

CITY OF SEDONA, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008

Rob Adams
Mayor

John Bradshaw
Vice Mayor

Councilmembers

Nancy Scagnelli

Dan Surber

Marc Sterling

Pud Colquitt

Cliff Hamilton

Eric Levitt
City Manager

Barbara Ashley
Finance Operations Manager

Prepared by:
Financial Services Department

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FISCAL YEAR ENDED JUNE 30, 2008

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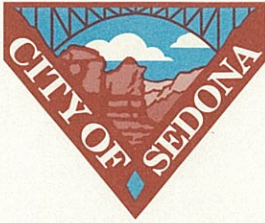
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INTRODUCTORY SECTION

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Sedona, Arizona 86336
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October 19, 2008

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

We are pleased to submit to you the 2008 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 report 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, Cronstrom, Osuch & Company, 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, 2008, 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, 2008, 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.

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 ordinances of the City Council, as well as overseeing the day-to-day operations of the City.

The City has a Council liaison appointed through City Council action. The liaison is responsible for monitoring the City's accounting and reporting practices. 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 68%. The estimated current population is approximately 11,263. The City's growth is attributable to the growth patterns of the Southwest and is actually below the growth rate of the State of Arizona and Yavapai County. The City has attempted to manage its growth in a way that maintains its character. Based on current projections, population growth trends are expected to continue, although at a slower pace. While having a positive impact, this 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 cultural events, planning and zoning services and general administrative services. The City offers community facilities including a swimming pool, a community park and a neighborhood park.

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, enterprise funds, and internal service 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 2008 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 of 55.8% of the General Fund revenues. The City's sales tax rate is currently at 3% (split between General Fund 1.12%, Capital Fund .5% and Wastewater Enterprise Fund 1.38%), and the City also has a 3% Bed tax (occupancy).

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 portion 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. 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).

Long-term Financial Planning

The City continues to update its 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 sources in order to avoid 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. 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.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year

During fiscal year 2008, 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 2008:

Police

- Implemented a major upgrade to the Computer-Aided-Dispatch, records management and accident reporting software.
- Implemented digital video recording system in Patrol Vehicles.
- Worked with Legal Department to implement new legislation relating to impoundment of vehicles.
- Completed the Police Department holding cell ADA modifications.

Public Works

- Received City Council approval of City Code Chapter 14-Stormwater.
- Updated Stormwater website.
- Began design of Harmony-Windsong drainage projects.
- Selected contractor for Chapel Storm drainage project.
- Added Facility Manager to department.
- Worked with I.T. Department on completion of aerial flight and new mapping.
- Completed sidewalk along SR 89A.
- Reconstructed a large majority of handicap ramps located along public streets to be ADA compliant.
- Implemented Job Order Contract for City wide paving, concrete and storm drainage.
- Received a grant from FEMA for the Doodlebug Road mitigation project.
- Increased Uptown trash pickup program.

Management Services

- Implemented short-term parking plan and continue to explore long-term facility partnership.
- Facilitated ADOT State Route 179 improvements.
- Resurfaced City Hall with a high grade, weather resistant, color impregnated synthetic stucco.
- Formed a Redevelopment Planning work group.
- Issued Bonds for infrastructure projects.
- Worked on pedestrian safety improvements.
- Continued to provide funding for Community based not-for-profit groups.
- Lobbied the Federal Government for funding support of major City infrastructure projects.
- Provided qualifying Funds to Sedona's five major arts organizations. Also, awarded additional dollars in grants to local artists and art organizations.
- Provided funding for Summer Arts Program for local youth.

Community Development

- Adoption of the 2006 International Building Codes and new building permit fees.
- Completion and City Council approval of the Sedona Housing Policy.
- Approval of new 'Conserve and Save', 'Smart Rinse' and 'Water Recognition' water conservation programs.
- Conversion of water fountains in the City Hall courtyard to low water use demonstration native plant gardens.

Parks & Recreation

- Completion of ADA Parking and Sidewalk.
- Renovation of Soccer Field.
- Added playground equipment for younger children.
- Completed shade structure for Sunset Park playground.

Wastewater

- More than a quarter million feet of sewer lines were cleaned and video inspected.
- Began construction of three major sewer pump stations project.
- Completed construction of the Kachina/Arroyo Seco collection system.
- Completed Point Source Discharge 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 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 circulation based on completed studies.
- Change the focus in Parks and Recreation from Trails program to development of programs and maintenance.
- Budget accountability and economic sustainability.

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.D. of the notes to basic financial statements.

Debt Administration

The following table is a summary of the City's outstanding debt at June 30, 2008.

<u>Purpose of Debt</u>	<u>Outstanding Balance</u>	<u>Annual Debt Service</u>
Wastewater	\$ 59,148,128	\$ 3,321,161
Special Improvement District	260,000	240,000
Infrastructure Projects	8,795,000	-
City Hall Purchase	<u>3,845,000</u>	<u>310,000</u>
Total Long-term Debt	<u>\$ 72,048,128</u>	<u>\$ 3,871,161</u>

Cash Management

The City Manager and Financial Services Department's 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, 2007. This was the 9th 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.

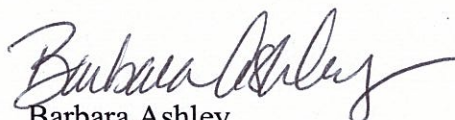
Acknowledgments

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,



Eric J. Levitt
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, 2007

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.

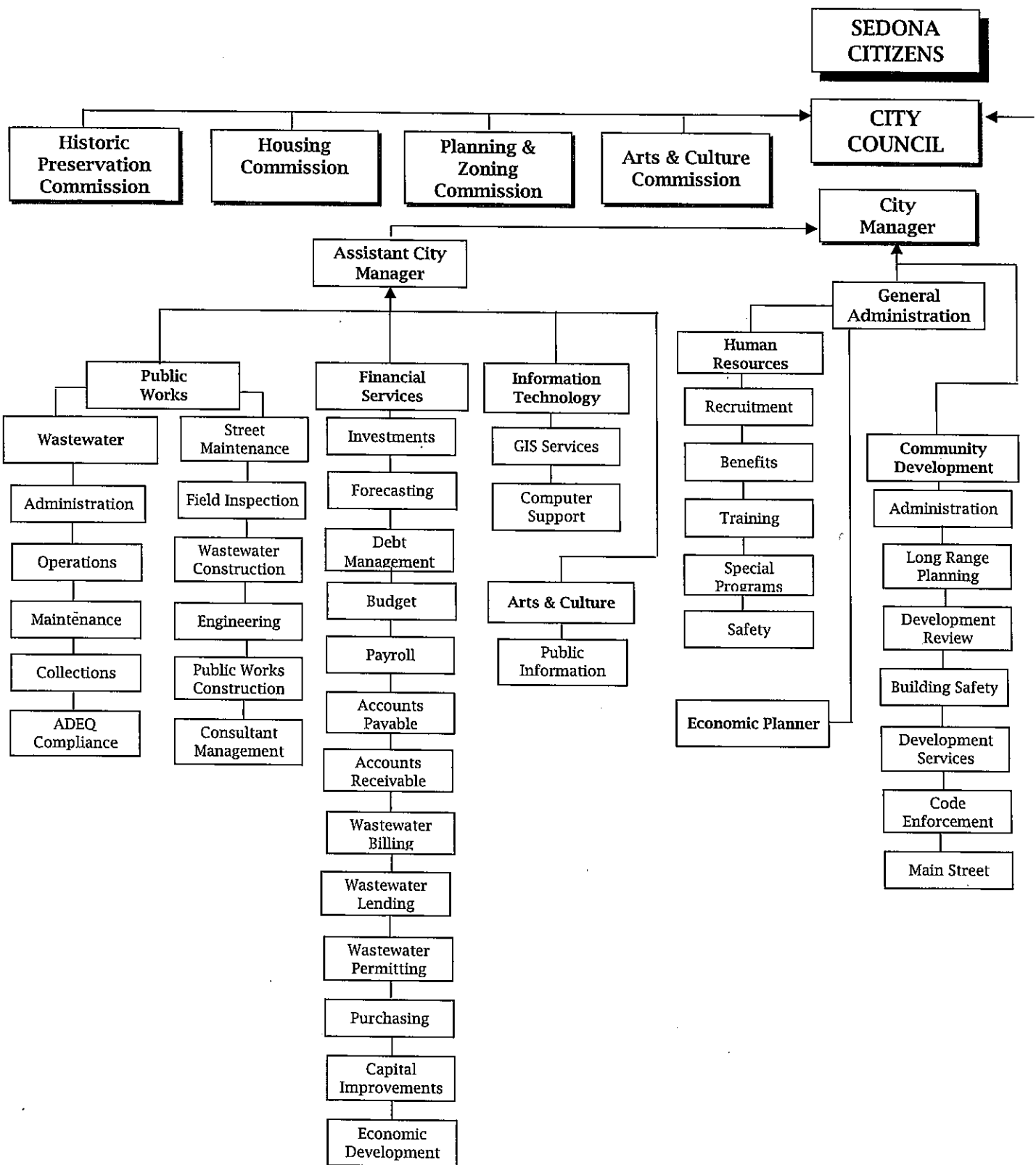


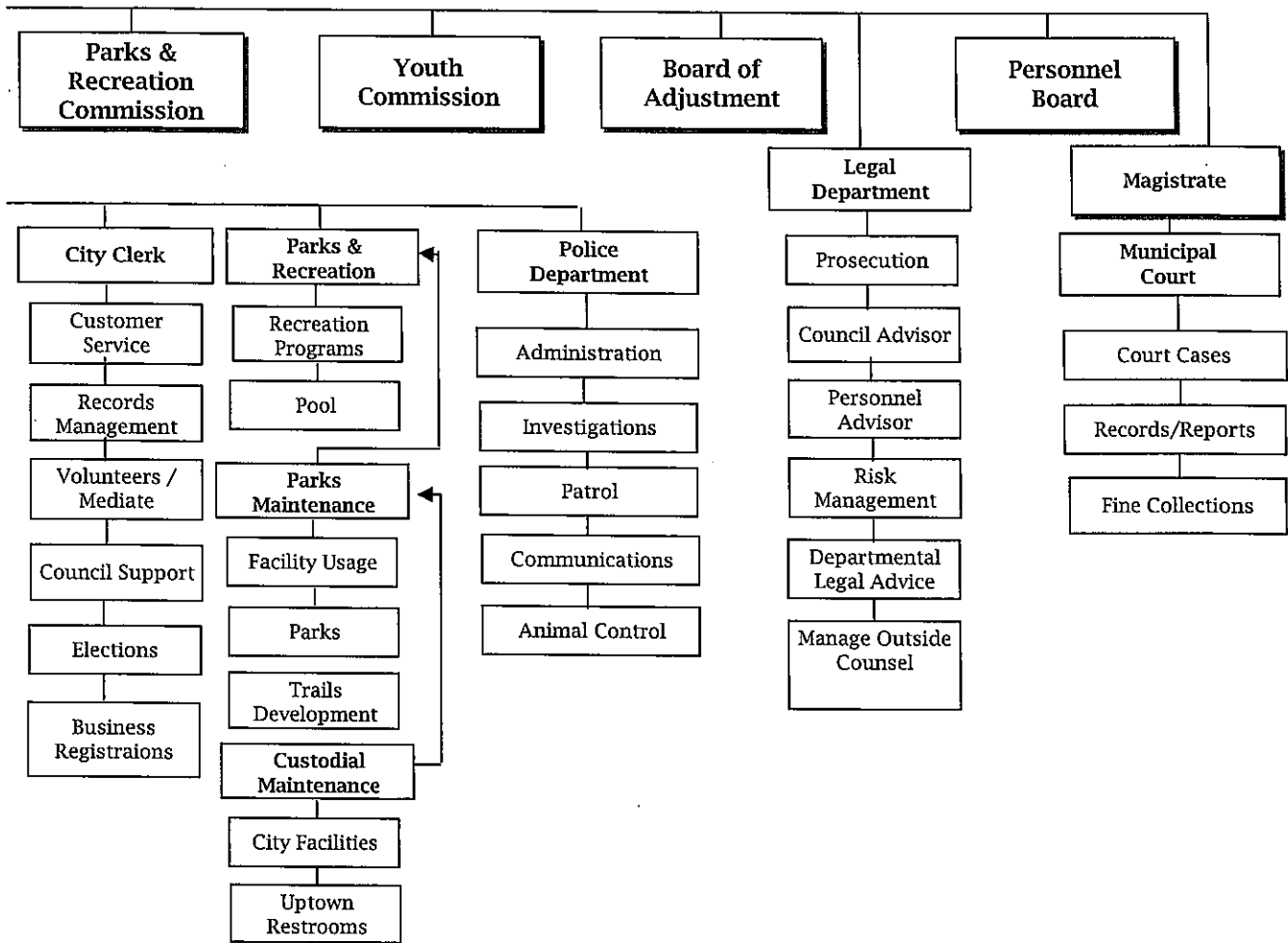
Oliver S. Cox

President

Jeffrey R. Emer

Executive Director





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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and the City Council of the
City of 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, 2008, 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. 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, 2008, 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.

