

FLAGSTAFF, ARIZONA

2016



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City of Flagstaff
Comprehensive Annual
Financial Report
Fiscal Year Ended
June 30, 2016

Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2016

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, 2016**

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City of Flagstaff

December 28, 2016

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, 2016, 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.

CliftonLarsonAllen, 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, 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Flagstaff's financial statements for the fiscal year ended June 30, 2016, are fairly presented in conformity with GAAP. The independent auditors' 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 2010 United States Census is showed a population of 65,870. The Arizona Department of Economic Security estimates the population for 2016 at 70,320. 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. A public hearing is held prior to the budget's final adoption and tax levy in order to obtain taxpayer comments. The budget is legally enacted through the passage of a resolution and the tax levy is adopted by an ordinance. The resolution 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. The City's general sales tax increased 4.01% in Fiscal Year (FY) 2014, 9.81% in FY 2015 and 6.97% in FY 2016.

In FY 2016, general sales tax revenues increased in 7 of the 11 categories when compared to the prior year. The following chart summarizes the categorical changes from the prior fiscal year:

Category	FY 2015	FY 2016	% Change
Utilities	1,095,776	1,084,743	-1.01%
Telecommunication	360,236	333,716	-7.36%
Restaurants/Bars	2,435,598	2,516,536	3.32%
Amusements	76,022	82,011	7.88%
Commercial Property Rental	956,828	998,483	4.35%
Personal Property Rentals	568,935	596,174	4.79%
Construction Contracting	1,912,967	1,767,414	-7.61%
Retail	8,526,964	9,465,214	11.00%
Hotels/Motels	1,089,126	1,209,951	11.09%
Use Tax	263,312	454,616	72.65%
Other	171,446	165,346	-3.56%
Total	\$ 17,457,210	\$ 18,674,205	6.97%

(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 three different sales taxes:

The first is a 1% tax on all general sales, except for food. This is a general purpose tax that benefits the General Fund. The City of Flagstaff is the only city left in the State of Arizona that has a sunset clause on the general sales tax. This tax must go before the voters every ten years and is currently authorized until November 2024.

As indicated earlier, overall local sales tax increases have been realized for four years in a row. Per Schedule 5 in the Statistical Section, the 1% general city sales tax receipts have increased 7.0% from the prior fiscal year which exceeds last year's highest collection level ever. The decrease in the Construction Contracting revenues is related to state legislative changes on what types of construction work is recognized in this category. Now contractors that are working on remodeling type projects pay the sales tax on their materials at the point of sale. These transactions are recorded in the Retail category and which is part of the reason the category increased by 11% this year. Retail sales posted the highest incremental gain at \$938,251, with auto sales making up 33% of the increased revenue. The City continues to follow its' practice to not allocate 100% of construction and auto sales related sales tax revenues to ongoing budgetary needs.

The second is a 1.051% sales tax on the same types of general sales; however the tax is restricted in use to certain transportation projects. The first four components of this tax include Safety Improvements, Street Improvements, 4th Street Overpass, and Transit. These transportation tax components expire in 2020. The fifth component is for Road Repairs and Street Safety improvement that was effective January 1, 2015 as approved by voters. 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. 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 \$7.5 million dollars.

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%. For FY 2017, that state imposed legislative changes to the population component of the calculation and will use annual population estimates provided by the US Census Bureau.

State shared sales tax revenues have increased for the sixth year in a row. For FY 2016 there was a 3.6% growth in these revenues. However, the state shared income tax continue to be under the FY 2009 peak revenues by 13.3%. State income tax revenues decreased by 0.5%. 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 5.9% in FY 2016. While this is a considerable increase, it is still 8.2% 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. 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 2.8% in FY2016 and the State of Arizona projects continued growth.

Other revenue factors for the City:

Excluding new construction, total assessed valuations have increased 2.23% for tax year 2015, fiscal year 2016. Next tax year, the City will see a 1.39% 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 12% levy increase for

FY 2018). 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 2017 (excluding grants and miscellaneous revenue) by 5.1 % which reflects increases in local and state revenues. The City of Flagstaff increased its overall staffing count by 15.04 full time equivalencies for the upcoming fiscal year. This is the third year the City has increased its position count since 2009. Prior to this, the City experienced staffing reductions totaling 130 full time equivalencies.

Most of our community partners in the public, private, and governmental sectors are also experiencing growth. The one declining area is the Flagstaff Unified School District. After four consecutive years of increased enrollment, the 2016–2017 has seen a slight decline of less than one percent. Northern Arizona University (NAU) continues to grow. In the Fall 2016, NAU enrolled its largest freshmen class. This strong growth is a factor of having three student housing projects currently under construction and one more project considered in the next year. Development within the City continues to be very strong in every sector; single family, multi-family, commercial and mixed use. With our strong tourism sector, we currently have 3 hotels that are currently under construction. 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 5% to \$354,000 in July 2016. 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.

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, as a percentage of operating revenues, 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 has made a commitment to maintain General Fund balance at 20%, exceeding policy, to position the City better in times of economic decline. Council adopted a Water, Wastewater and Reclaimed Water policy that sets a goal of minimum fund at 25% and we recently adopted new rates to achieve this goal.

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 and FY 2017 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

- Planned and budgeted for a three year phase in to bring staff up to the 2016 market pay plan
- Planned and budgeted for two years of a minimum 2% market increase for all staff
- Reduced our gap in market based pay from 8.32% to 5.21%
- Implemented retention strategies in the Police Department and saw a reduction in turnover of Police Officer and Dispatch Staff by 43%
- Implemented a pay stipend for snow removal resulting in a 70% increase to our staffing pool for snow operations
- Continuing an Employer Assisted Housing program for officers and dispatch employees
- Provided an additional \$215,000 for employee training citywide

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

- Council adopted new rates for water, wastewater and Stormwater in FY 2016 which included additional funding for an improved water conservation program
- The Arizona Department of Transportation and the City signed an agreement that would allow the City to use ADOT right-of-way for future construction of a waterline from Red Gap Ranch
- Water and Wastewater plants continue to invest in pumps and motor that increase energy efficiency resulting in lower energy cost for FY 2016

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

- Added Sunday hours to the Main Library which was previously closed on Sundays
- Spent over \$10 million in the last year and a half for street improvement from the road repair and street safety improvements related to a voter approve sales tax
- Created a Facilities Contingency Fund to assist with future city facilities' needs
- Created an Information Technology catastrophic fund to assist in emergency replacement of hardware
- Voters approved \$12M in general obligation debt for a new courthouse
- Design work for the new Core Services Maintenance Facility is near completion and construction is expected to be completed by December 2017
- Funded purchases of cardio equipment for several recreation activity centers
- Funded the first phase of the Library Master Plan to address materials circulation management, ADA improvements and signage

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

- Completed a Market Based pay plan for sworn officers and dispatch
- Reduced patrol vacancy by 15%, patrol was fully staffed during November 2016
- Instituted a three-year contract for new hires, a housing incentive program, dispatch shift differential and channel certification pay, and Field Training Officer and dispatch training officer incentive pay
- The Fire Department Community Alternative Response Team program continues to be successful and is positioning to be a partner in the Community Paramedicine community and reduce citizen re-admittance to the clinical setting, and response to low acuity non-emergency calls to reduce impacts on availability of our paramedic resources

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

- Council completed a full day Housing Roundtable retreat to review housing affordability issues for our community and invited member of the community to participate in the discussions
- Provided community members with Do It Yourself home energy efficiency kits and training

Provide for a well-managed transportation system

- Created a Regional Transportation Planning Steering Committee which included many community members and partners such as Arizona Department of Transportation, Coconino County, Northern Arizona University, and Northern Arizona Intergovernmental Public Transportation Authority. This committee met to review transportation needs for our community and provided Council with a comprehensive list of transportation needs.
- Continue to promote the Flagstaff Airport. This year we increased enplanements by 1.4% with a marketing campaign to Always Fly Flagstaff First. Also provided terminal improvements such as enhanced Wi-Fi and charging stations
- Funded Sunnyside infrastructure improvements for Phase 5C

Continue to implement the Flagstaff Regional Plan and focus efforts on specific plans

- Staff summaries to Council include how the item before Council address goals in the Regional Plan
- Funded an intern position for comprehensive planning projects
- Partnered with NAU on a Community Liaison position to help bridge communication and needs between the two organization and the citizens
- Funded work related to a High Occupancy Housing Plan and a Southside Neighborhood Plan

Improve effectiveness of notification, communication, and engagement with residents, neighborhoods and businesses and about City services, programs, policies, projects and developments

- Completed improvements to the FUTS signage program to provide better information at the many FUTS trailhead in a consistent manner
- Continuing work with the Army Corp of Engineering to address the Rio de Flag drainage issues in our community, the design concept report was completed
- Completed the Environmental Impact Study for the Flagstaff Watershed Protection program which allows forest treatments to begin
- Implemented video streaming of all City Commission meetings
- Provided the citizens with a Community Engagement Forum to one-stop service for citizens and staff on surveys and online discussions concerning city issues, proposals and policies

Improve the economic quality of life for Flagstaff through economic diversification and by fostering jobs and programs that grow wages and revenues

- Assisted with business retention and expansion to help create an additional 136 jobs of which 33 jobs were with new businesses in Flagstaff
- We opened a Business Accelerator building to provide office, laboratory and manufacturing space to developing companies
- Provided funding for additional economic development marketing and analytics
- Provided funding for an Arts and Economic Prosperity study to help understand the impact of the arts and science commitments in our community

Support and assist the most vulnerable

- Staff prepared and presented to Council a comprehensive list of City services that provide support and assistance for the most vulnerable.
- Voters adopted a Livable Wage for the City of Flagstaff which will provide requirements for minimum wage levels. Minimum wage is now expected to be \$12 per hour effective July 1, 2017.
- The summer reading program which resulted in an increase of 124% in participation. This program helped to serve our community by getting patrons busy reading and offering assistance on how to find resources at the library
- Continue to work with service partners to provide services to the community. These include United Way, Boys and Girls Club and Family and Community Teaming for Students (FACTS)
- Funded improvement to Thorpe Park for an adaptive playground unit and surfacing
- Implemented a pilot program for an after school program at Siler Homes, an affordable housing community

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

- Completed revisions to the Continuity of Operations Plan (COOP) in coordination with the County and City staff
- Investing in Upper Lake Mary Watershed monitoring including flowtography and rain gages to help understand the impact of rain and snow events
- Continuing to work on the voter approved Flagstaff Watershed Protection Project and leveraging the work with state and federal grant funding

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, 2015. This was the 22th 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 fiscal year 2016 annual budget and financial plan (also 22 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 fifth 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 Brandi Suda, Finance Director, and the dedicated staff in Finance for their efforts to prepare this year's CAFR. It is the hard work of staff that brings together a document that consistently receives recognition of its quality.

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, CliftonLarsonAllen LLP, also contributed significantly to this report.

Respectfully Submitted,



Rick Tadder
Management Services Director



Government Finance Officers Association

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

Presented to

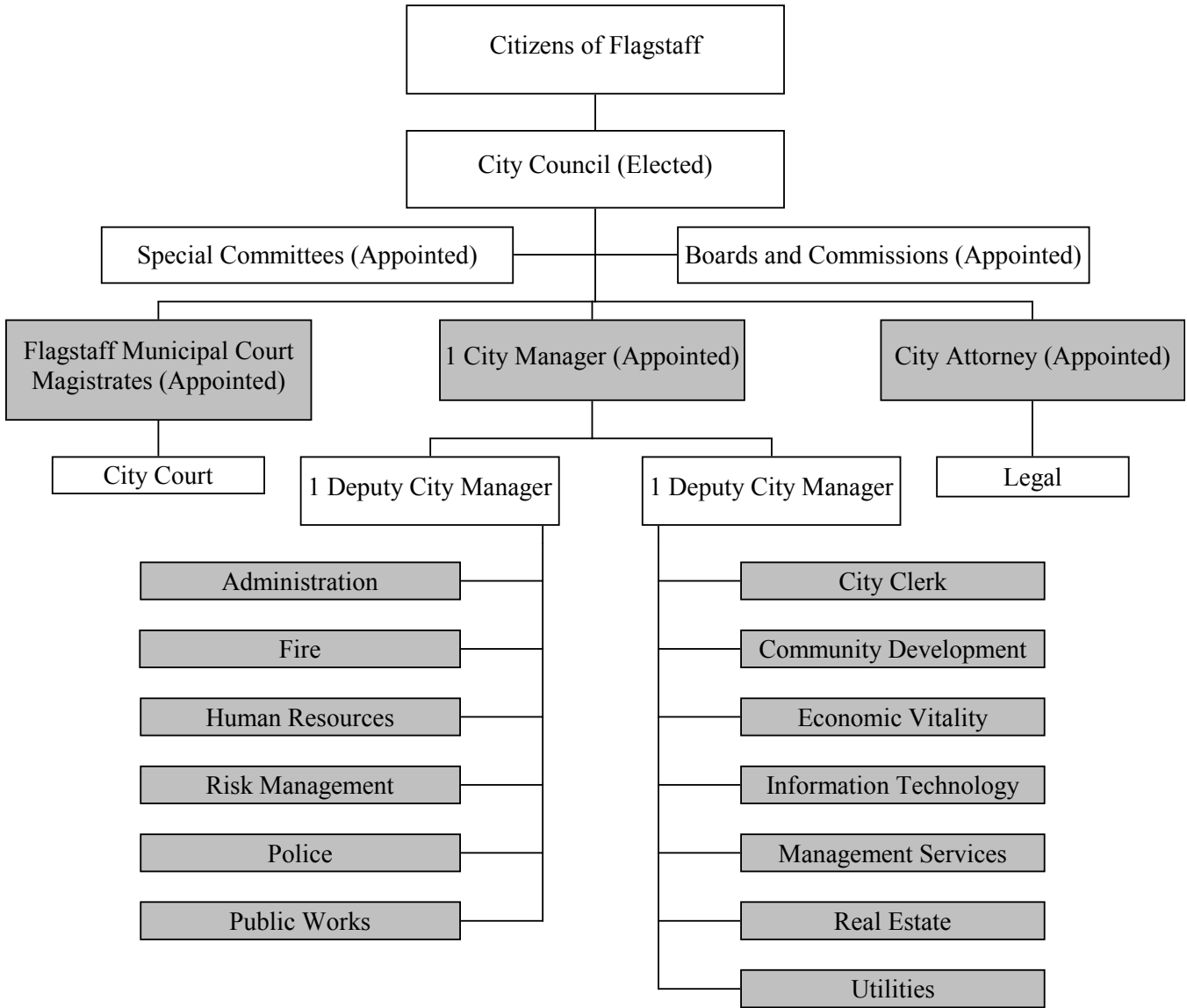
**City of Flagstaff
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

CITY ADMINISTRATION



City of Flagstaff, Arizona
List of Elected and Appointed Officials
June 30, 2016

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	Sterling Solomon
City Treasurer	Rick Tadder
City Clerk	Elizabeth Burke



CliftonLarsonAllen

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of 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 (City), as of and for the year ended June 30, 2016, 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.

Auditors' 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 auditors' 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 City'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 City'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, and the aggregate remaining fund information of the City of Flagstaff, Arizona as of June 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 – 18 and the required supplementary information for the City's pension plans and other postemployment benefits on pages 100 – 105 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Flagstaff, Arizona's basic financial statements. The combining and individual nonmajor fund financial statements, supplementary information and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the supplemental information (capital assets used in the operations of the government, budgetary comparison schedules for 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 information is 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 it.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2016, on our consideration of the City of Flagstaff, Arizona'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 result of that testing, and not to provide an opinion on 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, Arizona's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Phoenix, Arizona
December 28, 2016



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, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii –xi of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$570.0 million (net position).
- The government's total net position increased by \$18.7 million during the fiscal year. This is a result of an increase in net position in the governmental activities of \$16.6 million and an increase in net position in the business type activities of \$2.1 million.
- As of June 30, 2016, the City's governmental funds reported combined ending fund balances of \$92.3 million, an increase of \$7.7 million in comparison to the prior fiscal year. Approximately 26.5% of this total amount (\$24.5 million) is unassigned fund balance available for spending at the government's discretion.
- As of June 30, 2016, total unassigned fund balance for the general fund was \$27.4 million, or 50.7% of total general fund expenditures (\$54.1 million).
- As of June 30, 2016, the City's proprietary funds reported combined total net position of \$335.7million, and total unrestricted of \$21.2 million. The largest unrestricted component of net position is in the Water and Wastewater Fund (\$16.0 million) and in the Environmental Services Fund (\$6.8 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 legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government as a blended component unit.

The Government-wide Financial Statements can be found on pages 19–21 of this report.

Fund Financial Statements

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

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

Because the focus of Governmental Funds is narrower than that of the Government-wide Financial Statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the Government-wide Financial Statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between Governmental Funds and Governmental Activities.

The City maintains several individual governmental funds organized according to their type (Special Revenue, Capital Projects, and Debt Service). Information is presented separately in the

Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Highway User Revenue Fund, and Transportation 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 108–111.

The City adopts an annual appropriated budget for its General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Enterprise Funds. A budgetary comparison statement has been provided for the General and Special Revenue major governmental funds to demonstrate compliance with the respective budgets.

The basic Governmental Fund Financial Statements can be found on pages 22–32 of this report.

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

- **Enterprise Funds** are used to report the same function presented as business-type activities in the Government-wide Financial Statements. The City uses Enterprise Funds to account for Water and Wastewater, Airport, Environmental Services, Stormwater, and the Housing Authority. All are considered to be major funds of the City with the exception of the Housing Authority Fund.
- **Internal Service Funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses an Internal Service Fund to account for its workers compensation, health insurance, other risk related activity, including claims adjustment, and general liability and property insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the Government-wide Financial Statements. The Internal Service Fund is combined into a single, aggregated presentation in the Proprietary Fund Statements.

The Basic Proprietary Fund Financial Statements can be found on pages 34–41 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 42–97 of this report.

Combining statements

The Combining Statements referred to earlier in connection with non-major governmental funds are presented on pages 108–111.

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 114–134 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 \$570.0 million as of June 30, 2016.

Of the City’s Net Position, 98.0% reflects its investment of \$558.5 million in capital assets (e.g. land, buildings, and equipment), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

Net Position						
June 30, 2016 and 2015 (in thousands of dollars)						
	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 109,908	\$ 106,317	\$ 51,565	\$ 49,150	\$ 161,473	\$ 155,467
Capital assets	308,986	305,103	349,375	352,650	658,361	657,753
Total assets	<u>418,894</u>	<u>411,420</u>	<u>400,940</u>	<u>401,800</u>	<u>819,834</u>	<u>813,220</u>
Total deferred outflows of resources	<u>23,319</u>	<u>23,713</u>	<u>1,785</u>	<u>2,206</u>	<u>25,104</u>	<u>25,919</u>
Long-term liabilities	180,555	187,552	59,233	61,399	239,788	248,951
Other liabilities	<u>21,293</u>	<u>21,063</u>	<u>7,177</u>	<u>7,184</u>	<u>28,470</u>	<u>28,247</u>
Total liabilities	<u>201,848</u>	<u>208,615</u>	<u>66,410</u>	<u>68,583</u>	<u>268,258</u>	<u>277,198</u>
Total deferred inflows of resources	<u>5,408</u>	<u>8,197</u>	<u>1,229</u>	<u>2,405</u>	<u>6,637</u>	<u>10,602</u>
Net investment in capital assets	246,897	230,659	311,645	311,963	558,542	542,622
Restricted	60,982	59,895	2,903	2,664	63,885	62,559
Unrestricted	<u>(72,922)</u>	<u>(72,233)</u>	<u>20,538</u>	<u>18,391</u>	<u>(52,384)</u>	<u>(53,842)</u>
Total net position	<u>\$ 234,957</u>	<u>\$ 218,321</u>	<u>\$ 335,086</u>	<u>\$ 333,018</u>	<u>\$ 570,043</u>	<u>\$ 551,339</u>

Total assets increased mainly due to the net change of restricted and unrestricted cash and investments along with the change in capital assets in the governmental activities offset by decreases in intergovernmental and special assessment receivables. Total liabilities decreased primarily due to decreases in bonds, notes and lease payables and special assessment debt offset by increases in net pension obligation and net OPEB obligation.

A portion of the City’s net position, \$63.9 million (11.2%), represents resources that are subject to external restriction on how they may be used. The unrestricted component of net position 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 two of the three categories of net position for governmental activities, and in all three categories for business-type activities. Governmental activities are reporting a negative unrestricted net position due to the recording of the City's net pension obligation.

Current assets for governmental activities have increased by 3.4% (\$3.6 million). The largest increase was in restricted cash and investments (\$6.3 million) while the largest decreases are in specials assessment receivable (\$4.6 million) and intergovernmental receivable (\$1.0 million).

Deferred outflows of resources for the governmental activities have decreased \$400,000 and is mostly related to the pension related deferred outflows.

Capital assets of the governmental activities, funded through operations, debt proceeds, grants, and contributions, increased by 1.3% (\$3.9 million) due to capital outlays and capital contribution in excess of depreciation and deletions. Major capital outlays include the Road Repair and Street Safety projects (\$5.7 million) and 38 vehicles and heavy equipment purchases.

Governmental activities long-term liabilities decreased by 3.7% (\$7.0 million) due to a \$13.0 million decrease in long term portion of special assessment debt, bonds, notes and lease payables offset by increases of 6.0 million net pension liability, net OPEB liability and compensated absences. Other liabilities increased by 1.1% (\$230,000) primarily due to the increase in the accrued payroll (\$384,000) and advance revenues (\$281,000) offset by decrease in interest payable (\$225,000) and current portion of special assessment debt (\$165,000).

Deferred inflows of resources for governmental activities decreased \$2.8 million related to pension related deferred inflows.

Total assets for business-type activities have decreased by 0.2% (\$0.9 million). The largest increase was for cash and cash equivalents (\$1.8 million). The largest decrease was for capital assets (\$3.3 million).

Total liabilities for business type activities decreased by 3.2% (\$2.2 million). Major changes include the decreases in bonds, notes and leases payable (\$2.9 million) and increase in net pension liability (\$530,000).

Overall, the business-type net position has increased by 0.6% (\$2.1 million) due to increases in unrestricted net position (\$2.1 million) related overall increase in operating and non-operating revenues. The changes are primarily in the Water and Wastewater Fund, Environmental Services fund and Stormwater Fund.

Analysis of Change in Net Position

The City's overall net position has increased by \$18.7 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, 2016 and 2015 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for services	\$ 9,291	\$ 7,906	\$ 41,293	\$ 39,620	\$ 50,584	\$ 47,526
Operating grants and contributions	7,599	6,671	4,776	4,743	12,375	11,414
Capital grants and contributions	11,806	13,009	4,340	4,749	16,146	17,758
General Revenues:						
Property taxes	11,341	11,211	-	-	11,341	11,211
Sales taxes	48,343	42,539	-	-	48,343	42,539
State shared taxes	17,080	16,684	-	-	17,080	16,684
Investment earnings	1,668	1,179	337	304	2,005	1,483
Other	1,420	728	376	1,613	1,796	2,341
Total revenues	<u>108,548</u>	<u>99,927</u>	<u>51,122</u>	<u>51,029</u>	<u>159,670</u>	<u>150,956</u>
Expenses						
General government	17,083	17,627	-	-	17,083	17,627
Public safety	34,711	35,256	-	-	34,711	35,256
Public works	1,650	1,664	-	-	1,650	1,664
Economic and physical development	10,259	9,343	-	-	10,259	9,343
Culture and recreation	12,975	12,511	-	-	12,975	12,511
Highways and streets	13,059	18,175	-	-	13,059	18,175
Interest on long-term debt	2,296	2,944	-	-	2,296	2,944
Water	-	-	14,674	14,308	14,674	14,308
Wastewater	-	-	10,491	10,880	10,491	10,880
Environmental	-	-	12,087	12,072	12,087	12,072
Airport	-	-	4,308	4,540	4,308	4,540
Housing Authority	-	-	6,126	6,084	6,126	6,084
Stormwater	-	-	1,245	1,184	1,245	1,184
Total expenses	<u>92,033</u>	<u>97,520</u>	<u>48,931</u>	<u>49,068</u>	<u>140,964</u>	<u>146,588</u>
Increase in net position before transfers	16,515	2,407	2,191	1,961	18,706	4,368
Transfers	121	(1,408)	(121)	1,408	-	-
Change in net position	16,636	999	2,070	3,369	18,706	4,368
Net position at beginning of year, as restated	218,321	217,322	333,018	329,649	551,339	546,971
Net position at end of year	<u>\$ 234,957</u>	<u>\$ 218,321</u>	<u>\$ 335,088</u>	<u>\$ 333,018</u>	<u>\$ 570,045</u>	<u>\$ 551,339</u>

Governmental activities

Governmental activities increased the City's net position by \$16.6 million. The key factors for this increase are as follows:

- Revenues exceeded expenses by \$16.5 million as compared to last years' of \$1.0 million.
- Net transfers increased to a positive \$121,000 versus last years' of negative \$1.4 million.
- Capital grants and contributions had the largest decrease by dollars at \$1.2 million (9.2%). Economic and physical development decreased by \$3.2 million related to the Business Accelerator Project. Highway and street increased \$3.3 million related to developer capital contribution and transportation contributions.
- City sales tax revenues increased by 13.6% (\$5.8 million). Comparing actual revenues to budgeted revenues the city exceeded the estimates by \$4.3 million. The increase in the city general sales tax, the transportation taxes, and the Bed, Board, and Beverage sales taxes are \$1.3 million, \$3.9 million, and \$516,000 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 five years.
- Charges for services increased 17.5% (\$1.4 million) related primarily to an increase in building and construction permits and fees due to the increase in construction in the community.
- Operating grants and contribution increased 13.9% (\$0.9 million) due to increases in public safety and economic and physical development grants.
- State shared taxes had a 2.4% increase as the economy in the region and at the state level continues to recover.
- Expenses have decreased by \$5.5 million (5.6%) due largely to a loss on the sale of land in the prior year as well as a delay in street preservation contracted services to early fiscal year 2017. There were

decreases in general government (\$0.5 million), public safety (\$0.5 million), and highways and streets (\$5.1 million). Increases were in culture and recreation (\$0.5 million) and economic and physical development (\$0.9 million).

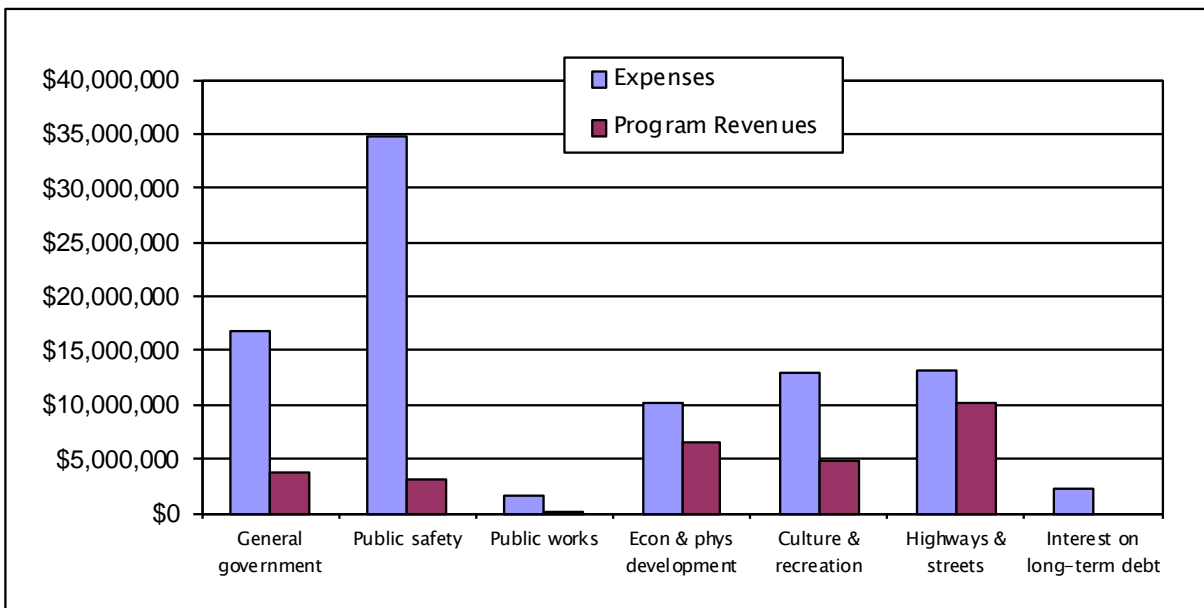
Business-type activities

Business type activity had a net position increase of \$2.1 million. The key factors for this increase include:

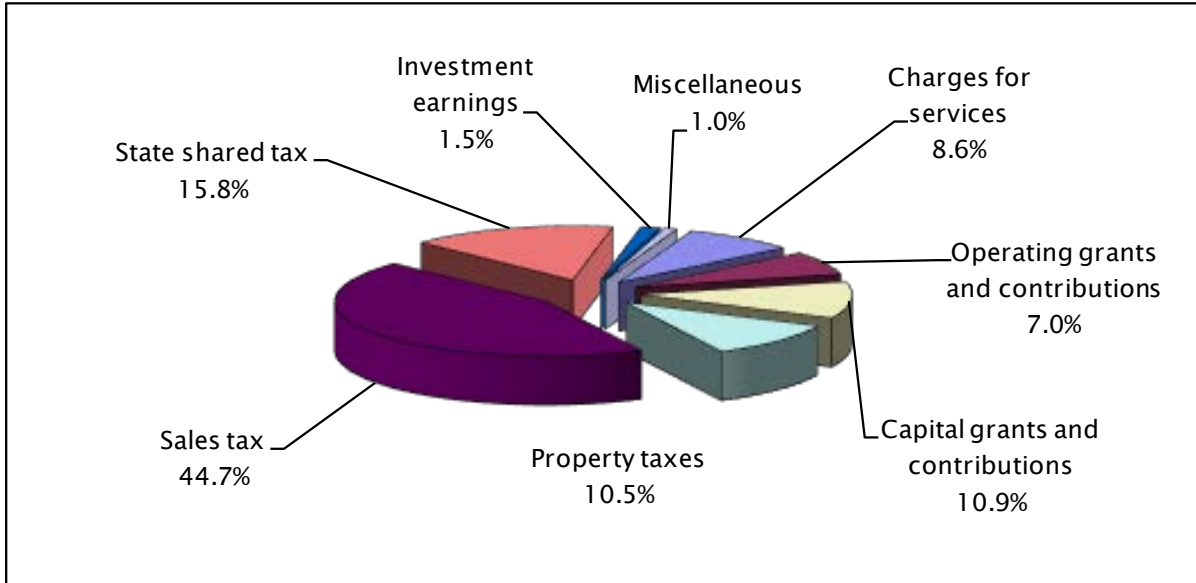
- Charges for service have increased by 4.2% (\$1.7 million). Funds with increases were Water (\$0.5 million), Wastewater (\$0.5 million), Environmental Services (\$114,000), Airport (\$76,000), Stormwater (\$29,000), and Housing Authority (\$428,000).
- Capital grants and contributions have decreased by 8.6% (\$0.4 million) due to decreased grant funded construction at the Airport offset by an increase in developer contribution utility infrastructure.
- Investment earnings are up slightly (\$33,000) and other revenues decreased by \$1.2 million.
- Expenses have decreased over the prior year by 0.3% (\$0.1 million). There were increases in the Water Fund (\$0.4 million), Housing Authority Fund (\$42,000), and Stormwater Fund (\$61,000), and Environmental Services Fund (\$15,000). There were decreases in the Wastewater (\$0.4 million), and Airport Fund (\$232,000).

