

CITY OF SEDONA, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2010

Rob Adams
Mayor

Cliff Hamilton
Vice Mayor

Councilmembers

Barbara Litrell

Dan McIlroy

Mark DiNunzio

Dennis Rayner

Mike Ward

Tim Ernster
City Manager

Barbara Ashley
Finance Operations Manager

Prepared by:
Financial Services Department

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INTRODUCTORY SECTION

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February 2, 2011

Honorable Mayor, City Council and Citizens of Sedona, Arizona:

We are pleased to submit to you the 2010 Comprehensive Annual Financial Report (CAFR) for the City of Sedona, Arizona (the City). The report was prepared by the Financial Services Department and reviewed by the City Manager.

This document represents management's report to its governing body, constituents, legislative and oversight bodies, and investors and creditors. Copies of this report will be sent to elected officials, management personnel, and bond rating agencies, National Recognized Municipal Securities Information Repositories, and other agencies that have expressed an interest in the City's financial matters. Copies of this financial report will also be placed in the City library for use by the general public.

Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City. The City has established and maintains 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 financial statements. We believe the data, as presented in this report, is accurate in all material respects and is presented in a manner which fairly sets forth the financial position and results of operations of the City on both a city-wide and fund basis. Furthermore, we believe that all disclosures necessary to enable the reader to gain an understanding of the City's financial activity and financial stability have been included.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

An independent firm of certified public accountants, LarsonAllen LLP, whose report is included herein, has audited the basic financial statements and related notes. As stated in the independent auditors' report, the goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Sedona, Arizona for the fiscal year ended June 30, 2010, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the financial statements for the City of Sedona, Arizona for the fiscal year ended June 30, 2010, are fairly presented, in all material respects, and are in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report. This transmittal letter has a different focus and purpose than the management's discussion and analysis (MD&A) presented on pages 14 - 22 of this report and is designed to be read in conjunction with the MD&A.

THE FINANCIAL REPORTING ENTITY

The City of Sedona, Arizona incorporated in 1988, has a Council-Manager form of government consisting of the Mayor and six Council Members. The position of Mayor is elected to a two-year term with Council Members being elected to four-year staggered terms. The City Council is vested with policy and legislative authority and is responsible for passing ordinances, adopting the budget, appointing committee, commission, and board members, and appointing the positions of City Manager, City Attorney and Magistrate Judge. The City Manager is responsible for carrying out the policies and enforcing the ordinances of the City Council, as well as overseeing the day-to-day operations of the City.

The City Council appoints from within its body Council liaisons to various regional policy setting bodies, local commissions, committees and non-profit organizations. The liaison meets with financial management of the City to monitor the discharge of its responsibilities. The liaison also meets periodically with the independent auditors, who have free access to both the liaison and the City Council, to discuss internal accounting controls as well as auditing and financial reporting matters.

The City encompasses approximately 19 square miles and is located in both Yavapai and Coconino Counties. Between 1988, when the City was incorporated, and today, the City's population has increased approximately 56%. The estimated current population is approximately 11,423. The City's growth is attributable to the growth patterns of the Southwest and of the State of Arizona and Yavapai County. The City has attempted to manage its growth in a way to maintain its character. Based on current projections, population growth trends are expected to continue to be flat. This zero growth will continue to present significant challenges to the City in providing its current high level of services.

The City provides a full range of municipal services, including police protection, sewer services, construction and maintenance of streets, recreational and culture events, planning and zoning services and general administrative services. Sedona offers community facilities including a swimming pool, a community park and neighborhood parks. In an attempt to provide a greater range of services, the City has partnered with six local non-profit organizations to provide various community services that otherwise would not be cost-effective to operate as a City function. Some partner-operated functions include library services, community center operations, visitor's center, destination marketing and teen and youth programs.

FINANCIAL CONTROLS

Internal Controls

As previously noted, the management of the City of Sedona, Arizona is responsible for establishing and maintaining a system of internal control. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding:

- 1) safeguarding of assets against loss from unauthorized use or disposition, and
- 2) reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes:

- 1) the cost of a control should not exceed the benefits likely to be derived, and
- 2) the valuation of costs and benefits requires estimates and judgments by management.

The system of internal controls is subject to periodic evaluation by management and is also considered by the independent auditors in connection with the annual audit of the City's financial statements. All internal control evaluations occur within the above framework. The City's internal accounting controls are considered to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Controls

The City of Sedona, Arizona, like all cities in the State of Arizona, is subject to numerous budget and related legal requirements. Article IX, Section 20 (1) of the Arizona Constitution sets limits on the City's legal budget capacity. The City currently operates under the Alternative Expenditure Limitation – Home Rule Option. This option allows the City Council to establish the budgetary limits locally. The voters must authorize this option every four years. The citizens of Sedona last authorized it in March 2008.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated operating budget approved by the Mayor and Council. Activities of the General Fund, special revenue funds, debt service funds, capital projects funds, and enterprise funds are included in the annual appropriated budget. The legal level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is the total operating budget, as adopted by the City Council. The City additionally exercises management control and oversight of the budget at the department level within each fund. In addition to maintaining budgetary control via a formal appropriation, the City maintains an encumbrance accounting system. Encumbrances are made against appropriations upon the issuance of a purchase order. Encumbered appropriations lapse at fiscal year-end and are re-budgeted as needed in the next fiscal year.

LOCAL ECONOMIC CONDITION AND OUTLOOK

The City continues to face many critical growth issues, but its citizens and municipal government are committed to finding solutions for the future. This commitment has helped to make 2010 a successful year, and will provide for continued success in the years to come.

Economic Outlook

Retail Sales: The City of Sedona, Arizona places a heavy reliance on City-collected sales tax. Overall, sales tax revenues comprise approximately 54.1% of the General Fund revenues. The City's sales tax rate is currently at 3% (until early 2010, this funding was split between General Fund 1.12%, Capital Fund .5% and Wastewater Enterprise Fund 1.38%). In order to address the economic downturn, the fund split was adjusted to provide 1.62% to the General Fund and 1.38% to the Wastewater Enterprise Fund, with general capital projects being funded from an annually adjusted transfer at levels necessary to support needed projects and allowing for allocation of funds to the most fundamental areas of service. The City also has a 3% Bed tax (occupancy) which is allocated to the General Fund.

State Shared Revenues: The City of Sedona, Arizona receives significant revenue allocations from the State. These "State Shared Revenues" include allocations of the state-collected income tax, sales tax, gas tax and motor vehicle in-lieu taxes. A significant amount of this revenue is placed in the City's General Fund, where it is used to support a large portion of the City's day-to-day activities. State Shared revenue represents approximately 27% of the City's total general fund revenue. In recent years the state legislature has reduced the formula distribution of state-shared revenues to cities. The state shared revenue formulas generally allocate revenues based on official census data (Last census: Year 2000). The 2010 census will serve to adjust the population based state-shared revenue formulas and the City is preparing to respond to these changes.

Long-term Financial Planning

The City continues to update our long-term financial plan. In reviewing the long-term fiscal outlook for the City, it became evident that the City would need to provide new funding or reallocation of sources in order to balance reductions in services. Staff and City Council are continuing the process of evaluating and prioritizing capital and programming needs and identifying possible funding strategies for those priorities. A new capital budget process is planned for the next fiscal year to better address long-term infrastructure needs and plan for resources. This long-term strategy will assist the City in developing programs and funding capital projects in a way to maintain a financially stable environment in the City for years to come.

Budget Balancing Strategies

Over the last two years the City staff and elected officials have worked cooperatively to implement cost reductions to address the lower revenue projections experienced. The following is a sample of strategies that have been implemented:

Staffing, Wage and Benefits Changes

- Staffing freeze and reduction in force resulting in a 16% reduction in positions
- Merit and Cost of Living Adjustments frozen at FY 08/09 levels
- Elimination of year-end flexible leave payouts
- Increase in employee-share of medical premium
- Travel and Training is limited to in-state travel with out-of-state travel only approved in special circumstances
- Standby Pay was eliminated and call-out lists were reinstated for all general fund and streets fund employees

Changes to Operating Policies and Costs

- The City's vehicle fleet was reduced by 12 vehicles, or 15%
- Auction of excess vehicles resulted in approximately \$100,000 of unanticipated one-time revenue
- Department line item budgets were reduced by approximately \$1 million
- Special event funding and arts funding were reduced
- Various community and service contracts were reduced or eliminated and the services were either provided with existing staff or eliminated
- Hours for the community pool were reduced to accommodate peak use and generate a cost savings

Revenue Projections and Reallocations

- Forward looking revenue projections are conservatively estimated anticipating further impacts to construction and tourism related revenues
- A Wastewater Rate study was completed and rate increases were approved for the next 5 years with a goal to reduce sales tax subsidies to the fund
- The automatic transfer of 0.5% of the 3% sales tax to the capital fund was discontinued, allowing for more flexibility to fund ongoing programs and plan for new capital initiatives
- A new in-lieu of taxes fee has recently been realized with the completion and ongoing annual assessment for a new timeshare phase

The ongoing cost savings and revenue policy changes above have allowed the City to maintain its strong operating cost position and increase its reserve to budget ratio above 93%.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year

During fiscal year 2010, the City continued to invest in programs and amenities that keep the City a very livable community.

The following are some of the service efforts and accomplishments of the City during fiscal year 2010:

Police

- Maintained an uptown liaison officer position to address safety and traffic issues in one of the city's most congested areas.
- Implemented Technology Improvements to the Communications Center with federal grant funding.
- Hired a new Police Chief and reorganized the department with fewer upper-management positions in order to address reduced funding availability.
- Equipped all officers with Kevlar helmet and body armor using RICO funds.

Public Works

- Completed the Harmony-Windsong drainage improvements project.
- Published General Storm-Water Pollution Guidelines.
- Completed construction of Chapel Area storm drainage improvements.
- Continued program to change light fixtures to more energy efficient fixtures.

Management Services

- Facilitated ADOT State Route 179 improvements.
- Continued to provide funding for Community based not-for-profit groups.
- Provided qualifying Funds to Sedona's four major arts organizations. Also, awarded additional dollars in grants to local artists and art organizations.
- Provided funding for Summer Arts Program for local youth.
- Began community initiative to provide "Art in the Roundabouts" of the new State Route 179.
- Provided long-term and short-term cost reduction strategies to meet reduced revenue picture including the implementation of a restructuring plan to reduce staffing levels across the organization.
- Received American Recovery and Reinvestment Act funds for Energy Efficiency to retrofit the Posse Ground Park Ballfield Lights.
- Implemented changes to the vehicle policy and reduced the fleet by 15%.
- Completed a wastewater rate study providing a long term financial strategy for fiscal stability and increasing wastewater rates to better align costs of service with expenditures in the fund.

Community Development

- Completed the Mobile Home Replacement Program with funding from CDBG grant.
- Adoption of the Adoption of the Accessory Dwelling Unit Code.
- Adoption of amendments to the Design Review Manual, Building Height Ordinance and Landscape Ordinance.
- Created a "waste minimization plan" handout provided to applicants/developers.

Parks & Recreation

- Completed tennis court and basketball court reconstruction to provide a safer more playable facility for the community.
- Adjusted pool hours to reduce costs and maintain hours for the busiest service times.
- Partnered with local non-profits to expand special events and programming despite reduced staffing levels.
- Hosted two signature events – Earth Day and Celebration of Spring.

Wastewater

- Completed construction of Chapel Area Sewer.
- Completed reservoir berm restoration and vegetation management program.
- Repairs and improvements to the sewer collection system and existing manholes were implemented to address issues identified in the closed circuit TV inspection.
- Studies of plant capacity and future needs resulted in engineering standards and plant upgrade needs to provide reliable future wastewater treatment capacity
- Evaluated and updated Chapter 13, Wastewater Ordinance to allow for deferred sewer connections and to incorporate changes related to the wastewater rate study.

For the Future

The City's financial and operational plans will continue to support basic government services including roads, police, sewer and parks and recreation. In addition, the Council has begun a process to assist in the identification, prioritization and management of emerging strategic issues that, by virtue of their scope, complexity, and/or potential impact, require a coordinated multi-department action plan and budget. The City Council works closely with City management to implement specific objectives and tasks designed to meet these goals.

The following major goals were identified in 2008 by the City Council in the Strategic Plan as important priorities for the future:

- Continue support of the redevelopment plan.
- Continue to work with Arizona Department of Transportation (ADOT) on Route 179 Improvements.
- Review strategies to improve traffic, safety and parking solutions.
- Change the focus in Parks and Recreation from Trails program to development of programs and maintenance of facilities.
- Budget accountability and economic sustainability.
- Youth in Sedona – 'do and go' facilities.
- Affordable Housing.
- Continuous improvement in the organization. In November 2009, the City Council updated its strategic plan.

In June 2010, a newly elected City Council identified a similar but new set of priorities as set forth below:

- Support Improved Safety on 89A
- Inspire a Visionary Community Plan Update
- Improve Public Communication, Outreach and Education
- Formulate Clear Policies for the Wastewater Treatment System
- Focus on Sound Financial Management Practices
- Make Sustainability a Community Priority

OTHER MATTERS

Employee Pension Plans

The City maintains two employee pension plans. The general employee plan is administered through the Arizona State Retirement System. The Arizona Public Safety Personnel Retirement System administers the public safety pension plan. Both the employee and the employer make contributions directly to these organizations per the guidelines of each retirement system. Financial information about these plans can be found in Note 4.C. of the notes to basic financial statements.

Debt Administration

The following table is a summary of the City's outstanding debt at June 30, 2010.

<u>Purpose of Debt</u>	<u>Outstanding Balance</u>	<u>Annual Debt Service</u>
Wastewater Infrastructure Projects Debt service begins 7/1/2018	\$ 52,375,806 8,795,000	\$ 3,461,161 -
City Hall Purchase	<u>3,200,000</u>	<u>325,000</u>
Total Long-term Debt	<u>\$ 64,370,806</u>	<u>\$ 3,786,161</u>

Financial Policies

The City's financial policies establish the framework for Sedona's overall fiscal planning and management. They set forth the guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. Sedona's publicly adopted financial policies show the credit rating industry and prospective investors (bond buyers) the City's commitment to sound financial management and fiscal integrity. The financial policies also improve the City's fiscal stability by helping City officials plan fiscal strategy with a consistent approach. Adherence to adopted financial policies promotes sound financial management, which can lead to improvement in City bond ratings and lower cost of capital.

Cash Management

The City Manager and Financial Services Department manage the City's investment portfolio with the assistance of external investment advisement and ensures compliance with the City's Investment Policy. The City's investment policy is to invest public funds with maximum security in a manner that will provide the highest return while meeting the daily cash flow demands of the City and conforming to all applicable State statutes. The primary objectives, in priority order, are safety of principal, liquidity, and attaining a market rate of return.

The City is permitted to invest in certificates of deposit, direct U.S. Treasury debt, securities guaranteed by the U.S. Government, and the State of Arizona's Local Government Investment Pool.

Temporary idle cash during the year was invested in the State Treasurer's Investment Pool and Fannie Mae securities. For further information on the City's investments, please refer to Note 3.A.1. of the notes to the basic financial statements.

Risk Management

The City is exposed to various risks of loss related to public and property liability and worker's compensation. Public liability includes public officials' errors and omissions, automobile and general liability. The City participates in the Arizona Municipal Risk Retention Pool. The policy insures up to \$2,000,000 per incident plus excess liability of up to \$8,000,000. Coverage is provided on a claims made basis with a \$25,000 deductible. Auto is on an occurrence basis with a \$500 deductible on liability.

The City's liability insurance program is administered by the City Attorney's Office. Worker's Compensation claims are reviewed by the Human Resources Department and handled through Arizona Municipal Workers Compensation Pool.

The City of Sedona, Arizona has an aggressive safety program, which promotes employee safety on the job and focuses on risk control techniques designed to minimize accident related losses.

OTHER INFORMATION

Award

The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sedona, Arizona for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009. This was the 11th year that the City of Sedona, Arizona has received this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. That report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement program's requirements, and we are submitting it to the GFOA to determine its eligibility for a certificate.

Acknowledgments

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the efficient and dedicated services of the staff of the City Manager and Financial Services Departments. We also wish to thank the members of the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and progressive manner.

Sincerely,



Tim Ernster
City Manager



Barbara Ashley
Finance Operations Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sedona
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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.