The management's discussion and analysis on pages 17 - 25 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 67 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.

Cronstrom, Osuch + Company, P.C.
Cronstrom, Osuch & Company, P.C.

October 19, 2008

Management's Discussion and Analysis

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, 2008. 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 28 and the accompanying notes to the basic financial statements.

Financial Highlights

- The City's net assets increased in our business-type activities by \$3.0 million, or nearly 5.5 percent, and in our governmental activities by \$2.2 million, or nearly 5.0 percent.
- During the year, the City had expenses that were \$2.2 million less than the \$17.3 million generated in tax and other revenues for governmental activities. This was higher than last year, when revenues exceeded expenses by \$1.2 million.
- In the City's business-type activities, revenues decreased to \$10.8 million (or 4.6 percent) while expenses increased by approximately 14.1 percent.
- The resources available for appropriation were \$11.1 million budgeted for the General Fund.

Using This Annual Report

The comprehensive annual financial report includes a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 28 and 29) 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 30. 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 28. 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.

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 30 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 provide more detail and additional information, such as cash flows. The internal service fund (another component of proprietary funds) is used to report activities that provide supplies and services for the City's Employee Trust Fund.

The City as a Whole

The City's combined net assets increased from \$97.9 million in 2007 to \$103.1 million in 2008. Our analysis below focuses on the City's net assets (Table 1) and the changes in net assets (Table 2) for governmental and business-type activities.

Table 1
Condensed Statement of Net Assets
As of June 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Total Government	
	2008	2007	2008	2007	2008	2007
ASSETS						
Current and other assets	\$ 30,610,248	\$ 21,347,187	\$ 40,015,936	\$ 32,070,378	\$ 70,626,184	\$ 53,417,565
Capital assets						
Non-depreciable	6,960,501	6,980,501	11,159,413	11,159,413	18,119,914	18,139,914
Depreciable (net)	<u>23,327,991</u>	<u>22,193,083</u>	<u>76,067,039</u>	<u>73,126,992</u>	<u>99,395,030</u>	<u>95,320,075</u>
Total assets	<u>60,898,740</u>	<u>50,520,771</u>	<u>127,242,388</u>	<u>116,356,783</u>	<u>188,141,128</u>	<u>166,877,554</u>
LIABILITIES						
Other liabilities	2,261,549	2,318,932	10,306,448	8,401,787	12,567,997	10,720,719
Noncurrent liabilities						
Due within one year	796,670	750,447	3,329,445	2,497,666	4,126,115	3,248,113
Due in more than one year	<u>12,119,898</u>	<u>3,890,534</u>	<u>56,234,201</u>	<u>51,085,789</u>	<u>68,354,099</u>	<u>54,976,323</u>
Total liabilities	<u>15,178,117</u>	<u>6,959,913</u>	<u>69,870,094</u>	<u>61,985,242</u>	<u>85,048,211</u>	<u>68,945,155</u>
NET ASSETS						
Invested in capital assets, net of related debt	26,187,433	24,794,010	31,881,724	28,405,751	58,069,157	53,199,761
Restricted	7,688,303	7,469,407	587,477	1,240,451	8,275,780	8,709,858
Unrestricted	<u>11,844,887</u>	<u>11,297,441</u>	<u>24,903,093</u>	<u>24,725,339</u>	<u>36,747,980</u>	<u>36,022,780</u>
Total net assets	<u>\$ 45,720,623</u>	<u>\$ 43,560,858</u>	<u>\$ 57,372,294</u>	<u>\$ 54,371,541</u>	<u>\$ 103,092,917</u>	<u>\$ 97,932,399</u>

The total net assets of the City are \$103,092,917 at June 30, 2008 in governmental and business-type activities.

Net assets of the City's governmental activities increased approximately 5.0 percent to \$45,720,623. Net assets of the City's business-type activities increased approximately 5.5 percent to \$57,372,294.

In the governmental activities, the invested in capital assets, net of related debt increased due to current year additions to capital assets, net of current year depreciation and restricted net assets decreased due to the use of restricted capital funds for the acquisition of capital assets.

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

Table 2
Changes in Net Assets
Fiscal Years Ended June 30, 2008 and 2007

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 798,309	\$ 749,192	\$ 3,696,431	\$ 4,098,647	\$ 4,494,740	\$ 4,847,839
Operating grants and contributions	1,844,555	1,923,645	-	-	1,844,555	1,923,645
Capital grants and contributions	550,975	523,562	-	-	550,975	523,562
General revenues						
Local taxes	9,542,649	9,321,955	5,683,318	5,732,824	15,225,967	15,054,779
Impact fees	364,474	276,348	-	-	364,474	276,348
State revenue sharing	3,128,880	2,884,497	-	-	3,128,880	2,884,497
Grants and contributions not restricted	1,795	2,400	-	-	1,795	2,400
Investment earnings	1,021,475	1,044,373	1,423,139	1,493,451	2,444,614	2,537,824
Other	42,556	41,778	-	-	42,556	41,778
Total revenues	<u>17,295,668</u>	<u>16,767,750</u>	<u>10,802,888</u>	<u>11,324,922</u>	<u>28,098,556</u>	<u>28,092,672</u>
Expenses						
General government	7,600,727	7,881,431	-	-	7,600,727	7,881,431
Public safety	3,717,862	3,310,253	-	-	3,717,862	3,310,253
Highways and streets	2,449,337	3,307,737	-	-	2,449,337	3,307,737
Culture and recreation	1,058,508	789,371	-	-	1,058,508	789,371
Interest on long-term debt	309,469	256,297	-	-	309,469	256,297
Wastewater	-	-	7,802,135	6,835,822	7,802,135	6,835,822
Total expenses	<u>15,135,903</u>	<u>15,545,089</u>	<u>7,802,135</u>	<u>6,835,822</u>	<u>22,938,038</u>	<u>22,380,911</u>
Change in net assets	2,159,765	1,222,661	3,000,753	4,489,100	5,160,518	5,711,761
Net assets, beginning of year	<u>43,560,858</u>	<u>42,338,197</u>	<u>54,371,541</u>	<u>49,882,441</u>	<u>97,932,399</u>	<u>92,220,638</u>
Net assets, end of year	<u>\$ 45,720,623</u>	<u>\$ 43,560,858</u>	<u>\$ 57,372,294</u>	<u>\$ 54,371,541</u>	<u>\$ 103,092,917</u>	<u>\$ 97,932,399</u>

Governmental and Business-type Activities

The City's total revenues increased less than 1 percent, with expenses increasing by approximately 2.5 percent.

In the governmental activities, total revenues increased by approximately 3.1 percent. The expenses in governmental activities decreased by approximately 2.6 percent due to completion of projects in the prior year, work on the State Route 179 project that was pre-paid to ADOT as well as some projects being deferred for a later start.

In the business-type activities, total revenues decreased approximately 4.6 percent. This is due to fewer connections required for the City's sewer system lowering the capacity fee revenues. Total expenses increased approximately 14.1 percent due to a \$275,304 increase in operational costs of the wastewater treatment plant (salaries and maintenance), a \$213,513 increase in depreciation on capital assets, and a \$489,716 increase in interest expense. These increases were the result of increased maintenance at the wastewater treatment plant, an increase in capital assets and an increase in outstanding debt.

THE CITY'S FUND

As the City completed the year, the governmental funds (as presented in the balance sheet on page 30) reported a *combined* fund balance of \$27.1 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:

Fund	Balance	Increase (Decrease) From 2006-07
General Fund	\$ 10,273,435	\$ 109,993
Highway User Revenue Fund	2,426,599	(119,981)
Capital Improvement Fund	9,925,867	8,666,919
Nonmajor Governmental Funds	4,442,574	541,625

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 \$10,273,435, while total fund balance for the governmental funds reached \$27,068,475.

The fund balance of the City of Sedona, Arizona's General Fund increased by \$109,993 during the current fiscal year. Revenues increased approximately 4.3 percent including City sales tax collections, building permits and fees and court fines. Expenditures increased by 8.3 percent. The expenses increased due to the continued rising costs of providing general government services, including salary increases, maintenance costs, public safety and contributions to the Arts.

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 \$78,215 in fiscal year 2008; expenditures increased \$51,222 from the prior year. The changes were due to the decreases in state shared revenues and major projects being completed within the fiscal year.

The Capital Improvement Fund, includes governmental impact (development) fees for streets and highways, parks and recreation, law enforcement, general government and open space. The fund balance as of June 30, 2008 in this fund is \$9,925,867; expenditures for fiscal year 2008 were \$2,439,489 and \$4,826,342 in fiscal year 2007. The increase in the current year fund balance was largely due to the issuance of Series 2007 Excise Tax Obligations proceeds for City infrastructure. Those funds will be used in future years for future budgeted projects.

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 increased by \$541,625 during the fiscal year. This was due to several Capital projects being rescheduled for future dates. At this time, the City does expect to use these funds to partially fund these projects.

General Fund 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 34 - 35. 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 \$11,654,158, on a budgetary basis, exceeded the budget of \$11,122,582 by \$531,576 while budgetary basis expenditures of \$11,574,816 were 92.1% of budgeted expenditures (savings of \$986,635). The variance in the budget to actual revenues was not significant; however, the variance in the budget to actual expenditures was the result of 1) expenditures for Human Resources falling below budget by \$222,978 due to no increases for the health insurance premiums in the Verde Valley Employee Benefit Pool; 2) expenditures for the Community Development department falling below budget by \$123,473 due to a re-scheduling of the Re-Development project; 3) expenditures in General Services falling below budget by \$835,689 due to the spendable contingency not being used.

The amendments to the budget were not significant during the fiscal year, but were properly approved in accordance with the City's budget transfer policy. All amendments were between departments.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the City had \$117.5 million invested in a broad range of capital assets, including police equipment, buildings, park facilities, roads, bridges, and sewer lines. (See Table 3 below). This amount represents a net change (including additions and deductions) of approximately \$4.1 million, or 3.6 percent, over last year.

Table 3
Capital Assets at June 30, 2008 and 2007
(Net of depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 6,960,501	\$ 6,980,501	\$ 11,159,413	\$ 11,159,413	\$ 18,119,914	\$ 18,139,914
Land improvements	2,576,544	2,618,302	-	-	2,576,544	2,618,302
Buildings and improvements	5,143,171	4,518,816	-	-	5,143,171	4,518,816
Machinery, equipment and vehicles	1,312,658	1,177,858	539,593	578,953	1,852,251	1,756,811
Infrastructure	14,295,618	13,878,107	-	-	14,295,618	13,878,107
Wastewater system	-	-	<u>75,527,446</u>	<u>72,548,039</u>	<u>75,527,446</u>	<u>72,548,039</u>
	<u>\$ 30,288,492</u>	<u>\$ 29,173,584</u>	<u>\$ 87,226,452</u>	<u>\$ 84,286,405</u>	<u>\$ 117,514,944</u>	<u>\$ 113,459,989</u>

This year's major additions included:

Addition of Streets/Infrastructure	\$ 899,500
Park & Trail Improvements	26,614
City Hall Plaza & other property improvements	838,299
New & Used Vehicles (10)	219,737
New Hardware & Software Purchases	379,156
Machinery and Equipment	96,509
Extension of Sewer Lines	4,734,430

The City's fiscal year 2009 capital budget calls for it to spend another \$27.0 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.

Debt

At June 30, 2008 the City had \$72,303,511 in long-term obligations outstanding versus \$58,264,488 last year - an increase of 24.1 percent - as shown in the following Table 4.