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

Expenses and Program Revenues - Governmental Activities



Revenues by Source – Governmental Activities

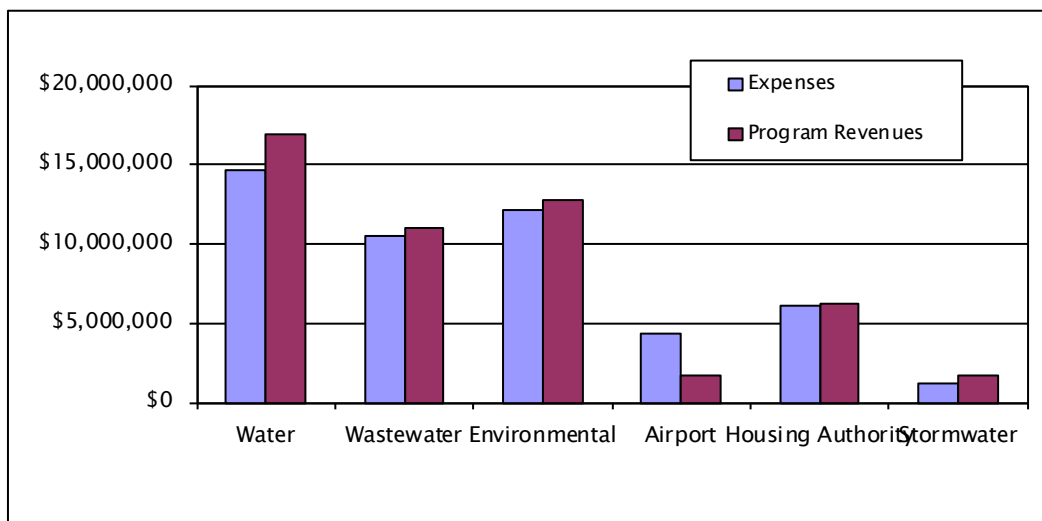


As shown, Public Safety is the largest function as measured by expense (\$34.7 million, 37.7%) followed by General Government (\$17.1 million, 18.6%), and Highways & Streets (\$13.1 million, 14.2 %).

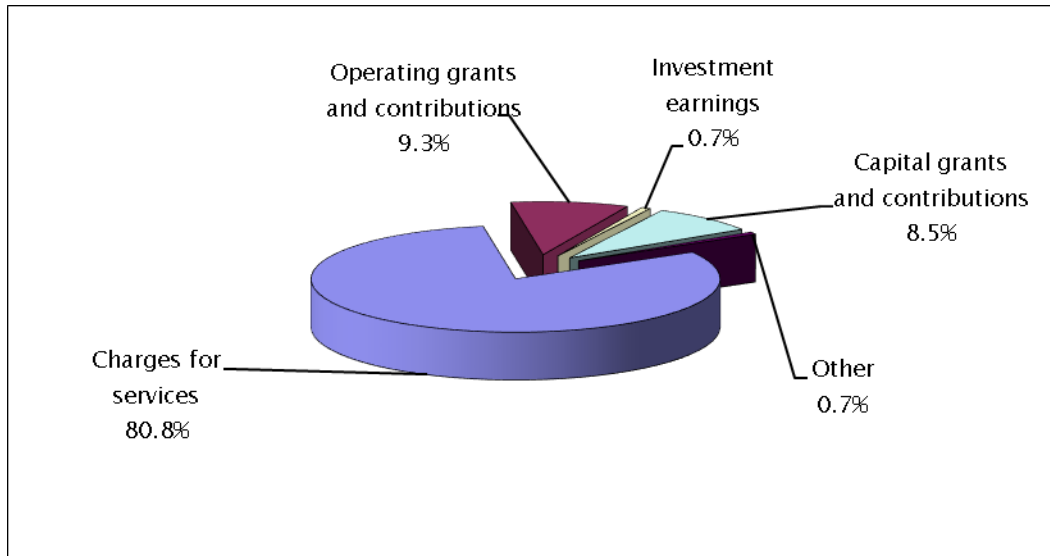
General revenues such as sales taxes, state shared taxes, and property taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, sales tax is the largest single source of funds (\$48.3 million, 44.7%), followed by state shared tax (\$17.1 million, 15.8%) and capital grants and contributions (\$11.8 million, 10.9%). The top three revenues make up 71.4% of total revenues compared to last year's top three of 71.1%. 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 \$14.7 million for the fiscal year, followed by Environmental Services with \$12.1 million, Wastewater with \$10.5 million, Housing Authority with \$6.1 million, the Airport with \$4.3 million and Stormwater with \$1.2 million. For the fiscal year, program revenue exceeded expense for the Water and Wastewater Fund, Environmental Services Fund, Housing Authority Fund and Stormwater Fund. The Airport Funds program expenses exceeded revenues mainly due to depreciation of capital assets. Water, Wastewater, Environmental Services, Airport and Stormwater Funds received the majority of their program revenues through charges for services (86.1%, 85.4%, 99.9%, 92.1% and 89.3% respectively). The Housing Authority Fund receives the majority of its program revenue through operating grants and contributions (71.8%). Charges for services provided the largest share of revenues (80.8%) for all of the business-type activities, followed by operating grants and contributions (9.3%).

The expenses for the business type activities decreased (0.3%, \$0.1 million) as there were decreases in Wastewater (3.6%, \$389,000) and Airport (5.1%, \$232,000) offset by increases in Water (2.6%, \$366,000), Housing Authority (0.7%, \$42,000), Environmental Services (0.1%, \$15,000), and Stormwater (5.2%, \$61,000).

The last water and wastewater user fees rate increase was January 1, 2015. Water, Wastewater, Environmental Services, Airport, Stormwater and Housing Authority Funds increased charges for service revenue at 3.9%, 5.4%, 0.9%, 5.0%, 2.0% and 41.6%, 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 \$92.3 million, an increase of \$7.7 million in comparison with the prior year. Approximately \$24.5 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 (\$8.7) for inventory, debt service and perpetual care, (2) restricted (\$50.2 million) for special revenue funds, debt service, development fee projects, court improvements and operations, grant purposes, perpetual care, and capital projects, and (3) assigned (\$8.9 million) for court services, capital reserves, and real estate.

Revenues for governmental functions overall totaled \$111.1 million in the fiscal year ended June 30, 2016 which represents an increase of 11.5% or \$11.5 million from the prior fiscal year. All revenue categories show increases over prior year except for grants and entitlements and charges for services. These include taxes (11.1%, \$6.0 million), intergovernmental (3.9%, \$807,000), special assessments (155.5% \$2.9 million), licenses and permits (68.9%, \$1.3 million), fines and forfeitures (9.7%, 135,000), rents (2.1%, \$35,000), investment earnings (42.9%, \$491,000), contributions (433%, \$1.6 million) and miscellaneous (117.5%, \$759,000). 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. Grants and entitlements experienced a decrease of 18.2% or \$2.5 million), Grants and entitlement decrease is related to an unusually large grant in the prior year.

Expenditures for governmental functions (\$104.3 million) increased by 5.0% (\$4.9 million) from the prior fiscal year. Most of the increase in expenditures is related to debt service expenditures (39.5%, \$4.4 million). Operation expenditures also increased (1.9%, \$1.4 million) which is related to increases in public safety, economic and physical development and culture and recreation and partially offset by decreases in general government, public works and highway & streets.

In the fiscal year ended June 30, 2016 revenues for governmental functions exceeded expenditures by approximately \$6.8 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the General Fund was \$27.4 million. As a measure of liquidity, it may be useful to compare total unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance represents 50.7% of General Fund expenditures.

The total fund balance in the City's General Fund increased by \$5.3 million during the fiscal year as revenue increased 8.5% and expenditures increased 7.1%. Overall, the General Fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2016 of \$4.0 million. This is an increase of approximately \$1.0 million over the comparable figure from the prior year which resulted in expenditures in excess of revenues of \$3.1 million.

The Highway User Revenue Fund balance has increased by \$3.2 million. Revenues increased \$2.0 million primarily due to transportation contributions and property sales. Expenditures decreased by \$1.0 million or 9.4% overall with small decreases in both operation and capital expenditures. Debt service payments remained level this year. Net transfers decreased by \$46,000 over the prior year.

Transportation Fund balances increased by \$1.1 million. Revenues increased \$3.9 million due to the new Road Repair and Street Safety (RR & SS) sales tax approved by voters in November 2014. Expenditures increased \$4.5 million again due to the capital expenditures related to RR & SS sales tax.

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 \$3.8 million.

Revenues and transfers in exceeded expenses and transfers out in the proprietary funds by \$2.2 million for the fiscal year ended June 30, 2016. All funds, except the Airport Fund, had positive growth in their net position for the fiscal year ended June 30, 2016. The Airport Fund decrease of \$2.3 million was due to depreciation exceeding grant and other funding for capital replacements. The major part of the increase was related to capital contributions (\$4.5 million).

Budget Highlights

The City's final budget matches the original budget which was approved by Council in June, 2015. The City looks at the budget to actual at the division level and no division exceeded its appropriation. There were two revenue transfers that were not budgeted. One transfer was made from the Water and wastewater fund to the Capital project fund (\$207,072) to reimburse the costs overage for a Street & Utility bond project. There is transfer from the Capital Project Fund to the General Fund totaling (\$54,396) to reimburse for the grant match of Flagstaff Watershed Protection project related grant.

The General Fund was less than 4% (\$2.0 million) over the final budgeted total revenues primarily due to taxes, which exceeded budget by \$1.7 million and licenses and permits by \$1.4 million and was offset by grants and entitlements and fines and forfeitures being under budget by \$0.9 million and \$1.5 million, respectively. License and permit exceeded budget due to conservative budget estimates and several large commercial construction projects in fiscal year 2016. 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 or not receiving at the level budgeted including the Assistance to Firefighters, Wildland Urban Interface, DUI Enforcement and Gang Task Force grants.

Expenditures are under budget in all divisions except for Economic Vitality due to controlled spending and carryover of some capital projects. Economic Vitality expenditures over budget are due to a brownfield grant not being budgeted. The divisions that are under budget by larger amounts are related to capital purchases or 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 \$3.3 million for the Rio de Flag Flood Control Project, of which only \$187,371 actually transferred at year end. The other significant transfer under budget by \$2.3 million is related to the funding of court facility construction which was not needed in fiscal year 2016.

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, 2016 amount to \$658.3 million. Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress. The total increase in the City's capital assets for the current year was 0.1% (\$608,000). The following table reflects the capital assets at the end of the fiscal year

Capital Assets, Net of Depreciation
June 30, 2016 and 2015 (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land and other non-depreciable assets	\$ 64,882	\$ 64,845	\$ 14,120	\$ 14,120	\$ 79,002	\$ 78,965
Buildings	60,731	54,416	48,168	50,459	108,899	104,875
Improvements	6,743	6,623	246,272	248,997	253,015	255,620
Machinery and equipment	9,865	9,347	19,265	20,466	29,130	29,813
Infrastructure	158,631	156,062	-	-	158,631	156,062
Construction in progress	8,134	13,810	21,550	18,608	29,684	32,418
Total	<u>\$ 308,986</u>	<u>\$ 305,103</u>	<u>\$ 349,375</u>	<u>\$ 352,650</u>	<u>\$ 658,361</u>	<u>\$ 657,753</u>

Construction-in-progress had a net decrease of 8.4% (\$2.7 million). Major completed construction-in-progress includes the completion of the Business Accelerator (\$7.6 million), Industrial Drive (\$1.9 million), Bushmaster Park Improvements (\$1.7 million) and Bonito Sewerline (\$1.8 million). Major construction in progress at June 30 includes the Rio de Flag Drainage Project (\$14.4 million), West/Arrowhead Phase 2 (\$4.7 million), Red Gap Pipeline (\$1.7 million), and Leroux Waterline (\$2.5 million). The increase to buildings (\$4.0 million) is related the completion of the Business Accelerator. The decrease in improvements (\$2.6 million) is related to depreciation less the completion of Bonito Sewerline (\$1.8 million) and developer contributed capital. Machinery and equipment decreased by \$0.7 million mainly due to depreciation. Major additions include 38 vehicles and heavy equipment replacements (\$2.6 million). Infrastructure increase (\$2.6 million) is related to Road Repair and Street Safety projects (\$5.7 million) and contributed capital off set by depreciation expense.

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 64-65 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 \$99.7 million. Of this amount, \$45.1 million is general obligation bonds backed by the full faith and credit of the City, \$2.2 million is improvement district bonds, \$15.7 million is revenue bonds, \$2.2 million is for certificates of participation, and \$34.4 million are outstanding leases or loans for the airport, water and wastewater, and city-wide energy conservation improvements.

Outstanding Debt
June 30, 2016 and 2015 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General obligation debt	\$ 43,817	\$ 48,920	\$ 1,375	\$ 1,441	\$ 45,192	\$ 50,361
Special assessment bonds	2,215	6,705	-	-	2,215	6,705
Revenue bonds	12,750	14,675	-	3,285	12,750	17,960
Other debt	2,170	3,530	-	-	2,170	3,530
Lease/Loans	1,049	946	36,289	35,880	37,338	36,826
Total debt payable	<u>\$ 62,001</u>	<u>\$ 74,776</u>	<u>\$ 37,664</u>	<u>\$ 40,606</u>	<u>\$ 99,665</u>	<u>\$ 115,382</u>

During fiscal year 2016, the City's total bonded debt decreased by \$16.2 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 (\$4.5 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, 2016 is \$41.1 million in the 6% category and \$91.8 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, 2016

	<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>
General Obligation	Aa2	AA
Revenue Bonds	n/a	AA-

Additional information on the City's long-term debt can be found in Section IV F on pages 69-78 of the Notes to the Financial Statements.

Economic Factors and Next Year's Budget and Rates

The Fiscal Year 2016/2017 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 \$1.8 million in FY 2016 and are expected grow less than 1% in FY 2017 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 during FY 2017.
- Building permits exceeded budget by \$1.4 million. However, we remain conservative in our projections for FY 2017 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 2017 budget was for Council Priorities related to economic growth and development strategies, employee compensation and investment, infrastructure, support and assistance to the most vulnerable member of the population, regional plan implementation and transportation.
 - The FY 2017 budget includes a three year plan to transition to market based pay for all employees, new positions related to capacity needs, infrastructure and economic development funding and services to support the most vulnerable.
 - Some of the larger items are \$8.9 million for road repair & street safety road improvements, \$21.2 million for the construction of Core Services Facility, \$8.0 million for Courthouse construction and \$3.2 million programmed for the Airport runway overlay construction.
- The total authorized positions increased by 12.76 positions. While 14.51 FTEs were added, there were offsetting decreases of 3.68 positions that were either one-time 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 FY 2016 and \$240,000 in FY2017 due to pension contribution rate increases. With the FY2017 budget, 100% of this increase is funded with ongoing dollars within the General Fund.
- The City continues to monitor the State legislature to be aware of potential budget impacts on cities.
- Property assessments continue to increase at a slow, steady rate. Primary assessed values increased by an average of 2.8%. 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 was completed in FY 2016 and new rates were adopted in FY 2017.
- User fee studies relating to the services provided by Community Development, Recreation and Fire are expected to be completed in FY 2017.

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 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, 2016

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash, investments and equivalents	\$ 82,798,262	\$ 32,967,106	\$ 115,765,368
Accounts receivable, net	9,371,860	5,627,279	14,999,139
Interest Receivable	199,858	83,972	283,830
Intergovernmental receivable	2,359,651	307,011	2,666,662
Special assessments receivable	2,120,411	-	2,120,411
Note receivable	326,600	-	326,600
Internal balance	620,748	(620,748)	-
Deposits	-	8,763	8,763
Inventory	383,553	-	383,553
Prepaid items	-	56,128	56,128
Restricted cash and investments	11,727,300	13,135,055	24,862,355
Capital assets, non-depreciable	73,015,667	35,669,310	108,684,977
Capital assets, depreciable, net	235,970,154	313,705,704	549,675,858
Total assets	<u>418,894,064</u>	<u>400,939,580</u>	<u>819,833,644</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	22,502,916	1,784,946	24,287,862
Deferred charge on debt refundings	815,903	-	815,903
Total deferred outflows of resources	<u>23,318,819</u>	<u>1,784,946</u>	<u>25,103,765</u>
LIABILITIES			
Accounts payable	5,547,335	1,551,294	7,098,629
Accrued payroll	1,706,675	315,509	2,022,184
Construction retainage payable	341,507	65,547	407,054
Interest payable	1,097,023	602,055	1,699,078
Advanced revenue	782,173	612,283	1,394,456
Deposits payable	1,653,344	688,764	2,342,108
Noncurrent liabilities:			
Due within one year:			
Compensated absences	1,667,159	315,281	1,982,440
Claims and judgements	57,917	-	57,917
Special assessment debt, government commitment	96,868	-	96,868
Bonds, notes and leases payable, net	8,342,911	3,026,459	11,369,370
Due in more than one year:			
Compensated absences	2,306,593	406,879	2,713,472
Claims and judgements	148,960	-	148,960
Landfill closure and postclosure care costs	-	8,155,675	8,155,675
Net OPEB obligation	4,942,102	1,114,034	6,056,136
Net pension liability	116,811,023	14,917,793	131,728,816
Special assessment debt, government commitment	2,148,025	-	2,148,025
Bonds, notes and leases payable, net	54,198,258	34,638,143	88,836,401
Total liabilities	<u>201,847,873</u>	<u>66,409,716</u>	<u>268,257,589</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	<u>5,408,331</u>	<u>1,228,738</u>	<u>6,637,069</u>
NET POSITION			
Net investment in capital assets	246,897,365	311,644,865	558,542,230
Restricted for:			
Capital projects	21,024,366	2,903,553	23,927,919
Debt service	18,056,249	-	18,056,249
Specific programming	21,625,108	-	21,625,108
Perpetual care:			
Expendable	23,257	-	23,257
Nonexpendable	252,973	-	252,973
Unrestricted	(72,922,639)	20,537,654	(52,384,985)
Total net position	<u>\$ 234,956,679</u>	<u>\$ 335,086,072</u>	<u>\$ 570,042,751</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, 2016

	<u>Expenses</u>	<u>Indirect Expense Allocation</u>	<u>Program Revenues</u>		
			<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government					
Governmental activities:					
General government	\$ 17,210,187	\$ (1,086,016)	\$ 3,241,987	\$ 529,220	\$ 164,071
Public safety	34,711,251	-	647,910	1,979,260	563,746
Public works	1,650,323	(257,048)	605	-	-
Economic and physical development	10,259,240	(446,804)	3,767,060	1,949,358	847,181
Culture and recreation	12,974,830	470,178	1,633,338	3,238,800	
Highways and streets	13,059,212	1,319,690	-	29,974	10,231,051
Interest on long-term debt	2,295,418	-	-	-	-
Total governmental activities	<u>92,160,461</u>	<u>-</u>	<u>9,290,900</u>	<u>7,726,612</u>	<u>11,806,049</u>
Business-type activities:					
Water	14,674,337		14,589,041	11,032	2,351,053
Wastewater	10,490,816		9,387,949	2,303	1,607,472
Environmental	12,087,144		12,760,747	13,000	316
Airport	4,307,615		1,603,852	125,613	12,889
Housing authority	6,125,950		1,455,715	4,503,849	309,044
Stormwater	1,245,532		1,495,296	120,000	59,003
Total business-type activities	<u>48,931,394</u>		<u>41,292,600</u>	<u>4,775,797</u>	<u>4,339,777</u>
Total primary government	<u>\$ 141,091,855</u>		<u>\$ 50,583,500</u>	<u>\$ 12,502,409</u>	<u>\$ 16,145,826</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
Contributions to permanent fund
Transfers in (out)
Total general revenues, contributions and transfers
Change in net position
Net position – beginning
Net position – ending

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

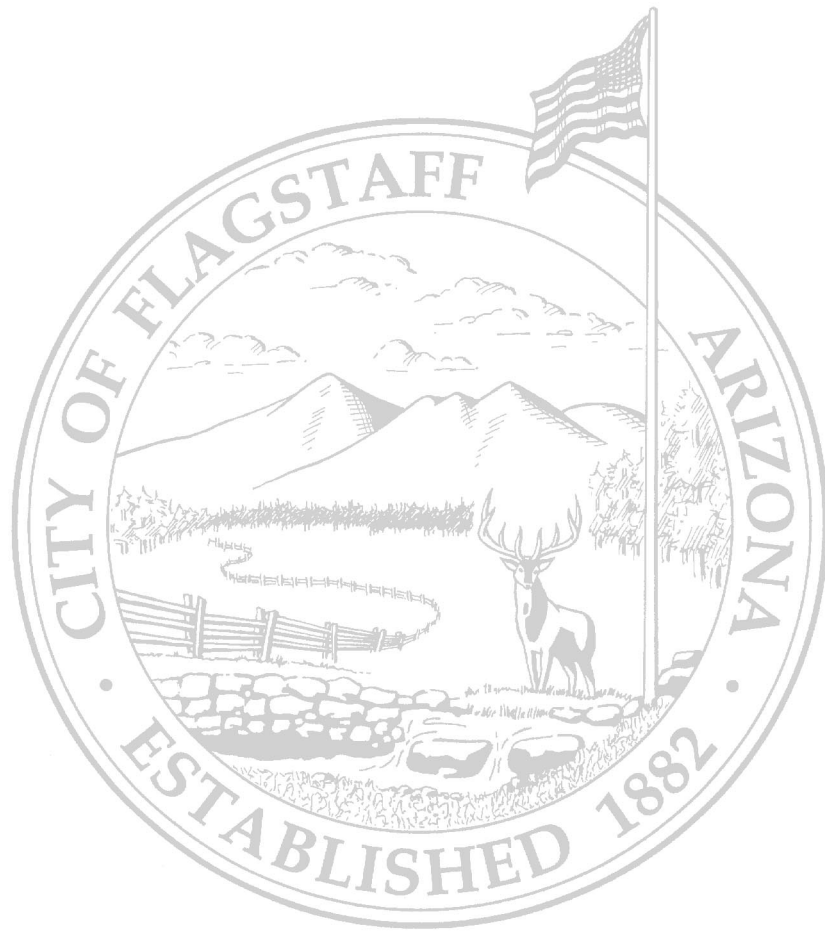
Net (Expenses) Revenues and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (12,188,893)	\$ -	\$ (12,188,893)
(31,520,335)	-	(31,520,335)
(1,392,670)	-	(1,392,670)
(3,248,837)	-	(3,248,837)
(8,572,870)	-	(8,572,870)
(4,117,877)	-	(4,117,877)
(2,295,418)	-	(2,295,418)
<u>(63,336,900)</u>	<u>-</u>	<u>(63,336,900)</u>
-	2,276,789	2,276,789
-	506,908	506,908
-	686,919	686,919
-	(2,565,261)	(2,565,261)
-	142,658	142,658
-	428,767	428,767
-	1,476,780	1,476,780
<u>\$ (63,336,900)</u>	<u>\$ 1,476,780</u>	<u>\$ (61,860,120)</u>
5,620,832	-	5,620,832
5,718,942	-	5,718,942
48,343,259	-	48,343,259
17,080,154	-	17,080,154
1,668,431	336,685	2,005,116
1,404,390	375,716	1,780,106
15,470	-	15,470
121,320	(121,320)	-
<u>79,972,798</u>	<u>591,081</u>	<u>80,563,879</u>
16,635,898	2,067,861	18,703,759
218,320,781	333,018,211	551,338,992
<u>\$ 234,956,679</u>	<u>\$ 335,086,072</u>	<u>\$ 570,042,751</u>

CITY OF FLAGSTAFF, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2016

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportation Tax Fund</u>
ASSETS			
Cash and investments	\$ 36,447,427	\$ 7,179,722	\$ 15,491,455
Accounts receivable, net	5,341,673	828,896	2,084,547
Interest receivable	78,747	8,753	44,479
Intergovernmental receivable	295,446	26,893	1,112,085
Interfund receivable	3,000,000	-	-
Special assessments receivable	-	-	-
Notes receivable	-	-	-
Inventory	335,134	-	-
Restricted cash and investments	-	-	2,057,737
Total assets	<u><u>\$ 45,498,427</u></u>	<u><u>\$ 8,044,264</u></u>	<u><u>\$ 20,790,303</u></u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 2,499,327	\$ 139,768	\$ 1,980,408
Accrued payroll and compensated absences	1,495,344	56,782	-
Retainable payable	-	84,622	188,868
Interfund payable	11,752	-	-
Advanced revenue	411,881	-	75,795
Guaranty and other deposits	1,653,344	-	-
Total liabilities	<u>6,071,648</u>	<u>281,172</u>	<u>2,245,071</u>
Deferred inflows of resources:			
Unavailable revenue – court fines	302,967	-	-
Unavailable revenue – property taxes	204,099	-	-
Unavailable revenue – special assessments	-	-	-
Unavailable revenue – notes receivable	-	-	-
Total deferred inflows of resources	<u>507,066</u>	<u>-</u>	<u>-</u>
Fund balances:			
Nonspendable	335,134	-	2,057,737
Restricted	2,255,454	7,763,092	16,487,495
Assigned	8,903,561	-	-
Unassigned (deficit)	27,425,564	-	-
Total fund balances	<u>38,919,713</u>	<u>7,763,092</u>	<u>18,545,232</u>
Total liabilities, deferred inflows and fund balances	<u><u>\$ 45,498,427</u></u>	<u><u>\$ 8,044,264</u></u>	<u><u>\$ 20,790,303</u></u>

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

Other Governmental Funds	Total Governmental Funds
\$ 19,514,977	\$ 78,633,581
1,065,487	9,320,603
59,634	191,613
925,227	2,359,651
-	3,000,000
2,120,411	2,120,411
326,600	326,600
48,419	383,553
9,669,563	11,727,300
<u>\$ 33,730,318</u>	<u>\$ 108,063,312</u>
\$ 681,741	\$ 5,301,244
154,549	1,706,675
68,017	341,507
3,000,000	3,011,752
293,501	781,177
-	1,653,344
<u>4,197,808</u>	<u>12,795,699</u>
-	302,967
-	204,099
2,119,987	2,119,987
326,600	326,600
<u>2,446,587</u>	<u>2,953,653</u>
6,322,007	8,714,878
23,698,000	50,204,041
-	8,903,561
(2,934,084)	24,491,480
<u>27,085,923</u>	<u>92,313,960</u>
<u>\$ 33,730,318</u>	<u>\$ 108,063,312</u>



CITY OF FLAGSTAFF
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Fund balances – total governmental funds balance sheet \$ 92,313,960

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	525,850,392	
Less: accumulated depreciation	<u>(216,864,571)</u>	308,985,821

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	22,502,916	
Deferred outflows related to debt refunding	815,903	
Deferred inflows related to pensions	<u>(5,408,331)</u>	17,910,488

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 governmental funds.

