Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2011

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, 2011

TABLE OF CONTENTS

SUPPLEMENTAL INFORMATION

STATISTICAL SECTION

City of Flagstaff

December 23, 2011

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, 2011, as required by Article VI, Section 5 of the City Charter. The report was prepared by the City's Finance Division in accordance with U.S. generally accepted accounting principles (GAAP) and audited in accordance with U.S. generally accepted auditing standards by a firm of licensed certified public accountants.

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

Eide Bailly, LLP a firm of licensed certified public accountants have audited the City of Flagstaff's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Flagstaff for the fiscal year ended June 30, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Flagstaff's financial statements for the fiscal year ended June 30, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Arizona Relay Service 7-1-1
211 West Aspen Avenue, Flagstaff, Arizona 86001
Main & TDD (928) 774-5281 • Fax (928) 779-7696

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

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

CITY OF FLAGSTAFF PROFILE

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

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

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

FACTORS AFFECTING THE CITY'S FINANCIAL CONDITIONS

Local economy

The City of Flagstaff has had negative economic indicators since approximately December 2007, with some slight signs of recovery shown in FY 2011. At the local level, construction, auto sales, and tourism based industry reflected small increases while retail and utilities continued a downward trend resulting in overall revenue increases. State shared sales tax revenues also increased slightly (5%) while the state income tax and highway user (gas tax) revenues have decreased (25% and 2% respectively). Housing sales have decreased and the median home price has decreased moderately. Our community partners in both the public, private, and governmental sectors have experienced closure, staffing layoffs or furloughs, and declining revenues. The education sector has been hit particularly hard. A number of new projects anticipated to build the retail sector have been delayed or canceled due to the lack of available capital. The economic analysts for our local and state region give mixed messages on when the recovery may start.

The City collects three different retail sales taxes:
The first is a 1% tax on all general sales, except for food. This is a general purpose tax that benefits the General Fund. The City of Flagstaff is the only city left in the State of Arizona that has a sunset clause on the general sales tax. This tax must go before the voters every ten years to be validated and has recently been extended until November 2024.

Local sales tax declines had been realized almost every month since December 2007 in comparison to the same month in the prior year. Occasional categorical increases occurred but they were not sustained. Overall, the 1% general city sales tax receipts have increased 2% from the prior fiscal year but are still cumulatively 14% less in comparison to FY2008. Construction and auto sales continue to be the two most volatile sales tax categories. In the last year, construction sales tax revenue increased by 11.1% and auto sales increased by 16.3% driving the increased revenue. However the construction and auto sales tax revenues are still below their peak years (36.6% and 25.3% respectively). Construction now only represents 12.4% of all sales tax collected, down from 16.8% three years ago.

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

The third tax is a Bed, Board, and Beverage (BBB) tax that collect an additional 2% for motel rooms/campgrounds, restaurants, and bars restricted in use to certain economic, arts, beautification, recreation or tourism activities. The BBB tax was also recently renewed and currently expires in 2028. Tourism is a major industry to our local economy. Overall sales decreased in FY2009 when gas prices were peaking but have since rebounded and FY11 reflects the greatest amount collected in the history of the tax at $5.24 million.

State shared revenue consists of both a distribution of sales tax and income tax. These distributions are made based on a city or towns' relative share of population in comparison with all other cities and towns. Except during census years, Flagstaff's population is determined by the Arizona Department of Economic Security based on a number of factors including new homes and student enrollment. Historically, Flagstaff's greatest challenge was that while population was growing, it was growing at a slower rate 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% resulting in an approximate increase in state shared revenues to the City of approximately $500,000 in the FY2012 budget.

The State has experienced similar or greater revenue declines than the City. Construction, tourism, and auto sales were the three hardest hit industries, however there is recovery occurring at the state level also. For State shared sales tax, the City received 4.9% more in FY 2011 than it did in FY2010 which breaks a three year downward spiral. The distribution of personal income tax continued its' decline for the second year in a row, decreasing by 24.6% in FY2011, with a cumulative decrease of 34.9% since FY 2009.

Highway user revenue (gas tax) funds (HURF) ended FY2011 slightly below FY2010 (2% decrease), which is a 20.7% total decrease from FY2008. HURF revenues that are available for distribution have experienced five consecutive years of decreases. These revenues are distributed based on a fairly complex Arizona Department of Transportation formula, based in part on the amount of fuel purchased in our region. The revenue decrease initially was due to the increased gas pricing resulted in lower sales. In the last three years, however, the decreases are due to the State shifting revenues 'off the top' to fund other public safety and motor vehicle needs. As evidenced by the increase in BBB taxes and other statistical data, we are still a popular drive destination from Las Vegas, Los Angeles, and Phoenix, however those revenues are not being distributed back to our City at this time.

Primary property tax revenues continued to see slight increases even though property tax valuation had decreased. This occurs as there is an approximate 18 – 24 month lag in home valuation and the property tax payment; however FY2011 was the last year for this to occur. The gap that had existed between full cash value and net assessed value is now gone. The State of Arizona legislatively caps the primary property tax levy on an annual basis to a 2% increase so homeowners realized a 1.0% mil rate decrease from $0.6547 to $0.6479 for FY2011. The rate for secondary property taxes was left the same at a mil rate of $0.8366 which resulted in a 5.7% levy decrease due to the reduction in assessed valuation.

While the revenues continue to fluctuate for the City in some areas, the City was able to budget revenue relatively flat for FY2012 due to some sectors of the stabilizing economy and the growth in the City's proportionate population share. The City of Flagstaff reduced its' overall staffing count by another 17 positions bringing total staff reductions to 121 full time equivalencies (FTE's) since FY2009.

LONG-TERM FINANCIAL PLANNING

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

STRATEGIC FINANCIAL PLAN

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

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

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

Strategic Capital Improvement Project Planning – Flagstaff Capital Improvement Projects are planned for five or more years and analyzed using City specific prioritization criteria. The operating cost impacts of projects are also planned and considered in developing future operating budget plans. Projects with significant operating impacts are carefully timed to avoid contingent liabilities, which future operating resources cannot meet. Pay-as-you-go funding sources are also conservatively estimated to avoid over-committing to capital construction using revenues that are not certain. To the extent debt financing is used and/or required, capital project plans are sized to conform to existing debt management policies.

Financial Policy Planning – The City of Flagstaff financial policies dictate minimum fund balance levels for the General, Special Revenue, and Enterprise Funds. The General Fund is required to maintain a fund balance of 15% of ongoing revenues and special revenue and enterprise funds are to maintain a 10% fund balance, as calculated against ongoing revenues. As the recession began, the City Council provided a temporary waiver to the General Fund balance requirement reducing it from 15% to 12% for FY2010. This provided approximately $1.5 million dollars in one-time funding that was spread over three fiscal years: FY's 2010, 2011, and 2012. While this eased some of the financial shortfall the City was experiencing, it did contribute toward a structural deficit as some ongoing services were funded with this one-time money. As part of the FY2012 budget process, this structural deficit was eliminated and the General Fund balance was restored to 15%.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

During FY 2010-2011, Flagstaff continued work to maintain basic services while also fulfilling the City Council goals. These goals provide for strategies that move the community closer to economic viability and sustainable community objectives. The outcomes of these strategies have been many and in certain cases require sustained efforts over a period of time.

The following are the some of the goals of the Council and the City's' accomplishments in FY2010-2011.

Public Safety
The City shall increase the visibility and availability of public safety services through best practices and maximizing resources to prevent crime and fires.
Public safety accomplishments include:

- Successful passage of the 2010 bond question to upgrade the public safety and emergency communication system for the City at $4.72 million dollars

- Evaluated effectiveness and feasibility of continued operation of specialty courts (DUI/Drug Court, Mental Health Court, and Homeless Court) to meet the needs of defendants with current court cases
- Completed thinning of 469 acres in surrounding forest
- Completed 342 acres of broadcast burning
- Adopted a 'no alcohol without permit' policy in two city parks in order to reduce the occurrence of alcohol related offenses
- Implemented an on-line web based crime reporting service

Affordable Housing

The City shall facilitate an environment where housing opportunities, both in acquiring and sustaining, match the income diversity of our community.

Affordable housing accomplishments include:

- Completed three new Izabel Homes
- Twelve housing rehabilitation projects completed
- Assumed the overall oversight of the Flagstaff Housing Authority within the City division structure and now report their financial statements as part of the City of Flagstaff

Family, Youth, and Community

The City shall improve opportunities for all members of our community to actively participate, invest, and feel a part of a high quality of life community.

Family, youth, and community accomplishments include:

- Successful reconstruction and opening of the Jay Lively Ice Rink following the prior year snow related roof cave in and building destruction
- Increased adult programming at the Flagstaff Library Downtown Branch
- Upgraded both bookmobiles to wireless service for internet connections
- Partnered with Northern Arizona University on the Flagstaff Reads Initiative
- Partnered with the Flagstaff Medical Center to host the National Senior Health & Fitness Day at the Aquaplex with over 500 senior citizens in attendance.

Community Sustainability

The City shall encourage the community and operate the government in a manner that sustains economic vitality, environmental protection, and social inclusion so that current and future residents and visitors may enjoy the same or better quality of life.

Community sustainability accomplishments include:

- Developed a power purchase agreement
- Implemented Residential Energy Efficiency Initiatives which include Residential Energy Retrofits, Energy Efficient Kits, LED Holiday Light Swap, and CFL installations that have reduced 937,288 kilowatt hours of energy use and 1,443,424 pounds of carbon dioxide equivalents from being released into the atmosphere
- Implemented a community wide 'trailing partner' program tying employers and employment resources through a city sponsored website
- Improved relationships within the statewide alliance for targeted business attraction

Facilities and Basic Services

The City shall identify and provide the desired or current service levels and accompanying facilities of basic

municipal services.
Facilities and basic services accomplishments include:

- Brought the Fort Tuthill well on line
- Successful passage of the 2010 Street and Utility replacement program bond for $16.5 million dollars

Fiscal Health
The City shall maintain good fiscal health through sound financial management and fiscal integrity.
Fiscal accomplishments include:

- Established a Citizens Budget Task Force to provide recommendations to Council on budget allocations
- Conducted and participated in numerous joint bidding opportunities with other public sector agencies throughout Arizona to leverage purchases to obtain more competitive pricing
- Worked cooperatively with the Federal Emergency Management Agency (FEMA) and the Arizona Department of Emergency Management (ADEM) on disaster recovery efforts for winter storm, fire, and flooding events
- Worked with Flagstaff Housing Authority to align policies, processes and reporting

AWARDS AND ACKNOWLEGEMENTS

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, 2010. This was the 17th 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 2010-2011 annual budget (17 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.

A special word of appreciation is due to Maryellen Pugh, Finance Manager and to the entire finance staff who prepared this CAFR.

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

Respectfully Submitted,

Barbara Goodrich

Barbara Goodrich
Management Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Flagstaff Arizona

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

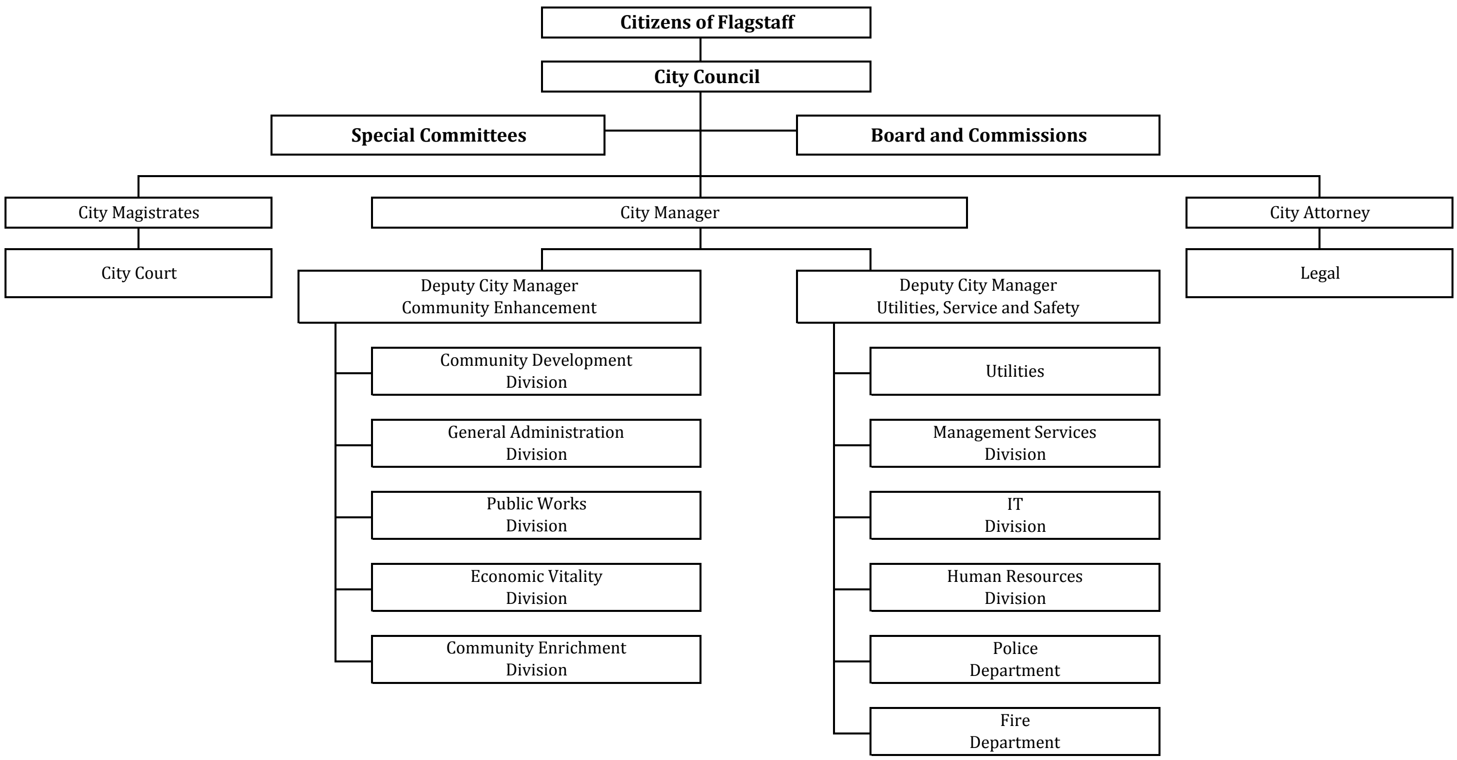
Linda C. Davison

President

Jeffrey R. Esser

Executive Director

City of Flagstaff



City of Flagstaff, Arizona
List of Elected and Appointed Officials
June 30, 2011

Elected Officials

Mayor	Sara Presler
Vice Mayor	Celia Barotz
Councilmember	Art Babbott
Councilmember	Karla Brewster
Councilmember	Coral Evans
Councilmember	Scott Overton
Councilmember	Al White

Appointed Officials

City Manager	Kevin Burke
City Attorney	Rosemary Rosales
City Treasurer	Barbara Goodrich
City Clerk	Margie Brown

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information and the budgetary comparison of the general fund and major special revenue funds of the City of Flagstaff, Arizona (the City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 and the respective budgetary comparison for the general fund and the special revenues funds of the City at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note II.E to the financial statements, the City applied an adjustment to beginning fund balances and net assets to include the Flagstaff Housing Authority as a fund operating within the City financial system.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and the statistical section, as noted in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Eide Bailly LLP

Phoenix, Arizona
December 23, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

As management of the City of Flagstaff (the City), we offer readers of the City's financials statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii -x of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $608.0 million (net assets). Of this amount $60.1 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by $10.7 million during the fiscal year. This is a result of an increase in net assets in the governmental activities of $3.3 million and an increase in net assets in the business type activities of $7.4 million.
- As of June 30, 2011, the City's governmental funds reported combined ending fund balances of $43.7 million, a decrease of $2.3 million in comparison with the prior fiscal year. Approximately 28.1% of this total amount ($12.3 million) is unassigned fund balance available for spending at the government's discretion.
- As of June 30, 2011, total unassigned fund balance for the general fund was $15.2 million, or 33.3% of total general fund expenditures ($45.5 million).
- In fiscal year 2011 the City added a new proprietary fund, Housing Authority, to the fiscal operations of the City. This was adopted by ordinance in June 2010 and became effective July 2010. This ordinance clearly defined the Housing Authority as a section of the City. Total net assets of the Housing Authority at June 30, 2010 was $6.2 million and will be reflected in the change to beginning net assets in proprietary funds for fiscal year 2011.
- As of June 30, 2011, the City's proprietary funds reported combined total net assets of $323.3 million, and total unrestricted net assets of $17.2 million. Unrestricted net assets in the Water and Wastewater Fund are $7.0 million and Environmental Services Fund are $4.1 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) Government-wide financial statements, (2) Fund financial statements, and (3) Notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as revenues pertaining to uncollected taxes or expenses pertaining to earned but unused vacation leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include Police, Fire, Community Development, Parks and Recreation, City Council, City Manager, City Attorney, Municipal Courts, Human Resources, Risk Management, Information Services, Financial Services, Library, and Economic Development. The business-type activities of the City include Water and Wastewater, Airport, Environmental Services, and Stormwater operations.

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

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

Fund financial statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: **governmenta**l 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 government funds organized according to their type (special revenue and debt service). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Highway User Revenue fund, Transportation fund, BBB fund, and the Capital Projects Bond Construction funds which are all considered to be major funds. Data from the remaining governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.
>
> The City adopts an annual appropriated budget for its General fund, Special Revenue funds, Capital Projects funds, Debt Service funds, and Enterprise funds. A budgetary comparison statement has been provided for the General and special revenue major governmental funds to demonstrate compliance with the respective budgets.

The basic governmental fund financial statements can be found on pages 20-31 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, the Airport, Environmental Services which includes solid waste collection, Stormwater and the Housing Authority. All are considered to be major funds of the City.

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

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

Notes to the Financial Statements

The notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 40-85 of this report.

Combining statements

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

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information concerning the City's capital asset activity. Other supplementary information can be found on pages 93-111 of this report.

GOVERNMENT WIDE STATEMENTS FINANCIAL ANALYSIS

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $608.0 million as of June 30, 2011.

Of the City's net assets, 85.7% reflects its investment of $521.0 million in capital assets (e.g. land, buildings, and equipment), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

Net Assets
June 30, 2011 and 2010 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	$ 83,602	$ 85,845	$ 36,546	$ 26,658	$ 120,148	$ 112,503
Capital assets	294,085	295,289	356,534	357,105	650,619	652,394
Total assets	377,687	381,134	393,080	383,763	770,767	764,897
Long-term liabilities	77,514	83,866	60,887	61,298	138,401	145,164
Other liabilities	15,457	15,828	8,887	6,576	24,344	22,404
Total liabilities	92,971	99,694	69,774	67,874	162,745	167,568
Invested in capital assets, net of related debt	217,880	213,763	303,113	302,784	520,993	516,547
Restricted	23,972	18,213	3,003	2,209	26,975	20,422
Unrestricted	42,864	49,464	17,190	10,896	60,054	60,360
Total net assets	$ 284,716	$ 281,440	$ 323,306	$ 315,889	$ 608,022	$ 597,329

Total assets increased due to change in cash and receivable balances in the business-type activities. Total liabilities decreased due to the application of debt principal payments.

A portion of the City's net assets, $27.0 million (4.4%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, $60.1 million (9.9%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities.

Current assets for governmental activities have decreased by 2.6% ($2.2 million). The largest decreases are in investments ($6.9 million), restricted cash and investments ($1.4 million) and deposits ($0.6 million) while the largest increases were in cash and cash equivalents ($6.9 million) and cash with fiscal agents ($0.6 million).

Capital assets of the governmental activities, funded through operations, debt proceeds, grants, and contributions, decreased by 0.4% ($1.2 million) due to current year depreciation in excess of the net of asset additions and deletions. Major capital outlays include fire station construction ($3.4 million), street construction and improvements ($3.5 million), ice rink reconstruction ($1.7 million), and streetscape improvements ($1.3 million).

Governmental activities long-term liabilities decreased by 7.6% ($6.4 million) primarily due to payments on existing debt issues. Other liabilities decreased by 2.3% ($0.4 million) primarily due to decreases in accounts payable ($0.4 million).

Total assets for business-type activities have increased by 2.4% ($9.3 million). The largest increases are related to the inclusion of the Housing Authority in this year's statements and accounts for $7.2 million in total assets. Other increases are cash and cash equivalents ($6.4 million), investments ($1.4 million), and restricted cash and investments ($0.7 million) while the largest decrease (excluding the addition of Housing Authority assets) was in capital assets ($6.3 million) related to accumulated depreciation in excess of current year additions.

Total liabilities for business type activities increased by 2.8% ($1.9 million). The inclusion the Housing Authority increased liabilities by $0.4 million. Major changes include increases in unearned revenue ($1.1 million) and accounts payable ($0.7 million) and a decrease in debt payable ($1.5 million)

Overall business-type net assets have increased by 2.3% ($7.4 million) primarily due to the inclusion of the Housing Authority ($6.8 million).

Analysis of Change in Net Assets

The City's overall net assets have increased by $10.7 million during the current fiscal year. These increases are explained in the government and business-type activities discussion to follow.

Changes in Net Assets
For the Years Ended June 30, 2011 and 2010 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues:						
Charges for services	$ 6,934	$ 7,752	$ 35,075	$ 31,587	$ 42,009	$ 39,339
Operating grants and contributions	7,965	6,655	5,090	120	13,055	6,775
Capital grants and contributions	9,227	36,950	4,221	6,791	13,448	43,741
General Revenues:						
Property taxes	12,646	12,798	-	-	12,646	12,798
Sales taxes	31,356	30,430	-	-	31,356	30,430
State shared taxes	13,148	14,880	-	-	13,148	14,880
Investment earnings	246	449	108	111	354	560
Other	2,511	3,080	198	273	2,709	3,353
Total revenues	84,033	112,994	44,692	38,882	128,725	151,876
Expenses						
General government	7,851	8,238	-	-	7,851	8,238
Public safety	25,987	26,593	-	-	25,987	26,593
Public works	1,754	1,503	-	-	1,754	1,503
Economic and physical development	8,475	8,827	-	-	8,475	8,827
Culture and recreation	12,855	12,508	-	-	12,855	12,508
Highways and streets	19,275	17,856	-	-	19,275	17,856
Interest on long-term debt	3,371	3,918	-	-	3,371	3,918
Water and wastewater	-	-	21,491	21,738	21,491	21,738
Environmental	-	-	11,610	11,096	11,610	11,096
Airport	-	-	4,585	4,275	4,585	4,275
Housing Authority	-	-	5,812		5,812	
Stormwater	-	-	1,122	1,259	1,122	1,259
Total expenses	79,568	79,443	44,620	38,368	124,188	117,811
Increase in net assets before transfers	4,465	33,551	72	514	4,537	34,065
Transfers	(1,190)	(10,525)	1,190	10,525	-	-
Change in net assets	3,275	23,026	1,262	11,039	4,537	34,065
Net assets at beginning of year, as restated	281,441	258,415	322,045	304,850	603,486	563,265
Net assets at end of year	$ 284,716	$ 281,441	$ 323,307	$ 315,889	$ 608,023	$ 597,330

Governmental activities

Governmental activities increased the City's net assets by $3.3 million. The key factors for this increase are as follows:

- Combined operating grants, capital grants and contributions have decreased by 60.6% ($26.4 million) as a result of federal and local stimulus capital projects in the prior year.
- Property tax had a slight decrease due to increased delinquent accounts net of increases in assessed valuation.

- City sales tax revenues increased by 3.0% ($0.9 million). Comparing actual revenues to budgeted revenues the city exceeded the estimates by $1.5 million. The increase in the city general sales tax, the Bed, Board, and Beverage sales taxes, and the transportation taxes are $504,052, $236,926, and $185,063 respectively.
- The state shared revenues decreased by 11.6% ($1.7 million) below prior year actual. This is a result of lower income tax sharing ($1.9 million) related to economic impact on employment.
- Expenses have increased slightly (0.2%, $124,819) as the economy had stabilized. Also some of the expenditures are considered one-time funding as the organization attempts to manage its expenditures in line with revenue.

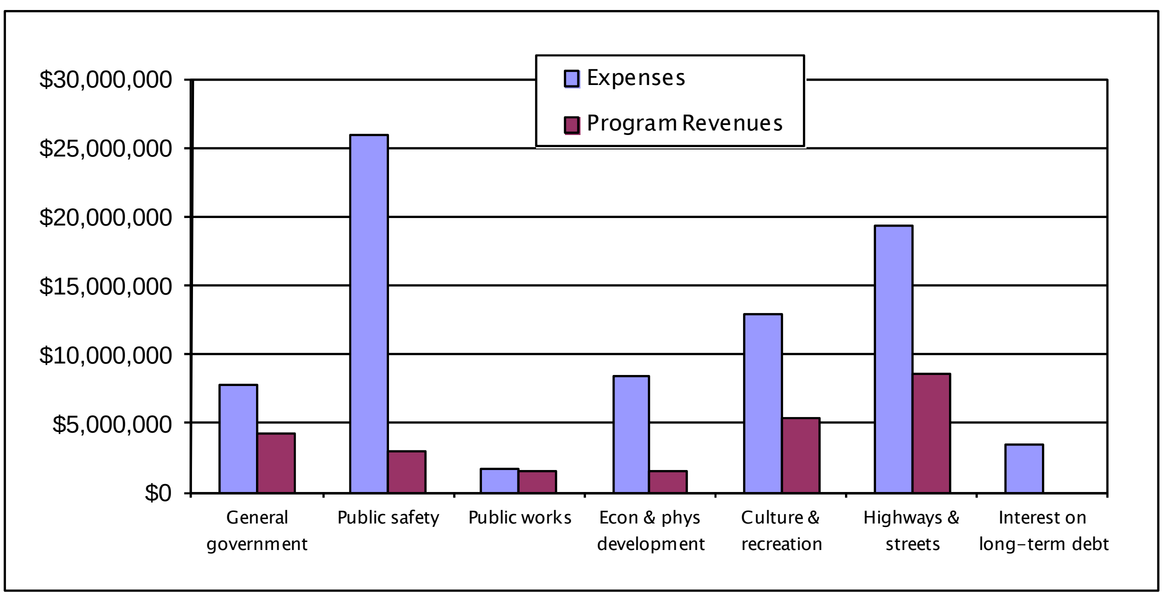
Business-type activities

Business type activity had net asset increase of $7.4 million. The key factors for this increase include:

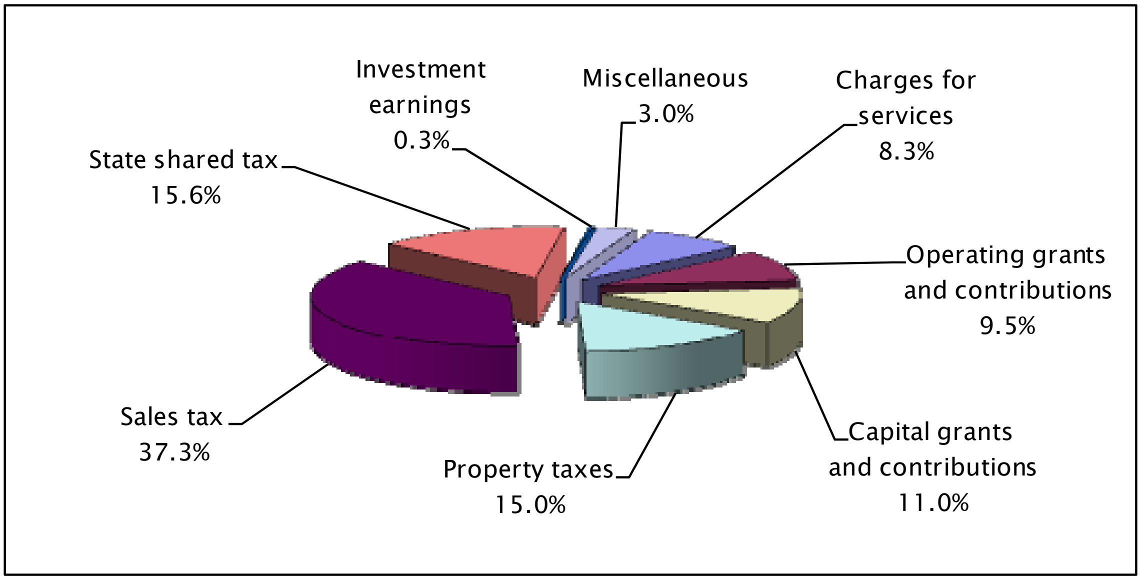
- The Housing Authority is incorporated in this year's financial statement which had beginning net assets of $6.2 million.
- Charges for service increased by 11.0% ($3.5 million). The Housing Authority provided $1.4 million in new charges for services. All other funds have shown increases. Water and wastewater increased $1.2 million, environmental services increased $681,218, airport increased $29,047, and stormwater increased $98,456.
- Operating grants and contributions increased by $5.0 million which is all due to the Housing Authority.
- Capital grants and contributions decreased by 37.8% ($2.6 million) due to a lower level of contributed capital from private development and general government projects.
- Investment earnings and other revenues are down slightly from the prior year, $0.1 million.
- Expenses have increased over prior year by 16.3% ($6.3 million). The majority of the increase is related to the inclusion of the housing authority this year ($5.8 million). The water and wastewater fund has shown the only decrease by a slight amount, $0.2 million. All other funds had slight increases, less than $0.6 million.