Table 4
Outstanding Debt at June 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Total Government	
	2008	2007	2008	2007	2008	2007
Revenue bonds (excluding deferred amounts on refunding)	\$ 12,640,000	\$ 4,155,000	\$ 58,300,000	\$ 52,380,000	\$ 70,940,000	\$ 56,535,000
Loan	-	-	848,128	969,290	848,128	969,290
Special assessment debt with government commitment	260,000	500,000	-	-	260,000	500,000
Compensated absences	<u>235,509</u>	<u>241,236</u>	<u>19,874</u>	<u>18,962</u>	<u>255,383</u>	<u>260,198</u>
	<u>\$ 13,135,509</u>	<u>\$ 4,896,236</u>	<u>\$ 59,168,002</u>	<u>\$ 53,368,252</u>	<u>\$ 72,303,511</u>	<u>\$ 58,264,488</u>

The current year increase in outstanding debt is attributable to the issuing of Series 2007 Excise Tax Obligations for City infrastructure. Further detail on the City's outstanding debt may be found in Note 3.C. on pages 54 - 59 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 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 2008-2009 budgeted General Fund expenditures (including inter-fund transfers) are approximately \$2.0 million more than budgeted revenue; which will be deducted from the fiscal year fund balance. The adopted fiscal year 2008-2009 budget is \$55,099,793, which includes capital projects of \$27.0 million. The budget for fiscal year 2008-2009 also includes:

- Continued participation in Destination Marketing in partnership with the Sedona Oak Creek Chamber of Commerce in order to improve the City's overnight stays.
- Contracting with Coconino County/Northern Arizona Intergovernmental Public Transit Authority to implement and operate a Public Transit System.
- Continuation of Drainage Improvements, as per the City's new Storm Water Master Plan.
- Continue to work with Arizona Department of Transportation (ADOT) on Route 179 Improvements. The SR 179 project is now within the City limits through completion of the project.
- Review strategies to improve traffic circulation based on completed studies.
- Long-term financial planning.

Financial contact

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, 2008

	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and cash equivalents	\$ 27,172,533	\$ 31,488,728	\$ 58,661,261
Cash with paying agent	640,033	4,536,008	5,176,041
Receivables, net			
Accounts receivable	529,229	437,099	966,328
Capacity fees receivable	-	113,268	113,268
Intergovernmental receivable	1,776,883	1,325,556	3,102,439
Special assessments receivable	158,085	-	158,085
Interest receivable	40,715	37,519	78,234
Deferred charges	292,770	1,062,870	1,355,640
Restricted assets	-	1,014,888	1,014,888
Capital assets			
Non-depreciable	6,960,501	11,159,413	18,119,914
Depreciable (net)	<u>23,327,991</u>	<u>76,067,039</u>	<u>99,395,030</u>
Total assets	<u>60,898,740</u>	<u>127,242,388</u>	<u>188,141,128</u>
Liabilities			
Accounts payable	1,228,968	260,171	1,489,139
Accrued wages and benefits	194,220	29,439	223,659
Interest payable	330,033	5,514,777	5,844,810
Unearned revenue	198,328	1,180,899	1,379,227
Matured debt principal payable	310,000	3,321,162	3,631,162
Noncurrent liabilities			
Due within one year	796,670	3,329,445	4,126,115
Due in more than one year	<u>12,119,898</u>	<u>56,234,201</u>	<u>68,354,099</u>
Total liabilities	<u>15,178,117</u>	<u>69,870,094</u>	<u>85,048,211</u>
Net assets			
Invested in capital assets, net of related debt	26,187,433	31,881,724	58,069,157
Restricted for			
Highways and streets	2,426,599	-	2,426,599
Renewal and replacement	-	587,477	587,477
Debt service	225,510	-	225,510
Capital outlay	4,948,271	-	4,948,271
Other	87,923	-	87,923
Unrestricted	<u>11,844,887</u>	<u>24,903,093</u>	<u>36,747,980</u>
Total net assets	<u>\$ 45,720,623</u>	<u>\$ 57,372,294</u>	<u>\$ 103,092,917</u>

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

**CITY OF SEDONA, ARIZONA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Functions/Programs							
Governmental activities							
General government	\$ 7,600,727	\$ 687,888	\$ 671	\$ 29,409	\$ (6,882,759)		\$ (6,882,759)
Public safety	3,717,862	52,491	745,404	2,628	(2,917,339)		(2,917,339)
Highways and streets	2,449,337	-	1,097,727	516,435	(835,175)		(835,175)
Culture and recreation	1,058,508	40,590	753	2,503	(1,014,662)		(1,014,662)
Interest on long-term debt	309,469	17,340	-	-	(292,129)		(292,129)
Total governmental activities	<u>15,135,903</u>	<u>798,309</u>	<u>1,844,555</u>	<u>550,975</u>	<u>(11,942,064)</u>		<u>(11,942,064)</u>
Business-type activities							
Wastewater	7,802,135	3,696,431	-	-		\$ (4,105,704)	(4,105,704)
Total business-type activities	<u>7,802,135</u>	<u>3,696,431</u>	<u>-</u>	<u>-</u>		<u>(4,105,704)</u>	<u>(4,105,704)</u>
Totals	<u>\$ 22,938,038</u>	<u>\$ 4,494,740</u>	<u>\$ 1,844,555</u>	<u>\$ 550,975</u>	<u>(11,942,064)</u>	<u>(4,105,704)</u>	<u>(16,047,768)</u>
General revenues							
Taxes							
Sales taxes					8,571,160	5,683,318	14,254,478
Special CFD tax					304,252	-	304,252
Franchise taxes					667,237	-	667,237
Impact fees					364,474	-	364,474
State revenue sharing					1,538,883	-	1,538,883
State sales tax revenue sharing					1,004,970	-	1,004,970
Auto lieu tax revenue sharing					585,027	-	585,027
Grants and contributions not restricted					1,795	-	1,795
Investment earnings					1,021,475	1,423,139	2,444,614
Other					42,556	-	42,556
Total general revenues					<u>14,101,829</u>	<u>7,106,457</u>	<u>21,208,286</u>
Change in net assets					2,159,765	3,000,753	5,160,518
Net assets, beginning of year					43,560,858	54,371,541	97,932,399
Net assets, end of year					<u>\$ 45,720,623</u>	<u>\$ 57,372,294</u>	<u>\$ 103,092,917</u>

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

CITY OF SEDONA, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	HURF	Capital Improvement	Nonmajor Governmental Funds	Totals
Assets					
Cash and cash equivalents	\$ 9,101,411	\$ 2,708,740	\$ 11,015,067	\$ 4,347,315	\$ 27,172,533
Cash with paying agent	632,558	-	-	7,475	640,033
Receivables, net					
Accounts receivable	228,200	4,988	296,041	-	529,229
Intergovernmental receivable	1,417,466	84,363	-	275,054	1,776,883
Special assessments receivable	-	-	-	158,085	158,085
Interest receivable	10,012	4,376	18,382	7,945	40,715
Due from other funds	89,923	-	-	-	89,923
Total assets	<u>\$ 11,479,570</u>	<u>\$ 2,802,467</u>	<u>\$ 11,329,490</u>	<u>\$ 4,795,874</u>	<u>\$ 30,407,401</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 197,200	\$ 370,429	\$ 573,147	\$ 88,192	\$ 1,228,968
Accrued wages and benefits	178,049	5,439	1,410	9,322	194,220
Interest payable	322,558	-	-	7,475	330,033
Due to other funds	-	-	-	89,923	89,923
Deferred revenue	-	-	829,066	158,388	987,454
Unearned revenue	198,328	-	-	-	198,328
Matured debt principal payable	310,000	-	-	-	310,000
Total liabilities	<u>1,206,135</u>	<u>375,868</u>	<u>1,403,623</u>	<u>353,300</u>	<u>3,338,926</u>
Fund balances					
Unreserved	10,273,435	2,426,599	9,925,867	-	22,625,901
Unreserved, reported in nonmajor					
Special revenue funds	-	-	-	1,506,863	1,506,863
Debt service funds	-	-	-	225,510	225,510
Capital projects funds	-	-	-	2,710,201	2,710,201
Total fund balances	<u>10,273,435</u>	<u>2,426,599</u>	<u>9,925,867</u>	<u>4,442,574</u>	<u>27,068,475</u>
Total liabilities and fund balances	<u>\$ 11,479,570</u>	<u>\$ 2,802,467</u>	<u>\$ 11,329,490</u>	<u>\$ 4,795,874</u>	<u>\$ 30,407,401</u>

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

CITY OF SEDONA, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2008

Fund balances - total governmental funds	\$ 27,068,475
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	39,385,950
Less accumulated depreciation	<u>(9,097,458)</u>
Capital assets used in governmental activities	<u>30,288,492</u>
Other long-term assets are not available to pay for current-period expenditures and are not susceptible to accrual.	
	987,454
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	(12,640,000)
Special assessment debt with government commitment	(260,000)
Deferred amount on refunding	517,159
Deferred amount on premium	(298,218)
Compensated absences	(235,509)
Deferred charges for bond issuance costs	<u>292,770</u>
Net assets of governmental activities	<u>\$ 45,720,623</u>

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

CITY OF SEDONA, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	General	HURF	Capital Improvement	Nonmajor Governmental Funds	Totals
Revenues					
Taxes					
Sales taxes	\$ 6,511,987	\$ -	\$ 2,059,173	\$ -	\$ 8,571,160
Special CFD tax	-	-	-	304,252	304,252
Franchise taxes	667,237	-	-	-	667,237
Intergovernmental	3,138,380	1,097,727	296,373	770,298	5,302,778
Fines and forfeitures	368,785	-	-	-	368,785
Licenses and permits	164,807	-	-	-	164,807
Charges for services	154,194	-	-	-	154,194
Rents and royalties	1,562	-	-	515	2,077
Contributions and donations	753	-	-	671	1,424
Impact fees	-	-	-	364,474	364,474
Special assessments	-	-	-	203,172	203,172
Investment earnings	533,814	106,097	223,618	157,946	1,021,475
Other	112,639	15,592	5,371	60	133,662
Total Revenues	<u>11,654,158</u>	<u>1,219,416</u>	<u>2,584,535</u>	<u>1,801,388</u>	<u>17,259,497</u>
Expenditures					
Current					
General government	7,195,287	-	868,133	349,481	8,412,901
Public safety	2,545,834	-	160,364	957,481	3,663,679
Highways and streets	321,667	1,339,397	1,180,388	73,969	2,915,421
Culture and recreation	962,488	-	-	7,549	970,037
Debt Service					
Principal retirement	310,000	-	-	240,000	550,000
Interest on long-term debt	239,540	-	-	22,676	262,216
Issuance costs	-	-	230,604	-	230,604
Total Expenditures	<u>11,574,816</u>	<u>1,339,397</u>	<u>2,439,489</u>	<u>1,651,156</u>	<u>17,004,858</u>
Excess (deficiency) of revenues over expenditures	<u>79,342</u>	<u>(119,981)</u>	<u>145,046</u>	<u>150,232</u>	<u>254,639</u>
Other financing sources (uses)					
Transfers in	133,313	-	76,168	391,393	600,874
Transfers out	(102,662)	-	(364,899)	-	(467,561)
Issuance of long-term debt	-	-	8,810,604	-	8,810,604
Total other financing sources (uses)	<u>30,651</u>	<u>-</u>	<u>8,521,873</u>	<u>391,393</u>	<u>8,943,917</u>
Net change in fund balances	109,993	(119,981)	8,666,919	541,625	9,198,556
Fund balances, beginning of year	<u>10,163,442</u>	<u>2,546,580</u>	<u>1,258,948</u>	<u>3,900,949</u>	<u>17,869,919</u>
Fund balances, end of year	<u>\$ 10,273,435</u>	<u>\$ 2,426,599</u>	<u>\$ 9,925,867</u>	<u>\$ 4,442,574</u>	<u>\$ 27,068,475</u>

The notes to the basic financial statements are an intergral part of this statement.