ASRS pension benefits	(33,461,078)	
PSPRS pension benefits	(81,832,177)	
EORP pension benefits	<u>(1,517,768)</u>	(116,811,023)

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	(62,000,895)	
Governmental interest payable	(1,097,023)	
Bond discount	68,443	
Bond premium	(2,853,610)	
Other postemployment benefits	(4,942,102)	
Compensated absences	<u>(3,973,752)</u>	(74,798,939)

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

Promissory note	326,600	
Fines and forfeitures	302,967	
Property tax	<u>204,099</u>	833,666

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>2,119,987</u>	2,119,987
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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>4,402,719</u>
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Net position of governmental activities – statement of net position \$ 234,956,679

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, 2016

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportation Tax Fund</u>
REVENUES:			
Taxes	\$ 27,306,792	\$ -	\$ 19,147,378
Intergovernmental	18,214,988	-	-
Grants and entitlements	1,217,424	7,292,355	69,040
Special assessments	-	-	-
Charges for services	2,916,164	-	-
Licenses and permits	3,153,135	-	-
Fines and forfeitures	1,524,856	-	-
Rents	1,615,190	-	-
Investment earnings	1,210,140	34,774	155,736
Contributions	566,242	943,358	-
Miscellaneous	390,086	601,550	10
Total revenues	<u>58,115,017</u>	<u>8,872,037</u>	<u>19,372,164</u>
EXPENDITURES:			
Current:			
General government	9,007,957	-	4,786,119
Public safety	30,074,183	-	-
Public works	1,207,776	-	-
Economic and physical development	4,787,402	-	-
Culture and recreation	5,949,635	-	120,721
Highways and streets	500	5,230,421	435,718
Debt service:			
Principal retirement	998,203	464,718	1,795,000
Interest and other charges	55,632	81,948	437,000
Capital outlay	<u>1,992,283</u>	<u>3,838,489</u>	<u>7,041,363</u>
Total expenditures	<u>54,073,571</u>	<u>9,615,576</u>	<u>14,615,921</u>
Excess (deficiency) of revenues over expenditures	<u>4,041,446</u>	<u>(743,539)</u>	<u>4,756,243</u>
OTHER FINANCING SOURCES (USES):			
Sale of capital assets	5,325	-	-
Issuance of capital debt	204,956	-	-
Transfers in	3,110,079	3,958,100	-
Transfers out	<u>(2,063,183)</u>	<u>(13,000)</u>	<u>(3,684,143)</u>
Total other financing sources (uses)	<u>1,257,177</u>	<u>3,945,100</u>	<u>(3,684,143)</u>
Net change in fund balances	<u>5,298,623</u>	<u>3,201,561</u>	<u>1,072,100</u>
Fund balances, beginning of year	<u>33,621,090</u>	<u>4,561,531</u>	<u>17,473,132</u>
Fund balances, end of year	<u>\$ 38,919,713</u>	<u>\$ 7,763,092</u>	<u>\$ 18,545,232</u>

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

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 13,257,386	\$ 59,711,556
3,140,720	21,355,708
2,444,672	11,023,491
4,747,237	4,747,237
-	2,916,164
-	3,153,135
-	1,524,856
80,880	1,696,070
236,000	1,636,650
452,764	1,962,364
412,744	1,404,390
24,772,403	111,131,621
767,437	14,561,513
-	30,074,183
-	1,207,776
4,743,379	9,530,781
5,371,492	11,441,848
249,993	5,916,632
9,722,348	12,980,269
1,946,016	2,520,596
3,218,555	16,090,690
26,019,220	104,324,288
(1,246,817)	6,807,333
-	5,325
-	204,956
8,823,742	15,891,921
(9,471,023)	(15,231,349)
(647,281)	870,853
(1,894,098)	7,678,186
28,980,021	84,635,774
\$ 27,085,923	\$ 92,313,960

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, 2016

Net change in fund balances – total governmental funds \$ 7,678,186

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	16,090,690	
Less current year depreciation	<u>(13,331,288)</u>	2,759,402

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	(28,705)	
Net pension expense related to PSPRS	(2,490,780)	
Net pension expense related to EORP	(319,207)	
Pension contribution for EORP	127,314	
Issuance of Capital lease	(204,956)	
Donated capital	1,995,338	
Compensated absences	(103,686)	
Other postemployment benefits	(597,899)	
Principal payments on debt	12,980,269	
Interest accural on debt	225,179	
Refunding loss amortization	(161,308)	
Bond premium amortization	<u>299,591</u>	11,721,150

Providing long-term loans are reported as an expenditures in the governmental funds but are reported as notes receivable on the statement of net position. 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.

Note Receivable	245,000	
Available portion of promissory note	<u>(10,200)</u>	234,800

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	(332,459)	
Transfer of capital assets to business-type activities	(1,203,904)	
Transfer of capital assets from business-type activities	<u>664,652</u>	(871,711)

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, 2016

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.

Court (Fines and forfeitures)	675	
Special assessments	(4,583,166)	
Property tax	<u>(28,524)</u>	(4,611,015)

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	(306,695)	
Investment income	<u>31,781</u>	(274,914)

Change in net position of governmental activities – statement of activities		<u><u>\$ 16,635,898</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, 2016

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 25,417,564	\$ 25,417,564	\$ 27,147,586	\$ 1,730,022
Intergovernmental	17,658,575	17,658,575	18,134,353	475,778
Grants and entitlements	2,117,510	2,117,510	1,217,424	(900,086)
Charges for services	3,216,146	3,216,146	3,235,827	19,681
Licenses and permits	1,614,980	1,614,980	3,061,098	1,446,118
Fines and forfeitures	3,058,550	3,058,550	1,524,856	(1,533,694)
Rents	1,264,965	1,264,965	1,615,190	350,225
Investment earnings	221,050	221,050	286,233	65,183
Contributions	334,100	334,100	566,242	232,142
Miscellaneous	171,205	171,205	243,085	71,880
Total revenues	<u>55,074,645</u>	<u>55,074,645</u>	<u>57,031,894</u>	<u>1,957,249</u>
EXPENDITURES:				
Current:				
General administration	9,914,497	9,914,497	9,149,940	764,557
Management services	3,633,521	3,633,521	3,426,864	206,657
Fire	12,083,375	12,083,375	11,686,616	396,759
Police	20,237,676	20,237,676	19,221,487	1,016,189
Community development	4,294,597	4,294,597	4,182,581	112,016
Public works	12,049,297	12,049,297	9,344,457	2,704,840
Economic vitality	174,071	174,071	341,971	(167,900)
Non-departmental	(2,053,888)	(2,053,888)	(3,369,808)	1,315,920
Contingency	625,000	625,000	-	625,000
Total expenditures	<u>60,958,146</u>	<u>60,958,146</u>	<u>53,984,108</u>	<u>6,974,038</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,883,501)</u>	<u>(5,883,501)</u>	<u>3,047,786</u>	<u>8,931,287</u>
OTHER FINANCING SOURCES (USES):				
Issuance of capital debt	250,000	250,000	204,956	(45,044)
Sale of capital assets	20,200	20,200	5,325	(14,875)
Transfers in	3,511,286	3,511,286	3,110,079	(401,207)
Transfers out	(7,987,026)	(7,987,026)	(2,063,183)	5,923,843
Total other financing sources (uses)	<u>(4,205,540)</u>	<u>(4,205,540)</u>	<u>1,257,177</u>	<u>5,462,717</u>
Net change in fund balances	<u>(10,089,041)</u>	<u>(10,089,041)</u>	<u>4,304,963</u>	<u>14,394,004</u>
Fund balances , beginning of year	<u>23,294,618</u>	<u>23,294,618</u>	<u>33,621,900</u>	<u>-</u>
Fund balances, end of year	<u>\$ 13,205,577</u>	<u>\$ 13,205,577</u>	<u>\$ 37,926,863</u>	<u>\$ 14,394,004</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 4,304,963	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			1,083,123	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			<u>(89,463)</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 5,298,623</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, 2016

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 6,862,720	\$ 6,862,720	\$ 7,292,355	\$ 429,635
Investment earnings	5,000	5,000	34,774	29,774
Miscellaneous	-	-	29,144	29,144
Total revenues	<u>6,867,720</u>	<u>6,867,720</u>	<u>7,356,273</u>	<u>488,553</u>
EXPENDITURES:				
Current:				
Community development	9,151,127	9,151,127	3,113,597	6,037,530
Public works	8,935,092	8,935,092	5,532,457	3,402,635
Non-departmental	969,522	969,522	969,522	-
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>19,155,741</u>	<u>19,155,741</u>	<u>9,615,576</u>	<u>9,540,165</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(12,288,021)</u>	<u>(12,288,021)</u>	<u>(2,259,303)</u>	<u>10,028,718</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	10,026,612	10,026,612	3,958,100	(6,068,512)
Transfers out	(13,000)	(13,000)	(13,000)	-
Total other financing sources (uses)	<u>10,013,612</u>	<u>10,013,612</u>	<u>3,945,100</u>	<u>(6,068,512)</u>
Net change in fund balances budgetary basis	<u>(2,274,409)</u>	<u>(2,274,409)</u>	<u>1,685,797</u>	<u>3,960,206</u>
Fund balances, beginning of year	<u>3,441,139</u>	<u>3,441,139</u>	<u>4,561,531</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,166,730</u>	<u>\$ 1,166,730</u>	<u>\$ 6,247,328</u>	<u>\$ 3,960,206</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	\$ 1,685,797
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.	<u>1,515,764</u>
Adjusted net change in fund balance – GAAP basis	<u>\$ 3,201,561</u>

CITY OF FLAGSTAFF, ARIZONA
Transportation Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2016

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 17,585,692	\$ 17,585,692	\$ 19,083,049	\$ 1,497,357
Grants and entitlements	183,597	183,597	69,040	(114,557)
Investment earnings	71,750	71,750	155,736	83,986
Total revenues	<u>17,841,039</u>	<u>17,841,039</u>	<u>19,307,825</u>	<u>1,466,786</u>
EXPENDITURES:				
Current:				
Community development	5,317,280	5,317,280	1,629,549	3,687,731
Public works	6,110,000	6,110,000	5,741,757	368,243
Non-departmental	7,756,109	7,756,109	7,162,572	593,537
Total expenditures	<u>19,183,389</u>	<u>19,183,389</u>	<u>14,533,878</u>	<u>4,649,511</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,342,350)</u>	<u>(1,342,350)</u>	<u>4,773,947</u>	<u>6,116,297</u>
OTHER FINANCING SOURCES (USES):				
Capital bonds issued	10,000,000	10,000,000	-	(10,000,000)
Sale of capital assets	6,000	6,000	-	(6,000)
Transfers out	<u>(9,723,012)</u>	<u>(9,723,012)</u>	<u>(3,684,143)</u>	<u>6,038,869</u>
Total other financing sources (uses)	<u>282,988</u>	<u>282,988</u>	<u>(3,684,143)</u>	<u>(3,967,131)</u>
Net change in fund balances	<u>(1,059,362)</u>	<u>(1,059,362)</u>	<u>1,089,804</u>	<u>2,149,166</u>
Fund balances, beginning of year	<u>15,586,164</u>	<u>15,586,164</u>	<u>17,473,132</u>	<u>-</u>
Fund balances, end of year	<u>\$ 14,526,802</u>	<u>\$ 14,526,802</u>	<u>\$ 18,562,936</u>	<u>\$ 2,149,166</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 1,089,804	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			64,339	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			<u>(82,043)</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 1,072,100</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, 2016

	Business-type Activities – Enterprise Funds		
	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
ASSETS			
Current assets:			
Cash and investments	\$ 21,323,419	\$ 8,999,630	\$ 397,279
Receivable, net	4,094,323	1,282,071	111,968
Interfund receivables	-	-	-
Intergovernmental receivable	48,358	316	52,907
Prepaid items	-	-	-
Total current assets	<u>25,466,100</u>	<u>10,282,017</u>	<u>562,154</u>
Noncurrent assets:			
Restricted cash and investments	1,719,393	11,415,662	-
Refundable deposits	8,763	-	-
Capital assets, non-depreciable	17,408,764	1,911,870	126,857
Capital assets, depreciable, net	241,055,444	6,620,222	36,786,318
Total non-current assets	<u>260,192,364</u>	<u>19,947,754</u>	<u>36,913,175</u>
Total assets	<u>285,658,464</u>	<u>30,229,771</u>	<u>37,475,329</u>
Deferred outflows of resources			
Deferred outflows related to pension	620,839	456,875	456,436
Total assets and deferred outflows of resources	<u>286,279,303</u>	<u>30,686,646</u>	<u>37,931,765</u>
LIABILITIES			
Current liabilities:			
Accounts payable	989,957	173,353	88,415
Construction retainage payable	65,547	-	-
Accrued payroll	144,954	99,747	23,234
Accrued compensated absences	150,321	82,250	18,080
Interest payable	602,055	-	-
Advanced revenue	530,600	39,763	2,032
Claims and judgements	-	-	-
Deposits payable	583,971	28,937	2,489
Bonds and lease payable, net – current	2,852,431	-	174,028
Total current liabilities	<u>5,919,836</u>	<u>424,050</u>	<u>308,278</u>
Noncurrent liabilities:			
Compensated absences	179,798	68,181	14,158
Net OPEB obligation	494,963	380,034	63,741
Net pension liability	5,990,235	4,586,274	1,814,153
Claims and judgements	-	-	-
Landfill closure and postclosure care costs	-	8,155,675	-
Capital lease payable	1,579,997	-	1,404,215
Bonds and notes payable, net	31,653,931	-	-
Total noncurrent liabilities	<u>39,898,924</u>	<u>13,190,164</u>	<u>3,296,267</u>
Total liabilities	<u>45,818,760</u>	<u>13,614,214</u>	<u>3,604,545</u>
Deferred inflows related to pension			
Total deferred inflows and liabilities	<u>538,228</u>	<u>412,081</u>	<u>51,364</u>
NET POSITION			
Net investment in capital assets	222,312,302	8,532,092	35,334,932
Restricted:			
Capital projects	1,593,915	1,309,638	-
Unrestricted (deficit)	16,016,098	6,818,621	(1,059,076)
Total net position	<u>\$ 239,922,315</u>	<u>\$ 16,660,351</u>	<u>\$ 34,275,856</u>

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

Business-type Activities – Enterprise Funds			Governmental Activities
Stormwater Fund	Housing Authority	Total	Internal Service Fund
\$ 1,291,098	\$ 955,680	\$ 32,967,106	\$ 4,164,681
203,322	19,567	5,711,251	59,502
-	11,752	11,752	-
120,000	85,430	307,011	-
-	56,128	56,128	-
<u>1,614,420</u>	<u>1,128,557</u>	<u>39,053,248</u>	<u>4,224,183</u>
-	-	13,135,055	-
-	-	8,763	-
14,699,923	1,521,896	35,669,310	-
25,767,498	3,476,222	313,705,704	-
<u>40,467,421</u>	<u>4,998,118</u>	<u>362,518,832</u>	<u>-</u>
<u>42,081,841</u>	<u>6,126,675</u>	<u>401,572,080</u>	<u>4,224,183</u>
48,312	202,484	1,784,946	-
<u>42,130,153</u>	<u>6,329,159</u>	<u>403,357,026</u>	<u>4,224,183</u>
103,730	195,839	1,551,294	246,091
-	-	65,547	-
11,640	35,934	315,509	-
8,566	56,064	315,281	-
-	-	602,055	-
30,564	9,324	612,283	996
-	-	-	57,917
-	73,367	688,764	-
-	-	3,026,459	-
<u>154,500</u>	<u>370,528</u>	<u>7,177,192</u>	<u>305,004</u>
7,510	137,232	406,879	-
50,886	124,410	1,114,034	-
514,786	2,012,345	14,917,793	-
-	-	-	148,960
-	-	8,155,675	-
-	-	2,984,212	-
-	-	31,653,931	-
<u>573,182</u>	<u>2,273,987</u>	<u>59,232,524</u>	<u>148,960</u>
<u>727,682</u>	<u>2,644,515</u>	<u>66,409,716</u>	<u>453,964</u>
46,254	180,811	1,228,738	-
<u>773,936</u>	<u>2,825,326</u>	<u>67,638,454</u>	<u>453,964</u>
40,467,421	4,998,118	311,644,865	-
-	-	2,903,553	-
888,796	(1,494,285)	21,170,154	3,770,219
<u>\$ 41,356,217</u>	<u>\$ 3,503,833</u>	<u>\$ 335,718,572</u>	<u>\$ 3,770,219</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

(632,500)
\$ 335,086,072

CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2016

	<u>Business-type Activities – Enterprise Funds</u>		
	<u>Water and Wastewater Fund</u>	<u>Environmental Services Fund</u>	<u>Airport Fund</u>
OPERATING REVENUES:			
Charges for services	\$ 23,976,990	\$ 12,760,747	\$ 1,603,852
Miscellaneous	54,752	34,041	-
Total operating revenues	<u>24,031,742</u>	<u>12,794,788</u>	<u>1,603,852</u>
OPERATING EXPENSES:			
Personnel services	5,218,378	4,442,095	535,451
Contractual services, materials and supplies	9,921,920	6,661,478	1,096,002
Insurance claims and expenses	-	-	-
Depreciation and amortization	8,554,494	925,818	2,565,549
Total operating expenses	<u>23,694,792</u>	<u>12,029,391</u>	<u>4,197,002</u>
Operating income (loss)	<u>336,950</u>	<u>765,397</u>	<u>(2,593,150)</u>
NON-OPERATING REVENUES (EXPENSES):			
Interest and investment income	202,642	115,649	8,964
Grants and entitlements	13,335	13,000	125,613
Gain (loss) on disposal of capital asset	(134,290)	(16,298)	-
Passenger facility charges	-	-	256,541
Interest expense	(1,249,715)	-	(95,827)
Total non-operating revenues (expenses)	<u>(1,168,028)</u>	<u>112,351</u>	<u>295,291</u>
Income (loss) before capital contributions and transfers	<u>(831,078)</u>	<u>877,748</u>	<u>(2,297,859)</u>
Capital contributions related to grants	46,055	316	12,889
Capital contributions from external sources	3,825,716	-	-
Transfers in	5,441	-	-
Transfers out	(711,064)	(245,190)	-
Change in net position	<u>2,335,070</u>	<u>632,874</u>	<u>(2,284,970)</u>
Total net position, beginning of year	<u>237,587,245</u>	<u>16,027,477</u>	<u>36,560,826</u>
Total net position, end of year	<u>\$ 239,922,315</u>	<u>\$ 16,660,351</u>	<u>\$ 34,275,856</u>

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

<u>Business-type Activities – Enterprise Funds</u>			<u>Governmental Activities</u>
<u>Stormwater Fund</u>	<u>Housing Authority</u>	<u>Total</u>	<u>Internal Service Fund</u>
\$ 1,495,296	\$ 1,455,715	\$ 41,292,600	\$ 6,227,133
-	30,382	119,175	-
<u>1,495,296</u>	<u>1,486,097</u>	<u>41,411,775</u>	<u>6,227,133</u>
268,902	1,453,957	11,918,783	-
415,564	4,226,844	22,321,808	-
-	-	-	6,680,688
<u>522,832</u>	<u>444,952</u>	<u>13,013,645</u>	<u>-</u>
<u>1,207,298</u>	<u>6,125,753</u>	<u>47,254,236</u>	<u>6,680,688</u>
<u>287,998</u>	<u>(4,639,656)</u>	<u>(5,842,461)</u>	<u>(453,555)</u>
9,430	-	336,685	31,781
120,000	4,503,849	4,775,797	-
(33,971)	(197)	(184,756)	-
-	-	256,541	-
-	-	(1,345,542)	-
<u>95,459</u>	<u>4,503,652</u>	<u>3,838,725</u>	<u>31,781</u>
<u>383,457</u>	<u>(136,004)</u>	<u>(2,003,736)</u>	<u>(421,774)</u>
-	309,044	368,304	-
685,009	-	4,510,725	-
646,463	19,952	671,856	-
(376,174)	-	(1,332,428)	-
<u>1,338,755</u>	<u>192,992</u>	<u>2,214,721</u>	<u>(421,774)</u>
<u>40,017,462</u>	<u>3,310,841</u>	<u>333,503,851</u>	<u>4,191,993</u>
<u>\$ 41,356,217</u>	<u>\$ 3,503,833</u>	<u>\$ 335,718,572</u>	<u>\$ 3,770,219</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

(146,860)

\$ 2,067,861

City of Flagstaff, Arizona
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016

Business-type Activities – Enterprise Funds

	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
Cash flows from operating activities:			
Receipts from customers	\$ 22,703,368	\$ 12,736,436	\$ 1,522,748
Interfund services provided	255,300	132,244	-
Other receipts	-	-	256,740
Payments to suppliers	(7,848,591)	(5,184,887)	(749,087)
Interfund services used	(59,925)	(4,666)	(32,610)
Interfund reimbursement used	(2,119,644)	(1,182,783)	(298,898)
Payments to employees	(5,014,769)	(4,276,759)	(766,180)
Net cash provided (used) by operating activities	<u>7,915,739</u>	<u>2,219,585</u>	<u>(67,287)</u>
Cash flows from noncapital financing activities:			
Transfer from other funds	5,441	-	-
Transfer to other funds	(251,972)	(245,190)	-
Interfund loans provided	-	-	-
Interfund loans received	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(246,531)</u>	<u>(245,190)</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Receipts from grantors	417,669	13,000	170,994
Capital contributions	2,248,761	-	-
Acquisition and construction of capital assets	(5,860,521)	(907,814)	(13,492)
Principal payments on capital debt	(2,750,875)	-	(190,858)
Interest paid on capital debt	(1,296,348)	-	(95,827)
Proceeds from insurance reimbursements	-	-	-
Proceeds from sales of capital assets	-	29,250	-
Net cash provided (used) by capital and related financing activities	<u>(7,241,314)</u>	<u>(865,564)</u>	<u>(129,183)</u>
Cash flows from investing activities:			
Interest received on investments	189,094	109,999	8,090
Net cash provided (used) by investing activities	<u>189,094</u>	<u>109,999</u>	<u>8,090</u>
Net increase (decrease) in cash and cash equivalents	<u>616,988</u>	<u>1,218,830</u>	<u>(188,380)</u>
Cash and cash equivalents at beginning of year	<u>22,425,824</u>	<u>19,196,462</u>	<u>585,659</u>
Cash and cash equivalents at end of year	<u>\$ 23,042,812</u>	<u>\$ 20,415,292</u>	<u>\$ 397,279</u>
Classified as:			
Cash, cash equivalents, and investments	\$ 21,323,419	\$ 8,999,630	\$ 397,279
Restricted cash and cash equivalents	1,719,393	11,415,662	-
Totals	<u>\$ 23,042,812</u>	<u>\$ 20,415,292</u>	<u>\$ 397,279</u>

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

Business-type Activities – Enterprise Funds			Governmental Activities
Stormwater Fund	Housing Authority	Total	Internal Service Fund
\$ 1,395,714	\$ 1,541,596	\$ 39,899,862	\$ 6,227,940
32,683	-	420,227	-
-	30,382	287,122	-
(226,490)	(3,913,038)	(17,922,093)	(6,740,160)
-	(224,750)	(321,951)	-
(107,773)	-	(3,709,098)	-
(380,080)	(1,650,961)	(12,088,749)	-
<u>714,054</u>	<u>(4,216,771)</u>	<u>6,565,320</u>	<u>(512,220)</u>
187,371	8,200	201,012	-
(376,174)	-	(873,336)	-
-	-	-	-
-	-	-	-
<u>(188,803)</u>	<u>8,200</u>	<u>(672,324)</u>	<u>-</u>
55,564	4,817,315	5,474,542	-
-	-	2,248,761	-
(307,989)	(600,550)	(7,690,366)	-
-	-	(2,941,733)	-
-	-	(1,392,175)	-
-	249,544	249,544	-
-	-	29,250	-
<u>(252,425)</u>	<u>4,466,309</u>	<u>(4,022,177)</u>	<u>-</u>
8,477	-	315,660	30,350
<u>8,477</u>	<u>-</u>	<u>315,660</u>	<u>30,350</u>
281,303	257,738	2,186,479	(481,870)
1,009,795	697,942	43,915,682	4,646,551
<u>\$ 1,291,098</u>	<u>\$ 955,680</u>	<u>\$ 46,102,161</u>	<u>\$ 4,164,681</u>
\$ 1,291,098	\$ 955,680	\$ 32,967,106	\$ 4,164,681
-	-	13,135,055	-
<u>\$ 1,291,098</u>	<u>\$ 955,680</u>	<u>\$ 46,102,161</u>	<u>\$ 4,164,681</u>

(continued)

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016

Business-type Activities – Enterprise Funds

	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 336,950	\$ 765,397	\$ (2,593,150)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	8,554,494	925,818	2,565,549
Landfill closure and postclosure costs	-	260,057	-
Other receipts	-	-	256,541
(Increase) decrease in assets:			
Accounts receivable	(977,854)	85,932	(28,407)
Allowance for doubtful accounts	(3,000)	6,000	-
Prepaid items	-	-	-
Increase (decrease) in liabilities:			
Accounts payable	(106,240)	29,085	15,406
Accrued payroll, compensated absences	13,695	(61,745)	8,244
OPEB	59,923	43,575	7,203
Pension expense (contribution)	129,991	183,506	(246,176)
Deposits payable	162,140	5,722	(12,373)
Advanced revenue	(254,360)	(23,762)	(40,124)
Total adjustments	<u>7,578,789</u>	<u>1,454,188</u>	<u>2,525,863</u>
Net cash provided (used) by operating activities	<u>\$ 7,915,739</u>	<u>\$ 2,219,585</u>	<u>\$ (67,287)</u>
Noncash investing, capital and financing activities:			
Capital assets acquired through contributions from developers	\$ 1,663,709	\$ -	\$ -
Capital assets transferred to other funds	(1,123,744)	-	-
Capital assets transferred from other funds	577,898	-	-
Total noncash investing, capital and financing activities	<u>\$ 1,117,863</u>	<u>\$ -</u>	<u>\$ -</u>

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

Business-type Activities – Enterprise Funds			Governmental Activities
Stormwater Fund	Housing Authority	Total	Internal Service Fund
\$ 287,998	\$ (4,639,656)	\$ (5,842,461)	\$ (453,555)
522,832	444,952	13,013,645	-
-	-	260,057	-
-	-	256,541	-
(65,899)	71,163	(915,065)	399
(1,000)	17,728	19,728	
-	3,508	3,508	
81,301	85,548	105,100	(59,472)
(2,202)	(42,726)	(84,734)	-
4,692	19,637	135,030	
(113,668)	(173,915)	(220,262)	
-	(33)	155,456	-
-	(2,977)	(321,223)	408
<u>426,056</u>	<u>422,885</u>	<u>12,407,781</u>	<u>(58,665)</u>
<u>\$ 714,054</u>	<u>\$ (4,216,771)</u>	<u>\$ 6,565,320</u>	<u>\$ (512,220)</u>
\$ 59,003	\$ -	\$ 1,722,712	\$ -
-	-	(1,123,744)	-
<u>1,085,098</u>	<u>-</u>	<u>1,662,996</u>	<u>-</u>
<u>\$ 1,144,101</u>	<u>\$ -</u>	<u>\$ 2,261,964</u>	<u>\$ -</u>

(concluded)

CITY OF FLAGSTAFF, ARIZONA
Notes to the Financial Statement
June 30, 2016

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, 2016, the City adopted the provisions of GASB Statement No. 72 *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 72 requires the City to use various valuation techniques which are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach. GASB Statement No. 76 identifies the hierarchy of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The City also early implemented GASB 82 *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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.

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 and deferred outflows, liabilities and deferred inflows, 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 4th 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 4th 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.

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, all of which are presented as major funds in the basic financial statements.

- *Water and Wastewater Fund* accounts for the City water pumping, treatment and distribution systems and the City wastewater collection and treatment systems.
- *Environmental Services Fund* accounts for the operations of City refuse, 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.
- *Housing Authority Fund* accounts for low income rental assistance along with federal housing programs such as low income public housing and voucher programs that enhance this funds ability to provide services.

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. 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

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is classified as interfund receivables and payables. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balance.

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 and Prepaids

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. Prepayments of the governmental funds, which are prepared using the modified accrual basis of accounting, are recorded under the purchases method, and are therefore recorded as expenditures when purchased. Within the government-wide statements, which are prepared using the accrual basis of accounting, prepayments are recorded as assets and amortized over the life of the related agreement. Prepaid items contain payments made to vendors applicable to future accounting periods in both the government-wide and proprietary fund financial statements. The cost of a prepaid item is recorded as an expense when consumed rather than purchased.

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 amortized over the life of the bonds using a method which approximates the effective interest method.

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

Interfund Transactions

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

Fund Balance

In the fund financial statements, restricted fund balance is defined as that portion of fund balance that can be spent only for the specific purposes stipulated by constitution, external resource or through enabling legislation. Committed fund balance includes amounts constrained to specific purposes determined by a formal action of the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint; this action would represent a city ordinance. Assigned fund balance amounts are intended to be used by the government for specific purposes but do not meet the criteria to be restricted or committed. Intent can be expressed by the City Council or by the budget committee with final review completed during the annual budget process; the City has no formal policy in place. Assigned fund balance represents the remaining amount that is not restricted or committed in governmental funds other than the general fund, which is classified as unassigned. Nonspendable fund balance represents amounts that are required to be maintained intact, such as inventories, and nonexpendable portion of permanent funds.