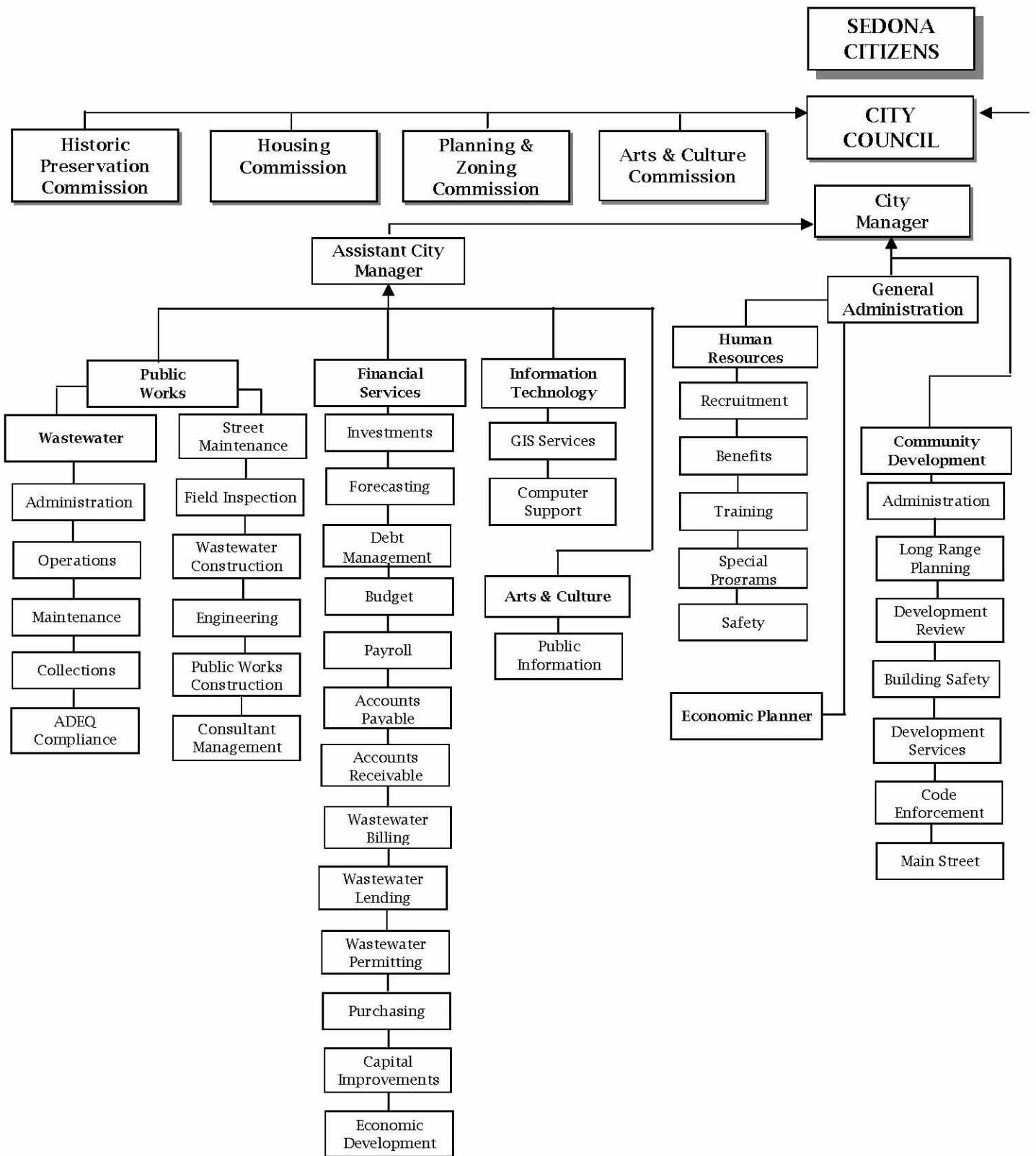


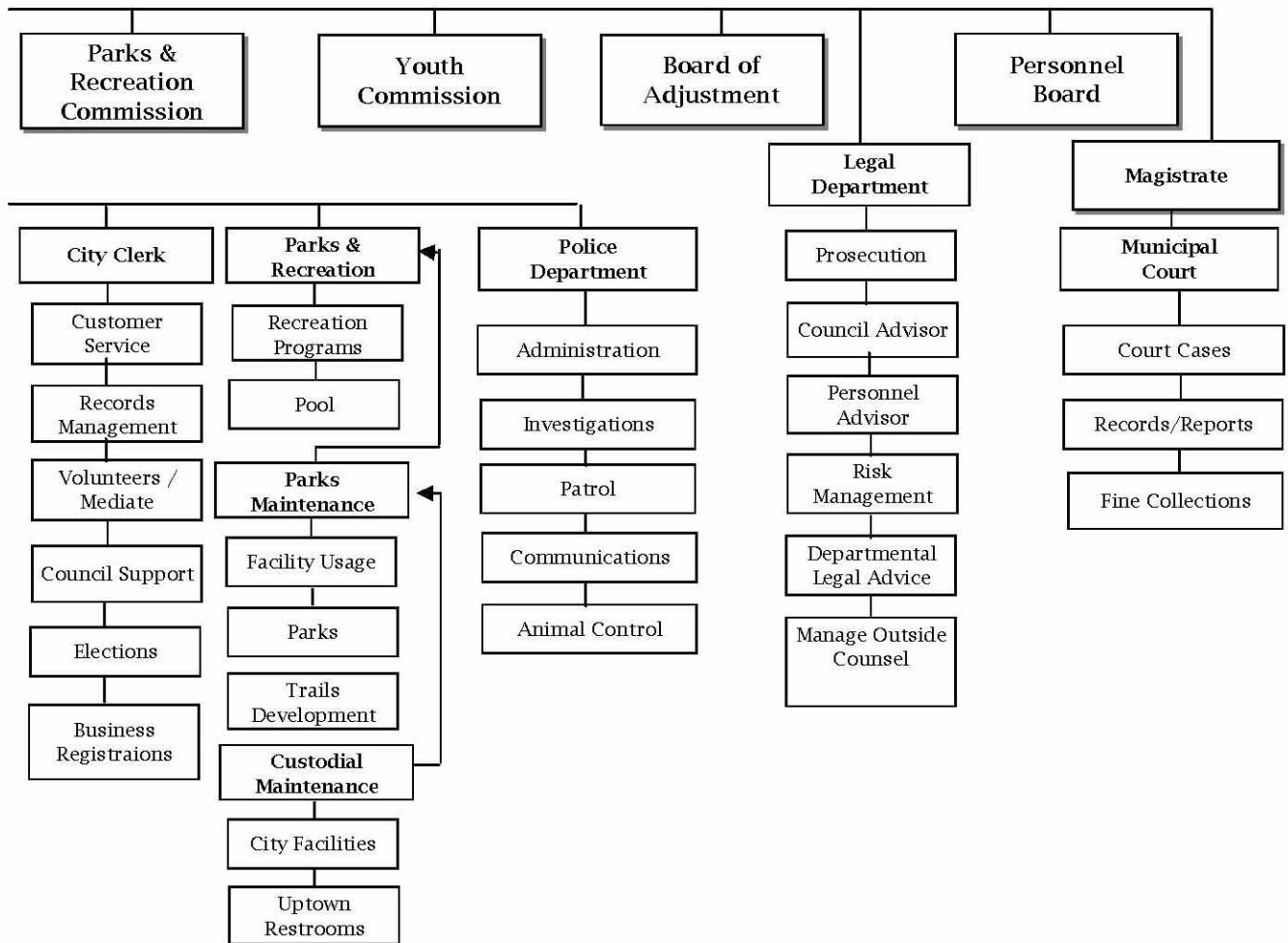
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President

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Executive Director





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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Sedona, Arizona
Sedona, 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 of the City of Sedona, Arizona (City), as of and for the year ended June 30, 2010, 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 of the City of Sedona, Arizona, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General and HURF Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Honorable Mayor and City Council
City of Sedona, Arizona

The management's discussion and analysis on pages 14 - 22 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 58 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken 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 express no opinion on them.

LarsonAllen LLP

LarsonAllen LLP

Mesa, Arizona
February 2, 2011

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

As management of the City of Sedona, Arizona (City), we offer this narrative overview and analysis of the financial activities of the City of Sedona, Arizona for the fiscal year ended June 30, 2010. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the City's financial activity (3) identify changes in the City's financial position (4) identify any material deviations from the financial plan (the approved annual budget), and (5) identify individual fund issues or concerns.

This discussion and analysis (MD&A) has a different focus and purpose than the transmittal letter presented on pages 1 - 8 of this report and is designed to be read in conjunction with the transmittal letter as well as the basic financial statements beginning on page 23 and the accompanying notes to the basic financial statements.

FINANCIAL HIGHLIGHTS

- ◆ The City's net assets increased in our business-type activities by \$1.5 million, or nearly 2.5%, and decreased in our governmental activities by \$0.4 million, or nearly 0.9%.
- ◆ During the year, the City had expenses that were \$0.8 million more than the \$16.6 million generated in tax and other revenues for governmental activities. This was quite a change from last year, when expenses exceeded revenues by \$2.8 million. The reduction in the gap between expenditures and revenues was reduced due to significant mid-year budget reductions. The remaining use of reserve is primarily due to the completion of planned capital projects.
- ◆ In the City's business-type activities, revenues decreased to \$9.7 million (or 2.9%) and expenses decreased by approximately 5.2%. This was due to a decline in sales tax revenue and interest on investments relative to the economic conditions. There were also changes to expected completion dates for major capital projects, which were anticipated and not completed, resulting in expenses which will be incurred in future fiscal years.
- ◆ The resources available for appropriation were \$10.8 million budgeted for the General Fund. This allocation was a significant reduction from the original approved budget, and the result of spending controls put in place at midyear in order to address the continuing economic decline.

OVERVIEW OF THE FINANCIAL STATEMENTS

The comprehensive annual financial report includes a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 23 and 24) provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements start on page 25. For governmental activities, the statements demonstrate how the services the City provides are financed in the short-term as well as what remains for future spending. Fund financial statements for the City's proprietary funds report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

The Statement of Net Assets and the Statement of Activities

The analysis of the City as a whole begins on page 23. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities"? The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year revenues and expenses are taken into account regardless of when cash is received or paid.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The Statement of Net Assets and the Statement of Activities report the City's net assets and changes in net assets, respectively. The change in the City's net assets is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. It is important to consider other non-financial factors, however, such as changes in the City's tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- ◆ *Governmental activities* - Most of the City's basic services are reported here, including the police, public works, parks departments, and general administration. Taxes, franchise fees, and state and federal grants finance most of these activities.
- ◆ *Business-type activities* - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's wastewater system facilities are reported here.

Fund Financial Statements

The fund financial statements begin on page 25 and provide detailed information about the most significant funds; but do not include wastewater operations. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes (an example would be the Arts Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants and other money (an example would be the grants received from the U.S. Department of Housing and Urban Development). The City's two types of funds, governmental and proprietary, use different accounting approaches.

- ◆ *Governmental Funds* – Most of the City's basic services are reported in governmental funds; the focus of which is the inflows and outflows of the funds and the balances remaining at year-end available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services provided. Governmental funds present financial resources that can be spent in the near future to finance the City's programs. A reconciliation between governmental activities (Statement of Net Assets and Statement of Activities) and governmental funds is presented in the fund financial statements.
- ◆ *Proprietary Funds* – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported on the accrual basis of accounting. The City's enterprise fund (a component of proprietary funds) is the same as the business-type activity reported in the government-wide statements, but provides more detail and additional information, such as cash flows.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

Government-Wide Financial Analysis

The City's combined net assets increased from \$102.1 million in 2009 to \$103.2 million in 2010. Our analysis below focuses on the City's net assets (Table A-1) and the changes in net assets (Table A-2) for governmental and business-type activities.

**Table A-1
The City's Net Assets**

	Governmental Activities		Business-Type Activities		Total Government	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	\$ 27,788,134	\$ 27,439,096	\$ 26,962,777	\$ 32,375,168	\$ 54,750,911	\$ 59,814,264
Capital Assets:						
Non-depreciable	6,960,501	6,960,501	11,159,413	11,159,413	18,119,914	18,119,914
Depreciable	22,681,015	23,735,087	86,228,775	82,782,032	108,909,790	106,517,119
Total Assets	57,429,650	58,134,684	124,350,965	126,316,613	181,780,615	184,451,297
Other Liabilities	2,140,643	2,212,647	11,566,097	11,484,914	13,706,740	13,697,561
Noncurrent Liabilities:						
Due Within One Year	606,885	596,649	3,635,215	3,483,819	4,242,100	4,080,468
Due In More Than One Year	11,646,751	11,909,422	49,003,222	52,693,713	60,649,973	64,603,135
Total Liabilities	14,394,279	14,718,718	64,204,534	67,662,446	78,598,813	82,381,164
Invested in Capital Assets, Net of Related Debt	21,081,629	21,797,059	46,616,756	39,941,637	67,698,385	61,738,696
Restricted	9,929,271	10,987,109	92,327	100,818	10,021,598	11,087,927
Unrestricted	12,024,471	10,631,798	13,437,348	18,611,712	25,461,819	29,243,510
Total Net Assets	\$ 43,035,371	\$ 43,415,966	\$ 60,146,431	\$ 58,654,167	\$ 103,181,802	\$ 102,070,133

The total net assets of the City are \$103,181,802 at June 30, 2010 in governmental and business-type activities.

Net assets of the City's governmental activities decreased approximately 0.9% to \$43,035,371. Net assets of the City's business-type activities increased approximately 2.5% to \$60,146,431.

In the governmental activities, the "invested in capital assets, net of related debt" amount decreased. Restricted net assets decreased due to an increase in monies restricted for capital being carried forward.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

Changes in the net assets are presented in Table A-2 and are described following the presentation of Table A-2.

**Table A-2
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total Government	
	2010	2009	2010	2009	2010	2009
REVENUES						
Program Revenues:						
Fees, Fines and Charges for Services	\$ 1,044,144	\$ 1,111,444	\$ 4,335,777	\$ 3,789,413	\$ 5,379,921	\$ 4,900,857
Operating Grants and Contributions	2,185,565	2,024,396	-	-	2,185,565	2,024,396
Capital Grants and Contributions	426,903	337,391	-	-	426,903	337,391
General Revenues:						
Local Taxes	8,268,322	9,328,388	4,925,801	5,435,186	13,194,123	14,763,574
State Revenue Sharing	2,766,289	3,100,818	-	-	2,766,289	3,100,818
Grants and Contributions Not Restricted	1,000,400	166,503	-	-	1,000,400	166,503
Investment Earnings	533,139	735,011	409,512	734,783	942,651	1,469,794
Other	405,305	77,585	-	-	405,305	77,585
Total Revenues	16,630,067	16,881,536	9,671,090	9,959,382	26,301,157	26,840,918
EXPENSES						
General Government	7,445,612	8,608,913	-	-	7,445,612	8,608,913
Public Safety	3,618,539	3,643,936	-	-	3,618,539	3,643,936
Highways and Streets	4,899,328	5,620,499	-	-	4,899,328	5,620,499
Culture and Recreation	815,848	1,037,534	-	-	815,848	1,037,534
Interest on Long-Term Debt	636,191	755,167	-	-	636,191	755,167
Wastewater	-	-	7,773,970	8,197,653	7,773,970	8,197,653
Total Expenses	17,415,518	19,666,049	7,773,970	8,197,653	25,189,488	27,863,702
CHANGE IN NET ASSETS BEFORE TRANSFERS	(785,451)	(2,784,513)	1,897,120	1,761,729	1,111,669	(1,022,784)
Transfers	404,856	479,856	(404,856)	(479,856)	-	-
CHANGE IN NET ASSETS	(380,595)	(2,304,657)	1,492,264	1,281,873	1,111,669	(1,022,784)
Net Assets - Beginning of Year	43,415,966	45,720,623	58,654,167	57,372,294	102,070,133	103,092,917
NET ASSETS - END OF YEAR	\$ 43,035,371	\$ 43,415,966	\$ 60,146,431	\$ 58,654,167	\$ 103,181,802	\$ 102,070,133

Governmental and Business-Type Activities

The City's total revenues decreased 2.0%, with expenses decreasing by approximately 9.6 %.

In the governmental activities, total revenues decreased by approximately 1.5%. The expenses in governmental activities decreased by approximately 11.4% due to planned midyear reductions. In addition, some projects were deferred for a later start and several major projects were completed in the prior year.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

In the business-type activities, total revenues decreased approximately 2.9%. The interest earned on investments and decline in sales tax revenue collection due to economic conditions and construction impacts were the main cause of this reduction. Total expenses decreased approximately 5.2% primarily due to capital projects being delayed because of time constraints and design issues, and also due to cost containment in operations, in depreciation on capital assets, and in interest expense. As a result of increased maintenance at the wastewater treatment plant, the City experienced an increase in capital assets.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, the governmental funds (as presented in the balance sheet on page 25) reported a *combined* fund balance of \$24.0 million. 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, Debt Service Fund and Capital Project Funds.