CITY OF SEDONA, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds \$ 9,198,556

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	2,759,246
Less current year depreciation	<u>(1,623,543)</u>
Excess capital expenditures over depreciation	<u>1,135,703</u>

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. (20,795)

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 assessments recognized	(185,832)
Deferred capital revenues recognized	222,003

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	550,000
Issuance costs	230,604
Amortization of deferred amounts on the refunding	(47,253)
Amortization of deferred amount on the premium	26,543
Amortization of issuance costs	(18,229)
Proceeds of new debt issuance	(8,810,604)

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 change in compensated absences	5,727
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of the internal service fund is reported with governmental activities. (126,658)

Change in net assets of governmental activities \$ 2,159,765

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

CITY OF SEDONA, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	\$ 6,523,666	\$ 6,523,666	\$ 7,179,224	\$ 655,558
Intergovernmental	3,281,125	3,281,125	3,138,380	(142,745)
Fines and forfeitures	349,386	349,386	368,785	19,399
Licenses and permits	457,587	457,587	164,807	(292,780)
Charges for services	165,318	165,318	154,194	(11,124)
Rents and royalties	1,834	1,834	1,562	(272)
Contributions and donations	-	-	753	753
Investment earnings	293,176	293,176	533,814	240,638
Other	50,490	50,490	112,639	62,149
Total Revenues	<u>11,122,582</u>	<u>11,122,582</u>	<u>11,654,158</u>	<u>531,576</u>
Expenditures				
Current				
General government				
City council	95,999	95,999	84,868	11,131
City manager	426,116	456,444	428,597	27,847
Human resources	1,733,313	1,733,313	1,510,335	222,978
Finance	198,339	198,339	193,062	5,277
Information technology	455,751	455,751	392,619	63,132
Legal	387,178	387,178	384,177	3,001
City clerk	421,948	236,844	211,840	25,004
Community development	1,489,615	1,489,615	1,366,142	123,473
Magistrate court	313,761	313,761	307,416	6,345
Non-departmental	<u>3,151,920</u>	<u>3,151,920</u>	<u>2,316,231</u>	<u>835,689</u>
Total general government	<u>8,673,940</u>	<u>8,519,164</u>	<u>7,195,287</u>	<u>1,323,877</u>
Public safety				
Police	<u>2,699,124</u>	<u>2,699,124</u>	<u>2,545,834</u>	<u>153,290</u>
Total public safety	<u>2,699,124</u>	<u>2,699,124</u>	<u>2,545,834</u>	<u>153,290</u>
Highways and streets				
Public works	<u>335,178</u>	<u>335,178</u>	<u>321,667</u>	<u>13,511</u>
Total highways and streets	<u>335,178</u>	<u>335,178</u>	<u>321,667</u>	<u>13,511</u>
Culture and recreation				
Parks & recreation	570,592	725,368	688,796	36,572
Arts and culture	<u>282,617</u>	<u>282,617</u>	<u>273,692</u>	<u>8,925</u>
Total culture and recreation	<u>853,209</u>	<u>1,007,985</u>	<u>962,488</u>	<u>45,497</u>
Debt Service				
Principal retirement	-	-	310,000	(310,000)
Interest on long-term debt	-	-	239,540	(239,540)
Total Expenditures	<u>12,561,451</u>	<u>12,561,451</u>	<u>11,574,816</u>	<u>986,635</u>
Excess (deficiency) of revenues over expenditures	<u>(1,438,869)</u>	<u>(1,438,869)</u>	<u>79,342</u>	<u>1,518,211</u>
Other financing sources (uses)				
Transfers in	50,000	50,000	133,313	83,313
Transfers out	<u>(138,041)</u>	<u>(138,041)</u>	<u>(102,662)</u>	<u>35,379</u>
Total other financing sources (uses)	<u>(88,041)</u>	<u>(88,041)</u>	<u>30,651</u>	<u>118,692</u>
Net change in fund balances	(1,526,910)	(1,526,910)	109,993	1,636,903
Fund balances, beginning of year	<u>1,526,910</u>	<u>1,526,910</u>	<u>10,163,442</u>	<u>8,636,532</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,273,435</u>	<u>\$ 10,273,435</u>

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

CITY OF SEDONA, ARIZONA
HURF FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Intergovernmental	\$ 1,028,554	\$ 1,097,727	\$ 69,173
Investment earnings	65,000	106,097	41,097
Other	<u>-</u>	<u>15,592</u>	<u>15,592</u>
Total Revenues	<u>1,093,554</u>	<u>1,219,416</u>	<u>125,862</u>
Expenditures			
Current			
Highways and streets	<u>1,743,812</u>	<u>1,339,397</u>	<u>404,415</u>
Total Expenditures	<u>1,743,812</u>	<u>1,339,397</u>	<u>404,415</u>
Excess (deficiency) of revenues over expenditures	(650,258)	(119,981)	530,277
Fund balances, beginning of year	<u>650,258</u>	<u>2,546,580</u>	<u>1,896,322</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 2,426,599</u>	<u>\$ 2,426,599</u>

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

CITY OF SEDONA, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	<u>Business-type Activities - Enterprise Fund</u>	<u>Governmental Activities - Internal Service Fund</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 31,488,728	\$ -
Cash with paying agent	4,536,008	-
Receivables, net		
Accounts receivable	437,099	-
Capacity fees receivable	113,268	-
Intergovernmental receivable	1,325,556	-
Interest receivable	37,519	-
Deferred charges	1,062,870	-
Restricted assets	<u>1,014,888</u>	<u>-</u>
Total current assets	<u>40,015,936</u>	<u>-</u>
Noncurrent assets		
Capital assets		
Non-depreciable	11,159,413	-
Depreciable (net)	<u>76,067,039</u>	<u>-</u>
Total noncurrent assets	<u>87,226,452</u>	<u>-</u>
Total assets	<u>127,242,388</u>	<u>-</u>
Liabilities		
Current liabilities		
Accounts payable	260,171	-
Accrued wages and benefits	29,439	-
Interest payable	5,514,777	-
Unearned revenue	1,180,899	-
Matured debt principal payable	3,321,162	-
Compensated absences	18,284	-
Bonds, notes and loans payable	<u>3,311,161</u>	<u>-</u>
Total current liabilities	<u>13,635,893</u>	<u>-</u>
Noncurrent liabilities		
Compensated absences	1,590	-
Bonds, notes and loans payable	<u>56,232,611</u>	<u>-</u>
Total noncurrent liabilities	<u>56,234,201</u>	<u>-</u>
Total liabilities	<u>69,870,094</u>	<u>-</u>
Net assets		
Invested in capital assets, net of related debt	31,881,724	-
Restricted for		
Renewal and replacement	587,477	-
Unrestricted	<u>24,903,093</u>	<u>-</u>
Total net assets	<u>\$ 57,372,294</u>	<u>\$ -</u>

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

CITY OF SEDONA, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
Operating revenues		
Charges for services	\$ <u>3,271,863</u>	\$ <u>-</u>
Total operating revenues	<u>3,271,863</u>	<u>-</u>
Operating expenses		
Costs of sales and services	2,423,382	-
Administration	-	8
Depreciation	<u>1,925,635</u>	<u>-</u>
Total operating expenses	<u>4,349,017</u>	<u>8</u>
Operating income (loss)	<u>(1,077,154)</u>	<u>(8)</u>
Nonoperating revenues (expenses)		
Taxes	5,683,318	-
Capacity fees	417,542	-
Investment earnings	1,423,139	6,663
Interest on long-term debt	(3,333,202)	-
Issuance costs	(119,916)	-
Miscellaneous nonoperating revenues	<u>7,026</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>4,077,907</u>	<u>6,663</u>
Income (loss) before contributions and transfers	3,000,753	6,655
Transfers out	<u>-</u>	<u>(133,313)</u>
Change in net assets	3,000,753	(126,658)
Total net assets, beginning of year	<u>54,371,541</u>	<u>126,658</u>
Total net assets, end of year	<u>\$ 57,372,294</u>	<u>\$ -</u>

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

CITY OF SEDONA, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - <u>Enterprise Fund</u>	Governmental Activities - Internal <u>Service Funds</u>
Cash flows from operating activities		
Receipts from customers	\$ 3,271,306	\$ -
Payments to suppliers	(1,040,105)	(8)
Payments to employees	(1,101,373)	-
Capacity fees	335,014	-
Other receipts	<u>7,026</u>	<u>-</u>
Net cash flows from operating activities	<u>1,471,868</u>	<u>(8)</u>
Cash flows from noncapital financing activities		
Transfers out	-	(133,313)
Tax receipts	<u>5,683,318</u>	<u>-</u>
Net cash flows from noncapital financing activities	<u>5,683,318</u>	<u>(133,313)</u>
Cash flows from capital and financing activities		
Proceeds from capital debt	9,380,558	-
Purchases of capital assets	(4,865,682)	-
Issuance costs paid	(215,558)	-
Principal paid on capital debt	(2,316,161)	-
Interest paid on capital debt	(2,710,923)	-
Intergovernmental payments received	<u>201,159</u>	<u>-</u>
Net cash flows from capital and financing activities	<u>(526,607)</u>	<u>-</u>
Cash flows from investing activities		
Investment loss (net)	<u>1,429,446</u>	<u>7,105</u>
Net cash flows from investing activities	<u>1,429,446</u>	<u>7,105</u>
Net change in cash and cash equivalents	8,058,025	(126,216)
Cash and cash equivalents, beginning of year	<u>28,981,599</u>	<u>126,216</u>
Cash and cash equivalents, end of year	<u>\$ 37,039,624</u>	<u>\$ -</u>
Reconciliation of cash and cash equivalents to the statement of net assets		
Cash and cash equivalents	\$ 31,488,728	\$ -
Cash with paying agent	4,536,008	-
Restricted assets	<u>1,014,888</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 37,039,624</u>	<u>\$ -</u>

(Continued)

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

CITY OF SEDONA, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
(Concluded)		
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (1,077,154)	\$ (8)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	1,925,635	-
Capacity fees	335,014	-
Nonoperating receipts (payments)	7,026	-
Change in assets/liabilities:		
Receivables, net	(557)	-
Accounts payable	251,553	-
Accrued payroll and related benefits	29,439	-
Compensated absences	912	-
Net cash provided by operating activities	\$ 1,471,868	\$ (8)

Noncash Investing, Capital and Financing Activities

During the fiscal year ended June 30, 2008, the City amortized \$178,514 of deferred amounts on the refunding, \$119,916 of issue costs and \$258,631 of bond premiums.

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

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CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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.

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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 nonfiduciary 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.

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.

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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.

The City reports the following major governmental funds:

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.

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.

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund type:

The *Internal Service Fund* consists of the City of Sedona, Arizona Employee Benefit Plan. It accounts for the City's limited risk self-insurance program for employee and dependant medical care.

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.

Amounts reported as program revenues include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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. The principal operating revenues of the internal service fund are charges to other funds. Operating expenses for the internal service fund include the cost of insurance premiums and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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.

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, 2008 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.

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.

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

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.

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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.

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).

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

4. Expenditures may not legally exceed the expenditure limitation described below of all fund types as a whole. 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 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.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2008 consist of the following:

Deposits	
Cash on hand	\$ 1,450
Cash in bank	5,056,274
Cash on deposit with paying agent	5,176,041
Investments	
U.S. Government Securities	427,411
State Treasurer's Investment Pool	45,883,854
U.S. Treasury Notes	<u>8,307,160</u>
Total deposits and investments	64,852,190
Cash with paying agent	(5,176,041)
Restricted assets	<u>(1,014,888)</u>
Total cash and equivalents	<u>\$ 58,661,261</u>

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Deposits - The City's deposits at June 30, 2008, 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 \$45,883,854 in the State Treasurer's Local Government Investment Pool, \$8,307,160 in U.S. Treasury Bills and \$427,411 in U.S. government securities which are held by the trustee in the City's name, and are reflected in each applicable fund.

Credit risk. The City does not have a policy related to credit risk. The City's deposits and investments consist of insured or collateralized deposits and investments in U.S. Government Securities, 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.

2. Restricted assets

Restricted assets in the Enterprise Fund at June 30, 2008 consisted of the following:

Current debt service	\$ 427,411
Replacement and extension	<u>587,477</u>
	<u>\$ 1,014,888</u>

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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, 2008, the remaining balance of the agreement was \$1,325,556. Future year benefits to be received by the City under this agreement are as follows:

Year Ending June 30:	<u>Wastewater Fund</u>
2009	\$ 187,921
2010	174,127
2011	159,755
2012	144,780
2013	129,177
2014-18	387,930
2019-22	<u>141,866</u>
	<u>\$ 1,325,556</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)	\$ -	\$ 198,328
Cash payments not meeting all eligibility requirements (Capital Improvement Fund)	829,066	-
Cash payments not meeting all eligibility requirements (Nonmajor Governmental Funds)	675	-
Special assessments not yet due (Nonmajor Governmental Funds)	<u>157,713</u>	<u>-</u>
	<u>\$ 987,454</u>	<u>\$ 198,328</u>

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

4. Capital assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ <u>6,980,501</u>	\$ <u>-</u>	\$ <u>(20,000)</u>	\$ <u>6,960,501</u>
Total capital assets, not being depreciated	<u>6,980,501</u>	<u>-</u>	<u>(20,000)</u>	<u>6,960,501</u>
Capital assets being depreciated:				
Land improvements	3,366,811	50,546	-	3,417,357
Buildings and improvements	5,722,927	844,174	-	6,567,101
Machinery, equipment and vehicles	3,941,013	568,528	(85,879)	4,423,662
Infrastructure	<u>16,721,331</u>	<u>1,295,998</u>	<u>-</u>	<u>18,017,329</u>
Total capital assets being depreciated	<u>29,752,082</u>	<u>2,759,246</u>	<u>(85,879)</u>	<u>32,425,449</u>
Less accumulated depreciation for:				
Land improvements	(748,509)	(92,304)	-	(840,813)
Buildings and improvements	(1,204,111)	(219,819)	-	(1,423,930)
Machinery, equipment and vehicles	(2,763,155)	(432,933)	85,084	(3,111,004)
Infrastructure	<u>(2,843,224)</u>	<u>(878,487)</u>	<u>-</u>	<u>(3,721,711)</u>
Total accumulated depreciation	<u>(7,558,999)</u>	<u>(1,623,543)</u>	<u>85,084</u>	<u>(9,097,458)</u>
Total capital assets, being depreciated, net	<u>22,193,083</u>	<u>1,135,703</u>	<u>(795)</u>	<u>23,327,991</u>
Governmental activities capital assets, net	<u>\$ 29,173,584</u>	<u>\$ 1,135,703</u>	<u>\$ (20,795)</u>	<u>\$ 30,288,492</u>