Use of Estimates

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual accounting basis while the government-wide financial statements are prepared on a long-term economic resources measurement focus and accrual accounting basis. 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
Assets						
Cash and cash equivalents	\$ 78,633,581	\$ -	\$ -	\$ 4,164,681	\$ -	\$ 82,798,262
Cash with fiscal agents						-
Accounts receivable, net	9,320,603	-	-	51,257	-	9,371,860
Interest receivable	191,613	-	-	8,245	-	199,858
Intergovernmental receivables	2,359,651	-	-	-	-	2,359,651
Note Receivable	326,600	-	-	-	-	326,600
Special assessments receivable	2,120,411	-	-	-	-	2,120,411
Interfund receivable	3,000,000	-	-	632,500	(3,011,752)	620,748
Inventory	383,553	-	-	-	-	383,553
Restricted cash and cash equivalents	11,727,300	-	-	-	-	11,727,300
Capital assets	-	308,985,821	-	-	-	308,985,821
Total assets	108,063,312	308,985,821	-	4,856,683	(3,011,752)	418,894,064
Deferred Outflows of Resources						
Deferred pension	-	-	22,502,916	-	-	22,502,916
Deferred loss on bond refunding	-	-	815,903	-	-	815,903
Total deferred outflows of resources	-	-	23,318,819	-	-	23,318,819
Total Assets and Deferred Outflows of Resources	\$ 108,063,312	\$ 308,985,821	\$ 23,318,819	\$ 4,856,683	\$ (3,011,752)	\$ 442,212,883
Liabilities						
Accounts and retainage payable	\$ 5,642,751	\$ -	\$ -	\$ 246,091	\$ -	\$ 5,888,842
Accrued payroll & compensated absences	1,706,675	-	-	-	-	1,706,675
Interest payable	-	-	1,097,023	-	-	1,097,023
Interfund payable	3,011,752	-	-	-	(3,011,752)	-
Advanced revenue	781,177	-	-	996	-	782,173
Guaranty and other deposits	1,653,344	-	-	-	-	1,653,344
Unamortized bond premium	-	-	2,853,610	-	-	2,853,610
Unamortized bond discount	-	-	(68,443)	-	-	(68,443)
Compensated absences	-	-	3,973,752	-	-	3,973,752
Claims and judgements	-	-	-	206,877	-	206,877
Other postemployment benefits	-	-	4,942,102	-	-	4,942,102
Net pension liability	-	-	116,811,023	-	-	116,811,023
Unmatured long-term debt	-	-	62,000,895	-	-	62,000,895
Total liabilities	12,795,699	-	191,609,962	453,964	(3,011,752)	201,847,873
Deferred inflows of resources						
Unavailable revenue – court fines	302,967	-	(302,967)	-	-	-
Unavailable revenue – note receivable	326,600	-	(326,600)	-	-	-
Unavailable revenue – property taxes	204,099	-	(204,099)	-	-	-
Unavailable revenue – special assessments	2,119,987	-	(2,119,987)	-	-	-
Deferred inflow related to pension	-	-	5,408,331	-	-	5,408,331
Total deferred inflows of resources	2,953,653	-	2,454,678	-	-	5,408,331
Fund Balance – Net Position						
Fund balance/Net Position	92,313,960	308,985,821	(170,745,821)	4,402,719	-	234,956,679
Total liabilities, deferred inflows and fund balance–net position	\$ 108,063,312	\$ 308,985,821	\$ 23,318,819	\$ 4,856,683	\$ (3,011,752)	\$ 442,212,883

- (1) Capital assets (land, buildings, equipment, etc.) used in governmental activities are purchased or constructed with the costs of those assets 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 and amortizes the cost over the life of the asset as depreciation expense.

Costs of capital assets	\$ 525,850,392
Accumulated depreciation	(216,864,571)
	<u>308,985,821</u>

- (2) Certain receivables are reported as unavailable in the governmental funds, but are earned in the statement of net position.

Promissory note forgivable	\$ 81,600
Note receivable	245,000
Court receivables	302,967
	<u>629,567</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 position.

Deferred outflows related to pensions	\$ 22,502,916
Deferred loss on bond refunding	815,903
Deferred inflows related to pensions	(5,408,331)
	<u>17,910,488</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	\$ 62,000,895
Governmental interest payable	1,097,023
Compensated absences	3,973,752
Other postemployment benefits	4,942,102
Net pension liability	116,811,023
Unamortized bond premium	2,853,610
Unamortized bond discount	(68,443)
	<u>191,609,962</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	\$ 2,119,987
Property tax	204,099
	<u>2,324,086</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>\$ 4,402,719</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	\$ 3,011,752
Interfund payables	(3,011,752)
	<u>-</u>

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

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

	Total Governmental Funds	Capital Related Items (1)	Long-Term Revenues/ Expenses (2)	Internal Service Fund (3)	Adjustments and Eliminations (4)	Statement of Activities Totals
Revenues and Other Sources						
Taxes	\$ 59,711,556	\$ -	\$ (28,524)	\$ -	\$ 17,080,155	\$ 76,763,187
Intergovernmental	21,355,708	-	-	-	(9,787,800)	11,567,908
Grants and entitlements	11,023,491	-	-	-	(7,292,355)	3,731,136
Special assessments	4,747,237	-	(4,583,166)	-	-	164,071
Charges for services	2,916,164	-	-	-	-	2,916,164
Licenses and permits	3,153,135	-	-	-	-	3,153,135
Fines and forfeitures	1,524,856	-	675	-	-	1,525,531
Rent	1,696,070	-	-	-	-	1,696,070
Investment earnings	1,636,650	-	-	31,781	-	1,668,431
Contributions	1,962,364	1,995,338	127,314	-	-	4,085,016
Miscellaneous	1,404,390	-	-	-	-	1,404,390
Total revenue	111,131,621	1,995,338	(4,483,701)	31,781	-	108,675,039
Expenditures/Expenses						
General governmental	14,561,513	880,674	628,238	53,747	1,086,016	17,210,188
Public safety	30,074,183	1,763,296	2,754,714	119,058	-	34,711,251
Public works	1,207,776	222,090	(41,353)	4,762	257,048	1,650,323
Economic and physical development	9,530,781	360,551	(112,550)	33,654	446,804	10,259,240
Culture and recreation	11,441,848	1,855,429	101,604	46,127	(470,178)	12,974,830
Highways and streets	5,916,632	8,576,382	(163,459)	49,347	(1,319,690)	13,059,212
Principal retirement	12,980,269	-	(12,980,269)	-	-	-
Interest and other charges	2,520,596	-	(225,179)	-	-	2,295,417
Capital outlay	16,090,690	(16,090,690)	-	-	-	-
Total expenditures/expenses	104,324,288	(2,432,268)	(10,038,254)	306,695	-	92,160,461
OTHER FINANCING SOURCES (USES):						
Sale of capital assets	5,325	(5,325)	-	-	-	-
Issuance of capital debt	204,956	-	(204,956)	-	-	-
Transfers in	15,891,921	-	-	-	664,652	16,556,573
Transfers out	(15,231,349)	-	-	-	(1,203,904)	(16,435,253)
Total other financing sources (uses)	870,853	(5,325)	(204,956)	-	(539,252)	121,320
Net change for the year	\$ 7,678,186	\$ 4,422,281	\$ 5,349,597	\$ (274,914)	\$ (539,252)	\$ 16,635,898

- (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	\$ 16,090,690
Depreciation expense	(13,331,288)
Disposal of capital assets	(332,459)
Donated capital assets	1,995,338
	<u>4,422,281</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	\$ (4,583,166)
Property tax	(28,524)
Fines & forfeitures	675
	<u>(4,611,015)</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	\$ 299,591
Amortization of refunding loss on debt	(161,308)
	<u>138,283</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)
Issuance of capital debt	(204,956)
Accrual of long-term compensated absences	(103,686)
Accrual of bond interest	225,179
Pension contributions	9,411,570
Pension benefits earned net of employee contributions	(12,122,948)
Accrual of other postemployment benefits	(597,899)
	<u>(3,402,940)</u>

Certain expenses reported in the statement of activities require the use of current financial resources and therefore are not reported as expenditures in the government wide statement of activities.

Note Receivable	<u>\$ 245,000</u>
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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	<u>\$ 12,980,269</u>
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- (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	\$ 31,781
Expenditures	(306,695)
	<u>(274,914)</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	\$ (1,203,904)
Transfer of capital assets from business-type activities	664,652
	<u>(539,252)</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 \$2,934,084 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, 2016 are as follows:

	General Fund	Highway User Revenue Fund	Transportation Fund	Other Governmental Funds	Total Governmental Funds
Fund balances:					
Nonspendable:					
Perpetual care	\$ -	\$ -	\$ -	\$ 252,973	\$ 252,973
Debt service	-	-	2,057,737	6,020,615	8,078,352
Inventory	335,134	-	-	48,419	383,553
Restricted for:					
Library services	-	-	-	1,632,867	1,632,867
Library branch services	-	-	-	1,086,681	1,086,681
Library programs externally directed	-	-	-	877,811	877,811
Court improvements and operations	952,758	-	-	-	952,758
Debt service	-	-	114,866	7,743,044	7,857,910
Regional planning	-	-	-	17,293	17,293
Street improvements	-	7,763,092	8,872,061	-	16,635,153
Transit	-	-	4,599,902	-	4,599,902
Public art	-	-	-	644,643	644,643
Parks operations	-	-	-	2,211,328	2,211,328
Economic Development	-	-	-	727,768	727,768
Tourism	-	-	-	1,110,965	1,110,965
Perpetual care	-	-	-	23,257	23,257
Development fee projects	1,246,081	-	-	-	1,246,081
Other capital projects	56,615	-	2,900,666	7,622,343	10,579,624
Assigned to:					
Capital reserve	7,782,432	-	-	-	7,782,432
Real estate	1,121,129	-	-	-	1,121,129
Unassigned:	27,425,564	-	-	(2,934,084)	24,491,480
Total fund balances	<u>\$ 38,919,713</u>	<u>\$ 7,763,092</u>	<u>\$ 18,545,232</u>	<u>\$27,085,923</u>	<u>\$92,313,960</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 essentially maintained on a basis consistent with Generally Accepted Accounting Principles (GAAP) except for 60 days sales tax accrual, unrealized gain or loss on investments and allowance for doubtful accounts. Measurable revenues are 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 for inventory and bonded debt are not included in the budget.
- Certain expenditures, such as depreciation, compensated absences and landfill closure and post closure accruals, 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 Tuesday 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., passenger 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 and 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 and 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.

B. Excess of Expenditures over Appropriations

Expenditure appropriations are adopted in the budget at the division level. For presentation purposes, we have elected to show any deficits at the division level within funds. In the General Fund, Economic Vitality exceeded appropriations by \$167,900. This deficit was funded by available fund balances in the General Fund. The deficit was mainly the result of an unbudgeted grant.

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," "Investments," and "Restricted cash and investments."

Deposits

At June 30, 2016, the carrying amount of the City's deposits was \$32,139,770 and the bank balance was \$33,506,371. The \$1,366,601 difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2016. There is an additional \$8,203,831 reported as restricted cash as it is held with paying or fiscal agent on June 30, 2016 for debt service payments due on July 1, 2016.

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, 2016.

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, 2016, the City's investments included the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>
Federal agency notes	\$ 27,751,658	1.833
Municipal obligations	1,352,712	0.448
U.S. treasuries	50,931,636	3.189
State investment pool	11,557,984	0.060
Corporate notes	8,579,668	3.068
Money market	96,534	0.000
Total fair value of investments	<u>\$ 100,270,192</u>	
Portfolio weighted average maturity		2.403

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, 2016 is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Moody's Rating</u>	<u>S&P Rating</u>	<u>% of Investment</u>
Federal agency notes	\$ 27,751,658	AAA	AA+	27.67
Municipal obligations	1,352,712	AAA/ AA2	AA- / AAA	1.35
U.S. treasuries	50,931,636	AAA	AA+	50.79
State investment pool	11,557,984	N/A	AAA f / S1+	11.53
Corporate notes	8,579,668	AAA/ AA3/ A1/ A2/ A3	AAA/ AA+/ AA-/ A- / A	8.56
Money market	96,534	Aa1	AAAm	0.10
Total	<u>\$ 100,270,192</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, 2016, 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	\$ 100,270,192
Carrying amount of cash deposits	32,139,770
Cash on deposit with paying agent	8,203,831
Cash on hand	13,930
Total pooled cash and investments	<u>\$ 140,627,723</u>
Pooled cash, equivalents and investments – unrestricted	\$ 115,765,368
Restricted cash and investments	24,862,355
Total pooled cash and investments	<u>\$ 140,627,723</u>

Cash and cash equivalents at June 30, 2016 consisted of the following:

Investments included in cash and cash equivalents	\$ 88,712,208
Carrying amount of unrestricted city deposits	27,039,230
Cash on hand	13,930
Total cash, investments, and cash equivalents per statement of net position	<u>\$ 115,765,368</u>

Investment income comprises the following for the year ended June 30, 2016:

Net interest and dividends	\$ 1,081,209
Net increase (decrease) in the fair value of investments	923,907
Total net investment income per statement of activities	<u>\$ 2,005,116</u>

Fair Value Measurement

The net increase in the fair value of investments during fiscal year 2015–2016 was \$923,907. 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, 2016 was \$962,553.

In determining fair value, the City uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

Fair value measurements framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Fair value measurements define levels within the hierarchy based on the reliability of inputs as follows:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker–traded transactions.

The City's investments at June 30, 2016, categorized within the fair value hierarchy detailed above were as follows:

Investments by fair value level Investment Type	Fair Value Measurements Using			
	Total Fair Value	(Level 1)	(Level 2)	(Level 3)
Federal agency notes	\$ 27,751,658	\$ -	\$ 27,751,658	\$ -
Municipal obligations	1,352,712	-	1,352,712	-
U.S. treasuries	50,931,636	50,931,636	-	-
Corporate notes	8,579,668	-	8,579,668	-
Money market	96,534	96,534	-	-
Total Investments by fair value level	\$ 88,712,208	\$ 51,028,170	\$ 37,684,038	\$ -

**External investment pools
measured at fair value**

State Treasurer's Investment Pool	\$ 11,557,984
Total Investments measured at fair value	\$ 11,557,984
Total Investments	\$ 100,270,192

Investments in the State Treasurer's investment pools are valued at the pool's share price multiplied by the number of shares the City held. The fair value of a participant's position in the pools approximates the value of that participant's pool shares. The State Board of Investment provides oversight for the State Treasurer's investment pools.

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 \$8,895 and the total recovery to date is \$109,792.

B. Receivables

Receivables as of June 30, 2016, including allowances for uncollectible accounts, are as follows:

Fund	Accounts	Interest	Intergov- ernmental	Special Assessments	Notes Receivable	Total Receivables
Governmental Activities						
General fund	\$ 6,238,992	\$ 78,747	\$ 295,446	\$ -	\$ -	\$ 6,613,185
Highway user revenue fund	828,896	8,753	26,893	-	-	864,542
Transportation fund	2,159,547	44,479	1,112,085	-	-	3,316,111
Special assessment fund	-	476	-	2,120,411	-	2,120,887
Other governmental funds	1,090,987	59,158	925,227	-	326,600	2,401,972
Less: allowance for uncollectibles	(997,819)	-	-	-	-	(997,819)
Total government funds	9,320,603	191,613	2,359,651	2,120,411	326,600	14,318,878
Internal services funds	51,257	8,245	-	-	-	59,502
Total governmental activities	9,371,860	199,858	2,359,651	2,120,411	326,600	14,378,380
Business-Type Activities						
Water	2,641,547	28,215	-	-	-	2,669,762
Wastewater	1,504,022	27,539	48,358	-	-	1,579,919
Environmental services	1,291,709	23,362	316	-	-	1,315,387
Airport	110,739	2,229	52,907	-	-	165,875
Stormwater	204,695	2,627	120,000	-	-	327,322
Flagstaff housing authority	65,479	-	85,430	-	-	150,909
Less: allowance for uncollectibles	(190,912)	-	-	-	-	(190,912)
Total business-type activities	5,627,279	83,972	307,011	-	-	6,018,262
Total activities	\$ 14,999,139	\$ 283,830	\$ 2,666,662	\$ 2,120,411	\$ 326,600	\$ 20,396,642

C. Capital Assets

A summary of capital asset activity, for the government-wide financial statements, as of June 30, 2016 is as follows:

	Balance July 1, 2015	Increase	Decrease	Transfers In (out)	Balance June 30, 2016
Governmental activities:					
Non-depreciable assets:					
Land	\$ 64,845,212	\$ 36,911	\$ -	\$ -	\$ 64,882,123
Construction -in-progress	13,810,087	7,843,545	(12,316,184)	(1,203,904)	8,133,544
Total non-depreciable assets	<u>78,655,299</u>	<u>7,880,456</u>	<u>(12,316,184)</u>	<u>(1,203,904)</u>	<u>73,015,667</u>
Depreciable assets:					
Buildings	75,827,306	8,123,834	-		83,951,140
Improvements	21,359,152	1,102,302	-	-	22,461,454
Machinery and equipment	31,745,480	2,336,382	(611,148)	(21,141)	33,449,573
Infrastructure	301,666,214	10,641,692	-	664,652	312,972,558
Total depreciable assets	<u>430,598,152</u>	<u>22,204,210</u>	<u>(611,148)</u>	<u>643,511</u>	<u>452,834,725</u>
Accumulated depreciation:					
Buildings	(21,411,268)	(1,809,290)	-	-	(23,220,558)
Improvements	(14,736,642)	(981,763)	-	-	(15,718,405)
Machinery and equipment	(22,398,563)	(1,803,034)	596,236	21,141	(23,584,220)
Infrastructure	(145,604,187)	(8,737,201)	-	-	(154,341,388)
Total accumulated depreciation	<u>(204,150,660)</u>	<u>(13,331,288)</u>	<u>596,236</u>	<u>21,141</u>	<u>(216,864,571)</u>
Governmental activities capital assets, net	<u>\$ 305,102,791</u>	<u>\$ 16,753,378</u>	<u>\$ (12,331,096)</u>	<u>\$ (539,252)</u>	308,985,821
				Less: associated debt	(62,000,895)
				Less: unamortized premium	(2,853,610)
				Plus: unamortized discount	68,443
				Less: construction retainage	(341,507)
				Plus: unamortized loss on current refunding	815,903
				Plus: unspent capital related debt, series 2013	380,910
				Plus: non-capital related debt, series 2013	1,842,300
				Net investment in capital assets	<u>\$ 246,897,365</u>

	Balance July 1, 2015	Increases	Decreases	Transfers In (out)	Balance June 30, 2016
Business-type activities:					
Non-depreciable assets:					
Land	\$ 14,119,715	\$ -	\$ -	\$ -	\$ 14,119,715
Construction -in-progress	18,607,726	5,939,946	(2,998,077)		21,549,595
Total non-depreciable assets	<u>32,727,441</u>	<u>5,939,946</u>	<u>(2,998,077)</u>	<u>-</u>	<u>35,669,310</u>
Depreciable assets:					
Buildings	100,803,144	-	-	-	100,803,144
Improvements	388,868,562	4,929,242	-	539,252	394,337,056
Machinery and equipment	45,608,653	1,437,841	(1,496,580)	21,141	45,571,055
Total depreciable assets	<u>535,280,359</u>	<u>6,367,083</u>	<u>(1,496,580)</u>	<u>560,393</u>	<u>540,711,255</u>
Accumulated depreciation:					
Buildings	(50,344,052)	(2,290,817)	-	-	(52,634,869)
Improvements	(139,871,238)	(8,193,706)	-	-	(148,064,944)
Machinery and equipment	(25,142,175)	(2,529,122)	1,386,700	(21,141)	(26,305,738)
Total accumulated depreciation	<u>(215,357,465)</u>	<u>(13,013,645)</u>	<u>1,386,700</u>	<u>(21,141)</u>	<u>(227,005,551)</u>
Business-type activities capital assets, net	<u>\$ 352,650,335</u>	<u>\$ (706,616)</u>	<u>\$ (3,107,957)</u>	<u>\$ 539,252</u>	349,375,014
				Less: associated debt	(37,664,602)
				Less: construction retainage	<u>(65,547)</u>
				Net investment in capital assets	<u>\$ 311,644,865</u>

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

Governmental Activities:

General government	\$ 553,540
Public safety	1,763,296
Public works	222,090
Economic and physical development	360,551
Culture and recreation	1,855,429
Highway and streets	<u>8,576,382</u>
Total depreciation expense - governmental activities	<u>\$ 13,331,288</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, 2016. The interfund balances at June 30, 2016 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, 2016 are expected to be repaid within one year.

The following interfund receivables and payables are included in the fund financial statements at June 30, 2016:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Activities:		
General fund	\$ 3,000,000	\$ 11,752
Other governmental funds	-	3,000,000
Total governmental activities	<u>3,000,000</u>	<u>3,011,752</u>
 Business-Type Activities:		
Housing authority fund	<u>11,752</u>	<u>-</u>
Total business-type activities	<u>11,752</u>	<u>-</u>
Total governmental and business-type activities	<u>\$ 3,011,752</u>	<u>\$ 3,011,752</u>
Less: fund eliminations		(3,000,000)
Adjustment for internal service fund elimination		<u>(632,500)</u>
Total government-wide statement of net position		<u>\$ (620,748)</u>

Transfers

The net transfers of \$121,320 from business-type activities to governmental activities on the government-wide statement of activities are primarily debt service. There were no significant transfers during fiscal year 2016 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, 2016:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers In</u>
Governmental Activities:		
General fund	\$ 2,063,183	\$ 3,110,079
Highway user revenue fund	13,000	3,958,100
Transportation fund	3,684,143	-
Other governmental funds	9,471,023	8,823,742
Total governmental funds	<u>15,231,349</u>	<u>15,891,921</u>
Internal service fund	-	-
Total governmental activities	<u>15,231,349</u>	<u>15,891,921</u>
Business-Type Activities:		
Water and Wastewater fund	711,064	5,441
Environmental services fund	245,190	-
Airport fund	-	-
Stormwater fund	376,174	646,463
Other business-type fund	-	19,952
Total business-type activities	<u>1,332,428</u>	<u>671,856</u>
Total governmental and business-type activities	<u>\$ 16,563,777</u>	<u>\$ 16,563,777</u>
Less: fund eliminations	(17,224,349)	
Add: net capital assets transfer	<u>539,252</u>	
Total government-wide statement of activities	<u>\$ (121,320)</u>	

The BBB fund transferred \$2,678,317 to the General fund for its share of the operating cost of the services performed by General fund divisions and sections. The Transportation fund transferred \$3,661,643 to the Highway user revenue fund for the transportation fund's portion of capital projects and debt service expenditures. The General fund transferred \$1,604,860 to the Library fund for City share of expenditures for the libraries within the City limits.

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 2016 lease expense for the library was \$89,216. The schedule below for future minimum lease expenses reflects the change in the rental rate as of June 30, 2016.

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 2016.

Operating Lease Expenditures

<u>Year Ending June 30</u>	<u>East Flagstaff Library</u>	<u>Forest Lakes Library (Chevelon Butte SD)</u>
2017	92,563	7,200
2018	92,563	7,200
2019	92,563	7,200
2020	-	7,200
Total	<u>\$ 277,689</u>	<u>\$ 28,800</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, 2016 were \$178,052 (Cancelable and Non-cancelable) which include the East Flagstaff Library and Forest Lakes 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 2016 was \$1,695,536. The City currently has three leases with non-cancellable terms as well as future cancellable terms that are for the USGS buildings 3, 4/5, and 6, which are guaranteed thru the dates indicated below. 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.

The USGS Lease for Buildings 4/5 has recently been renewed effective January 1, 2017 thru December 31, 2019. The first two years are firm (as shown below), and the remaining three years are on a month-to-month basis with a required Thirty (30) day notice for cancellation. The USGS Lease renewal for Building 6 was taken to Council for approval on August 16, 2016. The terms were approved for the Twenty (20) year lease, of which Ten (10) years are firm and Ten (10) years are month-to-month, with a Sixty (60) day notice of lease cancellation required for the month-to-month portion of the lease. The debt for Building 6 was paid off in full, resulting in a decrease in lease payments from the USGS to the City of Flagstaff.

Year Ending June 30	Non-Cancellable USGS Building 3	Non-Cancellable USGS Building 4/5	Non-Cancellable USGS Building 6
2016 – Actual	\$ 1,403,361	\$ 352,267	\$ 801,212
2017	-	176,400	335,977
2018	-	-	293,692
2019	-	-	293,692
2020	-	-	293,692
2021	-	-	293,692
2022	-	-	293,692
2023	-	-	293,692
2024	-	-	293,692
2025	-	-	293,692
2026	-	-	293,692
2027	-	-	24,474
	<u>\$ 1,403,361</u>	<u>\$ 528,668</u>	<u>\$ 3,804,890</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 2016 was \$1,457,186.

F. Long-Term Debt

General Obligation Debt

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

General obligation debt are direct obligations and pledge the full faith and credit of the government. The water and wastewater general obligation debt is a water infrastructure and finance authority note backed by the ultimate taxing power and general revenues of the City; however, the debt is 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 2014, the City issued bonds to advance refund \$8,565,000 of outstanding series 2006A general obligation 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, 2016 is \$8,565,000.

General obligation debt outstanding at June 30, 2016:

Purpose	Amount
Governmental activities	\$ 35,547,310
Governmental activities – advance refunding	8,270,000
Business-type activities	1,375,362
Total general obligation debt outstanding	<u>\$ 45,192,672</u>

General obligation debt at June 30, 2016 consist of the following individual issues:

General Obligation Debt

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%. Construction related to recreation facilities, fire facilities and equipment, and open space acquisition. This series was partially refunded on April 8, 2014.	\$ 7,750,000
\$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.	8,635,000
\$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.	2,527,310
\$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.	10,235,000
\$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.	6,400,000
Total governmental activities	<u>43,817,310</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.	1,375,362
Total business-type activities	<u>1,375,362</u>
Total General Obligation Debt	<u>\$ 45,192,672</u>

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

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 5,441,644	\$ 1,430,852	\$ 67,675	\$ 41,641
2018	4,886,164	1,277,993	69,775	39,508
2019	4,920,912	1,128,478	71,941	37,308
2020	5,030,894	964,608	74,174	35,041
2021	5,001,115	789,026	76,477	32,702
2022-2026	12,216,581	2,031,703	419,500	125,820
2027-2031	4,580,000	670,300	488,776	55,469
2032-2035	1,740,000	142,601	107,044	1,661
Total	<u>\$ 43,817,310</u>	<u>\$ 8,435,562</u>	<u>\$ 1,375,362</u>	<u>\$ 369,150</u>

Statutory Debt Limitation

Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt for combined water, wastewater, electric, parks and open space, streets and public safety purposes may not exceed 20 percent of the City of Flagstaff's net secondary assessed valuation, nor may outstanding general obligation bonded debt for all other purposes exceed 6 percent 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, 2016 was \$91,752,994 and \$41,083,700 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 August 28, 2015, \$4,400,000 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, 2016:

Purpose	Amount
Governmental activities	<u>\$ 2,215,000</u>

Special assessment bonds payable at June 30, 2016 consist of the following individual issues:

Special Assessment Bonds

Governmental activities:

\$8,900,000 Improvement district bonds, due in annual installments of \$95,000 to \$195,000, through January 1, 2032; interest at 5.0%. Aspen Place at the Sawmill district improvements.	\$ 2,215,000
Total Special Assessment Bonds	<u>\$ 2,215,000</u>

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	\$ 95,000	\$ 110,750
2018	100,000	106,000
2019	105,000	101,000
2020	110,000	95,750
2021	115,000	90,250
2022-2026	650,000	361,000
2027-2031	845,000	179,250
2032	195,000	9,750
Total	<u>\$ 2,215,000</u>	<u>\$ 1,053,750</u>

Revenue Bonds

Highway User Revenue Fund (HURF) bonds are issued specifically for the purpose of constructing street and highway projects. These bonds are repaid out of HURF 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 are comprised of 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.

Revenue bonds outstanding at June 30, 2016:

Purpose	Amount
Governmental activities	\$ 2,710,000
Governmental activities – partial advance refunding	10,040,000
Total revenue bonds outstanding	<u>\$ 12,750,000</u>

Revenue bonds at June 30, 2016 consist of the following individual issues:

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.	\$ 10,040,000
\$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.	2,710,000
Total governmental activities	<u><u>\$ 12,750,000</u></u>

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	\$ 1,990,000	\$ 485,663
2018	2,060,000	403,063
2019	2,155,000	312,113
2020	2,240,000	224,413
2021	2,320,000	135,425
2022-2026	885,000	351,169
2027-2031	1,100,000	131,813
Total	<u><u>\$ 12,750,000</u></u>	<u><u>\$ 2,043,659</u></u>

Other Debt

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, 2016:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	<u><u>\$ 2,170,000</u></u>

Certificates of participation at June 30, 2016 consist of the following individual issues:

Governmental activities:

\$4,690,000 Certificates of participation, series 2009 due in annual installments of \$515,000 to \$575,000, through October 1, 2019; interest at 3.3137%. Roadway overlay improvements and fire equipment. \$ 2,170,000

Total Certificates of Participation \$ 2,170,000

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

Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	\$ 515,000	\$ 70,673
2018	530,000	52,900
2019	550,000	33,313
2020	575,000	11,500
Total	<u><u>\$ 2,170,000</u></u>	<u><u>\$ 168,385</u></u>

The following is a summary of debt service requirements, including interest requirements, to maturity for long-term debt at June 30, 2016:

Fiscal Year	General Obligation Debt	Special Assessment Bonds	Revenue Bonds	Certificates of Participation	Total
2017	\$ 6,981,812	\$ 205,750	\$ 2,475,663	\$ 585,673	\$ 10,248,897
2018	6,273,440	206,000	2,463,063	582,900	9,525,403
2019	6,158,639	206,000	2,467,113	583,313	9,415,065
2020	6,104,717	205,750	2,464,413	586,500	9,361,380
2021	5,899,320	205,250	2,455,425	-	8,559,995
2022	4,412,496	199,500	249,982	-	4,861,978
2023	3,986,992	203,750	247,862	-	4,438,604
2024	3,302,659	202,500	245,531	-	3,750,690
2025	1,544,899	201,000	247,881	-	1,993,780
2026	1,546,558	204,250	244,913	-	1,995,721
2027	1,543,553	207,000	246,250	-	1,996,803
2028	1,541,021	204,250	246,769	-	1,992,040
2029	1,546,914	206,250	246,825	-	1,999,989
2030	581,803	202,750	246,417	-	1,030,970
2031	581,255	204,000	245,552	-	1,030,807
2032	580,105	204,750	-	-	784,855
2033	469,700	-	-	-	469,700
2034	472,300	-	-	-	472,300
2035	469,201	-	-	-	469,201
Less interest	(8,804,712)	(1,053,750)	(2,043,659)	(168,385)	(12,070,506)
	<u><u>\$ 45,192,672</u></u>	<u><u>\$ 2,215,000</u></u>	<u><u>\$ 12,750,000</u></u>	<u><u>\$ 2,170,000</u></u>	<u><u>\$ 62,327,672</u></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 \$47.4 million for various capital projects and \$46.6 million for future water rights and production. As of June 30, 2016, \$5.0 million remains unissued for capital projects and \$.8 million remains unissued for future water rights and production. On November 2, 2010, voters approved \$21.2 million for public safety communication system and various street and utilities improvements. As of June 30, 2016 \$.4 million remains unissued. On November 6, 2012, voters approved \$14.0 million for a Core Service Maintenance Facility and \$10.0 million for Forest Health and Watershed Protection. As of June 30, 2016 \$14.0 million and \$8.0 million remains unissued, respectively.