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

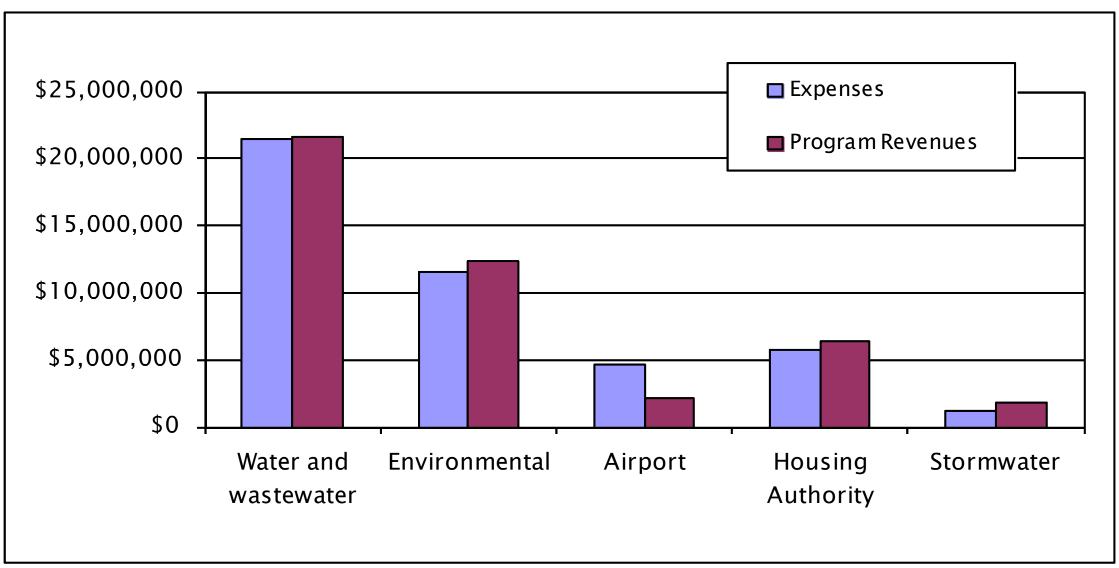


As shown, public safety is the largest function as measured by expense (32.7%) followed by highways & streets (24.2%), culture and recreation (16.2%), and economic and physical development (10.7%).

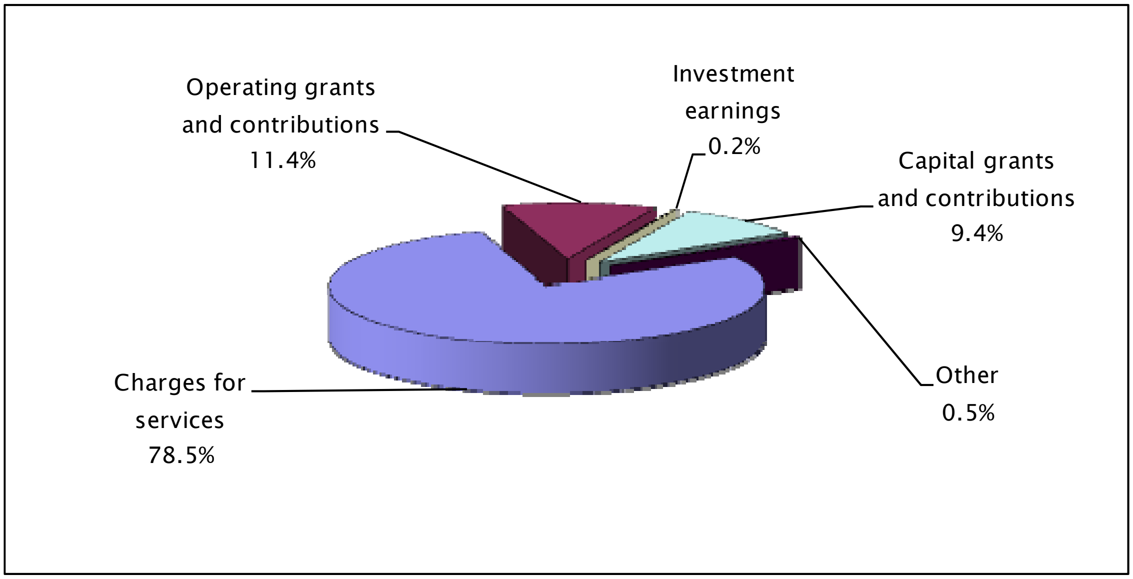
General revenues such as sales taxes, state shared taxes, and property taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, sales tax is the largest single source of funds (37.3%), followed by state shared tax (15.6%) and property taxes (15.0%). Last year, capital grants and contributions was ranked first, sales tax was ranked second, and state shared tax was ranked third.

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

Expenses and Program Revenues – Business Type Activities



Revenues by Source - Business-type activities



As shown Water and Wastewater has expenses of $21.5 million for the fiscal year, followed by Environmental Services with $11.6 million, Housing Authority with $5.8 million, the Airport with $4.6 million and Stormwater with $1.1 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 Fund program expenditures exceeded revenues mainly due to depreciation of capital assets. Water & Wastewater, Environmental Services, Airport, and Stormwater received the majority of their program revenues through charges for services (89.6%, 97.9%, 63.6%, and 82.0% respectively). The Housing Authority receives the majority of its program revenue through operating grants and contributions (65.5%). Charges for services provided the largest share of revenues (78.5%) for all of the business-type activities, followed by operating grants and contributions (11.4%). The shift from prior year is related to the Housing Authority having $4.2 million in operating grants and contributions.

The operating expenses for the business type activities increased (16.3%, $6.3 million) which new expenditures of $5.8 million from the Housing Authority, an increase in Environmental Services expense (4.6%, $513,956), an increases in Airport (7.3%, $310,187) and decreases in Water and Wastewater (1.1%, $246,774) and Stormwater (10.9%, $137,285).

Environmental services and water and wastewater increased user fees rates in fiscal year 2011. Water and wastewater, environmental services, airport and stormwater realized increased charge for service revenue at 7.1%, 6.0%, 2.1% and 7.2% respectively. Housing Authority provided $1.4 million in new changes for services.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General fund, Special Revenue funds, Capital Project funds, and Debt Service funds.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $43.7 million, an decrease of $2.3 million in comparison with the prior year. Approximately $13.0 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 ($641,600) for inventory and perpetual care, (2) restricted ($23.8 million) for special revenue funds, debt service, court improvements and operations, grant purposes, and capital projects, (3) committed ($85,119 million) for library services, development fee projects, and perpetual care, (4) assigned ($6.9 million) for library and court services, capital reserves, and real estate.

Revenues for governmental functions overall totaled $81.6 million in the fiscal year ended June 30, 2011 which represents a decrease of 3.1% or $2.6 million from the prior fiscal year. Three revenue categories show increases over prior year. These include taxes (1.4%, $0.6 million), fines and forfeitures (2.3%, $37,149), rents (1.9%, 29,698), and miscellaneous revenues (651.0%, $1.5 million). The large increase in miscellaneous revenue is primarily due to a $1.2 million contribution for the share of street improvements and $490,096 for sale of properties for city housing projects. All other revenue categories experienced decreases including intergovernmental (10.1%, $2.0 million), grants and entitlements (5.3%, $589,379), charges for services (4.3%, $131,186), special assessments (53.6%, $0.8 million), license and permits (48.7%, $0.7 million), investment earnings (45.8%, $189,231), and contributions (69.4%, $377,976).

Expenditures for governmental functions ($84.5 million) decreased by 1.2% ($1.0 million) from the prior fiscal year. The expenditure decreases continue to be driven by decreases in ongoing revenues. The City's budget direction for the fiscal year was an initial 6.5% cut to operational budgets. In addition, capital programs and set asides have been reduced. Major project improvements have been discussed in prior sections.

In the fiscal year ended June 30, 2011 expenditures for governmental functions exceeded revenues by approximately $2.8 million. The revenues have not kept pace with operating expenditures in addition to planned usage of fund balance for ongoing capital project expenditures of the City.

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 $15.2 million. As a measure of liquidity, it may be useful to compare total unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance represents 33.9% of General Fund expenditures.

The fund balance in the City's General Fund increased by $1.7 million during the fiscal year as expenditure had positive growth of 5.2% and revenues had negative growth of 3.4%. Overall, the General Fund's performance resulted in expenditures in excess of revenues in the fiscal year ended June 30, 2011 of $0.8 million. This is a decrease of approximately $0.9 million over the comparable figure from the prior year which resulted in expenditures in excess of revenues of $1.7 million.

The Highway User Revenue fund balance decreased by $413,964 mainly due to a transfer out to support a beautification project, $500,000. Transportation Fund balances increased by $1.3 million due to moderate growth in revenues and expenditure along with timing of capital projects. The BBB Fund balance increased $437,518 partially due to the transfer from the Highway User Revenue fund and timing of capital projects. The Special

Assessment Bond Fund balance decreased $0.7 million due to a delay in receiving the assessment payments from the City owned parcel which was sold in June and closed in July.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the fiscal year, the unrestricted net assets had positive balances for Water and Wastewater, Environmental Services, Airport, Housing Authority, and Stormwater. The internal service fund, which is used to account for risk management and health insurance activities, had unrestricted net assets of $4.2 million.

The total growth in net assets for the proprietary funds was $7.4 million. All funds except the Airport had positive growth in their net assets for the fiscal year ended June 30, 2011. The Airport fund deceased $2.2 million due to depreciation. The major part of the increase is related the inclusion of the Housing Authority in the City operations beginning July 1, 2010 with beginning net assets of $6.2 million.

Budget Highlights

The City's final budget matches the original budget which was approved by Council in June 2010. There may have been a few sections that were over budget, however we look at the budget to actual at the division level and no division exceeded their appropriation. There were two revenue transfers that were not budgeted for. A transfer was made from the capital projects fund to economic development ($17,236) for excess bond proceeds to be used to pay the same debt service. The other transfer was from the general fund to the capital projects fund ($71,200) to pay for environmental testing at the Sawmill property prior to sale.

The General fund was under final budgeted total revenues by 9.6% ($4.7) million primarily due to budgeting for insurance recoveries under miscellaneous ($3.5 million) and for an anticipated increase rents from the USGS campus ($1.4 million). Expenditures are under budget in every category due to controlled spending and carryover or cancellation of some capital projects. Both transfers in and transfers out are less than budgeted (except for the two transfers mentioned in the previous paragraph) as many transfers are based on the actual year end expenditure, most significant of which is the budgeted transfer from the General Fund to the Stormwater Fund of $4.6 million for the Rio de Flag flood control project of which only $1.0 million actually transferred at year end.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2011 amount to $650.6 million. Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress. The total decrease in the City's capital assets for the current year was 0.3% ($1.8 million). The following table reflects the capital assets at the end of the fiscal year:

Capital Assets, Net of Depreciation
June 30, 2011 and 2010 (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	$ 47,950	$ 43,652	$ 11,855	$ 10,301	$ 59,805	$ 53,953
Buildings	56,301	54,866	60,369	60,696	116,670	115,562
Improvements	9,042	10,073	240,868	242,322	249,910	252,395
Machinery and equipment	9,764	11,123	26,536	27,993	36,300	39,116
Infrastructure	161,982	160,066	-	-	161,982	160,066
Construction in progress	9,006	15,509	16,905	15,793	25,911	31,302
Total	$ 294,045	$ 295,289	$ 356,533	$ 357,105	$ 650,578	$ 652,394

Construction in progress had a net decrease of 17.2% ($5.4 million). Major completed construction in progress includes the purchase of land for Beulah Blvd extension ($3.1 million), transportation and streets projects ($6.8 million), ice rink reconstruction ($3.1 million), streetscapes ($1.9 million), urban trails ($1.2 million), and waterline improvements ($0.8 million). Major construction in progress at June 30 includes fire stations ($3.4 million), open space acquisition ($1.2 million), Red Gap pipeline and water rights ($2.6 million), and Rio de Flag drainage project ($13.7). The increase to land ($5.8 million) is mainly related to the completed purchase of land for Beulah Blvd extension ($3.1 million) and the inclusion of the Housing Authority ($1.4 million). The increase to buildings ($1.1 million) is mainly for the completion of the ice rink renovation net of the removal of the previous asset. Decreases in improvements and machinery and equipment are due to higher depreciation than capital additions Infrastructure increase is related to completion of street and streetscape improvements and contributed capital in excess of depreciation.

For government-wide financial statement presentation, all depreciable capital assets are depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Please refer to Note IV C on pages 61-62 of the Notes to the Financial Statements for further information regarding capital assets.

Long Term Debt

At the end of the current fiscal year, the City had total long-term debt outstanding of $120.2 million. Of this amount, $27.8 million is general obligation bonds backed by the full faith and credit of the City, $18.1 million is improvement district bonds, $9.2 million is revenue bonds, $18.1 million is for the Municipal Facility Corporation, $4.5 is for certificates of participation, and $42.4 million are outstanding leases or loans for the airport, water and wastewater, and city-wide energy conservation improvements.

Outstanding Debt
June 30, 2011 and 2010 (in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	$ 24,015	$ 25,865	$ 3,830	$ 5,690	$ 27,845	$ 31,555
Special assessment bonds	18,130	18,615	-	-	18,130	18,615
Revenue bonds	4,930	6,665	4,299	4,614	9,229	11,279
Other debt	22,620	24,850	-	-	22,620	24,850
Lease/Loans	1,542	2,004	40,875	39,936	42,417	41,940
Total debt payable	$ 71,237	$ 77,999	$ 49,004	$ 50,240	$ 120,241	$ 128,239

During fiscal year 2011, the City's total bonded debt decreased by $8.5 million. The City issued $3.5 million in loans for water and wastewater projects to provide drilling and equipping additional water wells and development of future water rights for the fiscal year ended June 30, 2011.

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, 2011 is $47.5 million in the 6% category and $130.4 million in the 20% capacity. 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, 2011

	Moody's Investors Service	Standard & Poor's
General Obligation	Aa2	AA
Municipal Facilities Corporation	Aa3	AA

Additional information on the City's long-term debt can be found in Section IV F on pages 66-76 of the Notes to the Financial Statements.

Economic Factors and Next Year's Budget and Rates

The Fiscal Year 2011/2012 budget preparation was influenced by the following factors:

- The City's General Fund budget was approved with no structural deficit in ongoing expenditures exceeding ongoing revenues
- Unrestricted fund balance in the General Fund will be restored to the fiscal policy of 15% of operating revenues
- Financial resources have stabilized and are being budgeted at similar levels as the Fiscal Year 2010/2011 estimates
- The 2010 Census information has shown that Flagstaff's share of population as a comparison to the State population has increased. This gave the City an increase in its proportion of state shared revenues.
- Continued focus on maintaining public safety and recreation operation levels with lower budgetary impacts

- The City funded 2.92 positions on a one year basis and will reconsider these in the Fiscal Year 2011/2012 budget process compared to 17.88 in Fiscal Year 2010/2011
- The total authorized positions decreased by 16.62 positions which was primarily one-time funded positions
- Put triggers in place for considering an adjustment to the pay plan by up to 1.2% based on sales tax collections
- City staff worked with the Budget Task Force Committee to provide public input and concerns to the City Council
- Continue to monitor State legislature to be aware of potential budget impacts on cities
- Property assessments continue to decline this year by 4.5% on limited property value and 8.4% on full cash value
- Budgeted for repair of the Inner Basin waterline that was impaired during a 2010 flood
- Sold property for Aspen Sawmill development that went bankrupt in 2010
- The continued pursuit of federal and state grant dollars to enhance the local economy
- The continued implementation of electronic information sharing to facilitate transparency in service provision
- The development of a more strategic fiscal policies
- Utility rate increases approved for the next four years to help support ongoing operational services and restore operation capital and the capital improvement plan to assist with aging infrastructure

Requests for Information

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

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

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

CITY OF FLAGSTAFF, ARIZONA

Statement of Net Assets

June 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 24,422,871	$ 15,499,688	$ 39,922,559
Cash with fiscal agents	5,968,340	1,962,963	7,931,303
Investments	16,574,640	-	16,574,640
Accounts receivables, net	6,785,430	4,679,928	11,465,358
Interest receivable	36,512	17,728	54,240
Intergovernmental receivable	4,489,592	247,921	4,737,513
Bond proceeds receivable	127,674	-	127,674
Special assessments receivable	18,334,079	-	18,334,079
Internal balance	434,252	(434,252)	-
Deposits	57,794	2,248,390	2,306,184
Prepaid items	-	60,643	60,643
Inventory	479,029	230,561	709,590
Deferred bond issuance costs, net	558,758	124,267	683,025
Property held for resale	500,000	-	500,000
Restricted cash and investments	4,873,003	11,909,726	16,782,729
Capital assets:			
Non-depreciable	56,955,431	28,760,684	85,716,115
Depreciable, net	237,089,464	327,772,694	564,862,158
Total assets	377,686,869	393,080,941	770,767,810
LIABILITIES			
Accounts payable	4,445,683	1,333,510	5,779,193
Accrued payroll	2,247,705	416,973	2,664,678
Interest payable	1,659,899	889,196	2,549,095
Unearned revenue	297,351	1,353,188	1,650,539
Deposits payable	1,426,673	492,747	1,919,420
Matured bonds and lease payable	5,380,000	4,398,765	9,778,765
Due within one year:			
Compensated absences	1,548,484	304,616	1,853,100
Special assessment debt, government commitment	505,000	-	505,000
Bonds, notes and leases payable, net	6,588,185	4,846,374	11,434,559
Due in more than one year:			
Compensated absences	2,089,122	509,305	2,598,427
Landfill closure and postclosure care costs	-	10,660,662	10,660,662
Net OPEB obligation	1,835,037	394,046	2,229,083
Special assessment debt, government commitment	17,625,000	-	17,625,000
Bonds, notes and leases payable, net	47,323,182	44,174,837	91,498,019
Total liabilities	92,971,321	69,774,219	162,745,540
NET ASSETS			
Invested in capital assets, net of related debt	217,879,986	303,113,402	520,993,388
Restricted for:			
Capital projects	9,378,661	2,579,281	11,957,942
Debt service	5,801,812	-	5,801,812
Specific programming	8,614,634	-	8,614,634
Grant and contributions purposes	-	423,848	423,848
Perpetual care:			
Expendable	14,192	-	14,192
Nonexpendable	162,571	-	162,571
Unrestricted	42,863,692	17,190,191	60,053,883
Total net assets	$ 284,715,548	$ 323,306,722	$ 608,022,270

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

CITY OF FLAGSTAFF, ARIZONA

Statement of Activities

Year Ended June 30, 2011

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 7,850,954	$ 2,646,424	$ 1,093,594	$ 469,349
Public safety	25,987,193	1,144,636	1,615,515	176,424
Public works	1,754,033	1,537,188	794	–
Economic and physical development	8,474,776	162,715	1,347,600	–
Culture and recreation	12,854,824	1,442,901	3,651,663	298,355
Highways and streets	19,275,381	–	256,308	8,282,650
Interest on long-term debt	3,370,918	–	–	–
Total governmental activities	79,568,079	6,933,864	7,965,474	9,226,778
Business-type activities:				
Water and wastewater	21,491,239	18,781,751	16,413	2,873,538
Environmental	11,610,370	12,010,554	298,424	–
Airport	4,584,733	1,388,076	555,239	240,881
Housing authority	5,811,922	1,437,841	4,220,399	787,499
Stormwater	1,121,555	1,456,894	–	318,790
Total business-type activities	44,619,819	35,075,116	5,090,475	4,220,708
Total primary government	$ 124,187,898	$ 42,008,980	$ 13,055,949	$ 13,447,486

General revenues:
- Property tax, levied for general purposes
- Property tax, levied for debt service
- Sales taxes
- State shared sales taxes - unrestricted
- Investment earnings
- Miscellaneous
- Gain on disposal of capital assets

Contributions to permanent fund

Transfers in (out)

Total general revenues, contributions and transfers

Change in net assets

Net assets - beginning, as restated

Net assets - ending

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

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (3,641,587)	$ –	$ (3,641,587)
(23,050,618)	–	(23,050,618)
(216,051)	–	(216,051)
(6,964,461)	–	(6,964,461)
(7,461,905)	–	(7,461,905)
(10,736,423)	–	(10,736,423)
(3,370,918)	–	(3,370,918)
(55,441,963)	–	(55,441,963)
–	180,463	180,463
–	698,608	698,608
–	(2,400,537)	(2,400,537)
–	633,817	633,817
–	654,129	654,129
–	(233,520)	(233,520)
$ (55,441,963)	$ (233,520)	$ (55,675,483)
5,352,698	–	5,352,698
7,293,019	–	7,293,019
31,355,882	–	31,355,882
13,148,252	–	13,148,252
246,093	107,543	353,636
1,741,338	150,129	1,891,467
744,957	47,818	792,775
24,950	–	24,950
(1,189,964)	1,189,964	–
58,717,225	1,495,454	60,212,679
3,275,262	1,261,934	4,537,196
281,440,286	322,044,788	603,485,074
$ 284,715,548	$ 323,306,722	$ 608,022,270

CITY OF FLAGSTAFF, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Highway User Revenue Fund	Transportation Fund
ASSETS			
Cash and investments	$ 18,215,495	$ 1,476,154	$ 1,657,138
Cash with fiscal agents	–	1,715,228	1,852,350
Accounts receivable, net	4,028,861	763,475	1,027,563
Interest receivable	15,967	70	5,485
Intergovernmental receivables	1,857,024	–	1,473,795
Interfund receivable	4,400,000	–	–
Bond proceeds receivable	127,674	–	–
Special assessments receivable	–	–	–
Deposits	–	57,794	–
Inventory	427,267	–	–
Property held for resale	–	500,000	–
Restricted cash and investments	38,703	–	–
Total assets	$ 29,110,991	$ 4,512,721	$ 6,016,331
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	$ 1,213,905	$ 378,455	$ 1,189,303
Accrued payroll and compensated absences	1,996,827	76,623	–
Current bonds payable	350,000	1,620,000	1,445,000
Interest payable	55,186	95,228	407,350
Interfund payable	–	–	–
Deferred revenue	566,506	–	–
Unearned revenue	149,707	–	–
Guaranty and other deposits	1,426,673	–	–
Total liabilities	5,758,804	2,170,306	3,041,653
Fund balances:			
Nonspendable	427,267	–	–
Restricted	796,345	2,342,415	2,974,678
Committed	85,119	–	–
Assigned	6,882,947	–	–
Unassigned	15,160,509	–	–
Total fund balances	23,352,187	2,342,415	2,974,678
Total liabilities and fund balances	$ 29,110,991	$ 4,512,721	$ 6,016,331

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

BBB Fund	Special Assessment Bond Fund	Other Governmental Funds	Total Governmental Funds
$ 5,674,573	$ 7,599	$ 9,464,567	$ 36,495,526
–	453,250	1,947,512	5,968,340
562,698	–	5,365	6,387,962
3,874	128	8,381	33,905
605,344	–	553,429	4,489,592
–	–	–	4,400,000
–	–	–	127,674
–	18,334,079	–	18,334,079
–	–	–	57,794
51,762	–	–	479,029
–	–	–	500,000
–	–	4,834,300	4,873,003
$ 6,898,251	$ 18,795,056	$ 16,813,554	$ 82,146,904
$ 255,327	$ –	$ 1,082,432	$ 4,119,422
43,959	–	130,296	2,247,705
115,000	–	1,850,000	5,380,000
67,969	453,250	580,916	1,659,899
–	500,000	3,900,000	4,400,000
–	18,333,655	–	18,900,161
1,733	–	145,911	297,351
–	–	–	1,426,673
483,988	19,286,905	7,689,555	38,431,211
51,762	–	162,571	641,600
6,362,501	–	11,333,360	23,809,299
–	–	–	85,119
–	–	–	6,882,947
–	(491,849)	(2,371,932)	12,296,728
6,414,263	(491,849)	9,123,999	43,715,693
$ 6,898,251	$ 18,795,056	$ 16,813,554	$ 82,146,904

CITY OF FLAGSTAFF
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

Fund balances - total governmental funds balance sheet		$ 43,715,693
Amounts reported for governmental activities in the statements of net assets 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	455,240,055	
Less: accumulated depreciation	(160,611,618)	
Transfer of capital assets from business-type activities	758,000	
Transfer of capital assets to business-type activities	(1,341,542)	
		294,044,895
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Deferred bond issue costs	558,758	
Fines and forfeitures	367,135	925,893
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.		
Governmental bonds payable	(71,237,458)	
Bond premium	(803,909)	
Other postemployment benefits	(1,835,037)	
Compensated absences	(3,637,606)	(77,514,010)
Certain revenues are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		
Property tax	566,506	566,506
Deferred revenue for long-term special assessments is shown on the governmental fund balance sheet, but is not deferred on the statement of net assets		
Special assessments	18,333,655	18,333,655
The internal service fund is used by management to charge the cost of self insurance programs to individual funds.		
The assets and liabilities of the internal service funds that are reported with governmental activities.		4,642,916
Net assets of governmental activities - statement of net assets		$ 284,715,548

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, 2011

	General Fund	Highway User Revenue Fund	Transportation Fund
REVENUES:			
Taxes	$ 21,491,083	$ –	$ 9,864,566
Intergovernmental	13,951,414	–	–
Grants and entitlements	2,234,162	6,553,309	–
Charges for services	2,844,246	–	–
Special assessments	–	–	–
Licenses and permits	738,594	–	–
Fines and forfeitures	1,673,306	–	–
Rents	1,537,188	–	–
Investment earnings	63,004	2,430	46,114
Contributions	89,914	–	–
Miscellaneous	46,713	1,124,880	–
Total revenues	44,669,624	7,680,619	9,910,680
EXPENDITURES:			
Current:			
General governmental	6,975,866	–	–
Public safety	24,473,320	–	–
Public works	1,299,027	–	–
Economic and physical development	4,246,370	–	–
Culture and recreation	5,500,631	–	–
Highways and streets	–	5,097,184	4,331,953
Debt service:			
Principal retirement	842,009	2,024,304	1,445,000
Interest and other charges	177,380	336,215	817,200
Capital outlay	1,971,631	3,692,869	–
Total expenditures	45,486,234	11,150,572	6,594,153
Excess (deficiency) of revenues over expenditures	(816,610)	(3,469,953)	3,316,527
OTHER FINANCING SOURCES (USES):			
Sale of capital assets	44,291	468	–
Insurance recoveries	1,058,985	–	–
Transfers in	4,396,093	3,640,922	–
Transfers out	(4,586,907)	(585,401)	(2,032,113)
Total other financing sources (uses)	912,462	3,055,989	(2,032,113)
Net change in fund balances	95,852	(413,964)	1,284,414
Fund balances, beginning of year	23,256,335	2,756,379	1,690,264
Fund balances, end of year	$ 23,352,187	$ 2,342,415	$ 2,974,678