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ <u>11,159,413</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>11,159,413</u>
Total capital assets, not being depreciated	<u>11,159,413</u>	<u>-</u>	<u>-</u>	<u>11,159,413</u>
Capital assets being depreciated:				
Wastewater system	90,935,625	4,734,430	-	95,670,055
Machinery, equipment and vehicles	<u>1,163,679</u>	<u>131,252</u>	<u>-</u>	<u>1,294,931</u>
Total capital assets being depreciated	<u>92,099,304</u>	<u>4,865,682</u>	<u>-</u>	<u>96,964,986</u>
Less accumulated depreciation for:				
Wastewater system	(18,387,586)	(1,755,023)	-	(20,142,609)
Machinery, equipment and vehicles	<u>(584,726)</u>	<u>(170,612)</u>	<u>-</u>	<u>(755,338)</u>
Total accumulated depreciation	<u>(18,972,312)</u>	<u>(1,925,635)</u>	<u>-</u>	<u>(20,897,947)</u>
Total capital assets, being depreciated, net	<u>73,126,992</u>	<u>2,940,047</u>	<u>-</u>	<u>76,067,039</u>
Business-type activities capital assets, net	<u>\$ 84,286,405</u>	<u>\$ 2,940,047</u>	<u>\$ -</u>	<u>\$ 87,226,452</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 407,027
Public safety	203,786
Highways and streets	894,147
Culture and recreation	<u>118,583</u>
Total depreciation expense-governmental activities	<u>\$ 1,623,543</u>
Business-type Activities:	
Wastewater	<u>\$ 1,925,635</u>

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

B. Interfund receivables, payables and transfers

As of June 30, 2008, interfund receivable and payables were as follows:

	Due From
Due to	Nonmajor Governmental Funds
General Fund	\$ <u>89,923</u>

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, 2008 consisted of the following:

	Transfers Out			
Transfers In	General Fund	Capital Improvement Fund	Internal Service Fund	Total
General Fund	\$ -	\$ -	\$ 133,313	\$ 133,313
Capital Improvement Fund	76,168	-	-	76,168
Nonmajor Governmental Funds	<u>26,494</u>	<u>364,899</u>	<u>-</u>	<u>391,393</u>
	<u>\$ 102,662</u>	<u>\$ 364,899</u>	<u>\$ 133,313</u>	<u>\$ 600,874</u>

Transfers were recorded from the General Fund, the Capital Improvement Fund, and Internal Service Fund 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 and transfer the internal service fund into the General Fund.

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

C. 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 Subordinate Lien Revenue Bonds, Series 1990. 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 13.5 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$4,859,025. Principal and interest paid for the current year and total excise taxes were \$476,035 and \$10,076,241, respectively.

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, 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 13.5 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$14,844,644. Principal and interest paid for the current year and total excise taxes were \$239,540 and \$10,076,241, respectively.

The City has pledged assessed taxes for each of the homeowners within the District to repay \$2.5 million in governmental special assessments obligations issued in 1993. Special Assessment districts are created only by petition of the City Council by property owners within the District areas. In case of default, the City has the responsibility to cover delinquencies of special assessment bonds from other sources until foreclosure proceeds are received. Proceeds of the bonds provided financing for improvements in the Jordan Park Improvement District. The bonds are payable solely from excise taxes and are payable through 2009. Annual principal and interest payments on the bonds are expected to require less than 13.5 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$267,475. Principal and interest paid for the current year and total assessed taxes were \$261,850 and \$203,172, respectively.

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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 3.9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$38,495,681. Principal and interest paid for the current year and total excise taxes were \$652,990 and \$5,683,318, 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 3.9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,156,503. Principal and interest paid for the current year and total excise taxes were \$289,678 and \$5,683,318, 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 3.9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$9,584,250. Principal and interest paid for the current year and total excise taxes were \$2,383,000 and \$5,683,318, respectively.

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 3.9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$18,336,200. Principal and interest paid for the current year and total excise taxes were \$664,850 and \$5,683,318, respectively.

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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 3.9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$16,334,600. Principal and interest paid for the current year and total excise taxes were \$530,088 and \$5,683,318, 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 drainage and 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 3.9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$10,135,300. Principal and interest paid for the current year and total excise taxes were \$1,123,206 and \$5,683,318, 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 3.9 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,106,376. Principal and interest paid for the current year and total excise taxes were \$173,071 and \$5,683,318, respectively.

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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

<u>Description</u>	<u>Interest Rate (%)</u>	<u>Maturity</u>	<u>Amount</u>
Governmental activities:			
Revenue Bonds			
Excise tax revenue obligations, Second Series 2004; original issue \$4,555,000	2.25-4.0	7/1/09-19	\$ 3,845,000
Excise tax revenue obligations, Series 2007; original issue \$8,795,000	4.0-5.0	7/1/09-27	<u>8,795,000</u>
Total Revenue Bonds			<u>\$ 12,640,000</u>
Special Assessment Bonds			
Jordan Park Improvement District, Series 1993; original issue \$2,500,000	5.75	1/1/08-09	<u>\$ 260,000</u>
Business-type activities:			
Revenue Bonds			
Excise tax revenue obligations, Series 1998; original issue \$41,035,000	4.45-4.75	7/1/07-27	\$ 15,540,000
Excise tax revenue obligations, Series 2002; original issue \$2,795,000	4.0-4.45	7/1/07-12	1,040,000
Excise tax revenue obligations, Series 2004; original issue \$14,470,000	5.0	7/1/07-12	8,495,000
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	3.0-5.25	7/1/09-19	11,140,000
Excise tax revenue obligations, Series 2007; original issue \$9,120,000	4.0-5.0	7/1/09-27	<u>8,225,000</u>
Total Revenue Bonds			<u>\$ 58,300,000</u>
Loans			
Water Infrastructure Authority Loan (WIFA) for the construction and improvements of the wastewater system; original issue \$2,000,000	4.0	7/1/07-15	<u>\$ 848,128</u>

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Changes in long-term obligations for the year ended June 30, 2008 are as follows:

	<u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2008</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds payable:					
Revenue bonds	\$ 4,155,000	\$ 8,795,000	\$ (310,000)	\$ 12,640,000	\$ 320,000
Special assessment debt with government commitment	<u>500,000</u>	<u>-</u>	<u>(240,000)</u>	<u>260,000</u>	<u>260,000</u>
	4,655,000	8,795,000	(550,000)	12,900,000	580,000
Deferred amounts:					
On refunding	(564,412)	-	47,253	(517,159)	-
Premium	<u>309,157</u>	<u>15,604</u>	<u>(26,543)</u>	<u>298,218</u>	<u>-</u>
Total bonds payable	<u>4,399,745</u>	<u>8,810,604</u>	<u>(529,290)</u>	<u>12,681,059</u>	<u>580,000</u>
Other liabilities:					
Compensated absences	<u>241,236</u>	<u>216,210</u>	<u>(221,937)</u>	<u>235,509</u>	<u>216,670</u>
Governmental activities long-term liabilities	<u>\$ 4,640,981</u>	<u>\$ 9,026,814</u>	<u>\$ (751,227)</u>	<u>\$ 12,916,568</u>	<u>\$ 796,670</u>
Business-type Activities:					
Bonds payable:					
Revenue bonds	\$ 52,380,000	\$ 9,120,000	\$ (3,200,000)	\$ 58,300,000	\$ 3,190,000
Loan	<u>969,290</u>	<u>-</u>	<u>(121,162)</u>	<u>848,128</u>	<u>121,161</u>
	53,349,290	9,120,000	(3,321,162)	59,148,128	3,311,161
Deferred amounts:					
On refunding	(1,841,564)	-	178,514	(1,663,050)	-
Premium	<u>2,056,767</u>	<u>260,558</u>	<u>(258,631)</u>	<u>2,058,694</u>	<u>-</u>
Total bonds payable	<u>53,564,493</u>	<u>9,380,558</u>	<u>(3,401,279)</u>	<u>59,543,772</u>	<u>3,311,161</u>
Other liabilities:					
Compensated absences	<u>18,962</u>	<u>18,357</u>	<u>(17,445)</u>	<u>19,874</u>	<u>18,284</u>
Business-type activities long-term liabilities	<u>\$ 53,583,455</u>	<u>\$ 9,398,915</u>	<u>\$ (3,418,724)</u>	<u>\$ 59,563,646</u>	<u>\$ 3,329,445</u>

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Debt service requirements on long-term debt at June 30, 2008 are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 580,000	\$ 570,616	\$ 3,311,161	\$ 1,904,507
2010	325,000	553,541	3,461,161	1,758,168
2011	340,000	542,979	3,616,162	1,604,407
2012	355,000	531,079	3,776,161	1,442,708
2013	330,000	517,766	1,031,161	1,272,759
2014-18	2,510,000	2,338,881	24,332,322	4,844,207
2019-22	4,455,000	1,550,606	9,255,000	14,360,313
2024-28	<u>4,005,000</u>	<u>465,675</u>	<u>10,365,000</u>	<u>4,310,738</u>
	<u>\$ 12,900,000</u>	<u>\$ 7,071,143</u>	<u>\$ 59,148,128</u>	<u>\$ 31,497,807</u>

During the year ended June 30, 2008, the City issued \$17,915,000 in Excise Tax Revenue Obligations bonds, with an average interest rate of 4.5294 percent. The net proceeds were \$17,745,000 (after payment of \$446,162 in underwriting fees, insurance, and other issuance costs), of which \$8,795,000 (after payment of \$230,604 in underwriting fees, insurance, and other issuance costs) will be used for governmental purposes and \$9,165,000 (after payment of \$215,558 in underwriting fees, insurance, and other issuance costs) will be used for business-type purposes. The bonds will be used to finance improvements to State Route 179, the main access route to the City and drainage and related sewer improvements within the City.

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, 2008, the amount of defeased debt outstanding but removed from the City's financial statements was \$36,830,000.

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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.

The City also previously established the City of Sedona, Arizona Employee Benefit Plan (an internal service fund) to account for and finance the City's uninsured risks of loss for certain health and welfare benefits to eligible employees and their dependents. The City cancelled this program on January 1, 2007. The fund remained active from January 1, 2007 through June 30, 2008 to account for activity occurring during the fiscal year 2007-2008 for prior liabilities and future premiums. The balance was transferred to the General Fund at June 30, 2008.

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 THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

C. Subsequent events

Subsequent to June 30, 2008, the City incurred a loss of \$310,182 on investments in the State Treasurer's Local Government Investment Pool 5 due to Lehman Brothers Holding Inc. filing for Chapter 11 reorganization. The loss was incurred subsequent to June 30, 2008 and will be reflected in the next fiscal year.

D. 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, 2008, active plan members were required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent for retirement and 0.5 percent 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 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll.

	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
Years ended June 30,			
2008	356,040	46,453	22,122
2007	307,948	40,178	19,134
2006	243,756	31,803	15,146

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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 7.65 percent 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 11.56 percent of annual covered payroll.

Annual Pension Cost - During the year ended June 30, 2007 (the date of the last available information), the City of Sedona, Arizona's annual pension cost of \$136,583 for police was equal to the City of Sedona, Arizona's required and actual contributions.

The required contribution was determined as part of the June 30, 2007 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, 2007, the most recent actuarial valuation date, the plan was 72.9 percent funded. The actuarial accrued liability for benefits was \$3.4 million, and the actuarial value of assets was \$4.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.3 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 75.6 percent.

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.

CITY OF SEDONA, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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, 2007 was 20 years.

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

Three-Year Trend Information

Police

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percent</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2005	\$ 150,559	100 %	\$ -
2006	132,833	100 %	-
2007	136,583	100 %	-

Additional historical trend information for the City's PSPRS is disclosed on page 67.