Loans Payable

The City of Flagstaff has various loan agreements with the Water and Wastewater Infrastructure Finance Authority (WIFA) 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 fourteen T hangars at the City Airport.

Loans outstanding as of June 30, 2016:

<u>Purpose</u>	<u>Amount</u>
Business-type activities	<u>\$ 32,799,860</u>

Loan payables at June 30, 2016 consist of the following individual financing options:

Water and wastewater:

\$7,900,000 Water infrastructure finance authority due in annual installments of \$380,000 to \$525,000 through July 1, 2026; interest at 3.28%. Water infrastructure acquisition.	\$ 4,925,000
\$23,100,000 Wastewater infrastructure finance authority due in annual installment of \$1,114,667, to \$1,629,449 through July 1, 2027; interest at 3.512%. Sewer treatment plant improvements.	16,287,404
\$8,500,000 Water infrastructure finance authority due in annual installment of \$377,927 to \$591,940 through July 1, 2028; interest at 3.810%, as adjusted on 12/7/12. Water production improvements and acquisition.	6,209,093
\$2,100,000 Water infrastructure finance authority due in annual installment of \$92,862 to \$138,320 through July 1, 2029; interest at 3.113%. Amount issued to date \$1,550,712. Remaining available \$594,288. Water feasibility study.	1,005,654
\$232,500 Water infrastructure finance authority due in annual installment of \$10,374 to \$15,054 through July 1, 2029; interest at 2.905%. Well improvements.	176,123
\$594,950 Water infrastructure finance authority due in annual installment of \$24,531 to \$33,603 through July 1, 2029; interest at 2.45%. Original amount issued \$1,000,000, amount deobligated \$405,050. Well infrastructure improvements.	403,871
\$1,100,000 as amended 10/02/09, \$800,000 Water infrastructure finance authority due in annual installment of \$51,224 to \$70,168 through July 1, 2029; interest at 2.45%. Amount issued to date \$1,100,000. Local aquifer study.	843,338
\$6,775,760 Water Infrastructure Finance Authority due in annual installments of \$375,127 to \$462,398 through July 1, 2022, interest at 3.548%. Water and sewer improvements.	2,922,468
Total water and wastewater	<u>32,772,951</u>

Airport:

\$600,000 Arizona Department of Transportation due in quarterly installments of \$13,361 to \$13,548 through November 1, 2016; interest at 5.60%. Hangar construction.	26,909
Total Loans Payable	<u>\$ 32,799,860</u>

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

Year Ending June 30	Business-type Activities	
	Principal	Interest
2017	\$ 2,453,617	\$ 1,117,617
2018	2,508,609	1,031,250
2019	2,598,050	942,454
2020	2,690,121	850,493
2021	2,779,915	755,349
2022-2026	13,871,354	2,307,467
2027-2030	5,898,193	278,395
Total	<u>\$ 32,799,860</u>	<u>\$ 7,283,025</u>

Obligations under Capital Leases

Capital lease agreements related to governmental activities consist of renewable energy solar equipment assets of \$895,967 (net of accumulated depreciation) and heart monitors of \$204,956 (net of accumulated depreciation). Capital lease agreements related to business-type activities consist of a co-generator at the Wildcat Wastewater Treatment Plant of \$895,172 (net of accumulated depreciation), airport hangars of \$434,822 (net of accumulated depreciation) and renewable energy solar equipment of \$1,583,280 (net of accumulated depreciation). These lease agreements generally require annual payments and the lease terms vary from ten to twenty-one 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, 2016	Governmental Activities	Business-type Activities
2017	\$ 130,002	\$ 645,550
2018	130,571	395,680
2019	131,163	396,810
2020	131,779	397,986
2021	87,742	399,206
2022-2026	434,002	1,639,443
2027-2029	188,239	359,273
Total future minimum lease payments	1,233,498	4,233,948
Less: interest costs	(184,913)	(744,568)
Present value of future minimum lease payments	<u>\$ 1,048,585</u>	<u>\$ 3,489,380</u>

Pledged Revenues

The City has pledged future water and wastewater utility revenues to repay Water Infrastructure Financing Authority loans 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, 2016, \$34,148,313 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, 2016, net revenue available for service of this debt was \$9,094,086. The debt principal and interest paid in fiscal year 2016 equal \$3,014,756 (33.15% 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, 2016, \$10,040,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2016, net revenues available for service of the debt were \$33,176,241. The debt principal and interest paid in fiscal year 2016 was \$2,227,400 (6.71% 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 \$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, 2016, \$2,710,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2016, net revenues available for the service of this debt were \$10,809,451. The debt principal and interest paid in fiscal year 2016 was \$250,088 (2.31% 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, other postemployment benefits and net pension liability for governmental funds has been made out of the General, Library, HURF, BBB, Library and FMPO funds.

Non-current liability activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 48,919,658	\$ -	\$ (5,102,348)	\$ 43,817,310	\$ 5,441,644
Special assessment bonds	6,705,000	-	(4,490,000)	2,215,000	95,000
Revenue bonds	14,675,000	-	(1,925,000)	12,750,000	1,990,000
Municipal facility corporate bonds	860,000	-	(860,000)	-	-
Certificates of participation	2,670,000	-	(500,000)	2,170,000	515,000
Total bonds payable	73,829,658	-	(12,877,348)	60,952,310	8,041,644
Capital leases	946,550	204,956	(102,921)	1,048,585	97,964
Bond premium	3,153,201	-	(299,591)	2,853,610	300,171
Bond discount	(68,443)	-	-	(68,443)	-
Compensated absences	3,870,066	1,772,104	(1,668,418)	3,973,752	1,667,159
Other postemployment benefits	4,344,203	597,899	-	4,942,102	-
Net pension liability	111,543,325	33,228,928	(27,961,230)	116,811,023	-
Claims and judgements	277,820	-	(70,943)	206,877	57,917
Governmental activity long-term liability	<u>\$ 197,896,380</u>	<u>\$ 35,803,887</u>	<u>\$ (42,980,451)</u>	<u>\$ 190,719,816</u>	<u>\$ 10,164,855</u>
Business-type activities:					
Bonds payable:					
General obligation debt	\$ 1,440,999	\$ -	\$ (65,637)	\$ 1,375,362	\$ 67,675
Water loan payable	17,750,963	-	(1,265,416)	16,485,547	1,312,046
Wastewater loan payable	17,364,247	-	(1,076,843)	16,287,404	1,114,662
Airport loan payable	78,532	-	(51,623)	26,909	26,909
Capital lease payable	3,971,594	2	(482,216)	3,489,380	505,167
Total loan and leases payable	39,165,336	2	(2,876,098)	36,289,240	2,958,784
Compensated absences	840,012	245,921	(363,773)	722,160	315,281
Other postemployment benefits	979,004	135,030	-	1,114,034	-
Net pension liability	14,383,459	3,877,155	(3,342,821)	14,917,793	-
Landfill closure/postclosure	7,895,618	260,057	-	8,155,675	-
Business-type activity long-term liability	<u>\$ 64,704,428</u>	<u>\$ 4,518,165</u>	<u>\$ (6,648,329)</u>	<u>\$ 62,574,264</u>	<u>\$ 3,341,740</u>

V. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts and public officials' errors and omissions. The City purchases commercial insurance to cover these losses. However, \$75,000 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, 2016 have potential exposure to the City of approximately \$206,877 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>
2013-14	\$ 314,074	\$ 127,779	\$ 222,158	\$ 219,695
2014-15	219,695	194,064	135,939	277,820
2015-16	277,820	205,242	276,185	206,877

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 construction commitments and encumbrances as of June 30, 2016:

Construction Commitments as of June 30, 2016

Capital Project Program Classification	Spent to date	Remaining Commitment
Buildings	\$ 762,200	\$ 2,404,588
Communication	307,950	342,050
Streets	11,420,405	1,337,174
Water	2,663,082	2,572,233
Wastewater	484,984	620,657
Stormwater	100,178	750,335
Other land improvements	635,045	125,714
Total Construction Commitments	<u>\$ 16,373,844</u>	<u>\$ 8,152,752</u>

Outstanding Encumbrances at June 30, 2016

Governmental Activities:		
General fund	\$ 761,725	
Highway users revenue fund	111,200	
Transportation fund	103,200	
Capital projects bond fund	783,085	
Other government funds	615,296	
Total governmental activities	<u>2,374,506</u>	
Business – Type Activities:		
Water and wastewater fund	476,612	
Environmental services fund	1,205,852	
Airport fund	775,358	
Stormwater fund	33,820	
Total business-type activities	<u>2,491,642</u>	
Total governmental and business-type activities	<u>\$ 4,866,148</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 can be obtained by writing or calling the applicable plan.

<p><u>ASRS</u> 3300 N. Central Ave. P.O. Box 33910 Phoenix, AZ 85067-3910 (602) 240-2200/(800) 621-3778 www.azasrs.gov</p>	<p><u>PSPRS and EORP</u> 3010 E. Camelback Rd., Suite 200 Phoenix, AZ 85016-4416 (602) 255-5575 www.psprs.com</p>
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At June 30, 2016, 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, 2016

	Governmental Activities	Business-Type Activities	Total
Net pension liabilities	\$ 116,811,023	\$ 14,917,793	\$ 131,728,816
Deferred outflows of resources	22,502,916	1,784,946	24,287,862
Deferred inflows of resources	(5,408,331)	(1,228,738)	(6,637,069)
Pension expense	11,710,778	966,791	12,677,569

The City reported accrued employee benefits of \$11,436 for governmental activities and \$13,364 for business-type activities as related to outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2016.

Arizona State Retirement System (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	30 years age 55
	10 years age 62	25 years age 60
	5 years age 50*	10 years age 62
	any years age 65	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, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47% (11.35% 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 11.47% (10.85% retirement, 0.50% 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 9.36% (9.17% for retirement, 0.13% for health and 0.06% 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, 2016, 2015, and 2014 were \$3,344,492, \$3,229,757, and \$3,074,097 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>
\$ 3,168,876	\$ 140,778	\$ 34,838
3,002,707	161,281	65,769
2,837,013	173,151	63,933

During fiscal year 2016, the City paid for ASRS pension and related OPEB contributions (health benefit) 73% from governmental funds and 27% from enterprise funds.

Pension Liability

At June 30, 2016, the City reported a liability of \$46,798,712 for its proportionate share of the ASRS net pension liability. The net pension liability was measured as of June 30, 2015. 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, 2014, to the measurement date of June 30, 2015.

Actuarial Assumptions

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

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
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, 2014, 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Arithmetic Real Rates of Return</u>
Commodities	2%	3.93%
Multi	5%	3.41%
Real Estate	10%	4.25%
Fixed Income	25%	3.70%
Equity	58%	6.79%
Total	<u>100%</u>	

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	<u>\$ 61,322,306</u>	<u>\$ 46,798,712</u>	<u>\$ 36,845,291</u>

Pension Plan Fiduciary Net Position

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

Public Safety Personnel Retirement System (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:

PSPRS	Before January 1, 2012	On or after January 1, 2012
Initial Membership Date:		
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
Benefit percent		
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	
Survivor benefit		
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, 2016, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS	
	Police	Fire
Inactive employees or beneficiaries currently receiving benefits	68	83
Inactive employees entitled to but not yet receiving benefits	30	16
Active employees	113	75
Total	211	174

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, 2015, the date of the most recent actuarial valuation, and related information follow.

	PSPRS	
	Police	Fire
Contribution rates FY15-2016:		
Pension	43.26	67.71
Health insurance (OPEB)	0.03	0.00
Combined city	43.29%	67.71%
Active plan members	11.65%	11.65%
As of actuarial valuation date:	6/30/2015	6/30/2015
Required Contributions	\$ 3,401,213	\$ 3,769,503
Pension contributions made	\$ 3,483,157	\$ 3,769,503
Annual OPEB costs – Health Insurance	\$ 2,414	\$ -
OPEB contributions made	\$ 2,414	\$ -
Active members pension contributions	\$ 915,318	\$ 638,468
Net pension liability	\$ 39,519,008	\$ 43,893,328

*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 2016, the City paid for PSPRS pension and OPEB contributions for police with 100% general fund dollars and 94.8% from the general fund plus 5.2% from the airport fund as related to fire contributions.

Pension Liability

At June 30, 2016, the City reported net pension liability of \$39,519,008 and \$43,893,328 for police and fire respectively. The net pension liabilities were measured as of June 30, 2015, 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, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

	PSPRS	
	Police	Fire
Amortization method	Level percent-of-pay closed	Level percent-of-pay closed
Remaining amortization period-UAL	23 years	23 years
Remaining amortization period-excess	20 years	20 years
Asset valuation method	7-year smoothed market; 20% corridor	7-year smoothed market; 20% corridor
Actuarial assumptions:		
Discount rate	7.85%	7.85%
Projected salary increases	4.5% – 8.5%	4.5% – 8.5%
Inflation	3.0%–4.0%	3.0%–4.0%
Permanent benefit increase	not included	no explicit
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:

PSPRS Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	0.05%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	100%	

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
PSPRS – Police			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$ 47,162,300	\$ 39,519,008	\$ 33,173,736
PSPRS – Fire			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$ 51,614,762	\$ 43,893,328	\$ 37,400,017

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, 2016, the City recognized \$4,791,291 and \$4,878,656 pension expense related to police and fire, respectively.

Pension Deferred Outflows/Inflows of Resources

At June 30, 2016, 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	\$ -	\$ (721,130)	\$ 965,804	\$ -
Changes of assumptions	4,539,277	-	4,683,693	-
Net difference between projected and actual earnings on pension plan investments	748,306	(682,052)	867,106	(842,748)
City contributions subsequent to the measurement date	3,483,157	-	3,769,503	-
Total	<u>\$ 8,770,740</u>	<u>\$(1,403,182)</u>	<u>\$ 10,286,106</u>	<u>\$ (842,748)</u>

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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows or resources related to pensions will be recognized in pension expense as follows:

	PSPRS Police	PSPRS Fire
Year ending June 30,		
2017	\$ 1,005,000	\$ 1,492,879
2018	1,005,000	1,492,879
2019	1,004,998	1,492,879
2020	909,235	1,189,056
2021	(39,832)	6,162
Thereafter	-	-
	<u>\$ 3,884,401</u>	<u>\$ 5,673,855</u>

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
PSRS – Police – Health Insurance			
6/30/2016	\$ 2,414	100%	\$ -0-
6/30/2015	67,477	100%	-0-
6/30/2014	50,498	100%	-0-
PSRS – Fire – Health Insurance			
6/30/2016	\$ -	100%	\$ -0-
6/30/2015	96,788	100%	-0-
6/30/2014	84,384	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 2016 contribution requirements are as follow:

PSPRS OPEB Contribution Requirements

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for overfunded
Asset valuation method	7 year smoothed market value; 80%/120 % market
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0% – 8.0%
Wage growth	4%

PSPRS OPEB Funded Status

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Remaining amortization period	20 years for unfunded actuarial accrued liability, 20 years for overfunded
Asset valuation method	7 year smoothed market value; 80%/120 % market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.0% – 8.0%
Wage growth	4%

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, 2016.

	<u>Police</u>	<u>Fire</u>
Actuarial value of plan assets	\$ 1,500,199	\$ 2,688,016
Actuarial accrued liability (AAL)	<u>1,341,133</u>	<u>1,599,024</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ (159,066)</u>	<u>\$ (1,088,992)</u>
Funded ratio (actuarial value of plan assets/AAL)	111.9%	168.1%
Covered payroll	\$ 7,318,199	\$ 5,491,792
Unfunded actuarial accrued liability as a percentage of covered payroll	0.0%	0.0%

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.

Elected Officials' Retirement Plan (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 December 31, 2011</u>	<u>On or after January 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
Benefit percent		
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
Survivor benefit		
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, 2016, 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 23.5 percent (23.50% for retirement and 0.0% 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 12.15% for members who meet certain criteria. The City's contribution to the pension plan for the year ended June 30, 2016, 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			
6/30/2016	\$ -	100%	\$ -0-
6/30/2015	3,467	100%	-0-
6/30/2014	2,898	100%	-0-

Pension Liability

At June 30, 2016, 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	\$ 1,517,768
State's proportionate share of the EORP net pension liability associated with the city	<u>473,176</u>
Total	<u>\$ 1,990,944</u>

The net pension liability was measured as of June 30, 2015, 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, 2016, which decreased by \$158,835 from the City's prior year liability of \$1,676,603 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, 2016, the City recognized pension expense for the EORP of \$358,933 and revenue of \$127,314 for the City's proportionate share of the State's appropriation to EORP. At June 30, 2016, 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	\$ 2,427	\$ (16,898)
Changes of assumptions	254,314	-
Net difference between projected and actual earnings on pension plan investments	9,205	-
Changes in proportion and differences between city contributions and proportionate share of contributions	-	(169,333)
City contributions subsequent to the measurement date	39,815	-
Total	<u>\$ 305,761</u>	<u>\$ (186,231)</u>

The \$39,815 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, 2017. 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	
2017	\$ 100,249
2018	(28,222)
2019	758
2020	6,930
2021	-
Thereafter	-
	<u>\$ 79,715</u>

Actuarial Assumptions

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

	<u>EORP</u>
Contribution rates FY15–2016:	
City	23.50%
Plan members	13.00%
Required contributions	\$ 39,815
Pension contributions made	\$ 39,815
Annual OPEB costs – Health Insurance	\$ -
OPEB contributions made	\$ -
As of actuarial valuation date:	6/30/2015
(based on experience study)	6/30/2015
Active members pension contributions	\$ 20,280
Net pension liability	
Actuarial cost method	Entry age normal
Actuarial assumptions:	
Investment rate of return	4.86%
Projected salary increases	4.25%
Inflation	3.00%
Permanent benefit increase	3% of benefit
	RP-2000 mortality
	table (unadjusted
	males and females)
Mortality rates	

The long-term expected rate of return on EORP pension plan investments was determined to be 4.86 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 Asset Class</u>	<u>Target Allocation</u>	<u>Expected Real Rate of Return</u>
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	0.05%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the EORP total pension liability was 4.86 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, 2028. A municipal bond rate of 3.8 percent obtained from the 20-year Bond Buyer Index, as published by the Federal Reserve as of June 25, 2015, was applied to period of projected benefit payments after June 30, 2028.

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 4.86 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	3.86%	4.86%	5.86%
Net pension liability	\$ 1,766,873	\$ 1,517,768	\$ 1,308,283

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; because retirees are able to participate in the same plan and pay the same rates as active employees, an implicit rate subsidy exists through the duration of the coverage. Substantially, all of the City's employees may become eligible for those benefits when they qualify for retirement. To be eligible a retiree must qualify to receive retirement benefits from the Arizona State Retirement System and elect coverage at date of retirement. NAPEBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on their website: www.napebt.com/community_docs. As of June 30, 2016, there were 83 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. For fiscal year 2016, the City's annual required contribution of \$1,076,520 is 2.5% of covered payroll. The City's implicit subsidy contribution, determined as the excess of retiree medical costs over retiree contributions, was \$256,335 during fiscal year 2016.

Annual OPEB Cost and Net OPEB Obligation. For 2016, the City's annual OPEB cost (expense) of \$989,264 was equal to the ARC, as adjusted by any ARC adjustments (\$326,800), and interest on the net OPEB obligation of \$239,544. On June 30, 2016, the net increase in NOO for governmental activities was \$597,898 and for business-type activities was \$135,031. The City annual OPEB costs for the current year and the related information for the plan as follows for June 30, 2016:

Annual required contribution	\$ 1,076,520
Interest on net OPEB obligation	239,544
Adjustment to annual required contribution	(326,800)
Annual OPEB cost	<u>989,264</u>
Contributions made	<u>(256,335)</u>
Increase in net OPEB obligation	732,929
Net OPEB obligation – beginning of year	<u>5,323,207</u>
Net OPEB obligation – end of year	<u><u>\$ 6,056,136</u></u>

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 2016 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>
6/30/2016	\$ 989,264	\$ 256,335	25.9%	\$ 6,056,136
6/30/2015	972,644	182,941	18.8%	5,323,207
6/30/2014	987,299	93,156	9.4%	4,533,504

Funded Status and Funding Progress. The funded status of the plan as of July 1, 2015 (Latest actuarial data available) is as follows:

Actuarial value of plan assets	\$ -
Actuarial accrued liability (AAL)	<u>9,362,006</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 9,362,006</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll	\$ 42,359,280
Unfunded actuarial accrued liability as a percentage of covered payroll	22.1%

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 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.

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, 2015, actuarial valuation, the entry age 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 7.0 percent initially, reduced by decrements to an ultimate rate of five percent over eight years. The remaining amortization period at July 1, 2015, was 30 years, open, level dollar payment. 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 \$8,155,675 as of June 30, 2016, which is based on 77.334 percent usage of the landfill. The remaining \$2,390,411 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 2016 is \$260,057. 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, 2016 the balance of the investments held for those purposes is \$10,126,500. 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, \$10,546,086, 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, 2016. 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 9, 2016, the City issued \$16.1 million of general obligation bonds for Core Services Facility, Open Space and Forest Initiative Projects and \$8.93 million of revenue bonds for Road Repair and Street Safety program construction.

On January 1, 2017, the City will defease the remaining \$5,960,000 Series 2006 A General Obligation bonds by prepaying the outstanding bonds from cash on hand.



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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, 2016

	Measurement Date*			
	2015	2014	2013 through 2006	
Arizona State Retirement System				
Proportion of the net pension liability	0.300450%	0.302625%		Information
Proportionate share of the net pension liability	\$ 46,798,712	\$ 44,778,290		not
Covered employee payroll	\$ 27,573,067	\$ 26,638,622		available
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	169.73%	168.09%		-
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%		
EORP				
Proportion of the net pension liability	0.1942242%	0.2500258%		Information
City's Proportionate share of the net pension liability	\$ 1,517,768	\$ 1,676,603		not
State's Proportionate Share of the net pension liability associated with the City	473,166	514,062		
Total	\$ 1,990,934	\$ 2,190,665		
Covered employee payroll	\$ 157,579	\$ 204,400		available
City's Proportionate share of the net pension liability as a percentage of its covered-employee payroll	963.18%	820.26%		
Plan fiduciary net position as a percentage of the total pension liability	28.32%	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, 2016

	Reporting Fiscal Year (Measurement Date)*		
	2015	2014	2013 through 2006
PSPRS Police			
Total pension liability			
Service cost	\$ 1,373,545	\$ 1,312,430	Information not available
Interest on the total pension liability	4,650,797	3,904,338	
Changes of benefit terms	-	1,353,950	
differences between expected and actual experience			
in the measurement of the pension liability	(346,202)	(671,478)	
changes of assumptions or other inputs	-	6,987,647	
Benefit payments, including refunds of employee contributions	(3,505,319)	(3,311,491)	
Net change in total pension liability	2,172,821	9,575,396	
Total pension liability – beginning	60,311,715	50,736,319	
Total pension liability – ending (a)	<u>\$ 62,484,536</u>	<u>\$ 60,311,715</u>	
Plan Fiduciary net position			
Contributions – employer	\$ 2,578,489	\$ 2,311,119	
Contributions – employee	841,533	768,029	
Net investment income	821,133	2,757,888	
Benefit payments, including refunds of employee contributions	(3,505,319)	(3,311,491)	
Pension plan administrative expenses	(20,411)	-	
Other changes	(357,501)	(1,371,053)	
Net change in plan fiduciary net position	357,924	1,154,492	
Plan fiduciary net position – beginning	22,607,604	21,453,112	
Plan fiduciary net position – ending (b)	<u>\$ 22,965,528</u>	<u>\$ 22,607,604</u>	
Net pension liability – ending (a) – (b)	<u>\$ 39,519,008</u>	<u>\$ 37,704,111</u>	
Plan fiduciary net position as a percentage of the total pension liability	36.75%	37.48%	
Covered-employee payroll	\$ 7,526,730	\$ 7,425,908	
Net pension liability as a percentage of covered employee payroll	525.05%	507.74%	

* 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, 2016

	Reporting Fiscal Year (Measurement Date)*		
	2015	2014	2013 through 2006
PSPRS Fire			
Total pension liability			Information not available
Service cost	\$ 973,454	\$ 950,445	
Interest on the total pension liability	5,239,671	4,390,766	
Changes of benefit terms	-	1,553,904	
differences between expected and actual experience			
in the measurement of the pension liability	52,497	1,431,974	
changes of assumptions or other inputs	-	7,269,797	
Benefit payments, including refunds of employee contributions	(5,594,036)	(3,994,598)	
Net change in total pension liability	<u>671,586</u>	<u>11,602,288</u>	
Total pension liability – beginning	<u>69,057,692</u>	<u>57,455,404</u>	
Total pension liability – ending (a)	<u>\$ 69,729,278</u>	<u>\$ 69,057,692</u>	
Plan Fiduciary net position			
Contributions – employer	\$ 2,418,742	\$ 2,030,211	
Contributions – employee	732,850	525,878	
Net investment income	963,491	3,407,667	
Benefit payments, including refunds of employee contributions	(5,594,036)	(3,994,598)	
Pension plan administrative expenses	(23,873)	-	
Other changes	48,864	(1,831,071)	
Net change in plan fiduciary net position	<u>(1,453,962)</u>	<u>138,087</u>	
Plan fiduciary net position – beginning	<u>27,289,912</u>	<u>27,151,825</u>	
Plan fiduciary net position – ending (b)	<u>\$ 25,835,950</u>	<u>\$ 27,289,912</u>	
Net pension liability – ending (a) – (b)	<u>\$ 43,893,328</u>	<u>\$ 41,767,780</u>	
Plan fiduciary net position as a percentage of the total pension liability	37.05%	39.52%	
Covered-employee payroll	\$ 4,847,679	\$ 4,788,197	
Net pension liability as a percentage of covered employee payroll	905.45%	872.31%	

* 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, 2016

	Reporting Fiscal Year			
	2016	2015	2014	
Arizona State Retirement System				
Statutorily required contributions	\$ 3,168,876	\$ 3,002,707	\$ 2,837,013	Information not available
Contributions in relation to the statutorily required contributic	3,168,876	3,002,707	2,837,013	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered-employee payroll	\$ 28,842,056	\$ 27,573,067	\$ 26,638,622	
Contributions as a percentage of covered-employee payroll	10.99%	10.89%	10.65%	
Elected Officials Retirement Plan				
Statutorily required contributions	\$ 39,815	\$ 37,483	\$ 50,732	Information not available
Contributions in relation to the statutorily required contributic	39,815	37,483	50,732	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered-employee payroll	\$ 189,999	\$ 157,579	\$ 204,400	
Contributions as a percentage of covered-employee payroll	20.96%	23.79%	24.82%	
PSPRS – Police				
Statutorily required contributions	\$ 3,401,213	\$ 2,578,489	\$ 2,311,119	Information not available
Contributions in relation to the statutorily required contributic	3,483,157	2,578,489	2,311,119	
Contribution deficiency (excess)	<u>\$ (81,944)</u>	<u>\$ -</u>	<u>\$ -</u>	
Covered-employee payroll	\$ 7,856,809	\$ 7,526,730	\$ 7,425,908	
Contributions as a percentage of covered-employee payroll	44.33%	34.26%	31.12%	
PSPRS – Fire				
Statutorily required contributions	\$ 3,769,503	\$ 2,418,742	\$ 2,030,211	Information not available
Contributions in relation to the statutorily required contributic	3,769,503	2,418,742	1,784,136	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 246,075</u>	
Covered-employee payroll	\$ 5,480,416	\$ 4,847,679	\$ 4,788,197	
Contributions as a percentage of covered-employee payroll	68.78%	49.89%	37.26%	

CITY OF FLAGSTAFF, ARIZONA
Required Supplementary Information
Schedule of Agent Other Post-Employment Benefits Plan's Funding Progress
June 30, 2016

	(1) Actuarial Value of Assets	(2) Actuarial Liability (AAL) Entry Age	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4) / (5)
PSRS – Police Health Insurance						
6/30/2016	\$ 1,500,199	\$ 1,341,133	111.9%	\$ (159,066)	\$ 7,318,199	0.0%
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%
PSRS – Fire Health Insurance						
6/30/2016	2,688,016	1,599,024	168.1%	(1,088,992)	5,491,792	0.0%
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%

CITY OF FLAGSTAFF, ARIZONA
Required Supplementary Information
Schedule of Other Post-Employment Benefits Plan's Funding Progress
June 30, 2016

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4) / (5)
7/1/2015	-	\$ 9,362,006	0.0%	\$ 9,362,006	\$ 42,359,280	22.1%
7/1/2013	-	9,905,500	0.0%	9,808,514	33,304,177	29.5%
7/1/2011	-	9,808,514	0.0%	9,808,514	31,191,746	31.4%

CITY OF FLAGSTAFF, ARIZONA
Notes to the Required Supplementary Information
June 30, 2016

I. ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	22 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable
Asset valuation method	7-year smoothed market; 80%/120% market
Actuarial assumptions:	
Investment rate of return	7.85%, net of investment and administrative expenses
Projected salary increases	4.0% – 8.0%
Includes inflation	4%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 – June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females)
Assumed future permanent benefit increases	Members retired on or before July 1, 2011: 2% compounded on average. Members retired on or after August 1, 2011: 0.5% compounded on average. Since all current retirees receive the same dollar increase amount, approximation techniques were used to develop the assumed PBI for each member

II. FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plan recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plan transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from the plan's Pension Fund to the new Health Insurance Fund.