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

BBB Fund	Special Assessment Bond Fund	Other Governmental Funds	Total Governmental Funds
$ 5,259,270	$ –	$ 7,184,209	$ 43,799,128
–	–	3,536,607	17,488,021
501,618	–	1,294,394	10,583,483
52,875	–	29,116	2,926,237
–	701,447	–	701,447
446	–	–	739,040
–	–	–	1,673,306
80,724	–	–	1,617,912
35,525	1,685	75,605	224,363
11,788	–	64,715	166,417
19,948	14	528,053	1,719,608
5,962,194	703,146	12,712,699	81,638,962
–	–	138,056	7,113,922
–	–	3,295	24,476,615
–	–	–	1,299,027
2,148,716	–	1,806,938	8,202,024
619,822	–	4,662,395	10,782,848
75,530	–	1,107,366	10,612,033
115,000	485,000	1,850,000	6,761,313
136,405	920,576	1,063,796	3,451,572
2,138,682	–	3,982,298	11,785,480
5,234,155	1,405,576	14,614,144	84,484,834
728,039	(702,430)	(1,901,445)	(2,845,872)
–	–	896	45,655
–	–	–	1,058,985
1,335,236	–	4,289,379	13,661,630
(1,625,757)	–	(5,437,874)	(14,268,052)
(290,521)	–	(1,147,599)	498,218
437,518	(702,430)	(3,049,044)	(2,347,654)
5,976,745	210,581	12,173,043	46,063,347
$ 6,414,263	$ (491,849)	$ 9,123,999	$ 43,715,693

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, 2011

Net change in fund balances - total governmental funds		$ (2,347,654)
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	11,785,480	
Less current year depreciation	(12,731,239)	(945,759)
Some items reported in the governmental funds are sources and uses of current financial resources and therefore are not reported as revenues or expenses in the statement of activities. These items include:		
Donated capital	1,165,029	
Compensated absences	113,459	
Other postemployment benefits	(885,970)	
Principal payments on debt	6,761,313	
Bond premium	80,788	7,234,619
Bond issuance costs are recognized as debt service expenditures in the governmental funds, however these costs are capitalized on the statement and activities and amortized in the statement of activities.		
Amortization of issuance costs	(55,400)	(55,400)
Certain transactions related to capital assets in the governmental funds reflect proceeds. However, in the statement of activities these transactions reflect net gain (loss).		
Capital asset impairment	(877,652)	
Sale of capital assets	(1,773)	
Transfer of capital assets to business-type activities	(1,341,542)	
Transfer of capital assets from business-type activities	758,000	(1,462,967)

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, 2011

Certain revenues in the governmental funds that provide current financial resources are not included in the statement of activities because they were recognized in a prior period. However, other revenues that are deferred in the governmental funds because they do not provide current financial resources due to unavailability are recognized in the statement of activities.		
Special assessments	(173,378)	
Property tax	202,471	
Fines and forfeitures	(22,631)	6,462
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.		
Operating gain	389,796	
Grants and entitlement	434,435	
Investment income	21,730	845,961
Change in net assets of governmental activities - statement of activities		$ 3,275,262

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, 2011

	Budget			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	$ 20,825,500	$ 20,825,500	$ 21,540,643	$ 715,143
Intergovernmental	13,298,000	13,298,000	13,951,414	653,414
Grants and entitlements	2,506,821	2,506,821	2,234,162	(272,659)
Charges for services	3,471,980	3,471,980	2,844,246	(627,734)
Licenses and permits	1,104,650	1,104,650	738,594	(366,056)
Fines and forfeitures	1,524,165	1,524,165	1,673,306	149,141
Rents	2,591,298	2,591,298	1,537,188	(1,054,110)
Investment earnings	250,000	250,000	149,185	(100,815)
Contributions	150,000	150,000	89,914	(60,086)
Miscellaneous	3,694,600	3,694,600	46,713	(3,647,887)
Total revenues	49,417,014	49,417,014	44,805,365	(4,611,649)
EXPENDITURES:				
Current:				
General administration	8,496,243	8,496,243	7,616,550	879,693
Community development	3,802,064	3,802,064	3,748,951	53,113
Management Services	3,070,118	3,070,118	2,900,820	169,298
Fire	9,419,450	9,419,450	9,079,728	339,722
Police	16,251,615	16,251,615	15,548,235	703,380
Public works	7,092,127	7,092,127	5,008,616	2,083,511
Economic vitality	606,095	606,095	421,512	184,583
Community enrichment	6,730,159	6,730,159	4,727,484	2,002,675
Non-departmental	(2,392,216)	(2,392,216)	(3,759,719)	1,367,503
Contingency	1,500,000	1,500,000	194,057	1,305,943
Total expenditures	54,575,655	54,575,655	45,486,234	9,089,421
Excess (deficiency) of revenues over (under) expenditures	(5,158,641)	(5,158,641)	(680,869)	4,477,772
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	42,000	42,000	44,291	2,291
Transfers in	5,153,014	5,153,014	4,396,093	(756,921)
Transfers out	(8,398,866)	(8,398,866)	(4,586,907)	3,811,959
Total other financing sources (uses)	(3,203,852)	(3,203,852)	(146,523)	3,057,329
Net change in fund balances	(8,362,493)	(8,362,493)	(827,392)	7,535,101
Budgetary fund balances, beginning of year	14,019,080	14,019,080	14,019,080	-
Budgetary fund balances, end of year	$ 5,656,587	$ 5,656,587	$ 13,191,688	$ 7,535,101

Adjustment of budetary basis to GAAP basis net change in fund balances	$ (827,392)
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.	923,244
Adjusted net change in fund balance - GAAP basis	$ 95,852

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, 2011

	Budget			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Grants and entitlements	$ 6,562,309	$ 6,562,309	$ 6,553,309	$ (9,000)
Investment earnings	4,000	4,000	2,430	(1,570)
Miscellaneous	146,038	146,038	1,124,880	978,842
Total revenues	6,712,347	6,712,347	7,680,619	968,272
EXPENDITURES:				
Current:				
General administration	162,907	162,907	162,907	-
Management services	123,758	123,758	123,758	-
Community development	689,931	689,931	689,931	-
Public works	12,125,410	12,125,410	10,005,948	2,119,462
Economic vitality	36,623	36,623	36,623	-
Non-departmental	131,405	131,405	131,405	-
Contingency	100,000	100,000	-	100,000
Total expenditures	13,370,034	13,370,034	11,150,572	2,219,462
Excess (deficiency) of revenues over (under) expenditures	(6,657,687)	(6,657,687)	(3,469,953)	3,187,734
OTHER FINANCING SOURCES (USES):				
Transfers in	5,490,567	5,490,567	3,640,922	(1,849,645)
Transfers out	(585,401)	(585,401)	(585,401)	-
Total other financing sources (uses)	4,905,166	4,905,166	3,055,521	(1,849,645)
Net change in fund balances budgetary basis	(1,752,521)	(1,752,521)	(414,432)	1,338,089
Budgetary fund balances, beginning of year	2,420,718	2,420,718	2,420,718	-
Budgetary fund balances, end of year	$ 668,197	$ 668,197	$ 2,006,286	$ 1,338,089

Adjustment of budetary basis to GAAP basis net change in fund balances	$ (414,432)
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.	468
Adjusted net change in fund balance - GAAP basis	$ (413,964)

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

CITY OF FLAGSTAFF, ARIZONA

Transportation Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2011

	Budget Original	Budget Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	$ 9,235,030	$ 9,235,030	$ 9,858,148	$ 623,118
Investment earnings	44,000	44,000	46,114	2,114
Total revenues	9,279,030	9,279,030	9,904,262	625,232
EXPENDITURES:				
Current:				
General administration	58,784	58,784	58,784	-
Management services	323,165	323,165	323,165	-
Economic vitality	38,240	38,240	38,240	-
Non-departmental	7,047,444	7,047,444	6,173,964	873,480
Total expenditures	7,467,633	7,467,633	6,594,153	873,480
Excess (deficiency) of revenues over (under) expenditures	1,811,397	1,811,397	3,310,109	1,498,712
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	5,000,000	5,000,000	-	(5,000,000)
Transfers out	(3,734,405)	(3,734,405)	(2,032,113)	1,702,292
Total other financing sources (uses)	1,265,595	1,265,595	(2,032,113)	(3,297,708)
Net change in fund balances	3,076,992	3,076,992	1,277,996	(1,798,996)
Budgetary fund balances, beginning of year	320,620	320,620	320,620	-
Budgetary fund balances, end of year	$ 3,397,612	$ 3,397,612	$ 1,598,616	$ (1,798,996)

Adjustment of budetary basis to GAAP basis net change in fund balances	$ 1,277,996
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.	6,418
Adjusted net change in fund balance - GAAP basis	$ 1,284,414

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

CITY OF FLAGSTAFF, ARIZONA

BBB Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2011

	Budget Original	Budget Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	$ 4,920,203	$ 4,920,203	$ 5,238,963	$ 318,760
Grants and entitlements	1,784,194	1,784,194	501,618	(1,282,576)
Charges for services	65,047	65,047	52,875	(12,172)
Licenses and permits	-	-	446	446
Rents	92,718	92,718	80,724	(11,994)
Investment earnings	44,523	44,523	35,525	(8,998)
Miscellaneous	14,712	14,712	19,948	5,236
Total revenues	6,921,397	6,921,397	5,930,099	(991,298)
EXPENDITURES:				
Current:				
Community development	2,493,239	2,493,239	858,933	1,634,306
Economic vitality	6,789,504	6,789,504	4,375,222	2,414,282
Contingency	95,000	95,000	-	95,000
Total expenditures	9,377,743	9,377,743	5,234,155	4,143,588
Excess (deficiency) of revenues over (under) expenditures	(2,456,346)	(2,456,346)	695,944	3,152,290
OTHER FINANCING SOURCES (USES):				
Transfers in	1,636,698	1,636,698	1,335,236	(301,462)
Transfers out	(1,986,926)	(1,986,926)	(1,625,757)	361,169
Total other financing sources (uses)	(350,228)	(350,228)	(290,521)	59,707
Net change in fund balances	(2,806,574)	(2,806,574)	405,423	3,211,997
Budgetary fund balances, beginning of year	4,331,358	4,331,358	4,331,358	-
Budgetary fund balances, end of year	$ 1,524,784	$ 1,524,784	$ 4,736,781	$ 3,211,997

Adjustment from budetary basis to GAAP basis net change in fund balances	$ 405,423
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.	32,095
Adjusted net change in fund balance - GAAP basis	$ 437,518

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

CITY OF FLAGSTAFF, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Business-type Activities - Enterprise Funds		
	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
ASSETS			
Current assets:			
Cash and investments	$ 7,678,904	$ 5,236,080	$ 71,720
Cash with fiscal agents	1,962,963	-	-
Receivable, net	3,531,246	1,059,953	135,398
Interfund receivables	2,000,000	-	-
Prepaid items	-	-	-
Inventory	230,561	-	-
Total current assets	15,403,674	6,296,033	207,118
Noncurrent assets:			
Restricted cash and investments	1,593,915	10,315,811	-
Refundable deposit	13,640	-	2,234,750
Deferred bond issuance costs, net	124,267	-	-
Capital assets, non-depreciable	11,305,716	1,860,628	310,532
Capital assets, depreciable, net	251,287,184	7,117,984	41,789,209
Total non-current assets	264,324,722	19,294,423	44,334,491
Total assets	279,728,396	25,590,456	44,541,609
LIABILITIES			
Current liabilities:			
Accounts payable	893,383	288,116	29,389
Accrued payroll and compensated absences	361,637	259,338	41,052
Bonds and lease payable - mature	4,398,765	-	-
Interest payable	889,196	-	-
Unearned revenue	1,218,350	50,272	70,571
Unamortized bond premium	16,763	-	-
Interfund payable	-	-	2,000,000
Deposits payable	353,873	35,464	33,085
Bonds and lease payable - current	4,684,964	-	153,028
Total current liabilities	12,816,931	633,190	2,327,125
Noncurrent liabilities:			
Compensated absences	163,265	134,029	10,086
Net OPEB obligation	186,794	138,331	23,190
Landfill closure and postclosure care costs	-	10,660,662	-
Capital lease payable	1,009,912	-	2,065,080
Bonds and notes payable	40,874,223	-	217,241
Total noncurrent liabilities	42,234,194	10,933,022	2,315,597
Total liabilities	55,051,125	11,566,212	4,642,722
NET ASSETS			
Invested in capital assets, net of related debt	211,608,273	8,978,612	39,664,392
Restricted:			
Grant and contributions purposes	-	-	-
Capital projects	1,593,915	985,366	-
Unrestricted	11,475,083	4,060,266	234,495
Total net assets	$ 224,677,271	$ 14,024,244	$ 39,898,887

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

Business-type Activities - Enterprise Funds			Governmental Activities
Housing Authority	Stormwater Fund	Total	Internal Service Fund
$ 1,364,585	$ 1,148,399	$ 15,499,688	$ 4,501,985
–	–	1,962,963	–
58,873	160,107	4,945,577	32,940
–	–	2,000,000	–
60,643	–	60,643	–
–	–	230,561	–
1,484,101	1,308,506	24,699,432	4,534,925
–	–	11,909,726	–
–	–	2,248,390	–
–	–	124,267	–
1,446,035	13,837,773	28,760,684	–
4,271,480	23,306,837	327,772,694	–
5,717,515	37,144,610	370,815,761	–
7,201,616	38,453,116	395,515,193	4,534,925
85,731	36,891	1,333,510	326,261
25,141	34,421	721,589	–
–	–	4,398,765	–
–	–	889,196	–
13,995	–	1,353,188	–
–	–	16,763	–
–	–	2,000,000	–
70,325	–	492,747	–
–	–	4,837,992	–
195,192	71,312	16,043,750	326,261
191,174	10,751	509,305	–
25,979	19,752	394,046	–
–	–	10,660,662	–
–	–	3,074,992	–
–	–	41,091,464	–
217,153	30,503	55,730,469	–
412,345	101,815	71,774,219	326,261
5,717,515	37,144,610	303,113,402	–
423,848	–	423,848	–
–	–	2,579,281	–
647,908	1,206,691	17,624,443	4,208,664
$ 6,789,271	$ 38,351,301	$ 323,740,974	$ 4,208,664

Some amounts reported for *business-type activities* in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities	(434,252)
Net assets of business-type activities	$ 323,306,722

CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds		
	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
OPERATING REVENUES:			
Charges for services	$ 18,781,751	$ 12,010,554	$ 1,387,721
Miscellaneous	-	-	355
Total operating revenues	18,781,751	12,010,554	1,388,076
OPERATING EXPENSES:			
Personal services	4,434,215	4,071,974	626,168
Contractual services, materials and supplies	7,228,993	6,720,863	1,197,730
Insurance claims and expenses	-	-	-
Depreciation and amortization	8,138,853	876,968	2,642,435
Total operating expenses	19,802,061	11,669,805	4,466,333
Operating income (loss)	(1,020,310)	340,749	(3,078,257)
NON-OPERATING REVENUES (EXPENSES):			
Interest and investment income	42,509	53,032	6,676
Grants and entitlements	204,213	298,424	796,120
Gain on sale of capital asset	29,918	17,900	-
Passenger facility charges	-	-	150,129
Interest expense	(1,799,161)	-	(141,880)
Total non-operating revenues (expenses)	(1,522,521)	369,356	811,045
Income (loss) before capital contributions and transfers	(2,542,831)	710,105	(2,267,212)
Capital contributions	4,027,280	-	-
Transfers in	1,811,739	10,000	101,000
Transfers out	(2,727,533)	(74,664)	(33,567)
Change in net assets	568,655	645,441	(2,199,779)
Total net assets, beginning of year, as restated	224,108,616	13,378,803	42,098,666
Total net assets, end of year	$ 224,677,271	$ 14,024,244	$ 39,898,887

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

Business-type Activities - Enterprise Funds			Governmental Activities
Housing Authority	Stormwater Fund	Total	Internal Service Fund
$ 1,410,731	$ 1,456,499	$ 35,047,256	$ 6,950,721
27,110	395	27,860	181,677
1,437,841	1,456,894	35,075,116	7,132,398
1,263,894	492,508	10,888,759	-
4,029,211	190,423	19,367,220	-
-	-	-	6,543,937
518,817	444,391	12,621,464	-
5,811,922	1,127,322	42,877,443	6,543,937
(4,374,081)	329,572	(7,802,327)	588,461
-	5,326	107,543	21,730
5,007,898	13,699	6,320,354	434,435
-	-	47,818	-
-	-	150,129	-
-	-	(1,941,041)	-
5,007,898	19,025	4,684,803	456,165
633,817	348,597	(3,117,524)	1,044,626
-	305,091	4,332,371	-
-	992,697	2,915,436	-
-	(231,250)	(3,067,014)	-
633,817	1,415,135	1,063,269	1,044,626
6,155,454	36,936,166	322,677,705	3,164,038
$ 6,789,271	$ 38,351,301	$ 323,740,974	$ 4,208,664

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	198,665
Change in net assets of business-type activities	$ 1,261,934

City of Flagstaff, Arizona
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

	Business-type Activities - Enterprise Funds		
	Water and Wastewater Fund	Environmental Services Fund	Airport Fund
Cash flows from operating activities:			
Receipts from customers	$ 18,688,965	$ 11,850,006	$ 1,409,814
Interfund services provided	297,524	74,103	-
Other receipts	27,201	-	150,484
Payments to suppliers	(4,408,189)	(4,646,579)	(795,506)
Interfund services used	(49,242)	(2,932)	(23,583)
Interfund reimbursement used	(2,289,737)	(1,442,132)	(364,524)
Payments to employees	(4,415,539)	(3,970,605)	(617,175)
Net cash provided (used) by operating activities	7,850,983	1,861,861	(240,490)
Cash flows from noncapital financing activities:			
Transfer from other funds	1,811,739	(74,664)	(33,567)
Transfer to other funds	(2,727,533)	10,000	101,000
Interfund loans paid	100,000	-	-
Interfund loans received	-	-	(100,000)
Net cash provided (used) by noncapital financing activities	(815,794)	(64,664)	(32,567)
Cash flows from capital and related financing activities:			
Receipts from grantors	144,603	390,561	813,075
Capital Contributions	1,312,521	-	-
Acquisition and construction of capital assets	(919,671)	(410,747)	(197,167)
Principal payments on capital debt	(4,220,128)	-	(144,806)
Interest paid on capital debt	(1,739,813)	-	(141,880)
Proceeds from capital debt	3,257,476	-	-
Proceeds from sales of capital assets	38,599	17,900	-
Net cash provided (used) by capital and related financing activities	(2,126,413)	(2,286)	329,222
Cash flows from investing activities:			
Interest received on investments	46,307	56,522	1,218
Net cash provided (used) by investing activities	46,307	56,522	1,218
Net increase (decrease) in cash and cash equivalents	4,955,083	1,851,433	57,383
Cash and cash equivalents at beginning of year	6,280,699	13,700,458	14,337
Cash and cash equivalents at end of year	$ 11,235,782	$ 15,551,891	$ 71,720
Classified as:			
Cash, cash equivalents, and investments	$ 7,678,904	$ 5,236,080	$ 71,720
Restricted cash with fiscal agents	1,962,963	-	-
Restricted cash and cash equivalents	1,593,915	10,315,811	-
Totals	$ 11,235,782	$ 15,551,891	$ 71,720

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

Business-type Activities - Enterprise Funds			Governmental Activities
Housing Authority Fund	Stormwater Fund	Total	Internal Service Fund
$ 1,405,326	$ 1,396,503	$ 34,750,614	$ 6,953,878
–	47,418	419,045	–
27,110	395	205,190	181,678
(4,067,090)	(46,484)	(13,963,848)	(6,671,019)
–	–	(75,757)	–
–	(132,370)	(4,228,763)	–
(1,266,511)	(477,037)	(10,746,867)	–
(3,901,165)	788,425	6,359,614	464,537
–	(231,250)	1,472,258	–
–	992,697	(1,623,836)	–
–	–	100,000	–
–	–	(100,000)	–
–	761,447	(151,578)	–
5,007,898	1,488	6,357,625	434,435
–	–	1,312,521	–
(787,499)	(1,274,895)	(3,589,979)	–
–	–	(4,364,934)	–
–	–	(1,881,693)	–
–	–	3,257,476	–
–	–	56,499	–
4,220,399	(1,273,407)	1,147,515	434,435
–	5,466	109,513	24,663
–	5,466	109,513	24,663
319,234	281,931	7,465,064	923,635
1,045,351	866,468	21,907,313	3,578,350
$ 1,364,585	$ 1,148,399	$ 29,372,377	$ 4,501,985
$ 1,364,585	$ 1,148,399	$ 15,499,688	$ 4,501,985
–	–	1,962,963	–
–	–	11,909,726	–
$ 1,364,585	$ 1,148,399	$ 29,372,377	$ 4,501,985

(continued)

Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011

	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)	$ (1,020,310)	$ 340,749	$ (3,078,256)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	8,138,853	876,968	2,642,435
Landfill closure and postclosure costs	-	456,554	-
Other receipts	27,201	-	150,129
(Increase) decrease in assets:			
Accounts receivable	(913,917)	(89,286)	40,984
Allowance for doubtful accounts	30,000	(15,000)	-
Prepaid items	70,820	-	-
Intergovernmental receivable	-	-	-
Inventories	(60,592)	-	-
Increase (decrease) in liabilities:			
Accounts payable	471,597	172,666	14,117
Accrued payroll, compensated absences	(73,768)	32,299	(2,720)
OPEB	92,444	69,070	11,713
Deposits payable	290	(1,626)	(249)
Deferred revenue	1,088,365	19,467	(18,643)
Total Adjustments	8,871,293	1,521,112	2,837,766
Net cash provided (used) by operating activities	$ 7,850,983	$ 1,861,861	$ (240,490)
Noncash investing, capital and financing activities:			
Capital assets acquired through contributions from developers	$ 2,322,330	$ -	$ -
Capital assets transferred to governmental activities	(758,000)	-	-
Capital assets transferred from governmental activities	1,150,429	-	-
Total noncash investing, capital and financing activities	$ 2,714,759	$ -	$ -

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

Business-type Activities - Enterprise Funds			Governmental Activities
Housing Authority Fund	Stormwater Fund	Total	Internal Service Fund
$ (4,374,081)	$ 329,572	$ (7,802,326)	$ 588,462
518,817	444,391	12,621,464	–
–	–	456,554	–
–	–	177,330	–
		–	
(4,136)	(12,578)	(978,933)	3,157
–	–	15,000	
(26,967)	–	43,853	
–	–	–	–
–	–	(60,592)	–
		–	
(10,912)	11,569	659,037	(127,082)
(2,154)	5,554	(40,789)	–
(463)	9,917	182,681	
1,125	–	(460)	–
(2,394)	–	1,086,795	–
472,916	458,853	14,161,940	(123,925)
$ (3,901,165)	$ 788,425	$ 6,359,614	$ 464,537
$ –	$ 113,978	$ 2,436,308	$ –
–	–	(758,000)	
–	191,113	1,341,542	
$ –	$ 305,091	$ 3,019,850	$ –

(concluded)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

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

The accounting policies of the City of Flagstaff conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to Governmental Units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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 Assets and Activities to emphasize they are legally separate from the government. The City of Flagstaff has no discretely presented component units.

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

Interdepartmental services performed by one department for another are credited to the performing department and charged to the receiving department to reflect the accurate costs of programs. These indirect costs have been included as part of the program expenses reported for the various functional activities. The rates used are intended to reflect full costs in accordance with generally accepted cost accounting principles. Interfund services provided and used are not eliminated in the process of consolidation.

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

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recorded as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the governmental-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

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

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

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

The City uses the following fund categories:

Governmental Fund Types

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

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

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

- *Highway User Revenue Fund*, which receives and expends the City's allocation of the Highway User Revenue money. 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.

- *Bed, Board and Beverage Tax 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.

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

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

Capital Projects Fund is used to account for major capital acquisition and construction separate from ongoing operating activities. Resources for capital projects typically result from the issuance of general obligation or other government debt. No Capital Projects Funds are presented as major funds.

Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs. Resources are generated from ongoing plot sales with a portion allocated to perpetuity.

Proprietary Fund Types

Proprietary Funds are used to account for the City's ongoing organizations and activities, which are similar to those found in the private sector and where cost recovery and the determination of net income is useful or necessary for sound fiscal management. The measurement focus is based upon determination of net income, changes in net assets, financial position, and cash flows.

Enterprise Funds are used to account for operations that provide services to the general public for a fee. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs. The City has five enterprise funds all of which are presented as major funds in the basic financial statements.

- *Water and Wastewater Utility* accounts for the City water pumping, treatment and distribution systems and the City wastewater collection, and treatment systems.

- *Environmental Services Fund* accounts for the operations of City refuse and management of the City landfill. A recycling collection services as well as the management of sustainability programs.

- *Airport Fund* that accounts for the construction, operations and maintenance of the City airport.

- *Housing Authority Fund* accounts for low income rental assistance along with federal housing programs such as low income public housing and voucher programs that enhance this funds ability to provide services.

- *Stormwater Utility* accounts for the construction, operations and maintenance activities of the City stormwater system.

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

Private Sector Standards

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Basis of Accounting

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

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

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

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

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

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

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

Budgets and Budgetary Accounting

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

- The maximum legal expenditure permitted for the year is the total budget as adopted. The expenditure appropriations in the adopted budget are maintained in the City's financial system by department within individual funds. Department appropriations may be amended during the year, within administrative guidelines and adopted Council policies.

- The initial budget for the fiscal year may be amended during the year in a legally permissible manner.

- The City Manager is generally authorized to transfer budgeted amounts within any specific department's expenditure appropriation. Any budget revisions requiring a transfer between departments must be approved by the City Council. Additionally, budget revisions involving personnel or capital asset expenditures/expenses must be approved by the City Council.

- All unencumbered expenditure appropriations expire at the end of the fiscal year.

- Encumbered amounts are re-budgeted in the following year as deemed appropriate and necessary after review by the Budget Committee. Budgetary carry forwards are approved by the City Council as part of the budget adoption process.

- All funds of the City have legally adopted budgets with the exception of the Internal Service Fund and Perpetual Care Fund. Formal integration of these budgets into the City's financial systems is employed as a management control device during the year for all funds.

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

D. Assets, Liabilities, and Net Assets

Cash and Investments

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

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

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

For purposes of the statement of cash flows, the City considers cash and cash equivalents, including restricted cash and cash equivalents, to be currency on hand, demand deposits with banks, amounts included in pooled cash and investment accounts and liquid investments with a maturity of three months. 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, the BBB Fund, the Airport Fund and the General Obligation Bond Fund. General Obligation bonds are serviced by each of these funds. For fiscal year 2010-2011, primary and secondary property tax collections amounted to $5,259,037 and $7,184,209 respectively.

Inventory

Inventory is valued at cost, which approximates market, using the weighted average cost method. Inventory consists of expendable supplies held for consumption and is charged to expenditure accounts as consumed.

Restricted Assets

Certain debt proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted on the balance sheet, or statement of net assets, because they are maintained in trust accounts and their use is limited by applicable debt covenants. Typically, restricted assets, committed assets and assigned assets are used prior to using unassigned assets when both are available for the same purpose.

Grant Revenue

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

Capital Assets

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

Capital assets, including public domain infrastructure (i.e., roads, bridges, curbs and gutters, streets and sidewalks, and other assets that are immovable and of value only to the City) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than $5,000 ($25,000 for capital improvement projects and infrastructure assets) and an estimated useful life greater than five 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):

Assets	Useful life (years)
Buildings	20-50
Improvements	10-20
Machinery and Equipment	5-20
Infrastructure	10-75

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. Vested (at least 20 years of service) sick leave is payable upon retirement, disability or death of up to 50 percent (not more than 520 hours) of accumulated sick leave.

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 causes 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 represents 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 assets.