As of the end of the current fiscal year, the City's governmental fund balances were as follows:

**Table A-3
Fund Balances**

Fund	Balance	Increase (Decrease) From 2008-09
General Fund	\$ 11,157,413	\$ 1,689,234
Highway User Revenue Fund	1,689,791	(161,480)
Capital Improvement Fund	6,958,361	(979,404)
Nonmajor Governmental Funds	4,215,728	(484,594)

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$11,157,413, while total fund balance for the governmental funds reached \$24,012,293.

The fund balance of the City of Sedona, Arizona's General Fund increased by \$1,689,234 during the current fiscal year. Revenues were approximately flat, due in large part to a mid-year reallocation of sales taxes that used to be deposited into the Capital Fund and new ongoing revenue for in-lieu fees from the Summit Timeshare Development. Investment earnings continued to decline by almost 40% and state shared revenues decreased by almost 11%. Expenditures decreased by 14%. The expenses decreased due to mid-year reductions across all programming areas, a reduction in force, and changes to policies that resulted in ongoing savings.

The Highway User Revenue Fund is required by state statute to track the state allocation of gasoline taxes and other state revenues shared with local governments and required to be used for transportation purposes. Revenue in this fund decreased \$24,777 in fiscal year 2010; expenditures decreased \$438,625 from the prior year. The changes were from scheduling delays that resulted in fewer streets being overlaid and the decreases in state shared revenues.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The Capital Improvement Fund fund balance as of June 30, 2010 is \$6,958,361; expenditures for fiscal year 2010 were \$2,834,630 and \$4,048,501 in fiscal year 2009. The decrease in fund balance is due to reallocation of local sales taxes to the general fund and completion of projects using the Series 2007 Excise Tax Obligations proceeds for City infrastructure.

All nonmajor governmental funds of the City are combined into one column on the governmental fund statements. The fund balance for the Non-major Governmental Funds decreased by \$484,594 during the fiscal year. This was primarily due to transfers of in-lieu fees from the Summit II CFD Non-major Fund to the General Fund. The decrease was offset by an increase in capital projects fund balance, which was due to several Capital projects being rescheduled for future dates. At this time, the City expects to use these funds to partially fund these projects.

BUDGETARY HIGHLIGHTS

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 29 - 30. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

General Fund revenues of \$11,210,424, on a budgetary basis, were greater than the budget of \$10,820,085 by \$390,339 while budgetary basis expenditures of \$10,750,014 were 99.4% of budgeted expenditures (savings of \$74,704). The variance in the budget to actual revenues was not significant; however, the variance in the original to final budgeted expenditures was the result of a mid-year expenditure adjustment of approximately \$1.1 million. These adjustments consisted of: 1) a reduction in force that was implemented in April 2010 and which resulted in slightly greater savings than anticipated in this fiscal year; 2) expenditures in General Services falling below budget by eliminating spendable contingencies of approximately \$583,000; 3) changes in personnel policies that eliminated special pay items and various costs throughout all line-items of the operating budget.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the City had \$127.0 million invested in a broad range of capital assets, including police equipment, buildings, park facilities, roads, bridges, and sewer lines. (See Table A-4 below). This amount represents a net change (including additions and deductions) of approximately \$2.4 million, or 1.9%, over last year.

**Table A-4
Capital Assets (Net)**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 6,960,501	\$ 6,960,501	\$ 11,159,413	\$ 11,159,413	\$ 18,119,914	\$ 18,119,914
Land Improvements	2,550,740	2,588,291	-	-	2,550,740	2,588,291
Buildings and Improvements	5,110,358	5,215,956	-	-	5,110,358	5,215,956
Machinery, Equipment and Vehicles	1,299,863	1,630,393	411,412	522,727	1,711,275	2,153,120
Infrastructure	13,720,054	14,300,447	-	-	13,720,054	14,300,447
Wastewater System	-	-	85,817,363	82,259,305	85,817,363	82,259,305
Total Capital Assets	\$ 29,641,516	\$ 30,695,588	\$ 97,388,188	\$ 93,941,445	\$ 127,029,704	\$ 124,637,033

This year's major additions included:

Addition of Streets/Infrastructure	\$ 155,244
City Hall Plaza & other property improvements	2,394,362
New & Used Vehicles (2)	39,875
New Hardware & Software Purchases	187,165
Machinery and Equipment	163,068
Extension of Sewer Lines	3,862,051
Safety Equipment	15,254

The City's fiscal year 2011 capital budget calls for the City to spend another \$3.1 million for capital projects. This includes completion of on-going projects as well as new projects. The City continues to update and review the long-term financial plan. Staff and City Council are continuing the process of evaluating and prioritizing capital and programming needs and identifying possible funding strategies for those priorities. This long-term strategy will assist the City in developing programs and funding capital projects in a way to maintain a financially stable environment in the City for years to come. More detailed information about the City's capital assets is presented in Notes 1 and 3 to the financial statements.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

Long-Term Debt

At June 30, 2010 the City had \$64,834,183 in long-term obligations outstanding versus \$68,566,307 last year - a decrease of 5.4% - as shown in the following Table A-5.

**Table A-5
Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenue Bonds (Excluding)						
Deferred Amounts on Refunding)	\$ 11,995,000	\$ 12,320,000	\$ 51,770,000	\$ -	\$ 63,765,000	\$ 12,320,000
Loan	-	-	605,806	55,110,000	605,806	55,110,000
Special Assessment Debt with						
Government Commitment	-	-	-	726,967	-	726,967
Capital Lease	86,337	107,279	-	-	86,337	107,279
Compensated Absences	349,821	277,024	27,219	25,037	377,040	302,061
Total Outstanding Debt	<u>\$ 12,431,158</u>	<u>\$ 12,704,303</u>	<u>\$ 52,403,025</u>	<u>\$ 55,862,004</u>	<u>\$ 64,834,183</u>	<u>\$ 68,566,307</u>

The current year decrease in outstanding debt is attributable to repayment of all prior issuances of Excise Tax Obligations for City infrastructure and not incurring any new debt in the current fiscal year. Further detail on the City's outstanding debt may be found in Notes 3.C. and D. on pages 47 - 53 in the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Sedona, Arizona as well as all other Arizona cities, remains dependent on state shared revenues and local sales taxes for resources. These revenue sources are economically sensitive taxes and subject to slowdowns in the economy and legislative appropriations.

The City is committed to maintaining cash reserves for general fund operations at a 50% level over the next few years, both for financial stability and in anticipation of the capital and ongoing operational needs of the community. Fiscal year 2010-11 budgeted General Fund expenditures (including inter-fund transfers) are balanced with anticipated revenue at \$11,132,145 (including capital fund expense transfers). This means that the general fund reserves are at approximately 95% of operating budget. The adopted fiscal year 2010-11 budget is \$30,706,080, which includes capital projects of \$3.1 million. The budget for fiscal year 2010-11 also includes:

- ◆ Continuing participation in Destination Marketing in partnership with the Sedona Chamber of Commerce in order to improve the City's overnight stays.
- ◆ Contracting with the Northern Arizona Intergovernmental Public Transit Authority (NAIPTA) to operate a Public Transit System, including an expansion of transit with a "Verde Lynx" route connecting Sedona and Cottonwood.
- ◆ Continuing Drainage Improvements, as per the City's Storm Water Master Plan.
- ◆ Continuing implementation of wastewater treatment plant improvements with upgraded bio-solids handling and design/construction of Phase 1 for effluent management improvements at the plant.
- ◆ Continuing strategies to improve traffic circulation based on completed studies.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

- ◆ Enhancing long-term financial planning, including the first of five years of wastewater rate increases and the implementation of a revenue management system that includes sales tax audits, mandatory business licensing, and local collection of sales taxes through a third party contract.

REQUESTS FOR INFORMATION

This 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 and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

City of Sedona
Financial Services Department
102 Roadrunner Drive
Sedona, Arizona 86336
(928) 204-7185

Or visit our website at:

www.SedonaAz.Gov

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BASIC FINANCIAL STATEMENTS

**CITY OF SEDONA, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Cash and Investments	\$ 24,827,614	\$ 19,496,474	\$ 44,324,088
Cash with Paying Agent	601,771	4,210,272	4,812,043
Receivables, Net:			
Accounts Receivable	582,344	600,657	1,183,001
Capacity Fees Receivable	-	797,978	797,978
Intergovernmental Receivable	1,520,095	159,755	1,679,850
Deferred Charges	256,310	801,561	1,057,871
Restricted Assets	-	92,327	92,327
Noncurrent Assets:			
Intergovernmental Receivable	-	803,753	803,753
Capital Assets:			
Non-Depreciable	6,960,501	11,159,413	18,119,914
Depreciable	22,681,015	86,228,775	108,909,790
Total Assets	57,429,650	124,350,965	181,780,615
LIABILITIES			
Accounts Payable	1,070,074	973,490	2,043,564
Accrued Wages and Benefits	181,143	-	181,143
Interest Payable	276,771	6,235,927	6,512,698
Unearned Revenue	287,655	1,150,519	1,438,174
Matured Debt Principal Payable	325,000	3,206,161	3,531,161
Noncurrent Liabilities:			
Due Within One Year	606,885	3,635,215	4,242,100
Due in More Than One Year	11,646,751	49,003,222	60,649,973
Total Liabilities	14,394,279	64,204,534	78,598,813
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	21,081,629	46,616,756	67,698,385
Restricted for:			
Highways and Streets	1,689,791	-	1,689,791
Renewal and Replacement	-	92,327	92,327
Capital Outlay	8,119,358	-	8,119,358
Other	120,122	-	120,122
Unrestricted	12,024,471	13,437,348	25,461,819
Total Net Assets	\$ 43,035,371	\$ 60,146,431	\$ 103,181,802

See accompanying Notes to Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 7,445,612	\$ 717,236	\$ 1,240	\$ 167,078	\$ (6,560,058)	\$ -	\$ (6,560,058)
Public Safety	3,618,539	42,929	1,246,583	10,432	(2,318,595)	-	(2,318,595)
Highways and Streets	4,899,328	159,839	936,645	249,393	(3,553,451)	-	(3,553,451)
Culture and Recreation	815,848	124,140	1,097	-	(690,611)	-	(690,611)
Interest and Fiscal Charges	636,191	-	-	-	(636,191)	-	(636,191)
Total Governmental Activities	17,415,518	1,044,144	2,185,565	426,903	(13,758,906)	-	(13,758,906)
Business-Type Activities:							
Wastewater	7,773,970	4,335,777	-	-	-	(3,438,193)	(3,438,193)
Total Primary Government	\$ 25,189,488	\$ 5,379,921	\$ 2,185,565	\$ 426,903	(13,758,906)	(3,438,193)	(17,197,099)
General Revenues:							
Taxes:							
Sales Taxes					7,208,703	4,925,801	12,134,504
Special CFD Tax					393,293	-	393,293
Franchise Taxes					666,326	-	666,326
State Revenue Sharing					1,411,823	-	1,411,823
State Sales Tax Revenue Sharing					802,470	-	802,470
Auto Lieu Tax Revenue Sharing					551,996	-	551,996
Grants and Contributions Not Restricted					1,000,400	-	1,000,400
Investment Earnings					533,139	409,512	942,651
Other					405,305	-	405,305
Transfers					404,856	(404,856)	-
Total General Revenues and Transfers					13,378,311	4,930,457	18,308,768
Change in Net Assets					(380,595)	1,492,264	1,111,669
Net Assets - Beginning					43,415,966	58,654,167	102,070,133
Net Assets - Ending					\$ 43,035,371	\$ 60,146,431	\$ 103,181,802

See accompanying Notes to Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

Assets	General	HURF	Capital Improvement	Nonmajor Governmental Funds	Totals
Cash and Cash Equivalents	\$ 10,415,028	\$ 1,746,676	\$ 8,596,768	\$ 4,069,142	\$ 24,827,614
Cash with Paying Agent	601,771	-	-	-	601,771
Receivables, Net					
Accounts Receivable	379,656	1,272	122,824	78,592	582,344
Intergovernmental Receivable	1,046,917	84,841	-	388,337	1,520,095
Due from Other Funds	177,144	-	-	-	177,144
Total Assets	<u>\$ 12,620,516</u>	<u>\$ 1,832,789</u>	<u>\$ 8,719,592</u>	<u>\$ 4,536,071</u>	<u>\$ 27,708,968</u>
 Liabilities and Fund Balance					
Liabilities					
Accounts Payable	\$ 331,681	\$ 142,998	\$ 503,142	\$ 92,253	\$ 1,070,074
Accrued Wages and Benefits	181,143	-	-	-	181,143
Interest Payable	276,771	-	-	-	276,771
Due to Other Funds	-	-	-	177,144	177,144
Deferred Revenue	83,400	-	1,243,089	43,399	1,369,888
Unearned Revenue	265,108	-	15,000	7,547	287,655
Matured Debt Principal Payable	325,000	-	-	-	325,000
Total Liabilities	<u>1,463,103</u>	<u>142,998</u>	<u>1,761,231</u>	<u>320,343</u>	<u>3,687,675</u>
 Fund Balances					
Unreserved	11,157,413	1,689,791	6,958,361	-	19,805,565
Unreserved; Reporting in Nonmajor:					
Special Revenue Funds	-	-	-	1,125,974	1,125,974
Capital Projects Funds	-	-	-	3,089,754	3,089,754
Total Fund Balance	<u>11,157,413</u>	<u>1,689,791</u>	<u>6,958,361</u>	<u>4,215,728</u>	<u>24,021,293</u>
 Total Liabilities and Balance	<u>\$ 12,620,516</u>	<u>\$ 1,832,789</u>	<u>\$ 8,719,592</u>	<u>\$ 4,536,071</u>	<u>\$ 27,708,968</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2010**

Fund Balances - Total Governmental Funds \$ 24,021,293

Amounts reported for governmental activities in the statement of net assets are different because:

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

Governmental Capital Assets	41,915,443
Less Accumulated Depreciation	<u>(12,273,927)</u>
Capital Assets Used in Governmental Activities	29,641,516

Other long-term assets are not available to pay for current-period expenditures and are not susceptible to accrual. 1,369,888

Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

Revenue Bonds	(11,995,000)
Deferred Amount on Refunding	422,653
Deferred Amount on Premium	(245,131)
Capital Leases	(86,337)
Compensated Absences	(349,821)
Deferred Charges for Bond Issuance Costs	<u>256,310</u>

Net Assets of Governmental Activities \$ 43,035,371

CITY OF SEDONA, ARIZONA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General Fund	HURF	Capital Improvement	Nonmajor Governmental Funds	Totals
Revenue					
Taxes					
Sales Taxes	\$ 6,314,991	\$ -	\$ 893,712	\$ -	\$ 7,208,703
Special CFD Tax	-	-	-	267,169	267,169
Franchise Taxes	666,326	-	-	-	666,326
Intergovernmental	2,772,169	936,645	1,000,400	1,418,560	6,127,774
Fines and Forfeits	269,104	-	-	-	269,104
Licenses and Permits	207,092	-	-	-	207,092
Charges for Services	184,458	-	-	-	184,458
Rents and Royalties	3,698	-	-	-	3,698
Contributions and Donations	750	-	-	1,240	1,990
Impact Fees	-	-	-	278,352	278,352
Investment Earnings	287,214	76,979	70,724	98,222	533,139
Other	504,622	-	-	2,123	506,745
Total Revenue	11,210,424	1,013,624	1,964,836	2,065,666	16,254,550
Expenditures					
Current					
General Government	6,286,812	-	120,301	586,508	6,993,621
Public Safety	2,433,616	-	9,021	1,098,754	3,541,391
Highways and Streets	381,548	1,175,104	2,705,308	38,713	4,300,673
Culture and Recreation	731,389	-	-	111,927	843,316
Debt Service					
Principal Retirement	345,942	-	-	-	345,942
Interest on Long-Term Debt	570,707	-	-	-	570,707
Total Expenditures	10,750,014	1,175,104	2,834,630	1,835,902	16,595,650
Excess (Deficiency) of Revenue Over Expenditures	460,410	(161,480)	(869,794)	229,764	(341,100)
Other Financing Sources (Uses)					
Transfers In	1,339,808	-	109,061	220,594	1,669,463
Transfers Out	(110,984)	-	(218,671)	(934,952)	(1,264,607)
Total Other Financing Sources (Uses)	1,228,824	-	(109,610)	(714,358)	404,856
Net Change in Fund Balance	1,689,234	(161,480)	(979,404)	(484,594)	63,756
Fund Balance					
Beginning of Year	9,468,179	1,851,271	7,937,765	4,700,322	23,957,537
End of Year	\$ 11,157,413	\$ 1,689,791	\$ 6,958,361	\$ 4,215,728	\$ 24,021,293

See accompanying Notes to Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Net Change in Fund Balances - Total Governmental Funds \$ 63,756

Amounts reported for governmental activities in the statement of activities are different because:

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

Expenditures for Capital Assets	846,810
Less Current Year Depreciation	(1,891,507)
Excess Capital Expenditures Over Depreciation	(1,044,697)

The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets. (9,375)

Some revenues reported in the governmental funds that did not provide current financial resources in prior years have been recognized previously in the statement of activities and therefore are not reported as revenues in the statement of activities.