III. INFORMATION PRIOR TO MEASUREMENT DATE

Information prior to the measurement date (June 30, 2014) was not available.

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.

Housing and Community Services Fund

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.

Special Assessment Bond Fund

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

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, 2016

	Special Revenue Funds			
	Library Fund	BBB Fund	Housing & Community Services Fund	Metropolitan Planning Organization Fund
ASSETS				
Cash and investments	\$ 2,033,921	\$ 8,485,354	\$ 1,189,069	\$ 8,301
Accounts receivable, net	95,627	969,230	630	-
Interest receivable	8,709	18,955	2,816	-
Intergovernmental receivable	507	-	300,305	538,649
Special assessments receivable	-	-	-	-
Notes receivable	-	-	326,600	-
Inventory	-	48,419	-	-
Restricted cash and investments	1,964,492	193,740	-	-
Total assets	<u>\$ 4,103,256</u>	<u>\$ 9,715,698</u>	<u>\$ 1,819,420</u>	<u>\$ 546,950</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 349,114	\$ 180,520	\$ 31,899	\$ 21,698
Accrued payroll and compensated absences	87,348	38,322	2,059	7,959
Construction retainage payable	-	61,378	-	-
Interfund payable	-	-	-	500,000
Advanced revenue	69,435	9,444	214,622	-
Total liabilities	<u>505,897</u>	<u>289,664</u>	<u>248,580</u>	<u>529,657</u>
Deferred inflows of resources:				
Unavailable revenue – property taxes	-	-	-	-
Unavailable revenue – notes receivable	-	-	326,600	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>326,600</u>	<u>-</u>
Fund balances:				
Nonspendable:				
Perpetual care	-	-	-	-
Debt service paying agent	-	193,740	-	-
Inventory	-	48,419	-	-
Restricted for:				
Library services	1,632,867	-	-	-
Library branch services	1,086,681	-	-	-
Library programs board directed	877,811	-	-	-
Debt service	-	-	-	-
Public art	-	644,643	-	-
Economic Development	-	727,768	-	-
Tourism	-	1,110,965	-	-
Park maintenance and operations	-	2,211,328	-	-
Other capital projects	-	4,489,171	1,244,240	-
Regional planning	-	-	-	17,293
Perpetual care	-	-	-	-
Unassigned (deficit):	-	-	-	-
Total fund balances	<u>3,597,359</u>	<u>9,426,034</u>	<u>1,244,240</u>	<u>17,293</u>
Total liabilities and fund balances	<u>\$ 4,103,256</u>	<u>\$ 9,715,698</u>	<u>\$ 1,819,420</u>	<u>\$ 546,950</u>

Debt Service Funds			Capital Projects Funds	Permanent Fund	Total Other Governmental Funds
General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Special Assessment Bond Fund	Capital Projects Bond Construction	Perpetual Care	
\$ -	\$ 7,405,819	\$ 310,133	\$ 59,764	\$ 22,616	\$ 19,514,977
-	-	-	-	-	1,065,487
-	26,192	476	1,845	641	59,634
-	-	-	85,766	-	925,227
-	-	2,120,411	-	-	2,120,411
-	-	-	-	-	326,600
-	-	-	-	-	48,419
-	5,771,500	55,375	1,431,483	252,973	9,669,563
<u>\$ -</u>	<u>\$ 13,203,511</u>	<u>\$ 2,486,395</u>	<u>\$ 1,578,858</u>	<u>\$ 276,230</u>	<u>\$ 33,730,318</u>
\$ -	\$ -	\$ -	\$ 98,510	\$ -	\$ 681,741
-	-	-	18,861	-	154,549
-	-	-	6,639	-	68,017
-	-	-	2,500,000	-	3,000,000
-	-	-	-	-	293,501
-	-	-	2,624,010	-	4,197,808
-	-	2,119,987	-	-	2,119,987
-	-	-	-	-	326,600
-	-	2,119,987	-	-	2,446,587
-	-	-	-	252,973	252,973
-	5,771,500	55,375	-	-	6,020,615
-	-	-	-	-	48,419
-	-	-	-	-	1,632,867
-	-	-	-	-	1,086,681
-	-	-	-	-	877,811
-	7,432,011	311,033	-	-	7,743,044
-	-	-	-	-	644,643
-	-	-	-	-	727,768
-	-	-	-	-	1,110,965
-	-	-	-	-	2,211,328
-	-	-	1,888,932	-	7,622,343
-	-	-	-	-	17,293
-	-	-	-	23,257	23,257
-	-	-	(2,934,084)	-	(2,934,084)
-	13,203,511	366,408	(1,045,152)	276,230	27,085,923
<u>\$ -</u>	<u>\$ 13,203,511</u>	<u>\$ 2,486,395</u>	<u>\$ 1,578,858</u>	<u>\$ 276,230</u>	<u>\$ 33,730,318</u>

CITY OF FLAGSTAFF, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2016

	Special Revenue Funds			
	Library Fund	BBB Fund	Housing & Community Services Fund	Metropolitan Planning Organization Fund
REVENUES:				
Taxes	\$ -	\$ 7,538,444	\$ -	\$ -
Intergovernmental	3,088,137	-	47,583	5,000
Grants and entitlements	33,946	29,974	923,438	691,976
Special assessments	-	-	-	-
Rents	-	72,823	8,057	-
Investment earnings	33,032	82,582	9,368	-
Contributions	29,014	649	357,631	25,000
Miscellaneous	53,837	157,757	201,150	-
Total revenues	<u>3,237,966</u>	<u>7,882,229</u>	<u>1,547,227</u>	<u>721,976</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Economic and physical development	-	2,795,932	1,170,060	777,387
Culture and recreation	4,693,570	677,922	-	-
Highways and streets	-	249,993	-	-
Debt service:				
Principal retirement	-	130,000	-	-
Interest and other charges	-	120,554	-	-
Capital outlay	-	2,087,380	181,843	-
Total expenditures	<u>4,693,570</u>	<u>6,061,781</u>	<u>1,351,903</u>	<u>777,387</u>
Excess (deficiency) of revenues over expenditures	<u>(1,455,604)</u>	<u>1,820,448</u>	<u>195,324</u>	<u>(55,411)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,641,360	251,000	-	22,500
Transfers out	-	(2,714,817)	-	-
Total other financing sources (uses)	<u>1,641,360</u>	<u>(2,463,817)</u>	<u>-</u>	<u>22,500</u>
Net change in fund balances	<u>185,756</u>	<u>(643,369)</u>	<u>195,324</u>	<u>(32,911)</u>
Fund balances, beginning of year	<u>3,411,603</u>	<u>10,069,403</u>	<u>1,048,916</u>	<u>50,204</u>
Fund balances, end of year	<u>\$ 3,597,359</u>	<u>\$ 9,426,034</u>	<u>\$ 1,244,240</u>	<u>\$ 17,293</u>

Debt Service Funds			Capital Projects Funds	Permanent Fund	Total Other Governmental Funds
General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Special Assessment Bond Fund	Capital Projects Bond Construction	Perpetual Care	
\$ -	\$ 5,718,942	\$ -	\$ -	\$ -	\$ 13,257,386
-	-	-	-	-	3,140,720
-	-	-	765,338	-	2,444,672
-	-	4,747,237	-	-	4,747,237
-	-	-	-	-	80,880
-	95,619	2,278	10,781	2,340	236,000
-	-	-	25,000	15,470	452,764
-	-	-	-	-	412,744
-	<u>5,814,561</u>	<u>4,749,515</u>	<u>801,119</u>	<u>17,810</u>	<u>24,772,403</u>
-	-	-	767,437	-	767,437
-	-	-	-	-	4,743,379
-	-	-	-	-	5,371,492
-	-	-	-	-	249,993
-	-	-	-	-	-
5,102,348	-	4,490,000	-	-	9,722,348
1,599,462	-	226,000	-	-	1,946,016
-	-	-	949,332	-	3,218,555
<u>6,701,810</u>	<u>-</u>	<u>4,716,000</u>	<u>1,716,769</u>	<u>-</u>	<u>26,019,220</u>
<u>(6,701,810)</u>	<u>5,814,561</u>	<u>33,515</u>	<u>(915,650)</u>	<u>17,810</u>	<u>(1,246,817)</u>
6,701,810	-	-	207,072	-	8,823,742
-	(6,701,810)	-	(54,396)	-	(9,471,023)
<u>6,701,810</u>	<u>(6,701,810)</u>	<u>-</u>	<u>152,676</u>	<u>-</u>	<u>(647,281)</u>
-	(887,249)	33,515	(762,974)	17,810	(1,894,098)
-	14,090,760	332,893	(282,178)	258,420	28,980,021
<u>\$ -</u>	<u>\$ 13,203,511</u>	<u>\$ 366,408</u>	<u>\$ (1,045,152)</u>	<u>\$ 276,230</u>	<u>\$ 27,085,923</u>



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City of Flagstaff, Arizona
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2016

<u>Program</u>	<u>Land</u>	<u>Buildings</u>	<u>Improvements</u>
General government	\$ 3,811,946	\$ 13,514,271	\$ 2,975,159
Public safety	3,936,510	27,151,960	113,946
Public works	90,547	5,343,042	221,973
Economic and physical development	81,783	15,137,462	95,128
Culture and recreation	24,419,584	22,702,096	16,775,814
Highway and streets	32,541,753	102,309	2,279,434
Subtotal	64,882,123	83,951,140	22,461,454
Less: accumulated depreciation	-	(23,220,558)	(15,718,405)
Total governmental funds capital assets	<u>\$ 64,882,123</u>	<u>\$ 60,730,582</u>	<u>\$ 6,743,049</u>

Machinery and Equipment	Construction In Progress	Infrastructure	Total
\$ 1,324,942	\$ 411,519	\$ -	\$ 22,037,837
16,855,884	-	-	48,058,300
1,410,149	107,427	1,117,226	8,290,364
778,090	172,881	865,220	17,130,564
3,942,537	461,856	10,599,379	78,901,266
9,137,971	6,979,861	300,390,733	351,432,061
33,449,573	8,133,544	312,972,558	525,850,392
(23,584,220)	-	(154,341,388)	(216,864,571)
<u>\$ 9,865,353</u>	<u>\$ 8,133,544</u>	<u>\$ 158,631,170</u>	<u>\$ 308,985,821</u>

City of Flagstaff, Arizona
 Capital Assets Used in the Operation of Governmental Funds
 Schedule of Changes By Function and Activity
 June 30, 2016

Program	Balance July 1, 2015	Additions	Retirements	Transfers In (out)	Balance June 30, 2016
General government	\$ 21,738,396	\$ 447,441	\$ -	\$ (148,000)	\$ 22,037,837
Public safety	47,403,623	828,561	(173,884)	-	48,058,300
Public works	8,131,723	296,317	-	(137,676)	8,290,364
Economic and physical development	15,977,670	1,019,935	-	132,959	17,130,564
Culture and recreation	76,784,165	3,155,798	(137,800)	(900,897)	78,901,266
Highway and streets	339,217,874	12,337,978	(617,011)	493,220	351,432,061
Total	<u>\$ 509,253,451</u>	<u>\$ 18,086,030</u>	<u>\$ (928,695)</u>	<u>\$ (560,394)</u>	<u>\$ 525,850,392</u>

CITY OF FLAGSTAFF, ARIZONA
Library Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2016

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 4,882,490	\$ 4,882,490	\$ 3,088,137	\$ (1,794,353)
Grants and entitlements	188,625	188,625	33,946	(154,679)
Investment earnings	37,812	37,812	33,032	(4,780)
Miscellaneous	20,474	20,474	53,837	33,363
Total revenues	<u>5,129,401</u>	<u>5,129,401</u>	<u>3,208,952</u>	<u>(1,920,449)</u>
EXPENDITURES:				
Current:				
Culture and recreation	6,822,523	6,822,523	4,693,570	2,128,953
Capital outlay	434,390	434,390	-	434,390
Contingency	100,000	100,000	-	100,000
Total expenditures	<u>7,356,913</u>	<u>7,356,913</u>	<u>4,693,570</u>	<u>2,663,343</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,227,512)</u>	<u>(2,227,512)</u>	<u>(1,484,618)</u>	<u>742,894</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,641,360	1,641,360	1,641,360	-
Transfers out	(250,000)	(250,000)	-	250,000
Total other financing sources (uses)	<u>1,391,360</u>	<u>1,391,360</u>	<u>1,641,360</u>	<u>250,000</u>
Net change in fund balances	<u>(836,152)</u>	<u>(836,152)</u>	<u>156,742</u>	<u>992,894</u>
Fund balances, beginning of year	<u>1,144,079</u>	<u>1,144,079</u>	<u>3,411,603</u>	<u>-</u>
Fund balances, end of year	<u>\$ 307,927</u>	<u>\$ 307,927</u>	<u>\$ 3,568,345</u>	<u>\$ 992,894</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ 156,742	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>29,014</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 185,756</u>	

CITY OF FLAGSTAFF, ARIZONA
BBB Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2016

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 6,700,000	\$ 6,700,000	\$ 7,453,377	\$ 753,377
Grants and entitlements	200,000	200,000	29,974	(170,026)
Rents	167,994	167,994	72,823	(95,171)
Investment earnings	42,705	42,705	82,582	39,877
Miscellaneous	98,261	98,261	157,755	59,494
Total revenues	<u>7,208,960</u>	<u>7,208,960</u>	<u>7,796,511</u>	<u>587,551</u>
EXPENDITURES:				
Current:				
Economic and physical development	3,086,423	3,086,423	2,785,184	301,239
Culture and recreation	757,958	757,958	667,880	90,078
Highways and streets	-	-	190,930	(190,930)
Debt service:				
Principal retirement	130,000	130,000	130,000	-
Interest and other charges	127,443	127,443	120,554	6,889
Capital Outlay	6,488,993	6,488,993	2,142,435	
Contingency	135,000	135,000	-	135,000
Total expenditures	<u>10,725,817</u>	<u>10,725,817</u>	<u>6,036,983</u>	<u>342,276</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,516,857)</u>	<u>(3,516,857)</u>	<u>1,759,528</u>	<u>929,827</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	251,000	251,000	251,000	-
Transfers out	(2,846,254)	(2,846,254)	(2,714,817)	131,437
Total other financing sources (uses)	<u>(2,595,254)</u>	<u>(2,595,254)</u>	<u>(2,463,817)</u>	<u>131,437</u>
Net change in fund balances	<u>(6,112,111)</u>	<u>(6,112,111)</u>	<u>(704,289)</u>	<u>1,061,264</u>
Fund balances, beginning of year	<u>8,178,846</u>	<u>8,178,846</u>	<u>10,069,403</u>	<u>-</u>
Fund balances, end of year	<u>\$ 2,066,735</u>	<u>\$ 2,066,735</u>	<u>\$ 9,365,114</u>	<u>\$ 1,061,264</u>
Adjustment from budgetary basis to GAAP basis net change in fund balances			\$ (704,289)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			85,718	
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis			(24,798)	
Adjusted net change in fund balance – GAAP basis			<u>\$ (643,369)</u>	

CITY OF FLAGSTAFF, ARIZONA
Housing & Community Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2016

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 2,538,468	\$ 2,538,468	\$ 923,438	\$ (1,615,030)
Intergovernmental	-	-	47,583	47,583
Rent	-	-	8,057	8,057
Investment earnings	-	-	9,368	9,368
Miscellaneous	50,127	50,127	201,150	151,023
Total revenues	<u>2,588,595</u>	<u>2,588,595</u>	<u>1,189,596</u>	<u>(1,398,999)</u>
EXPENDITURES:				
Current:				
Economic and physical development	3,692,923	3,692,923	1,351,903	2,341,020
Total expenditures	3,692,923	3,692,923	1,351,903	2,341,020
Excess (deficiency) or revenues over (under) expenditures	<u>(1,104,328)</u>	<u>(1,104,328)</u>	<u>(162,307)</u>	<u>942,021</u>
Net change in fund balances	<u>(1,104,328)</u>	<u>(1,104,328)</u>	<u>(162,307)</u>	<u>942,021</u>
Fund balances, beginning of year	<u>1,298,024</u>	<u>1,298,024</u>	<u>1,048,916</u>	<u>-</u>
Fund balances, end of year	<u>\$ 193,696</u>	<u>\$ 193,696</u>	<u>\$ 886,609</u>	<u>\$ 942,021</u>
Adjustment of budgetary basis to GAAP basis net change in fund balances			\$ (162,307)	
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.			<u>357,631</u>	
Adjusted net change in fund balance – GAAP basis			<u>\$ 195,324</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, 2016

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 1,521,290	\$ 1,521,290	\$ 691,976	\$ (829,314)
Intergovernmental	5,000	5,000	5,000	-
Contributions	-	-	25,000	25,000
Total revenues	<u>1,526,290</u>	<u>1,526,290</u>	<u>721,976</u>	<u>(804,314)</u>
EXPENDITURES:				
Current:				
Economic and physical development	1,048,790	1,048,790	777,387	271,403
Contingency	500,000	500,000	-	500,000
Total expenditures	<u>1,548,790</u>	<u>1,548,790</u>	<u>777,387</u>	<u>771,403</u>
Excess (deficiency) or revenues over (under) expenditures	<u>(22,500)</u>	<u>(22,500)</u>	<u>(55,411)</u>	<u>(32,911)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	22,500	22,500	22,500	-
Total other financing sources (uses)	<u>22,500</u>	<u>22,500</u>	<u>22,500</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(32,911)</u>	<u>(32,911)</u>
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>50,204</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,293</u>	<u>\$ (32,911)</u>

CITY OF FLAGSTAFF, ARIZONA
General Obligation Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2016

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
EXPENDITURES:				
Debt service:				
Principal retirement	\$ 5,102,348	\$ 5,102,348	\$ 5,102,348	\$ -
Interest and other charges	2,334,252	2,334,252	1,599,462	734,790
Total expenditures	<u>7,436,600</u>	<u>7,436,600</u>	<u>6,701,810</u>	<u>734,790</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(7,436,600)</u>	<u>(7,436,600)</u>	<u>(6,701,810)</u>	<u>734,790</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	7,436,600	7,436,600	6,701,810	(734,790)
Total other financing sources (uses)	<u>7,436,600</u>	<u>7,436,600</u>	<u>6,701,810</u>	<u>(734,790)</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, 2016

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 5,728,437	\$ 5,728,437	\$ 5,718,942	\$ (9,495)
Investment earnings	64,000	64,000	95,619	31,619
Total revenues	<u>5,792,437</u>	<u>5,792,437</u>	<u>5,814,561</u>	<u>22,124</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(7,436,600)</u>	<u>(7,436,600)</u>	<u>(6,701,810)</u>	<u>734,790</u>
Total other financing sources (uses)	<u>(7,436,600)</u>	<u>(7,436,600)</u>	<u>(6,701,810)</u>	<u>734,790</u>
Net change in fund balances	<u>(1,644,163)</u>	<u>(1,644,163)</u>	<u>(887,249)</u>	<u>756,914</u>
Fund balances, beginning of year	<u>13,497,618</u>	<u>13,497,618</u>	<u>14,090,760</u>	<u>-</u>
Fund balances, end of year	<u>\$ 11,853,455</u>	<u>\$ 11,853,455</u>	<u>\$ 13,203,511</u>	<u>\$ 756,914</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, 2016

	Budget		Actual Amounts Budgetary Basis	variance with Final Budget
	Original	Final		
REVENUES:				
Special assessments	\$ 595,250	\$ 595,250	\$ 4,747,237	\$ 4,151,987
Investment earnings	1,800	1,800	2,278	478
Total revenues	<u>597,050</u>	<u>597,050</u>	<u>4,749,515</u>	<u>4,152,465</u>
EXPENDITURES:				
Debt service:				
Principal retirement	260,000	260,000	4,490,000	(4,230,000)
Interest and other charges	<u>340,850</u>	<u>340,850</u>	<u>226,000</u>	<u>114,850</u>
Total expenditures	<u>600,850</u>	<u>600,850</u>	<u>4,716,000</u>	<u>(4,115,150)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,800)</u>	<u>(3,800)</u>	<u>33,515</u>	<u>37,315</u>
Fund balances, beginning of year	<u>306,646</u>	<u>306,646</u>	<u>332,893</u>	<u>-</u>
Fund balances, end of year	<u>\$ 302,846</u>	<u>\$ 302,846</u>	<u>\$ 366,408</u>	<u>\$ 37,315</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, 2016

	Budget		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
REVENUES:				
Grants and entitlements	\$ 454,197	\$ 454,197	\$ 765,338	\$ 311,141
Investment earnings	630	630	10,781	10,151
Contributions	-	-	25,000	25,000
Total revenues	<u>454,827</u>	<u>454,827</u>	<u>801,119</u>	<u>346,292</u>
EXPENDITURES:				
Current:				
Capital outlay	39,698,616	39,698,616	1,716,769	37,981,847
Total expenditures	<u>39,698,616</u>	<u>39,698,616</u>	<u>1,716,769</u>	<u>37,981,847</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(39,243,789)</u>	<u>(39,243,789)</u>	<u>(915,650)</u>	<u>38,328,139</u>
OTHER FINANCING SOURCES (USES):				
Bonds issued	36,762,245	36,762,245	-	(36,762,245)
Transfers in	6,990,000	6,990,000	207,072	(6,782,928)
Transfers out	-	-	(54,396)	(54,396)
Total other financing sources (uses)	<u>43,752,245</u>	<u>43,752,245</u>	<u>152,676</u>	<u>(43,599,569)</u>
Net change in fund balances	<u>4,508,456</u>	<u>4,508,456</u>	<u>(762,974)</u>	<u>(5,271,430)</u>
Fund balances, beginning of year	<u>82,104</u>	<u>82,104</u>	<u>(282,178)</u>	<u>-</u>
Fund balances, end of year	<u>\$ 4,590,560</u>	<u>\$ 4,590,560</u>	<u>\$ (1,045,152)</u>	<u>\$ (5,271,430)</u>



CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Net Position Accounts
Year Ended June 30, 2016

	Public Housing 14.850 & 14.872	Housing Choice Vouchers 14.871	Business Activities	Moderate Rehab- ilitation 14.856	Elimination	Total
Assets:						
Current Assets:						
Cash:						
Cash – Unrestricted	\$ 527,000	\$ 69,942	\$ 89,160	\$ 21,708	\$ -	\$ 707,810
Cash – Other Restricted	-	174,503	-	-	-	174,503
Cash – Tenant Security Deposits	73,367	-	-	-	-	73,367
Total Cash	\$ 600,367	\$ 244,445	\$ 89,160	\$ 21,708	\$ -	\$ 955,680
Accounts Receivables:						
Accounts Receivable – PHA Projects	-	-	-	-	-	-
Accounts Receivable – HUD Other Projects	76,623	-	-	4,631	-	81,254
Accounts Receivable – Other Government	-	15,928	-	-	-	15,928
Accounts Receivable – Miscellaneous	3,263	-	32,650	-	-	35,913
Accounts Receivable – Tenants	3,687	-	-	-	-	3,687
Allowance for Doubtful Accounts – Tenants	(1,327)	-	-	-	-	(1,327)
Allowance for Doubtful Accounts – Other	-	-	(27,304)	-	-	(27,304)
Fraud Recovery	25,878	-	-	-	-	25,878
Allowance for Doubtful Accounts – Fraud	(17,281)	-	-	-	-	(17,281)
Accrued Interest Receivable	-	-	-	-	-	-
Total Receivables, Net	90,843	15,928	5,346	4,631	-	116,748
Current investments						
Investments – Unrestricted	-	-	-	-	-	-
Investments – Restricted	-	-	-	-	-	-
Prepaid Expenses and Other Assets	54,901	185	1,042	-	-	56,128
Inventories	-	-	-	-	-	-
Allowance for Obsolete Inventories	-	-	-	-	-	-
Inter Program Due From	-	2,403	5,611	-	-	8,014
Assets Held for Sale	-	-	-	-	-	-
Total Current Assets	746,111	262,961	101,159	26,339	-	1,136,570
Noncurrent Assets:						
Capital Assets:						
Land	1,446,035	-	-	-	-	1,446,035
Buildings	9,189,257	-	-	-	-	9,189,257
Furniture, Equipment & Machinery	-	-	-	-	-	-
– Dwellings	887,236	-	-	-	-	887,236
Furniture, Equipment & Machinery	-	-	-	-	-	-
– Administration	507,549	-	-	-	-	507,549
Leasehold Improvements	-	-	-	-	-	-
Accumulated Depreciation	(7,107,820)	-	-	-	-	(7,107,820)
Construction in Progress	75,862	-	-	-	-	75,862
Total Capital Assets, Net	4,998,119	-	-	-	-	4,998,119
Notes receivable – Noncurrent	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-
Total Non-Current Assets	4,998,119	-	-	-	-	4,998,119
Deferred Outflow of Resources	129,265	31,944	41,275	-	-	202,484
Total Assets and Deferred Outflow of Resources	5,873,495	294,905	142,434	26,339	-	6,337,173

(continued)

CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Net Position Accounts
Year Ended June 30, 2016

	Public Housing 14.850 & 14.872	Housing Choice Vouchers 14.871	Business Activities	Moderate Rehab- ilitation 14.856	Elimination	Total
Liabilities and Net Position:						
Liabilities:						
Current Liabilities:						
Bank Overdraft	-	-	-	-	-	-
Accounts Payable <= 90 Days	104,767	5,496	669	260	-	111,192
Accrued Wage/Payroll Taxes Payable	28,060	7,331	543	-	-	35,934
Accrued Compensated Absences	44,204	10,817	1,043	-	-	56,064
Accrued Interest Payable	-	-	-	-	-	-
Accounts Payable – HUD PHA Programs	-	-	-	12,181	-	12,181
Account Payable – PHA Projects	-	-	-	-	-	-
Accounts Payable – Other Government	72,466	-	-	-	-	72,466
Tenant Security Deposits	73,367	-	-	-	-	73,367
Unearned Revenues	9,324	-	-	-	-	9,324
Current Portion of L-T Debt – Capital	-	-	-	-	-	-
Current Portion of L-T Debt – Operating	-	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-	-
Accrued Liabilities – Other	-	-	-	-	-	-
Inter Program – Due To	4,345	-	2,403	1,266	-	8,014
Total Current Liabilities	<u>336,533</u>	<u>23,644</u>	<u>4,658</u>	<u>13,707</u>	<u>-</u>	<u>378,542</u>
Noncurrent Liabilities						
Long-term Debt, Net of Current – Capital						-
Long-term Debt, Net of Current – Operating						-
Non-current Liabilities – Other						-
Accrued Compensated Absences	106,980	28,113	2,139	-	-	137,232
Accrued Pension and OPEB Liabilities	1,461,738	255,530	419,487	-	-	2,136,755
Total Non-Current Liabilities	<u>1,568,718</u>	<u>283,643</u>	<u>421,626</u>	<u>-</u>	<u>-</u>	<u>2,273,987</u>
Total Liabilities	<u>1,905,251</u>	<u>307,287</u>	<u>426,284</u>	<u>13,707</u>	<u>-</u>	<u>2,652,529</u>
Deferred Inflow of Resources	130,830	16,325	33,655	-	-	180,810
Net Position:						
Net Investment in Capital Assets	4,998,119	-	-	-	-	4,998,119
Restricted Net Position	-	174,503	-	-	-	174,503
Unrestricted Net Position	(1,160,705)	(203,210)	(317,505)	12,632	-	(1,668,788)
Total Equity/Net Position	<u>3,837,414</u>	<u>(28,707)</u>	<u>(317,505)</u>	<u>12,632</u>	<u>-</u>	<u>3,503,834</u>
Total Liabilities, Deferred Inflows of Resources and Equity/Net Position	<u>\$ 5,873,495</u>	<u>\$ 294,905</u>	<u>\$ 142,434</u>	<u>\$ 26,339</u>	<u>\$ -</u>	<u>\$ 6,337,173</u>