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 assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds.

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. 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 an official or body to which the City Council delegates the authority. 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 Assets

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

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

	Total Governmental Funds	Capital Assets (1)	Long-Term Liabilities (2)	Internal Service Fund (3)	Reclass and Eliminations (4)	Statement of Net Assets Totals
Assets						
Cash and cash equivalents	$ 36,495,526	$ –	$ –	$ 4,501,985	$ (16,574,640)	$ 24,422,871
Cash with fiscal agents	5,968,340	–	–	–	–	5,968,340
Investments	–	–	–	–	16,574,640	16,574,640
Accounts receivable, net	6,387,962	–	367,135	30,333	–	6,785,430
Interest receivable	33,905	–	–	2,607	–	36,512
Intergovernmental receivables	4,489,592	–	–	–	–	4,489,592
Bond proceeds receivable	127,674	–	–	–	–	127,674
Special assessments receivable	18,334,079	–	–	–	–	18,334,079
Interfund receivable	4,400,000	–	–	434,252	(4,400,000)	434,252
Deferred issuance costs - Prepaid items	–	–	558,758	–	–	558,758
Inventory	479,029	–	–	–	–	479,029
Restricted cash and cash equivalents	4,873,003	–	–	–	–	4,873,003
Refundable deposits	57,794					57,794
Property held for sale	500,000	–	–	–	–	500,000
Capital assets	–	294,628,437	–	–	(583,542)	294,044,895
Total Assets	$ 82,146,904	$ 294,628,437	$ 925,893	$ 4,969,177	$ (4,983,542)	$ 377,686,869
Liabilities and Net Assets						
Accounts payable	$ 4,119,422	$ –	$ –	$ 326,261	$ –	$ 4,445,683
Accrued payroll & compensated absences	2,247,705	–	–	–	–	2,247,705
Interest payable	1,659,899	–	–	–	–	1,659,899
Interfund payable	4,400,000	–	–	–	(4,400,000)	–
Unearned revenue	297,351	–	–	–	–	297,351
Deferred revenue	18,900,161	–	(18,900,161)	–	–	–
Guaranty and other deposits	1,426,673	–	–	–	–	1,426,673
Current bonds and lease payable	5,380,000	–	–	–	–	5,380,000
Compensated absences	–	–	3,637,606	–	–	3,637,606
Other postemployment benefits	–	–	1,835,037	–	–	1,835,037
Unmatured long-term debt	–	–	71,237,458	–	–	71,237,458
Fund balance/Net Assets	43,715,693	294,628,437	(57,687,956)	4,642,916	(583,542)	284,715,548
Total liabilities and net assets	$ 82,146,904	$ 294,628,437	$ 925,893	$ 4,969,177	$ (4,983,542)	$ 377,686,869

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

Costs of capital assets	$ 455,240,055
Accumulated depreciation	(160,611,618)
Transfer of capital assets from business-type activities	758,000
Transfer of capital assets to business-type activities	(1,341,542)
	$ 294,044,895

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

Unamortized bond issue costs	$ 558,758

Certain receivables are not recognized in the govermental funds, but are earned in the statement of net assets.

Deferred court receivables	$ 367,135

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly are not reported as fund liabilities in the governmental fund statement. All liabilities, both current and long-term are reported in the statement of net assets.

Governmental bonds payable	$ 76,617,458
Compensated absences	5,333,127
Other postemployment benefits	1,835,037
Unamortized bond premium	803,909
Subtotal	84,589,531
Less: current portion compensated absences	1,695,521
Less: current portion of bonds and leases	5,380,000
	$ 77,514,010

Deferred revenue for the long-term special assessment receivables and property tax shown on the governmental fund statements is not deferred on the statements of net assets.

Deferred special assessment	$ 18,333,655
Deferred property tax	566,506
	$ 18,900,161

(3) Internal service funds are used by management to charge the costs self insurance to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets, but are not included on the governmental fund balance sheet.

ISF net assets	$ 4,642,916

(4) Certain interfund transactions between governmental activities and between business-type activties are eliminated in the consolidation of those activities for the statement of net assets.

Interfund receivables	$ 4,400,000
Interfund payables	(4,400,000)
	$ -

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	$ 43,799,128	$ -	$ 202,471	$ -	$ -	$ 44,001,599
Intergovernmental	17,488,021	-	-	-	(4,570,140)	12,917,881
Grants and entitlements	10,583,483	-	-	434,435	4,570,140	15,588,058
Charges for services	2,926,237	-	-	-	-	2,926,237
Special assessments	701,447	-	(173,378)	-	-	528,069
Licenses and permits	739,040	-	-	-	-	739,040
Fines and forfeitures	1,673,306	-	(22,631)	-	-	1,650,675
Rent	1,617,912	-	-	-	-	1,617,912
Investment earnings	224,363	-	-	21,730	-	246,093
Contributions	166,417	1,165,029	-	-	-	1,331,446
Miscellaneous	1,719,608	21,730	-	-	-	1,741,338
Total revenue	81,638,962	1,186,759	6,462	456,165	-	83,288,348
Expenditures/Expenses						
General governmental	7,113,922	582,924	194,123	(40,015)	-	7,850,954
Public safety	24,476,615	1,280,612	362,958	(132,992)	-	25,987,193
Public works	1,299,027	496,477	(32,468)	(9,003)	-	1,754,033
Economic and physical development	8,202,024	259,711	56,411	(43,370)	-	8,474,776
Culture and recreation	10,782,848	1,979,900	157,866	(65,790)	-	12,854,824
Highways and streets	10,612,033	8,673,087	88,887	(98,626)	-	19,275,381
Principal retirement	6,761,179	-	(6,761,179)	-	-	-
Interest and other charges	3,451,706	-	(80,788)	-	-	3,370,918
Capital outlay	11,785,480	(11,785,480)	-	-	-	-
Total expenditures/expenses	84,484,834	1,487,231	(6,014,190)	(389,796)	-	79,568,079
OTHER FINANCING SOURCES (USES):						
Sale of capital assets	45,655	(359,683)	-	-	1,058,985	744,957
Insurance recovery	1,058,985	-	-	-	(1,058,985)	-
Transfers in	13,661,630	-	-	-	758,000	14,419,630
Transfers out	(14,268,052)	-	-	-	(1,341,542)	(15,609,594)
Total other financing sources (uses)	498,218	(359,683)	-	-	(583,542)	(445,007)
Net change for the year	$ (2,347,654)	$ (660,155)	$ 6,020,652	$ 845,961	$ (583,542)	$ 3,275,262

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

Capital outlay	$	11,785,480
Depreciation expense		(12,731,239)
Gain (loss) on sale of capital assets		(1,773)
Gain (loss) on impairment of capital assets		(877,652)
Donated capital assets		1,165,029
	$	(660,155)

(2) Special assessment principal payments received are reported as revenue on the governmental fund statements, but are reductions to the outstanding special assessment debt for government-wide reporting. Property tax revenue not received within 30 days of year end are deferred for governmental fund reporting, but are not deferred for government-wide reporting.

Special assessment received	$	(173,378)
Property tax		202,471
Court revenue		(22,631)
	$	6,462

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

Amortization of bond issuance costs	$	(55,400)
	$	(55,400)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrual of long-term compensated absences	$	113,459
Accural of other postemployment benefits		(885,970)
	$	(772,511)

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

Principal bond payments	$	6,761,313
Amortization of bond premium		80,788
	$	6,842,101

(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	$	456,165
Expenditures		389,796
	$	845,961

(4) Certain interfund transactions between governmental activities and between business-type activties are eliminated in the consolidation of those activities for the statement of net assets.

Transfer of capital assets from enterprise fund	$	758,000
Transfer of capital assets to enterprise fund		(1,341,542)
	$	(583,542)

C. Fund Balance Classification

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

Nonspendable fund balance represents amounts that are nonspendable such as inventories and nonexpendable portion of permanent funds. Restricted fund balances represent constraints placed on the use of resources imposed externally by creditors, grantors, contributors, or laws and regulations of other governments. Resources imposed by constitutional provisions of enabling legislation that allows the ability to levy, charge, or mandate payment of resources are also classified as restricted. Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of 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. 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 or budget committee who has the authority to assign amounts used for specific purposes. Unassigned fund balance represents the remaining amount that is not restricted, committed, nonspendable nor assigned in the general fund.

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

Governmental fund balances as of June 30, 2011 are as follows:

	General Fund	Highway User Revenue Fund	Transportation Fund	BBB Fund	Special Assessment Bond Fund	Other Governmental Funds	Total Governmental Funds
Fund balances:							
Nonspendable:							
Perpetual care	$ –	$ –	$ –	$ –	$ –	$ 162,571	$ 162,571
Inventory	427,267	-	-	51,762	-	-	479,029
Restricted for:							
Library services	–	–	–	–	–	764,613	764,613
Library branch services	–	–	–	–	–	843,727	843,727
Library programs	–	–	–	–	–	2,246,343	2,246,343
Court improvements and operations	795,983	–	–	–	–	–	795,983
Debt services	–	–	–	–	–	5,801,812	5,801,812
Regional planning	–	–	–	–	–	3,696	3,696
Street improvements	–	2,342,415	–	–	–	–	2,342,415
Transit	–	–	2,096,313	–	–	–	2,096,313
Economic development	–	–	–	536,750	–	–	536,750
Arts and science	–	–	–	376,212	–	–	376,212
Culture and recreation	–	–	–	950,997	–	–	950,997
Perpetual care	–	–	–	–	–	14,192	14,192
Other capital projects	362	–	878,365	4,498,542	–	1,658,977	7,036,246
Committed to:							
Development fee projects	85,119	–	–	–	–	–	85,119
Assigned to:							
Court services	38,285	–	–	–	–	–	38,285
Capital reserve	6,318,782	–	–	–	–	–	6,318,782
Real estate	525,880	–	–	–	–	–	525,880
Unassigned:	15,160,509	–	–	–	(491,849)	(2,371,932)	12,296,728
Total fund balances	$ 23,352,187	$ 2,342,415	$ 2,974,678	$ 6,414,263	$ (491,849)	$ 9,123,999	$43,715,693

D. Negative Fund Balance

The Special Assessment Bond Fund ended the fiscal year, June 30, 2011, with a negative fund balance of $491,849. This was caused by the City forgoing its portion of the special assessment payments for property within the district. The property was reverted to the City due to a default by the developer. During the fiscal year the property was put up for sale and sold in June 2011; with the commitment of the buyer to pay these assessments upon settlement in the next fiscal year. Refer to section F. Subsequent Events.

The Capital Projects Fund ended the fiscal year, June 30, 2011, with a negative fund balance of $2,371,932. This was caused by capital expenditures being incurred for debt funded projects prior to the debt being issued. The debt was issued in the following fiscal year as noted in section F. Subsequent Events.

E. Change in Beginning Net Assets

Reporting Change Due to Inclusion of Flagstaff Housing Authority

The City determined that by ordinance, the Flagstaff Housing Authority no longer should be reported as a separate legal entity. As of July 1, 2010, the Flagstaff Housing Authority has become a proprietary fund operating as the Housing Authority within the City financial system.

The following discloses the restatement of net assets as of the beginning of the fiscal year:

	Housing Authority
Net assets, beginning of year, as previously stated:	$ -
Inclusion of Flagstaff Housing Authority Fund per ordinance	6,155,454
Net assets, beginning of year, as restated	$ 6,155,454

	Business-type Activities
Net asset, beginning of year, as previously stated:	$ 315,889,334
Inclusion of Flagstaff Housing Authority (Housing Authority Fund) per ordinance	6,155,454
Net asset, beginning of year, as restated:	$ 322,044,788

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budget Basis of Accounting

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

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

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

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

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

Review and Approval

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

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

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

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

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

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 Assets as "Cash and cash equivalents," "Cash with fiscal agents," "Investments," and "Restricted cash and investments."

Deposits

At June 30, 2011, the carrying amount of the City's deposits was $14,323,437 and the bank balance was $15,212,438. The $889,001 difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2011.

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. As of June 30, 2011, all City deposits and those held by fiscal agents were covered by federal depository insurance or by collateral held by the City's agent in the City's name. All investments are either registered in the City's name or are held by a third party in the City's name.

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, 2011, the City's investments included the following

Investment Type	Fair Value	Weighted Average Maturity (in years)
U.S. agency securities	$ 16,574,640	3.929
Mutual fund - money market	11,331,696	0.003
State Investment Pool	38,981,458	0.005
Total fair value of investments	$ 66,887,794	
Portfolio weighted average maturity		0.977

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, money market accounts, certificates of deposit, and the State of Arizona Local Government Investment Pool (LGIP).

The credit quality ratings of investments as described by nationally recognized Moody's rating service as of June 30, 2011 is as follows:

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End AAA	Unrated
U.S. agency securities	$ 16,574,640	N/A	$ 16,574,640	$ -
State investment pool (LGIP)	38,981,458	N/A	38,981,458	-
Mutual fund - money market	11,331,696	N/A	-	11,331,696
Total	$ 66,887,794		$ 55,556,098	$ 11,331,696

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%. State of Arizona Investment Pool represents 60 percent of the City's total investments. In addition, Federal Home Loan Bank and Federal National Mortgage Association represent 12 percent and 15 percent, respectively, of the City's total investment.

At June 30, 2011, the City's cash and investments included the following:

Carrying amount of investments	$ 66,887,794
Carrying amount of cash deposits	14,323,437
Total pooled cash and investments	$ 81,211,231
Pooled cash and cash equivalents - unrestricted	$ 39,922,559
Investments - unrestricted	16,574,640
Restricted cash with fiscal agent	7,931,303
Restricted cash and investments	16,782,729
Total pooled cash and investments	$ 81,211,231

Cash and cash equivalents at June 30, 2011 consisted of the following:

Investments included in cash and cash equivalents	$ 39,906,534
Cash on hand	16,025
Total cash and cash equivalents per statement of net assets	$ 39,922,559

Investment income comprises the following for the year ended June 30, 2011:

Net interest and dividends	$ 439,817
Net increase (decrease) in the fair value of investments	(86,181)
Total net investment income per statement of activities	$ 353,636

The net decrease in the fair value of investments during fiscal year 2010-2011 was $86,181. 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, 2011 was $83,181.

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 distributions this year but total recovery to date is $777,005.

In previous years, the City recognized a decrease in fair value of $272,785 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 file claims on behalf of the LGIP investors. No distributions have been made to date.

B. Receivables

Receivables as of June 30, 2011, including allowances for uncollectible accounts, are as follows:

Fund	Accounts	Interest	Intergov-ernmental	Bond Proceeds	Special Assessments	Total Receivables
Governmental Activities						
General fund	$ 5,423,667	$ 15,967	$ 1,857,024	$ 127,674	$ -	$ 7,424,332
Highway user revenue fund	763,475	70	-	-	-	763,545
Transportation fund	1,027,563	5,485	1,473,795	-	-	2,506,843
BBB fund	562,698	3,874	605,344	-	-	1,171,916
Special assessment fund	-	128	-	-	18,334,079	18,334,207
Other governmental funds	5,365	8,381	553,429	-	-	567,175
Less: allowance for uncollectibles	(1,027,671)	-	-	-	-	(1,027,671)
Total government funds	6,755,097	33,905	4,489,592	127,674	18,334,079	29,740,347
Internal services funds	30,333	2,607	-	-	-	32,940
Total governmental activities	6,785,430	36,512	4,489,592	127,674	18,334,079	29,773,287
Business-Type Activities						
Water and wastewater	3,478,253	6,761	116,232	-	-	3,601,246
Environmental services	1,120,618	4,078	10,257	-	-	1,134,953
Airport	26,462	6,203	107,733	-	-	140,398
Stormwater	147,722	686	13,699	-	-	162,107
Flagstaff Housing Authority	58,873					58,873
Less: allowance for uncollectibles	(152,000)	-	-	-	-	(152,000)
Total business-type activities	4,679,928	17,728	247,921	-	-	4,945,577
Total activities	$11,465,358	$ 54,240	$ 4,737,513	$ 127,674	$ 18,334,079	$ 34,718,864

The receivables not expected to be collected within one year include $1,027,671 of the general fund, $70,000 of the Water and Wastewater, $75,000 of the environmental services fund, $5,000 of the airport fund, and $2,000 of the Stormwater fund.

C. Capital Assets

A summary of capital asset activity, for the government-wide financial statements, as of June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2011
Governmental activities:					
Non-depreciable assets:					
Land	$ 43,652,469	$ 864,902	$ -	$ 3,432,422	$ 47,949,793
Construction -in-progress	15,509,017	4,584,014	(541,472)	(10,545,921)	9,005,638
Total non-depreciable assets	59,161,486	5,448,916	(541,472)	(7,113,499)	56,955,431
Depreciable assets:					
Buildings	70,100,362	1,753,095	(950,847)	1,431,436	72,334,046
Improvements	21,632,595	40,644	(1,088,198)	26,346	20,611,387
Machinery and equipment	30,541,647	460,716	(273,081)	-	30,729,282
Infrastructure	263,707,054	5,247,138	-	5,072,175	274,026,367
Total depreciable assets	385,981,658	7,501,593	(2,312,126)	6,529,957	397,701,082
Accumulated depreciation:					
Buildings	(15,234,120)	(1,508,508)	709,133	-	(16,033,495)
Improvements	(11,560,079)	(1,038,072)	1,029,213	-	(11,568,938)
Machinery and equipment	(19,418,791)	(1,781,750)	235,827	-	(20,964,714)
Infrastructure	(103,641,562)	(8,402,909)	-	-	(112,044,471)
Total accumulated depreciation	(149,854,552)	(12,731,239)	1,974,173	-	(160,611,618)
Governmental activities capital assets, net	$ 295,288,592	$ 219,270	$ (879,425)	$ (583,542)	294,044,895
				Less: associated debt	(76,617,458)
				Less: unamortized premium	(803,909)
				Plus: unspent capital related debt	1,256,458
				Invested in capital assets, net of related debt	$ 217,879,986

	Balance as restated July 1, 2010	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2011
Business-type activities:					
Non-depreciable assets:					
Land	$ 11,746,832	$ 866,558	$ -	$ (758,000)	$ 11,855,390
Construction -in-progress	15,793,040	1,955,767	-	(843,513)	16,905,294
Total non-depreciable assets	27,539,872	2,822,325	-	(1,601,513)	28,760,684
Depreciable assets:					
Buildings	101,570,284	472,784	(42,128)	-	102,000,940
Improvements	359,549,450	1,962,204	(5,613,006)	2,185,055	358,083,703
Machinery and equipment	44,337,523	768,977	(542,614)	-	44,563,886
Total depreciable assets	505,457,257	3,203,965	(6,197,748)	2,185,055	504,648,529
Accumulated depreciation:					
Buildings	(39,310,220)	(2,364,449)	42,128	-	(41,632,541)
Improvements	(115,339,176)	(7,480,895)	5,604,321	-	(117,215,750)
Machinery and equipment	(15,794,038)	(2,776,120)	542,614	-	(18,027,544)
Total accumulated depreciation	(170,443,434)	(12,621,464)	6,189,063	-	(176,875,835)
Business-type activities capital assets, net	$ 362,553,695	$ (6,595,174)	$ (8,685)	$ 583,542	356,533,378
				Less: associated debt	(53,403,213)
				Less: unamortized premium	(16,763)
				Invested in capital assets, net of related debt	$ 303,113,402

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

Governmental Activities:	
General government	$ 582,924
Public safety	1,280,612
Public works	211,160
Economic and physical development	259,711
Culture and recreation	1,979,900
Highway and streets	8,416,932
Total depreciation expense - governmental activities	$ 12,731,239

D. Interfund Receivables, Payables, and Transfers

Interfund receivables and payables

Net interfund receivables and payables between governmental activities and business-type activities of $434,252 are included in the government-wide financial statements at June 30, 2011. The interfund balances at June 30, 2011 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, 2011 are expected to be repaid within one year.

The following interfund receivables and payables are included in the fund financial statements at June 30, 2011:

Fund	Interfund Receivables
Governmental Activities:	
General fund	$ 4,400,000
Special assessment bond fund	-
Other governmental funds	-
Total governmental activities	4,400,000
Business-Type Activities:	
Water and wastewater fund	2,000,000
Airport fund	-
Total business-type activities	2,000,000
Total governmental and business-type activities	$ 6,400,000
Less: fund eliminations	(6,400,000)
Adjustment for internal service fund elimination	434,252
Total government-wide statement of net assets	$ 434,252

Transfers

The net transfers of $1,189,964 from governmental activities to business-type activities on the government-wide statement of activities are primarily debt service and operational subsidies from the General Fund. There were no significant transfers during fiscal year 2011 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, 2011: At year end a resolution was brought forward to City Council to inform the alignment related to transfers, no budget adjustments were necessary.

Fund	Transfers out	Transfers In
Governmental Activities:		
General fund	$ 4,586,907	$ 4,396,093
Highway user revenue fund	585,401	3,640,922
Transportation fund	2,032,113	-
BBB fund	1,625,757	1,335,236
Special assessment fund	-	-
Other governmental funds	5,437,874	4,289,379
Total governmental activities	14,268,052	13,661,630
Business-Type Activities:		
Water and wastewater fund	2,727,533	1,811,739
Environmental services fund	74,664	10,000
Airport fund	33,567	101,000
Stormwater fund	231,250	992,697
Total business-type activities	3,067,014	2,915,436
Total governmental and business-type activities	$ 17,335,066	$ 16,577,066
Less: fund eliminations	(16,728,644)	
Add: net capital assets transfer	583,542	
Total government-wide statement of activities	$ 1,189,964	

E. Leases

Operating Leases Expenditures

The City leases library space under a non-cancelable operating lease. The lease is for the East Flagstaff Library. The terms of the contract is for a period of 10 years, beginning September 2002 (FY-2003) and ending in September 2012 (FY-2013) with adjustments on July 1st to the lease amount based on the prior year change in the Consumer Price Index for the prior year. Fiscal Year 2011 lease expense for the library was $78,342. The schedule below for future minimum lease expenses reflects the change in the rental rate as of July 1, 2011.

Operating Lease Expenditures

Year Ending June 30		East Flagstaff Library
2012	$	78,342
2013		15,312
Total	$	93,654

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, 2011 were $126,542.31.

Operating Lease Revenues

The City leases several City-owned buildings under cancelable and non-cancelable agreements. The carrying value of the leased assets is $4,331,936 (cost of $5,665,896 less accumulated depreciation of $1,333,960.09) with current depreciation of $132,927. Certain leases contain provisions for future rate increases based on changes in the Consumer Price Index. Total revenue for fiscal year 2011 was $1,535,253. The City currently has one lease with non-cancelable terms that is for USGS building #6, which is guaranteed through August 2018. The following table represents the future minimum lease receivable from the lease with non-cancelable terms. The amounts shown include revenue related to the asset and the operational expenses.

Year Ending June 30		USGS Building #6
2012	$	785,448
2013		785,448
2014		785,448
2015		785,448
2016-2018		1,636,350
Total	$	4,778,142

In addition, the Airport Fund has several leases under cancelable agreements. The leases are for terminal space, hangars, shades, tiedowns, ground leases and a cafe. Lease revenue in the Airport fund for fiscal year 2011 was $1,218,820. The carrying value of the leased assets is $5,253,220 (cost of $7,983,707 less accumulated depreciation of $2,730,487) with current year depreciation of $187,435.

F. Long-Term Debt

General Obligation Bonds

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

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

General obligation bonds outstanding at June 30, 2011:

Purpose	Amount
Governmental activities	$ 24,015,000
Business-type activities	1,680,000
Business-type activities - refunding	2,150,000
Total general obligation bonds outstanding	$ 27,845,000

General obligation bonds payable at June 30, 2011 consist of the following individual issues:

Governmental activities:	
$3,100,000 Parks and recreation bonds, series 2001 due in annual installments of $385,000 to $505,000 through July 1, 2014; interest rate at 4.375% to 4.75%.	$ 1,445,000
$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%.	22,570,000
Total governmental activities	24,015,000
Business-type activities:	
$8,000,000 Water improvement project bonds, series 1997, principal payment of $1,680,000 due July 1, 2013; interest at 4.5%. Fiscal years 2007-2012 refunded in December 2003.	1,680,000
$8,230,000 Water refunding bond, series 2003, due in annual installments of $190,000 to $1,960,000 through July 1, 2013; interest at 3.0% to 3.25%.	2,150,000
Total business-type activities	3,830,000
Total General Obligation Bonds	$ 27,845,000

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

Year Ending June 30	Govermental Activities Principal	Govermental Activities Interest	Business-type Activities Principal	Business-type Activities Interest
2012	$ 1,930,000	$ 1,083,870	$ 1,960,000	$ 145,476
2013	2,020,000	989,670	1,870,000	81,776
2014	2,125,000	890,350	-	-
2015	1,710,000	781,313	-	-
2016	1,800,000	691,538	-	-
2017-2021	10,350,000	2,111,737	-	-
2022-2023	4,080,000	206,574	-	-
Total	$ 24,015,000	$ 6,755,053	$ 3,830,000	$ 227,252

Statutory Debt Limitation

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

The City's computation of legal debt margins available for creation of additional debt at June 30, 2011 was $158,274,388 and $47,482,316 for the 20 percent and 6 percent debt limits, respectively. Also, see Schedule 16 in the Statistical Section.

Special Assessment Bonds

Proceeds from special assessment bonds are used for improvements such as paving, sidewalks, and sewers. Payments made by the assessed property owners are pledged as collateral. In the event of default by a property owner, the lien created by the assessment is sold at public auction and the proceeds are used to offset the defaulted assessment. If there is no purchase at the public auction, the City is required to buy the property with funds appropriated from the General Fund.

Special assessment bonds outstanding at June 30, 2011:

Purpose	Amount
Governmental activities	$ 18,130,000

Special assessment bonds payable at June 30, 2011 consist of the following individual issues:

Governmental activities:

$19,075,000 Improvement district bonds, due in annual installments of $460,000 to $1,345,000, through January 1, 2032; interest at 5.0%	$ 18,130,000
Total Special Assessment Bonds	$ 18,130,000

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

Year Ending June 30	Govermental Activities Principal	Interest
2012	$ 505,000	$ 893,875
2013	535,000	867,875
2014	560,000	840,500
2015	590,000	811,750
2016	615,000	781,625
2017-2021	3,580,000	3,400,750
2022-2026	4,565,000	2,387,875
2027-2031	5,835,000	1,094,125
2032	1,345,000	33,625
Total	$ 18,130,000	$ 11,112,000

Revenue Bonds

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

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

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

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

Revenue bonds outstanding at June 30, 2011:

Purpose	Amount
Governmental activities	$ 4,930,000
Business-type activities	4,298,785
Total revenue bonds outstanding	$ 9,228,785

Revenue bonds at June 30, 2011 consist of the following individual issues:

Governmental activities:

$5,580,000 Junior lien street and highway user revenue bonds, series 1992, serial bonds due in installments of $350,000 to $1,725,000 through July 1, 2012; interest at 6.12%.	$ 1,725,000
$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%.	3,205,000
Total Governmental activities	4,930,000

Business-type activities:

$6,775,760 Water and wastewater revenue bonds, series 2003 due in annual installments of $238,431 to $462,398 through July 1, 2022; interest at 3.548%.	4,298,785
Total Revenue Bonds	$ 9,228,785

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

Year Ending	Govermental Activities		Business-type Activities	
June 30	Principal	Interest	Principal	Interest
2012	$ 1,845,000	$ 228,513	$ 326,302	$ 152,499
2013	120,000	130,038	337,877	140,924
2014	125,000	126,437	349,863	128,938
2015	130,000	122,688	362,275	116,526
2016	135,000	117,487	375,127	103,675
2017-2021	755,000	502,437	2,084,944	309,062
2022-2026	920,000	332,362	462,397	16,403
2027-2030	900,000	106,376	-	-
Total	$ 4,930,000	$ 1,666,338	$ 4,298,785	$ 968,027

Other Debt

Municipal Facility Corporation Bonds

The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring, and equipping municipal facilities. In fiscal year 2001, the MFC issued $4.7 million in bonds for the construction of a new United States Geological Survey (USGS) facility on land owned by the City.