Special CFD Taxes Recognized	126,124
Deferred Capital Revenues Recognized	249,393

The issuance of long term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long term debt increases long term liabilities on the statement of net assets and the repayment of principal on long term debt reduces long term debt on the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long term debt in the statement of activities.

Principal Payments on Long-Term Debt	325,000
Principal Payments on Capital Lease	20,942
Amortization of Deferred Amounts on Refunding	(47,253)
Amortization of Deferred Amount on the Premium	26,543
Amortization of Issuance Costs	(18,231)

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 the governmental funds.

Net Increase in Compensated Absences	(72,797)
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Change in Net Assets of Governmental Activities	\$ (380,595)
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CITY OF SEDONA, ARIZONA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenue				
Taxes	\$ 6,906,279	\$ 6,906,279	\$ 6,981,317	\$ 75,038
Intergovernmental	2,768,627	2,768,627	2,772,169	3,542
Fines and Forfeits	286,500	286,500	269,104	(17,396)
Licenses and Permits	170,620	170,620	207,092	36,472
Charges for Services	129,451	129,451	184,458	55,007
Rents and Royalties	4,308	4,308	3,698	(610)
Contributions and Donations	-	-	750	750
Investment Earnings	461,000	461,000	287,214	(173,786)
Other	93,300	93,300	504,622	411,322
Total Revenue	10,820,085	10,820,085	11,210,424	390,339
Expenditures				
Current				
General Government				
City Council	68,401	67,329	60,173	7,156
City Manager	444,449	418,235	418,236	(1)
Human Resources	1,652,629	1,635,746	1,522,745	113,001
Finance	191,564	177,079	176,577	502
Information Technology	457,173	440,335	397,105	43,230
Legal	420,848	366,159	345,258	20,901
City Clerk	259,216	257,058	229,893	27,165
Community Development	1,126,248	1,047,166	1,047,596	(430)
Magistrate Court	339,939	313,327	292,500	20,827
General Services	2,581,412	1,856,163	1,796,729	59,434
Total General Government	7,541,879	6,578,597	6,286,812	291,785
Public Safety				
Police	2,523,067	2,512,079	2,433,616	78,463
Highways and Streets				
Public Works	492,821	432,630	381,548	51,082
Culture and Recreation				
Parks and Recreation	659,442	611,361	565,266	46,095
Arts and Culture	195,000	186,366	166,123	20,243
Total Culture and Recreation	854,442	797,727	731,389	66,338
Debt Service				
Principal Retirement	-	-	345,942	(345,942)
Interest on Long-Term Debt	503,685	503,685	570,707	(67,022)
Total Expenditures	11,915,894	10,824,718	10,750,014	74,704
Excess (Deficiency) of Revenue Over Expenditures	(1,095,809)	(4,633)	460,410	465,043
Other Financing Sources (Uses)				
Transfers In	174,000	174,000	1,339,808	1,165,808
Transfers Out	(100,622)	(100,622)	(110,984)	(10,362)
Total Other Financing Sources (Uses)	73,378	73,378	1,228,824	1,155,446
Net Change in Fund Balance	(1,022,431)	68,745	1,689,234	1,620,489
Fund Balance				
Beginning of Year	1,022,431	1,022,431	9,468,179	8,445,748
End of Year	\$ -	\$ 1,091,176	\$ 11,157,413	\$ 10,066,237

See accompanying Notes to Basic Financial Statements.

CITY OF SEDONA, ARIZONA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HURF FUND
YEAR ENDED JUNE 30, 2010

	Original and Final Budget	Actual	Variance with Final Budget
Revenue			
Intergovernmental	\$ 835,438	\$ 936,645	\$ 101,207
Investment Earnings	82,114	76,979	(5,135)
Total Revenue	917,552	1,013,624	96,072
Expenditures			
Current			
Highways and Streets	1,625,002	1,175,104	449,898
Excess (Deficiency) of Revenue Over Expenditures	(707,450)	(161,480)	545,970
Other Financing Sources (Uses)			
Transfers Out	(4,000)	-	4,000
Net Change in Fund Balance	(711,450)	(161,480)	549,970
Fund Balance			
Beginning of Year	711,450	1,851,271	1,139,821
End of Year	\$ -	\$ 1,689,791	\$ 1,689,791

See accompanying Notes to Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010**

	Assets	Business-Type Activities - <u>Enterprise Fund</u>
Current Assets		
Cash and Cash Equivalents		\$ 19,496,474
Cash with Paying Agent		4,210,272
Receivables, Net		
Accounts Receivable		600,657
Capacity Fees Receivable		797,978
Intergovernmental Receivable		159,755
Deferred Charges		801,561
Restricted Assets		92,327
Total Current Assets		<u>26,159,024</u>
Noncurrent Assets		
Intergovernmental Receivable		803,753
Capital Assets		
Non-Depreciable		11,159,413
Depreciable (Net)		86,228,775
Total Capital Assets		<u>97,388,188</u>
Total Noncurrent Assets		<u>98,191,941</u>
Total Assets		124,350,965
	Liabilities	
Current Liabilities		
Accounts Payable		973,490
Interest Payable		6,235,927
Unearned Revenue		1,150,519
Matured Debt Principal Payable		3,206,161
Compensated Absences		19,054
Bonds, Notes and Loans Payable		3,616,161
Total Current Liabilities		<u>15,201,312</u>
Noncurrent Liabilities		
Compensated Absences		8,165
Bonds, Notes and Loans Payable		48,995,057
Total Noncurrent Liabilities		<u>49,003,222</u>
Total Liabilities		<u>64,204,534</u>
	Net Assets	
Invested in Capital Assets, Net of Related Debt		46,616,756
Restricted for		
Renewal and Replacement		92,327
Unrestricted		13,437,348
Total Net Assets		<u>60,146,431</u>

See accompanying Notes to Basic Financial Statements.

CITY OF SEDONA, ARIZONA
STATEMENT OF REVENUE, EXPENSES, AND CHANGE IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

	<u>Business-Type Activities - Enterprise Fund</u>
Operating Revenue	
Charges for Services	\$ 3,337,937
Operating Expenses	
Cost of Sales and Services	2,357,123
Depreciation	<u>2,416,403</u>
Total Operating Expenses	<u>4,773,526</u>
Operating Income (Loss)	(1,435,589)
Nonoperating Revenue (Expense)	
Taxes	4,925,801
Capacity Fees	986,957
Investment Earnings	409,512
Interest on Long-Term Debt	(2,872,187)
Issuance Costs	(128,257)
Miscellaneous Nonoperating Revenues	<u>10,883</u>
Total Nonoperating Revenue (Expenses)	<u>3,332,709</u>
Income Before Capital Contributions and Transfers	1,897,120
Transfers Out	<u>(404,856)</u>
Change in Net Assets	1,492,264
Net Assets	
Beginning of Year	58,654,167
End of Year	<u><u>\$ 60,146,431</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010**

	<u>Business-Type Activities - Enterprise Fund</u>
Cash Flows from Operating Activities	
Receipts from Customers	\$ 3,183,253
Payments to Suppliers	(1,550,628)
Payments to Employees	(1,127,435)
Capacity Fees	245,121
Other Receipts	10,883
Net Cash Flows from Operating Activities	<u>761,194</u>
Cash Flows from Noncapital Financing Activities	
Transfer Out	(404,856)
Tax Receipts	4,925,801
Net Cash Flows from Noncapital Financing Activities	<u>4,520,945</u>
Cash Flows from Capital and Financing Activities	
Purchases of Capital Assets	(5,863,146)
Principal Paid on Capital Debt	(3,321,161)
Interest Paid on Capital Debt	(2,649,820)
Intergovernmental Payments Received	174,127
Net Cash Flows from Capital and Related Financing Activities	<u>(11,660,000)</u>
Cash Flows from Investing Activities	
Investment Earnings (Net)	<u>444,401</u>
Net Change in Cash and Cash Equivalents	(5,933,460)
Cash and Cash Equivalents, Beginning of Year	<u>29,732,533</u>
Cash and Cash Equivalents, End of Year	<u>\$ 23,799,073</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Cash and Cash Equivalents	\$ 19,496,474
Cash with Paying Agent	4,210,272
Restricted Assets	<u>92,327</u>
Total Cash and Cash Equivalents	<u>\$ 23,799,073</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010**

	<u>Business-Type Activities - Enterprise Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (1,435,589)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	2,416,403
Capacity Fees	245,121
Nonoperating Receipts (Payments)	10,883
Change in Assets/Liabilities:	
Receivables, Net	(154,684)
Accounts Payable	(290,322)
Accrued Payroll and Related Benefits	(32,800)
Compensated Absences	<u>2,182</u>
Net Cash Flows from Operating Activities	<u>\$ 761,194</u>

Noncash Investing, Capital and Financing Activities

During the fiscal year ended June 30, 2010, the City amortized \$178,514 of deferred amounts on the refundings, \$128,257 of issuance costs and \$258,630 of bond premiums.

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NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Sedona, Arizona (City) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

A. Reporting Entity

The City is a municipal government that is governed by an elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

Included within the reporting entity:

Sedona Wastewater Municipal Property Corporation. The Sedona Wastewater Municipal Property Corporation's (SWMPC) board of directors consists of three members which are appointed by the Sedona City Council. The SWMPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the City in obtaining financing for various projects of the City. The City has a "moral obligation" for the repayment of the Sedona Wastewater Municipal Property Corporation's bonds.

Fairfield and Summit II Community Facilities Districts. The Fairfield and Summit II Community Facilities Districts were formed for the purposes of providing general infrastructure and capital assets. As special purpose districts and separate political subdivisions under the Arizona Constitution, the Districts can levy taxes and issue bonds independently of the City. Property owners in the designated areas are assessed a special CFD tax for the costs of operating the Districts, as defined in the individual development agreements. The City Council serves as the Boards of Directors of the Districts. For financial reporting purposes, transactions of the Districts are combined with and included as if they were a part of the City's operations.

Separate financial statements are not prepared for the above blended component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. The effect of interfund activity, with the exception of interfund services provided and used, has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given 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 and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due.

Intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City reports the following major governmental funds:

Major Governmental Funds

General Fund

The General Fund is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

Highway Users Revenue Fund

The Highway Users Revenue Fund (HURF) accounts for the operations of the street maintenance department. Financing is provided by the City's share of state gasoline taxes. State law requires these gasoline taxes be used to maintain streets.

Capital Improvement Fund

The Capital Improvement Fund accounts for the City's major capital projects and engineering studies.

The City reports the following major proprietary fund:

Wastewater Fund

The Wastewater Fund accounts for the costs to operate, construct and finance the City's wastewater treatment system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary 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 the business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

When both restricted and unrestricted resources are available to use for governmental activities, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. For business-type activities, the use of restricted resources is governed by the applicable bond covenants.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. The City Council-approved investment policy authorizes the City to invest in obligations of the U.S. government which do not exceed three years in maturity and are guaranteed by the U.S. Treasury; certificates of deposit or other deposits in FDIC insured banks; obligations of FNMA and FHMA which mature the next business day; repurchase agreements of less than \$5,000 which mature on the next business day; and the Local Government Investment Pools managed by the State Treasurer. Additionally, the trustee of the City's employee retirement plan holds certain City funds in a money market mutual fund.

2. Receivables

All trade receivables are shown net of an allowance for uncollectibles.

3. Short-Term Interfund Receivables/Payables

During the course of operations, individual funds within the City's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Inventories

Inventories consist of expendable supplies held for consumption. Inventories are recorded as expenditures at the time of purchase, and because the amounts on hand at June 30, 2010 were immaterial, they are not included in the balance sheet.

5. Restricted Assets

Certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

6. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. As prescribed by the Governmental Accounting Standards Board Statement No. 34 as a phase II government, only infrastructure assets acquired subsequent to 1980 were included in the government-wide financial statements.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings	30 Years
Improvements Other than Buildings	6 to 50 Years
Infrastructure	20 to 50 Years
Wastewater Plant	6 to 50 Years
Wastewater Lines	50 Years
Machinery, Equipment and Vehicles	3 to 6 Years

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

8. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances 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.

9. Net Assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because capital assets make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the City. Unrestricted net assets are the remaining net assets not included in the previous two categories.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1 to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the City is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. Expenditures may not legally exceed the expenditure limitation described above of all fund types as a whole per state law (A.R.S. §41-1279.07). The City adopts a budget by department for the General Fund and in total by fund for other funds. The City Manager may at any time transfer up to 5% of any unencumbered appropriation balance or portion thereof between departments of the General Fund or from a department of the General Fund to other funds. Other than the 5% mentioned above, the adopted budget cannot be amended in any way without City Council approval.
5. Formal budgetary integration is employed as a management control device during the year for all funds (except for the Property Management, Carruth and Special Improvement District Funds) on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the carryover unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The City complied with this law during the year.

No supplementary budgetary appropriations were necessary during the year.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2010 consist of the following:

Deposits:	
Cash on Hand	\$ 2,132
Cash in Bank	3,676,199
Cash on Deposit with Paying Agent	4,812,043
Investments:	
State Treasurer's Investment Pool	32,486,964
U.S. Treasury Notes	8,251,120
Total Deposits and Investments	49,228,458
Cash with Paying Agent	(4,812,043)
Restricted Assets	(92,327)
Total Cash and Cash Equivalents	\$ 44,324,088

Deposits

The City's deposits at June 30, 2010, were entirely covered by federal depository insurance or by collateral held by the City's custodial bank in the City's name. The City's deposits are not subject to any custodial credit risk.

Investments

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. In addition, the money market mutual fund is not subject to custodial credit risk.

The City's other investments consisted of \$32,486,964 in the State Treasurer's Local Government Investment Pool, and \$8,251,120 in U.S. Treasury Bills which are held by the trustee in the City's name, and are reflected in each applicable fund.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

Credit Risk – The City does not have a policy related to credit risk. The City’s deposits and investments consist of U.S. Treasury Notes and the State Treasurer’s Investment Pool; and therefore, limits its exposure to any credit risk. The City’s investment in the State Treasurer’s investment pool did not receive a credit quality rating from a national rating agency.

Interest Rate Risk – In accordance with the City’s investment policy, the government manages its exposure to declines in fair values by limiting its investments to maturities of six months or less.