(concluded)

CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Revenue, Expenses, and Changes in Fund Net Position Accounts
Year Ended June 30, 2016

	Public Housing 14.850 & 14.872	Housing Choice Vouchers 14.871	Business Activities	Moderate Rehab- ilitation 14.856	Elimination	Total
Revenues:						
Net Tenant Rental Revenue	\$ 1,036,391	\$ -	\$ -	\$ -	\$ -	\$ 1,036,391
Tenant Revenue - Other	23,874	213	-	-	-	24,087
Total Tenant Revenue	1,060,265	213	-	-	-	1,060,478
HUD PHA Operating Grants	721,380	3,703,477	-	78,992	-	4,503,849
Capital Grants	309,044	-	-	-	-	309,044
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	15,383	320	-	-	-	15,703
Other Revenue	8,467	32,985	368,465	-	-	409,917
Gain or Loss on Sale of Capital Assets	(197)	-	-	-	-	(197)
Investment Income - Restricted	-	-	-	-	-	-
Total Revenue	2,114,342	3,736,995	368,465	78,992	-	6,298,794
Expenses:						
Administrative						
Administrative Salaries	418,651	199,395	118,598	-	-	736,644
Auditing Fees	6,300	634	500	1,266	-	8,700
Management Fee	-	-	-	-	-	-
Bookkeeping Fee	-	-	-	-	-	-
Advertising and Marketing	430	98	-	-	-	528
Employee Benefit - Administrative	71,210	25,198	30,825	-	-	127,233
Office Expenses	56,920	28,650	17,438	70	-	103,078
Legal Expense	7,303	-	125	-	-	7,428
Travel	20,731	2,472	6,805	-	-	30,008
Allocated Overhead	-	-	-	-	-	-
Other	3,150	539	4,918	10,362	-	18,969
Total Administrative	584,695	256,986	179,209	11,698	-	1,032,588
Tenant Services						
Asset Management Fee	-	-	-	-	-	-
Tenant Services - Salaries	-	-	-	-	-	-
Relocation Costs	-	-	-	-	-	-
Employee Benefit - Tenant Services	-	-	-	-	-	-
Tenant Services - Other	204	-	-	-	-	204
Total Tenant Services	204	-	-	-	-	204
Utilities						
Water	120,457	-	-	-	-	120,457
Electricity	19,775	-	735	-	-	20,510
Gas	133,256	-	56	-	-	133,312
Fuel	-	-	-	-	-	-
Labor	-	-	-	-	-	-
Sewer	50,501	-	-	-	-	50,501
Employee Benefit - Utilities	-	-	-	-	-	-
Other Utilities Expense	-	-	-	-	-	-
Total Utilities	323,989	-	791	-	-	324,780

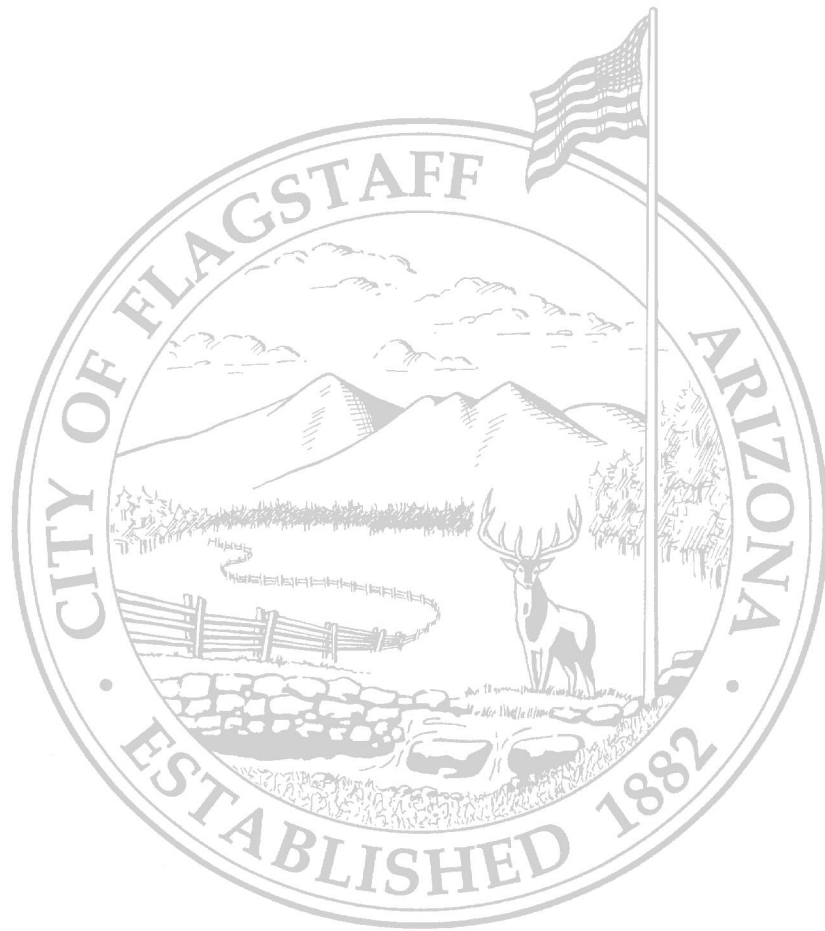
CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Revenue, Expenses, and Changes in Fund Net Position Accounts
Year Ended June 30, 2016

	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	342,325	-	129,166	-	-	471,491
Materials and Other	43,151	-	1,386	-	-	44,537
Ordinary Maintenance and Operations						
Contracts	93,959	-	847	-	-	94,806
Employee Benefit Contributions – Ordinary						
Maintenance	54,394	-	-	-	-	54,394
Total Maintenance	<u>533,829</u>	<u>-</u>	<u>131,399</u>	<u>-</u>	<u>-</u>	<u>665,228</u>
Protective Services						
Protective Services – Labor	-	-	-	-	-	-
Protective Services – Other Contract Costs	22,152	-	5,265	-	-	27,417
Protective Services – Other	-	-	-	-	-	-
Employee Benefit – Protective Services	-	-	-	-	-	-
Total Protective Services	<u>22,152</u>	<u>-</u>	<u>5,265</u>	<u>-</u>	<u>-</u>	<u>27,417</u>
General Expense						
Property Insurance	55,556	-	-	-	-	55,556
Liability Insurance	16,599	1,588	-	-	-	18,187
Workmen's Compensation	13,877	3,312	17,771	-	-	34,960
All Other Insurance	14,037	2,342	300	-	-	16,679
Total insurance Premiums	<u>100,069</u>	<u>7,242</u>	<u>18,071</u>	<u>-</u>	<u>-</u>	<u>125,382</u>
Other General Expenses	12,515	7,374	4,000	-	-	23,889
Compensated Absences	9,447	-	152	-	-	9,599
Payments in Lieu of Taxes	72,466	-	-	-	-	72,466
Bad debt – Tenant Rents	7,132	-	-	-	-	7,132
Bad debt – Mortgages	-	-	-	-	-	-
Bad debt – Other	-	-	-	-	-	-
Severance Expense	-	-	-	-	-	-
Total General Expenses	<u>101,560</u>	<u>7,374</u>	<u>4,152</u>	<u>-</u>	<u>-</u>	<u>113,086</u>
Financial Expenses						
Interest Expense – Mortgage Payable	-	-	-	-	-	-
Interest on Notes Payable (Short & Long						
Term)	-	-	-	-	-	-
Amortization of Bond Issue Costs	-	-	-	-	-	-
Total Financial Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>1,666,498</u>	<u>271,602</u>	<u>338,887</u>	<u>11,698</u>	<u>-</u>	<u>2,288,685</u>
Excess of Operating Revenue over Operating Expenses	<u>447,844</u>	<u>3,465,393</u>	<u>29,578</u>	<u>67,294</u>	<u>-</u>	<u>4,010,109</u>
(continued)						
Other Expenses						
Extraordinary Maintenance	-	-	-	-	-	-
Casualty Losses – Non-capitalized	-	-	-	-	-	-
Housing Assistance Payments	-	3,273,654	-	67,292	-	3,340,946
HAP Portability-In	-	21,595	-	-	-	21,595
Depreciation Expense	444,952	-	-	-	-	444,952
Fraud Losses	29,577	-	-	-	-	29,577
Capital Outlays – Governmental Funds	-	-	-	-	-	-
Debt Principal Payment – Governmental						
Funds	-	-	-	-	-	-
Dwelling Units Rent Expense	-	-	-	-	-	-
Total Other Expense	<u>474,529</u>	<u>3,295,249</u>	<u>-</u>	<u>67,292</u>	<u>-</u>	<u>3,837,070</u>
Total Expenses	<u>2,141,027</u>	<u>3,566,851</u>	<u>338,887</u>	<u>78,990</u>	<u>-</u>	<u>6,125,755</u>

CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Revenue, Expenses, and Changes in Fund Net Position Accounts
Year Ended June 30, 2016

	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	71,536	-	-	-	-	71,536
Operating transfer Out	(71,536)	-	-	-	-	(71,536)
Operating Transfers from/to Primary Government	-	19,952	-	-	-	19,952
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)	-	19,952	-	-	-	19,952
Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(26,685)	190,096	29,578	2	-	192,991
Beginning Net Position	3,864,099	(218,803)	(347,083)	12,630	-	3,310,843
Required Annual Debt Principal Payments	-	-	-	-	-	-
Prior Period Adjustments, Equity Transfers and Correction of Errors	-	-	-	-	-	-
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	\$ 3,837,414	\$ (28,707)	\$ (317,505)	\$ 12,632	\$ -	\$ 3,503,834
Administrative Fee Equity	\$ -	\$ (203,210)	\$ -	\$ -	\$ -	\$ (203,210)
Housing Assistance Payments Equity	-	\$ 174,503	-	-	-	\$ 174,503
Unit Months Available	3,150	4,788	-	144	-	8,082
Number of Unit Months Leased	3,092	4,535	-	132	-	7,759
Excess Cash	\$ 217,588	-	-	-	-	\$ 217,588
Land Purchases	-	-	-	-	-	\$ -
Building Purchases	\$ 222,764	-	-	-	-	\$ 222,764
Furniture & Equipment - Dwelling Purchases	-	-	-	-	-	\$ -
Furniture & Equipment - Administrative Purchases	\$ 10,419	-	-	-	-	\$ 10,419
Leasehold Improvements Purchases	\$ -	-	-	-	-	\$ -
Infrastructure Purchases	\$ 75,862	-	-	-	-	\$ 75,862
CFFP Debt Service Payments	\$ -	-	-	-	-	\$ -
Replacement Housing Factor Funds	\$ -	-	-	-	-	\$ -

(concluded)



CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Revenue, Expenses, and Changes in Fund Net Position Accounts
Public Housing – Consolidated
Year Ended June 30, 2016

	Operating Fund Program	Capital Fund Grants	Other Project Total
Revenues:			
Net Tenant Rental Revenue	\$ 1,036,391		\$ 1,036,391
Tenant Revenue – Other	23,874		\$ 23,874
Total Tenant Revenue	1,060,265	-	1,060,265
HUD PHA Operating Grants	628,405	92,975	721,380
Capital Grants		309,044	309,044
Management Fee			-
Asset Management Fee			-
Bookkeeping Fee			-
Front Line Service Fee			-
Other Fees			-
Other Government Grants			-
Investment Income – Unrestricted			-
Mortgage Interest Income			-
Fraud Recovery	15,383		15,383
Other Revenue	8,467		8,467
Gain or Loss on Sale of Capital Assets	(197)		(197)
Investment Income – Restricted			-
Total Revenue	1,712,323	402,019	2,114,342
Expenses:			
Administrative			
Administrative Salaries	\$408,610	10,041	418,651
Auditing Fees	\$6,300		6,300
Management Fee			
Bookkeeping Fee			
Advertising and Marketing	\$430		430
Employee Benefit – Administrative	\$68,298	2,912	71,210
Office Expenses	\$49,402	7,518	56,920
Legal Expense	\$7,303		7,303
Travel	\$19,969	762	20,731
Allocated Overhead			
Other	\$3,150		3,150
Total Administrative	563,462	21,233	584,695
Tenant Services			
Tenant Services – Salaries			-
Relocation Costs			-
Employee Benefit – Tenant Services			-
Tenant Services – Other	204		204
Total Tenant Services	204	-	204
Utilities			
Water	\$120,457		120,457
Electricity	\$19,775		19,775
Gas	\$133,256		133,256
Sewer	\$50,501		50,501
Employee Benefit – Utilities			-
Other Utilities Expense			-
Total Utilities	323,989	-	323,989

(continued)

CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Revenue, Expenses, and Changes in Fund Net Position Accounts
Public Housing – Consolidated
Year Ended June 30, 2016

	Operating Fund Program	Capital Fund Grants	Other Project Total
Ordinary Maintenance and Operations			
Labor	342,325		342,325
Materials and Other	43,151	-	43,151
Contracts	93,959	-	93,959
Employee Benefit Contributions	54,394		54,394
Total Maintenance	<u>533,829</u>	<u>-</u>	<u>533,829</u>
Protective Services			
Protective Services – Labor	-	-	-
Protective Services – Other Contract Costs	22,152	-	22,152
Protective Services – Other	-	-	-
Employee Benefit – Protective Services	-	-	-
Total Protective Services	<u>22,152</u>	<u>-</u>	<u>22,152</u>
General Expense			
Property Insurance	\$55,556		55,556
Liability Insurance	\$16,599		16,599
Workmen's Compensation	\$13,671	206	13,877
All Other Insurance	\$14,037		14,037
Total insurance Premiums	<u>99,863</u>	<u>206</u>	<u>100,069</u>
Other General Expenses	12,515		12,515
Compensated Absences	9,447		9,447
Payments in Lieu of Taxes	72,466		72,466
Bad debt – Tenant Rents	7,132		7,132
Bad debt – Mortgages	-		-
Bad debt – Other	-		-
Severance Expense	-	-	-
Total General Expenses	<u>201,423</u>	<u>206</u>	<u>201,629</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>1,645,059</u>	<u>21,439</u>	<u>1,666,498</u>
Excess of Operating Revenue over Operating Expenses	<u>67,264</u>	<u>380,580</u>	<u>447,844</u>

(continued)

CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Revenue, Expenses, and Changes in Fund Net Position Accounts
Public Housing – Consolidated
Year Ended June 30, 2016

	Operating Fund Program	Capital Fund Grants	Other Project Total
Other Expenses			
Extraordinary Maintenance	-	-	-
Casualty Losses – Non-capitalized	-	-	-
Housing Assistance Payments	-	-	-
HAP Portability-In	-	-	-
Depreciation Expense	444,952	-	444,952
Fraud Losses	29,577	-	29,577
Total Other Expense	<u>474,529</u>	<u>-</u>	<u>474,529</u>
Total Expenses	<u>2,119,588</u>	<u>21,439</u>	<u>2,141,027</u>
Other Financing Sources (Uses)			
Operating Transfer In	71,536	-	71,536
Operating transfer Out	-	(71,536)	(71,536)
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>71,536</u>	<u>(71,536)</u>	<u>-</u>
Excess (Deficiency) of Total Revenue Over (Under)			
Total Expenses	<u>(335,729)</u>	<u>309,044</u>	<u>(26,685)</u>
Beginning Net Position	<u>3,864,099</u>	<u>-</u>	<u>3,864,099</u>
Required Annual Debt Principal Payments	-	-	-
Prior Period Adjustments, Equity Transfers and Correction of Errors	-	-	-
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>3,528,370</u>	<u>309,044</u>	<u>3,837,414</u>
Administrative Fee Equity	-	-	-
Housing Assistance Payments Equity	-	-	-
Unit Months Available	3,150	-	3,150
Number of Unit Months Leased	3,135	-	3,135
Excess Cash	217,588	-	217,588
Land Purchases	-	-	-
Building Purchases	-	222,764	222,764
Furniture & Equipment – Dwelling Purchases	-	-	-
Furniture & Equipment – Administrative Purchases	-	10,419	10,419
Leasehold Improvements Purchases	-	-	-
Infrastructure Purchases	-	75,862	75,862
CFFP Debt Service Payments	-	-	-
Replacement Housing Factor Funds	-	-	-

(concluded)

Statistical Section

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

<u>Contents:</u>	<u>Page</u>
Financial Trends	136
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	144
These schedules contain information to help the reader assess the city's most significant local revenue source, sales tax.	
Debt Capacity	150
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	161
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	163
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.

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Governmental activities										
Net investment in capital assets										
Restricted	\$ 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	\$ 246,897,365
Unrestricted	13,795,935	14,875,852	7,975,269	18,213,829	23,971,870	34,679,441	43,856,244	43,761,156	53,192,347	60,981,953
Total governmental activities net position	\$ 254,905,586	(2) \$ 268,392,451	(3) \$ 258,414,804	(4) \$ 281,440,286	\$ 284,715,548	\$ 291,101,609	\$ 298,895,261	\$ 308,284,790	\$ 218,320,781	\$ 234,956,679
Business-type activities										
Net investment in capital assets										
Restricted	\$ 264,381,730	\$ 276,783,163	\$ 291,707,810	\$ 302,784,152	\$ 303,113,402	\$ 304,418,393	\$ 304,560,897	\$ 310,552,949	\$ 311,963,433	\$ 311,644,865
Unrestricted	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	2,903,553
Total business-type activities and net position	\$ 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	\$ 20,537,654
Primary government										
Net investment in capital assets	\$ 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	\$ 558,542,230
Restricted	16,220,550	16,469,767	9,569,184	20,423,156	26,974,999	37,484,442	46,550,506	46,253,718	55,856,610	63,885,506
Unrestricted	55,782,138	55,498,587	46,314,394	60,359,442	60,053,883	61,278,603	61,483,885	68,304,802	(47,139,560)	(52,384,985)
Total primary government net position	\$ 340,979,392	\$ 563,019,965	\$ 563,264,321	\$ 597,329,620	\$ 608,022,270	\$ 622,293,907	\$ 635,286,273	\$ 652,458,620	\$ 551,338,992	\$ 570,042,751

(1) FY 2007 restated for retroactive reporting of infrastructure

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

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

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



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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Expenses										
Governmental activities:										
General government	\$ 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	\$ 17,210,187
Public safety	23,994,991	27,030,331	29,287,433	26,592,968	25,987,193	27,175,720	27,269,325	28,730,111	35,255,450	34,711,251
Public works	1,882,489	1,894,089	2,109,221	1,502,626	1,754,033	1,615,941	1,718,677	1,573,541	1,664,308	1,650,323
Economic and physical development	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	10,259,240
Culture and recreation	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	12,974,830
Highways and streets	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	13,059,212
Interest on long-term debt	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	2,295,418
Total governmental activities expense	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	92,160,461
Business-type activities:										
Water	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	14,674,337
Wastewater	10,073,853	11,423,164	11,782,540	11,091,078	11,610,370	7,828,286	11,671,366	11,637,566	10,490,816	10,879,594
Environmental	3,162,391	3,608,322	4,197,447	4,273,609	4,584,733	4,268,099	5,226,977	4,118,280	12,071,509	12,087,144
Airport	--	--	--	--	5,811,922	6,165,612	5,986,508	6,090,790	4,540,208	4,307,615
Housing Authority	1,019,248	1,160,604	1,203,436	1,258,072	1,121,555	1,361,658	1,196,589	1,576,865	6,084,019	6,125,950
Stormwater	34,200,858	39,612,372	39,985,739	38,354,045	44,619,819	42,332,291	46,650,101	47,789,629	1,184,464	1,245,532
Total business-type activities expense	66,361,716	79,604,682	88,777,271	76,456,998	104,148,726	100,136,972	112,274,236	116,568,628	49,067,696	48,931,394
Total primary government expense	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	141,091,855
Program Revenues										
Governmental activities:										
Charges for services:										
General government	\$ 4,171,853	\$ 3,746,890	\$ 3,099,884	\$ 3,285,242	\$ 2,646,424	\$ 3,364,479	\$ 3,448,665	\$ 4,568,438	\$ 3,091,342	\$ 3,241,987
Public safety	704,800	1,227,979	1,451,405	1,283,697	1,144,636	1,611,109	1,491,842	628,038	879,755	647,910
Public works	1,455,461	1,483,275	1,350,832	1,471,550	1,537,188	1,551,419	1,611,506	1,215	520	605
Economic and physical development	562,135	315,462	369,987	291,211	291,211	53,747	52,386	903,233	2,329,258	3,767,060
Culture and recreation	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	1,633,338
Highways and streets	--	--	--	--	--	--	--	--	--	--
Operating grants and contributions	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	7,726,612
Capital grants and contributions	19,356,271	16,324,928	9,880,762	9,226,778	12,200,969	12,200,969	14,603,667	14,603,667	13,008,629	11,806,049
Total governmental activities program revenues	29,054,937	27,181,541	23,703,243	51,356,453	24,126,116	27,651,557	26,296,855	29,432,776	27,585,302	28,823,561

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

	2007	2008	2009	2010*	2011	2012	2013	2014	2015	2016
General Fund										
Reserved	\$ 1,260,236	\$ 308,979	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	29,960,235	27,492,853	-	-	-	-	-	-	-	-
Nonspendable	-	-	280,376	376,728	427,267	359,923	390,882	440,644	323,792	335,134
Restricted	-	-	106,144	785,720	796,345	758,303	800,953	1,698,333	1,951,220	2,255,454
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	8,903,561
Unassigned	-	-	22,203,764	13,412,219	15,160,509	17,203,207	19,410,597	21,559,814	23,153,900	27,425,564
Total general fund	\$ 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	\$ 38,919,713
All Other Governmental Funds										
Reserved	\$ 47,350,460	\$ 20,611,579	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	16,332,830	16,498,123	-	-	-	-	-	-	-	-
Capital project funds	-	(763,744)	-	-	-	-	-	-	-	-
Permanent fund	6,567	9,916	-	-	-	-	-	-	-	-
Nonspendable	-	-	216,878	206,678	214,333	219,564	247,436	271,477	293,238	8,379,744
Restricted	-	-	4,299,450	19,720,079	23,012,954	33,743,091	42,466,792	48,320,324	51,003,624	47,948,587
Committed	-	-	-	2,228,605	-	-	-	-	-	-
Assigned	-	-	8,955,106	651,650	-	-	-	-	-	-
Unassigned	-	-	-	(2,863,781)	-	-	-	-	(282,178)	(2,934,084)
Total all other governmental funds	\$ 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	\$ 53,394,247

(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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
REVENUES:										
Taxes	\$ 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	\$ 59,711,556
Intergovernmental	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	21,355,708
Grants and entitlements	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	11,023,491
Charges for services	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	4,747,237
Special assessments	2,927	2,449	2,382	701,217	701,447	8,286,453	722,733	2,734,095	2,986,151	2,916,164
Licenses and permits	2,438,599	1,815,062	1,377,580	1,441,874	739,040	1,681,814	1,656,135	1,952,731	1,866,792	3,153,135
Fines and forfeitures	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	1,524,856
Rents	1,480,686	1,496,858	1,421,772	1,588,214	1,617,912	1,605,166	1,667,562	1,651,032	1,660,070	1,696,070
Investment earnings	3,920,473	3,731,116	1,366,931	413,594	224,363	296,241	(429,656)	722,878	1,145,686	1,636,650
Contributions	2,981,982	1,308,938	1,328,524	1,664,393	1,308,938	390,253	252,377	541,340	368,057	1,962,364
Miscellaneous	1,377,552	819,325	381,984	228,969	1,719,608	492,971	1,261,507	1,813,164	645,571	1,404,390
Total revenues	\$ 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	\$ 111,131,621
EXPENDITURES:										
General governmental	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	14,561,513
Public safety	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	30,074,183
Public works	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	1,207,776
Economic and physical development	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	9,530,781
Culture and recreation	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	11,441,848
Highways and streets	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	5,916,632
Debt service:										
Principal retirement	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	12,980,269
Interest and other charges	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	2,320,596
Capital outlay	26,403,203	46,463,549	30,796,072	12,446,280	11,785,480	11,951,834	16,656,392	24,062,735	16,944,654	16,090,690
Total expenditures	\$ 93,583,397	\$ 121,183,508	\$ 111,787,174	\$ 85,486,435	\$ 84,484,834	\$ 91,609,695	\$ 89,160,366	\$ 102,598,300	\$ 99,402,636	\$ 104,324,288
Excess of revenues over (under) expenditures	(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	6,807,333
OTHER FINANCING SOURCES (USES):										
Proceeds of refunding bonds						13,924,136		8,270,000		
Issuance of capital debt	19,075,000			8,330,000		16,797,287	12,474,557	6,600,000		204,956
Payment to bond refunding escrow agent						(15,394,336)		(9,382,710)		
Lease issued			109,352							
Bond premium	46,707			58,370		2,264,386	542,689	1,317,667		
Insurance recoveries				1,920,000	1,058,985					
Sale of capital assets	252,329	2,176,808	63,894	1,084,211	45,655	43,890	49,750	727,996	3,013,051	5,325
Transfers in	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	15,891,921
Transfers out	(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)	(15,231,349)
Total other financing sources (uses)	\$ 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	\$ 870,853
Net change in fund balances	\$ 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	\$ 7,678,186
Debt service as a percentage of non capital expenditures	12.65%	10.80%	10.85%	13.78%	14.05%	21.34%	12.52%	14.57%	13.48%	17.57%

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

Fiscal Year	General Property Tax	Secondary Property Tax	Franchise and Other Taxes	City Sales Tax	Bed, Board and Booze Tax	Transportation Tax	Total
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
2016	5,650	5,719	2,567	19,090	7,539	19,147	59,712
Change 2007-2016	26.88%	10.24%	39.66%	18.79%	51.02%	102.96%	42.25%

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 ICA	County Library District Funding *	Other	Total
					Transportation Assistance	State HB 2565	Federal Grants					
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	
2016	6,238,827	7,930,739	2,910,589	7,292,355	-	-	2,867,675	902,472	3,088,137	284,944	32,379,199	

* - 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,				Residential Property	Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
		Commercial Property	Agricultural, and Government Property						
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	1.6784	
2016	29,641,213	225,831,427	124,316,511		467,023,686	88,231,085	758,581,752	1.6600	

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)

	2007	2008	2009	2010	2011	2012	2013*	2014	2015	2016
Construction	\$ 260,024	\$ 263,386	\$ 181,245	\$ 150,239	\$ 166,894	\$ 150,868	\$ 164,971	\$ 169,933	\$ 191,297	\$ 176,741
Building Materials	79,703	75,493	66,641	60,143	61,781	62,665	-	-	-	-
Auto Sales	133,497	118,282	78,819	85,806	99,786	121,296	148,211	163,657	173,371	205,200
Restaurants and Bars	248,819	255,578	250,555	251,271	261,384	277,954	206,617	218,790	243,560	251,654
Hotel/Motel	-	-	-	-	-	-	88,924	95,263	108,913	120,995
Retail	637,225	619,805	582,029	546,765	544,356	557,375	630,898	638,142	679,325	741,322
Other	154,183	163,463	155,193	152,042	151,461	154,497	196,534	200,109	213,248	246,500
Utilities	68,840	71,299	69,175	66,392	63,784	116,273	92,968	103,895	109,578	108,474
TOTAL	\$ 1,582,291	\$ 1,567,306	\$ 1,383,657	\$ 1,312,658	\$ 1,349,446	\$ 1,440,928	\$ 1,529,123	\$ 1,389,789	\$ 1,719,292	\$ 1,850,886

*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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total City	1.5929	1.5519	1.5519	1.4913	1.4845	1.5283	1.5497	1.6795	1.6784	1.6600
Primary							0.7131	0.8429	0.8418	0.8234
Secondary							0.8366	0.8366	0.8366	0.8366
School District	5.9009	4.7713	4.8334	3.8860	4.6772	4.9458	4.8712	5.1939	5.1867	5.4555
Maintenance							3.6182	3.9803	3.7886	4.0824
Adjacent Ways							0.0459	0.0096	0.0259	0.0216
1.5% M&O Override							0.6126	0.7061	0.7138	0.7265
Capital Override							0.1833	0.0000	0.0357	0.1735
Class B Bond							0.4112	0.4979	0.6227	0.4515
Community College	0.5269	0.4865	0.4643	0.4267	0.4308	0.4734	0.4927	0.5879	0.6056	0.6105
Maintenance							0.3875	0.4636	0.4788	0.4864
Bond							0.1052	0.1243	0.1268	0.1241
County	0.7521	0.7588	0.7603	0.7244	0.7245	0.7656	0.7847	0.9022	0.9202	0.9291
General Fund							0.4480	0.5466	0.5646	0.5735
Library District							0.2367	0.2556	0.2556	0.2556
Fire District Assistance							0.1000	0.1000	0.1000	0.1000
Total	8.7728	7.5685	7.6099	6.5284	7.3170	7.7131	7.6983	8.3635	8.3909	8.6551