Issued by the Municipal Facilities Corporation (MFC), a non-profit corporation created by the City for the purpose of constructing, acquiring, and equipping municipal facilities. In fiscal year 2001, the MFC issued $4.7 million certificates of participation for the construction of a new United States Geological Survey (USGS) facility on land owned by the City.

Other Debt

Municipal Facility Corporation Bonds

The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring, and equipping municipal facilities. In fiscal year 2001, the MFC issued $4.7 million in bonds for the construction of a new United States Geological Survey (USGS) facility on land owned by the City.

Issued by the Municipal Facilities Corporation (MFC), a non-profit corporation created by the City for the purpose of constructing, acquiring, and equipping municipal facilities. In fiscal year 2001, the MFC issued $4.7 million certificates of participation for the construction of a new United States Geological Survey (USGS) facility on land owned by the City.

Municipal Facility Corporate bonds outstanding at June 30, 2011:

Purpose	Amount
Governmental activities	$ 18,095,000

Municipal facility corporation bonds are comprised of the following issues:
Governmental activities:

$4,700,000 USGS Project Municipal Facility Corporation bonds, series 12 (2001) due in annual installments of $255,000 to $440,000, through August 1, 2016; interest at 4.0 to 4.75%.	$ 2,010,000
$25,000,000 Fourth Street Municipal Facility Corporation revenue bonds, series 2003 due in annual installments of $1,000,000 to $2,145,000 through July 1, 2020; interest at 2% to 5.25%	16,085,000
Total Municipal Facility Corporation Bonds	$ 18,095,000

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

Year Ending	Govermental Activities	
June 30	Principal	Interest
2012	$ 1,865,000	$ 854,959
2013	1,945,000	778,169
2014	2,020,000	697,963
2015	2,105,000	614,163
2016	2,195,000	526,813
2017-2020	7,965,000	1,072,049
Total	$ 18,095,000	$ 4,544,116

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, 2011:

Purpose	Amount
Governmental activities	$ 4,525,000

Certificates of participation are comprised of the following issues:

Governmental activities:

$4,690,000 Certificates of participation, series 2009 due in annual installments of $435,000 to $575,000, through October 1, 2019; interest at 3.3137%.	$ 4,525,000
Total Certificates of participation	$ 4,525,000

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

Year Ending June 30	Govermental Activities	
	Principal	Interest
2012	$ 445,000	$ 142,033
2013	455,000	129,645
2014	470,000	115,770
2015	485,000	101,445
2016	500,000	86,670
2017-2020	2,170,000	168,385
Total	$ 4,525,000	$ 743,948

The following is a summary of debt service requirements, including interest requirements, to maturity for long-term debt at June 30, 2011:

Fiscal Year	General Obligation Bonds	Special Assessment Bonds	Revenue Bonds	Municipal Facility Corporation Bonds	Cetificates of Participation	Total
2012	$ 5,119,346	$ 1,398,875	$ 2,552,313	$ 2,719,959	$ 587,033	$12,377,526
2013	4,961,446	1,402,875	728,839	2,723,169	584,645	10,400,974
2014	3,015,350	1,400,500	730,238	2,717,963	585,770	8,449,821
2015	2,491,313	1,401,750	731,489	2,719,163	586,445	7,930,160
2016	2,491,538	1,396,625	731,289	2,721,813	586,670	7,927,935
2017	2,487,038	1,400,000	730,889	2,258,163	585,673	7,461,763
2018	2,494,350	1,396,750	730,288	2,261,563	582,900	7,465,851
2019	2,495,250	1,396,875	729,489	2,259,713	583,313	7,464,640
2020	2,492,100	1,395,250	728,488	2,257,610	586,500	7,459,948
2021	2,493,000	1,391,875	732,288			4,617,163
2022	2,495,187	1,391,625	730,277			4,617,089
2023	1,791,386	1,394,250	249,250			3,434,886
2024		1,389,750	251,812			1,641,562
2025		1,388,125	248,950			1,637,075
2026		1,389,125	250,875			1,640,000
2027		1,387,625	251,625			1,639,250
2028		1,388,500	251,913			1,640,413
2029		1,386,625	251,737			1,638,362
2030		1,382,000	251,101			1,633,101
2031		1,384,375				1,384,375
2032		1,378,625				1,378,625
Less interest	(6,982,305)	(11,112,000)	(2,634,365)	(4,544,116)	(743,948)	(26,016,734)
	$27,845,000	$18,130,000	$ 9,228,785	$18,095,000	$ 4,525,000	$77,823,785

Authorized and Issued Debt

The voters of the City authorize capital projects and the related debt mechanism to finance the projects. Voters approved $8.2M during the bond election of November 5, 1996 to fund park and recreation facilities, as of June 30, 2011, $1.1M is authorized and unissued. May 18, 2004, voters approved $47.4M for various capital projects and $46.6M for future water rights and production, as of June 30, 2011, $15.9M remains unissued for capital projects and $.6M remains unissued for future water rights and production. November 2, 2010 voters approved $21.2M for public safety communication system and various street and utilities improvements, as of June 30, 2011 $21.2M remain unissued.

Loans Payable

The City of Flagstaff has various loan agreements with the Water and Wastewater Infrastructure Finance Authority of Arizona Revolving Fund Loan Program for the acquisition and construction of water and wastewater facilities and obtaining water rights. On June 17, 2011 a loan agreement was made with the Water and Wastewater Infrastructure Finance Authority in the amount of $1,833,828, as authorized by voters on May 18, 2004 election; no requests have been drawn against the loan as of June 30, 2011. The Airport has an agreement with the Arizona Department of Transportation which provides financing for the construction of 14 T hangars at the City Airport.

Loans outstanding as of June 30, 2011:

Purpose	Amount
Business-type activities	$ 37,491,203

Loan payables at June 30, 2011 consist of the following individual financing options:

Business-type activities:	
Water and wastewater:	
$6,000,000 Wastewater infrastructure finance authority due in annual installments of $214,312 to $404,665 through July 1, 2012; interest at 3.402%.	$ 404,667
$7,900,000 Water infrastructure finance authority due in annual installments of $295,000 to $525,000 through July 1, 2026; interest at 3.28%.	6,325,000
$23,100,000 Wastewater infrastructure finance authority due in annual installment of $815,834, to 1,571,901 through July 1, 2027; interest at 3.512%.	20,380,478
$8,500,000 Water infrastructure finance authority due in annual installment of $344,052 to $628,065 through July 1, 2029; interest at 3.113%.	7,596,760
$2,100,000 Water infrastructure finance authority due in annual installment of $77,263 to $138,320 through July 1, 2029; interest at 3.113%. Amount issued to-date $1,460,666. Remaining available $639,334.	1,303,735
$232,500 Water infrastructure finance authority due in annual installment of $8,737 to $15,054 through July 1, 2029; interest at 2.905%.	214,773
$1,000,000 Water infrastructure finance authority due in annual installment of $39,345 to $62,318 through July 1, 2029; interest at 2.45%. Amount issued to-date $583,827. Remaining available $416,0173.	504,174
$800,000 Water infrastructure finance authority due in annual installment of $31,475 to $49,854 through July 1, 2029; interest at 2.45%. Amount issued to-date $566,771. Remaining available $233,229.	503,048
Total water and wastewater loan payable	$ 37,232,635
Airport:	
$600,000 Arizona Department of Transportation due in quarterly installments of $5,337 to $13,548 through January 1, 2016; interest at 5.60%.	$ 258,568
Total	$ 37,491,203

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

Year Ending June 30	Business-type Activities Principal	Business-type Activities Interest
2012	$ 2,242,222	$ 1,350,771
2013	1,901,179	1,272,395
2014	1,966,747	1,205,510
2015	2,034,335	1,136,278
2016	2,109,017	1,064,625
2017-2021	11,430,208	4,185,732
2022-2026	12,967,173	2,062,765
2027-2029	2,840,322	169,250
Total	$ 37,491,203	$ 12,447,325

Obligations under Capital Leases

The City has entered into a capital lease agreement for energy saving equipment with total governmental asset of $1,432,499. The construction of a co-generator at Wildcat Wastewater Treatment Plant and construction of airport hangars represents total business assets of $1,491,955 and $306,376, respectively. These lease agreements generally require annual payments and the lease terms vary from 10 to 30 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, 2011	Governmental Activities	Business Type Activities
2012	$ 470,993	$ 482,692
2013	470,993	482,693
2014	470,993	482,691
2015	235,496	482,692
2016	-	482,692
2017-2021	-	1,284,157
2022-2025	-	811,078
Total future minimum lease payments	1,648,475	4,508,695
Less: imputed interest costs	(106,017)	(1,124,235)
Present value of future minimum lease payments	$ 1,542,458	$ 3,384,460

Pledged Revenues

The City has pledged future water utility and wastewater utility revenues to repay $46,211,757 in Water Infrastructure Financing Authority Bonds issued during the period of 1992-2010. 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, 2011, $41,531,420 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, 2011, net revenue available for service of this debt was $7,161,052. The debt principal, interest and fees paid in fiscal year 2011 was $3,918,523 (54.72% 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. At June 30, 2011, $16,085,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2011, net revenues available for service of the debt were $33,777,368. The debt principal and interest paid in fiscal year 2011 was $2,259,700 (6.69% of available pledged net revenues). For additional information on pledged revenues for MFC transportation bonds, refer to Schedule 17 in the Statistical Section of this report.

The City has pledged certain revenues for the repayment of $4,700,000 in Municipal Facility Corporation bonds issued in 2001 for the construction of a multipurpose office facility. The bonds are secured by a pledge of the City's state shared revenues not specifically reserved by law or other regulation to be expended for other purposes. At June 30, 2011 $2,010,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2011, net revenues available for service of this debt were $10,206,755. The debt principal and interest paid in fiscal year 2011 was $460,371 (4.51% of available pledged net revenues). For additional information on pledged revenues for MFC other than transportation bonds, refer to Schedule 17 in the Statistical Section of this report.

The City has pledged certain revenues for the repayment of $5,580,000 Junior Lien Street and Highway User Revenue bonds issued in 1992 for street construction. The bonds are secured by a pledge of the City's highway user revenue not specifically reserved by law or other regulation to be expended for other purposes. At June 30, 2011, $1,725,000 remains outstanding on the Junior Lien Street and Highway User Revenue bonds to be repaid by future revenues. For the fiscal year ended June 30, 2011, net revenues available for service of this debt were $6,300,885. The debt principal and interest paid in fiscal year 2011 was $2,355,982 (37.39% of available pledged net revenues). For additional information on pledged revenues for highway user revenue 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, 2011, $3,205,000 remains outstanding to be repaid by future revenues. For the fiscal year ended June 30, 2011, net revenues available for the service of this debt were $7,169,310. The debt principal and interest paid in fiscal year 2011 was $250,938 (1.77% of available pledged net revenues). For additional information on pledged revenues for GADA revenue bonds, refer to Schedule 17 in the Statistical Section of this report.

Changes in long-term liabilities

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

Non-current liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance As Restated	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 25,865,000	$ -	$ (1,850,000)	$ 24,015,000	$ 1,930,000
Special assessment bonds	18,615,000	-	(485,000)	18,130,000	505,000
Revenue bonds	6,665,000	-	(1,735,000)	4,930,000	1,845,000
Municipal facility corporate bonds	19,890,000	-	(1,795,000)	18,095,000	1,865,000
Certificates of participation	4,960,000	-	(435,000)	4,525,000	445,000
Total bonds payable	75,995,000	-	(6,300,000)	69,695,000	6,590,000
Capital leases	2,003,771	-	(461,313)	1,542,458	422,397
Bond premium	884,697	-	(80,788)	803,909	80,788
Compensated absences	3,751,065	1,582,062	(1,695,521)	3,637,606	1,548,484
Other postemployment benefits	949,067	885,970	-	1,835,037	-
Arbitrage rebate	282,151	-	(282,151)	-	-
Governmental activity long-term liabilty	$ 83,865,751	$ 2,468,032	$ (8,819,773)	$ 77,514,010	$ 8,641,669
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 5,690,000	-	$ (1,860,000)	$ 3,830,000	$ 1,960,000
Water & sewer revenue bonds	4,613,908	-	(315,123)	4,298,785	326,302
Total bonds payable	10,303,908	-	(2,175,123)	8,128,785	2,286,302
Water & sewer loan payable	35,958,947	3,472,581	(2,198,893)	37,232,635	2,200,895
Airport loan payable	297,660	-	(39,092)	258,568	41,327
Capital lease payable	3,679,167	-	(294,707)	3,384,460	309,468
Total loan and leases payable	39,935,774	3,472,581	(2,532,692)	40,875,663	2,551,690
Bond premium	25,145	-	(8,382)	16,763	8,382
Compensated absences	830,890	312,698	(329,667)	813,921	304,616
Other postemployment benefits	218,116	176,392	(462)	394,046	-
Landfill closure/postclosure	10,204,108	456,554	-	10,660,662	-
Business-type activity long-term liability	$ 61,517,941	$ 4,418,225	$ (5,046,326)	$ 60,889,840	$ 5,150,990

V. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts and public officials' errors and omissions. The City purchases commercial insurance to cover these losses. However, $50,000 of each claim resulting in a loss is retained by the City. The City provides for the self-insurance retention in the internal service fund. Outstanding claims as of June 30, 2011 have potential exposure to the City of approximately $304,742 based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The City uses an application of historical experience to determine claims payable. However, due to the preliminary status of the claims, no determination can be made as to the likelihood, if any, of an unfavorable outcome. The net assets of the Internal Service Fund are designated for future losses related to the self-insurance retention. Settled claims have not exceeded commercial coverage in the last three fiscal years.

Fiscal Year	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability
2008-09	$ 379,010	$ 744,543	$ 286,598	$ 836,955
2009-10	836,955	82,521	478,910	440,566
2010-11	440,566	78,889	214,713	304,742

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

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

The following table presents the City's commitments as of June 30, 2011:

Governmental Activities:	
General fund	$ 90,755
Highway users revenue fund	224,830
BBB fund	434,201
Other government funds	2,471,408
Total governmental activities	3,221,194
Business - Type Activities:	
Water and wastewater fund	1,808,795
Environmental services fund	654,986
Airport fund	978,500
Stormwater fund	966,872
Total business-type activities	4,409,153
Total governmental and business-type activities	$ 7,630,347

The City entered into a Development Incentive Agreement (DA) with Butler & Lone Tree LLC on June 1, 2007. The project known as "Aspen Place at the Sawmill" will be a mixed-use development consisting of 155,000 square feet of retail uses and approximately 265 single-family residential and town home dwelling units. The terms and conditions of the DA is to require the owner of the property to construct and install certain improvements such as streets, drainage retention facilities, public walkways and a raised median on Butler Avenue. In order to finance these improvements, an Improvement District (ID) has been formed. The City issued special assessment bonds in the amount of $19,075,000 in fiscal year 2007. These bonds will be repaid from assessments imposed on the real property included within the ID. The City believes the development will generate substantial transaction privilege tax revenues and the City has agreed to rebate the Landowner a portion of the transaction privilege taxes generated from the property.

During fiscal year 2010, the owners were unable to make the December 2010 special assessment payment and has since deeded over a portion of property to the City of Flagstaff. The City is currently holding property that represents $9.4M of the $19M of the special assessment bonds. The City issued a bid proposal for the property and successfully sold the remaining property. See Note F, Subsequent Events for information related to the sale.

The City is aware of existing environmental contamination at various sites and facilities. The City has annually budgeted monies for these purposes and includes remediation activities in its annual work program.

C. Retirement and pension plans

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

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

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

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

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

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

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

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

Cost Sharing Plans - For the year ended June 30, 2011, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.85% (9.60% retirement and 0.25% long-term disability) of the members' annual covered payroll and the City was required by statute to contribute at the actuarially determined rate of 9.85% (9.01% retirement, .59% for health insurance premium, and 0.25% long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2011, 2010, and 2009 were $2,642,362, $2,913,238, and $2,904,203 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:

	Retirement	Health Insurance	Long-term Disability
6/30/2011	$ 2,417,024	$ 158,273	$ 67,065
6/30/2010	2,584,724	204,546	123,968
6/30/2009	2,455,511	295,030	153,662

In addition, active EORP members were required by statute to contribute 7% of the members' annual covered payroll. The City was required to contribute 29.79% of the members' annual covered payroll, the aggregate of which is determined by actuarial valuation. The health insurance premium portion of the contribution rate for normal cost was actuarially set a .85% of covered payroll. The City's contributions to EORP for the years ended June 30, 2011, 2010, and 2009 were $48,203, $33,327, and $35,490 respectively, which equal the required contributions for each year, and is inclusive of Housing Authority. The City contributions for the current and two preceding years, all of which were equal to the required contributions, were as follow:

	Retirement	Health Insurance	Long-term Disability
6/30/2011	$ 46,423	$ 1,375	$ 405
6/30/2010	31,613	1,079	635
6/30/2009	33,703	1,153	634

Agent Plan - For the year ended June 30, 2011, active PSPRS members were required by statute to contribute 7.65% of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 22.32% and 25.97% for Police and Fire respectively. Police personnel contributed $520,832; Fire personnel contributed $321,600 during fiscal year 2010-2011. The City annual pension cost of $1,519,603 for police and $1,091,758 for fire was equal to the City's annual required contribution and actual contributions. 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, 2011, the date of the most recent actuarial valuation, and related information follow.

	PSPRS		
	Police	Fire	EORP
Contribtuion rates FY10-2011:			
City	22.32%	25.97%	29.79%
Plan members	7.65%	7.65%	7.00%
Annual pension costs	$ 1,698,848	$ 1,380,272	$ 32,248
Pension contribtuions made	$ 1,698,848	$ 1,380,272	$ 32,248
Annual OPEB costs - Health Insurance	$ 49,918	$ 90,626	$ 1,079
OPEB contribtuions made	$ 49,918	$ 90,626	$ 1,079
As of actuarial valuation date:	6/30/2011	6/30/2011	6/30/2010
Actuarial cost method	Entry age normal	Entry age noraml	Project unit credit
Amortization method	Level percent-of-pay closed	Level percent-of-pay closed	Level percent-of-pay closed
Remaining amortization period-UAL	25 years	25 years	26 years
Remaining amortization period-excess	20 years	20 years	20 years
Asset valuation method	7-year smoothed market	7-year smoothed market	7-year smoothed market
Actuarial assumptions:			
Investment rate of return	8.25%	8.25%	8.50%
Projected salary increases*	5.0% - 8.0%	5.0% - 8.0%	5.00%
* includes inflation at	5.00%	5.00%	5.00%
Cost of living adjustments	None	None	None

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

Contributions Required and Contributions Made

Plan		Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation
PSRS - Police - Pension					
6/30/2011	$	1,698,848	100%	$	-0-
6/30/2010		1,489,864	100%		-0-
6/30/2009		1,604,408	100%		-0-
PSRS - Police - Health Insurance					
6/30/2011	$	49,918	100%	$	-0-
6/30/2010		49,219	100%		-0-
6/30/2009		50,016	100%		-0-
PSRS - Fire - Pension					
6/30/2011	$	1,380,272	100%	$	-0-
6/30/2010		1,275,572	100%		-0-
6/30/2009		1,497,199	100%		-0-
PSRS - Fire - Health Insurance					
6/30/2011	$	90,626	100%	$	-0-
6/30/2010		85,486	100%		-0-
6/30/2009		78,731	100%		-0-
EORP - Pension					
6/30/2010	$	32,248	100%	$	-0-
6/30/2009		34,337	100%		-0-
6/30/2008		16,326	100%		-0-
EORP - Health Insurance					
6/30/2010	$	1,079	100%	$	-0-
6/30/2009		1,153	100%		-0-
6/30/2008		895	100%		-0-

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

	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4) / (5)
PSRS - Police Pension						
6/30/2011	$ 25,208,537	$ 45,968,224	54.8%	$ 20,759,687	$ 6,801,375	305.2%
6/30/2010	23,962,276	41,447,390	57.8%	17,485,114	6,907,462	253.1%
6/30/2009	22,931,628	39,587,101	57.9%	16,655,473	7,423,926	224.3%
PSRS - Police Health Insurance						
6/30/2011	$ -	$ 1,159,297	0.0%	$ 1,159,297	$ 6,801,375	17.0%
6/30/2010	-	953,355	0.0%	953,355	6,907,462	13.8%
6/30/2009	-	925,492	0.0%	925,492	7,423,926	12.5%
PSRS - Fire Pension						
6/30/2011	$ 32,146,592	$ 51,857,015	62.0%	$ 19,710,423	$ 4,606,922	427.8%
6/30/2010	32,605,835	48,099,507	67.8%	15,493,672	4,671,743	331.6%
6/30/2009	33,539,698	46,998,109	71.4%	13,458,411	5,460,875	246.5%
PSRS - Fire Health Insurance						
6/30/2011	$ -	$ 1,563,996	0.0%	$ 1,563,996	$ 4,606,922	33.9%
6/30/2010	-	1,394,422	0.0%	1,394,422	4,671,743	29.8%
6/30/2009	-	1,359,414	0.0%	1,359,414	5,460,875	24.9%

D. Other Post Employment Benefits (OPEB) Plan

Postemployment Healthcare Plan

Plan description. The City of Flagstaff provides post-retirement healthcare insurance benefits for its retirees as an agent multiple-employer plan which is administered through, Northern Arizona Public Employee Benefit Trust (NAPEBT). NAPEBT provides benefits to eligible retirees through the same plan as active city employees and their beneficiaries up to the age of 65; the implicit rate subsidy exists through the duration of the coverage. Substantially, all of the City's employees may become eligible for those benefits when they qualify for retirement. To be eligible a retiree must qualify to receive retirement benefits from the Arizona State Retirement System and elect coverage at date of retirement. NAPEBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on their website: www.napebt.com/community_docs. As of June 30, 2011, there were 81 retirees who elected coverage.

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

The city has elected to not fund the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The City's implicit subsidy rate to covered payroll is actuarially determined at 23.4%. Plan members receiving benefits contribute $159,002 during fiscal year 2010.

Annual OPEB Cost and Net OPEB Obligation. For 2011, the city's annual OPEB cost (expense) of $1,249,702 was equal to the ARC plus interest on the net OPEB obligation of $50,527. 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 2011 and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	$ 1,249,702	$ 159,002	12.7%	$ 2,229,083
6/30/2010	1,066,839	621,538	58.3%	1,138,383
6/30/2009	1,068,154	375,072	35.1%	693,082

Fiscal Year Ended	(1) Annual Required Contribution	(2) Interest on Existing NOO	(3) ARC Adjustment	(4) Annual OPEB Cost (1) + (2) + (3)	(5) Actual Contribution Amount	(6) Net Increase in NOO (4) - (5)	(7) NOO as of End of Year
6/30/2011	$ 1,268,105	$ 50,527	$ (68,930)	$ 1,249,702	$ 159,002	$ 1,090,700	$ 2,229,083
6/30/2010	1,092,184	31,189	(56,534)	1,066,839	621,538	445,301	1,138,383
6/30/2009	1,076,593	-	(8,439)	1,068,154	375,072	693,082	693,082

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

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4) / (5)
7/1/2011	-	$9,808,514	0.0%	$ 9,808,514	$ 41,941,781	23.4%
7/1/2008*	-	8,946,294	0.0%	8,946,294	42,292,297	21.2%

(*) Information not available for Housing Authority

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the July 1, 2011, actuarial valuation, the entry age normal, level dollar, actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return. Healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of five percent over eight years. The remaining amortization period at July 1, 2011, was 30 years, open, level dollar amount. The City has elected to perform biennial actuary valuations.

E. Landfill closure and postclosure care cost

State and federal laws and regulations require the City to place a final cover on its Cinderlake landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The City reports a portion of these closures and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The estimated liability for landfill closure and postclosure care costs has a balance of $10,660,662 as of June 30, 2011, which is based on 66.57 percent usage of the landfill. The remaining $5,352,827 will be accrued over the remaining life of the landfill, which is currently estimated to be 15 years. The accrual for the closure and postclosure care costs for fiscal year 2011 was $456,554. 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, 2011 the balance of the investments held for those purposes is $9,313,876. 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, $16,013,489, 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, 2011. 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.

F. Subsequent Events

On September 13, 2011, the City issued General Obligation Bonds Series 2011 in the amount of $12,750,000 as well as Refunding General Obligation Bonds Series 2011 in the amount of $3,140,000. The Series 2011 represent funding for a Fire Fighting Facility of $2,400,000, as authorized by voters on the election of May 18, 2004 and Public Safety Communication System and Street – Utility Improvements of $10,350,000, as authorized by voters on November 2010.

On August 15, 2011, the City redeemed $6.4 million of its' Aspen Place at the Sawmill Improvement District Bonds as part of a refunding defeasance related to the sale of property that was finalized in July 2011.

In 2010 Westcor Company Limited Partnership, Flagstaff Mall Associates Limited Partnership, and Railhead Associated L.L. C. (collectively "Westcor) filed a Notice of Claim against the City related to a differing interpretation of a Development Agreement on who was responsible to pay for certain infrastructure improvements. The City and Westcor participated in mediation, however that effort was unsuccessful. The City and Westcor then participated in non-binding arbitration which led to Westcor subsequently filing an approximate $4 million dollar lawsuit. The City and Westcor then entered into negotiations which resulted in a final settlement as accepted by the City of Flagstaff Council on December 20, 2011. The settlement includes the following terms: 1) The City will pay Westcor $400,000, 2) the City will grant Westcor an easement for a monument sign, and 3) the City will grant Westcor an option to purchase certain real property located adjacent to the Flagstaff Mall and Marketplace.

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.

Community Redevelopment

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

Metropolitan Planning Organization

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

Debt Service Funds

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

General Obligation Bond Fund

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

Secondary Property Tax Revenue Fund

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

Capital Projects Fund

A capital project fund is established to account for the acquisition and construction of major capital facilities and enhances reporting to ensure that requirements regarding the use of the revenue were fully satisfied.

Capital Projects Bond Fund

This fund accounts for the receipt of proceeds from bonds and the expenditure of those funds to purchase or construct capital assets for the City.