The City’s investments at June 30, 2010 consist of the following:

<u>Investment</u>	<u>Maturity</u>		
	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>Total</u>
State Treasurer's Investment Pool	\$ 32,486,964	\$ -	\$ 32,486,964
U.S. Treasury Notes	-	8,251,120	8,251,120
	<u>\$ 32,486,964</u>	<u>\$ 8,251,120</u>	<u>\$ 40,738,084</u>

2. Restricted Assets

Restricted assets in the Enterprise Fund at June 30, 2010 consisted of the following:

Renewal and Replacement	<u>\$ 92,327</u>
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**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Receivables

The City's Wastewater Fund has an intergovernmental financial assistance agreement from the Water Infrastructure Authority of Arizona dated August 1, 2001 to receive benefits totaling \$3,431,827 through July 1, 2019. As of June 30, 2010 the remaining balance of the agreement was \$803,753. Future year benefits to be received by the City under this agreement are as follows:

<u>Year Ending June 30,</u>	<u>Wastewater Fund</u>
2011	\$ 159,755
2012	144,780
2013	129,177
2014	112,918
2015	95,978
2016-20	320,900
	<u>\$ 963,508</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Cash Payments not Meeting all Eligibility Requirements (General Fund)	\$ 83,400	\$ 265,108
Cash Payments not Meeting all Eligibility Requirements (Capital Improvement Fund)	1,243,089	15,000
Cash Payments not Meeting all Eligibility Requirements (Nonmajor Governmental Funds)	43,399	7,547
	<u>\$ 1,369,888</u>	<u>\$ 287,655</u>

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 6,960,501	\$ -	\$ -	\$ 6,960,501
Capital Assets, Being Depreciated:				
Land Improvements	3,522,367	58,742	-	3,581,109
Buildings and Improvements	6,874,106	135,950	-	7,010,056
Machinery, Equipment and Vehicles	5,068,365	324,005	(280,881)	5,111,489
Infrastructure	18,924,175	328,113	-	19,252,288
Total Capital Assets, Being Depreciated	34,389,013	846,810	(280,881)	34,954,942
Accumulated Depreciation for:				
Land Improvements	(934,076)	(96,293)	-	(1,030,369)
Buildings and Improvements	(1,658,150)	(241,548)	-	(1,899,698)
Machinery, Equipment and Vehicles	(3,437,972)	(645,160)	271,506	(3,811,626)
Infrastructure	(4,623,728)	(908,506)	-	(5,532,234)
Total Accumulated Depreciation	(10,653,926)	(1,891,507)	271,506	(12,273,927)
Total Capital Assets, Being Depreciated, Net	23,735,087	(1,044,697)	(9,375)	22,681,015
Governmental Activities Capital Assets, Net	<u>\$ 30,695,588</u>	<u>\$ (1,044,697)</u>	<u>\$ (9,375)</u>	<u>\$ 29,641,516</u>

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 11,159,413	\$ -	\$ -	\$ 11,159,413
Capital Assets, Being Depreciated:				
Wastewater System	104,454,555	5,778,787	-	110,233,342
Machinery, Equipment and Vehicles	1,452,228	84,359	(131,927)	1,404,660
Total Capital Assets, Being Depreciated	105,906,783	5,863,146	(131,927)	111,638,002
Accumulated Depreciation for:				
Wastewater System	(22,195,250)	(2,220,729)	-	(24,415,979)
Machinery, Equipment and Vehicles	(929,501)	(195,674)	131,927	(993,248)
Total Accumulated Depreciation	(23,124,751)	(2,416,403)	131,927	(25,409,227)
Total Capital Assets, Being Depreciated, Net	82,782,032	3,446,743	-	86,228,775
Business-Type Activities Capital Assets, Net	\$ 93,941,445	\$ 3,446,743	\$ -	\$ 97,388,188

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 660,480
Public Safety	167,720
Highways and Streets	929,585
Culture and Recreation	133,722
Total Depreciation Expense	1,891,507
Business-Type Activities:	
Wastewater	\$ 2,416,403

5. Construction Commitments

The City has active construction projects for sewer improvements at June 30, 2010. At fiscal year-end, the City's commitments with contractors totaled \$422,411.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables and Transfers

As of June 30, 2010, interfund receivable and payables were as follows:

Due to	Due From Nonmajor Governmental Funds
General Fund	\$ 177,144

The above interfund receivables and payables are the result of short-term borrowings to cover deficit cash balances at the end of the fiscal year.

Interfund transfers for the year ended June 30, 2010 consisted of the following:

Transfers In	Transfers Out				Total
	General Fund	Capital Improvement Fund	Wastewater Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ -	\$ 404,856	\$ 934,952	\$ 1,339,808
Capital Improvement Fund	109,061	-	-	-	109,061
Nonmajor Governmental Funds	1,923	218,671	-	-	220,594
Total	\$ 110,984	\$ 218,671	\$ 404,856	\$ 934,952	\$ 1,669,463

Transfers were recorded from the General Fund, the Capital Improvement Fund, Wastewater Fund, and Nonmajor Governmental Funds to the General Fund, the Capital Improvement and Nonmajor Governmental Funds to record the City's matching portion on various grants, fund various improvement projects, subsidize programs, fund debt service payments, and transfer a portion of Summit CFD revenues to the General Fund.

C. Obligations Under Leases

The City has entered into a lease agreement as a lessee for financing the acquisition of copiers. The lease agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of their future minimum lease payments as of the inception date providing it meets the capitalization threshold.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Leases (Continued)

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Machinery and Equipment	\$ 114,032
Less: Accumulated Depreciation	(50,716)
Total	\$ 63,316

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2010, were as follows:

Year Ending June 30,	Governmental Activities
2011	\$ 25,809
2012	25,809
2013	25,809
2014	17,206
Total Minimum Lease Payments	94,633
Less: Amount Representing Interest	(8,296)
Present Value of Minimum Lease Payments	\$ 86,337

D. Long-Term Obligations

The City has long-term bonds and loans payable issued to provide funds for the acquisition and construction of major capital facilities. The City has also issued debt to refund earlier obligations with higher interest rates. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

The City has pledged future excise taxes to repay \$4.6 million in governmental excise tax revenue obligations issued in 2004. Proceeds of the bonds were used to refund and refinance the outstanding Certificates of Participation, Series 1999. The bonds are payable solely from excise taxes and are payable through 2019. Annual principal and interest payments on the bonds are expected to require less than 12.9% of net revenues. The total principal and interest remaining to be paid on the bonds is \$3,907,055. Principal and interest paid for the current year and total excise taxes were \$473,685 and \$7,727,395, respectively.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

The City has pledged future excise taxes to repay \$8.8 million in governmental excise tax revenue obligations issued in 2007. Proceeds of the bonds provided financing for improvements to State Route 179 and drainage improvements within the City, the main access route to the City. The bonds are payable solely from excise taxes and are payable through 2027. Annual principal and interest payments on the bonds are expected to require less than 12.9% of net revenues. The total principal and interest remaining to be paid on the bonds is \$14,034,931. Principal and interest paid for the current year and total excise taxes were \$404,856 and \$7,727,395, respectively.

The City has pledged future excise taxes to repay \$41.0 million in business-type excise tax revenue obligations issued in 1998. Proceeds of the bonds provided financing for the construction and improvements of the wastewater system. The bonds are payable solely from excise taxes and are payable through 2027. Annual principal and interest payments on the bonds are expected to require less than 2.3% of net revenues. The total principal and interest remaining to be paid on the bonds is \$37,618,358. Principal and interest paid for the current year and total excise taxes were \$438,663 and \$4,925,801, respectively.

The City has pledged future excise taxes to repay \$2.8 million in business-type excise tax revenue obligations issued in 2002. Proceeds of the bonds provided financing for the construction and improvements of the wastewater system. The bonds are payable solely from excise taxes and are payable through 2012. Annual principal and interest payments on the bonds are expected to require less than 2.3% of net revenues. The total principal and interest remaining to be paid on the bonds is \$576,360. Principal and interest paid for the current year and total excise taxes were \$289,865 and \$4,925,801, respectively.

The City has pledged future excise taxes to repay \$14.5 million in business-type excise tax revenue obligations issued in 2004. Proceeds of the bonds used to refund the outstanding Sewer Revenue Refunding Bonds, Series 1992. The bonds are payable solely from excise taxes and are payable through 2012. Annual principal and interest payments on the bonds are expected to require less than 2.3% of net revenues. The total principal and interest remaining to be paid on the bonds is \$4,808,000. Principal and interest paid for the current year and total excise taxes were \$2,386,500 and \$4,925,801, respectively.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

The City has pledged future excise taxes to repay \$13.9 million in business-type excise tax revenue obligations issued in 2004. Proceeds of the bonds were used to refund and refinance the outstanding Sewer Revenue Bonds, Series A (1990). The bonds are payable solely from excise taxes and are payable through 2017. Annual principal and interest payments on the bonds are expected to require less than 2.3% of net revenues. The total principal and interest remaining to be paid on the bonds is \$17,006,500. Principal and interest paid for the current year and total excise taxes were \$664,850 and \$4,925,801, respectively.

The City has pledged future excise taxes to repay \$11.3 million in business-type excise tax revenue obligations issued in 2005. Proceeds of the bonds used to refund a portion of the Sedona Wastewater Municipal Property Corporation's outstanding Excise Tax Revenue Bonds, Series 1998. The bonds are payable solely from excise taxes and are payable through 2019. Annual principal and interest payments on the bonds are expected to require less than 2.3% of net revenues. The total principal and interest remaining to be paid on the bonds is \$14,855,575. Principal and interest paid for the current year and total excise taxes were \$743,938 and \$4,925,801, respectively.

The City has pledged future excise taxes to repay \$9.1 million in business-type excise tax revenue obligations issued in 2007. Proceeds of the bonds provided financing of sewer improvements within the City. The bonds are payable solely from excise taxes and are payable through 2027. Annual principal and interest payments on the bonds are expected to require less than 2.3% of net revenues. The total principal and interest remaining to be paid on the bonds is \$7,886,500. Principal and interest paid for the current year and total excise taxes were \$1,123,900 and \$4,925,801, respectively.

The City has pledged future excise taxes to repay \$2.0 million in business-type Water Infrastructure Authority Loan obligations issued in 1997. Proceeds of the bonds provided financing for the construction and improvements of the wastewater system. The bonds are payable solely from excise taxes and are payable through 2015. Annual principal and interest payments on the bonds are expected to require less than 2.3% of net revenues. The total principal and interest remaining to be paid on the bonds is \$770,760. Principal and interest paid for the current year and total excise taxes were \$166,007 and \$4,925,801, respectively.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

A summary of the City's outstanding debt is presented below, including the original issue, interest rate, maturity and current long-term outstanding balance.

Description	Interest Rate (%)	Maturity Date	Amount
Governmental Activities:			
Revenue Bonds:			
Excise Tax Revenue Obligations, Second Series 2004; Original Issue \$4,555,000	3.25-5.0	7/1/11-19	\$ 3,200,000
Excise Tax Revenue Obligations, Series 2007; Original Issue \$8,795,000	4.0-5.0	7/1/11-27	<u>8,795,000</u>
Total Revenue Bonds			<u><u>\$ 11,995,000</u></u>
Business-Type Activities:			
Revenue Bonds:			
Excise Tax Revenue Obligations, Series 1998; Original Issue \$41,035,000	4.45-4.75	7/1/19-27	\$ 15,540,000
Excise Tax Revenue Obligations, Series 2002; Original Issue \$2,795,000	4.3-4.45	7/1/11-12	540,000
Excise Tax Revenue Obligations, Series 2004; Original Issue \$14,470,000	5.0	7/1/11-12	4,470,000
Excise Tax Revenue Obligations, Second Series 2004; Original Issue \$13,860,000	4.0-5.0	7/1/13-17	13,860,000
Excise Tax Revenue Obligations, Series 2005; Original Issue \$11,305,000	3.5-5.25	7/1/11-19	10,715,000
Excise Tax Revenue Obligations, Series 2007; Original Issue \$9,120,000	4.0-5.0	7/1/11-27	<u>6,645,000</u>
Total Revenue Bonds			<u><u>\$ 51,770,000</u></u>
Loans:			
Water Infrastructure Authority Loan (WIFA) for the Construction and Improvements of the Wastewater System; Original Issue \$2,000,000	4.0	7/1/12-15	<u>\$ 605,806</u>

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2010 are as follows:

	July 1, 2009	Increases	Decreases	June 30, 2010	Due Within One Year
Governmental Activities					
Bonds Payable:					
Revenue Bonds	\$ 12,320,000	\$ -	\$ (325,000)	\$ 11,995,000	\$ 340,000
Deferred Amounts:					
On Refunding	(469,906)	-	47,253	(422,653)	-
Premium	271,674	-	(26,543)	245,131	-
Total Bonds Payable	<u>12,121,768</u>	<u>-</u>	<u>(304,290)</u>	<u>11,817,478</u>	<u>340,000</u>
Other Liabilities:					
Capital Leases	107,279	-	(20,942)	86,337	22,009
Compensated Absences	277,024	327,660	(254,863)	349,821	244,876
Governmental Activities Long-Term Liabilities	<u>\$ 12,506,071</u>	<u>\$ 327,660</u>	<u>\$ (580,095)</u>	<u>\$ 12,253,636</u>	<u>\$ 606,885</u>
Business-Type Activities					
Bonds Payable:					
Revenue Bonds	\$ 55,110,000	\$ -	\$ (3,340,000)	\$ 51,770,000	\$ 3,495,000
Loan	726,967	-	(121,161)	605,806	121,161
	<u>55,836,967</u>	<u>-</u>	<u>(3,461,161)</u>	<u>52,375,806</u>	<u>3,616,161</u>
Deferred Amounts:					
On Refunding	(1,484,536)	-	178,514	(1,306,022)	-
Premium	1,800,064	-	(258,630)	1,541,434	-
Total Bonds Payable	<u>56,152,495</u>	<u>-</u>	<u>(3,541,277)</u>	<u>52,611,218</u>	<u>3,616,161</u>
Other Liabilities:					
Compensated Absences	25,037	25,217	(23,035)	27,219	19,054
Business-Type Activities Long-Term Liabilities	<u>\$ 56,177,532</u>	<u>\$ 25,217</u>	<u>\$ (3,564,312)</u>	<u>\$ 52,638,437</u>	<u>\$ 3,635,215</u>

Debt service requirements on long-term debt at June 30, 2010 are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 340,000	\$ 542,979	\$ 3,616,161	\$ 2,194,951
2012	355,000	531,079	3,776,162	2,029,490
2013	330,000	517,766	4,001,161	1,855,603
2014	330,000	501,266	4,196,161	1,666,491
2015	345,000	484,766	3,896,161	1,467,809
2016-20	3,740,000	2,089,830	18,750,000	7,150,177
2021-25	4,460,000	1,136,875	9,215,000	14,528,313
2026-30	2,095,000	142,425	4,925,000	253,413
	<u>\$ 11,995,000</u>	<u>\$ 5,946,986</u>	<u>\$ 52,375,806</u>	<u>\$ 31,146,247</u>

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

In prior years, the City defeased certain revenue bonds and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2010, the amount of defeased debt outstanding but removed from the City's financial statements was \$32,160,000.

NOTE 4 OTHER INFORMATION

A. Risk Management

The City of Sedona, Arizona is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the City is a participating member. The limit for basic coverage is for, \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$8,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has the authority to assess its members additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

The City is insured by Arizona Municipal Workers Compensation Pool for potential worker related accidents.

B. Contingent Liabilities

Lawsuits - The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorneys, the resolution of these matters will not have a material effect on the financial condition of the City.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans

Arizona State Retirement System

Plan Descriptions

The City of Sedona, Arizona contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy

The Arizona State Legislature establishes and may amend active plan members' and the City of Sedona, Arizona's contribution rates. For the year ended June 30, 2010, active plan members were required by statute to contribute at the actuarially determined rate of 9.4% (9.0% for retirement and 0.4% for long-term disability) of the members' annual covered payroll and the City of Sedona, Arizona was required by statute to contribute at the actuarially determined rate of 9.4% (8.34% for retirement, 0.66% for health insurance premium, and 0.4% for long-term disability) of the members' annual covered payroll. The City's actual contribution to the plan equals the annual required contribution.

**Arizona State Retirement System Contributions
Last Three Fiscal Years**

<u>Year Ended June 30,</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2010	\$ 469,514	\$ 37,156	\$ 22,519
2009	355,642	46,401	22,098
2008	356,040	46,453	22,122

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS)

Plan Description

The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 E. Missouri Ave., Phoenix, AZ 85014 or by calling (602) 255-5575.

Funding Policy

Covered employees are required to contribute 8.00% of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 12.67% of annual covered payroll. In addition, the health insurance subsidy was determined to be 1.16%.

Annual Pension Cost and Other Postemployment Benefit (OPEB) Obligations

During the year ended June 30, 2010, the City of Sedona, Arizona's annual pension cost of \$215,437 for police was equal to the City of Sedona, Arizona's required and actual contributions. OPEB costs (health insurance subsidy payments) were determined to be \$21,952 and were equal to the City of Sedona, Arizona's required and actual contributions.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Annual pension and OPEB cost information for the current and 2 preceding years as follows:

Three-Year Trend Information

Police

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2008	\$ 179,851	100.0 %	\$ -
2009	255,556	100.0	-
2010	215,437	100.0	-

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>	<u>Net Pension Obligation</u>
2008	\$ 15,909	100.0 %	\$ -
2009	21,131	100.0	-
2010	21,952	100.0	-

The required contribution was determined as part of the June 30, 2010 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.50% per year compounded annually, (b) projected salary increases of 5.50% (including inflation at 5.00%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

Funded Status and Funding Progress

As of June 30, 2010, the plan was 90.8% funded. The actuarial accrued liability for benefits was \$4.8 million, and the actuarial value of assets was \$5.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.5 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.7 million, and the ratio of the UAAL to the covered payroll was 28.9%.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 OTHER INFORMATION (CONTINUED)

C. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Funded Status and Funding Progress (Continued)

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial value of the City of Sedona, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The City of Sedona, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010 was 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

Historical trend information is presented as required supplementary information in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF SEDONA, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS**

Sedona Police Pension Plan

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over(Under) funded AAL	Annual Covered Payroll	Over(Under) funded AAL as a Percentage of Covered Payroll
2008	\$ 3,904,613	\$ 4,717,839	82.8%	\$ (813,226)	\$ 1,807,796	-45.0%
2009	4,442,403	5,224,450	85.0%	(782,047)	1,861,306	-42.0%
2010	4,841,895	5,333,073	90.8%	(491,178)	1,700,239	-28.9%

Police – Other Postemployment Benefit (Health Insurance Subsidy)

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over(Under) funded AAL	Annual Covered Payroll	Over(Under) funded AAL as a Percentage of Covered Payroll
2008	\$ -	\$ 129,102	0.0%	\$ (129,102)	\$ 1,807,796	-7.1%
2009	-	147,246	0.0%	(147,246)	1,861,306	-7.9%
2010	-	163,509	0.0%	(163,509)	1,700,239	-9.6%

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Grants Fund - Accounts for the activity of miscellaneous federal and state grants.