Historical trend information is presented 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

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over(Under)f unded AAL	Annual Covered Payroll	Over(Under) funded AAL as a Percentage of Covered Payroll
2005	\$ 2,844,677	\$ 3,304,487	86.1 %	\$ (459,810)	\$1,347,467	(34.1)%
2006	3,210,641	3,832,902	83.8	(622,261)	1,534,115	(40.6)
2007	3,407,691	4,676,898	72.9	(1,269,207)	1,679,734	(75.6)

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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
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2008

	Special Revenue						Total
	Grants	Summit II CFD	Fairfield CFD	Property Management	Arts	Carruth	
Assets							
Cash and cash equivalents	\$ 100	\$ 552,562	\$ 607,444	\$ 136,121	\$ 118,123	\$ 2,276	\$ 1,416,626
Cash with paying agent	-	-	-	-	-	-	-
Receivables, net							
Intergovernmental receivable	275,054	-	-	-	-	-	275,054
Special assessments receivable	-	-	-	-	-	-	-
Interest receivable	<u>2</u>	<u>630</u>	<u>1,922</u>	<u>286</u>	<u>193</u>	<u>-</u>	<u>3,033</u>
Total assets	<u>\$ 275,156</u>	<u>\$ 553,192</u>	<u>\$ 609,366</u>	<u>\$ 136,407</u>	<u>\$ 118,316</u>	<u>\$ 2,276</u>	<u>\$ 1,694,713</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 88,192	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 88,192
Accrued wages and benefits	8,443	129	488	-	-	-	9,060
Interest payable	-	-	-	-	-	-	-
Due to other funds	89,923	-	-	-	-	-	89,923
Deferred revenue	<u>675</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>675</u>
Total liabilities	<u>187,233</u>	<u>129</u>	<u>488</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>187,850</u>
Fund balances							
Unreserved	<u>87,923</u>	<u>553,063</u>	<u>608,878</u>	<u>136,407</u>	<u>118,316</u>	<u>2,276</u>	<u>1,506,863</u>
Total fund balances	<u>87,923</u>	<u>553,063</u>	<u>608,878</u>	<u>136,407</u>	<u>118,316</u>	<u>2,276</u>	<u>1,506,863</u>
Total liabilities and fund balances	<u>\$ 275,156</u>	<u>\$ 553,192</u>	<u>\$ 609,366</u>	<u>\$ 136,407</u>	<u>\$ 118,316</u>	<u>\$ 2,276</u>	<u>\$ 1,694,713</u>

Debt Service	Capital Projects			Total Nonmajor Governmental Funds
	Special Improvement District	Development Impact Fees	Information Systems	
\$ 224,615	\$ 2,706,074	\$ -	\$ 2,706,074	\$ 4,347,315
7,475	-	-	-	7,475
-	-	-	-	275,054
158,085	-	-	-	158,085
<u>523</u>	<u>4,389</u>	<u>-</u>	<u>4,389</u>	<u>7,945</u>
<u>\$ 390,698</u>	<u>\$ 2,710,463</u>	<u>\$ -</u>	<u>\$ 2,710,463</u>	<u>\$ 4,795,874</u>
\$ -	\$ -	\$ -	\$ -	\$ 88,192
-	-	262	262	9,322
7,475	-	-	-	7,475
-	-	-	-	89,923
<u>157,713</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>158,388</u>
<u>165,188</u>	<u>-</u>	<u>262</u>	<u>262</u>	<u>353,300</u>
<u>225,510</u>	<u>2,710,463</u>	<u>(262)</u>	<u>2,710,201</u>	<u>4,442,574</u>
<u>225,510</u>	<u>2,710,463</u>	<u>(262)</u>	<u>2,710,201</u>	<u>4,442,574</u>
<u>\$ 390,698</u>	<u>\$ 2,710,463</u>	<u>\$ -</u>	<u>\$ 2,710,463</u>	<u>\$ 4,795,874</u>

CITY OF SEDONA, ARIZONA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FISCAL YEAR ENDED JUNE 30, 2008

	Special Revenue						Total
	Grants	Summit II CFD	Fairfield CFD	Property Management	Arts	Carruth	
Revenues							
Taxes							
Special CFD tax	\$ -	\$ 170,893	\$ 133,359	\$ -	\$ -	\$ -	\$ 304,252
Intergovernmental	770,298	-	-	-	-	-	770,298
Rents and royalties	-	-	-	515	-	-	515
Contributions and donations	671	-	-	-	-	-	671
Impact fees	-	-	-	-	-	-	-
Special assessments	-	-	-	-	-	-	-
Investment earnings/loss	(2)	16,203	23,445	5,338	4,407	-	49,391
Other	-	-	-	-	-	60	60
Total Revenues	<u>770,967</u>	<u>187,096</u>	<u>156,804</u>	<u>5,853</u>	<u>4,407</u>	<u>60</u>	<u>1,125,187</u>
Expenditures							
Current							
General government	29,409	47,264	73,402	138	-	-	150,213
Public safety	757,507	-	7,425	-	-	-	764,932
Highways and streets	4,992	-	-	-	-	-	4,992
Culture and recreation	815	-	-	-	1,215	-	2,030
Debt Service							
Principal retirement	-	-	-	-	-	-	-
Interest on long-term debt	-	-	-	-	-	-	-
Total Expenditures	<u>792,723</u>	<u>47,264</u>	<u>80,827</u>	<u>138</u>	<u>1,215</u>	<u>-</u>	<u>922,167</u>
Excess (deficiency) of revenues over expenditures	<u>(21,756)</u>	<u>139,832</u>	<u>75,977</u>	<u>5,715</u>	<u>3,192</u>	<u>60</u>	<u>203,020</u>
Other financing sources (uses)							
Transfers in	26,494	-	-	-	10,962	-	37,456
Total other financing sources (uses)	<u>26,494</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,962</u>	<u>-</u>	<u>37,456</u>
Net change in fund balances	4,738	139,832	75,977	5,715	14,154	60	240,476
Fund balances, beginning of year	<u>83,185</u>	<u>413,231</u>	<u>532,901</u>	<u>130,692</u>	<u>104,162</u>	<u>2,216</u>	<u>1,266,387</u>
Fund balances, end of year	<u>\$ 87,923</u>	<u>\$ 553,063</u>	<u>\$ 608,878</u>	<u>\$ 136,407</u>	<u>\$ 118,316</u>	<u>\$ 2,276</u>	<u>\$ 1,506,863</u>

Debt Service	Capital Projects			
Special Improvement District	Development Impact Fees	Information Systems	Total	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 304,252
-	-	-	-	770,298
-	-	-	-	515
-	-	-	-	671
-	364,474	-	364,474	364,474
203,172	-	-	-	203,172
10,219	98,336	-	98,336	157,946
-	-	-	-	60
<u>213,391</u>	<u>462,810</u>	<u>-</u>	<u>462,810</u>	<u>1,801,388</u>
-	21,903	177,365	199,268	349,481
-	19,606	172,943	192,549	957,481
-	65,086	3,891	68,977	73,969
-	5,519	-	5,519	7,549
240,000	-	-	-	240,000
<u>22,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,676</u>
<u>262,676</u>	<u>112,114</u>	<u>354,199</u>	<u>466,313</u>	<u>1,651,156</u>
<u>(49,285)</u>	<u>350,696</u>	<u>(354,199)</u>	<u>(3,503)</u>	<u>150,232</u>
-	-	<u>353,937</u>	<u>353,937</u>	<u>391,393</u>
-	-	<u>353,937</u>	<u>353,937</u>	<u>391,393</u>
(49,285)	350,696	(262)	350,434	541,625
<u>274,795</u>	<u>2,359,767</u>	<u>-</u>	<u>2,359,767</u>	<u>3,900,949</u>
<u>\$ 225,510</u>	<u>\$ 2,710,463</u>	<u>\$ (262)</u>	<u>\$ 2,710,201</u>	<u>\$ 4,442,574</u>

CITY OF SEDONA, ARIZONA
 CAPITAL IMPROVEMENT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FISCAL YEAR ENDED JUNE 30, 2008

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Taxes			
Sales taxes	\$ 1,761,442	\$ 2,059,173	\$ 297,731
Intergovernmental	7,785,000	296,373	(7,488,627)
Investment earnings	95,000	223,618	128,618
Other	-	5,371	5,371
Total Revenues	<u>9,641,442</u>	<u>2,584,535</u>	<u>(7,056,907)</u>
Expenditures			
Current			
General government	5,664,274	868,133	4,796,141
Public safety	273,500	160,364	113,136
Highways and streets	12,759,557	1,180,388	11,579,169
Culture and recreation	40,000	-	40,000
Debt Service			
Issuance costs	-	230,604	(230,604)
Total Expenditures	<u>18,737,331</u>	<u>2,439,489</u>	<u>16,297,842</u>
Excess (deficiency) of revenues over expenditures	<u>(9,095,889)</u>	<u>145,046</u>	<u>9,240,935</u>
Other financing sources (uses)			
Transfers in	118,041	76,168	(41,873)
Transfers out	(478,301)	(364,899)	113,402
Issuance of long-term debt	8,800,000	8,810,604	10,604
Total other financing sources (uses)	<u>8,439,740</u>	<u>8,521,873</u>	<u>82,133</u>
Net change in fund balances	(656,149)	8,666,919	9,323,068
Fund balances, beginning of year	<u>656,149</u>	<u>1,258,948</u>	<u>602,799</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 9,925,867</u>	<u>\$ 9,925,867</u>

CITY OF SEDONA, ARIZONA
GRANTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Intergovernmental	\$ 3,386,623	\$ 770,298	\$ (2,616,325)
Contributions and donations	200	671	471
Investment earnings (loss)	-	(2)	(2)
Other	<u>205,000</u>	<u>-</u>	<u>(205,000)</u>
Total Revenues	<u>3,591,823</u>	<u>770,967</u>	<u>(2,820,856)</u>
Expenditures			
Current			
General government	2,423,462	29,409	2,394,053
Public safety	872,623	757,507	115,116
Highways and streets	335,000	4,992	330,008
Culture and recreation	<u>2,200</u>	<u>815</u>	<u>1,385</u>
Total Expenditures	<u>3,633,285</u>	<u>792,723</u>	<u>2,840,562</u>
Excess (deficiency) of revenues over expenditures	<u>(41,462)</u>	<u>(21,756)</u>	<u>19,706</u>
Other financing sources (uses)			
Transfers in	<u>-</u>	<u>26,494</u>	<u>26,494</u>
Total other financing sources (uses)	<u>-</u>	<u>26,494</u>	<u>26,494</u>
Net change in fund balances	(41,462)	4,738	46,200
Fund balances, beginning of year	<u>41,462</u>	<u>83,185</u>	<u>41,723</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 87,923</u>	<u>\$ 87,923</u>

CITY OF SEDONA, ARIZONA
SUMMIT II CFD FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes			
Special CFD tax	\$ 70,244	\$ 170,893	\$ 100,649
Investment earnings	<u>23,230</u>	<u>16,203</u>	<u>(7,027)</u>
Total Revenues	<u>93,474</u>	<u>187,096</u>	<u>93,622</u>
Expenditures			
Current			
General government	<u>91,788</u>	<u>47,264</u>	<u>44,524</u>
Total Expenditures	<u>91,788</u>	<u>47,264</u>	<u>44,524</u>
Excess (deficiency) of revenues over expenditures	1,686	139,832	138,146
Fund balances, beginning of year	<u>(1,686)</u>	<u>413,231</u>	<u>414,917</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 553,063</u>	<u>\$ 553,063</u>

CITY OF SEDONA, ARIZONA
 FAIRFIELD CFD FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FISCAL YEAR ENDED JUNE 30, 2008

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Taxes			
Special CFD tax	\$ 159,678	\$ 133,359	\$ (26,319)
Investment earnings	<u>26,101</u>	<u>23,445</u>	<u>(2,656)</u>
Total Revenues	<u>185,779</u>	<u>156,804</u>	<u>(28,975)</u>
Expenditures			
Current			
General government	115,934	73,402	42,532
Public safety	<u>-</u>	<u>7,425</u>	<u>(7,425)</u>
Total Expenditures	<u>115,934</u>	<u>80,827</u>	<u>35,107</u>
Excess (deficiency) of revenues over expenditures	69,845	75,977	6,132
Fund balances, beginning of year	<u>(69,845)</u>	<u>532,901</u>	<u>602,746</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 608,878</u>	<u>\$ 608,878</u>

CITY OF SEDONA, ARIZONA
PROPERTY MANAGEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Rents and royalties	\$ -	\$ 515	\$ 515
Investment earnings	<u>-</u>	<u>5,338</u>	<u>5,338</u>
Total Revenues	<u>-</u>	<u>5,853</u>	<u>5,853</u>
 Expenditures			
Current			
General government	<u>-</u>	<u>138</u>	<u>(138)</u>
Total Expenditures	<u>-</u>	<u>138</u>	<u>(138)</u>
Excess (deficiency) of revenues over expenditures	-	5,715	5,715
Fund balances, beginning of year	<u>-</u>	<u>130,692</u>	<u>130,692</u>
Fund balances, end of year	<u><u>-</u></u>	<u><u>136,407</u></u>	<u><u>136,407</u></u>