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, 2010

	Special Revenue Funds		
	Library Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
ASSETS			
Cash and investments	$ 1,642,076	$ 1,465,126	$ 20,540
Cash with fiscal agents	-	-	-
Accounts receivable, net	-	160	5,000
Interest receivable	2,647	841	-
Intergovernmental receivables	-	212,752	340,677
Restricted cash and investments	3,090,070	-	-
Total assets	$ 4,734,793	$ 1,678,879	$ 366,217
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	$ 619,149	$ 16,562	$ 50,615
Accrued payroll and compensated absences	115,283	3,340	11,673
Current bonds payable	-	-	-
Interest payable	-	-	-
Interfund payable	-	-	300,000
Deferred revenue	145,678	-	233
Arbitrage liability	-	-	-
Total liabilities	880,110	19,902	362,521
Fund balances:			
Nonspendable:			
Perpetual care	-	-	-
Restricted for:			
Library services	764,613	-	-
Library branch services	843,727		
Library programs	2,246,343	-	-
Debt service	-	-	-
Other capital projects	-	1,658,977	-
Regional planning	-	-	3,696
Perpetual care	-	-	-
Unassigned:	-	-	-
Total fund balances	3,854,683	1,658,977	3,696
Total liabilities and fund balances	$ 4,734,793	$ 1,678,879	$ 366,217

	Debt Service Funds		Capital Projects Funds	Permanent Fund	
	General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Capital Projects Bond Construction	Perpetual Care	Total Other Governmental Funds
	$ 831,759	$ 5,448,750	$ 42,450	$ 13,866	$ 9,464,567
	1,947,512	–	–	–	1,947,512
	–	–	–	205	5,365
	–	4,707	65	121	8,381
	–	–	–	–	553,429
	–	–	1,581,659	162,571	4,834,300
	$ 2,779,271	$ 5,453,457	$ 1,624,174	$ 176,763	$ 16,813,554
	$ –	$ –	$ 396,106	$ –	$ 1,082,432
	–	–	–	–	130,296
	1,850,000	–	–	–	1,850,000
	580,916	–	–	–	580,916
	–	–	3,600,000	–	3,900,000
	–	–	–	–	145,911
	–	–	–	–	–
	2,430,916	–	3,996,106	–	7,689,555
	–	–	–	162,571	162,571
	–	–	–	–	764,613
					843,727
	–	–	–	–	2,246,343
	348,355	5,453,457	–	–	5,801,812
	–	–	–	–	1,658,977
	–	–	–	–	3,696
	–	–	–	14,192	14,192
	–	–	(2,371,932)	–	(2,371,932)
	348,355	5,453,457	(2,371,932)	176,763	9,123,999
	$ 2,779,271	$ 5,453,457	$ 1,624,174	$ 176,763	$ 16,813,554

CITY OF FLAGSTAFF, ARIZONA

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Non-Major Governmental Funds

Year Ended June 30, 2011

	Special Revenue Funds		
	Library Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
REVENUES:			
Taxes	$ –	$ –	$ –
Intergovernmental	3,531,607	–	5,000
Grants and entitlements	80,220	895,739	318,435
Charges for services	–	29,116	–
Investment earnings	24,404	7,353	–
Contributions	29,737	–	10,028
Miscellaneous	36,997	491,056	–
Total revenues	3,702,965	1,423,264	333,463
EXPENDITURES:			
Current:			
General governmental	–	–	–
Public safety	–	–	–
Economic and physical development	–	1,448,400	358,538
Culture and recreation	4,662,395	–	–
Highways and streets	–	–	–
Debt service:			
Principal retirement	–	–	–
Interest and other charges	–	–	–
Capital outlay	–	–	–
Total expenditures	4,662,395	1,448,400	358,538
Excess (deficiency) of revenues over expenditures	(959,430)	(25,136)	(25,075)
OTHER FINANCING SOURCES (USES):			
Sale of capital assets	896	–	–
Transfers in	1,178,951	–	22,720
Transfers out	(78,391)	(14,000)	–
Total other financing sources (uses)	1,101,456	(14,000)	22,720
Net change in fund balances	142,026	(39,136)	(2,355)
Fund balances, beginning of year	3,712,657	1,698,113	6,051
Fund balances, end of year	$ 3,854,683	$ 1,658,977	$ 3,696

Debt Service Funds		Capital Projects Funds	Permanent Fund	
General Obligation Bond Fund	Secondary Property Tax Revenue Fund	Capital Projects Bond Construction	Perpetual Care	Total Other Governmental Funds
$ –	$ 7,184,209	$ –	$ –	$ 7,184,209
–	–	–	–	3,536,607
–	–	–	–	1,294,394
–	–	–	–	29,116
–	37,980	4,831	1,037	75,605
–	–	–	24,950	64,715
–	–	–	–	528,053
–	7,222,189	4,831	25,987	12,712,699
–	–	138,056	–	138,056
–	–	3,295	–	3,295
–	–	–	–	1,806,938
–	–	–	–	4,662,395
–	–	1,107,366	–	1,107,366
1,850,000	–	–	–	1,850,000
1,166,508	–	(102,712)	–	1,063,796
–	–	3,982,298	–	3,982,298
3,016,508	–	5,128,303	–	14,614,144
(3,016,508)	7,222,189	(5,123,472)	25,987	(1,901,445)
–	–	–	–	896
3,016,508	–	71,200	–	4,289,379
–	(4,828,247)	(517,236)	–	(5,437,874)
3,016,508	(4,828,247)	(446,036)	–	(1,147,599)
–	2,393,942	(5,569,508)	25,987	(3,049,044)
348,355	3,059,515	3,197,576	150,776	12,173,043
$ 348,355	$ 5,453,457	$ (2,371,932)	$ 176,763	$ 9,123,999

Other Supplementary Information

City of Flagstaff, Arizona
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2011

Program	Land	Buildings	Improvements
General government	$ 2,445,956	$ 13,862,090	$ 1,894,249
Public safety	4,084,419	23,258,835	113,946
Public works	–	5,426,635	198,275
Economic and physical development	–	7,541,573	78,116
Culture and recreation	3,304,223	22,142,603	16,074,820
Highway and streets	38,115,195	102,310	2,251,981
Subtotal	47,949,793	72,334,046	20,611,387
Less: accumulated depreciation	–	(16,033,495)	(11,568,938)
Total governmental funds capital assets	$ 47,949,793	$ 56,300,551	$ 9,042,449

Machinery and Equipment	Construction In Progress	Infrastructure	Total
$ 3,733,912	$ 396,809	$ –	$ 22,333,016
11,901,184	4,994,414	–	44,352,798
1,230,370	–	1,117,225	7,972,505
1,168,053	–	652,947	9,440,689
4,322,061	1,703,755	9,120,292	56,667,754
8,373,702	1,910,660	263,135,903	313,889,751
30,729,282	9,005,638	274,026,367	454,656,513
(20,964,714)	–	(112,044,471)	(160,611,618)
$ 9,764,568	$ 9,005,638	$ 161,981,896	$ 294,044,895

City of Flagstaff, Arizona
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
June 30, 2011

Program	Balance July 1, 2010	Additions	Retirements	Transfers In (out)	Balance June 30, 2011
General government	$ 23,177,659	$ 111,454	$ (13,969)	$ (942,128)	$ 22,333,016
Public safety	39,656,849	3,704,195	(100,422)	1,092,176	44,352,799
Public works	7,039,449	–	(300,412)	1,233,467	7,972,504
Economic and physical development	10,843,865	–	–	(1,403,175)	9,440,690
Culture and recreation	54,350,249	3,025,318	(2,164,333)	1,456,519	56,667,753
Highway and streets	310,075,073	6,109,542	(274,463)	(2,020,402)	313,889,749
Total	$ 445,143,144	$ 12,950,509	$ (2,853,600)	$ (583,543)	$ 454,656,513

CITY OF FLAGSTAFF, ARIZONA

Special Assessment Bond Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

Year Ended June 30, 2011

	Budget			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Special assessments	$ 1,403,625	$ 1,403,625	$ 701,447	$ (702,178)
Investment earnings	2,000	2,000	1,685	(315)
Miscellaneous	–	–	14	14
Total revenues	1,405,625	1,405,625	703,146	(702,479)
EXPENDITURES:				
Debt service:				
Principal retirement	485,000	485,000	485,000	–
Interest and other charges	920,625	920,625	920,576	49
Total expenditures	1,405,625	1,405,625	1,405,576	49
Excess (deficiency) of revenues over (under) expenditures	–	–	(702,430)	(702,430)
Net change in fund balances	–	–	(702,430)	(702,430)
Budgetary fund balances, beginning of year	99,122	99,122	99,122	–
Budgetary fund balances, end of year	$ 99,122	$ 99,122	$ (603,308)	$ (702,430)

CITY OF FLAGSTAFF, ARIZONA

Library Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2011

	Budget Original	Budget Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Intergovernmental	$ 6,351,957	$ 6,351,957	$ 3,606,865	$ (2,745,092)
Grants and entitlements	74,214	74,214	4,962	(69,252)
Investment earnings	26,980	26,980	24,404	(2,576)
Miscellaneous	20,474	20,474	36,997	16,523
Total revenues	6,473,625	6,473,625	3,673,228	(2,800,397)
EXPENDITURES:				
Current:				
Culture and recreation	7,730,007	7,730,007	4,627,506	3,102,501
Capital outlay	-	-	34,889	(34,889)
Contingency	100,000	100,000	-	100,000
Total expenditures	7,830,007	7,830,007	4,662,395	3,167,612
Excess (deficiency) of revenues over (under) expenditures	(1,356,382)	(1,356,382)	(989,167)	367,215
OTHER FINANCING SOURCES (USES):				
Transfers in	1,178,951	1,178,951	1,178,951	-
Transfers out	(328,391)	(328,391)	(78,391)	250,000
Total other financing sources (uses)	850,560	850,560	1,100,560	250,000
Net change in fund balances	(505,822)	(505,822)	111,393	617,215
Budgetary fund balances, beginning of year	727,912	727,912	727,912	-
Budgetary fund balances, end of year	$ 222,090	$ 222,090	$ 839,305	$ 617,215

Adjustment of budetary basis to GAAP basis net change in fund balances	$ 111,393
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.	30,633
Adjusted net change in fund balance - GAAP basis	$ 142,026

CITY OF FLAGSTAFF, ARIZONA
Community Redevelopment Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2011

	Budget			Variance with
	Original	Final	Actual Amounts Budgetary Basis	Final Budget Positive (Negative)
REVENUES:				
Grants and entitlements	$ 1,968,644	$ 1,968,644	$ 895,739	$ (1,072,905)
Charges for services	–	–	29,116	29,116
Investment earnings	–	–	7,353	7,353
Miscellaneous	–	–	491,056	491,056
Total revenues	1,968,644	1,968,644	1,423,264	(545,380)
EXPENDITURES:				
Current:				
Economic and physical development	3,513,891	3,513,891	1,444,532	2,069,359
Capital outlay	–	–	3,868	(3,868)
Total expenditures	3,513,891	3,513,891	1,448,400	2,065,491
Excess (deficiency) of revenues over (under) expenditures	(1,545,247)	(1,545,247)	(25,136)	1,520,111
OTHER FINANCING SOURCES (USES):				
Transfers out	(14,000)	(14,000)	(14,000)	–
Total other financing sources (uses)	(14,000)	(14,000)	(14,000)	–
Net change in fund balances	(1,559,247)	(1,559,247)	(39,136)	1,520,111
Budgetary fund balances, beginning of year	1,769,454	1,769,454	1,769,454	–
Budgetary fund balances, end of year	$ 210,207	$ 210,207	$ 1,730,318	$ 1,520,111

CITY OF FLAGSTAFF, ARIZONA

Metropolitan Planning Organization Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2011

	Budget			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Grants and entitlements	$ 619,285	$ 619,285	$ 318,435	$ (300,850)
Total revenues	619,285	619,285	318,435	(300,850)
EXPENDITURES:				
Current:				
Economic and physical development	542,005	542,005	358,538	183,467
Contingency	100,000	100,000	-	100,000
Total expenditures	642,005	642,005	358,538	283,467
Excess (deficiency) of revenues over (under) expenditures	(22,720)	(22,720)	(40,103)	(17,383)
OTHER FINANCING SOURCES (USES):				
Transfers in	22,720	22,720	22,720	-
Total other financing sources (uses)	22,720	22,720	22,720	-
Net change in fund balances	-	-	(17,383)	(17,383)
Budgetary fund balances, beginning of year	-	-	-	-
Budgetary fund balances, end of year	$ -	$ -	$ (17,383)	$ (17,383)

Adjustment of budetary basis to GAAP basis net change in fund balances	$ (17,383)
The City budgets certain revenues on the cash basis, rather than on the modified accrual basis.	15,028
The City budgets for certain other expenditures on the cash basis, rather than on the modified accrual basis	-
Adjusted net change in fund balance - GAAP basis	$ (2,355)

CITY OF FLAGSTAFF, ARIZONA
General Obiligation Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2011

	Budget			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
EXPENDITURES:				
Debt service:				
Principal retirement	$ 1,850,000	$ 1,850,000	$ 1,850,000	$ –
Interest and other charges	1,667,453	1,667,453	1,166,508	500,945
Total expenditures	3,517,453	3,517,453	3,016,508	500,945
Excess (deficiency) of revenues over (under) expenditures	(3,517,453)	(3,517,453)	(3,016,508)	500,945
OTHER FINANCING SOURCES (USES):				
Transfers in	3,517,453	3,517,453	3,016,508	(500,945)
Total other financing sources (uses)	3,517,453	3,517,453	3,016,508	(500,945)
Net change in fund balances	–	–	–	–
Budgetary fund balances, beginning of year	348,355	348,355	348,355	–
Budgetary fund balances, end of year	$ 348,355	$ 348,355	$ 348,355	$ –

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, 2011

	Budget Original	Budget Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	$ 7,228,554	$ 7,228,554	$ 7,184,209	$ (44,345)
Investment earnings	30,500	30,500	37,980	7,480
Total revenues	7,259,054	7,259,054	7,222,189	(36,865)
OTHER FINANCING SOURCES (USES):				
Transfers out	(5,329,128)	(5,329,128)	(4,828,247)	500,881
Total other financing sources (uses)	(5,329,128)	(5,329,128)	(4,828,247)	500,881
Net change in fund balances	1,929,926	1,929,926	2,393,942	464,016
Budgetary fund balances, beginning of year	2,811,348	2,811,348	2,811,348	-
Budgetary fund balances, end of year	$ 4,741,274	$ 4,741,274	$ 5,205,290	$ 464,016

CITY OF FLAGSTAFF, ARIZONA
Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2011

	Budget			
	Original	Final	Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Miscellaneous	$ 8,700,000	$ 8,700,000	$ –	$ (8,700,000)
Investment earnings	98,770	98,770	4,831	(93,939)
Total revenues	8,798,770	8,798,770	4,831	(8,793,939)
EXPENDITURES:				
Current:				
General governmental	-	-	138,056	(138,056)
Public safety	-	-	3,295	(3,295)
Highways and streets	-	-	1,107,366	(1,107,366)
Interest and other charges	–	–	(102,712)	102,712
Capital outlay	19,091,199	19,091,199	3,982,298	15,108,901
Total expenditures	19,091,199	19,091,199	5,128,303	13,962,896
Excess (deficiency) of revenues over (under) expenditures	(10,292,429)	(10,292,429)	(5,123,472)	5,168,957
OTHER FINANCING SOURCES (USES):				
Bonds issued	51,200,000	51,200,000	–	(51,200,000)
Sale of capital assets	233,738	233,738	–	(233,738)
Transfers in	–	–	71,200	71,200
Transfers out	(500,000)	(500,000)	(517,236)	(17,236)
Total other financing sources (uses)	50,933,738	50,933,738	(446,036)	(51,379,774)
Net change in fund balances	40,641,309	40,641,309	(5,569,508)	(46,210,817)
Budgetary fund balances, beginning of year	2,778,255	2,778,255	2,778,255	–
Budgetary fund balances, end of year	$ 43,419,564	$ 43,419,564	$ (2,791,253)	$ (46,210,817)

CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Net Asset Accounts
Year Ended June 30, 2011

	Public Housing 14.850	Housing Choice Vouchers 14.871	Business Activities	Resident Opportunity and Supportive Services 14.870	Moderate Rehab-ilitation 14.856	Elimination	Total
Assets:							
Current Assets:							
Cash:							
Cash - Unrestricted	$ 648,690	$ 137,081	$ 65,445	$ -	$ 17,857	$ -	$ 869,073
Cash - Other Restricted	-	425,187	-	-	-	-	425,187
Cash - Tenant Security Deposits	70,325	-	-	-	-	-	70,325
Total Cash	719,015	562,268	65,445	-	17,857	-	1,364,585
Accounts Receivables:							
Accounts Receivable - PHA Projects	-	7,582	-	-	-	-	7,582
Accounts Receivable - HUD Other Projects	8,369	-	-	4,802	-	-	13,171
Accounts Receivable - Other Government	-	-	-	-	-	-	-
Accounts Receivable - Miscellaneous	921	-	27,518	-	-	-	28,439
Accounts Receivable - Tenants	13,286	-	-	-	-	-	13,286
Allowance for Doubtful Accounts -Tenants	(79)	-	-	-	-	-	(79)
Allowance for Doubtful Accounts - Other	-	-	(6,825)	-	-	-	(6,825)
Fraud Recovery	-	3,299	-	-	-	-	3,299
Allowance for Doubtful Accounts - Fraud	-	-	-	-	-	-	-
Accrued Interest Receivable	-	-	-	-	-	-	-
Total Receivables, Net	22,497	10,881	20,693	4,802	-	-	58,873
Current investments							
Investments - Unrestricted	-	-	-	-	-	-	-
Investments - Restricted	-	-	-	-	-	-	-
Prepaid Expenses and Other Assets	55,469	2,837	2,337	-	-	-	60,643
Inventories	-	-	-	-	-	-	-
Allowance for Obsolete Inventories	-	-	-	-	-	-	-
Inter Program Due From	-	-	26,207	-	-	(26,207)	-
Assets Held for Sale	-	-	-	-	-	-	-
Total Current Assets	796,981	575,986	114,682	4,802	17,857	(26,207)	1,484,101
Noncurrent Assets:							
Capital Assets:							
Land	1,446,035	-	-	-	-	-	1,446,035
Buildings	8,606,936	-	-	-	-	-	8,606,936
Furniture, Equipment & Machinery - Dwellings	466,275	-	-	-	-	-	466,275
Furniture, Equipment & Machinery - Administration	495,026	43,489	-	-	-	-	538,515
Leasehold Improvements	-	-	-	-	-	-	-
Accumulated Depreciation	(5,296,757)	(43,489)	-	-	-	-	(5,340,246)
Construction in Progress	-	-	-	-	-	-	-
Total Capital Assets, Net	5,717,515	-	-	-	-	-	5,717,515
Notes receivable - Noncurrent	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-
Total Non-Current Assets	5,717,515	-	-	-	-	-	5,717,515
Total Assets	6,514,496	575,986	114,682	4,802	17,857	(26,207)	7,201,616

(continued)

CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Net Asset Accounts
Year Ended June 30, 2011

	Public Housing 14.850	Housing Choice Vouchers 14.871	Business Activities	Resident Opportunity and Supportive Services 14.870	Moderate Rehab-ilitation 14.856	Elimination	Total
Liabilities and Net Assets:							
Liabilities:							
Current Liabilities:							
Bank Overdraft	-	-	-	-	-	-	-
Accounts Payable <= 90 Days	40	6,128	3,900	-	-	-	10,068
Accrued Wage/Payroll Taxes Payable	-	-	-	-	-	-	-
Accrued Compensated Absences	16,881	3,957	404	-	-	-	21,242
Accrued Interest Payable	-	-	-	-	-	-	-
Accounts Payable - HUD PHA Programs	-	-	-	-	5,233	-	5,233
Account Payable - PHA Projects	-	-	-	-	-	-	-
Accounts Payable - Other Government	74,329	-	-	-	-	-	74,329
Tenant Security Deposits	70,325	-	-	-	-	-	70,325
Deferred Revenues	-	972	-	-	-	-	972
Current Portion of L-T Debt - Capital	-	-	-	-	-	-	-
Current Portion of L-T Debt - Operating	-	-	-	-	-	-	-
Other Current Liabilities	13,023	-	-	-	-	-	13,023
Accrued Liabilities - Other	-	-	-	-	-	-	-
Inter Program - Due To	19,521	1,884	-	4,802	-	(26,207)	-
Total Current Liabilities	194,119	12,941	4,304	4,802	5,233	(26,207)	195,192
Noncurrent Liabilities							
Long-term Debt, Net of Current - Capital	-	-	-	-	-	-	-
Long-term Debt, Net of Current - Operating	-	-	-	-	-	-	-
Non-current Liabilities - Other	-	-	-	-	-	-	-
Accrued Compensated Absences	151,931	35,609	3,634	-	-	-	191,174
Accrued Pension and OPEB Liabilities	21,185	4,485	309	-	-	-	25,979
Total Non-Current Liabilities	173,116	40,094	3,943	-	-	-	217,153
Total Liabilities	367,235	53,035	8,247	4,802	5,233	(26,207)	412,345
Net Assets:							
Invested In Capital Assets, Net of Related Debt	5,717,515	-	-	-	-	-	5,717,515
Restricted Net Assets	-	423,848	-	-	-	-	423,848
Unrestricted Net Assets	429,746	99,103	106,435	-	12,624	-	647,908
Total Equity/Net Assets	6,147,261	522,951	106,435	-	12,624	-	6,789,271
Total Liabilities and Equity/Net Assets	$6,514,496	$ 575,986	$ 114,682	$ 4,802	$ 17,857	$ (26,207)	$7,201,616

(concluded)

CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Revenue, Expense, and Changes in Fund Net Asset Accounts
Year Ended June 30, 2011

	Public Housing 14.850	Housing Choice Vouchers 14.871	Business Activities	Resident Opportunity and Supportive Services 14.870	Moderate Rehab-ilitation 14.856	Elimination	Total
Revenues:							
Net Tenant Rental Revenue	$ 1,127,511	$ –	$ –	$ –	$ –	$ –	$ 1,127,511
Tenant Revenue - Other	12,050	–	–	–	–	–	12,050
Total Tenant Revenue	1,139,561	–	–	–	–	–	1,139,561
HUD PHA Operating Grants	749,586	3,366,007	–	36,505	68,302	–	4,220,400
Capital Grants	787,498	–	–	–	–	–	787,498
Management Fee	–	–	–	–	–	–	–
Asset Management Fee	–	–	–	–	–	–	–
Bookkeeping Fee	–	–	–	–	–	–	–
Front Line Service Fee	–	–	–	–	–	–	–
Other Fees	–	–	–	–	–	–	–
Other Government Grants	–	–	–	–	–	–	–
Investment Income - Unrestricted	–	–	–	–	–	–	–
Mortgage Interest Income	–	–	–	–	–	–	–
Fraud Recovery	5,882	10,402	–	–	–	–	16,284
Other Revenue	15,907	224,611	41,269	–	209	–	281,996
Gain or Loss on Sale of Capital Assets	–	–	–	–	–	–	–
Investment Income - Restricted	–	–	–	–	–	–	–
Total Revenue	2,698,434	3,601,020	41,269	36,505	68,511	–	6,445,739
Expenses:							
Administrative							
Administrative Salaries	397,528	142,219	13,745	–	4,313	–	557,805
Auditing Fees	7,190	2,505	878	–	626	–	11,199
Management Fee	–	–	–	–	4,616	–	4,616
Bookkeeping Fee	–	–	–	–	–	–	–
Advertising and Marketing	763	508	–	–	–	–	1,271
Employee Benefit - Administrative	141,879	49,473	7,416	–	1,094	–	199,862
Office Expenses	66,464	25,965	1,254	6,140	135	–	99,958
Legal Expense	12,778	10,756	–	–	–	–	23,534
Travel	35,940	12,363	2,229	2,000	–	–	52,532
Other	22,642	3,323	5,092	–	–	–	31,057
Total Administrative	685,184	247,112	30,614	8,140	10,784	–	981,834
Tenant Services							
Tenant Services - Salaries	–	–	–	21,231	–	–	21,231
Relocation Costs	–	–	–	–	–	–	–
Employee Benefit - Tenant Services	–	–	–	6,914	–	–	6,914
Tenant Services - Other	24,438	–	–	123	–	–	24,561
Total Tenant Services	24,438	–	–	28,268	–	–	52,706
Utilities							
Water	105,184	–	–	–	–	–	105,184
Electricity	18,042	–	–	–	–	–	18,042
Gas	187,053	–	–	–	–	–	187,053
Sewer	67,282	–	–	–	–	–	67,282
Employee Benefit - Utilities	–	–	–	–	–	–	–
Other Utilities Expense	–	–	–	–	–	–	–
Total Utilities	377,561	–	–	–	–	–	377,561

(continued)

CITY OF FLAGSTAFF, ARIZONA

Financial Data Submission Summary

Revenue, Expense, and Changes in Fund Net Asset Accounts

Year Ended June 30, 2011

	Public Housing 14.850	Housing Choice Vouchers 14.871	Business Activities	Resident Opportunity and Supportive Services 14.870	Moderate Rehab- ilitation 14.856	Elimination	Total
Ordinary Maintenance and Operations							
Labor	279,320	–	–	–	–	–	279,320
Materials and Other	33,556	–	–	–	–	–	33,556
Employee Benefit Contributions	105,269	–	–	–	–	–	105,269
Garbage & Trash Removal Contacts	–	–	–	–	–	–	–
Heating & Cooling Contracts	–	–	–	–	–	–	–
Landscape & Grounds Contracts	–	–	–	–	–	–	–
Unit Turnaround Contracts	–	–	–	–	–	–	–
Electrical Contracts	–	–	–	–	–	–	–
Plumbing Contracts	–	–	–	–	–	–	–
Extermination Contracts	–	–	–	–	–	–	–
Janitorial Contracts	–	–	–	–	–	–	–
Routine Maintenance Contracts	–	–	–	–	–	–	–
Contracts-Other	96,053	–	–	–	–	–	96,053
Total Maintenance	514,198	–	–	–	–	–	514,198
Protective Services							
Protective Services - Other	–	–	–	–	–	–	–
Total Protective Services	–	–	–	–			–
General Expense							
Property Insurance	44,777	–	–	–	–	–	44,777
Liability Insurance	16,072	3,229	–	–	–	–	19,301
Workmen's Compensation	10,284	1,891	149	–	–	–	12,324
All Other Insurance	10,042	1,445	309	97	3	–	11,896
Other General Expenses	(393)	1,108	185	–	–	–	900
Compensated Absences	63,817	11,193	1,235	–	–	–	76,245
Payments in Lieu of Taxes	74,329	–	–	–	–	–	74,329
Bad debt - Tenant Rents	7,865	–	–	–	–	–	7,865
Bad debt - Other	–	–	6,825	–	–	–	6,825
Total General Expenses	226,793	18,866	8,703	97	3	–	254,462
Financial Expenses							
Interest Expense - Mortgage Payable	–	–	–	–	–	–	–
Amortization of Bond Issue Costs	–	–	–	–	–	–	–
Total Financial Expenses	–	–	–	–	–	–	–
Total Operating Expenses	1,828,174	265,978	39,317	36,505	10,787	–	2,180,761
Excess of Operating Revenue over Operating Expenses	870,260	3,335,042	1,952	–	57,438	–	4,264,692

(continued)

CITY OF FLAGSTAFF, ARIZONA

Financial Data Submission Summary

Revenue, Expense, and Changes in Fund Net Asset Accounts

Year Ended June 30, 2011

	Public Housing 14.850	Housing Choice Vouchers 14.871	Business Activities	Resident Opportunity and Supportive Services 14.870	Moderate Rehab-ilitation 14.856	Elimination	Total
Other Expenses							
Extraordinary Maintenance	51,155	–	–	–	–	–	51,155
Casualty Losses - Non-capitalized	3,947	–	–	–	–	–	3,947
Housing Assistance Payments	–	2,786,251	–	–	57,438	–	2,843,689
HAP Portability-In	–	213,553	–	–	–	–	213,553
Depreciation Expense	518,817	–	–	–	–	–	518,817
Total Other Expense	573,919	2,999,804	–	–	57,438	–	3,631,161
Total Expenses	2,402,093	3,265,782	39,317	36,505	68,225	–	5,811,922
Other Financing Sources (Uses)							
Transfer of Funds	–	–	–	–	–	–	–
Transfer of Equity	–	–	–	–	–	–	–
Prior Period Adjustments	–	–	–	–	–	–	–
Total Other financing Sources (Uses)	–	–	–	–	–	–	–
Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	296,341	335,238	1,952	–	286	–	633,817
Beginning Equity	5,850,920	187,713	104,483	–	12,338	–	6,155,454
Ending Net Assets	$ 6,147,261	$ 522,951	$ 106,435	$ –	$ 12,624	$ –	$ 6,789,271
Administrative Fee Equity	$ –	$ 99,103	$ –	$ –	$ –	$ –	$ 96,939
Housing Assistance Payments Equity	$ –	$ 423,848	$ –	$ –	$ –	$ –	$ 423,848
Unit Months Available	3,180	3,996	–	–	144	–	7,320
Number of Unit Months Leased	3,134	3,828	–	–	139	–	7,101

(concluded)

CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Revenue, Expense, and Changes in Fund Net Asset Accounts
Public Housing – Consolidated
Year Ended June 30, 2011

