Dixon, Water Distribution and Wastewater Collection Supervisor is one of the reasons. Utilities gets such high marks: Getting the job done right, on time and with the least amount of problems is Jim's goal for all his customers.*

Annual Financial Plan 00 City of Flagstaff, AZ

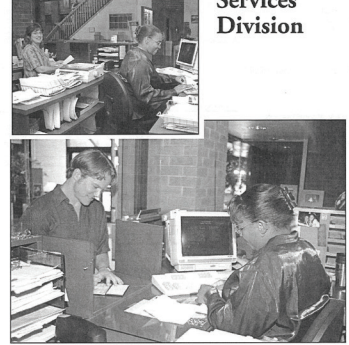
**Customer Service  
in the Environmental  
Services Division**



*Dedicated and hard working are the words used to describe the staff here at the Chandler Lake Landfill. You will see how Gail Kunkle, Marlene Nink, and Barbara Heller are the standard for customer service when you do business with them.*

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**Customer Service  
in the Utilities Customer  
Services Division**



*Printing a water bill is not usually one of life's greatest moments, but when you come down to City Hall and meet Kim Burns and Pam Calky, you just might change your mind. They are friendly, talented, highly trained, efficient, and devoted to making your customer service experience in City Hall the best it can be.*

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PAGES FROM THE 2002 ANNUAL BUDGET AND FINANCIAL PLAN

*More than  
**20** Years  
of GFOA  
Recognition*

GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Certificate  
of Achievement*  
**FOR EXCELLENCE IN**  
*Financial Reporting*

City of Flagstaff  
Comprehensive Annual  
Financial Report

**35** Awards

GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

City of Flagstaff  
Budget and Financial Plan

**21** Awards



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

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