CITY OF SEDONA, ARIZONA
ARTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Investment earnings	\$ 3,000	\$ 4,407	\$ 1,407
Total Revenues	<u>3,000</u>	<u>4,407</u>	<u>1,407</u>
Expenditures			
Current			
Culture and recreation	50,000	1,215	48,785
Total Expenditures	<u>50,000</u>	<u>1,215</u>	<u>48,785</u>
Excess (deficiency) of revenues over expenditures	<u>(47,000)</u>	<u>3,192</u>	<u>50,192</u>
Other financing sources (uses)			
Transfers in	40,000	10,962	(29,038)
Total other financing sources (uses)	<u>40,000</u>	<u>10,962</u>	<u>(29,038)</u>
Net change in fund balances	(7,000)	14,154	21,154
Fund balances, beginning of year	<u>7,000</u>	<u>104,162</u>	<u>97,162</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 118,316</u>	<u>\$ 118,316</u>

CITY OF SEDONA, ARIZONA
 CARRUTH FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FISCAL YEAR ENDED JUNE 30, 2008

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues			
Investment earnings	\$ 100	\$ -	\$ (100)
Other	<u>-</u>	<u>60</u>	<u>60</u>
Total Revenues	<u>100</u>	<u>60</u>	<u>(40)</u>
Expenditures			
Current			
General government	<u>1,550</u>	<u>-</u>	<u>1,550</u>
Total Expenditures	<u>1,550</u>	<u>-</u>	<u>1,550</u>
Excess (deficiency) of revenues over expenditures	(1,450)	60	1,510
Fund balances, beginning of year	<u>1,450</u>	<u>2,216</u>	<u>766</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 2,276</u>	<u>\$ 2,276</u>

CITY OF SEDONA, ARIZONA
SPECIAL IMPROVEMENT DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Special assessments	\$ 261,850	\$ 203,172	\$ (58,678)
Investment earnings	900	10,219	9,319
Total Revenues	<u>262,750</u>	<u>213,391</u>	<u>(49,359)</u>
Expenditures			
Debt Service			
Principal retirement	240,000	240,000	-
Interest on long-term debt	<u>22,750</u>	<u>22,676</u>	<u>74</u>
Total Expenditures	<u>262,750</u>	<u>262,676</u>	<u>74</u>
Excess (deficiency) of revenues over expenditures	-	(49,285)	(49,285)
Fund balances, beginning of year	<u>-</u>	<u>274,795</u>	<u>274,795</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 225,510</u>	<u>\$ 225,510</u>

CITY OF SEDONA, ARIZONA
DEVELOPMENT IMPACT FEES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Impact fees	\$ 427,479	\$ 364,474	\$ (63,005)
Investment earnings	<u>51,333</u>	<u>98,336</u>	<u>47,003</u>
Total Revenues	<u>478,812</u>	<u>462,810</u>	<u>(16,002)</u>
Expenditures			
Current			
General government	50,000	21,903	28,097
Public safety	44,000	19,606	24,394
Highways and streets	456,500	65,086	391,414
Culture and recreation	<u>102,500</u>	<u>5,519</u>	<u>96,981</u>
Total Expenditures	<u>653,000</u>	<u>112,114</u>	<u>540,886</u>
Excess (deficiency) of revenues over expenditures	(174,188)	350,696	524,884
Fund balances, beginning of year	<u>174,188</u>	<u>2,359,767</u>	<u>2,185,579</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 2,710,463</u>	<u>\$ 2,710,463</u>

CITY OF SEDONA, ARIZONA
 INFORMATION SYSTEMS FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FISCAL YEAR ENDED JUNE 30, 2008

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Expenditures			
Current			
General government	\$ 199,086	\$ 177,365	\$ 21,721
Public safety	293,115	172,943	120,172
Highways and streets	<u>6,100</u>	<u>3,891</u>	<u>2,209</u>
Total Expenditures	<u>498,301</u>	<u>354,199</u>	<u>144,102</u>
Excess (deficiency) of revenues over expenditures	<u>(498,301)</u>	<u>(354,199)</u>	<u>144,102</u>
Other financing sources (uses)			
Transfers in	<u>498,301</u>	<u>353,937</u>	<u>(144,364)</u>
Total other financing sources (uses)	<u>498,301</u>	<u>353,937</u>	<u>(144,364)</u>
Net change in fund balances	-	(262)	(262)
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ (262)</u>	<u>\$ (262)</u>

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ENTERPRISE FUND

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

CITY OF SEDONA, ARIZONA
WASTEWATER ENTERPRISE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL (BUDGETARY BASIS)
FISCAL YEAR ENDED JUNE 30, 2008

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Charges for sales and services	\$ 3,735,159	\$ 3,271,863	\$ (463,296)
Capacity fees	238,750	417,542	178,792
Taxes	4,861,578	5,683,318	821,740
Interest	1,089,161	1,423,139	333,978
Other	1,500	7,026	5,526
Total Revenues	<u>9,926,148</u>	<u>10,802,888</u>	<u>876,740</u>
Expenditures			
Operation	3,120,002	2,423,382	696,620
Capital	14,132,253	4,865,682	9,266,571
Debt Service	-	5,769,280	(5,769,280)
Total Expenditures	<u>17,252,255</u>	<u>13,058,344</u>	<u>4,193,911</u>
Excess (deficiency) of revenues over expenditures	(7,326,107)	(2,255,456)	5,070,651
Other financing sources (uses)			
Issuance of long-term debt	<u>1,760,000</u>	<u>9,380,558</u>	<u>7,620,558</u>
Total other financing sources (uses)	<u>1,760,000</u>	<u>9,380,558</u>	<u>7,620,558</u>
Net change in fund balances	(5,566,107)	7,125,102	12,691,209
Beginning net assets	<u>10,561,345</u>	<u>36,025,931</u>	<u>25,464,586</u>
Ending net assets	<u>\$ 4,995,238</u>	<u>\$ 43,151,033</u>	<u>\$ 38,155,795</u>

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

Total revenues above	\$ 10,802,888
Nonoperating revenues	
Capacity fees	(417,542)
Taxes	(5,683,318)
Interest revenue	(1,423,139)
Other revenue	<u>(7,026)</u>
Total operating revenues per statement of revenues, expenses and changes in net assets	<u>\$ 3,271,863</u>
Total expenditures above	\$ 13,058,344
Capital outlay	(4,865,682)
Debt service costs not in operating expenses	(5,769,280)
Depreciation expense in operating expenses	<u>1,925,635</u>
Total operating expenses per statement of revenues, expenses and changes in net assets	<u>\$ 4,349,017</u>

STATISTICAL SECTION

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 SIX FISCAL YEARS
(ACCURAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
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
Restricted	2,555,706	2,574,064	-	10,154,808	7,469,407	7,688,303
Unrestricted	<u>16,813,296</u>	<u>16,120,102</u>	<u>20,462,779</u>	<u>10,915,131</u>	<u>11,297,441</u>	<u>11,844,887</u>
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>
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
Restricted	1,081,883	1,096,724	1,123,821	1,175,288	1,240,451	587,477
Unrestricted	<u>21,640,720</u>	<u>23,007,530</u>	<u>24,125,985</u>	<u>28,159,833</u>	<u>24,725,339</u>	<u>24,903,093</u>
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>
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
Restricted	3,637,589	3,670,788	1,123,821	11,330,096	8,709,858	8,275,780
Unrestricted	<u>38,454,016</u>	<u>39,127,632</u>	<u>44,588,764</u>	<u>39,074,964</u>	<u>36,022,780</u>	<u>36,747,980</u>
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>

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 SIX FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)
 (UNAUDITED)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Expenses						
Governmental activities:						
General government	\$ 4,459,562	\$ 6,248,305	\$ 7,025,659	\$ 7,645,680	\$ 7,881,431	\$ 7,600,727
Public safety	2,090,752	2,253,638	2,965,862	3,227,579	3,310,253	3,717,862
Highways and streets	1,003,069	1,848,067	2,194,094	2,360,817	3,307,737	2,449,337
Culture and recreation	245,989	148,340	497,465	648,177	789,371	1,058,508
Interest on long-term debt	82,610	72,119	60,907	96,414	256,297	309,469
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>
Business-type activities						
Wastewater	6,014,503	6,095,517	4,555,335	7,926,004	6,835,822	7,802,135
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>
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>
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
Public safety	12,492	14,901	14,211	12,282	9,257	52,491
Culture and recreation	42,361	34,253	36,728	30,646	39,557	40,590
Interest on long-term debt	-	-	47,620	38,704	26,735	17,340
Operating grants and contributions	1,343,015	1,383,327	2,053,940	2,124,857	1,923,645	1,844,555
Capital grants and contributions	241,663	1,968,924	367,035	783,213	523,562	550,975
Total governmental activities program revenues	<u>2,434,950</u>	<u>4,190,211</u>	<u>3,657,723</u>	<u>3,690,054</u>	<u>3,196,399</u>	<u>3,193,839</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
Total business-type activities program revenues	<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>
Total primary government program revenues	<u>\$ 6,745,795</u>	<u>\$ 8,317,206</u>	<u>\$ 6,851,116</u>	<u>\$ 10,042,522</u>	<u>\$ 7,295,046</u>	<u>\$ 6,890,270</u>

(continued)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
(Concluded)						
Net (expense)/revenue						
Governmental activities	\$ (5,447,032)	\$ (6,380,258)	\$ (9,086,264)	\$ (10,288,613)	\$ (12,348,690)	\$ (11,942,064)
Business-type activities	(1,703,658)	(1,968,522)	(1,361,942)	(1,573,536)	(2,737,175)	(4,105,704)
Total primary government net expense	<u>\$ (7,150,690)</u>	<u>\$ (8,348,780)</u>	<u>\$ (10,448,206)</u>	<u>\$ (11,862,149)</u>	<u>\$ (15,085,865)</u>	<u>\$ (16,047,768)</u>
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
Special CFD tax	128,527	178,613	189,610	239,402	248,220	304,252
Franchise taxes	521,916	560,683	564,575	591,055	640,752	667,237
State revenue sharing	1,084,746	919,006	936,926	1,067,096	1,241,513	1,538,883
State sales tax revenue sharing	797,094	857,455	944,190	1,082,364	1,039,344	1,004,970
Auto lieu tax revenue sharing	697,320	548,663	579,030	654,636	603,640	585,027
Impact fees	278,407	449,871	416,376	292,668	276,348	364,474
Grants and contributions not restricted	18,310	5,481	13,414	1,032	2,400	1,795
Investment earnings	(270,533)	147,336	446,834	880,958	1,044,373	1,021,475
Other	-	-	-	61,409	41,778	42,556
Transfers	-	-	130,000	-	-	-
Total governmental activities:	<u>9,358,954</u>	<u>10,168,706</u>	<u>10,779,285</u>	<u>13,226,918</u>	<u>13,571,351</u>	<u>14,101,829</u>
Business-type activities:						
Sales taxes	4,862,350	5,215,879	5,120,991	5,541,642	5,732,824	5,683,318
Investment earnings (loss)	(193,905)	257,470	638,993	1,048,673	1,493,451	1,423,139
Transfers	-	-	(130,000)	-	-	-
Total business-type activities	<u>4,668,445</u>	<u>5,473,349</u>	<u>5,629,984</u>	<u>6,590,315</u>	<u>7,226,275</u>	<u>7,106,457</u>
Total primary government	<u>\$ 14,027,399</u>	<u>\$ 15,642,055</u>	<u>\$ 16,409,269</u>	<u>\$ 19,817,233</u>	<u>\$ 20,797,626</u>	<u>\$ 21,208,286</u>
Change in Net Assets						
Governmental activities	\$ 3,911,922	\$ 3,788,448	\$ 1,693,021	\$ 2,938,305	\$ 1,222,661	\$ 2,159,765
Business-type activities	2,964,787	3,504,827	4,268,042	5,016,779	4,489,100	3,000,753
Total primary government	<u>\$ 6,876,709</u>	<u>\$ 7,293,275</u>	<u>\$ 5,961,063</u>	<u>\$ 7,955,084</u>	<u>\$ 5,711,761</u>	<u>\$ 5,160,518</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.