	Operating Fund Program	Capital Fund Grants	Other Project Total
Revenues:			
Net Tenant Rental Revenue	$ 1,127,511	$ –	$ 1,127,511
Tenant Revenue – Other	12,050	–	12,050
Total Tenant Revenue	1,139,561	–	1,139,561
HUD PHA Operating Grants	613,144	136,442	749,586
Capital Grants	–	787,498	787,498
Management Fee	–	–	–
Asset Management Fee	–	–	–
Bookkeeping Fee	–	–	–
Front Line Service Fee	–	–	–
Other Fees	–	–	–
Other Government Grants	–	–	–
Investment Income – Unrestricted	–	–	–
Mortgage Interest Income	–	–	–
Fraud Recovery	5,882	–	5,882
Other Revenue	15,907	–	15,907
Gain or Loss on Sale of Capital Assets	–	–	–
Investment Income – Restricted	–	–	–
Total Revenue	1,774,494	923,940	2,698,434
Expenses:			
Administrative			
Administrative Salaries	359,899	37,629	397,528
Auditing Fees	7,190	–	7,190
Management Fee	–	–	–
Bookkeeping Fee	–	–	–
Advertising and Marketing	763	–	763
Employee Benefit – Administrative	130,957	10,922	141,879
Office Expenses	41,409	25,055	66,464
Legal Expense	12,778	–	12,778
Travel	29,334	6,606	35,940
Allocated Overhead	–	–	–
Other	22,642	–	22,642
Total Administrative	604,972	80,212	685,184
Tenant Services			
Tenant Services – Salaries	–	–	–
Relocation Costs	–	–	–
Employee Benefit – Tenant Services	–	–	–
Tenant Services – Other	24,438	–	24,438
Total Tenant Services	24,438	–	24,438
Utilities			
Water	105,184	–	105,184
Electricity	18,042	–	18,042
Gas	187,053	–	187,053
Sewer	67,282	–	67,282
Employee Benefit – Utilities	–	–	–
Other Utilities Expense	–	–	–
Total Utilities	377,561	–	377,561

(continued)

CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Revenue, Expense, and Changes in Fund Net Asset Accounts
Public Housing - Consolidated
Year Ended June 30, 2011

	Operating Fund Program	Capital Fund Grants	Other Project Total
Ordinary Maintenance and Operations			
Labor	279,320	-	279,320
Materials and Other	33,556	-	33,556
Employee Benefit Contributions	105,269	-	105,269
Garbage & Trash Removal Contacts	-	-	-
Heating & Cooling Contracts	-	-	-
Landscape & Grounds Contracts	-	-	-
Unit Turnaround Contracts	-	-	-
Electrical Contracts	-	-	-
Plumbing Contracts	-	-	-
Extermination Contracts	-	-	-
Janitorial Contracts	-	-	-
Routine Maintenance Contracts	-	-	-
Contracts-Other	95,156	897	96,053
Total Maintenance	513,301	897	514,198
Protective Services			
Protective Services - Other	-	-	-
Total Protective Services	-	-	-
General Expense			
Property Insurance	44,777	-	44,777
Liability Insurance	16,072	-	16,072
Workmen's Compensation	10,284	-	10,284
All Other Insurance	10,019	23	10,042
Other General Expenses	(393)	-	(393)
Compensated Absences	63,817	-	63,817
Payments in Lieu of Taxes	74,329	-	74,329
Bad debt - Tenant Rents	7,865	-	7,865
Bad debt - Other	-	-	-
Total General Expenses	226,770	23	226,793
Financial Expenses			
Interest Expense - Mortgage Payable	-	-	-
Amortization of Bond Issue Costs	-	-	-
Total Financial Expenses	-	-	-
Total Operating Expenses	1,747,042	81,132	1,828,174
Excess of Operating Revenue over Operating Expenses	27,452	842,808	870,260

(continued)

CITY OF FLAGSTAFF, ARIZONA
Financial Data Submission Summary
Revenue, Expense, and Changes in Fund Net Asset Accounts
Public Housing - Consolidated
Year Ended June 30, 2011

	Operating Fund Program	Capital Fund Grants	Other Project Total
Other Expenses			
Extraordinary Maintenance	1,322	49,833	51,155
Casualty Losses - Non-capitalized	3,947	-	3,947
Housing Assistance Payments	-	-	-
HAP Portability-In	-	-	-
Depreciation Expense	518,817	-	518,817
Total Other Expense	524,086	49,833	573,919
Total Expenses	2,271,128	130,965	2,402,093
Transfer of Funds	-	-	-
Transfer of Equity	-	-	-
Prior Period Adjustments	-	-	-
Total Other financing Sources (Uses)	-	-	-
Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(496,634)	792,975	296,341
Beginning Equity	5,850,920	-	5,850,920
Ending Net Assets	5,354,286	792,975	6,147,261

(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.

Contents | Page

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

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

	Fiscal Year											
	2003	2004	2005	2006	2007		2008		2009		2010	2011
Governmental activities												
Invested in capital assets, net of related debt	$ 45,410,334	$ 41,666,412	$ 46,759,889	$ 184,594,782	$ 204,594,974	(1)	$ 214,268,448		$ 215,672,933		$ 213,762,870	$ 217,879,986
Restricted	14,778,358	35,343,236	20,670,257	45,560,390	13,795,935		14,875,852		7,975,269		18,213,829	23,971,870
Unrestricted	34,178,175	33,494,972	56,392,865	10,448,150	36,514,677	(2)	39,248,151		34,766,602		49,463,587	42,863,692
Total governmental activities net assets	$ 94,366,867	$ 110,504,620	$ 123,823,011	$ 240,603,322	$ 254,905,586		$ 268,392,451	(3)	$ 258,414,804	(4)	$ 281,440,286	$ 284,715,548
Business-type activities												
Invested in capital assets, net of related debt	$ 173,369,441	$ 184,863,812	$ 200,551,217	$ 230,035,130	$ 264,381,730		$ 276,783,163		$ 291,707,810		$ 302,784,152	$ 303,113,402
Restricted	5,013,627	5,161,363	3,200,521	2,392,858	2,424,615		1,593,915		1,593,915		2,209,327	3,003,129
Unrestricted	20,858,057	24,092,049	24,948,848	20,303,463	19,267,461		16,250,436		11,547,792		10,895,855	17,190,191
Total business-type activities and net assets	$ 199,241,125	$ 214,117,224	$ 228,700,586	$ 252,731,451	$ 286,073,806		$ 294,627,514		$ 304,849,517		$ 315,889,334	$ 323,306,722
Primary government												
Invested in capital assets, net of related debt	$ 218,779,775	$ 226,530,224	$ 247,311,106	$ 414,629,912	$ 468,976,704		$ 491,051,611		$ 507,380,743		$ 516,547,022	$ 520,993,388
Restricted	19,791,985	40,504,599	23,870,778	47,953,248	16,220,550		16,469,767		9,569,184		20,423,156	26,974,999
Unrestricted	55,036,232	57,587,021	81,341,713	30,751,613	55,782,138		55,498,587		46,314,394		60,359,442	60,053,883
Total primary government net assets	$ 293,607,992	$ 324,621,844	$ 352,523,597	$ 493,334,773	$ 540,979,392		$ 563,019,965		$ 563,264,321		$ 597,329,620	$ 608,022,270

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

The City implemented GASB-34 for the year ended June 30, 2003
Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information.

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

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses									
Governmental activities:									
General government	$ 4,840,896	$ 5,891,617	$ 5,441,945	$ 7,458,583	$ 9,035,268	$ 11,271,031	$ 10,913,187	$ 8,238,178	$ 7,850,954
Public safety	18,270,468	18,792,832	21,018,114	22,525,292	23,994,991	27,030,331	29,287,433	26,592,968	25,987,193
Public works	1,169,302	1,178,137	1,320,459	1,454,731	1,882,489	1,894,089	2,109,221	1,502,626	1,754,033
Economic and physical development	7,272,115	6,473,290	6,807,311	7,842,985	9,508,406	10,556,175	10,346,982	8,827,578	8,474,776
Culture and recreation	8,467,575	8,693,714	9,426,600	8,328,945	10,089,469	11,607,116	13,120,917	12,507,679	12,854,824
Highways and streets	6,184,553	8,886,947	10,011,231	12,043,242	14,557,140	15,515,643	19,297,615	17,856,121	19,275,381
Interest on long-term debt	1,380,182	1,923,325	2,042,555	2,167,626	3,090,140	2,916,380	3,651,521	3,918,110	3,370,918
Total governmental activities expense	47,585,091	51,839,862	56,068,215	61,821,404	72,157,903	80,790,765	88,726,876	79,443,260	79,568,079
Business-type activities:									
Water and wastewater	16,142,040	17,250,441	17,297,017	18,452,368	19,945,366	23,420,282	22,802,316	21,731,286	21,491,239
Environmental	7,556,614	7,319,602	8,548,715	9,096,420	10,073,853	11,423,164	11,782,540	11,091,078	11,610,370
Airport	3,411,603	3,370,447	3,749,669	3,519,749	3,162,391	3,608,322	4,197,447	4,273,609	4,584,733
Houising Authority	-	-	-	-	-	-	-	-	5,811,922
Stormwater	-	460,936	479,700	791,791	1,019,248	1,160,604	1,203,436	1,258,072	1,121,555
Total business-type activities expense	27,110,257	28,401,426	30,075,101	31,860,328	34,200,858	39,612,372	39,985,739	38,354,045	44,619,819
Total primary government expense	$ 74,695,348	$ 80,241,288	$ 86,143,316	$ 93,681,732	$ 106,358,761	$ 120,403,137	$ 128,712,615	$ 117,797,305	$ 124,187,898
Program Revenues									
Governmental activities:									
Charges for services:									
General government	$ 4,757,483	$ 3,257,393	$ 3,611,862	$ 4,886,354	$ 4,171,853	$ 3,746,890	$ 3,099,884	$ 3,285,242	$ 2,646,424
Public safety	743,738	451,802	498,506	815,167	704,800	1,227,979	1,451,405	1,283,697	1,144,636
Public works	830,885	976,793	1,213,714	1,180,097	1,455,461	1,483,275	1,350,832	1,471,550	1,537,188
Economic and physical development	222,008	16,164	321,915	332,356	562,135	315,462	369,987	291,211	162,715
Culture and recreation	733,159	722,236	680,755	683,906	742,088	762,410	1,559,617	1,420,094	1,442,901
Highways and streets	119,854	-	-	-	-	-	-	-	-
Operating grants and contributions	3,428,440	2,678,653	4,147,529	3,791,526	2,062,329	3,320,597	5,990,756	6,654,978	7,965,474
Capital grants and contributions	9,646,122	11,757,330	15,180,401	21,566,549	19,356,271	16,324,928	9,880,762	36,949,681	9,226,778
Total governmental activities program revenues	20,481,689	19,860,371	25,654,682	33,255,955	29,054,937	27,181,541	23,703,243	51,356,453	24,126,116

Schedule 2 (continued)
City of Flagstaff
Changes in Net Assets
Last Nine Fiscal Years
(accrual basis of accounting)

Business-type activities:									
Charges for services:									
Water and wastewater	16,534,341	16,678,956	16,223,648	17,047,831	17,337,916	17,947,605	17,328,927	17,539,873	18,781,751
Environmental	7,682,458	8,201,566	9,370,561	9,723,652	9,839,486	10,813,177	11,545,472	11,329,336	12,010,554
Airport	926,406	944,983	1,176,866	1,261,594	1,122,274	1,207,831	1,187,105	1,359,029	1,388,076
Housing Authority	-	-	-	-	-	-	-	-	1,437,841
Stormwater	-	546,807	694,161	630,962	1,042,701	1,137,402	1,247,878	1,358,438	1,456,894
Operating grants and contributions	382,239	286,919	574,376	369	19,500	67,651	10,966	120,054	5,090,475
Capital grants and contributions	9,460,796	10,482,991	8,164,775	23,449,969	27,369,058	12,242,567	8,744,216	6,790,709	4,220,708
Total business-type activities program revenues	34,986,240	37,142,222	36,204,387	52,114,377	56,730,935	43,416,233	40,064,564	38,497,439	44,386,299
Total primary government program revenues	$ 55,467,929	$ 57,002,593	$ 61,859,069	$ 85,370,332	$ 85,785,872	$ 70,597,774	$ 63,767,807	$ 89,853,892	$ 68,512,415
Net (Expense)/Revenue									
Governmental activities	$ (27,103,402)	$ (31,979,491)	$ (30,413,533)	$ (28,565,449)	$ (43,102,966)	$ (53,609,224)	$ (65,023,633)	$ (28,086,807)	$ (55,441,963)
Business-type activities	7,875,983	8,740,796	6,129,286	20,254,049	22,530,077	3,803,861	78,825	143,394	(233,520)
Total primary government net expense	$ (19,227,419)	$ (23,238,695)	$ (24,284,247)	$ (8,311,400)	$ (20,572,889)	$ (49,805,363)	$ (64,944,808)	$ (27,943,413)	$ (55,675,483)
General Revenues and Other Changes in Net Assets									
Governmental activities:									
Taxes									
Property taxes	$ 8,010,293	$ 7,931,626	$ 8,462,302	$ 9,051,158	$ 12,169,247	$ 13,664,791	$ 12,262,185	$ 12,798,495	$ 12,645,717
Sales taxes	23,805,566	25,682,974	27,054,164	30,014,975	32,334,785	33,129,731	31,420,047	30,429,840	31,355,882
State shared sales taxes - unrestricted	12,073,108	12,122,563	12,837,838	14,384,055	16,276,354	16,992,017	16,628,652	14,880,073	13,148,252
Grants and contributions not restricted to specific programs	-	810,739	-	377,502	-	-	-	-	-
Investment earnings	383,111	218,520	1,703,861	2,385,099	4,108,861	3,903,839	1,465,731	449,394	246,093
Miscellaneous	492	905,717	277,972	204,678	1,377,552	819,325	381,984	228,969	1,741,338
Gain on sale of capital assets	944,381	634,411	382,387	33,417	242,167	2,160,339	-	2,831,308	744,957
Contributions to permanent fund	7,435	14,717	17,765	24,630	19,460	16,200	13,325	19,136	24,950
Transers in (out)	(476,304)	(369,358)	(7,004,365)	(2,267,551)	(9,123,196)	(3,590,153)	(9,651,500)	(10,524,926)	(1,189,964)
Total governmental activities	44,748,082	47,951,909	43,731,924	54,207,963	57,405,230	67,096,089	52,520,424	51,112,289	58,717,225
Business-type activties:									
Grants and contributions not restricted to specific programs	-	-	-	889	-	-	-	-	-
Investment earnings	106,733	719,023	935,973	1,181,836	1,546,893	964,237	206,154	111,251	107,543
Miscellaneous	-	-	-	-	110,835	127,423	166,158	194,547	150,129
Gain on sale of capital assets	23,675	17,302	513,738	326,540	31,354	78,248	119,366	79,467	47,818
Transers in (out)	476,304	369,358	7,004,365	2,267,551	9,123,196	3,590,153	9,651,500	10,524,926	1,189,964
Total business-type activities	606,712	1,105,683	8,454,076	3,776,816	10,812,278	4,760,061	10,143,178	10,910,191	1,495,454
Total primary government	$ 45,354,794	$ 49,057,592	$ 52,186,000	$ 57,984,779	$ 68,217,508	$ 71,856,150	$ 62,663,602	$ 62,022,480	$ 60,212,679
Change in Net Assets									
Governmental activities	$ 17,644,680	$ 15,972,418	$ 13,318,391	$ 25,642,514	$ 14,302,264	$ 13,486,865	$ (12,503,209)	$ 23,025,482	$ 3,275,262
Business-type activities	8,482,695	9,846,479	14,583,362	24,030,865	33,342,355	8,563,922	10,222,003	11,053,585	1,261,934
Total primary government	$ 26,127,375	$ 25,818,897	$ 27,901,753	$ 49,673,379	$ 47,644,619	$ 22,050,787	$ (2,281,206)	$ 34,079,067	$ 4,537,196

The City implemented GASB-34 for the year ended June 30, 2003
Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information.

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011
General Fund										
Reserved	$ 174,932	$ 176,838	$ 220,779	$ 200,401	$ 232,190	$ 1,260,236	$ 308,979	$ –	$ –	$ –
Unreserved	18,318,999	21,782,895	22,891,253	29,124,795	28,574,855	29,960,235	27,492,853	–	–	–
Nonspendable	–	–	–	–	–	–	–	280,376	376,728	427,267
Restricted	–	–	–	–	–	–	–	106,144	785,720	796,345
Committed	–	–	–	–	–	–	–	–	86,568	85,119
Assigned	–	–	–	–	–	–	–	–	8,595,100	6,882,947
Unassigned	–	–	–	–	–	–	–	22,203,764	13,412,219	15,160,509
Total general fund	$ 18,493,931	$ 21,959,733	$ 23,112,032	$ 29,325,196	$ 28,807,045 (1)	$ 31,220,471	$ 27,801,832	$ 22,590,284	$ 23,256,335	$ 23,352,187
All Other Governmental Funds										
Reserved	$ 1,106,960	$ 959,209	$ 1,677,627	$ 1,556,450	$ 30,107,878	$ 47,350,460	$ 20,611,579	$ –	$ –	$ –
Unreserved, reported in:										
Special revenue funds	26,476,529	21,713,198	37,476,678	33,041,256	22,893,640	16,332,830	16,498,123	–	–	–
Capital project funds	–	–	–	–	–	–	(763,744)	–	–	–
Permanent fund	–	217	567	1,426	3,271	6,567	9,916	–	–	–
Nonspendable	–	–	–	–	–	–	–	216,878	206,678	214,333
Restricted	–	–	–	–	–	–	–	4,299,450	19,720,079	23,012,954
Committed	–	–	–	–	–	–	–	–	2,228,605	–
Assigned	–	–	–	–	–	–	–	8,955,106	651,650	–
Unassigned	–	–	–	–	–	–	–	–	–	(2,863,781)
Total all other governmental funds	$ 27,583,489	$ 22,672,624	$ 39,154,872	$ 34,599,132	$ 53,004,789	$ 63,689,857	$ 36,355,874	$ 13,471,434	$ 22,807,012	$ 20,363,506

(1) FY2007 : as restated for accounting error related to the accural 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)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES:										
Taxes	$ 30,986,091	$ 31,523,875	$ 33,736,154	$ 35,529,373	$ 39,104,903	$ 41,976,134	$ 43,964,317	$ 43,555,388	$ 43,200,268	$ 43,799,128
Intergovernmental	24,008,885	11,746,308	12,156,451	17,545,686	17,173,416	18,779,168	20,425,088	21,364,739	19,450,213	17,488,021
Grants and entitlements	–	13,074,562	10,940,934	9,564,110	10,880,792	12,185,406	13,556,680	9,609,508	11,172,862	10,583,483
Charges for services	1,676,615	1,729,275	1,459,837	1,834,067	2,199,819	2,605,880	2,704,333	3,324,838	3,057,423	2,926,237
Special assessments	350,894	360,158	291,684	218,500	30,016	2,927	2,449	2,382	1,510,217	701,447
Licenses and permits	2,014,357	2,378,728	2,111,033	2,063,718	2,834,506	2,438,599	1,815,062	1,377,580	1,441,874	739,040
Fines and forfeitures	991,131	1,303,069	1,144,562	1,250,494	1,394,174	1,290,667	1,336,146	1,517,558	1,636,157	1,673,306
Rents	–	845,443	985,907	1,220,007	1,195,464	1,480,686	1,496,858	1,421,772	1,588,214	1,617,912
Investment earnings	–	274,472	115,433	1,589,293	2,238,285	3,920,473	3,731,116	1,366,931	413,594	224,363
Contributions	–	334,235	21,917	22,229	129,930	2,981,982	1,308,938	1,328,524	544,393	166,417
Miscellaneous	3,169,599	781,496	905,717	277,972	204,678	1,377,552	819,325	381,984	228,969	1,719,608
Total revenues	63,197,572	64,351,621	63,869,629	71,115,449	77,385,983	89,039,474	91,160,312	85,251,204	84,244,184	81,638,962
EXPENDITURES:										
General governmental	5,834,543	4,453,180	5,335,890	6,158,308	6,621,976	8,194,214	10,229,814	9,848,252	7,926,726	7,113,922
Public safety	16,057,019	17,202,980	18,015,837	19,140,415	21,626,547	22,994,522	25,696,174	27,374,083	25,159,777	24,476,615
Public works	950,242	948,944	966,546	1,005,745	1,168,424	1,615,049	1,617,311	1,645,703	1,360,447	1,299,027
Economic and physical development	10,187,883	7,060,275	6,289,966	6,424,057	7,640,313	9,344,676	10,335,964	9,991,927	8,601,808	8,202,024
Culture and recreation	10,030,055	7,599,703	7,724,481	8,341,105	7,178,029	8,648,628	10,267,649	12,158,087	10,615,754	10,782,848
Highways and streets	15,648,877	5,676,050	8,003,110	8,951,097	10,700,196	7,859,004	8,505,722	11,187,402	9,313,158	10,612,033
Debt service:										
Principal retirement	2,979,000	3,679,000	4,614,000	4,880,000	6,505,449	5,313,222	5,046,398	5,034,991	6,065,522	6,761,179
Interest and other charges	1,443,074	1,380,182	2,428,026	2,148,734	2,552,016	3,210,879	3,020,927	3,750,657	3,996,963	3,451,706
Capital outlay	5,788,006	18,304,161	19,348,708	17,053,841	25,054,173	26,403,203	46,465,549	30,796,072	12,446,280	11,785,480
Total expenditures	68,918,699	66,304,475	72,726,564	74,103,302	89,047,123	93,583,397	121,185,508	111,787,174	85,486,435	84,484,834
Excess of revenues over (under) expenditures	(5,721,127)	(1,952,854)	(8,856,935)	(2,987,853)	(11,661,140)	(4,543,923)	(30,025,196)	(26,535,970)	(1,242,251)	(2,845,872)
OTHER FINANCING SOURCES (USES):										
Refunding bonds issued	3,100,000	9,375,000	720,000	–	–	–	–	–	–	–
Bonds issuance	–	–	25,000,000	–	31,500,000	19,075,000	–	–	8,330,000	–
Loan issued	–	–	–	3,800,000	–	–	–	–		
Payment to bond refunding escrow agent	–	(9,429,957)	(718,127)	–	–	–	–	–		
Lease issued	–	–	–	–	–	–	–	109,352		
Improvement District Debt	–	–	–	–	–	–	–	–		
Bond premium	–	190,240	1,059,221	–	220,086	46,707	–	–	58,370	–
Insurance recoveries									1,920,000	1,058,985
Sale of capital assets	–	946,236	634,411	2,114,398	37,892	252,329	2,176,808	63,894	1,084,211	45,655
Transfers in	12,994,104	12,708,480	12,996,534	15,312,931	17,317,133	17,756,847	17,181,576	21,626,308	15,224,243	13,661,630
Transfers out	(13,607,644)	(13,184,784)	(13,365,892)	(16,582,052)	(19,584,684)	(19,488,466)	(20,085,809)	(23,359,573)	(18,525,100)	(14,268,052)
Total other financing sources (uses)	2,486,460	605,215	26,326,147	4,645,277	29,490,427	17,642,417	(727,425)	(1,560,019)	8,091,724	498,218
Net change in fund balances	$ (3,234,667)	$ (1,347,639)	$ 17,469,212	$ 1,657,424	$ 17,829,287	$ 13,098,494	$ (30,752,621)	$ (28,095,989)	$ 6,849,473	$ (2,347,654)
Debt service as a percentage of non capital expenditures	7.00%	10.54%	13.19%	12.32%	14.15%	12.69%	10.80%	10.85%	13.78%	14.05%

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
2002	$ 3,070	$ 4,198	$ 1,791	$ 11,783	$ 3,817	$ 6,327	$ 30,986
2003	3,427	4,415	1,783	11,469	3,827	6,603	31,524
2004	3,425	4,628	2,262	12,055	4,063	7,303	33,736
2005	3,619	4,856	1,943	13,148	4,331	7,632	35,529
2006	4,209	4,881	2,083	14,707	4,623	8,602	39,105
2007	4,453	5,188	1,838	16,071	4,992	9,434	41,976
2008	4,616	6,219	2,189	16,150	5,187	9,605	43,966
2009	4,882	7,254	2,246	14,384	5,052	10,035	43,853
2010	5,150	7,620	2,133	13,595	5,074	9,628	43,200
2011	5,259	7,184	2,339	13,893	5,259	9,865	43,799
Change 2002-2011	71.30%	71.13%	30.60%	17.91%	37.78%	55.92%	41.35%

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 Transportation Assistance	State HB 2565	Federal Grants	State Grants & Other State	County LEAF IGA	County Library District Funding *	Other	Total
2002	$ 4,076,034	$ 5,526,159	$ 1,803,900	$ 7,771,416	$ 300,246	$ 47,598	$ 2,348,793	$ 437,543	$ -	$ 1,423,105	$ 274,091	$ 24,008,885
2003	4,136,724	5,557,918	2,378,466	7,408,116	315,026	-	1,743,613	823,701	-	2,564,691	850,000	25,778,255
2004	4,449,982	4,777,145	2,427,367	6,975,351	313,868	-	1,160,966	454,212	468,069	1,987,433	148,992	23,163,385
2005	4,900,117	4,918,476	2,461,425	7,171,383	313,843	-	1,772,181	2,868,033	628,198	2,068,947	39,640	27,142,243
2006	5,652,335	5,655,641	2,655,653	7,942,771	304,341	55,665	2,386,011	940,441	420,426	2,241,811	-	28,255,095
2007	5,815,473	6,946,680	2,792,404	7,855,427	293,502	-	2,822,315	1,214,162	721,797	2,559,375	-	31,021,135
2008	5,623,144	8,610,567	2,758,307	7,422,359	225,965	58,782	4,868,431	981,142	668,153	3,559,362	-	34,776,212
2009	4,868,072	9,149,290	2,611,289	6,412,329	251,536	-	1,711,609	1,234,065	897,337	4,125,223	32,795	31,293,545
2010	4,490,087	7,899,626	2,490,360	6,429,355	156,218	-	3,885,697	701,592	757,241	3,762,831	50,068	30,623,075
2011	4,711,821	5,955,305	2,481,126	6,300,885	-	-	3,181,076	1,101,522	744,070	3,531,607	64,092	28,071,504

* - 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	Commercial Property	Vacant, Agricultural, and Government Property	Residential Property	Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate
2002	$ 33,068,867	$ 197,065,506	$ 60,199,456	$ 201,111,291	$ 42,767,442	$ 448,677,678	1.7127
2003	35,621,681	194,944,521	62,099,966	215,320,769	43,729,051	464,257,886	1.7127
2004	29,405,068	211,870,593	65,128,715	242,190,760	46,939,696	501,655,440	1.7127
2005	27,328,709	221,179,062	82,683,618	276,187,028	50,697,830	556,680,587	1.7127
2006	27,532,435	237,795,313	100,985,606	315,182,546	57,296,001	624,199,899	1.6627
2007	28,051,846	261,009,908	125,377,258	398,783,838	62,684,483	750,538,367	1.5929
2008	28,940,765	281,348,845	140,117,313	500,150,890	71,775,990	878,781,823	1.5519
2009	27,478,520	286,101,952	151,630,088	529,950,871	78,819,714	916,341,717	1.5519
2010	25,750,042	274,992,074	146,079,309	502,351,037	85,132,993	864,039,469	1.5519
2011	26,651,155	265,230,915	133,909,755	447,421,001	81,844,375	791,368,451	1.4845

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)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Construction	$ 134,084	$ 151,652	$ 158,506	$ 163,846	$ 233,747	$ 260,024	$ 263,386	$ 181,245	$ 150,239	$ 166,894
Building Materials	61,118	63,618	70,063	72,152	82,481	79,703	75,493	66,641	60,143	61,781
Auto Sales	119,210	118,640	124,147	127,760	129,671	133,497	118,282	78,819	85,806	99,786
Restaurants and Bars	191,258	191,883	202,966	215,624	232,359	248,819	255,578	250,555	251,271	261,384
Retail	497,753	502,235	529,705	556,165	586,841	637,225	619,805	582,029	546,765	544,356
Other	115,666	118,333	125,687	134,824	144,635	154,183	163,463	155,193	152,042	151,461
Utilities	–	–	53	199	4,892	68,840	71,299	69,175	66,392	63,784
TOTAL	$ 1,119,089	$ 1,146,361	$ 1,211,127	$ 1,270,570	$ 1,414,626	$ 1,582,291	$ 1,567,306	$ 1,383,657	$ 1,312,658	$ 1,349,446

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

Fiscal Year	City	School District	Community College	County	Total
2002	1.7127	6.6741	0.5717	1.0951	10.0536
2003	1.7127	6.7590	0.5809	1.1941	10.2467
2004	1.7127	6.3679	0.5775	1.2369	9.8950
2005	1.7127	5.7236	0.5660	1.2212	9.2235
2006	1.6627	6.0786	0.5525	1.2010	9.4948
2007	1.5929	5.9009	0.5269	0.7521	8.7728
2008	1.5519	4.7713	0.4865	0.7588	7.5685
2009	1.5519	4.8334	0.4643	0.7603	7.6099
2010	1.4913	3.8860	0.4267	0.7244	6.5284
2011	1.4845	4.6772	0.4308	0.7245	7.3170

Note: Tax rates are per $100 assessed valuation.