Summit II Community Facilities District Fund (CFD)- Accounts for the operations of the Summit II Community Facilities District that provides general infrastructure and capital assets for the property within the District's boundaries.

Fairfield Community Facilities District Fund (CFD)- Accounts for the operations of the Fairfield Community Facilities District that provides general infrastructure and capital assets for the property within the District's boundaries.

Property Management Fund - Accounts for the maintenance and repairs related to City Hall Plaza.

Arts Fund - Accounts for monies to promote the arts and purchase art for public places within the City limits.

Carruth Fund - Accounts for monies received from the estate of Stella Carruth. The monies are used for park and recreation improvements.

DEBT SERVICE FUND

Special Improvement District - Accounts for the accumulation of resources for and the payment of the Jordan Park Improvement District special assessment bonds.

CAPITAL PROJECTS FUNDS

Development Impact Fees Fund - Accounts for fees assessed to offset costs incurred by the City, generally for capital acquisition or related debt service necessitated by new development. The City of Sedona, Arizona's Land Development Code Ordinance, Sec. 1608.03(C) provides that any portion of the development impact fee that has not been spent within ten years for improvements that provide a beneficial use to the development that paid the fee shall be refunded. Arizona State case law (*Home Builders Ass'n of Cent. Arizona v. City of Scottsdale*, 187 Ariz. 479 (1997)) held that the enabling statute for imposition of development impact fees only implicitly requires that a municipality develop plans indicating a good faith intent to use the fees to provide services with a reasonable time.

Information Systems Fund - Accounts for capital improvements to the City's information systems.

**CITY OF SEDONA, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010**

	Special Revenue						Total
	Grants	Summit II CFD	Fairfield CFD	Property Management	Arts	Carruth	
Assets							
Cash and Cash Equivalents	\$ -	\$ 34,417	\$ 685,389	\$ 136,636	\$ 115,108	\$ -	\$ 971,550
Receivables							
Accounts Receivable	-	42,724	34,488	-	-	-	77,212
Intergovernmental Receivable	388,337	-	-	-	-	-	388,337
Total Assets	<u>\$ 388,337</u>	<u>\$ 77,141</u>	<u>\$ 719,877</u>	<u>\$ 136,636</u>	<u>\$ 115,108</u>	<u>\$ -</u>	<u>\$ 1,437,099</u>
Liabilities and Fund Balance							
Liabilities							
Accounts Payable	\$ 82,849	\$ -	\$ 186	\$ -	\$ -	\$ -	\$ 83,035
Due to Other Funds	177,144	-	-	-	-	-	177,144
Deferred Revenue	675	42,724	-	-	-	-	43,399
Unearned Revenue	7,547	-	-	-	-	-	7,547
Total Liabilities	<u>268,215</u>	<u>42,724</u>	<u>186</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>311,125</u>
Fund Balance							
Unreserved	120,122	34,417	719,691	136,636	115,108	-	1,125,974
Total Fund Balance	<u>120,122</u>	<u>34,417</u>	<u>719,691</u>	<u>136,636</u>	<u>115,108</u>	<u>-</u>	<u>1,125,974</u>
Total Liabilities and Balance	<u>\$ 388,337</u>	<u>\$ 77,141</u>	<u>\$ 719,877</u>	<u>\$ 136,636</u>	<u>\$ 115,108</u>	<u>\$ -</u>	<u>\$ 1,437,099</u>

Debt Service Special Improvement District	Capital Projects			Total Nonmajor Governmental Funds
	Development Impact Fees	Information Systems	Total	
\$ -	\$ 3,044,517	\$ 53,075	\$ 3,097,592	\$ 4,069,142
-	-	1,380	1,380	78,592
-	-	-	-	388,337
<u>\$ -</u>	<u>\$ 3,044,517</u>	<u>\$ 54,455</u>	<u>\$ 3,098,972</u>	<u>\$ 4,536,071</u>
\$ -	\$ -	\$ 9,218	\$ 9,218	\$ 92,253
-	-	-	-	177,144
-	-	-	-	43,399
-	-	-	-	7,547
-	-	9,218	9,218	320,343
-	3,044,517	45,237	3,089,754	4,215,728
-	3,044,517	45,237	3,089,754	4,215,728
<u>\$ -</u>	<u>\$ 3,044,517</u>	<u>\$ 54,455</u>	<u>\$ 3,098,972</u>	<u>\$ 4,536,071</u>

**CITY OF SEDONA, ARIZONA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGE IN FUND BALANCE
YEAR ENDED JUNE 30, 2010**

	Special Revenue						Total
	Grants	Summit II CFD	Fairfield CFD	Property Management	Arts	Carruth	
Revenue							
Taxes							
Special CFD Tax	\$ -	\$ 129,549	\$ 137,620	\$ -	\$ -	\$ -	\$ 267,169
Intergovernmental	1,418,560	-	-	-	-	-	1,418,560
Contributions and Donations	1,240	-	-	-	-	-	1,240
Impact Fees	-	-	-	-	-	-	-
Investment Earnings (Loss)	(1)	9,208	8,546	(99)	25	-	17,679
Other	-	-	-	-	-	-	-
Total Revenue	1,419,799	138,757	146,166	(99)	25	-	1,704,648
Expenditures							
Current							
General Government	315,763	61,420	84,417	-	-	2,276	463,876
Public Safety	1,049,725	-	-	-	-	-	1,049,725
Highways and Streets	-	-	-	-	-	-	-
Culture and Recreation	5,295	10,312	40,500	-	30,735	-	86,842
Total Expenditures	1,370,783	71,732	124,917	-	30,735	2,276	1,600,443
Excess (Deficiency) of Revenue Over Expenditures	49,016	67,025	21,249	(99)	(30,710)	(2,276)	104,205
Other Financing Sources (Uses)							
Transfers In	-	-	-	-	3,541	-	3,541
Transfers Out	-	(934,952)	-	-	-	-	(934,952)
Total Other Financing Sources (Uses)	-	(934,952)	-	-	3,541	-	(931,411)
Net Change in Fund Balance	49,016	(867,927)	21,249	(99)	(27,169)	(2,276)	(827,206)
Fund Balance							
Beginning of Year	71,106	902,344	698,442	136,735	142,277	2,276	1,953,180
End of Year	<u>\$ 120,122</u>	<u>\$ 34,417</u>	<u>\$ 719,691</u>	<u>\$ 136,636</u>	<u>\$ 115,108</u>	<u>\$ -</u>	<u>\$ 1,125,974</u>

Debt Service	Capital Projects			Total	Total Nonmajor Governmental Funds
Special Improvement District	Development Impact Fees	Information Systems	Total		
\$ -	\$ -	\$ -	\$ -	\$ 267,169	
-	-	-	-	1,418,560	
-	-	-	-	1,240	
-	278,352	-	278,352	278,352	
-	80,543	-	80,543	98,222	
-	-	2,123	2,123	2,123	
-	358,895	2,123	361,018	2,065,666	
-	-	122,632	122,632	586,508	
-	-	49,029	49,029	1,098,754	
-	38,713	-	38,713	38,713	
-	25,085	-	25,085	111,927	
-	63,798	171,661	235,459	1,835,902	
-	295,097	(169,538)	125,559	229,764	
1,923	-	215,130	215,130	220,594	
-	-	-	-	(934,952)	
1,923	-	215,130	215,130	(714,358)	
1,923	295,097	45,592	340,689	(484,594)	
(1,923)	2,749,420	(355)	2,749,065	4,700,322	
\$ -	\$ 3,044,517	\$ 45,237	\$ 3,089,754	\$ 4,215,728	

**CITY OF SEDONA, ARIZONA
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL IMPROVEMENT FUND
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenue				
Taxes				
Sales Taxes	\$ 2,002,340	\$ 2,002,340	\$ 893,712	\$ (1,108,628)
Intergovernmental	1,180,000	1,180,000	1,000,400	(179,600)
Investment Earnings	150,000	150,000	70,724	(79,276)
Total Revenue	<u>3,332,340</u>	<u>3,332,340</u>	<u>1,964,836</u>	<u>(1,367,504)</u>
Expenditures				
Current				
General Government	1,414,100	342,500	120,301	222,199
Public Safety	26,000	14,000	9,021	4,979
Highways and Streets	3,767,752	2,821,916	2,705,308	116,608
Total Expenditures	<u>5,207,852</u>	<u>3,178,416</u>	<u>2,834,630</u>	<u>343,786</u>
Excess (Deficiency) of Revenue Over Expenditures	(1,875,512)	153,924	(869,794)	(1,023,718)
Other Financing Sources (Uses)				
Transfers In	589,122	589,122	109,061	(480,061)
Transfers Out	(285,555)	(190,000)	(218,671)	(28,671)
Issuance of Long-Term Debt	1,435,084	1,435,084	-	(1,435,084)
Total Other Financing Sources (Uses)	<u>1,738,651</u>	<u>1,834,206</u>	<u>(109,610)</u>	<u>(1,943,816)</u>
Net Change in Fund Balance	(136,861)	1,988,130	(979,404)	(2,967,534)
Fund Balance				
Beginning of Year	136,861	136,861	7,937,765	7,800,904
End of Year	<u>\$ -</u>	<u>\$ 2,124,991</u>	<u>\$ 6,958,361</u>	<u>\$ 4,833,370</u>

**CITY OF SEDONA, ARIZONA
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GRANTS FUND
YEAR ENDED JUNE 30, 2010**

	Original and Final Budget	Actual	Variance with Final Budget
Revenue			
Intergovernmental	\$ 3,515,995	\$ 1,418,560	\$ (2,097,435)
Contributions and Donations	1,500	1,240	(260)
Investment Earnings (Loss)	-	(1)	(1)
Other	500,000	-	(500,000)
Total Revenue	4,017,495	1,419,799	(2,597,696)
Expenditures			
Current			
General Government	1,601,835	315,763	1,286,072
Public Safety	1,884,160	1,049,725	834,435
Highways and Streets	500,000	-	500,000
Culture and Recreation	31,500	5,295	26,205
Total Expenditures	4,017,495	1,370,783	2,646,712
Excess (Deficiency) of Revenue Over Expenditures	-	49,016	49,016
Fund Balance			
Beginning of Year	-	71,106	71,106
End of Year	\$ -	\$ 120,122	\$ 120,122

**CITY OF SEDONA, ARIZONA
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
SUMMIT II CFD FUND
YEAR ENDED JUNE 30, 2010**

	Original and Final Budget	Actual	Variance with Final Budget
Revenue			
Taxes			
Special CFD Tax	\$ 100,000	\$ 129,549	\$ 29,549
Investment Earnings	7,000	9,208	2,208
Total Revenue	107,000	138,757	31,757
Expenditures			
Current			
General Government	136,750	61,420	75,330
Culture and Recreation	15,500	10,312	5,188
Total Expenditures	152,250	71,732	80,518
Excess (Deficiency) of Revenue Over Expenditures	(45,250)	67,025	112,275
Other Financing Sources (Uses)			
Transfers Out	-	(934,952)	(934,952)
Net Change in Fund Balance	(45,250)	(867,927)	(822,677)
Fund Balance			
Beginning of Year	45,250	902,344	857,094
End of Year	\$ -	\$ 34,417	\$ 34,417

**CITY OF SEDONA, ARIZONA
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
FAIRFIELD CFD FUND
YEAR ENDED JUNE 30, 2010**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue			
Taxes			
Special CFD Tax	\$ 100,000	\$ 137,620	\$ 37,620
Investment Earnings	35,735	8,546	(27,189)
Total Revenue	<u>135,735</u>	<u>146,166</u>	<u>10,431</u>
Expenditures			
Current			
General Government	144,520	84,417	60,103
Public Safety	10,000	-	10,000
Culture and Recreation	15,500	40,500	(25,000)
Total Expenditures	<u>170,020</u>	<u>124,917</u>	<u>45,103</u>
Excess (Deficiency) of Revenue Over Expenditures	(34,285)	21,249	55,534
Fund Balance			
Beginning of Year	34,285	698,442	664,157
End of Year	<u>\$ -</u>	<u>\$ 719,691</u>	<u>\$ 719,691</u>

CITY OF SEDONA, ARIZONA
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
ARTS FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenue				
Investment Earnings	\$ 2,200	\$ 2,200	\$ 25	\$ (2,175)
Expenditures				
Current				
Culture and Recreation	<u>125,000</u>	<u>125,000</u>	<u>30,735</u>	<u>94,265</u>
Excess (Deficiency) of Revenue Over Expenditures	(122,800)	(122,800)	(30,710)	92,090
Other Financing Sources (Uses)				
Transfers In	<u>30,000</u>	<u>10,000</u>	<u>3,541</u>	<u>(6,459)</u>
Net Change in Fund Balance	(92,800)	(112,800)	(27,169)	85,631
Fund Balance				
Beginning of Year	<u>92,800</u>	<u>92,800</u>	<u>142,277</u>	<u>49,477</u>
End of Year	<u>\$ -</u>	<u>\$ (20,000)</u>	<u>\$ 115,108</u>	<u>\$ 135,108</u>

**CITY OF SEDONA, ARIZONA
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
DEVELOPMENT IMPACT FEES FUND
YEAR ENDED JUNE 30, 2010**

	Original and Final Budget	Actual	Variance with Final Budget
Revenue			
Impact Fees	\$ 326,603	\$ 278,352	\$ (48,251)
Investment Earnings	85,897	80,543	(5,354)
Total Revenue	412,500	358,895	(53,605)
Expenditures			
Current			
General Government	22,500	-	22,500
Highways and Streets	15,000	38,713	(23,713)
Culture and Recreation	375,000	25,085	349,915
Total Expenditures	412,500	63,798	348,702
Excess (Deficiency) of Revenue Over Expenditures	-	295,097	295,097
Fund Balance			
Beginning of Year	-	2,749,420	2,749,420
End of Year	\$ -	\$ 3,044,517	\$ 3,044,517

**CITY OF SEDONA, ARIZONA
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
INFORMATION SYSTEMS FUND
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenue				
Other	\$ -	\$ -	\$ 2,123	\$ 2,123
Expenditures				
Current				
General Government	272,019	259,919	122,632	137,287
Public Safety	68,536	34,079	49,029	(14,950)
Total Expenditures	<u>340,555</u>	<u>293,998</u>	<u>171,661</u>	<u>122,337</u>
Excess (Deficiency) of Revenue Over Expenditures	(340,555)	(293,998)	(169,538)	124,460
Other Financing Sources (Uses)				
Transfers In	<u>340,555</u>	<u>265,000</u>	<u>215,130</u>	<u>(49,870)</u>
Net Change in Fund Balance	-	(28,998)	45,592	74,590
Fund Balance				
Beginning of Year	<u>-</u>	<u>-</u>	<u>(355)</u>	<u>(355)</u>
End of Year	<u>\$ -</u>	<u>\$ (28,998)</u>	<u>\$ 45,237</u>	<u>\$ 74,235</u>

ENTERPRISE FUND

Wastewater Fund - Accounts for the costs to operate, construct and finance the City's wastewater treatment system.