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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									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund										
Reserved	\$ 401,752	\$ -	\$ -	\$ 461,192	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	4,727,327	7,280,421	7,651,440	7,998,042	8,145,901	8,712,623	8,933,380	9,883,448	10,163,442	10,273,435
Total general fund	<u>\$ 5,129,079</u>	<u>\$ 7,280,421</u>	<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>
All other governmental funds										
Unreserved, reported in:										
Special revenue funds	\$ 1,003,052	\$ 1,377,850	\$ 1,477,394	\$ 1,983,629	\$ 2,414,316	\$ 2,941,405	\$ 3,264,350	\$ 3,541,602	\$ 3,812,967	\$ 3,933,462
Capital projects funds	573,597	1,910,669	2,821,513	4,408,751	5,764,629	7,198,101	6,942,683	6,452,272	3,618,715	12,636,068
Debt service funds	196,806	263,628	320,520	322,229	331,165	351,997	351,727	328,012	274,795	225,510
Total all other governmental funds	<u>\$ 1,773,455</u>	<u>\$ 3,552,147</u>	<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>

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									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues										
Taxes	\$ 5,611,528	\$ 6,235,585	\$ 6,412,899	\$ 6,546,144	\$ 6,753,610	\$ 7,240,894	\$ 7,312,515	\$ 9,186,755	\$ 9,321,955	\$ 9,542,649
Intergovernmental	3,805,676	4,564,793	4,186,482	4,816,666	4,506,257	5,630,606	4,845,240	5,549,374	5,115,368	5,302,778
Fines and forfeitures	160,977	128,061	161,434	155,966	169,143	190,270	168,953	216,431	324,562	368,785
Licenses and permits	257,393	219,479	245,529	256,225	234,908	233,951	230,797	186,037	192,882	164,807
Charges for services	177,387	159,391	189,037	189,300	144,997	161,231	546,461	144,563	153,751	154,194
Rents and royalties	-	-	-	-	-	-	178,646	58,222	47,796	2,077
Contributions and donations	-	-	-	-	-	-	17,569	170	5,000	1,424
Impact fees	-	-	-	-	-	-	416,376	292,668	276,348	364,474
Special assessments	309,875	308,541	294,081	251,908	271,817	279,565	252,155	221,518	197,125	203,172
Investment earnings (loss)	268,590	512,758	783,539	385,899	(267,334)	149,620	442,627	877,907	1,037,999	1,021,475
Other	286,946	603,272	719,415	952,967	501,968	638,928	64,271	199,436	45,244	133,662
Total revenues	<u>10,878,372</u>	<u>12,731,880</u>	<u>12,992,416</u>	<u>13,555,075</u>	<u>12,315,366</u>	<u>14,525,065</u>	<u>14,475,610</u>	<u>16,933,081</u>	<u>16,718,030</u>	<u>17,259,497</u>
Expenditures										
General government	4,084,489	4,189,356	4,367,100	4,989,797	6,246,402	6,329,143	6,777,168	7,977,384	8,292,797	8,412,901
Public safety	1,316,327	1,424,489	1,578,219	1,661,975	2,216,887	2,156,190	3,045,096	3,354,331	3,425,540	3,663,679
Highways and streets	1,280,652	1,164,015	1,538,961	1,209,486	1,859,282	2,499,340	3,153,340	3,977,627	5,783,445	2,915,421
Culture and recreation	433,946	448,315	669,248	671,143	699,563	730,158	640,865	646,384	807,619	970,037
Capital outlay	1,456,888	6,721,781	3,140,523	1,858,738	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-	-
Principal retirement	135,000	145,000	155,000	165,000	175,000	190,000	200,000	215,000	535,000	550,000
Interest on long-term debt	117,509	110,734	101,579	94,433	82,610	72,119	60,907	49,161	209,044	262,216
Issuance costs	-	-	-	20,787	-	-	100,495	-	-	230,604
Total expenditures	<u>8,824,811</u>	<u>14,203,690</u>	<u>11,550,630</u>	<u>10,671,359</u>	<u>11,279,744</u>	<u>11,976,950</u>	<u>13,977,871</u>	<u>16,219,887</u>	<u>19,053,445</u>	<u>17,004,858</u>
Excess of revenues over (under) expenditures	<u>2,053,561</u>	<u>(1,471,810)</u>	<u>1,441,786</u>	<u>2,883,716</u>	<u>1,035,622</u>	<u>2,548,115</u>	<u>497,739</u>	<u>713,194</u>	<u>(2,335,415)</u>	<u>254,639</u>

(continued)

(concluded)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Other financing sources (uses)										
Transfers in	605,171	330,883	1,924,881	1,522,280	1,062,104	412,946	362,337	422,475	467,376	600,874
Transfers out	(605,171)	(330,883)	(1,924,881)	(1,522,280)	(1,062,104)	(412,946)	(232,337)	(422,475)	(467,376)	(467,561)
Proceeds of refunding debt issuance	-	-	-	480,003	-	-	4,941,446	-	-	-
Proceeds of long-term debt issuance	-	5,401,970	-	-	-	-	-	-	-	8,810,604
Payment to refunded debt escrow agent	-	-	-	(459,216)	-	-	(5,281,171)	-	-	-
Total other financing sources (uses)	-	<u>5,401,970</u>	-	<u>20,787</u>	-	-	<u>(209,725)</u>	-	-	<u>8,943,917</u>
Net change in fund balance	\$ 2,053,561	\$ 3,930,160	\$ 1,441,786	\$ 2,904,503	\$ 1,035,622	\$ 2,548,115	\$ 288,014	\$ 713,194	\$ (2,335,415)	\$ 9,198,556
Debt service as a percentage of noncapital expenditures	3.4 %	3.4 %	3.1 %	3.2 %	2.3 %	2.2 %	2.6 %	1.6 %	3.9 %	7.3 %

Source: The City of Sedona, Arizona's Financial Services Department.
Note: The Town 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 & Use Taxes	Occupancy Taxes	Special CFD tax	Franchise taxes	Total
1999	\$ 3,873,450	\$ 1,370,978	\$ -	\$ 367,100	\$ 5,611,528
2000	4,444,744	1,334,790	18,050	438,001	6,235,585
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

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

Note: The Town 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									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Mining	\$ -	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ 38	\$ 586	\$ 2,009	\$ 64
Construction	1,055,606	1,022,087	1,453,937	1,527,420	1,816,845	1,936,993	1,540,425	1,783,265	2,089,324	2,179,423
Manufacturing	60,925	67,296	82,259	55,694	50,118	49,729	329,459	379,754	392,883	385,046
Transportation, communications and utilities	430,029	480,075	532,627	346,183	535,125	549,154	634,559	637,664	675,906	689,975
Wholesale trade	70,334	86,931	128,215	119,937	130,391	137,217	117,504	123,798	122,250	139,891
Retail trade	2,949,832	3,104,864	3,302,264	3,305,149	3,218,617	3,371,668	3,382,688	3,577,399	3,621,116	3,632,447
Restaurants and bars	1,016,629	1,102,201	1,180,289	1,219,331	1,206,365	1,384,725	1,452,812	1,625,205	1,644,280	1,812,673
Finance, insurance and real estate	547,375	530,988	558,782	591,556	587,967	617,143	838,876	923,366	873,166	974,352
Accommodations	2,300,305	2,393,416	2,544,992	2,481,417	2,456,622	2,660,291	2,908,781	3,191,717	3,498,901	3,871,275
Services	575,116	610,344	687,579	725,654	692,469	746,237	651,305	687,305	403,291	423,789
Public Administration	-	-	2,027	9,040	3,010	3,940	7,908	9,349	5,934	36,147
Other	26,739	37,456	26,281	20,553	53,064	38,574	234,221	22,470	168,299	464,840
Total	\$ 9,032,890	\$ 9,435,660	\$ 10,499,252	\$ 10,401,934	\$ 10,750,593	\$ 11,495,671	\$ 12,098,576	\$ 12,961,878	\$ 13,497,359	\$ 14,609,922
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.

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>
1999	3.00 %	5.50 %	5.80 %	5.00 %
2000	3.00	5.70	5.80	5.00
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

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			
1999	\$ -	\$ 700,000	\$ 316,106	\$ 1,975,000	\$ 61,185,000	\$ 1,880,680	\$ 2,510,000	\$ 68,566,786	22.75 %	\$ 6,898
2000	-	5,805,000	148,980	1,830,000	60,160,000	1,817,417	2,380,000	72,141,397	23.94	7,167
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	848,128	-	72,048,128	18.42	6,397

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

CITY OF SEDONA, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2008
(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 %	<u>None</u>
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 SEVEN FISCAL YEARS
 (UNAUDITED)

Fiscal Year	WIFA Loan			Special Assessment Bonds			
	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Special Assessment Collections	Principal	Interest	Coverage
2002	\$ 6,359,716	\$ 1,206,013	\$ 5,153,703	\$ 253,055	\$ 165,000	\$ 91,569	0.99
2003	4,116,940	1,021,517	3,095,423	271,817	175,000	81,794	1.06
2004	4,384,465	1,186,629	3,197,836	279,565	190,000	71,300	1.07
2005	3,832,386	1,243,578	2,588,808	252,155	200,000	60,907	0.97
2006	7,401,141	3,229,366	4,171,775	221,518	215,000	49,161	0.84
2007	5,592,098	2,003,340	3,588,758	197,125	230,000	35,363	0.74
2008	5,119,570	2,423,382	2,696,188	203,172	240,000	21,850	0.78

Fiscal Year (3)	Excise Tax Revenue Bonds				
	Revenues	Principal	Interest	Total	Coverage
2002	\$ 14,489,789	\$ 45,000	\$ 1,798,533	\$ 1,843,533	7.86
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	2,381,640	5,891,640	3.12

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)

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>School Enrollment</u>	<u>City of Sedona Unemployment Rate</u>
1999	9,940	\$ 301,400,000	\$ 30,322	-	1,332	1.90 %
2000	10,066	315,600,000	31,350	50.5	1,377	3.20
2001	10,192	328,600,000	32,241	-	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

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

Note: Median age was not available for all years except 2000.

CITY OF SEDONA, ARIZONA
 PRINCIPAL EMPLOYERS
 JUNE 30, 2008
 (UNAUDITED)

Employer	2008			1999		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Los Abrigados	509	1	8.03 %	320	2	6.19 %
Sunterra Resorts	400	2	6.31	628	1	12.15
Enchantment Resorts	383	3	6.04	-	-	-
Hilton Resort & Spa	225	4	3.55	-	-	-
L'Auberge de Sedona Resort	180	5	2.84	200	3	3.87
Sedona/Oak Creek School District	180	6	2.84	137	4	2.65
Radisson Resort	120	7	1.89	120	5	2.32
City of Sedona	136	8	2.15	94	6	1.82
Sedona Rouge	110	9	1.74	-	-	-
Pink Jeep Tours	<u>100</u>	10	<u>1.58</u>	<u>-</u>	-	<u>-</u>
	<u>2,343</u>		<u>36.97 %</u>	<u>1,499</u>		<u>29.00 %</u>

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									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government	20	21	20	23	23	20	24	23	25	25
Management Services	5	5	4	4	4	4	5	5	5	5
Finance	3	3	3	3	3	2	4	4	5	5
Planning	2	2	3	3	3	2	3	3	3	3
Building	1	1	1	1	1	1	1	1	1	1
Other	21	23	24	26	25	24	25	29	31	31
Public safety	9	9	9	10	8	8	9	9	8	8
Officers	2	2	2	2	2	2	4	5	5	5
Civilians	8	7	10	10	11	10	9	11	11	11
Other Public Works	8	6	7	6	7	7	8	7	7	7
Engineering	6	7	7	5	6	5	6	6	6	6
Other	7	7	8	7	7	7	7	8	11	11
Redevelopment	92	93	98	100	100	92	105	111	118	118
Parks and recreation										
Wastewater										
Total										

Source: City of Sedona, Arizona

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

Function	Fiscal Years									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Government										
Building permits issued	N/A	574	544	663	660	627	607	507	573	553
Building inspections conducted	N/A	2,994	2,841	3,020	2,950	3,033	3,431	2,303	3,168	2,737
Police										
Physical arrests	N/A	N/A	N/A	N/A	N/A	643	594	439	662	542
Parking violations	N/A	N/A	N/A	N/A	10	60	65	80	87	86
Traffic violations	N/A	N/A	N/A	N/A	815	2,266	2,750	2,475	2,296	4,589
Other public works										
Street resurfacing (miles)	14.2	12.2	1.0	3.9	2.8	0.7	1.2	1.1	2.0	4.3
Wastewater										
Average daily sewage treatment (millions of gallons)	0.7	0.8	0.9	0.9	1.1	1.1	1.1	1.1	1.3	1.2

Source: City of Sedona, Arizona

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

Function	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
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	4	5	5	5	6	7	8	9	11	11
Other public works										
Streets (miles)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	154.5	154.5	154.5
Highways (miles)	N/A	N/A	N/A	N/A	0.6	0.6	0.6	0.6	0.6	0.6
Streetslights	N/A	N/A	N/A	N/A	2	2	2	2	2	2
Parks and recreation										
Acresage	100.3	100.3	100.3	100.3	100.3	100.3	100.3	100.3	100.3	100.3
Playgrounds	1	1	1	1	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	681
Wastewater										
Sanitary sewers (miles)	-	-	-	-	-	-	-	156.4	159.3	75.0
Treatment capacity (millions of gallons)	1.0	1.0	2.0	2.0	2.0	2.0	2.0	2.0	2.2	2.0

Source: City of Sedona, Arizona