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

Taxpayer *	2011 Total Assessed Value	2011 Rank	2011 As a Percentage of the City Total Secondary Assessed Valuation	2002 Total Assessed Value	2002 Rank	2002 As a Percentage of the City Total Secondary Assessed Valuation
Arizona Public Service Company	$ 15,448,320	1	1.95%	$ 12,690,610	1	3.11%
W L Gore & Associates Inc.	14,307,506	2	1.81%	10,577,757	2	2.59%
Fidelity National Title Ins Agency of Coco Inc Trust	5,843,515	3	0.74%			
Qwest Corporation	5,250,832	4	0.66%			
Nestle Purina Petcare Company	4,634,404	5	0.59%	5,274,488	5	1.29%
Flagstaff Mall Associated Ltd. Partnership	3,608,680	6	0.46%	2,996,319	8	0.73%
Walgreens Drug Company	2,789,765	7	0.35%	2,940,753	9	0.72%
Consolidated Investments, Inc.	2,666,072	8	0.34%	3,086,173	7	0.76%
Hopi tribe Econnmic Development Corp.	2,385,090	9	0.30%			
SACO Management, Inc.	2,370,863	10	0.30%	2,498,291	10	0.61%
Northern Arizona Gas Division (Citizens Utilities)	-		0.00%	9,194,655	3	2.25%
US West Communications	-		0.00%	7,081,338	4	1.73%
Little America Refining Co	-		0.00%	5,149,226	6	1.26%
Total Principal Taxpayers	$ 59,305,047		7.50%	$ 61,489,610		15.05%

Source: Coconino County Assessor Office

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2002	$ 7,216,410	$ 7,194,162	99.7%	$ 74,106	$ 7,268,268	100%*
2003	7,609,112	7,621,044	100.0%	92,457	7,718,309	99.9%*
2004	7,897,298	7,791,735	98.7%	261,445	8,053,180	99.7%*
2005	8,494,694	8,330,157	98.1%	145,051	8,475,208	99.7%*
2006	9,075,322	8,958,733	98.7%	131,194	9,089,927	99.5%*
2007	9,615,015	9,495,935	98.8%	145,415	9,641,350	99.8%*
2008	10,935,835	10,728,465	98.1%	106,120	10,834,585	99.5%
2009	12,253,760	11,934,997	97.4%	200,344	12,135,341	99.3%
2010	12,750,836	12,477,413	97.9%	293,015	12,770,429	100.0%
2011	12,497,535	12,113,128	96.9%	330,118	12,443,246	96.9%

* Percentage of Levy is estimated

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

Fiscal Year	City General Sales Tax	City Bed, Board & Beverage	City Transportation	State of Arizona	Coconino County	Total
2002	1.0000%	2.0000%	0.5745%	5.6000%	0.8000%	9.9745%
2003	1.0000%	2.0000%	0.5745%	5.6000%	0.9250%	10.0995%
2004	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2005	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2006	1.0000%	2.0000%	0.6010%	5.6000%	0.9250%	10.1260%
2007	1.0000%	2.0000%	0.6010%	5.6000%	1.1250%	10.3260%
2008	1.0000%	2.0000%	0.6010%	5.6000%	1.1250%	10.3260%
2009	1.0000%	2.0000%	0.7210%	5.6000%	1.1250%	10.4460%
2010	1.0000%	2.0000%	0.7210%	6.6000%	1.1250%	11.4460%
2011	1.0000%	2.0000%	0.7210%	6.6000%	1.1250%	11.4460%

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

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

	Governmental Activities					Business-Type Activities						
Fiscal Year	**General Obligation Bonds**	**Special Assessment Bonds**	**Revenue Bonds**	**Municipal Facility Corporation Bonds**	**COP Capital Leases**	**General Obligation Bonds**	**Revenue Bonds**	**Term Loan Payable**	**Capital Leases**	**Total Primary Government**	**Percentage of Personal Income**	**Per Capita**
2003	$ 7,485	$ 944	$ 14,790	$ 4,445	$ -	$ 22,958	$ 6,537	$ 3,716	$ -	$ 60,875	1.9%	993.55
2004	5,795	685	13,380	28,170	-	21,253	6,290	3,380	-	78,953	2.3%	1,290.40
2005	4,285	415	11,555	26,895	3,800	18,880	6,035	3,031	2,732	77,628	2.2%	1,251.46
2006	32,875	340	9,665	25,610	3,455	16,294	5,770	2,671	2,652	99,332	2.9%	1,601.35
2007	31,230	19,339	7,725	24,315	3,097	13,310	5,496	32,957	4,482	141,951	3.8%	2,211.07
2008	29,350	19,257	6,325	23,000	2,728	10,515	5,212	32,275	4,227	132,889	3.5%	2,069.92
2009	27,645	19,169	4,865	21,625	2,430	7,460	4,918	37,006	3,960	129,078	3.4%	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%	1,997.49
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

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.

The City implemented GASB-34 for the fiscal year ended June 30, 2003.
Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information.
These amounts are presented on the accrual basis of accounting.

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

	General Bonded Debt Outstanding									
Fiscal Year		Governmental Activities General Obligation Bonds		Business-Type Activities General Obligation Bonds		Total	Percentage of Actual Taxable Value of Property	(a)		Per Capita (b)
2003	$	7,485	$	22,958	$	30,443	6.6%		$	498.82
2004		5,795		21,253		27,048	5.4%			441.46
2005		4,285		18,880		23,165	4.2%			378.61
2006		32,875		16,294		49,169	7.9%			792.66
2007		31,230		13,310		44,540	5.9%			718.04
2008		29,350		10,515		39,865	4.5%			620.95
2009		27,645		7,460		35,105	3.8%			542.64
2010		25,865		5,690		31,555	3.7%			491.51
2011		24,015		3,830		27,845	3.5%			424.97

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

The City implemented GASB-34 for the fiscal year ended June 30, 2003.
Prior statements have not been restated to comply with the new requirements, so the City is not able to report a full ten years of historical information.
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)

Governmental Unit		Debt Outstanding	Estimated Percentage Applicable*		Estimated Share of Overlapping Debt
Debt repaid with property taxes					
Flagstaff Unified School District	$	40,650	63.21%	$	25,696
Other debt					
Coconino County Revenue Bonds		3,855	43.01%		1,658
Coconino County Special Assessments		1,646	0.00%		-
Subtotal, overlapping debt					27,354
City direct debt					66,712
Total direct and overlapping debt				$	94,066

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

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

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

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

20% Debt Limit

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt limit equal to 20% of assessed valuation	$ 85,806	$ 92,852	$ 100,331	$ 111,336	$ 124,840	$ 150,108	$ 175,756	$ 183,268	$ 172,808	$ 158,274
Total net debt applicable to 20% limit	28,425	26,283	24,493	21,644	35,227	43,860	39,514	35,105	35,105	27,845
Legal debt margin (Available borrowing capacity)	$ 57,381	$ 66,569	$ 75,838	$ 89,692	$ 89,613	$ 106,248	$ 136,242	$ 148,163	$ 137,703	$ 130,429
Total net debt applicable to the 20% limit as a percentage of debt limit	49.54%	39.48%	32.30%	24.13%	39.31%	41.28%	29.00%	23.69%	25.49%	21.35%

6% Debt Limit

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt limit equal to 6% of assessed valuation	$ 25,742	$ 27,855	$ 30,099	$ 33,401	$ 37,452	$ 45,032	$ 52,727	$ 54,981	$ 51,842	$ 47,482
Total net debt applicable to 6% limit	5,560	4,160	2,555	1,225	14,202	680	351	–	–	–
Legal debt margin (Available borrowing capacity)	$ 20,182	$ 23,695	$ 27,544	$ 32,176	$ 23,250	$ 44,352	$ 52,376	$ 54,981	$ 51,842	$ 47,482
Total net debt applicable to the 6% limit as a percentage of debt limit	27.55%	17.56%	9.28%	3.81%	61.08%	1.53%	0.67%	0.00%	0.00%	0.00%

Legal Debt Margin Calculation for Fiscal Year 2011

Net Secondary Assessed Value as of June 30, 2011	$	791,371,939
20% Limitation		
Debt Limit of 20% of Assessed Value	$	158,274,388
Debt applicable to limit:		
General Obligation Bonds		27,845,000
Legal 20% debt margin (Available borrowing capacity)	$	130,429,388
6% Limitation		
Debt Limit of 6% of Assessed Value	$	47,482,316
Debt applicable to limit:		
General Obligation Bonds		-
Legal 6% debt margin (Available borrowing capacity)	$	47,482,316

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 Principal (3)	Interest (4)	Total	Coverage
2002	$ 17,637,708	$ 9,587,743	$ 8,049,965	$ –	$ –	$ –	–
2003	16,769,463	9,865,571	6,903,892	238,431	146,694	385,125	17.93
2004	17,227,848	10,645,073	6,582,775	246,890	231,034	477,924	13.77
2005	16,851,956	10,693,901	6,158,055	255,648	223,153	478,801	12.86
2006	17,755,038	11,791,895	5,963,143	264,717	214,084	478,801	12.45
2007	18,235,171	12,892,795	5,342,376	274,108	204,693	478,801	11.16
2008	18,380,351	16,229,816	2,150,535	283,832	194,969	478,801	4.49
2009	17,459,105	14,633,986	2,825,119	2,130,093	1,287,569	3,417,662	0.83
2010	17,585,198	11,758,135	5,827,063	2,356,705	1,483,072	3,839,777	1.52
2011	18,824,260	11,663,208	7,161,052	2,443,196	1,475,327	3,918,523	1.83

(1) Includes total operating revenues and investment income of the water and wastewaste 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 assets.

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

Highway User Revenue Bonds

Fiscal Year	Highway User Tax Revenue	Debt Service Requirements: Principal (1)	Interest (2)	Total	Coverage
2002	$ 7,771,416	$ 1,490,000	$ 900,492	$ 2,390,492	3.25
2003	7,408,116	1,730,000	668,260	2,398,260	3.09
2004	6,975,351	1,410,000	607,160	2,017,160	3.46
2005	7,171,383	1,825,000	571,910	2,396,910	2.99
2006	7,540,081	1,890,000	526,285	2,416,285	3.12
2007	7,855,427	1,940,000	469,585	2,409,585	3.26
2008	7,422,359	1,400,000	411,385	1,811,385	4.10
2009	6,412,329	1,460,000	344,010	1,804,010	3.55
2010	6,429,355	1,520,000	377,786	1,897,786	3.39
2011	6,300,885	2,024,304	331,678	2,355,982	2.67

(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 (1)	Revenue (2)	Debt Service Requirements: Principal (3)	Interest (4)	Total	Coverage
2002	$ 9,377,511	$ –	$ 224,682	$ 224,682	41.74
2003	9,232,244	255,000	207,398	462,398	19.97
2004	8,764,929	265,000	197,198	462,198	18.96
2005	9,356,995	275,000	186,598	461,598	20.27
2006	10,847,378	285,000	175,598	460,598	23.55
2007	12,302,955	295,000	164,198	459,198	26.79
2008	13,771,313	310,000	152,398	462,398	29.78
2009	13,557,828	320,000	139,534	459,534	29.50
2010	11,929,099	335,000	125,614	460,614	25.90
2011	10,206,755	350,000	110,371	460,371	22.17

(1) Trend information not available prior to fiscal year 2002.
(2) State sales tax, state income tax less debt service requirements for MFC debt other than transportation.
(3) MFC 1992 Refunding series 12 2001 - USGS projects.
(4) 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 Eight Fiscal Years

Municipal Facility Corporation Bonds
Transportation MFC Debt

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

(1) Trend information not available prior to fiscal year 2004.
(2) Pledged revenues on the Municipal Facility Corporation Bonds include the city base rate sales tax, transportation sales tax, francise sales tax, licenses and permits, charges for services, fine and forfeits, other revenue, state sales tax, and state revenue sharing. Less the debt service requirements for transportation MFC bonds.
(3) MFC revenue bond series 2003 Fourth Street.

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

Greater Arizona Development Authority
Revenue Bonds

Fiscal Year (1)	Revenue (2)	Debt Service Requirements: Principal (3)	Interest	Total	Coverage
2010	9,031,670	50,000	56,297	106,297	84.97
2011	7,169,310	115,000	135,938	250,938	28.57

(1) New Issue no trend information available.
(2) Pledges revenues on the Greater Arizona Development Authority Bonds include the state revenue sharing. Less the debt service .
(3) GADA revenue bond series 2009C

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

Year	Population	Personal Income (thousands of dollars)	Per Capita Personal Income	Median Age	Education Level - Percent High School Grad or Higher	Education Level - Percent Bachelor's Degree or Higher	School Enrollment	Unemployment Rate
2002	59,160	$ 2,908,992	$ 24,259	26.8	89.8%	39.4%	13,566	5.10%
2003	61,030	2,999,350	24,795	26.8	89.8%	39.4%	12,905	5.80%
2004	61,270	3,226,683	26,328	26.8	89.8%	39.4%	13,176	5.20%
2005	61,185	3,472,652	28,045	26.8	89.8%	39.4%	13,389	5.10%
2006	62,030	3,472,652	28,045	26.8	89.8%	39.4%	13,171	5.00%
2007	62,030	3,472,652	28,045	26.8	89.8%	39.4%	13,453	3.40%
2008	64,200	3,767,194	29,879	26.8	89.8%	39.4%	13,040	4.60%
2009	64,693	3,767,194	29,879	26.8	89.8%	39.4%	12,910	7.50%
2010	65,522	3,767,194	29,879	26.8	89.8%	39.4%	12,600	7.70%
2011	65,870	4,481,137	34,510	26.6	90.0%	39.2%	11,839	8.90%

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

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

	2011			2006 (1)		
Employer	**Employees**	**Rank**	**Percentage of Total City Employment**	**Employees**	**Rank**	**Percentage of Total City Employment**
Northern Arizona University	2,497	1	4.53%	3,393	1	6.15%
Flagstaff Medical Center	2,104	2	3.81%	1,999	2	3.62%
W.L. Gore & Associates*	1,900	3	3.44%	1,300	3	2.36%
Flagstaff United School District	1,436	4	2.60%	1,700	4	3.08%
Coconino County	1,294	5	2.35%	1,075	5	1.95%
City of Flagstaff	872	6	1.58%	948	6	1.72%
Coconino Community College*	-		0.00%	400	7	0.73%
Walgreens & Distribution Center	468	7	0.85%	400	8	0.73%
Grand Canyon Railway	421	8	0.76%	400	9	0.73%
SCA Tissue	279	9	0.51%	279	10	0.51%
Nestle Purina	230	10	0.42%	-		0.00%
Total	11,501		20.85%	11,894		21.56%
2010 U.S. Census Labor Force	55,170			55,170		

Source:
(1) Arizona Department of Economic Security
This is the most historical information available
* 2010 Employees is estimated

Long-term historical information not available.

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

	Full-time Equivalent Employees as of June 30									
Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011
General Government										
Management services	77.00	74.00	73.00	74.25	75.75	82.89	87.39	89.14	86.75	86.50
Capital management	19.00	18.50	15.50	14.50	13.50	13.50	13.50	13.50	11.00	11.00
City Court	24.25	25.25	26.50	26.50	26.50	26.50	27.63	29.63	25.88	25.18
Public Safety										
Police	148.25	148.25	150.00	151.00	160.00	164.00	174.00	181.00	168.00	168.00
Fire	97.25	96.75	96.75	96.75	97.75	100.75	101.75	101.75	99.00	92.00
Public Works	26.75	27.00	27.00	25.00	26.00	27.00	31.00	31.00	29.00	26.50
Economic and physical development										
Building	48.00	49.00	43.75	43.00	49.25	52.25	58.50	57.50	47.20	41.00
Planning	17.25	17.25	17.25	17.25	15.25	21.75	20.88	24.88	24.38	21.88
Tourism	6.00	6.00	11.75	13.75	13.75	15.75	16.75	16.75	15.75	14.25
Culture and recreation										
Library	38.75	39.50	39.50	40.00	40.00	43.13	47.14	53.77	50.77	50.77
Parks, recreation, and beautificatioin	79.25	74.50	67.75	63.95	67.53	68.82	98.23	99.69	87.86	86.86
Highways and Streets	35.25	36.25	36.25	36.25	36.25	37.25	40.56	41.06	36.31	36.31
Water and wastewater	74.75	74.50	73.00	74.50	76.50	79.00	80.25	81.75	64.50	62.50
Environmental services	45.00	45.00	45.75	52.25	54.00	62.60	61.60	68.10	65.58	63.58
Airport	9.50	9.50	9.50	9.50	9.50	10.00	10.50	10.50	9.50	9.50
Stormwater	-	-	5.75	5.00	6.50	6.50	6.50	6.50	6.00	6.00
Flagstaff Housing Authority	-	-	-	-	-	-	-	-	-	23.50
Total	746.25	741.25	739.00	743.45	768.03	811.69	876.18	906.52	827.48	825.33

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

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

Function/Program	Fiscal Year 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Court										
Criminal Filings	11,005	11,068	10,236	9,227	9,705	9,553	11,659	9,330	9,326	8,531
Traffic filings	10,431	10,613	10,388	11,253	10,575	8,951	10,665	10,639	13,471	12,010
Domestic Violence/Other filings	575	622	682	673	616	530	744	445	468	370
Fire										
Emergency responses	3,386	3,658	5,616	6,722	7,684	8,227	7,616	7,550	6,668	9,827
Fires response	352	216	265	228	351	314	267	263	247	819
Other calls	2,094	1,205	2,023	1,905	1,323	1,472	1,573	2,151	1,906	887
Inspections assigned	NA	NA	2,212	2,006	1,966	1,984	1,981	1,794	572	1,174
Plan Reviews	NA	NA	1,340	1,348	1,280	1,314	1,284	1,250	401	528
Fuel Management										
Plan Assessment (Acres)	NA	1,516	2,020	1,065	585	-	400	-	-	N/A*
Site Marking (Acres)	NA	759	408	311	662	764	178	224	294	586
Site Thinning (Acres)	NA	882	521	792	694	1,173	902	761	376	809
Prescription Burn (Acres)	NA	917	709	834	557	1,210	1,070	1,190	551	342
Police										
Felony reports	NA	NA	NA	4,979	5,337	4,973	3,978	3,661	3,073	2,973
Misdemeanor reports	NA	NA	NA	12,378	13,381	13,123	13,413	12,939	12,293	11,786
Domestive violence incidents	NA	NA	NA	1,464	1,598	1,625	1,573	1,470	1,953	1,923
Non-crime reports	NA	NA	NA	8,818	9,136	8,913	11,043	10,996	9,480	9,827
Accident reports	NA	NA	NA	3,616	3,313	3,374	3,322	2,917	2,776	2,735
Calls dispatched to Police/Sheriff	NA	NA	NA	73,559	77,239	75,791	73,364	70,908	61,175	57,899
Calls dispatched to Fire	NA	NA	NA	11,266	11,741	12,364	11,907	12,527	11,011	11,130
Calls dispatched to Medical	NA	NA	NA	9,435	9,175	9,960	-	-	-	-

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

		Fiscal Year									
Function/Program		2002	2003	2004	2005	2006	2007	2008	2009	2010	2010
Streets											
Potholes repaired		NA	NA	NA	2,988	1,962	2,443	4,032	4,373	3,256	1,498
Airport											
Fuel Flowage (Gallons Sold)		713,193	698,227	673,786	653,743	705,638	642,643	651,814	627,202	651,373	850,327
Enplanements		36,057	34,984	38,387	42,483	39,646	44,598	44,088	65,418	68,296	63,407
Refuse collection											
Refuse collected (Landfill tonnage)		110,684	128,153	109,608	140,233	154,321	153,121	157,792	142,409	121,529	138,703
Recyclables collected (total tons)		7,886	9,126	9,213	9,816	9,866	10,356	10,472	9,842	10,610	8,869
Community Development											
Residential Permit Valuation	(1)	$ 59,963,201	$ 78,719,935	$ 67,214,811	$ 87,180,707	$ 97,895,269	$ 38,895,496	$ 25,278,055	$ 31,498,803	$ 9,314,074	(1)
Commercial Permit Valuation	(1)	$ 29,051,528	$ 12,843,323	$ 18,123,934	$ 12,324,654	$ 26,130,677	$ 37,962,373	$ 27,199,698	$ 18,594,665	$ 13,395,325	(1)
Library											
Visits		NA	NA	564,065	582,726	625,103	643,174	680,253	738,603	743,169	763,928
Circulation		NA	NA	781,893	776,180	758,468	789,621	782,908	887,887	979,962	1,029,062
Tourism											
Revenue Per Available Room (RevPar)		$ 48.33	$ 45.36	$ 47.95	$ 52.90	$ 61.47	$ 66.86	$ 60.52	$ 43.21	$ 43.05	$ 45.26

Sources: Various city departments

(1) This informaition is gathered and reported on a calendar year basis versus a fiscal year basis for all other measurements
* Records no longer tracked

These accumulation of these statistics began in FY2002 so 10 years historical information is not available.

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

	Fiscal Year									
Function/Program	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public Safety										
Police patrol units (Includes Motorcycle units)	32	32	26	26	26	31	34	34	35	37
Number of fire hydrants	2,382	2,435	2,478	2,478	2,598	2,743	3,148	3,150	3,143	3,176
Numer of fire stations	6	6	6	6	6	6	6	7	7	7
Culture and recreation										
Number of developed parks	27	27	28	27	27	27	26	26	26	24
Number of undeveloped parks	3	3	4	4	4	4	4	4	4	5
Park acreage	586	586	704	702	702	705	712	712	712	735
Flagstaff Urban Trail System - Miles	22	22	28	32	34	34	48	51	51	53
Recreational Buildings	6	6	5	5	5	5	6	6	6	4
Highways and Streets										
Miles of streets, alleys, and sidewalks (1)	350	350	365	365	386	403	690	695	813	814
Number of street lights	2,853	2,898	2,921	2,921	3,037	3,107	3,201	3,220	3,350	3,466
Water and wastewater										
Miles of sewer (2)	250	271	275	275	293	309	265	270	270	271
Number of manholes	5,857	5,979	6,097	6,097	6,496	6,906	7,107	7,261	7,261	7,308
Total active water accounts	15,802	16,356	16,948	18,039	17,872	18,758	18,849	18,371	19,042	22,092
Average gallon water usage per household per month	6,897	6,727	6,070	6,096	5,488	5,600	5,456	5,010	5,123	5,107
Airport										
Fixed base operators	1	1	1	1	1	1	1	1	1	1
Locally based aircraft	130	130	130	130	130	134	134	134	120	122
Tiedowns	49	49	49	29	18	11	11	11	14	11
Enclosed hangars	42	42	42	42	61	61	61	61	61	61
Open hangars	38	38	38	38	48	48	48	48	48	48

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

2 Database Correction

Schedule 23
City of Flagstaff
Insurance Summary
In Effect June 1, 2010 to July 1, 2011

Coverage	Limit of Liability	
Liability Insurance:		
General Liability*	$ 1,000,000	/ per occurrence
(Includes 2 skateboard parks, bike freestyle park, EMT's)	$ 2,000,000	/ aggregate
Law Enforcement Liability*	$ 1,000,000	/ each wrongful act
	$ 1,000,000	/ aggregate
Auto Liability*	$ 1,000,000	/ each accident
Public Entity Management Errors and Omissions*	$ 1,000,000	/ each wrongful act
(Claims Made Retro Date 6-1-95)	$ 1,000,000	/ total limit
Employment Practices Liability*	$ 5,000,000	/ each wrongful act
(Claims Made Retro Date 6-1-95)	$ 5,000,000	/ total limit
Employee Benefits Liability*	$ 1,000,000	/ each wrongful act
(Claims Made)	$ 3,000,000	/ total limit
* Liability Claims are Subject to a $50,000 Self Insurance Retention		
Public Entity Cyber Liability	$ 1,000,000	/ each wrongful act
(Claims Made Retro Date 6-1-09)	$ 1,000,000	/ total limit
($5,000 deductible each wrongful act)		
Employer's Liability	$ 1,000,000	/ each accident
	$ 1,000,000	/ disease employee
	$ 1,000,000	/ disease policy limit
Worker's Compensation	Statutory	
Umbrella/Excess #1 - GL, Auto, Law Enforcement, Employer's Liability		
Public Entity Management, Employee Benefits	$ 20,000,000	/ each event/each
	wrongful Act	/ general total limit
(Excludes Airport, Housing Authority, Employment related practices, Failure to Supply Services, Mold, Terrorism, Asbestos, Lead, Condemnation, Sexual Abuse)		
Excess Liability #2 Following Form Over Excess Liability # 1		
(Excluding asbestos, discrimination,	$ 5,000,000	/ each occurrence/
terrorism, nuclear)	$ 5,000,000	/ general aggregate
Aviation:		
General Liability	$ 40,000,000	/ each occurrence
Products/Completed Operations	$ 40,000,000	/ aggregate
Personal Injury, Advertising & Malpractice	$ 40,000,000	aggregate
Hangar Keepers Liability	$ 40,000,000	/ each aircraft
	$ 40,000,000	/ each occurrence

Coverage	Limit of Liability	
Property Insurance:		
Blanket Buildings and Personal Property	$ 189,975,104	/ $25,000 deductible
Boiler and Machinery included		
Flood Zones B and C	$ 10,000,000	/ $50,000 deductible
Earthquakes	$ 15,000,000	/ $25,000 deductible
Business Income/Extra Expense	$ 7,100,000	/ 72 hours
Auto Physical Damage	$ 24,986,406	/ $1000/comprehensive
		/ $5000/collision deductible
Flood Zone A Properties		
Municipal Court	$ 242,000	/ building
	$ 122,700	/ contents
City Hall, Library	$ 500,000	/ each building
	$ 500,000	/ contents each
		($5,000 deductible)
Inland Marine:		
Contractors Equipment (actual cash value)	$ 6,076,150	/ $5,000 deductible
Bookmobile book collection	$ 238,582	/ $1000 deductible
Lab Equipment	$ 11,300	/ $1,000 deductible
Employee Hand Tools	$ 35,000	/ $5,000 deductible
Computer Equipment and Peripherals	$ 1,438,500	/ $1,000 deductible
Data and Media	$ 500,000	/ $1,000 deductible
Fine Arts & exhibition floater - Max $25,000 per ite	$ 78,700	/ $1,000 deductible
Max $25,000 per item		
City Hall, Visitor Center, Airport Terminal		
Crime:		
Blanket Public Employees and Treasurer	$ 1,000,000	/ $5,000 deductible
Dishonesty Bond Including Faithful Performance of Duty		
Computer & Funds Transfer Fraud	$ 1,000,000	/ $5,000 deductible
Theft, Disappearance, & Destruction		
(Inside and Outside)	$ 1,000,000	/ $5,000 deductible
Depositors Forgery or Alteration	$ 1,000,000	/ $5,000 deductible
Money Orders & Counterfeit,	$ 1,000,000	/ $5,000 deductible
Credit, Debit or Charge Card forgery	$ 1,000,000	/ $5,000 deductible
International Travel - Executive Assistance	$ 1,000,000	/ Medical Assistance
	$ 250,000	Accidental death