CITY OF SEDONA, ARIZONA
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGE IN NET ASSETS
BUDGET AND ACTUAL (BUDGETARY BASIS)
WASTEWATER ENTERPRISE FUND
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenue				
Charges for Sales and Services	\$ 3,296,379	\$ 3,296,379	\$ 3,337,937	\$ 41,558
Capacity Fees	206,000	206,000	986,957	780,957
Taxes	5,526,458	5,526,458	4,925,801	(600,657)
Interest	839,334	839,334	409,512	(429,822)
Other	122,144	122,144	10,883	(111,261)
Total Revenue	<u>9,990,315</u>	<u>9,990,315</u>	<u>9,671,090</u>	<u>(319,225)</u>
Expenditures				
Operation	2,769,704	2,611,827	2,357,123	254,704
Capital	12,373,708	12,308,058	5,863,146	6,444,912
Debt Service	6,190,737	6,190,737	6,321,605	(130,868)
Total Expenditures	<u>21,334,149</u>	<u>21,110,622</u>	<u>14,541,874</u>	<u>6,568,748</u>
Excess (Deficiency) of Revenue Over Expenditures	(11,343,834)	(11,120,307)	(4,870,784)	6,249,523
Other Financing Sources (Uses)				
Transfers in	20,000	20,000	-	(20,000)
Transfers Out	(10,000)	(10,000)	(404,856)	(394,856)
Issuance of Long-Term Debt	5,129,609	5,129,609	-	(5,129,609)
Total Other Financing Sources (Uses)	<u>5,139,609</u>	<u>5,139,609</u>	<u>(404,856)</u>	<u>(5,544,465)</u>
Net Change in Net Assets	(6,204,225)	(5,980,698)	(5,275,640)	705,058
Net Assets				
Beginning of Year	6,204,225	6,204,225	43,151,033	36,946,808
End of Year	<u>\$ -</u>	<u>\$ 223,527</u>	<u>\$ 37,875,393</u>	<u>\$ 37,651,866</u>

RECONCILIATION TO OPERATING REVENUES AND EXPENSES PER THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Total Revenues Above	\$ 9,671,090
Nonoperating Revenues	
Capacity Fees	(986,957)
Taxes	(4,925,801)
Interest	(409,512)
Other Revenue	<u>(10,883)</u>
Total Operating Revenues per Statement of Revenues, Expenses and Changes in Net Assets	<u>\$ 3,337,937</u>
Total Expenditures Above	\$ 14,541,874
Capital Outlay	(5,863,146)
Debt Service Costs not in Operating Expenses	(6,321,605)
Depreciation Expense in Operating Expenses	<u>2,416,403</u>
Total Operating Expenses per Statement of Revenues, Expenses and Changes in Net Assets	<u>\$ 4,773,526</u>

STATISTICAL SECTION (UNAUDITED)

This section of the City of Sedona, Arizona'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 government's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, the sales tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

See the table of contents for page numbers of the schedules that encompass the above sections.

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**CITY OF SEDONA, ARIZONA
NET ASSETS BY COMPONENT
LAST EIGHT FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Governmental Activities								
Invested in Capital Assets,								
Net of Related Debt	\$ 7,264,548	\$ 11,727,832	\$ 11,652,240	\$ 21,268,258	\$ 24,794,010	\$ 26,187,433	\$ 21,797,059	\$ 21,081,629
Restricted	2,555,706	2,574,064	-	10,154,808	7,469,407	7,688,303	10,987,109	9,929,271
Unrestricted	16,813,296	16,120,102	20,462,779	10,915,131	11,297,441	11,844,887	10,631,798	12,024,471
Total Governmental Activities								
Net Assets	<u>\$ 26,633,550</u>	<u>\$ 30,421,998</u>	<u>\$ 32,115,019</u>	<u>\$ 42,338,197</u>	<u>\$ 43,560,858</u>	<u>\$ 45,720,623</u>	<u>\$ 43,415,966</u>	<u>\$ 43,035,371</u>
Business-Type Activities								
Invested in Capital Assets,								
Net of Related Debt	\$ 14,370,190	\$ 16,493,366	\$ 19,615,856	\$ 20,547,320	\$ 28,405,751	\$ 31,881,724	\$ 39,941,637	\$ 46,616,756
Restricted	1,081,883	1,096,724	1,123,821	1,175,288	1,240,451	587,477	100,818	92,327
Unrestricted	21,640,720	23,007,530	24,125,985	28,159,833	24,725,339	24,903,093	18,611,712	13,437,348
Total Business-Type Activities								
Net Assets	<u>\$ 37,092,793</u>	<u>\$ 40,597,620</u>	<u>\$ 44,865,662</u>	<u>\$ 49,882,441</u>	<u>\$ 54,371,541</u>	<u>\$ 57,372,294</u>	<u>\$ 58,654,167</u>	<u>\$ 60,146,431</u>
Primary Government								
Invested in Capital Assets,								
Net of Related Debt	\$ 21,634,738	\$ 28,221,198	\$ 31,268,096	\$ 41,815,578	\$ 53,199,761	\$ 58,069,157	\$ 61,738,696	\$ 67,698,385
Restricted	3,637,589	3,670,788	1,123,821	11,330,096	8,709,858	8,275,780	11,087,927	10,021,598
Unrestricted	38,454,016	39,127,632	44,588,764	39,074,964	36,022,780	36,747,980	29,243,510	25,461,819
Total Primary Government								
Net Assets	<u>\$ 63,726,343</u>	<u>\$ 71,019,618</u>	<u>\$ 76,980,681</u>	<u>\$ 92,220,638</u>	<u>\$ 97,932,399</u>	<u>\$ 103,092,917</u>	<u>\$ 102,070,133</u>	<u>\$ 103,181,802</u>

Source: The City of Sedona, Arizona's Financial Services Department.

Note: 2002-03 was the City's first year to prepare government-wide financial statements.

**CITY OF SEDONA, ARIZONA
CHANGES IN NET ASSETS
LAST EIGHT FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Expenses								
Governmental Activities:								
General Government	\$ 4,459,562	\$ 6,248,305	\$ 7,025,659	\$ 7,645,680	\$ 7,881,431	\$ 7,600,727	\$ 8,608,913	\$ 7,445,612
Public Safety	2,090,752	2,253,638	2,965,862	3,227,579	3,310,253	3,717,862	3,643,936	3,618,539
Highways and Streets	1,003,069	1,848,067	2,194,094	2,360,817	3,307,737	2,449,337	5,620,499	4,899,328
Culture and Recreation	245,989	148,340	497,465	648,177	789,371	1,058,508	1,037,534	815,848
Interest on Long-Term Debt	82,610	72,119	60,907	96,414	256,297	309,469	755,167	636,191
Total Governmental Activities	<u>7,881,982</u>	<u>10,570,469</u>	<u>12,743,987</u>	<u>13,978,667</u>	<u>15,545,089</u>	<u>15,135,903</u>	<u>19,666,049</u>	<u>17,415,518</u>
Business-Type Activities:								
Wastewater	6,014,503	6,095,517	4,555,335	7,926,004	6,835,822	7,802,135	8,197,653	7,773,970
Total Business-Type Activities	<u>6,014,503</u>	<u>6,095,517</u>	<u>4,555,335</u>	<u>7,926,004</u>	<u>6,835,822</u>	<u>7,802,135</u>	<u>8,197,653</u>	<u>7,773,970</u>
Total Primary Government Expenses	<u>\$ 13,896,485</u>	<u>\$ 16,665,986</u>	<u>\$ 17,299,322</u>	<u>\$ 21,904,671</u>	<u>\$ 22,380,911</u>	<u>\$ 22,938,038</u>	<u>\$ 27,863,702</u>	<u>\$ 25,189,488</u>
Program Revenues								
Governmental Activities:								
Fines, Fees and Charges for Services:								
General Government	\$ 795,419	\$ 788,806	\$ 1,138,189	\$ 700,352	\$ 673,643	\$ 687,888	\$ 705,542	\$ 717,236
Public Safety	12,492	14,901	14,211	12,282	9,257	52,491	96,472	42,929
Highways and streets	278,407	449,871	416,376	292,668	276,348	364,474	200,290	159,839
Culture and Recreation	42,361	34,253	36,728	30,646	39,557	40,590	103,587	124,140
Interest on Long-Term Debt	-	-	47,620	38,704	26,735	17,340	5,553	-
Operating Grants and Contributions	1,343,015	1,383,327	2,053,940	2,124,857	1,923,645	1,844,555	2,024,396	2,185,565
Capital Grants and Contributions	241,663	1,968,924	367,035	783,213	523,562	550,975	337,391	426,903
Total Governmental Activities								
Program Revenues	<u>2,713,357</u>	<u>4,640,082</u>	<u>4,074,099</u>	<u>3,982,722</u>	<u>3,472,747</u>	<u>3,558,313</u>	<u>3,473,231</u>	<u>3,656,612</u>
Business-Type Activities:								
Charges for Services:								
Wastewater	4,310,845	4,126,995	3,193,393	6,352,468	4,098,647	3,696,431	3,789,413	4,335,777
Total Business-Type Activities	<u>4,310,845</u>	<u>4,126,995</u>	<u>3,193,393</u>	<u>6,352,468</u>	<u>4,098,647</u>	<u>3,696,431</u>	<u>3,789,413</u>	<u>4,335,777</u>
Total Primary Government Revenues	<u>\$ 7,024,202</u>	<u>\$ 8,767,077</u>	<u>\$ 7,267,492</u>	<u>\$ 10,335,190</u>	<u>\$ 7,571,394</u>	<u>\$ 7,254,744</u>	<u>\$ 7,262,644</u>	<u>\$ 7,992,389</u>

(continued)

(concluded)

Net (Expense)/Revenue

Governmental Activities	\$ (5,168,625)	\$ (5,930,387)	\$ (8,669,888)	\$ (9,995,945)	\$ (12,072,342)	\$ (11,577,590)	\$ (16,192,818)	\$ (13,758,906)
Business-Type Activities	(1,703,658)	(1,968,522)	(1,361,942)	(1,573,536)	(2,737,175)	(4,105,704)	(4,408,240)	(3,438,193)
Total Primary Government Net Expense	\$ (6,872,283)	\$ (7,898,909)	\$ (10,031,830)	\$ (11,569,481)	\$ (14,809,517)	\$ (15,683,294)	\$ (20,601,058)	\$ (17,197,099)

General Revenues and Other

Changes in Net Assets

Governmental Activities:

Taxes:

Sales Taxes	\$ 6,103,167	\$ 6,501,598	\$ 6,558,330	\$ 8,356,298	\$ 8,432,983	\$ 8,571,160	\$ 8,097,544	\$ 7,208,703
Special CFD Tax	128,527	178,613	189,610	239,402	248,220	304,252	569,667	393,293
Franchise Taxes	521,916	560,683	564,575	591,055	640,752	667,237	661,177	666,326
State Revenue Sharing	1,084,746	919,006	936,926	1,067,096	1,241,513	1,538,883	1,637,088	1,411,823
State Sales Tax Revenue Sharing	797,094	857,455	944,190	1,082,364	1,039,344	1,004,970	870,023	802,470
Auto Lieu Tax Revenue sharing	697,320	548,663	579,030	654,636	603,640	585,027	593,707	551,996
Grants and Contributions Not Restricted	18,310	5,481	13,414	1,032	2,400	1,795	166,503	1,000,400
Investment Earnings	(270,533)	147,336	446,834	880,958	1,044,373	1,021,475	735,011	533,139
Other	-	-	-	61,409	41,778	42,556	77,585	405,305
Transfers	-	-	130,000	-	-	-	479,856	404,856
Total Governmental Activities:	9,080,547	9,718,835	10,362,909	12,934,250	13,295,003	13,737,355	13,888,161	13,378,311

Business-Type Activities:

Sales Taxes	4,862,350	5,215,879	5,120,991	5,541,642	5,732,824	5,683,318	5,435,186	4,925,801
Investment Earnings (Loss)	(193,905)	257,470	638,993	1,048,673	1,493,451	1,423,139	734,783	409,512
Transfers	-	-	(130,000)	-	-	-	(479,856)	(404,856)
Total Business-Type Activities	4,668,445	5,473,349	5,629,984	6,590,315	7,226,275	7,106,457	5,690,113	4,930,457
Total Primary Government	\$ 13,748,992	\$ 15,192,184	\$ 15,992,893	\$ 19,524,565	\$ 20,521,278	\$ 20,843,812	\$ 19,578,274	\$ 18,308,768

Change in Net Assets

Governmental Activities	\$ 3,911,922	\$ 3,788,448	\$ 1,693,021	\$ 2,938,305	\$ 1,222,661	\$ 2,159,765	\$ (2,304,657)	\$ (380,595)
Business-Type Activities	2,964,787	3,504,827	4,268,042	5,016,779	4,489,100	3,000,753	1,281,873	1,492,264
Total Primary Government	\$ 6,876,709	\$ 7,293,275	\$ 5,961,063	\$ 7,955,084	\$ 5,711,761	\$ 5,160,518	\$ (1,022,784)	\$ 1,111,669

Source: The City of Sedona, Arizona's Financial Services Department.

Note: 2002-03 was the City's first year to prepare government-wide financial statements.

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**CITY OF SEDONA, ARIZONA
 FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)**

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved	\$ -	\$ 461,192	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	7,651,440	7,998,042	8,145,901	8,712,623	8,933,380	9,883,448	10,163,442	10,273,435	9,468,179	11,157,413
Total General Fund	<u>7,651,440</u>	<u>8,459,234</u>	<u>8,145,901</u>	<u>8,712,623</u>	<u>8,933,380</u>	<u>9,883,448</u>	<u>10,163,442</u>	<u>10,273,435</u>	<u>9,468,179</u>	<u>11,157,413</u>
All Other Governmental Funds										
Unreserved, reported in:										
Special Revenue Funds	\$ 1,477,394	\$ 1,983,629	\$ 2,414,316	\$ 2,941,405	\$ 3,264,350	\$ 3,541,602	\$ 3,812,967	\$ 3,933,462	\$ 3,804,451	\$ 2,815,765
Capital Projects Funds	2,821,513	4,408,751	5,764,629	7,198,101	6,942,683	6,452,272	3,618,715	12,636,068	10,686,830	10,048,115
Debt Service Funds	320,520	322,229	331,165	351,997	351,727	328,012	274,795	225,510	(1,923)	-
Total All Other Governmental Funds	<u>4,619,427</u>	<u>6,714,609</u>	<u>8,510,110</u>	<u>10,491,503</u>	<u>10,558,760</u>	<u>10,321,886</u>	<u>7,706,477</u>	<u>16,795,040</u>	<u>14,489,358</u>	<u>12,863,880</u>

Source: The City of Sedona, Arizona's Financial Services Department.

CITY OF SEDONA, ARIZONA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues										
Taxes	\$ 6,412,899	\$ 6,546,144	\$ 6,753,610	\$ 7,240,894	\$ 7,312,515	\$ 9,186,755	\$ 9,321,955	\$ 9,542,649	\$ 9,328,388	\$ 8,142,198
Intergovernmental	4,186,482	4,816,666	4,506,257	5,630,606	4,845,240	5,549,374	5,115,368	5,302,778	5,463,364	6,127,774
Fines and Forfeitures	161,434	155,966	169,143	190,270	168,953	216,431	324,562	368,785	268,848	269,104
Licenses and permits	245,529	256,225	234,908	233,951	230,797	186,037	192,882	164,807	212,366	207,092
Charges for Services	189,037	189,300	144,997	161,231	546,461	144,563	153,751	154,194	161,103	184,458
Rents and royalties	-	-	-	-	178,646	58,222	47,796	2,077	3,362	3,698
Contributions and Donations	-	-	-	-	17,569	170	5,000	1,424	1,114	1,990
Impact Fees	-	-	-	-	416,376	292,668	276,348	364,474	302,216	278,352
Special Assessments	294,081	251,908	271,817	279,565	252,155	221,518	197,125	203,172	163,266	-
Investment Earnings (Loss)	783,539	385,899	(267,334)	149,620	442,627	877,907	1,037,999	1,021,475	735,012	533,139
Other	719,415	952,967	501,968	638,928	64,271	199,436	45,244	133,662	235,581	506,745
Total Revenues	12,992,416	13,555,075	12,315,366	14,525,065	14,475,610	16,933,081	16,718,030	17,259,497	16,874,620	16,254,550
Expenditures										
General Government	4,367,100	4,989,797	6,246,402	6,329,143	6,777,168	7,977,384	8,292,797	8,412,901	8,908,985	6,993,621
Public safety	1,578,219	1,661,975	2,216,887	2,156,190	3,045,096	3,354,331	3,425,540	3,663,679	3,636,491	3,541,391
Highways and Streets	1,538,961	1,209,486	1,859,282	2,499,340	3,153,340	3,977,627	5,783,445	2,915,421	5,588,218	4,300,673
Culture and recreation	669,248	671,143	699,563	730,158	640,865	646,384	807,619	970,037	1,169,314	843,316
Capital Outlay	3,140,523	1,858,738	-	-	-	-	-	-	-	-
Debt service										
Principal Retirement	155,000	165,000	175,000	190,000	200,000	215,000	535,000	550,000	586,753	345,942
Interest on long-term debt	101,579	94,433	82,610	72,119	60,907	49,161	209,044	262,216	689,685	570,707
Issuance Costs	-	20,787	-	-	100,495	-	-	230,604	-	-
Total expenditures	11,550,630	10,671,359	11,279,744	11,976,950	13,977,871	16,219,887	19,053,445	17,004,858	20,579,446	16,595,650
Excess of Revenues										
Over (Under) Expenditures	1,441,786	2,883,716	1,035,622	2,548,115	497,739	713,194	(2,335,415)	254,639	(3,704,826)	(341,100)

(continued)

(concluded)

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Other Financing Sources (Uses)										
Transfers In	\$ 1,924,881	\$ 1,522,280	\$ 1,062,104	\$ 412,946	\$ 362,337	\$ 422,475	\$ 467,376	\$ 600,874	\$ 881,308	\$ 1,669,463
Transfers Out	(1,924,881)	(1,522,280)	(1,062,104)	(412,946)	(232,337)	(422,475)	(467,376)	(467,561)	(401,452)	(1,264,607)
Proceeds of Refunding Debt Issuance	-	480,003	-	-	4,941,446	-	-	-	-	-
Proceeds of Long-Term Debt Issuance	-	-	-	-	-	-	-	8,810,604	-	-
Payment to Refunded Debt Escrow Agent	-	(459,216)	-	-	(5,281,171)	-	-	-	-	-
Proceeds from Capital Lease	-	-	-	-	-	-	-	-	114,032	-
Total Other Financing Sources (Uses)	-	20,787	-	-	(209,725)	-	-	8,943,917	593,888	404,856
Net Change in Fund Balance	\$ 1,441,786	\$ 2,904,503	\$ 1,035,622	\$ 2,548,115	\$ 288,014	\$ 713,194	\$ (2,335,415)	\$ 9,198,556	\$ (3,110,938)	\$ 63,756
Debt Service as a Percentage of Noncapital Expenditures	3.1%	3.2%	2.3%	2.2%	2.6%	1.6%	3.9%	6.1%	6.2%	5.8%

Source: The City of Sedona, Arizona's Financial Services Department.