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

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

Taxpayer *	2016			2006		
	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	\$ 18,192,334	1	2.40%	\$ 12,962,238	1	2.33%
W L Gore & Associates	18,164,529	2	2.39%	11,048,603	2	1.98%
Nestle Purina PetCare Company	3,567,236	3	0.47%	4,396,489	4	0.79%
Wal-Mart Stores	3,445,405	4	0.45%			
Little America Hotels & Resorts Inc	3,314,514	5	0.44%	3,729,503	7	0.67%
Qwest Corporation	3,257,520	6	0.43%	8,174,915	3	1.47%
BACM 2005-6 N US HWY 89 LLC	2,905,193	7	0.38%			
Unisource Energy Corporation	2,687,608	8	0.35%	2,831,882	10	0.51%
RRIM Ridge Holdings LLC	2,442,648	9	0.32%			
Pacific Prime Properties	2,379,836	10	0.31%			
Village at Aspen Place LLC	2,365,429	11	0.31%			
Elevation Flagstaff AZ LLC	2,318,899	12	0.31%			
BNSF Railway Company	2,209,379	13	0.29%			
Northern Arizona Healthcare Corp	1,987,617	14	0.26%			
Campus Crest at Flagstaff LLC	1,862,948	15	0.25%			
Flagstaff Medical Center Inc	1,848,278	16	0.24%	3,196,125	9	0.57%
Total Principal Taxpayers	\$ 72,949,373		9.60%	\$ 46,339,755		8.32%

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	
	Fiscal Year	Amount	Percentage of Levy		Amount	Percentage of Levy
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%	223,024	10,951,489	100.1%
2009	12,253,760	11,934,997	97.4%	309,257	12,244,255	99.9%
2010	12,750,836	12,477,413	97.9%	289,056	12,766,469	100.1%
2011	12,497,535	12,113,128	96.9%	473,992	12,587,120	100.7%
2012	12,015,988	11,635,211	96.8%	300,272	11,935,484	99.3%
2013	11,828,399	11,553,471	97.7%	315,452	11,868,923	100.3%
2014	11,050,626	10,778,695	97.5%	147,594	10,926,289	98.9%
2015	11,172,785	11,002,896	98.5%	157,905	11,160,801	99.9%
2016	11,355,520	11,156,213	98.2%	-	11,156,213	98.2%

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				
2007	1.0000%	2.0000%	0.6010%	5.6000%	1.1250%	10.3260%	
2008	1.0000%	2.0000%	0.6010%	5.6000%	1.1250%	10.3260%	
2009	1.0000%	2.0000%	0.7210%	5.6000%	1.1250%	10.4460%	
2010	1.0000%	2.0000%	0.7210%	6.6000%	1.1250%	11.4460%	
2011	1.0000%	2.0000%	0.7210%	6.6000%	1.1250%	11.4460%	
2012	1.0000%	2.0000%	0.7210%	6.6000%	1.1250%	11.4460%	
2013	1.0000%	2.0000%	0.7210%	6.6000%	1.1250%	11.4460%	
2014	1.0000%	2.0000%	0.7210%	5.6000%	1.1250%	10.4460%	
2015	1.0000%	2.0000%	1.0510%	5.6000%	1.3000%	10.9510%	
2016	1.0000%	2.0000%	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 Debt	Revenue Bonds	Term Loan Payable	Capital Leases				
2007	31,230	19,339	7,725	24,315	3,097	13,310	5,496	32,957	4,482	141,951	4.1%	2,288.42	
2008	29,350	19,257	6,325	23,000	2,728	10,515	5,212	32,275	4,227	132,889	3.8%	2,142.33	
2009	27,645	19,169	4,865	21,625	2,430	7,460	4,918	37,006	3,960	129,078	3.4%	2,010.56	
2010	25,865	18,615	6,665	19,890	6,964	5,690	4,614	36,257	3,679	128,239	3.4%	1,982.27	
2011	24,015	18,130	4,930	18,095	1,542	3,830	4,299	37,491	3,384	115,716	3.1%	1,766.06	
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	2.8%	1,913.66	
2014	55,571 *	8,639	16,603	1,260	4,400	1,752	3,635	33,873	4,431	130,164	2.8%	1,976.07	
2015	50,857	6,737	15,781	860	3,625	1,441	3,285	31,909	3,972	118,467	2.4%	1,755.01	
2016	45,820	2,245	13,495	-	3,226	1,375	-	32,800	3,489	102,450	1.9%	1,476.42	

* - 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		Restricted for General Obligation Bonds	Total	Percentage of Actual Taxable Value of Property	Per Capita
	Governmental Activities General Obligation Bonds	Business-Type Activities General Obligation Bonds				
2007	31,230	13,310	(1,716)	42,824	6.9%	690.38
2008	29,350	10,515	(2,433)	37,432	5.0%	603.45
2009	27,645	7,460	(2,573)	32,532	3.7%	506.73
2010	25,865	5,690	(3,408)	28,147	3.1%	435.09
2011	24,015	3,830	(6,234)	21,611	2.5%	329.83
2012	38,449	3,125	(6,234)	35,340	4.5%	536.51
2013	47,035	1,752	(8,821)	39,966	5.2%	606.74
2014	53,340	1,752	(13,822)	41,270	6.2%	626.54
2015	48,920	1,441	(14,091)	36,270	5.1%	537.32
2016	43,817	1,375	(13,204)	31,988	4.2%	460.98

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

a: See Schedule 7 for property value data

b: Population data can be found in Schedule 18

These amounts are presented on the accrual basis of accounting.

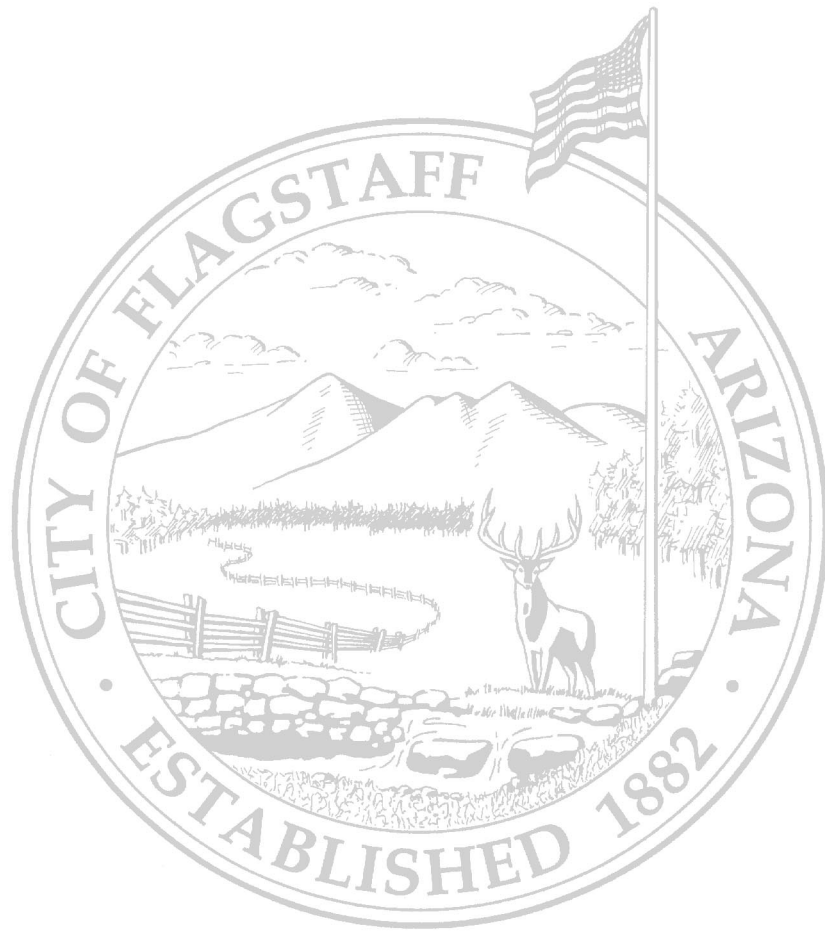
Schedule 15
 City of Flagstaff
 Direct and Overlapping Governmental Activities Debt
(dollars in thousands, except per capita)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable*</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes			
Flagstaff Unified School District	\$ 30,200	65.48%	19,775
Other debt			
Coconino County Special Assessments	260	0.00%	-
Subtotal, overlapping debt			19,775
City direct debt			<u>64,786</u>
Total direct and overlapping debt			<u>\$ 84,561</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.



20% Debt Limit

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt limit equal to 20% of assessed valuation	\$ 150,108	\$ 175,756	\$ 183,268	\$ 172,808	\$ 158,274	\$ 153,055	\$ 132,213	\$ 134,139	\$ 142,501	\$ 136,946
Total net debt applicable to 20% limit	43,860	39,514	35,105	35,105	27,845	41,841	48,788	55,388	50,361	45,193
Legal debt margin (Available borrowing capacity)	\$ 106,248	\$ 136,242	\$ 148,163	\$ 137,703	\$ 130,429	\$ 111,214	\$ 83,425	\$ 78,751	\$ 92,140	\$ 91,753
Total net debt applicable to the 20% limit as a percentage of debt limit	41.28%	29.00%	23.69%	25.49%	21.35%	37.62%	58.48%	70.33%	54.66%	49.25%

6% Debt Limit

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt limit equal to 6% of assessed valuation	\$ 45,032	\$ 52,727	\$ 54,981	\$ 51,842	\$ 47,482	\$ 45,917	\$ 39,664	\$ 40,242	\$ 42,750	\$ 41,084
Total net debt applicable to 6% limit	680	351	-	-	-	-	-	-	-	-
Legal debt margin (Available borrowing capacity)	\$ 44,352	\$ 52,376	\$ 54,981	\$ 51,842	\$ 47,482	\$ 45,917	\$ 39,664	\$ 40,242	\$ 42,750	\$ 41,084
Total net debt applicable to the 6% limit as a percentage of debt limit	1.53%	0.67%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Legal Debt Margin Calculation for Fiscal Year 2016

Net Secondary Assessed Value as of June 30, 2016	\$ 684,728,330
20% Limitation	
Debt Limit of 20% of Assessed Value	\$ 136,945,666
Debt applicable to limit:	
General Obligation Bonds	<u>45,192,672</u>
Legal 20% debt margin (Available borrowing capacity)	<u>\$ 91,752,994</u>
6% Limitation	
Debt Limit of 6% of Assessed Value	\$ 41,083,700
Debt applicable to limit:	
General Obligation Bonds	<u>—</u>
Legal 6% debt margin (Available borrowing capacity)	<u>\$ 41,083,700</u>

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

Water and Sewer Revenue Bonds

Fiscal Year	Gross Revenues (1)	Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal (3)	Interest (4)	Total	
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
2016	24,234,384	15,140,298	9,094,086	2,342,259	672,497	3,014,756	3.02

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

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

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

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

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

Fiscal Year	Highway User Tax Revenue	Highway User Revenue Bonds				Coverage
		Debt Service Requirements		Total		
		Principal (1)	Interest (2)			
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	-	-	-	-	
2016	7,292,355	-	-	-	-	

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

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

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

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

Fiscal Year	Debt Service Requirements				Coverage
	Revenue (1)	Principal (2)	Interest (3)	Total	
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
2016	13,286,939	860,000	22,627	882,627	15.05

(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	
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	25,880,472	1,500,000	574,838	2,074,838	12.47
2013	27,255,501	1,560,000	542,575	2,102,575	12.96
2014	29,928,813	1,560,000	511,375	2,071,375	14.45
2015	31,266,313	695,000	469,750	1,164,750	26.84
2016	33,176,241	1,795,000	432,400	2,227,400	14.89

(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 Six 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
2016	10,809,451	130,000	120,088	250,088	43.22

(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)	(1)	Per Capita Personal Income	Median Age	Education Level – Percent High School Grad or Higher	Education Level – Percent Bachelor's Degree or Higher	School Enrollment	Unemployment Rate
2007	62,030	3,472,652		38,119	26.8	89.8%	39.4%	13,453	3.40%
2008	64,200	3,767,194		39,934	26.8	89.8%	39.4%	13,040	4.60%
2009	64,693	3,767,194		37,100	26.8	89.8%	39.4%	12,910	7.50%
2010	65,522	3,767,194		37,629	26.8	89.8%	39.4%	12,600	7.70%
2011	65,870	4,481,137		42,317	26.6	90.6%	41.8%	11,839	8.90%
2012	65,870	4,481,137		48,371	26.6	90.6%	41.8%	10,623	9.20%
2013	65,870	4,620,811		47,363	26.6	90.6%	41.8%	10,623	8.10%
2014	67,502	4,906,294		51,809	26.6	90.6%	41.8%	10,623	6.90%
2015	69,391	5,399,899		52,509	26.6	90.6%	41.8%	11,766	6.48%
2016	70,643	5,669,894	*	53,244	26.6	90.6%*	41.8%*	12,505	6.18%

(*) Estimated

(1) Reflects Coconino County Personal Income

Sources:

- Population – Arizona Department of Administration--Employment and Population Statistics
- Personal Income – Economic Research Federal Reserve Bank of St. Louis for Coconino County
- Per Capita Income – Economic Research Federal Reserve Bank of St. Louis
- 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 Nine Years Prior

<u>Employer</u>	2016 (2)			2007 (1)		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Northern Arizona University	2,815 (4)	1	5.10%	3,778	1	12.26%
Flagstaff Medical Center	2,350	2	4.26%	1,985	2	6.44%
W.L. Gore & Associates	2,200	3	3.99%	1,300	4	4.22%
Flagstaff Unified School District	1,436	4	2.60%	1,560	3	5.06%
Cocoonino County	1,294	5	2.35%	1,205	5	3.91%
City of Flagstaff (3)	872	6	1.58%	901	6	2.92%
Walmart	630	7	1.14%	400	10	1.30%
Grand Canyon Railway	421	8	0.76%	402	9	1.30%
SCA Tissue	279	9	0.51%			
Dell Systems	250	10	0.45%			
Nestle Purina PetCare	240	10	0.44%			
Little America Hotel	220	11	0.40%			
Guidance Center	219	12	0.40%			
US Forest Service	200	13	0.36%			
Cocoonino Community College	189 (4)	14	0.34%	580	7	1.88%
North Country Healthcare	188	15	0.34%			
Pepsi-Cola Bottling	152	16	0.28%			
Peaks Senior Living Center	140	17	0.25%			
Joy Cone	133	18	0.24%			
Walgreens Distribution Center	Closed 2015			434	8	1.41%
Total	14,228		25.79%	12,545		40.70%
2010 & 2000 U.S. Census Labor Force	55,170			30,822	Estimated	

Source:

- (1) Arizona Department of Economic Security
- (2) Economic Collaborative of Northern Arizona
- (3) Includes part-time employees excluded from Sched. 20
- (4) Dramatic reflects number of employees in 2007 vs. number of Full-time Equivalents in 2016.

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	2016
General Government										
Management services	82.89	87.39	89.14	86.75	86.50	84.55	85.00	86.00	87.25	91.00
Capital management	13.50	13.50	13.50	11.00	11.00	8.00	7.00	7.00	8.00	8.00
City Court	26.50	27.63	29.63	25.88	25.18	25.18	24.18	24.35	25.35	26.35
Public Safety										
Police	164.00	174.00	181.00	168.00	168.00	172.00	171.00	169.00	169.00	167.00
Fire	100.75	101.75	101.75	99.00	92.00	85.00	85.00	85.00	87.00	88.00
Public Works	27.00	31.00	31.00	29.00	26.50	26.50	26.00	25.00	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	43.98	44.98
Planning	21.75	20.88	24.88	24.38	22.88	22.88	21.88	20.88	13.88	14.88
Tourism	15.75	16.75	16.75	15.75	13.25	12.49	12.49	12.93	13.93	13.93
Culture and recreation										
Library	43.13	47.14	53.77	50.77	50.77	51.40	51.40	51.40	52.30	53.43
Parks, recreation, and beautification	68.82	98.23	99.69	87.86	86.86	88.81	84.88	86.03	85.50	90.13
Highways and Streets	37.25	40.56	41.06	36.31	36.31	36.31	34.97	35.52	35.52	33.02
Water and wastewater	79.00	80.25	81.75	64.50	62.50	61.50	61.50	62.00	64.00	66.00
Environmental services	62.60	61.60	68.10	65.58	63.58	59.60	58.50	55.43	55.00	56.25
Airport	10.00	10.50	10.50	9.50	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	4.50
Flagstaff Housing Authority	-	-	-	-	23.50	23.50	24.00	22.00	22.00	21.60
Total	811.69	876.18	906.52	827.48	825.33	812.42	802.50	799.04	801.71	814.07

(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									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Court										
Criminal Filings	9,553	11,659	9,330	9,326	8,531	8,857	8,695	8,375	7,273	6,924
Traffic filings	8,951	10,665	10,639	13,471	12,010	9,217	8,340	7,726	8,428	8,190
Domestic Violence/Other filings	530	744	445	468	370	547	477	468	554	1,357
Purchasing										
Credit card rebates received	-	-	23,348	21,677	31,878	33,923	34,395	48,128	72,037	94,873
Fire										
Emergency incidents	8,227	7,616	7,550	6,668	7,274	7,438	8,023	8,730	9,432	12,775
Fires incidents	314	267	263	247	175	213	185	177	184	168
Other calls	1,472	1,573	2,151	1,906	2,378	2,226	2,298	2,532	2,654	742
Inspections assigned	1,984	1,981	1,794	572	1,174	1,468	1,411	1,340	2,341	2,217
Plan Reviews	1,314	1,284	1,250	401	528	535	559	512	659	639
Fuel Management										
Plan Assessment (Acres)	-	400	-	-	N/A*	N/A*	N/A*	N/A*	2,300	1,500
Site Marking (Acres)	764	178	224	294	586	128	284	511	70	555
Site Thinning (Acres)	1,173	902	761	376	809	197	276	541	820	700
Prescription Burn (Acres)	1,210	1,070	1,190	551	342	697	540	778	333	650
Police										
Felony reports	4,973	3,978	3,661	3,073	2,973	2,940	2,910	2,564	2,511	2,769
Misdemeanor reports	13,123	13,413	12,939	12,293	11,786	11,253	11,040	10,383	8,980	9,553
Domestic violence incidents	1,625	1,573	1,470	1,953	1,923	1,961	2,023	1,688	1,550	1,541
Non-crime reports	8,913	11,043	10,996	9,480	9,827	9,886	9,841	7,174	6,036	6,660
Accident reports	3,374	3,322	2,917	2,776	2,735	2,574	2,568	2,180	2,590	2,985
Calls dispatched to Police/Sheriff	75,791	73,364	70,908	61,175	57,899	57,188	60,003	56,373	58,590	62,228
Calls dispatched to Fire	12,364	11,907	12,527	11,011	11,130	13,320	11,497	11,464	11,777	13,565
Calls dispatched to Medical	9,960	-	-	-	-	-	-	-	-	-

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

Function/Program	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Streets										
Potholes repaired	2,443	4,032	4,373	3,256	1,498	1,877	2,054	3,605	1,174	1,437
Airport										
Fuel Flowage (Gallons Sold)	642,643	651,814	627,202	651,373	850,327	526,406	490,401	544,028	566,387	603,382
Enplanements	44,598	44,088	65,418	68,296	63,407	62,872	60,190	61,691	62,578	69,485
Refuse collection										
Refuse collected (Landfill tonnage)	153,121	157,792	142,409	121,529	138,703	137,815	145,793	144,411	143,528	143,639
Recyclables collected (total tons)	10,356	10,472	9,842	10,610	8,869	8,101	8,388	8,343	8,340	12,191
Community Development										
Residential Permit Valuation	(1) \$ 38,895,496	\$ 25,278,055	\$ 31,498,803	\$ 9,314,074	\$ 8,472,938	\$ 65,299,515	\$ 43,609,942	\$ 75,489,761	\$ 61,522,426	(1)
Commercial Permit Valuation	(1) \$ 37,962,373	\$ 27,199,698	\$ 18,594,665	\$ 13,395,325	\$ 17,703,762	\$ 20,338,552	\$ 14,479,348	\$ 19,978,010	\$ 32,396,234	(1)
Library										
Visits	643,174	680,253	738,603	743,169	763,928	739,706	715,033	687,735	673,246	660,974
Circulation	789,621	782,908	887,887	979,962	1,029,062	1,182,956	1,164,789	1,117,652	1,002,125	1,055,176
Tourism										
Revenue Per Available Room (RevPar)	\$ 66.86	\$ 60.52	\$ 43.21	\$ 43.05	\$ 45.26	\$ 50.94	\$ 54.61	\$ 59.99	\$ 69.19	\$ 74.14

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

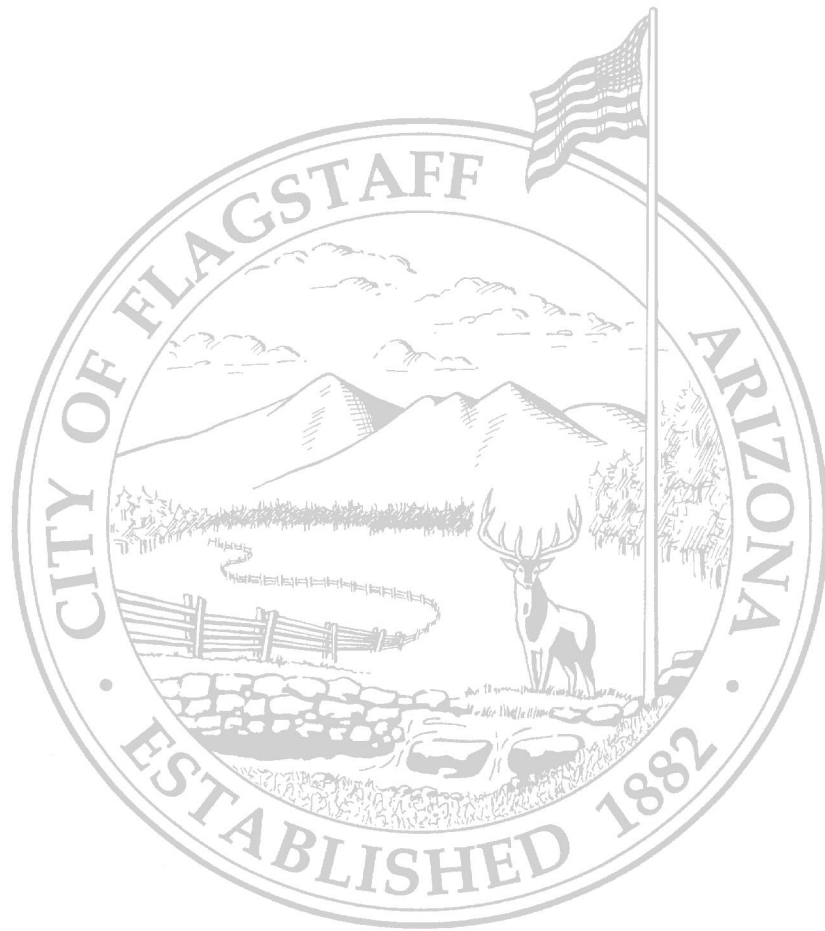
Schedule 22
City of Flagstaff
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public Safety										
Police patrol units (Includes Motorcycle units)	31	34	34	35	37	37	37	37	37	39
Number of fire hydrants	2,743	3,148	3,150	3,143	3,176	3,179	3,242	3,242	3,254	3,254
Number of fire stations	6	6	7	7	7	7	6	6	6	6
Culture and recreation										
Number of developed parks	27	26	26	26	24	23	23	23	23	23
Number of undeveloped parks	4	4	4	4	5	4	4	4	4	5
Park acreage	705	712	712	712	735	680	710	710	736	741
Flagstaff Urban Trail System - Miles	34	48	51	51	53	53	55	55	55	59
Recreational Buildings	5	6	6	6	4	4	4	4	4	4
Highways and Streets										
Miles of streets, alleys, and sidewalks (1)	403	690	695	813	814	814	814	844	844	844
Number of street lights	3,107	3,201	3,220	3,350	3,466	3,466	3,466	3,466	3,466	3,466
Water and wastewater										
Miles of sewer (2)	309	265	270	270	271	271	274	274	276	276
Number of manholes	6,906	7,107	7,261	7,261	7,308	7,308	7,403	7,403	7,493	7,493
Total active water accounts	18,758	18,849	18,371	19,042	22,092	19,020	20,107	19,961	19,934	20,717
Average gallon water usage per household per month	5,600	5,456	5,010	5,123	5,107	5,339	6,326	5,022	4,562	3,901
Airport										
Fixed base operators	1	1	1	1	1	1	1	1	1	1
Locally based aircraft	134	134	134	120	122	125	209	134	134	132
Tiedowns	11	11	11	14	11	11	11	11	11	12
Enclosed hangars	61	61	61	61	61	61	61	61	61	61
Open hangars	48	48	48	48	48	48	48	48	48	36

(1) in fiscal year 2008, transition made from street miles to lane miles. This more accurately reflects the level of service required to maintain the surfaces.

(2) Database Correction

Coverage	Limit of Liability	Coverage	Limit of Liability
Liability Insurance:		Property Insurance:	
General Liability* (Includes 2 skateboard parks, bike freestyle park, EMT's)	\$ 1,000,000 / per occurrence \$ 2,000,000 / aggregate	Blanket Buildings and Personal Property	\$ 222,844,488 / \$25,000 deductible included / \$25,000 deductible
Law Enforcement Liability*	\$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate	Flood Zones B and C	\$ 10,000,000 / \$5,000 deductible \$ 15,000,000 / \$25,000 deductible
Auto Liability	\$ 26,042,495 / \$1000/comprehensive	Business Income/Extra Expense	\$ 2,500,000 / 48 hours
Auto Physical Damage	\$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate	Flood Zone A, Properties	\$ 242,000 / building \$ 122,700 / contents \$ 5,000 / each building
Public Entity Management Liability* (Claims Made Retro Date 6-1-95)	\$ 1,000,000 / each wrongful act \$ 5,000,000 / aggregate	Municipal Court Deductible	\$
Employment Practices Liability* (Claims Made Retro Date 6-1-95)	\$ 5,000,000 / each wrongful act \$ 5,000,000 / aggregate	Contractors Equipment (actual cash value)	\$250,000 per item / \$25,000 deductible \$1,000,000 aggregate / \$25,000 deductible
Employee Benefits Liability* (Claims Made)	\$ 1,000,000 / each employee \$ 3,000,000 / aggregate	Bookmobile book collection	\$ 250,000 / \$25,000 deductible included / \$25,000 deductible
Limited Abuse or Molestation Liability	\$ 1,000,000 / each offense \$ 1,000,000 / aggregate	Employee Hand Tools	\$ 250,000 / \$25,000 deductible included / \$25,000 deductible
* Liability Claims are Subject to a \$75,000 Self Insurance Retention		Computer Equipment and Peripherals	\$ 250,000 / \$25,000 deductible included / \$25,000 deductible
Public Entity Cyber Liability (Claims Made Retro Date 6-1-09)	\$ 1,000,000 / each wrongful act \$ 1,000,000 / aggregate	Data and Media	\$ 500,000 / \$25,000 deductible
Employer's Liability (\$5,000 deductible each wrongful act)	\$ 1,000,000 / each accident \$ 1,000,000 / disease employee \$ 1,000,000 / disease policy limit	Fine Arts & exhibition floater City Hall, Visitor Center, Airport Terminal	\$
Worker's Compensation	Statutory	Crime:	
Umbrella/Excess #1 - GL, Auto, Law Enforcement, Employer's Liability	\$ 20,000,000 / each occurrence	Blanket Public Employees and Treasurer	\$ 1,000,000 / \$5,000 deductible
Public Entity Management, Employee Benefits	\$ 20,000,000 / general aggregate	Dishonesty Bond Including Faithful Performance of Duty	\$ 1,000,000 / \$5,000 deductible
10,000 retained limit (ded)		Computer & Funds Transfer Fraud	\$
(Excludes Airport, Housing Authority, Employment related practices, Failure to Supply Services, Mold, Terrorism, Asbestos, Lead, Condemnation, Sexual Abuse)		Theft, Disappearance, & Destruction (Inside and Outside)	\$
Aviation:		Forgery or Alteration	\$ 1,000,000 / \$5,000 deductible
General Liability	\$ 40,000,000 / each occurrence	Money Orders & Counterfeit,	\$ 1,000,000 / \$5,000 deductible
Products/Completed Operations	\$ 40,000,000 / aggregate	Credit, Debit or Charge Card forgery	\$ 1,000,000 / \$5,000 deductible
Personal Injury, Advertising & Malpractice	\$ 40,000,000 / each aircraft	International Travel - Executive Assistance	\$ 1,500,000 / Medical Assistance \$ 250,000 / Accidental death \$ 250,000 / Each Loss
Hangar Keepers Liability	\$ 40,000,000 / each occurrence	Kidnap and Extortion Worldwide (some countries excluded)	\$





FEATURED OPEN SPACE PROJECTS:

- Observatory Mesa
- Picture Canyon
- Flagstaff Urban Trails System (FUTS)
- Frances Short Pond

Frances Short Pond at Thorpe Park Watershed and Open Space Project!

National Make a Difference Day
Saturday, October 24th, 2015 9:30 am - 1:30 pm

2015 Make a Difference Day National Make a Difference Day! The Flagstaff Urban Trails System (FUTS) and the City of Flagstaff's Sustainable Program are sponsoring the day event. This community project will focus on the historic Frances Short Pond. The project will include:

- Clean up and remove trash from the pond area.
- Remove and replace the pond's old gate.
- Replant and maintain the pond's riparian habitat.
- Plant native riparian and wetland plants.
- Replant and maintain the pond's riparian habitat.
- Replant and maintain the pond's riparian habitat.

 This will be a family-friendly event. Volunteers will have a team leader to guide our efforts and help coordinate the project.

The Volunteer, United Body, Spirit of Silver - Flagstaff, AZ 86001. Don't miss this opportunity to help improve our community and make a difference. Space is limited. Sign up now at www.flagstaffaz.gov.



City of Flagstaff
 211 W. Aspen Ave.
 Flagstaff, Arizona 86001
flagstaff.az.gov