Note: The City had no adjustments to convert the sales tax revenues to the accrual basis of accounting.

**CITY OF SEDONA, ARIZONA
GENERAL GOVERNMENT TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

Fiscal Year	Sales Taxes	Occupancy Taxes	Special CFD Tax	Franchise Taxes	Total
2001	\$ 4,450,265	\$ 1,418,522	\$ 51,285	\$ 492,827	\$ 6,412,899
2002	4,689,137	1,273,287	72,455	511,265	6,546,144
2003	4,854,115	1,249,052	128,527	521,916	6,753,610
2004	5,140,227	1,361,371	178,613	560,683	7,240,894
2005	5,120,992	1,437,338	189,610	564,575	7,312,515
2006	6,505,406	1,850,892	239,402	591,055	9,186,755
2007	6,729,836	1,703,147	248,220	640,752	9,321,955
2008	6,671,721	1,899,439	304,252	667,237	9,542,649
2009	6,380,487	1,717,057	569,667	661,177	9,328,388
2010	5,782,462	1,426,241	267,169	666,326	8,142,198

Source: The City of Sedona, Arizona's Financial Services Department.

Note: The City had no adjustments to convert the sales tax revenues to the accrual basis of accounting.

**CITY OF SEDONA, ARIZONA
SALES TAX COLLECTIONS BY CATEGORY
LAST TEN CALENDAR YEARS
(UNAUDITED)**

Sales Category	Calendar Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Mining	\$ -	\$ -	\$ -	\$ 38	\$ 586	\$ 2,009	\$ 64	\$ 44	\$ 17	\$ 125
Construction	1,527,420	1,816,845	1,936,993	1,540,425	1,783,265	2,089,324	2,179,423	2,196,607	2,358,558	1,809,571
Manufacturing	55,694	50,118	49,729	329,459	379,754	392,883	385,046	327,604	309,407	265,998
Transportation										
Communication and Utilities	346,183	535,125	549,154	634,559	637,664	675,906	689,975	694,121	670,573	704,133
Wholesale Trade	119,937	130,391	137,217	117,504	123,798	122,250	139,891	130,121	135,271	121,420
Retail trade	3,305,149	3,218,617	3,371,668	3,382,688	3,577,399	3,621,116	3,632,447	3,327,597	3,069,968	2,993,452
Restaurants and Bars	1,219,331	1,206,365	1,384,725	1,452,812	1,625,205	1,644,280	1,812,673	1,795,497	1,757,018	1,639,413
Finance, Insurance and Real Estate	591,556	587,967	617,143	838,876	923,366	873,166	974,352	896,313	861,924	853,836
Accommodations	2,481,417	2,456,622	2,660,291	2,908,781	3,191,717	3,498,901	3,871,275	3,835,570	3,600,663	2,937,039
Services	725,654	692,469	746,237	651,305	687,305	403,291	423,789	397,286	321,006	349,848
Public Administration	9,040	3,010	3,940	7,908	9,349	5,934	36,147	22,927	21,339	11,831
All Other Outlets	20,553	53,064	38,574	234,221	22,470	168,299	464,840	477,197	426,937	447,836
Total	\$10,401,934	\$ 10,750,593	\$ 11,495,671	\$ 12,098,576	\$ 12,961,878	\$ 13,497,359	\$ 14,609,922	\$ 14,100,884	\$ 13,532,680	\$ 12,134,503
Direct Sales Tax Rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Source: Arizona Department of Revenue.

NOTE: Year 2010 amounts reflect receipts through June 2010

**CITY OF SEDONA, ARIZONA
 DIRECT AND OVERLAPPING SALES TAX RATES
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

<u>Fiscal Year</u>	<u>City Direct Sales Tax Rate</u>	<u>Yavapai County</u>	<u>Coconino County</u>	<u>State of Arizona</u>
2001	3.00%	6.30%	6.40%	5.60%
2002	3.00	6.30	6.40	5.60
2003	3.00	6.30	6.53	5.60
2004	3.00	6.35	6.53	5.60
2005	3.00	6.35	6.53	5.60
2006	3.00	6.35	6.53	5.60
2007	3.00	6.35	6.73	5.60
2008	3.00	6.35	6.73	5.60
2009	3.00	6.35	6.73	5.60
2010	3.00	7.35	7.73	6.60

Source: Arizona Department of Revenue.

**CITY OF SEDONA, ARIZONA
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(UNAUDITED)**

Fiscal Year	Governmental Activities				Business-type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	Revenue Bonds	Certificates of Participation	Capital Leases	Special Assessment Bonds	Revenue Bonds	WIFA Loan	Certificates of Participation			
2001	\$ -	\$ 5,555,000	\$ 12,447	\$ 1,675,000	\$ 59,060,000	\$ 1,751,624	\$ 2,240,000	\$ 70,294,071	22.27%	\$ 6,897
2002	475,150	4,905,000	-	1,510,000	60,184,850	1,696,256	-	68,771,256	20.93	6,537
2003	316,767	4,745,000	-	1,335,000	58,788,233	1,453,934	-	66,638,934	19.34	6,228
2004	158,384	4,575,000	-	1,145,000	57,276,616	1,332,773	-	64,487,773	17.99	5,938
2005	4,460,000	-	-	945,000	56,670,000	1,211,612	-	63,286,612	16.94	5,753
2006	4,460,000	-	-	730,000	54,475,000	1,090,451	-	60,755,451	15.53	5,518
2007	4,155,000	-	-	500,000	52,380,000	969,290	-	58,004,290	14.83	5,210
2008	12,640,000	-	-	260,000	58,300,000	848,148	-	72,048,148	18.42	6,397
2009	12,320,000	-	107,279	-	55,110,000	726,967	-	68,264,246	17.78	5,969
2010	11,995,000	-	86,337	-	51,770,000	605,806	-	64,457,143	18.69	5,654

Source: The City of Sedona, Arizona's Financial Services Department.

**CITY OF SEDONA, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2010
(UNAUDITED)**

<u>Governmental Unit</u>	<u>Outstanding Debt (1)</u>	<u>Estimated Percentage Applicable (2)</u>	<u>Estimated Share of Overlapping Debt</u>
State of Arizona	None	0.56 %	None
Coconino County	None	8.97	None
Yavapai County	None	8.53	None
Coconino County C.C.D.	\$ 19,425,000	8.97	\$ 1,742,423
Yavapai County C.C.D.	56,425,000	8.53	4,813,052
Sedona-Oak Creek Unified S.D. No. 9	623,700	58.97	367,796
Sedona Fire District	None	58.73	None
City of Sedona	None	100.00 %	None
Total direct and overlapping debt			<u>\$ 6,923,271</u>

Source: Individual jurisdictions.

- (1) Includes general obligation bonds outstanding.
- (2) Proportion applicable to the City of Sedona, Arizona, is computed on the ratio of secondary assessed valuation for 2007-08.

**CITY OF SEDONA, ARIZONA
 PLEDGED-REVENUE COVERAGE
 LAST EIGHT FISCAL YEARS
 (UNAUDITED)**

Fiscal Year	WIFA Loan						Special Assessment Bonds			
	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Principal	Interest	Coverage	Special Assessment Collections	Principal	Interest	Coverage
2003	\$ 4,116,940	\$ 1,021,517	\$ 3,095,423	\$ 121,161	\$ 67,328	16.42	\$ 271,817	\$ 175,000	\$ 81,794	1.06
2004	4,384,465	1,186,629	3,197,836	121,161	64,482	17.23	279,565	190,000	71,300	1.07
2005	3,832,386	1,243,578	2,588,808	121,161	61,522	14.17	252,155	200,000	60,907	0.97
2006	7,401,141	3,229,366	4,171,775	121,161	58,443	23.23	221,518	215,000	49,161	0.84
2007	5,592,098	2,003,340	3,588,758	121,161	55,240	20.34	197,125	230,000	35,363	0.74
2008	5,119,570	2,423,382	2,696,188	121,161	51,910	15.58	203,172	240,000	21,850	0.78
2009	4,524,196	2,874,549	1,649,647	121,161	48,448	9.73	163,266	260,000	7,475	0.61
2010	4,745,289	2,357,123	2,388,166	121,161	44,846	14.39	-	-	-	N/A

Excise Tax Revenue Bonds					
Fiscal Year	Excise Tax Revenues	Principal	Interest	Total	Coverage
2003	\$ 14,709,139	\$ 330,000	\$ 1,854,471	\$ 2,184,471	6.73
2004	15,788,803	1,511,617	1,841,271	3,352,888	4.71
2005	16,354,103	1,240,000	2,040,386	3,280,386	4.99
2006	19,258,257	2,095,000	2,596,486	4,691,486	4.10
2007	18,650,420	2,500,000	2,494,986	4,994,986	3.73
2008	18,369,596	3,510,000	2,849,386	6,359,386	2.89
2009	17,970,410	3,510,000	3,016,669	6,526,669	2.75
2010	15,958,669	3,665,000	2,861,257	6,526,257	2.45

Source: The City of Sedona, Arizona's Financial Services Department.

Note: Information prior to 2002 was not available.

(1): Gross revenues include charges for services, capacity fees, investment earnings, miscellaneous revenues and gain on sale of capital assets.

(2): Operating expenses do not include depreciation, interest expense and issuance costs.

(3): The City did not have any pledged-revenue excise tax debt prior to fiscal year 1998-1999.

**CITY OF SEDONA, ARIZONA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Calendar Year	Population	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	City of Sedona Unemployment Rate
2001	10,192	\$ 328,600,000	\$ 32,241	50.5	1,406	3.50 %
2002	10,520	344,500,000	32,747	-	1,497	4.30
2003	10,700	358,400,000	33,495	-	1,408	4.20
2004	10,861	373,500,000	34,389	-	1,447	3.80
2005	11,000	391,100,000	35,555	-	1,525	3.60
2006	11,010	396,360,000	36,000	-	1,435	3.20
2007	11,134	391,100,000	35,127	-	1,404	2.90
2008	11,263	391,100,000	34,724	-	1,474	3.60
2009	11,436	384,000,000	33,578	50.5	1,509	8.70
2010	11,400	344,850,000	30,250	50.5	1,288	9.27

Sources: 2000 Census, EEC, DES, Sedona/Oak Creek School District.

Note: Median age was not available for years 2001 through 2008.

**CITY OF SEDONA, ARIZONA
PRINCIPAL EMPLOYERS
JUNE 30, 2010
(UNAUDITED)**

Employer	2010			2001		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Sunterra Resorts	400	1	6.31 %	628	1	12.15 %
Enchantment Resorts	383	2	6.04	-	-	6.19
Los Abrigados	275	3	4.34	320	2	-
Hilton Resort & Spa	193	4	3.05	-	-	-
L'Auberge de Sedona Resort	180	5	2.84	200	3	3.87
Sedona/Oak Creek School District	180	5	2.84	137	4	2.65
Pink Jeep Tours	125	7	1.97	-	-	-
City of Sedona	100	8	1.89	-	-	-
Radisson Resort	99	9	1.56	120	5	2.32
Sedona Rouge	98	10	1.55	-	-	-
	<u>2,033</u>		32.39 %	<u>1,405</u>		27.18 %

Source: The Arizona Department of Commerce.

Note 1: Principal employees include the City of Sedona and surrounding region.

**CITY OF SEDONA, ARIZONA
 FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Function	Full-Time Equivalent Employees									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government										
Management Services	20	23	23	20	24	23	25	25	25	18
Finance	4	4	4	4	5	5	5	5	5	5
Planning	3	3	3	2	4	4	5	5	5	6
Building	3	3	3	2	3	3	3	3	3	2
Other	1	1	1	1	1	1	1	1	1	1
Public Safety										
Officers	24	26	25	24	25	29	31	31	30	24
Civilians	9	10	8	8	9	9	8	8	10	8
Other Public Works										
Engineering	2	2	2	2	4	5	5	5	5	4
Other	10	10	11	10	9	11	11	11	11	14
Redevelopment	7	6	7	7	8	7	7	7	7	4
Parks and Recreation	7	5	6	5	6	6	6	6	7	3
Wastewater	8	7	7	7	7	8	11	11	11	11
Total	98	100	100	92	105	111	118	118	120	100

Source: City of Sedona, Arizona

**CITY OF SEDONA, ARIZONA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)**

Function	Fiscal Years									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Government										
Building Permits Issued	544	663	660	627	607	507	573	553	537	593
Building Inspections Conducted	2,841	3,020	2,950	3,033	3,431	2,303	3,168	2,737	2,180	2,086
Police										
Physical Arrests	N/A	N/A	N/A	643	594	439	662	542	652	544
Parking Violations	N/A	N/A	10	60	65	80	87	86	40	195
Traffic Violations	N/A	N/A	815	2,266	2,750	2,475	2,296	4,589	3,772	3,310
Other Public Works										
Street Resurfacing (Miles)	1.0	3.9	2.8	0.7	1.2	1.1	2.0	4.3	3.5	-
Wastewater										
Average Daily Sewage Treatment (Millions of Gallons)	0.9	0.9	1.1	1.1	1.1	1.1	1.3	1.2	1.1	1.1

Source: City of Sedona, Arizona

**CITY OF SEDONA, ARIZONA
CAPITAL ASSETS STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)**

Function	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Zone Offices	1	1	1	1	1	1	1	1	1	1
Patrol Units	5	5	6	7	8	9	11	11	12	16
Other Public Works										
Streets (Miles)	N/A	N/A	N/A	N/A	N/A	154.5	154.5	154.5	154.5	154.4
Highways (Miles)	N/A	N/A	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Streetlights	N/A	N/A	2	2	2	2	2	2	8	8
Parks and Recreation										
Acreage	100.3	100.3	100.3	100.3	100.3	100.3	100.3	100.3	91.8 **	93.0
Playgrounds	1	1	3	3	3	3	3	3	3	3
Baseball and Softball Diamonds	2	2	2	2	2	2	2	2	2	2
Football and Soccer Fields	1	1	1	1	1	1	1	1	1	1
Water										
Fire Hydrants	-	-	558	579	615	619	650	651	651	659
Wastewater										
Sanitary Sewers (Miles)	-	-	-	-	-	156.4	159.3	75.0	75.0	75.0
Treatment Capacity (Millions of Gallons)	2.0	2.0	2.0	2.0	2.0	2.0	2.2	2.0	2.0	2.0

Source: City of Sedona, Arizona

** Acreage for Parks was corrected in updating GIS maps for the City during the FY 2009 year.